

Mergers & Acquisitions: Defined Contribution Plan Harmonization

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A thoughtful integration of new employees resulting from a merger or acquisition is one of the keys to the success of the new organization. It is therefore critical that plan sponsors and benefits professionals are prepared for the challenges of benefit harmonization and approach program changes prudently. The best antidote to chaotic situations is process. For that reason, it is crucial to ensure you have a well-defined strategy and decision-making process in place as you enter the hectic time leading up to and following the transaction.

What's Inside

- The importance of planning ahead
- Information gathering
- Setting objectives

All companies have their own unique means of dealing with change. One size does not fit all. So, be sure to have a clear understanding of both the desired (or possibly required) timing of any changes, as well as the various levels of corporate approval needed to finalize decisions. Developing a detailed project plan that reflects these needs and ensures appropriate senior management review will help set you up for success.

With a clear understanding of the timing and approval process, it is now time to lay the groundwork for the design decisions to be made. The focus of this article will be on two key elements:

- Discovery – A thorough collection and analysis of the current state information, and
- Objective Setting – Working with senior leadership to confirm or refine guiding principles to be used as part of the decision process

Let's review the important aspects of each of these critical stages.

Discovery

It is often said that before you can figure out where you are going, you must first know where you are. In a merger or acquisition situation, understanding "where you are" means being aware of the current benefit programs that now exist within the new organization and the potential implications of redesign. You can do this by:

Comparing the current vs. acquired programs.

Creating a side-by-side comparison of plan provisions is the first step to gaining a good understanding of the situation. Typically the focus is on the primary features of the plans such as matching formulas, profit sharing features, vesting, and eligible groups. However, secondary features such as auto enrollment, fund lineups and loan provisions should also be summarized during this phase of the analysis. In doing so, you will also want to watch out for provisions that may qualify as "protected benefits" such as vesting, retirement definition overrides or definition of disability.

Assessing the cost.

Analyzing demographic data and understanding the benefit levels for various groups and overall "baseline" cost will help set the stage for possible changes down the road.

Consider compliance implications.

If you are considering a plan merger, complete the recommended steps of due diligence to ensure there are no lingering [compliance issues](#). Additionally, although not everyone's favorite topic, it is important to document the constraints that nondiscrimination testing requirements create. Understanding how these requirements are currently met by the two organizations and how you intend to satisfy them under the new organization will provide important context throughout the harmonization process.

While the above items are key components to the initial discovery phase, some companies take a broader view of the harmonization process and use it as an opportunity to take a fresh look at their plans and overall benefit offering. In these situations, two additional considerations will come in to play:

Benchmarking.

Rather than looking just at the plans involved in the business transaction, some companies want to understand more about the competitive landscape. The focus may be on specific industry peers, companies within geographic proximity, or possibly a broader view to understand overall market conditions.

Retirement readiness.

Companies tend to focus on the annual contributions and budget when looking at defined contribution plan design. It is important to understand how well your plan will prepare employees for retirement. Detailed population analysis including benefit projections provide great information about how effective the plans are in meeting retirement readiness targets.

Objective Setting

Ultimately, any new design should support and reinforce the overall corporate objectives. This is true in any retirement program design. But in an environment of corporate change, it is even more important that design changes create a consistent message to employees that reinforce the new corporate, HR and benefits objectives of the new organization. To ensure this is the case, the retirement program design should be the last step of the corporate strategy cascade.

Operating Principles & Governance



Goal setting can also be thought of as “listening and articulating.” Through discussions with leadership, the benefits team, and other stakeholders to gather input, specific “guiding principles” can be developed to inform the design process. This is also a great time to develop the narrative around the ultimate design. While the approach is not yet final, starting this narrative helps bring the corporate goals and objectives to life while simultaneously helping management understand what is to be accomplished.

While goal setting is often the first step of the process, companies will often use the key takeaways from the discovery phase as a way of engaging senior management in the goals and objectives discussion. Asking executives to start with a “blank sheet of paper” sounds great in theory; it is hard to ignore the current benefit programs when thinking about the future. Further, the programs of the acquiring company are often the priority for the harmonized program, so a good understanding of cost differentials as well as nondiscrimination testing constraints will be a good jumping off point for the discussion. It will also help them react to information presented around cost, competitiveness and the retirement plan objectives to help identify practical next steps.

So, you’ve documented the timeline and approval, gathered background material and worked with senior management to understand the current situation and their goals for the new organization’s future. You are well on your way!

There is still more work to be done but by following these initial steps, you will lay the groundwork for a successful integration of plans.

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