

A STUDY IN

7

The ESOP repurchase obligation study, simplified

Repurchase obligation studies are famously complex, but the process needn't be. Here are seven easy steps to completing a successful ESOP repurchase obligation study.

STEP
1

ASK WHY

Start by pinpointing your reason for doing the repurchase obligation study. It could be to:

- Plan for cash requirements
- Meet bank requirements
- Understand alternatives, such as distribution policy, funding strategy or redeem vs recycle

STEP
2

GET PREPARED

Gather all the necessary information, including:

- ESOP plan document, summary plan description and distribution policy
- Census and account balances
- Financial projections

STEP
3

FIND YOUR BASE CASE

Now it's time to decide on the base case you want to model. Your CFO, HR and repurchase obligation professional will work together to develop actuarial and financial assumptions. This includes:

- Analyzing historical turnover rates and patterns, and diversification election rates
- Share value trajectory

Remember: Assumptions must make sense and be consistent with your corporate financial projections.

STEP
4

ASSESS THE RESULTS

Next, model the base case scenario and look at the results. What challenges are you facing?

- "Lumpy" repurchase obligations
- Benefit levels that are too high
- Have and have-not issues
- Declining number of shares
- Approaching IRC 404 limit for contributions (25%)
- Current funding strategy not working

STEP
5

TACKLE CHALLENGES

Now it's time to identify and model strategies that address your challenges, which may include:

- Changes in distribution policy
- Changes in contribution, S distribution or dividend level
- Redeeming vs. recycling shares
- Releveraging

STEP
6

ANALYZE IT

Analyze results and develop recommendations. How well do alternatives solve the challenges and meet your goals?

STEP
7

PRESENT IT

Once you have all your findings, prepare a report. Remember to make it "Board-friendly" (not just numbers!) and provide actionable information, too.

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REPURCHASE OBLIGATION EXPERTS

TELESCOPE

ESOP Economics is the leading expert in ESOP repurchase obligation studies, software and consulting. We help companies of all sizes make educated decisions about their repurchase obligations through Telescope, the #1 repurchase software, and our expert repurchase obligation studies and consulting services.

Learn more at esopecoconomics.com