

RESEARCH BRIEF

Institute for the Study of
Employee Ownership and Profit Sharing

The Intergenerational Wealth Effects of ESOPs for Families of Color

Question: What wealth building effects do ESOPs have for families of color?

Wealth is the set of resources, held in many forms, which can be leveraged or invested for economic stability, security, and wellbeing. It is well known and broadly accepted that in the United States there is a significant gap between the wealth held by people of color and white people. What is less well known is that this gap can start to be closed through the wealth building opportunities available through Employee Stock Ownership Plan (ESOP) funds are an important extra support for retirement security. These resources, however, can be fluid in helping the next generation gain greater economic security and stability, which, in turn, can generate opportunities that provide children and grandparents with increased security and stability.

This Research Brief looks more closely at the impact of ESOPs on wealth by analyzing interviews of 195 ESOP employee owners, of whom 48% were people of color, at 21 companies in 16 states and across 8 industry sectors that were part of a 2019 nationwide study supported by the Employee Ownership Foundation's Louis O. Kelso Fellowship. The original study was funded by the W.K. Kellogg Foundation with the organizational assistance of the Employee Ownership Foundation. (1)

The opportunities for gap-closing wealth building for families of color come through ESOPs in at least three critical ways:

- Cash savings that accrue through equity ownership without wage income depletion.
- Employment stability: skill and education development, mentorships, and increasing income streams.
- Intergenerational wealth transfers through inheritances, experience, and networks.

We know from recent research that people of color in ESOPs have significantly greater wealth than people of color in general, at the median. We also know that the net household wealth of millennials is 79% higher for employees owners of color than for those who are not employed by firms with ESOP's. We also know from research that over the last two decades, overall, employees with employee ownership have experienced fewer layoffs and better employment stability. Workers of color who are employee-owners have higher average and median job tenure than non-employee owners, and this is true for women of color and families of color with a young child. (1) In this brief we shed light on what's behind this phenomenon.

Summary: Employee ownership can bring significant returns from the business to the workforce, it can stabilize and secure attachments to the workplace, and it can build the wealth of employees of color in an era of expanding wealth inequality and employment precarity. Introducing ESOPs to companies who have employees of color is a way to structure new wealth building opportunities.



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#1 ESOPs are a low-risk wealth building opportunity for employees of color

As a strategy, Employee Stock Ownership Plans (ESOPs) are one way to help employees of color build wealth without depleting their wage income. While almost all ESOPs have 401(k) type retirement fund opportunities for their workforce, the ESOP creates a second bite at the apple by structuring savings for retirement without requiring any kind of match or employee contribution. Typically, ESOPs do not require employees to purchase the stock with their wages or savings. Rather, most ESOPs use loans to the company or company contributions in order to purchase stock on behalf of employees. By helping to build the business, employees earn the value of this stock.

Take Joe, for example. He is an African-American man with a high school diploma, three children, and 11 years tenure in his company earning \$25.00/hr, having \$180,000 in ESOP value and \$40,000 in his 401(k). He says, "When I started here I didn't have much at all, I guess you can call it, I was a poor man. By today's standards I think I'm pretty well off right now, considering. I've come a long way and the ESOP has done good by me."

Employees of color, who often have income constraints greater than their white co-workers, frequently opt out of 401(k) type retirement opportunities because they feel they can't afford the investment, however minimal, out of their income. With an ESOP, those who would like to have a 401(k) fund are able to continue to invest, yet they are also able to accrue savings through the ESOP without any impact on family budgets because they do not have to make cash contributions to purchase company stock. The opportunities for both a 401(k) and an ESOP, then means that people of color have two paths towards wealth building. A 50 year old divorced woman of color, heavy equipment operator told us, "It [the ESOP] changed my life...it's a really big help because sometimes we, the employees, can't save for retirement or save money in general... it's like winning the lottery."

The combination of ESOP value growth and the regular reporting about this to employees provides some level of transparency about firm wellbeing, and this has multiple positive family effects. Jim, a Black man who works in maintenance, says he feels a sense of stability and security working at the company, explaining: "I can see what's coming down. I can see where the company wants to go, where other places I worked, you didn't know. You didn't know where they were going to go...Hopefully, the door was still unlocked when you get there in the morning."

