



# Navigating a Defined Contribution Plan Transition During a Merger or Acquisition

When evaluating and executing a merger or acquisition, companies have a long list of topics that require extensive attention. That can make it easy for the executives leading these high-stakes transactions to overlook their companies' 401(k) plans during the due diligence and integration planning processes.

Neglecting to consider the retirement plans, however, can negatively impact employee engagement, compliance and operational efficiency. Fortunately, retirement plan committees and other members of the deal team can follow six best practices to help ensure a smooth transition for retirement plan participants and plan administrators.

## Six best practices for a smooth transition

- 1 Think ahead
- 2 Reframe the investment advisor relationship as a strategic partnership
- 3 Think strategically and comprehensively
- 4 Optimize recordkeeper relationships
- 5 Harmonize plan design, investment menu and operations
- 6 Communicate proactively with participants



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# Think ahead



## **It's never too early to begin thinking about a potential transaction's impact on companies' retirement plans.**

An early start can provide more time to consider various options and create an efficient execution plan. In most cases, both parties should begin their research as soon as there is formal speculation of the transaction.

A head start can help companies avoid a rushed plan merger, which may trigger unintended tax consequences or eligibility issues. When plans have ample time before the transaction, they can better identify and correct any operational, fiduciary, reporting or documentation problems.

Typical areas of pre-transaction due diligence include reviewing plan documents and investment options, evaluating plan governance (including the fiduciary structure) and identifying potential compliance issues.

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# Reframe the investment advisor relationship as a strategic partnership



**Transactions present plan sponsors with an opportunity to elevate the relationship with their investment advisor from a traditional consulting engagement to a true strategic partnership.**

Because mergers and acquisitions present a host of fiduciary, operational and investment related challenges, partnering with an advisor that takes a proactive, integrative role can help strengthen fiduciary governance, reduce transition risks and support the planning and oversight of timely participant communications throughout the process.

Experienced advisors support executives and retirement plan committees on both sides of the transaction by coordinating across HR, payroll, legal, finance and third party providers to help ensure the transition supports broader organizational goals. By collaborating with the plan sponsor, advisors help ensure the combined plan's investment architecture is designed for the new workforce and plan features are properly aligned. Investment advisors can also help coordinate with recordkeepers, third party administrators and other service providers, whose capacity and service models may vary significantly, to identify the right timing and structure for the migration.

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# Think strategically and comprehensively



**Companies should determine how the new plan's strategy aligns with organizational goals such as employee retention, cost savings or plan simplification.**

Then, to implement the strategy, companies should ideally establish a cross functional transition team with clearly defined responsibilities among members from benefits, human resources, communications, payroll, legal, finance and third party administrators.

If companies eschew a comprehensive strategy in favor of a piecemeal, ad hoc or staggered approach, important considerations may slip through the cracks or activities may be mistimed.



## Charting an appropriate path: Merge, keep, or terminate?

Perhaps an important retirement plan-related question facing the acquiring company is whether to merge the acquiree's plan with its own, keep the two plans separate or terminate the acquired plan.

**Merging the plans** can generate benefits from streamlined governance, easier administration, audit and compliance, and greater economies of scale.

**Keeping the plans separate** allows plans to be managed more autonomously, may create efficiencies in terms of governance or investment management, and may make it easier to execute potential future transactions.

**Terminating the plan** has fallen out of favor with most organizations because of the negative participant outcomes it can create.

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# Optimize recordkeeper relationships



## **Retirement plan recordkeepers can play a key role in helping to facilitate a smooth transition.**

Therefore, it's important that both the acquiring company and the acquiree fully engage their plans' recordkeepers to leverage their experience with similar transactions while also assessing which providers are an appropriate fit for the combined organization.

Recordkeepers can help assess how long the transition will take and identify an opportune time of year to start the process. Many plans assume that completing the transition at year-end will create a clean break from one plan year to the next. However, recordkeepers tend to be very busy in the fourth quarter, and their resources are stretched thin; plans that aim to complete their transaction mid-year may receive more attention and a higher level of service from their recordkeepers.

