caat PENSION PLAN

Reducing the cost and complexity of pension plans in corporate transactions

Selling a company or merging two businesses together requires careful due diligence with tight deadlines, often in different jurisdictions. Add a company pension plan to the equation and the complexity, cost, and uncertainty of the transaction increases.

By Derek W. Dobson

Now, there is an opportunity for companies to efficiently de-risk their pension before, during, or after a transaction.

As part of a sale or merger transaction involving a Canadian business, the parties can explore having the pension elements addressed by involving the CAAT Pension Plan, a modern defined benefit (DB) pension plan, as a way to de-risk a business's existing or legacy pension obligations or as a way to bring attractive and valuable pension benefit consistency to the affected employees – all with cost certainty and low ongoing risks. Consistency in pension benefits on a go-forward basis is easy to attain and can occur very quickly.

If existing or legacy DB pension obligations exist, cost-effective solutions are also available. In Ontario, legislation permits mergers of single-employer defined benefit (DB) pension plans into jointly-sponsored pension plans (JSPPs). Private sector plans can be designated to have this option available.

Employers

In the current low interest rate environment, most single-employer DB plans are underfunded and can carry significant volatility to employer balance sheets. The volatile cost uncertainty of a single-employer DB plan is unattractive for potential buyers or merger partners – it can also make financing difficult. In-depth legal and actuarial expertise is often required to understand the costs of administering the current plan, creating a successor plan, or considering alternatives such as winding up the plan. Existing collective bargaining agreements, pension law, and regulatory requirements must also be considered; making it difficult to ignore pension obligations while at the negotiating table.

However, transferring the pension assets and liabilities to the CAAT Plan can remove such pension liabilities from the business while enabling ongoing valuable and desirable defined benefit pension coverage for employees at a reasonable cost and little risk. In this way, employers can enjoy stable and predictable contributions, reported as cash expenses on their financial statements. Under such an arrangement, employers may have no wind-up liability and are not required to account for the Plan's liabilities or surplus. This brings stability to any employer's balance sheet and enables the employer to focus on its business, not managing its legacy pension obligations.

Such an arrangement also means that the pension benefits the employees built remain intact while enabling new pension benefits to grow with continued employment. All administration is undertaken by the CAAT plan. This consistency simplifies pension communications and lowers administration costs and risks. All pension costs are contained in the contributions, which are shared equally between members and employers.

Canadians are very interested in finding employers who offer defined benefit pension plans. The attraction and retention benefits are highest with a secure and sustainable pension plan like CAAT. Retaining and motivating employees during and after a merger or sale is made easier with a valuable DB pension. Mercer's 2015 survey of 323 merger and acquisitions professionals, *People Risks in M&A Transactions*, found that employee retention was respondents' number one perceived risk.

Employees

Canadian employees want secure lifetime pensions. A 2016 survey by the Canadian Public Pension Leadership Council (CPPLC), *The Pensions Canadians Want: The Results of National Survey*, found that Canadians want secure lifetime pensions with DB features and they are willing to pay more of their income in order to get them. In addition, a good pension helps reduce workplace stress and enhance productivity. The survey also showed that those with defined benefit pensions reported lower stress about retirement planning than those in defined contribution plans or group RRSPs.

Joining a secure modern DB plan, like CAAT, removes the pension plan from collective bargaining while increasing transparency through membership in a jointly governed and independently managed pension plan. The CAAT Plan worked closely with unionized and non-unionized employees through pension plan mergers at the Royal Ontario Museum (ROM) and the Youth Services Bureau of Ottawa (YSB). In both cases, employees' votes cast were 100% in favour of joining the CAAT Plan. Engagement on pension issues is a key focus for members and unions. Ninety-seven percent of active ROM members and 99.6% of active YSB members voted, showing this is an issue where employees are highly engaged. Clearly, the value of joining a secure well-managed, jointly sponsored, multi-employer pension plan resonates with a variety of employees, from all areas within an organization, and at all levels.

Joining CAAT can simplify your merger or acquisition transaction by de-risking your pension efficiently. Merging your pension plan allows your company to focus on the core elements of a company merger or acquisition. It can bring simplicity and add value before, during, or after the process. In the CAAT Plan, employees retain the benefits they earned in your plan and continue to build valuable and appreciated benefits toward a secure, lifetime pension. Moving forward, the pension part of transactions can be better managed and aligned to the overall goals of mergers and ongoing employee engagement.

Derek W. Dobson is the CEO of the ***CAAT Pension Plan.*** *CAAT is open to exploring pension mergers in the private, not-for-profit, and broader public sectors.*