



# EQ's Employee Stock Purchase Plan Playbook

A step-by-step guide to strengthening  
your company's equity plan administration



**Providing an employee stock purchase plan (ESPP) can drive employee engagement, boost retention rates and foster a culture of ownership.**

To build an effective ESPP for your company, some essential steps are:

**\$2.1T+ in assets**  
held by 6,500+ ESPPs<sup>1</sup>

# Step 1: Implement your plan

The following process will aid in a smooth implementation:

## Choose your plan type

- **A tax-qualified Section 423 plan** gives U.S. employees more favorable long-term capital gain rates on sales of shares if certain requirements are met.<sup>2</sup>
- **A non-tax-qualified plan** allows for more flexibility, including exclusion of certain employees. This can be used in combination with a tax-qualified plan.

**Gain approval from** the board of directors of your compensation committee. They should review and approve your plan prior to implementation.

**Create an offering document** that will give your plan maximum flexibility. For example, let's say your plan allows for a maximum 15% discount with

a lookback period of up to 27 months.<sup>2</sup> You can provide a 10% discount with a six-month look-back period in your offering document, then modify it in the future.

**Consider a share reserve** if your ESPP is being created in connection with an initial public offering (IPO). This will let you determine the number of shares that can be issued under the plan without requiring shareholder approval. A common approach is to set an initial reserve plus an evergreen provision.<sup>3</sup>

**Send a prospectus to participants** in an easy-to-read Q&A format.

**File an S-8**, a regulatory document that allows your company to issue shares to your employees.

## Prior to 2012, ESPPs were mainly for publicly traded companies.

Organizations can begin designing their plans pre-IPO as they prepare to move from being a private company to being a public one.

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**49% of S&P 500 companies and 38.5% of Russell 3000 companies offer ESPPs<sup>1</sup>**

## DIVE DEEPER:

Be sure your ESPP is helping to boost your company's growth. Read this article, ["Employee Stock Purchase Plans \(ESPP\): Is Your ESPP Positively Impacting Your Company Growth?"](#) to learn more.

<sup>2</sup> "Internal Revenue Bulletin: 2009-49," Internal Revenue Service, Dec. 7, 2009.

<sup>3</sup> "The Role of Employee Stock Purchase Plans in Today's Workplace," Equiniti.com, April 23, 2023.

## Step 2: Encourage ESPP participation

Start encouraging employee participation in your ESPP on Day 1. For best results, build out a year-round campaign that will reach potential investors across multiple channels and formats. Here are a few ideas to get you started:

**Get your corporate communications team on board** and develop a calendar of themes, dates and key messages.

**Explain the benefits of your plan** to your employees in an easy-to-understand way. Then promote your ESPP on your company's intranet website and across all new hire material, recruitment collateral and employee benefit documents.

**Launch a leadership video** explaining your executives' vision for your company's ESPP.

**Partner with a financial advisor** to host webinars or lunch and learns. Be sure to leave time for a Q&A at the end.

**Create short tutorial videos** that cover a range of topics, including your plan's lookback provision.

All of these actions will help simplify your equity plan administration.



### DIVE DEEPER:

Boost employee retention and engagement. Get tips in this [article](#).

### Success Factor:

Target **20% participation** from eligible employees<sup>3</sup>

## Step 3: Engage younger investors

Your company's ESPP can help younger generations achieve greater financial security, so reaching Millennial and Gen Z workers is essential when communicating the details of your plan. Your materials should explain how your ESPP will provide long-term benefits for them. Here's how:

**Demonstrate the impact** of your company's plan on their financial future. For example, explain how ESPPs provide an additional savings option that employees can easily liquidate down the road.

**Share messages** about investment topics that matter to these employees, such as your company's ESG processes and results.

**Feature Millennial and Gen Z plan participants** in testimonials showing how your plan has helped them financially.

**Share themes and stories** on digital channels, places where younger employees frequent.



**DIVE DEEPER:**  
Unlock more ways  
to reach [Gen Z and  
Millennial employees.](#)



## Step 4: Attract top talent

When they're fully engaged in your company's plan, employees will feel more loyal and invested in your company's success, helping to boost retention and lower turnover. Having an ESPP can also help you recruit the best and brightest workers. Here are some tips to make your plan more attractive:

**Offer a look-back provision** that allows employees to purchase stock using the fair market value price at either the beginning of the offering period or the end of the purchase period (whichever is lowest).

