**Frequently Asked Questions (FAQs)**

**for DoD Officials on a**

**Business Wholly-Owned Through an ESOP and Sec. 874**

**What is an Employee Stock Ownership Plan (ESOPs)?**

An ESOP is a qualified defined contribution plan that provides a company’s workers with retirement savings through their investments in their employer’s stock, *at no cost to the worker.* ESOPs are regulated by the Department of Labor under the Employee Retirement Income Security Act just like pension funds, 401(k) plans, and other qualified retirement plans. Congress authorized the S corporation ESOP structure over two decades ago to encourage and expand retirement savings by workers providing the opportunity to have equity in the companies where they work.

**What is a business wholly-owned through an ESOP?**

A business wholly-owned through an ESOP means that the employees own 100% of the business. Technically, the ESOP owns 100% of the business and the employees are the shareholders of the ESOP.

**Who is ECR?**

The Employee-Owned Contractors Roundtable (ECR) is a coalition of federal government contractors. Each contractor or business is wholly-owned through an ESOP.

**Why are ESOPs different?**

As employee ownership in America has grown, employee-owned businesses have consistently provided the economy, their workers, and their customers with unique and tangible benefits. Because ESOPs are regulated by a strict legal code that requires ownership to be broadly held across employees, from the mailroom to the boardroom, ESOP companies report better job growth, fewer job reductions during economic downturns, boosted employee savings, and strong protections against foreign acquisitions.[[1]](#footnote-1)

**What value do ESOPs bring to DoD?**

Data from top economists have consistently shown that ESOPs already create significant value in the American economy, and that this value extends to all workers, particularly those who represent disadvantaged communities or who are the intended beneficiaries of federal preference programs. According to the National Center for Employee Ownership, key groups targeted by existing contracting preference programs earned higher wages and had greater household net wealth when they worked at an ESOP company as compared to their peers.[[2]](#footnote-2)

**What is Sec. 874?**

Congress recognized the innovative potential in encouraging DoD to work with businesses wholly-owned through ESOPs and authorized the Pilot Program to Incentivize Contracting with Employee-Owned Businesses in Section 874 of the National Defense Authorization Act (NDAA) for Fiscal Year 2022. Section 874 provides authority for DOD to establish a pilot program to incentivize contracting with businesses wholly-owned through ESOPs by awarding a one-time sole source follow-on contract.

**When will I be able to use the authority granted in Sec. 874?**

First, DOD will need to make a decision to execute the authority granted by Congress in Sec. 874 and then conduct the rulemaking process to implement the statute in the Defense Federal Acquisition Regulation Supplement (DFARS). ECR has provided input to the Director, Defense Acquisition Regulation System (DARS) through the early engagement opportunity (see attached). Additionally, the FY23 NDAA contains language from the House Armed Services Committee reaffirming their support for DoD to implement this authority.

**How do I communicate interest in Sec. 874?**

DoD officials can use their chain of command to communicate interest in using the authority granted in Sec. 874. Additionally, DoD officials can communicate their interest to the point of contact in the business wholly-owned through an ESOP. These members companies will forward this information to ECR and ECR will anonymously convey this interest to DoD.

**Here is the link for ECR member POCs to communicate feedback from DoD Cos:** [**https://www.surveymonkey.com/r/XRL3QY7**](https://www.surveymonkey.com/r/XRL3QY7)

**How do I find the status of the implementation of Sec. 874?**

Open DFARS cases are updated weekly at https://www.acq.osd.mil/dpap/dars/opencases/dfarscasenum/dfars.pdf

1. National Center for Employee Ownership, *Employee Ownership & Economic Well-Being*, May 2017, https://www.ownershipeconomy.org/wp-content/uploads/2017/05/employee\_ownership\_and\_economic\_wellbeing\_2017.pdf [↑](#footnote-ref-1)
2. ibid [↑](#footnote-ref-2)