Companies with ESOP's often try to leverage the ESOP with greater forms of employee participation and engagement, to see if the ESOP will help motivate employees to do more or "better" at work. However, the reality of the ESOP is that with or without a major change in the business structure of the firm, the ESOP will often build value for the employee as long as it is a good business; ESOPs are only a good strategy for businesses that are stable with a strong bottom line. And let's be clear. While not all people of color are low-wealth, the majority are. That is reflected through the racial wealth gap, and is primarily due to historical barriers to wealth building opportunities. Even those with advanced degrees, with incomes comparable to their white colleagues, typically have greater student loan debt, more extended family obligations, and fewer family inheritances, that combined, limit their wealth building opportunities. Wealth is primarily built through the opportunity for investments, not through salary income alone. ESOPs are an important form of investment for those without other means.

#2 ESOP employees of color are not "stuck" at the firm; They are investing in their future

While it may seem curious to celebrate longevity and advancement within a company in an age when job hopping has become the norm, it turns out that employment stability and job retention remain important for building wealth, especially, in the case of an ESOP firm. The greater employment stability of ESOP employees allows those employees to invest more in their future. Employment stability is crucial for developing mentoring relationships, gaining education and skills, increasing income, and continuing to benefit from equity participation in the ESOP company into the future. Combined with wealth derived from the ESOP, the value of employment stability in an ESOP strengthens the development of personal resources that can be applied in the company or leveraged for new, different external employment opportunities.

Despite the fear that employees will be "stuck" in dead-end work at their firm for fear of losing out on their ESOP account, for workers of color this is not the principal problem. Recent research by [Citi](#) and [McKinsey & Co.](#) verifies what we have long known: Black employees leave their jobs more often than White employees, primarily due to a lack of trust, support, and sponsorship with significant negative impacts on their economic security. They are not "stuck" in the firm, they are stuck *outside* the firm. Without access to an ESOP, employees of color are missing out on opportunities for wealth building available to many of their white peers, and yet they need it the most to help close the wealth gap. Structuring ESOP companies to promote longevity, employee investment, and future orientation has proven to be a way to assist the employees of these firms to benefit from this value proposition in multiple ways.

Delia, a 64 year old African American woman with 29 years of tenure at her company is a good example of this. She moved from Clerk Typist to Administrative Assistant, to Executive Assistant, to Billing Manager, to Senior Project Analyst. While at the firm she first finished her Associates degree, then a Bachelor's degree, all with company paid education and training. She says, "I understand that the better I am...the better we will do at the end of the day, and that will translate into me having more stock, having something to walk away with when it's all said and done." For Joe, at the same firm, he has risen through 4 positions without additional degrees, and after 23 years, he has \$400,000 in his ESOP account. He says it is like an "apprenticeship" that moved him into management.

Rosa, a woman of color in her 40's who is married with two sons, says: "The ESOP makes a difference in thinking of my children...when I think of my sons, I know I am a bit better of a role model because of being an employee-owner." For employees like Rosa, the effects on family go well beyond finances, helping to model and influence the next generation.

If ESOP stock value has accrued, employees can leave and still retain access to their ESOP account, having it paid out in a lump sum or paid out over a period of years. For some, they are leveraging their skills for work in a new company, but they bring the ESOP asset with them. They can use this for a downpayment on a house, to start a new business, to pay off debt, or to support their children in life transitions.

Intergenerational Wealth Effects

#3 Aside from Inheritance: ESOPs help the "Next" generation build wealth in the present.

Intergenerational wealth transfers [explain](#) 26 percent of the racial wealth gap according to research. Most of us think about wealth “inheritance” as the cash, stocks, “goods” such as houses or vehicles, etc. that children inherit from their parents when they pass away. But waiting until the passing of family members is not the only way wealth is transferred to the next generation. Intergenerational transfers also take place before the passing of family members through money used for down payments on homes, for college and graduate education, for delayed income allowing unpaid internship experiences. It is also transferred through introductions to networks of connections for jobs, investments, and access to resources that all occur somewhat invisibly throughout the life course of the children of those with wealth. ESOPs have a potentially important role to play by enabling these intergenerational wealth transfers.