**Present your ESPP** alongside other benefits options, such as medical and dental insurance, and 401(k) plans.

**Clearly spell out the difference** between ESPPs and 401(k)s. Include examples, such as using an ESPP to buy a home vs. using a 401(k) to plan for retirement.

**Provide context** around the long-term value of your ESPP. This could be a deciding factor for candidates weighing multiple options.

**38% median participation rate** for ESPPs offering a 15% discount with a look-back feature<sup>4</sup>

**DIVE DEEPER:**  
Learn how Your ESPP Can Positively Impact [Company Growth](#).

<sup>4</sup> "Why Your Qualified ESPP Should Offer a 15% Discount," National Association of Stock Plan Professionals, Oct. 4, 2023.

# Bring Your ESPP to Life

If you need help at any stage of the equity plan administration process, you'll want the guidance of experienced industry experts. The team at EQ uses a collaborative approach to help our clients build solutions that meet their employee equity compensation program needs.

EQ provides equity award administration for all equity awards (stock options, restricted awards, restricted stock units (RSUs), performance awards, Stock Appreciation Rights (SARs)) and employee stock purchase plans (ESPPs). We also offer administration for tax-qualified Section 423 plans and non-qualified plans, as well as non-U.S. plans such as SAYE schemes.

Have any questions?

[Connect with an EQ expert.](#)

**35% of the S&P 500**  
partners with EQ<sup>8</sup>

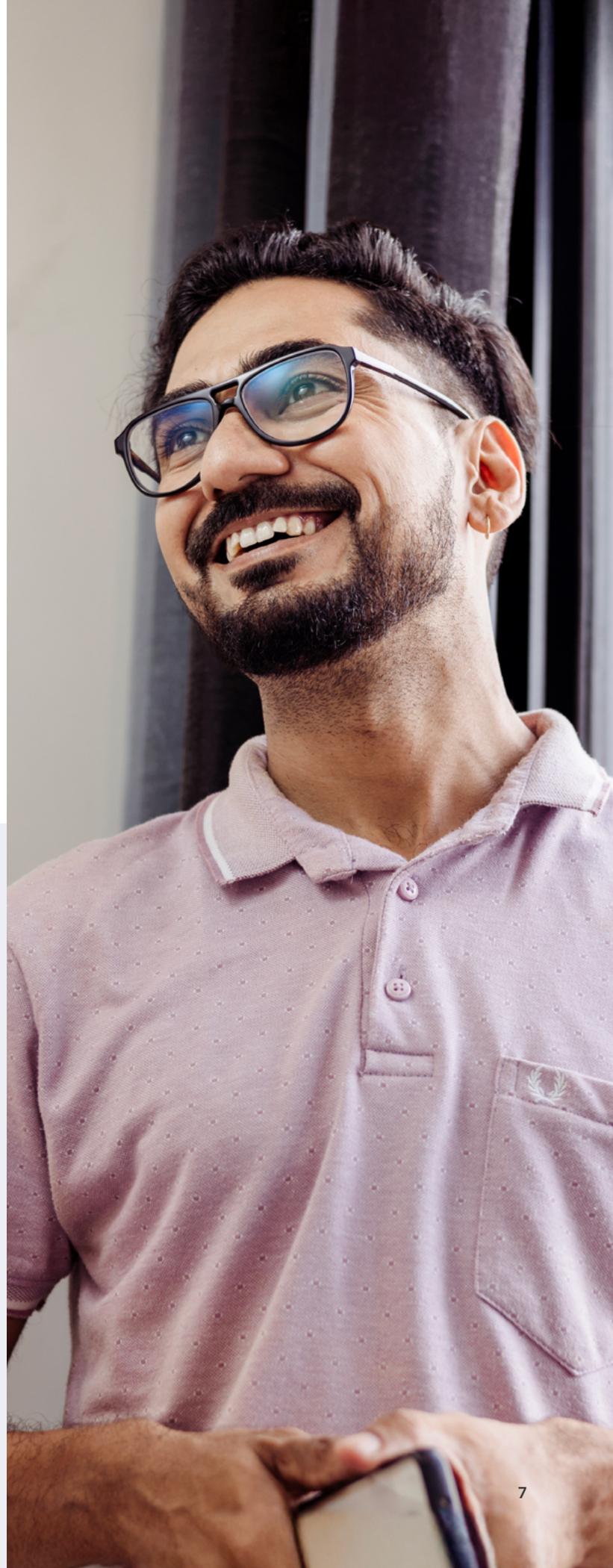
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## THE EQ ADVANTAGE

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](#).

<sup>5</sup> Based on EQ Proprietary Data



## **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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