

Banking on ESOPs

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Professionals in the business world often become passionate about their areas of expertise. Investment advisers can talk at length about the market, architects expound on their latest projects, and bankers enjoy discussing finance. In this article, I would like to address a topic of passion for me. It is not a specific business, but rather a way of doing business. I am a confirmed believer in employee stock ownership plans (ESOPs).

Why do I believe in ESOPs? As an employee-owner of a thriving Southwestern Indiana business, I have experienced firsthand the power of employee ownership. More significantly, as your State Treasurer with the duty of assisting Indiana's economy in the global market, I recognize the value of promoting entrepreneurial enterprises.

ESOPs are retirement accounts—approved by ERISA*—which exist and function pursuant to myriad regulations to protect the shareholder(s)/employees. ESOPs provide tremendous tax benefits to the company's founder(s)—who sell ownership rights to the employees—as well as to the company itself.

Employee ownership improves a company by making it more competitive and productive. When employees actually own a part of a business, they work more efficiently, seeking ways to increase productivity and lower expenses. ESOP businesses understand the importance of “continual improvement” and remaining competitive within the global market.

The most compelling reason, I believe, for encouraging more Indiana businesses to become ESOP companies is job retention. I have made the statement many times and will continue to repeat it: “No employee-owned company has ever, ever, ever packed up and moved to Mexico or China!”

How do ESOPs come into existence? The vast majority of ESOPs come into being as part of a well-researched retirement plan. The founding owner, who is considering retirement, realizes the impact on his or her employees and the community if the company were to be purchased by a third party. The owner values the fact that the employees made the company successful, and the owner wants them to continue to benefit from commitment to the company.

Often ESOPs are developed for the sale of the entire company to the employees over an extended period of time. Other times, ESOPs are designed for only a partial sale of the company to the

* Employee Retirement Income Security Act of 1974

ABOUT THE AUTHOR

Richard E. Mourdock serves Indiana as Treasurer of State. He took office in 2007, prior to which he established a 30-year record as a business executive in the energy, construction and environmental industries, plus served two terms as Vanderburgh County commissioner. Mourdock also is Indiana's chief investment officer. He serves as chairman of the Indiana Bond Bank, the Wireless Enhanced 911 advisory board and the Indiana Education Savings Authority; as secretary and investment manager of the Indiana Board for Depositories; and as trustee of the Indiana State Police pension plan. Mourdock earned a bachelor's degree from Defiance College and a master's degree from Ball State University. The author can be reached at 317-232-6386, e-mail: tosstaff@tos.state.in.us.



employees. Some of the most successful ESOPs never allow the employees to own more than 49 percent of the company, permitting the original owner to maintain majority control.

Lending by Indiana banks is a critical step in the creation of more ESOP companies. Two programs are available to promote ESOPs in Indiana:

- The Indiana ESOP Initiative; and
- The ESOP Linked-Deposit Program.

The **Indiana ESOP Initiative (IEI)** is the formal entity responsible for the promotion of ESOPs in Indiana. IEI's website at www.in.gov/tos/2343.htm offers a host of information regarding ESOPs: educational information, professional service providers, various trade associations and—of particular interest to the banking community—the ESOP Linked-Deposit Program.

In the **ESOP Linked-Deposit Program**, the Treasurer of State's Office will purchase a certificate of deposit from the financial institution, making the ESOP loan to the company at a reduce rate of interest. In turn, the financial institution will provide the loan to the future ESOP company at a reduced rate of interest. Online information about the Linked-Deposit Program is available at: www.in.gov/tos/2360.htm.

On Dec. 12, 2008, Radian Research Inc., Lafayette, became the first participant in our ESOP Linked-Deposit Program; it was my privilege to address the employees at the company's formal announcement. Radian's 80 employees entered the room with trepidation, expecting to be informed that their company had been sold. I later learned that some of the employees were prepared to meet a group of out-of-town venture capitalists or discover that a major competitor had acquired their firm with the intent of moving the company out of Indiana.

In a sense they were right, because the company had been sold—to them! Each employee was presented a stock certificate indicating his or her percentage of interest in the business and asked to keep making Radian Research a successful business. It was a thrilling event.

The IEI and the ESOP Linked-Deposit Program were recognized recently by the National ESOP Association in Washington, DC. It is gratifying to see

our program honored nationally, but more importantly to see it succeed within our borders.

The number of ESOP companies in Indiana will increase if financial institutions become engaged in the ESOP discussion. I encourage you to visit our website at www.in.gov/tos/2343.htm, do some research about ESOPs, and think about your business clients who might be considering retirement or the sale of their successful businesses. Not surprisingly,

the companies most open to the ESOP concept are often run by baby boomers who are contemplating retirement within the next five to 10 years.

ESOPs bring vitality, energy and entrepreneurialism to businesses. Such organizations are outstanding clients for you now and for your bank's future. Together, we can increase the number of employee-owned companies in Indiana and keep Hoosiers competing with the best in the world. ♦

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