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Client Update:
Why You Need a Repurchase Obligation Study for Your ESOP

January 27, 2016

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ERISA requires ESOP companies to be prepared to buy stock back from participants who receive distributions from the ESOP. Such companies are also required to provide liquidity when participants receive cash distributions or, upon eligibility, choose to exercise their diversification rights. These repurchase and liquidity obligations can represent an important cash expenditure, especially when the ESOP owns a substantial portion of the company stock and the stock value is growing.

How Our Approach Benefits Clients

Repurchase obligations studies are only as good as the assumptions used to create them. Too often, companies and their advisors simply assume what the future value of the company stock might be and assume what turnover and retirements might look like and use these static and often arbitrary assumptions to estimate repurchase obligations.

SES Advisors has spent years creating our internal working repurchase obligation software that combines all of the key elements of repurchase obligation into one integrated model: future predicted company earnings, future key balance sheet items, employee demographics, turnover, distribution policy and synthetic equity and the effect that each of these assumptions has on each of the other assumptions. SES's model is unique in the ESOP industry in accounting for all of these relevant inputs.

Share value is a critical variable in creating accurate projections. We can complete the study using projected stock prices as provided by the company. As an additional option, we can complete a working financial model projecting share value changes over the 20-year study period by using information gathered during our kick-off calls with the company, forecasts provided by your appraiser in your most recent valuation, and changes to working capital based on each year's projected obligations. The advantage of our integrated model is that every assumption change is fluid and impacts value and the obligations in real time.

Multiple Uses for Repurchase Liability Studies

Companies should expect the results of a repurchase liability study to answer the following: 1) what are the future cash obligations needed to fund distributions due to death, disability, retirement, normal termination and diversification, 2) what will the projected account balances be not only for key employees but for targeted roles within the company, and 3) what impact will the liability have on stock price.

SES can optimize the value of the repurchase study by consulting with the company on other corporate planning and employee benefit considerations. Upon determination of the repurchase liability, we can review the common options available to a company for funding the liability and assist the company in choosing the best funding method for their company and ESOP. We can discuss how possible alternatives to the distribution policy can impact the ESOP and the repurchase liability. The projected account balances and benefit level reports we provide can be used as a recruitment tool for new employees as well as to determine if the benefits to current employees are at desired levels. If a company is considering future stock sales to the ESOP or acquisitions of other companies, SES can prepare additional scenarios determining the impact these changes in ownership will have to the repurchase liability. And lastly, SES can work with management in their sustainability planning to help them better understand how the repurchase liability and corporate and ESOP decisions will impact the company over the long term.

Next Steps

Let us help you plan for your ESOP future and assure your ESOP sustainability. As many of you receive your December 31, 2015 ESOP valuation reports, now is a great time to consider a repurchase liability study. For an example of the report that accompanies all of our repurchase liability studies or to learn more about our services, please contact Tina Fisher at 215.508.7717 or tfisher@sesadvisors.com.