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Three Compelling Reasons to Consider Pension Plan Mergers

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If you have more than one pension plan you are administering, consider a pension plan merger to potentially reduce plan administrative, Pension Benefit Guarantee Corporation (PBGC), and future plan termination fees. Sound too good to be true? Read on.

While the total number of pension plans may have dwindled over the past few decades, several companies still sponsor not only one, but multiple pension plans for participants within their organization. Most typically this is the result of a decision made years ago when the retirement plans were created or acquired – either to intentionally separate participants with different benefit formulas such as Hourly Plans for union employees earning a service related benefit, Salaried Plans for employees earning a pay related benefit, or as a result of an acquisition where the plans benefitting employees are not original employees of the parent company. While there may have been reason to keep the plans separate in the past, it might be time to reevaluate and consider whether a pension plan merger might be beneficial.

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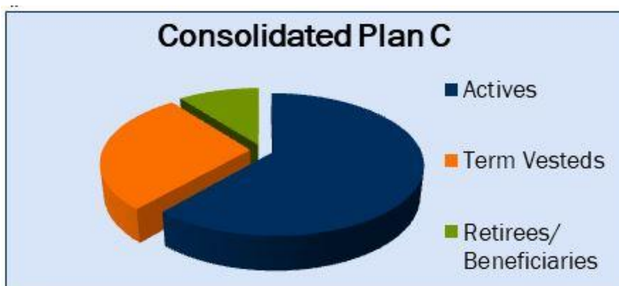
What is a Pension Plan Merger?

A pension plan merger is the consolidation of one or more pension plans into a single, previously existing pension plan.



Consider Company X who maintains 3 pension plans:

- Plan A benefits all Hourly, union employees
- Plan B benefits all Salaried employees
- Plan C benefits all participants acquired by Company Y

A pension plan merger is the transfer of all retirement plan assets and liabilities from Plans A and/or Plan B into Plan C (or some other similar combination) and as a result, Plan A and/or Plan B would cease to exist.

Going forward, annual requirements remain only for the consolidated plan. Because the merger cannot violate anti-cutback rules, there is no negative impact to the retirement plan participants. Protected benefits such as accrued and early retirement benefits, subsidies, and optional forms of benefits cannot be reduced.

Why Should We Consider Merging Pension Plans?

Reason #1 : Reduced Administrative Fees

Each qualified pension plan has several annual requirements, regardless of size. Combining plans can reduce total administrative fees by minimizing the redundancy of the annual actuarial, audit, and trustee work:

- Annual valuations: Funding, accounting, and ASC 960
- Government reporting: IRS Form 5500 and PBGC filings
- Participant notices: Annual funding notices
- Annual audit: Plan audit for ASC 960 and financial accounting audit
- Trustee reports

Merging plans can streamline many processes, reducing fees for these services compared to operating separately.

Reason #2 : Potential PBGC Savings

Plan sponsors with both an underfunded and overfunded plan can reduce PBGC premiums by sharing the excess retirement plan assets of an overfunded plan with one that is underfunded. Annual premiums are due to the PBGC (Pension Benefit Guarantee Corporation) for protection of participant benefits in the event the plan sponsor is unable to fulfill their pension promises. Plans that are fully funded pay only a flat rate premium based on headcount. Underfunded plans pay an additional variable rate premium (VRP) based on the total unfunded liability for the plan (capped by participant). Merging an underfunded and overfunded plan can create a combined fully funded plan, eliminating the variable portion of the cost or premium due to the PBGC as shown:

Consider Company X who maintains 2 pension plans:

- Plan A has 580 Hourly participants with a PBGC shortfall of $10 million as of 1/1/2019
- Plan B has 1,160 Hourly participants with a PBGC excess of $10 million as of 1/1/2019
- Plan A merges into Plan B with 1,740 participants and no shortfall as of 1/1/2019

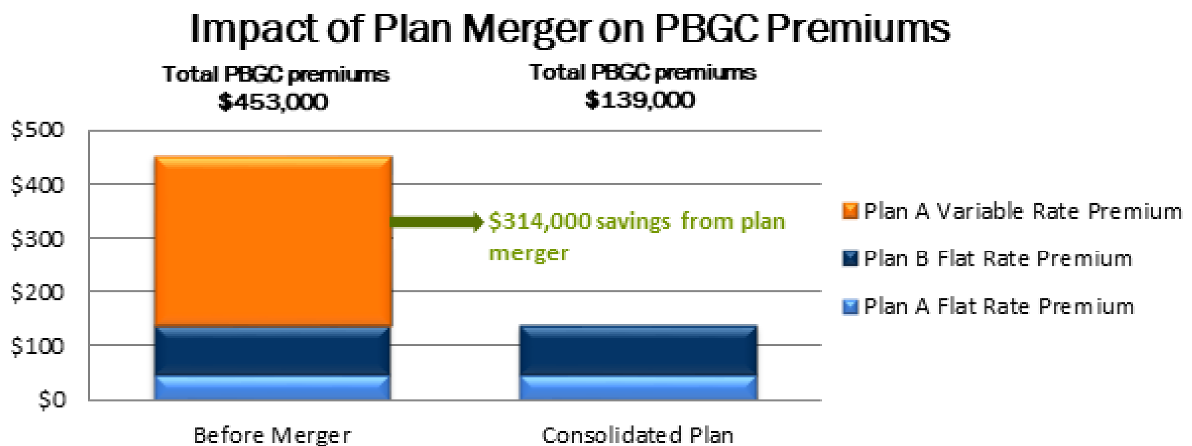
By merging Plan A into Plan B, the shortfall is eliminated and PBGC premiums due are dramatically reduced with considerable financial impact.

Reason #3 : Plan Termination on the Horizon

Similar to the administrative savings of merging two ongoing pension plans, there will likely be reduced fees related to the process at termination. The final step in distributing retirement plan assets will be the agreement between the insurance company taking over the responsibility for all future benefit payments of remaining participants. Merging plans will consolidate the transaction and increase the number of participants affected, potentially resulting in annuity purchase cost savings to offset the underfunded liability at final distribution. If plan termination is on the horizon, especially for two small to mid-size pension plans, a plan merger may prove to be a valuable first step with potential positive financial impact.

We Want to Merge our Pension Plans…Now What?

In most scenarios, the process is fairly straightforward. There will be a few adjustments required to the valuation process in the first year, but going forward will



operate as usual. Participants will be notified of the change, but there will be no difference to the way that their benefits are calculated or administered.

The plan sponsor will also be required to do the following:

- Execute a plan amendment describing the plan merger
- Modify the plan document to reflect the new consolidated plan
- File Form 5310-A with the IRS no later than 30 days prior to the merger

Regardless of the size of the plan, a plan merger may be a step in the right direction toward simplifying the administration and cutting costs for many organizations sponsoring more than one pension plan. Merging multiple pension plans is most often one example in the pension world where less is more. Finally, there are instances where a merger may result in increased costs (PBGC premiums) or may present other challenges.

Each situation is unique so don't make any assumptions without consulting your actuary. And don't overlook the importance of a communications strategy to inform participants of any changes which take place.

Questions? For more information, contact the Findley consultant you normally work with, or contact Debbie Sichko at *debbie.sichko@findley.com*, 216.875.1930.

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