Throughout the process, retirement plan committees should also review the service models of recordkeepers to help ensure they are appropriate for the new plan's asset base and participant count. Plans that don't assess whether their recordkeeper can accommodate combined plans can risk overlooking non-transferrable investments, liquidity issues or other potential problems.

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# Harmonize plan design, investment menu and operations

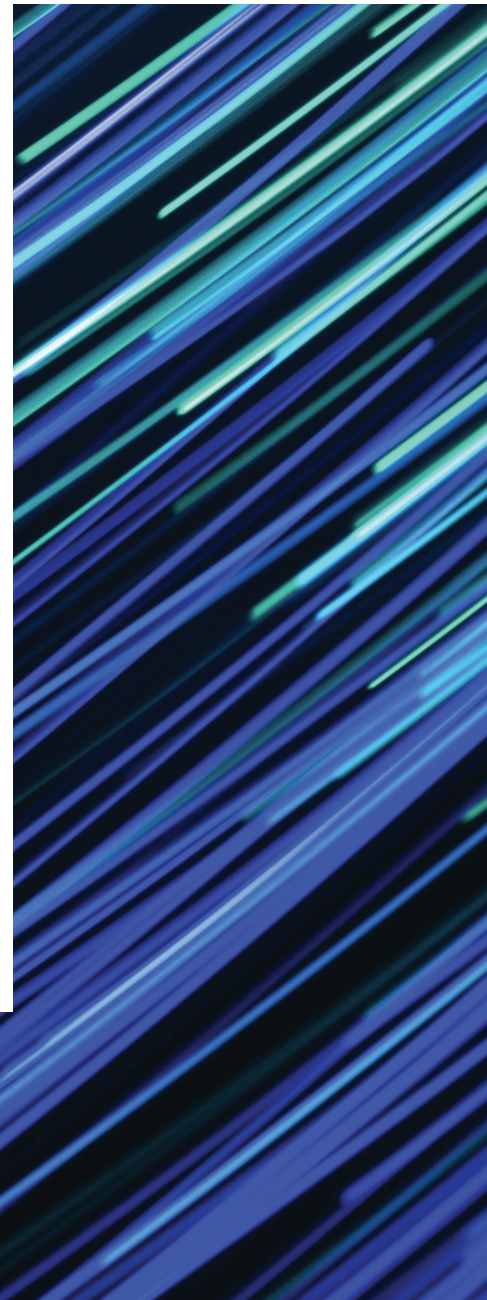


**Companies need to evaluate all aspects of the plan—including plan design features, investment lineup options and operational systems—to identify and resolve any potential conflicts.**

Not only do companies need to reconcile 401(k) plan features such as auto-enrollment, employer matching and vesting requirements, they must also assess and integrate the plan's investment menu to ensure proper mapping of the fund lineup and transition of managed accounts, target date funds and other options.

In addition, retirement plan committees should understand how a post-merger shift in participant demographics can affect the appropriateness of the existing qualified default investment alternative (QDIA) and enrollment processes. Further, plans that include company stock, self-directed brokerage windows or illiquid funds require an added level of scrutiny and planning.

Companies also must carefully coordinate operational integration across relevant departments to help ensure that payroll and HR systems align with new eligibility rules and contributions.



## 6 Communicate proactively with participants



**Mergers and acquisitions can be stressful for employees, leaving many to wonder how the transaction could affect their benefits.**

Companies can support employees by providing proactive, thorough communications about what the transaction will mean for their retirement benefits.

This requires creating a communications plan well before the transaction takes place. Educational content about the plan should be distributed via a mix of emails, webinars, FAQs and other formats, presented in ways that are easily digestible for participants with varying levels of financial knowledge and who are at different stages of their retirement savings journeys.

# Morgan Stanley's experience

**With more than 50 years of experience advising institutional clients, Morgan Stanley brings deep expertise across the entire retirement benefits landscape for both public and private companies.**

The firm is uniquely equipped to guide merging firms through the complex, interrelated decisions involved in building an effective retirement plan that addresses the needs of the combined organization and its workforce.



Talk to your Morgan Stanley Consultant, and your legal and tax advisors about your options, and what makes the most sense for your business and employees.

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