Introduction to ESOP

Presented by
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- 15 year Co-Owner at Meier Supply
- Prior employment 6 years at regional CPA firm
- Member of the Meier ESOP Committee
- Engaged in all aspects of the ESOP
- Presenter at various ESOP conferences
- Chapter President – TEA NY/NJ Chapter
- Member of Meier Strategic Planning Council
- Employee of the Year – 2016
- Graduate of Dale Carnegie Leadership Program
- Enjoys golf, family, hiking, grilling and guitar!

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Review: What is an ESOP?

Employee Stock Ownership Plan (ESOP)

- A retirement benefit
- Holds stock in Meier Supply Company, Inc.
- A company-paid benefit (you don’t pay for it)
- Stock is held in a trust
- Stock value is determined one time a year by an independent appraisal
ESOPs in the US

- 7,000 ESOPs in the US
- About 2,900 of these are 100% ESOP owned
- All ESOPs are governed by the IRS and the U.S. Department of Labor
- Research on ESOPs finds they tend to grow faster in sales and employment
- Participants in ESOPs tend to have 2.2 times as much in retirement savings

Source: NCEO.org
Meier Supply ESOP

• Formed in 1992 – 51%
• 2006-2016 – 58%, 62%, 67%, then 100%!
• 29 years ESOP, 25 increase, 4 decrease
• About 165 “co-owners”
• Average contribution is 5-10% of salary
  – 2.5x benefit levels better than industry!
Why do we have an ESOP?

• All businesses must deal with ownership succession
  Who is going to own this business in the future?

• Many solutions bring unwelcome results
  – Sale to financial investors
  – Sale to a strategic buyer (similar business)
  – Sale to a competitor
  – Sale to a handful of leaders/family members (postpones the transition again)

• Selling 100% to an ESOP has the following benefits:
  – Allows us to continue as an independent company
  – Provides consistent company leadership
  – Preserves the character of the company
  – *Gains more tax advantages for the company that make it more competitive*
Employee Influence on Stock Value

Do you have an influence on things that affect whether Meier Supply Company meets or exceeds our business goals?

- Customer service
- Good use of your time
- Avoiding errors
- Getting our invoices paid on time
- Meeting customer expectations
- Working safely

*We create a culture of “employee – owners”*
How does an ESOP work?

• Shares purchased with borrowed money are held “in suspense” in the ESOP trust

• Each year, some of those shares are released into individual accounts
Structure of Corporate Responsibilities

Board → Executive team → Managers → All employees

The only shareholder is the ESOP Trust

Trustees vote the ESOP shares on routine issues
Eligibility: When can you join the Plan?

- You participate in the plan after you:
  -- Are at least 21 years old (vesting begins from your first day)
  and
  -- 6-months of service
- You enter the plan on the next 10/31/XXXX
Who receives an allocation?

Your account will receive an allocation if:

1) You work at least 1,000 hours in the year \textbf{and} \\
2) You are employed on last day of the plan year

Allocation Formula:

\[
\frac{\text{Your eligible W-2}}{\text{All ESOP Participants’ eligible W-2}} \times \text{Total Stock Released that year}
\]

Shares allocated once per year after valuation
How Vesting Works

6-Year Gradual Vesting

Percent Vested

<table>
<thead>
<tr>
<th>Years in the ESOP</th>
<th>Percent Vested</th>
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<tbody>
<tr>
<td>1</td>
<td>20%</td>
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<tr>
<td>2</td>
<td>40%</td>
</tr>
<tr>
<td>3</td>
<td>60%</td>
</tr>
<tr>
<td>4</td>
<td>80%</td>
</tr>
<tr>
<td>5</td>
<td>100%</td>
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You become 100% vested if you retire, die or are permanently disabled.
Distribution Rules

• Normal Retirement (age 65), Early Retirement (age 62), Death or Disability.
  • Automatically 100% vested
  • Payments begin in the plan year 11/1-10/31 after you leave

• Leave for another reason
  • Vesting applies
  • Payments can begin in the plan year after you have a 5 year break in service
  • Accounts < $10,000 can be paid out in the plan year after leaving employment
What about while you are still employed by Meier Supply Company?

• **In-service distribution (optional)**
  – If you reach Normal Retirement (65) or Early Retirement Age (62), you may request 20% of your account balance each year while continuing to work for Meier Supply

• **Diversification (optional)**
  – Requires age 55 AND 10 years in Plan
  – Done over 6 year period:
    • Years 1-5; up to 25%
    • Year 6: Up to 50%
    • Cumulative
  – Transfer to 401(k) Plan or take as taxable income
100% ESOP is a win-win opportunity

**For Employees**
- Maintain a high-level of company paid benefits
- Work in a company that has a stable ownership structure for future
- Be employed in a company with a competitive tax advantage
- Enjoy the long-term rewards of company success

**For the Company**
- Set in motion a long-term plan for business succession
- Preserve the mission and character of this business beyond founding family
- Gain more tax advantages: An S-Corporation that is owned by a tax deferred entity (ESOP) does not pay federal taxes
- Continue an incentive for employees to grow the business
Questions?

Thank you!

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