



Legislative Opportunities to Protect and Enhance ESOPs

BACKGROUND

- ESOPs deliver substantial societal benefits by improving job security, worker retention, and company performance while promoting local economic prosperity and reducing wealth inequality.

LEGISLATIVE OPPORTUNITIES

1. Promote ESOP Representation, Transparency, and Litigation Reform at the Department of Labor

- ESOPs lack a voice at the DOL, despite affecting over 14 million U.S. households nationwide.
- The DOL's lack of regulatory certainty forces ESOPs to navigate disproportionate, costly, and prolonged enforcement activity, discouraging the formation of new ESOPs.

REQUESTS:

- **Cosponsor S. 4360, the INSIGHT Act:** The Investigation Status and Governance for Honest Transparency (INSIGHT) Act requires reporting to Congress on EBSA investigations lasting more than three years and secret common interest agreement between it and plaintiffs' firms.
- **Cosponsor S. 1728, Employee Ownership Representation Act:** creates EO representatives in key advisory positions within the DOL. The Senate has already passed this bipartisan legislation unanimously.
- **Cosponsor H.R. 6084, ERISA Litigation Reform Act:** strengthens the pleading standards for certain plaintiffs' claims to reduce frivolous, "sue and settle" lawsuits on ESOPs.

2. Remove ESOP contributions from IRS Sections 404 and 415

- Sections 404 and 415 of the tax code primarily govern contributions to qualified retirement plans, setting limits on employer deductions and total annual contributions/benefits, respectively.
- Exceeding Sections 404 and 415 limits can force employee owners to face penalties or reduce 401(k) or other savings allocations, triggering claw backs that effectively punish company success.
- For purposes of limits on retirement contributions, the tax code includes ESOP plan contributions with all other defined contribution retirement plan accounts, despite an ESOP's unique structure, limiting the amount of beneficial ownership that can be accrued by ESOP participants.
- This problem affects many long-serving employee owners and is not a problem exclusive to highly compensated employees.

REQUEST:

- **Cosponsor S. 1727, Employee Ownership Fairness Act of 2025:** removes ESOP contributions from Sections 404 and 415 limits.

3. Support Funding the DOL's Employee Ownership Initiative

- SECURE 2.0 Act required the DOL to establish the Employee Ownership Initiative to promote employee ownership through education and grants to states and state-level organizations.
- The EOI enjoys bipartisan and bicameral support, and its staff are prepared to implement a grant program.
- Congress appropriated \$2 million in FY 2026, demonstrating momentum toward full funding.

REQUEST:

- **Support funding the DOL Employee Ownership Initiative at the authorized \$7 million in FY27.**

4. Protect ESOPs From Private Equity "Short Term Equity Plan" Experiments

- *Expanding ESOPs*, a PE-backed advocacy group, is promoting a new qualified retirement plan it is calling an ESOP. *It is NOT*. The structure is better described as a "Short Term Equity Plan" (STEP).
- STEPs lack core ESOP employee protections and would cost taxpayers nearly \$100 billion over 10 years and more than \$524 billion over 20 years.
- PE firms are also seeking legal immunity around company valuation and plan administration.
- Private equity firms should not label their newly proposed structures "ESOPs," taxpayers should not subsidize them, and these plans should not be exempt from government regulatory oversight.

REQUEST:

- **Reject any proposal by *Expanding ESOPs* or private equity firms that would redefine ESOPs.**