



# ESPPs at a Glance:

Background and Benefits



## Companies have been utilizing employee stock purchase plans (ESPPs) as a way for their employees to participate in the ownership of the company at potentially a discounted price for many years.

As of April 2020, 49 percent of the S&P 500 companies and 39 percent of Russell 3000 companies offer ESPPs to their employees<sup>1</sup>. Currently in the U.S., there are more than 6,500 employee stock ownership plans that hold over \$2.1 trillion in assets.<sup>2</sup>

In today's highly competitive labor market, top talent expects more from an overall compensation perspective, so an ESPP can give your company a hiring edge. Once hired, employees who participate in an ESPP may feel more loyal and invested in the company's success. ESPPs provide many benefits — from increasing employee engagement and boosting retention rates to reducing the cost of turnover.

Learn more about trends in the ESPP market, when to reevaluate your compensation plan, how to educate employees and widen participation, what young investors care about and how to maximize the value your ESPP is contributing to your company.

Read our article, [Employee Stock Purchase Plans \(ESPP\): Is Your ESPP Positively Impacting Your Company Growth?](#) for more information.

<sup>1</sup> "Employee Ownership by the Numbers," National Center for Employee Ownership, 2023

<sup>2</sup> "Employee Stock Ownership Plan (ESOP) Facts," National Center for Employee Ownership, 2024

# What Is an Employee Stock Purchase Plan (ESPP)?

An ESPP is a type of equity plan that allows eligible employees to buy their employer's stock usually at a discount through predetermined, after-tax payroll deductions. Once an accumulation threshold is reached, employees automatically purchase stock at a discounted price. ESPPs can be offered in addition to traditional 401(k) plans to give employees stronger overall retirement savings.

ESPPs are typically categorized into two types: tax-qualified and non-tax-qualified.

- With tax-qualified plans, employees receive more favorable tax treatment when they sell their shares. Provided certain requirements are met, gains on the shares are taxed at the (more favorable) long-term capital gain rates for U.S. employees. The discount on the stock, however, is taxed as ordinary income.
- With non-tax-qualified plans, there is no preferential tax treatment, but there is greater flexibility in the terms where you can exclude certain employees. For example, a non-qualified plan is often used to offer non-U.S. employees the opportunity to purchase stock at a discount since it is possible to achieve a tax benefit under a particular country's tax laws.

If your company offers an ESPP, it is important to explain the program benefits as some employees may not fully understand how it works, how it is different from a 401(k) or whether they can participate in both programs. Particularly for younger generations, your company's stock ownership plan can provide an invaluable tool to move them toward attaining their financial savings goals.

Communicate the value of your ESPP (not just during the enrollment period) so your employees view it as a must-have benefit. Consider:

- Including details in all new hire packets and all employee benefit materials
- Including information on your company intranet
- Creating educational videos and soliciting testimonials from participants
- Hosting lunch-and-learns throughout the year and other tailored on-site education

Explore more ideas for encouraging employee participation in our article, [9 Ways to Boost ESPP Participation](#).





## What Are the Benefits of an ESPP?

- **Acquire shares at a discounted stock price.** Through an ESPP, employees can acquire ownership in the company at a potential discount. Most ESPPs allow nearly every employee to purchase stock, making the benefit company-wide, whereas a regular equity plan may not extend to all employees.
- **Maximize gains and offer a buffer against market volatility.** Some ESPPs may contain a “lookback” provision, which allows participants to purchase company stock using the fair market value price either at the beginning of the offering period or at the end of the purchase period, whichever is lower. The maximum discount is 15%.
  - For example, let’s say a stock is valued at \$10 at the beginning of the initial offering but \$20 at the end. Participants pay an amount that’s 15% off the lowest value (\$10) — so \$8.50 — but that share of stock could be sold for \$20.
- **It has favorable short-term tax benefits.** The stock purchase is not a tax event. An employee can use after tax dollars to purchase discounted stock without any immediate tax implications. The tax event occurs later, upon the sale of the share.

Be sure to convey the value of your ESPP early and often to Millennial and Gen Z employees and use communication tactics that would resonate with them. Younger investors follow stories and themes, so building narratives in digital channels can help to enhance engagement.

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[The Society for Human Resource Management \(SHRM\)](#) reported that ESPPs offering a 15 percent discount with a look-back feature have a participation rate of 44 percent — well above participation rates for plans that offer lower discounts or no look-back.<sup>3</sup>

<sup>3</sup> “Stock Plans Increase Savings, Attract Millennials, Studies Show,” Society for Human Resource Management (SHRM), October 27, 2020.

Offering an ESPP demonstrates a company's investment in and commitment to its employees. In today's ultra-competitive labor market for top talent, an ESPP can give you a measurable edge in hiring and retention.

Presenting your ESPP alongside other benefits like medical and dental insurance, and a 401(k), will help to ensure that employees understand their complete compensation picture and its total value to their short-term wallet concerns and long-term financial security.

Take a deep dive into ESPPs — background, benefits, eligibility and enrollment, how to communicate value and maximize participation and implementation — [with this article](#).

## THE EQ ADVANTAGE

Providing the industry with a full suite of integrated plan sponsor and participant advantages, EQ is your strategic partner to support employee equity plans that help motivate, align, and incent employees. EQ provides tailored solutions that offer flexibility and the level of support you need.

Start engaging your employees and building a culture of ownership with an ESPP. Learn more at [Employee Stock Purchase Plans](#).



## **ABOUT EQ**

EQ are specialists in helping you better understand and manage the ownership of your company through critical events across the corporate lifecycle. As trusted advisors, we provide strategic insight and operations expertise through our core business units in Private Company Services, Transfer Agent Services, Employee Plan Solutions and Proxy Services. Globally we serve 6,700 clients (49% of the FTSE 100 UK and 35% of the S&P 500), with over 40 million shareholders, through 6,500 employees in 5 markets around the world.

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