

Retirement

Employee Stock Ownership Plan (ESOP)

OneAmericaSM
Financial

Leaving a legacy

**How one business owner helped
heal a recovering community**



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Eighty-seven percent of American businesses are family-owned or family-controlled. They represent 54% of U.S. GDP and 59% of employment, meaning family-owned businesses directly affect more than half of U.S. workers.¹ Nearly half of these owners who are approaching retirement age have no succession plan – no family members willing or able to take the reins². This was the case for Gina Schaefer and her company, A Few Cool Hardware Stores, who found the best solution for her retirement transition was closer than she had imagined.

1. <https://fortune.com/2023/05/29/most-family-businesses-dont-look-like-succession-heres-what-americas-enterprising-families-bring-to-the-table/> 2. <https://www.score.org/resource/infographic/infographic-family-business%E2%80%94successes-and-obstacles>

From software to hardware

A third layoff from the tech industry had ignited a desire to do something “wildly different.” Her new neighborhood, located in the heart of Washington, D.C., was slowly being rebuilt after decades of decline. Every day, people were moving into boarded-up houses, bringing a demand for all the tools and materials necessary to restore their homes to their former glory. Gina explained that no one wanted to drive to the suburbs to go to a “big box” store. Inspired, Gina bid her final adieu to software and opened Logan Hardware, a hardware store in her Logan Circle neighborhood – and the first of what would eventually become a successful chain of stores.

Raised in a small town with deep roots, Gina put community at the heart of everything from the very beginning. Tethered to the community, the store became an inseparable part of its scaffolding – transforming together. As the neighborhood revitalized, Gina’s business grew. People started coming in from other parts of D.C. asking if she would consider expanding to their neighborhoods as well.

Client profile

- A Few Cool Hardware Stores
- 13 stores across the Baltimore and Washington, D.C. Metro Area
- Founded in 2003
- Gina Schaefer, CEO and Founder
- 250+ employees

Road to recovery

When the first store opened, the Whitman-Walker medical facility, a nearby recovery clinic, was one of the only businesses in the neighborhood that was in operation. Many of Gina’s early hires had attended the clinic and came to her seeking employment. Committed to supporting the community, Gina and her team removed employment obstacles, offering opportunities to many neighbors struggling to overcome addiction and/or incarceration. For two decades, Logan Hardware has been a safe place and a stepping stone for countless individuals seeking a chance at a better tomorrow. Unbeknownst to Gina until later, the store had become locally known as Recovery Hardware. It went on to be the title of her book.

“ I wonder what people would think if they knew the truth about the person helping them. Would they sympathize? Empathize? Be disgusted or afraid? Or, like me, would they think ‘Wow! What an experience this person has lived and overcome!’ ”

— Gina Schaefer
Founder, A Few Cool Hardware Stores

Succession planning

The early stages of her exit strategy

As retirement inched closer, the question of how to retire without compromising her values loomed large for Gina. She knew she wanted to exit as CEO, but mostly she knew what she didn't want. After watching peers sell to private equity only to watch the businesses they built on their blood, sweat, and tears get stripped of their wealth and sold off, she dismissed private equity as an option. As Gina says, it lacked "soul."

It was a 21-year-old brewery tour guide halfway across the country that was the genesis of pursuing an employee ownership strategy. While Gina was taking the tour, it was the guide's observable enthusiasm for "owning the brewery" that motivated her to learn more about Employee Stock Ownership Plans (ESOPs).

Preserving a legacy with an ESOP

"Everything about ESOP seemed like it was the right fit for us," said Gina. The more she learned, the more she was sold on ESOPs.

Employee Stock Ownership Plan (ESOP)

A retirement benefit program that enables a company's workforce to own a stake in the company.

According to Gina, an ESOP checked all the boxes: the financial security to retire — and the control and flexibility to do so on her own terms. It aligned with her personal and company values, enabling her to give back to her team and sustain her commitment to the broader community. And, combined with other employee benefits, it complemented the company's existing employee benefits plan design.

ESOPs are a way to align the interests of the employees with the company's success. They can be powerful tools for employee retention, motivation, and wealth-building, as employees have a direct stake in the company's performance.



“ I really liked the idea of the ownership going back into the hands of the people who had helped us build the business. ”

— Gina Schaefer



How ESOPs work



Establishment

The company sets up an ESOP and the ESOP Trust, which then purchases company shares.



Employee participation

Eligible employees become participants in the ESOP. Often, eligibility requirements may include factors like tenure or hours worked.



Contributions

The company contributes shares of its stock, typically based on compensation, to the ESOP trust on behalf of the employees. Alternatively, the ESOP might borrow money to buy shares.



Vesting

Employees become vested in the plan over time, meaning they gain ownership rights to the shares contributed by the company. Vesting schedules can vary; some plans might have immediate vesting while others could have a graded vesting schedule over several years.



Employee benefits

As the company's value grows, so does the value of the shares held in the ESOP. Employees can benefit from the growth of the company through the appreciation of the stock.



Exit strategy

When employees leave the company (due to retirement, resignation, etc.), they can sell their vested shares back to the company or the ESOP, providing liquidity for the employees and allowing them to realize the value of their ownership stake.



Tax benefits

ESOPs offer potential tax advantages for both the company and the participating employees. For instance, contributions to the ESOP are tax-deductible for the company, and employees might receive stock distributions as part of their retirement package, which could be taxed at favorable rates.

Building the ESOP team

Gina left no stone unturned in her quest to understand ESOPs and quickly discovered that it takes a knowledgeable team to implement one. She needed a consultative provider with deep understanding of the ESOP that could provide education for herself, her leadership team, and her employees; and a provider with high-touch customer service she could count on to answer questions and help her navigate the process from start to finish.

According to Gina, “There are lots of 401(k) providers, but just because you’re a 401(k) administrator doesn’t mean you understand the nuances of an ESOP. And that was important to us — and ultimately why we chose OneAmerica.”

The company’s 401(k) retirement savings plan is also managed by a OneAmerica Financial company, streamlining the experience for participants with a single call center and website for both plans.

Active start to retirement

Fifteen weeks into the succession, Craig Smith, the new CEO, has taken over the reins and Gina has transferred 30% of company ownership to an ESOP trust that allocates shares to eligible employees over time. She is projected to transfer 100% over the next several years.

Not surprisingly, Gina didn’t miss a beat beginning this next phase of her life. Her calendar is packed with speaking engagements, philanthropy, book signings, and of course, spreading the word on ESOPs and mentoring businesses through their own ESOP journeys. “My biggest hope for the legacy of this store and the community is that it stays a vibrant part of the neighborhood and the fabric of Washington D.C.”

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— Gina Schaefer





Why ESOPs?

For business

- Increases productivity and engagement
- Attracts and retains high-quality talent
- Maintains business continuity
- Contributes to an inclusive culture

For employees

- Rewards hard work and commitment
- Boosts retirement savings, economic security, and financial literacy
- Deepens commitment and engagement

For owners

- Exit on their own terms
- Solidifies legacy
- Tax advantages
- Financial flexibility

For community

- Maintains local ownership
- Helps prevent job displacement
- Helps keep communities vibrant

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