ESOPs can help those without wealth provide similar opportunities to their own “next” generation. ESOPs offer the opportunity for making intergenerational investments, creating opportunities for parents to help their children while still living, as well as potentially through inheritance of ESOP values if resources remain after death. In fact, if they should pass away before they retire, the ESOP value is transferred to the family, providing a form of security and life insurance. But there are several interesting other ways that the “next generation” benefits while everyone is still alive and thriving.

First, employees who are eligible to borrow or draw upon their ESOP accounts have used these funds in part to pay for children’s college tuition/or pay down the debt accrued, for down payments on a home, or for grandchildren’s experiences such as camp, travel, or music lessons. For young families, parental help gives them a helping hand, and enables their own children (the grandkids) to have more opportunities because the parents have more financial flexibility. ESOPs can also help families avoid debt which helps families in the present and the future. As Linda, a woman in her 50’s with a high school degree explained: “My company was here for me and for others when there were hard times. Like when my mother was sick and I had to go to the hospital a lot and had some big extra expenses, they made me a small no-interest loan, and then it got paid back out of my paycheck. That really helped keep my family from going in debt with credit cards and all that. And I borrowed from my account to help my daughter with college, so still paying back into that.” Second, additional funds for retirement security mean that adult children will not have to deplete their own resources to help their aging parents with security and wellbeing, a situation that the “sandwich” generation of current aging workers have encountered. Research shows that among [private sector employees](#), more than 53 percent of African Americans and about 64 percent of Latinos do not have access to a workplace retirement plan, compared with about 42 percent for white workers. For many people of color “retirement” is not a concept familiar to them from their own upbringing. As Rosa, a Latina woman said, “Retirement. I never really hear of it too much at home,” and she reports what she learned about retirement planning due to her ESOP which helped her raise the issue among her own siblings and created a desire for retirement savings across her whole family. As Laura, a divorced woman in her 50’s said, “I think it makes me look at the future different...” Kathy, a single mother reflects, “If I didn’t have the ESOP, I don’t know how much I really would have aside. I think I’d be more concerned about retiring.”

Third, ESOP owners can make investments that will accrue in value over time, enabling greater wealth transfers for their children. Janna, a divorced 64-year-old African American woman has an ESOP valued at \$1.3 million. As soon as she was able, she says, “I pulled money out [of the ESOP] over recent periods of time. I bought family land... that will be of assistance to [my family] ... I used...my ESOP helping family and as investments. My daughter became disabled and not able to work. The ESOP has helped me provide assistance to help her and my grandson.”

ESOP funds are an important extra support for retirement security. The resources, however, can be fluid in helping the next generation gain greater economic security and stability, which, in turn, can generate opportunities that provide grandchildren, children, grandparents or extended family with increased security and stability.

Conclusion:

Quantitative research clearly indicates that employees of color who work in companies with an ESOPs fare much better than other people of color nationally in building wealth, in the form of savings, that can be leveraged for opportunity for themselves and their families. We know from the qualitative studies discussed in this Research Brief that the benefits that accrue go well beyond savings. This suggests that employee ownership can help reduce and even reverse some elements of the national racial wealth gap.

ESOPs are an available and well-tested tool for bringing greater wealth-building opportunities to communities of color. It is not just for the present, but for future generations, that employees of color can begin to share more broadly in the wealth they generate from workplaces structured with ESOPs.

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- (1) On wealth, see *Building the Assets of Low and Moderate Income Workers and their Families the Role of Employee Ownership* By Janet Boguslaw and Lisa Schur, Institute for the Study of Employee Ownership and Profit Sharing, Rutgers University, 2019, p. 22, 24, Tables 10 and 11. It was supported by the W.K. Kellogg Foundation. The Employee Ownership Foundation made the research possible by introducing the research team to ESOP companies around the nation. On lower layoffs, see *Does Employee Ownership Improve Performance?* By Douglas Kruse, 2022. On wealth and job stability, see, *Employee Ownership and Economic Well-Being: Household Wealth, Job Stability, and Employment Quality Among Employee-Owners Age 28-34*, National Center for Employee Ownership, 2017, p. 4, 12,15, Tables 6 and 11.



Intergenerational Wealth Effects

