LEVERAGED ESOP SHARE RELEASE

In a leveraged ESOP, the plan borrows money to purchase company stock. Right after the loan is made and the shares are purchased by the ESOP, the shares are held unallocated in the ESOP trust in a suspense account as collateral for the loan. As the loan is paid off, using company contributions and dividends, the shares are released and are allocated within the ESOP trust to the accounts of the plan participants. Annually, each participant receives a statement that shows the number of shares that have been released and allocated to his or her account.

The share release calculation is one of the unique aspects in the administration of a leveraged ESOP. Third party administration firms that deal with 401(k) and pension plans, but not ESOPs, generally are not familiar with the share release process.

The number of shares that are released each year is determined by taking the total number of shares purchased with the loan and multiplying it by a fraction. The numerator is the amount of principal and interest paid off during the year, and the denominator is the amount of principal and interest paid off during the year plus all anticipated future principal and interest payments during the remaining term of the loan. In the case of ESOP loans of less than 10 years, the calculation may instead be based on principal payments only.

Once the overall share release is determined, the shares are segregated into categories, based on which funds were used for their release. This process determines how the shares are treated when they are allocated. For instance, only the shares released due to company contributions that are used to pay principal are considered for the IRS benefit limits under Section 415 of the Internal Revenue Code. Other nuances of the allocation process are embedded in the share release determination which makes this process a unique, complex and critical feature of ESOP administration. ■

The firm currently administers over thirty ESOPs. For questions relating to the administration of ESOPs, please contact Timothy O'Connell, Enrolled Actuary, or Jay Fenster, Esq.

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