

SHOULD YOUR COMPANY TERMINATE YOUR DEFINED BENEFIT PLAN?

OVERVIEW

As some companies drop their defined benefit pension plans, one SHDR client assumed they should eliminate theirs. They asked SHDR, "If other companies are terminating their defined benefit plans, why should we keep ours?"

CHALLENGE

The termination of defined benefit plans are in the news. Management staff at many companies may be confronted by the board asking, "Why do we have a pension plan when others are eliminating theirs?" One regional health care provider recently faced just such a dilemma. They assumed they needed to terminate their plan and consulted SHDR on how to proceed.

When we asked the question "Why?," they responded unsure — "We need to?" What the client really needed was to employ a reasonable process to make the right decision. But, how should they evaluate whether a defined benefit plan was the right for their retirement strategy? SHDR helped them do just that.

SOLUTION

Every client situation is unique and the best approach is to use a prudent decision making process to evaluate whether a defined benefit plan is right for a particular company. The main concerns are:

- Will the company be able to make contributions to the plan? Does the cost to maintain the plan fit our budget constraints?
- Do employees value the benefit being provided?
- Are benefits meaningful?
- Are fiduciary risks being managed?
- How are plan assets being invested?

After a careful analysis, some clients find that a pension plan can not be coordinated with corporate objectives. In the case of our health care client, our retirement consultants helped identify reasons why they *should* have a pension plan. A solution to keep the plan made sense because costs were within budget constraints and benefits were meaningful – helping the client to compete for talented employees in a shrinking labor pool.

Our client then asked, "How do we keep our defined benefit plan from becoming a problem in the future?" SHDR addressed these concerns by developing a robust funding and investment policy. Simulations of future events, both good and bad, were analyzed. The result showed a high likelihood of annual costs being within acceptable budget constraints.

Ultimately, developing a plan design with a meaningful benefit, funding and investment policies to secure stable asset values for meeting pension obligations, and a robust communication strategy to emphasize the value of the benefit made sense for this client.

RESULTS

A creative and sensible approach allowed this company to provide valuable benefits to their employees while remaining fiscally responsible. SHDR helped the client make informed decisions to meet current needs, while leaving room to manage future obligations.