Consolidate, Terminate or Maintain Separate Plans?

HOW TO HANDLE RETIREMENT BENEFITS IN A MERGER OR ACQUISITION. BY DEBORAH RENDER

When a health care organization merges with or acquires another, deciding how to handle the benefit plans going forward can have significant ramifications, financially and otherwise. Retirement benefits often rank low on the list of priorities for C-suite executives focused on multiple strategic, operational and administrative merger and acquisition (M&A) challenges. This underscores the importance of involving human resources (HR) leaders as soon as possible in discussions about a potential deal – especially since retirement plan options may be limited once the transaction is completed.

"The retirement plan is probably one of the last things C-suite leaders have on their minds when they're working on the transaction," says Laura Gaynor, vice president, corporate practice, Transamerica Retirement Solutions. "The earlier HR is involved, the better. That way, they can start doing some due diligence to understand the different plans. They can educate the C-suite about the full breadth of options and the decisions that have to be made before a transaction occurs."

As an example, she points to plan sponsors who may want to terminate defined contribution, non-qualified or defined benefit plans rather than assuming the liability that would come with taking ownership of the plans. "Once the transaction has occurred, that may no longer be an option," she says. "HR ends up having to deal with issues that can be quite difficult."

Look at the big picture

In any transaction, HR leaders must grapple with two key questions: 1: what is the best way to accommodate the needs of different groups of employees? And 2: does it make sense to consolidate plans, maintain separate plans or terminate a plan?

Brodie Wood, vice president, not-for-profit practice, Transamerica Retirement Solutions, points out that every M&A transaction requires health care organizations to decide whether to integrate or terminate various overlapping areas, whether it's IT, staff or benefits. "The reality is when we think about dollars relative to other areas, the retirement benefits piece doesn't drive as much revenue so it's often considered later. But if you fast forward a couple of years, it can have huge implications," he says. "If the decision is made improperly, it can also alienate staff and create a big rift or significant turnover."

Involving HR leaders in due diligence efforts early on supports informed decision-making by providing the opportunity to review options from a plan design perspective as well as analyze the financial, legal and compliance impact. To help minimize surprises at closing – or further down the road – it is critical to consider factors such as the differences in employer contributions and employee benefit levels between plans, protected benefits, testing implications, extra costs involved in maintaining an additional plan, how the changes will affect the workforce, and planning effective communications about the changes.

It is also critical to avoid taking any action that might compromise the qualified status of an existing or newly created retirement plan, as well as to carefully examine the current state of any plan an organization is considering merging into an existing one. "The IRS is closely scrutinizing plans to make sure they have been running in sync with the plan documents," Gaynor says. "Certainly one of the goals in sponsoring the retirement plan is to set it up so it's successful from the very beginning. The last thing you want to do is merge plans where there are operational defects or plans that are out of compliance because that could impact the surviving plan."

Think strategically

For health care organizations that anticipate doing multiple transactions, it can be highly productive for HR leaders to invest time upfront working with the C-suite and the retirement plan provider to develop a standardized M&A retirement plan strategy. "It is important to articulate the business case for bringing plans on board or terminating them, the vision in terms of the amount of data clean-up typically required, the impact on HRIS or payroll systems, how long the process should take and what project resources will be needed," Wood says.

That's exactly the approach taken by one of Transamerica's clients, a large nonprofit health system. At the request of the organization, the name of the employer and HR leader interviewed have been omitted to address operational and privacy concerns. "We've done many transactions, so we have a process and direction from the C-suite," explains the system's senior director of benefits. "We have a transactions team where representatives from all departments including HR, finance, supply chain and IS have seats at the table to make sure we all do the work that needs to be done when an entity enters or exits our organization."

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The multi-disciplinary transactions team typically gets involved during the due diligence phase, once a potential candidate has been identified for merger or acquisition. "Assuming you have a plan that has been well-managed and well-operated, due diligence is generally pretty straightforward," the senior director of benefits says. But as the team reviews current benefits plans and programs, they cast a particularly sharp eye on the retirement plan, looking closely at plan funding levels as well as evidence that IRS and ERISA guidelines have been followed, plan documents are in place and 5500 forms have been filed.

"Certainly a decision to do a deal or not isn't going to hinge on dental or life insurance," the senior director of benefits notes. "But retirement plans can have a significant impact on employees' long-term financial security and/or an employer's labor cost structure. We advise leadership as to whether there's anything out there we believe they need to be concerned about as we proceed with the transaction."

