BUILDING WEALTH: Thinking Beyond the 401(k)

BY DANIEL COHEN

Despite the economic strife caused by the pandemic, NH still has a tight job market and plenty of employees are reevaluating their career options and leaving for jobs offering more flexibility, more money or more opportunity. Before taking the new job consider the future beyond investing into 401(k), 403(b), IRA and Roth IRA accounts.

For younger workers, the conventional approach to building wealth is to start early and save regularly through payroll deductions and automatic deposits to investment and retirement accounts, which compound over the 30 or 40 years of one's career. And plenty of investors have built retirement accounts using this traditional and proven strategy.

However, many employees are looking for companies that will elevate their financial position by earning shares of ownership in the firm.

Aligning Interests

Engaged employees are no longer at work just to collect a paycheck. They want to contribute to the success of their company and are eager to participate in its growth. At the same time, dedicated employers aren't looking for workers to simply punch in and out each day. They want committed team members willing to work hard and accept some responsibility for ensuring the success of the company.

Equity incentives in compensation plans enable employees and employers to align their goals. Many company leaders have discovered that by allowing employees to participate in the ownership of the firm, they show up more eager to help generate revenues. The wealth generated by the company can be shared by many rather than a few at the top. This results in improved morale and a continued incentive to grow.

There are many NH companies sharing profits with employees by offering equity options, including Datanomix in Nashua, Awato in Manchester, Forcivity in Manchester, Kompany39 in Manchester, PT United in Nashua and York Athletics in Manchester. They are finding it's a great way to attract motivated individuals and build a loyal workforce.

According to John Joseph, CEO of Datanomix, it's not only good business but a best practice to offer equity options to em-

ployees. Forward thinking companies want employees that are looking for greater engagement. Some of these companies are still majority-owned by the founders, early employees or the venture capital firms funding them. Others like Hypertherm, New England Wire Technologies, Normandeau Associates, Cirtronics, Littleton Coin Company and McDevitt Trucks are owned by their employees under an Employee Stock Ownership Plan or ESOP.

Companies in NH need to remain competitive with employers in the Boston area where equity incentive compensation plans are becoming standard practice.

Equity incentive compensation options can pay handsomely. Minim, a Manchester-based tech company, was recently acquired by Zoom Telephonics, a publicly traded company, in a non-cash, stock transaction valuing Minim at $30 million. Since Minim offered equity compensation options, all participating employees received a payout.

Some of these deals can be quite lucrative for employees, as when Dyn was sold to Oracle and PillPack sold to Amazon. Hundreds of employees from these companies received large cash payments when their shares were bought by the acquiring company. These payments allowed some employees to buy homes, significantly improve lifestyles, start businesses and pay off debt. Many of them continue to be employed by the acquiring companies to continue their careers and sometimes are able to participate in the equity of their new employer.

Someone who has worked for 10 or 20 years and gained valuable experience should consider the opportunity of working for a small company that would give them a stake in the success of the business. Going to work for a company offering equity incentives can be a great career change to leverage that experience and accelerate wealth building that cannot be substituted by saving more of their paycheck.

Weighing the Risks

Equity compensation in the form of stock or options in publicly traded companies provides a less risky way to supplement savings since the value of the position is always known. Working for a private company presents more risk because the value of any equity incentive package is only an estimate as there is no public market for the position.

However, with the added risk, there is often a higher potential return. For example, an employee working for a 50-person company will likely have a larger interest in the firm than if they went to work for a large public company with thousands of employees. The higher risk of working for a small company with an unknown value could potentially have a much larger payoff if sold at a profit in the future.

Though the opportunities are significant, it's important to understand not every company succeeds, no matter how motivated or talented the employees. It's fairly common for people to work for a company for many years that is never bought at a good price or ends up merging with another company with no gain realized. With that risk, it's important to continue saving in traditional retirement accounts, starting as young as possible, to accumulate funds for future needs and gradually build wealth.

The equity incentive compensation option can be thought of as a potential bonus that can be life changing for those fortunate to choose the right company and contribute to its success. ■

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