



Statement of
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Before the
HOUSE COMMITTEE ON SMALL BUSINESS

HEARING ON
“CHALLENGES AND BENEFITS OF EMPLOYEE-OWNED SMALL BUSINESSES”

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Statement for the Record
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Thank you Chairwoman Velázquez, Ranking Member Chabot, and members of the committee for giving the Employee-Owned S Corporations of America (ESCA) the opportunity to share our thoughts about the success of S corporations that are owned by their employees, S corporation ESOPs, and congressional efforts to encourage employee ownership.

ESCA represents S ESOP companies in every state, in industries ranging from heavy manufacturing to construction to retail grocery stores. There are almost 3,000 S ESOPs in the U.S. which account for \$92 billion in direct output to the nation's economy.

It was almost 24 years ago that Congress passed legislation creating S ESOPs. Congress' goal in 1996 was to encourage employee ownership of private industry, enable workers to benefit from their labor, and create a path for building meaningful retirement savings. Data show that today, S ESOPs are doing exactly that. More than two decades later, private employee-owned companies have been a remarkable success story for American workers.

Today, ESCA is continuing to advocate for legislation that would encourage more employee ownership. H.R. 2258, the bipartisan Promotion and Expansion of Private Employee Ownership Act, would provide incentives to owners of S corporations to sell their stock to an ESOP, an incentive that currently exists only for owners of C corporations. Section 1042 of the Tax Code allows a C corporation owner to defer the recognition of gains when the owner sells shares to an ESOP. Extending parity to S corporation owners is the most significant legislative action that Congress could take to encourage S corporation owners to choose an ESOP when they consider how to transition their business from their current ownership.

H.R. 2258, introduced last year by Representatives Ron Kind and Jason Smith, has 50 cosponsors – evenly split between Democrats and Republicans. Its Senate companion, S. 177, has 36 cosponsors, including Republican and Democrat leads, Senators Pat Roberts and Ben Cardin.

Many studies, by renowned economists from across the ideological spectrum, illustrate how S ESOPs are powerful for workers as a retirement savings and economic security tool, and how they have contributed to communities and the national economy. A few key points from the most recent studies:

- Last September, ESCA released a John Zogby Strategies survey that found that millennials working at employee-owned companies are much better prepared for retirement than their peers, more than half of whom do not have a retirement savings account. According to the survey, more than 65 percent of employee owner respondents said they expect to retire at or before the age of 65, twice the number of millennials working at non-ESOP companies. The difference between current financial

security in the two populations is notable too – 56 percent of millennial workers at ESOP companies said they had at least six months' salary saved for retirement, while 66 percent of their non-ESOP counterparts said they had no savings at all.

- In March 2019 ESCA released a John Zogby Strategies survey on the financial security of ESOP retirees. The survey showed that ESOP retirees are nearly twice as likely to feel they have enough money to live comfortably in retirement, whereas non-ESOP retirees are three times more likely to have major, general financial concerns. ESOP companies are also doing a better job educating their employee-owners about saving for retirement. More than 90 percent of ESOP retirees said they have sufficient knowledge to prepare for retirement, compared to just 65 percent of their peers. Perhaps most notably, nearly 90 percent of ESOP retirees said their savings and ESOP benefits are enough to meet their needs in retirement. Less than half of non-ESOP retirees said the same.
- In 2016, economist Jared Bernstein, released a study that shows that ESOPs reduce wage and wealth inequality. Bernstein also found ESOP companies pay their workers better wages and provide them with more stable employment than other businesses. With Congress searching for solutions to boost worker savings, job prospects and wages, the ESOP success story reminds us this goal can be reached through capital ownership among workers.
- The savings benefit to employees does not come with additional risk. Private, employee-owned businesses are proven to be more stable than their counterparts. In 2014, the National Center for Employee Ownership released data showing that the default rate on bank loans to private ESOP companies was an astonishingly low 0.2 percent annually, compared to mid-market companies defaulting on loans at a rate 10 times greater or more.

Quite simply, more S ESOPs means more worker savings, wealth and wage equality, job stability and national economic benefit.

CONCLUSION

Ms. Chairwoman and committee members, on behalf of ESCA as well as the almost half a million Americans who work for S ESOP companies today, we thank you for holding this hearing to highlight the retirement savings and other economic benefits of S ESOPs and employee ownership. We look forward to working with all of you to advance policies to encourage more private, employee ownership so that more workers can benefit from the American Dream at Work.