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On behalf of my institute, I write in response to your request for comments on the Draft Recommendation of the Council on the Core Principles of Private Pension Regulation released in July 2015.

We appreciate the efforts of those who are working to improve the world's pension systems. There is much value in their work. I do want to share the experience of the United States on this topic. As you know, US law recognizes a distinctive form of employer-sponsored retirement savings program known as the employee stock ownership plan, or ESOP. This form of retirement plan invests primarily in shares of the sponsoring company.

ESOPs have occasionally come under criticism because they are seen (quite accurately) as lacking in investment diversification – a fundamental principle of long term savings and investment. In fact, however, this criticism is misplaced. The reason is that: a) in the US, the near-universal experience is that employers offer ESOPs only as an additional offering that will exist in addition to all the other forms of employer-sponsored savings programs that the company would offer in the absence of the ESOP; and b) the ESOPs are funded entirely by the employer and not by employees. Thus, employees risk nothing by virtue of the ESOP's existence. Instead, the ESOP offers an upside opportunity to employees with essentially zero risk. It is not the employees' money that is being invested in the ESOP; and the company funds that are invested in the ESOP would not go to a different form of pension plan if the ESOP were eliminated.

Moreover, research in the US has revealed that employees who participate in an ESOP can expect to retire with 3 to 4 times the amount of retirement savings that employees can expect to accumulate in the absence of an ESOP. Clearly, therefore, ESOPs have a dramatically positive effect on employee retirement savings.

Separate and apart from the impact of ESOPS on employee retirement savings, ESOPs have a powerfully positive impact in other respects. The fact that employees, through an ESOP, own a significant interest in their company produces important positive effects. Research has shown that where employees own substantial interests in their company, they modify their attitudes and behaviors in very constructive, positive ways that positively impact the financial performance of their company. One recent research finding in particular was that, over the course of the recent severe recession, companies with ESOPs were 400% more likely to survive. Said inversely, the bankruptcy rate among companies without ESOPs was 400% higher than the rate among companies with ESOPs. This is just one concrete manifestation of the impact of employee ownership on employee attitudes and behaviors. Other research has found that companies with ESOPs grow at significantly faster rates than companies in the same industries that do not have an ESOP. The motivational effect of employee ownership is found consistently by diverse set of research studies.

There are yet more benefits of employee ownership through ESOPs. They elevate the socio-economic status of participating employees. They produce incremental educational benefits in terms of employee understanding of business and financial matters – a financial sophistication that employees can apply as they manage their personal financial affairs.

I hope these comments contributes to the ongoing evaluation of private pension policy.

Sincerely,

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