Post-transition challenges

Even with a strategic approach, every transition plan is unique once the transaction becomes final. "We determine what the path is for integration for the acquired entity and the benefits plans and programs. It's based on the circumstances that exist at that entity – the benefit levels, plan features, where they are today," the senior director of benefits says.

Since retirement benefits involve significant dollar amounts, the transition team moves cautiously. "We look at what the best opportunity is for us to map associates over to our standard without causing large swings in cost or negative impact to the participants being transitioned," the senior director of benefits says.

The analysis and transition process typically takes a minimum of 18 months and sometimes significantly longer. "We don't make a firm decision until we sit down with the acquired organization and look at things that might be barriers. There might be collective bargaining agreements where making changes might require negotiation," the senior director of benefits says. "Or there might be some plan features in the acquired entity's plan that we don't offer, which could cause some challenges with merging plans right away."

Whatever decision an acquiring organization ultimately makes about how to handle retirement benefits, it takes substantial time post-transaction to implement. "The timeframe involved with a project is often longer than people expect, particularly if the plans are being merged. There are often big time lags when it comes to HRIS or payroll systems and marshalling resources to reprogram those systems," Wood says. "There are compliance considerations, reporting requirements and communication considerations for employees."

He also points out that many health care organizations have retirement plan assets that are potentially illiquid and therefore difficult to move. Or, the contract may be between the plan provider and the employee, not between the hospital and the employee, posing additional challenges.

Enrolling employees of the acquired entity in the parent's existing plan immediately after the transaction can often offer several advantages, according to the client. "The merger of plans can happen at any time. By delaying it, you allow yourself to focus on getting associates enrolled and engaged in the new plan, which is certainly one of our primary goals. We don't want them to miss the opportunity to save for retirement. Once that's done, we can handle the merger of the legacy plan," says the senior director of benefits.

Communicating with employees affected by plan changes is absolutely essential to help ease their anxiety and streamline the transition. As early in the process as possible, it is wise to use multiple communication channels to explain the reasons for the change and provide details of the new benefits. Ideally, the plan provider should provide recommendations for an effective communications strategy and hands-on support for implementing it.

Transamerica and its clients work closely together once the team actually starts making changes to the benefits. Both organizations typically assign a project manager to implementation work, which includes a communication resource at Transamerica for employees.

The client also creates a transition website where associates can go for easy access to the latest retirement plan developments in the months leading up to the actual transition. "They can learn about the employer's plan, get information about what's happening to their old plan, find out if we're moving administrators and get information about fund mappings," says the senior director of benefits.

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5 questions to ask your plan provider

Whether you're merging a plan, terminating one or maintaining separate ones, your plan provider's M&A experience and knowledge play key roles in ensuring a smooth transition. "The biggest favor HR leaders can do themselves is to make sure they're working with the right provider," says Gaynor.

Here are five key questions she recommends asking to help assess your provider's expertise:

1. Will you assign a dedicated conversion project manager and team to facilitate the process from beginning to end?
2. How long do you expect the entire process to take?
3. Will you furnish a comprehensive "specimen project plan" that outlines timelines and processes for completing a plan conversion?
4. How closely will the conversion team work with the sponsor's service teams once the conversion is completed?
5. How will you work with other vendors to transfer data and plan assets?

Take advantage of expert guidance

Once the plans are up and running, HR leaders also need to examine how to create efficiencies by streamlining internal processes. "You need to think beyond the plan specifically," Gaynor says. "You should look at how to get people on the same payroll systems, so you're not dealing with data coming from multiple areas or having multiple HR groups handling payroll fees or submission. You need one central point of contact for all of this information."

Even for M&A veterans like the senior director of benefits interviewed for this article, the process of managing the retirement benefits piece is extensive and complicated. The most important lesson she's learned from her experience is the value of patience and attention to detail. "Take your time and be thoughtful. Be slow and methodical, because it's difficult to undo something once you've done it," she says.

External and internal partners including plan providers, plan advisors, consultants, recordkeepers and ERISA counsel can be sources of valuable guidance and support to HR leaders, given the details and challenges inherent in the retirement plan transition process, every step of the way from initial due diligence to finalizing the plan conversion.

"Make sure you have appropriate business partners whose expertise you can draw on to navigate through all of the complexities inherent with any M&A," Gaynor says. "They can help you make sure you're asking the questions you need to be asking so you can make the right decisions, not only on behalf of the participants but the organization as well. It's important to know you're not in this alone."

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