



Winter 2000

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This issue is devoted entirely to employee benefits issues that arise in corporate mergers and acquisitions. We hope readers will find the articles helpful in pinpointing areas to address in the early stages of reorganizations or other similar business transactions.

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- Communicating Employee Benefits after a Corporate Metamorphosis

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Retirement Benefits Planning in Corporate Mergers and Acquisitions

by Adrien R. LaBombarde, A.S.A.

A corporate reorganization through an acquisition or merger can be like taking a snapshot of a tornado. The transaction represents all the dynamic economic and demographic forces of the ongoing enterprise, frozen for a unique moment of critical measurement. Many normal business rules must find a different footing for reorganization decisions, while the rewards or consequences of sound business judgment can reach from the oldest former employee to the most distant future of the emerging firm. One of the most difficult forces to gauge in any transfer of business involves employee benefits, yet too frequently benefits programs receive little more than an afterthought or a regret.

This article examines some of the key issues that employers will confront in the retirement plan arena during a corporate reorganization. The article refers to a transferred unit being spun off from one organization and merged into another unit. However, most of the discussion will also apply to an entire organization that merges with another organization.

Regulatory and Accounting Considerations

Qualified retirement plans covering the employees in a transferred unit can involve significant assets, liabilities, and ongoing costs. Transferring the pension obligations can materially affect the future financial expectations for both the seller and the buyer. Moreover, the buyer faces difficult benefit design and administration decisions to coordinate benefits for the new employees with its existing benefits policies. Terms of the unit's retirement plans are unlikely to be the same as those of plans already sponsored by the buyer. The purchaser might wish to retain those differences, keeping the groups and plans separate. Alternatively, the purchaser may wish to homogenize the plans, changing terms of the new unit's plans to reflect the existing plan, changing terms of the existing plan, or doing both. Although plans can be amended or even terminated, commitments are typically long-term in nature, sometimes reaching generations beyond the distant memory of the business transaction itself.

As with normal retirement plan design and operation, the regulatory implications of qualified pension plans involved in a corporate transaction are extensive and complicated, deeply influencing actions taken to assimilate the new plans into the existing benefits program. Among the key concerns are:

- *Spinoff/Merger Rules*—Complex rules govern the allocation of assets between different groups of participants when a portion of a plan is spun off from the seller's plan, and additional special rules preserve benefit amounts if the buyer merges plans. The aggregate amount of assets to be transferred and the individual benefit amounts for plan participants are dependent on the application of the spin-off/merger rules.
- *Coverage and Nondiscrimination Requirements*—The changes in the concentrations of highly compensated employees can affect the coverage and nondiscrimination tests for both the seller and the buyer. Particular attention is required if the concentration of highly compensated employees within the transferred group differs significantly from the concentration for either the buyer or the seller. If the buyer decides not to homogenize the new unit's plans with existing plans, then disparate levels of benefits in the different plans could violate the coverage or nondiscrimination requirements for either the transferred unit or for the buyer's existing plans. A temporary transition period is available for both the buyer and seller, during which time changes in participation, benefit formulas, or other plan terms need to be made to comply with the regulations.
- *Amendment Constraints*—If benefits are amended to unify the transferred unit's pension plan with the buyer's existing plan, previously accrued benefit rights must be preserved. Plan amendments themselves must satisfy their own nondiscrimination requirements. If future accruals are significantly reduced, notifications must be provided to affected participants.

- *Funding*—The buyer should take steps to gain a complete, accurate report of the funding status of a transferred unit's defined benefit plan. The report should provide clear measurements of the accrued liability under the plan's valuation method, the present value of vested benefits, and the Pension Benefit Guaranty Corporation liability. If actuarial assumptions are significantly different from those used for the buyer's existing plans, the buyer should carefully review the sources and implications of the differences. Both the buyer and seller should be aware that the transaction itself could influence behavior (for example, accelerated employee terminations) that could affect both the experience under the plans and the reasonable assumptions to be made in valuing the plans.

The transfer of a defined benefit plan will generally necessitate a change in the actuarial funding method for the plan, possibly requiring IRS approval. If the transferred plan is merged with a buyer's existing plan, projected costs could differ from previously expected levels because of the changes in the way that the funding is determined separately versus aggregated. For example, an overfunded plan requiring no ongoing contributions merged with an underfunded plan could result in the entire plan needing ongoing contributions or no contributions.

Because pension costs can be so high and volatile, ideally the buyer should make every effort to obtain projections of future pension costs and liabilities. Notably, the potential costs of special benefit features—such as heavily subsidized early retirement benefits—should be projected. The buyer should be cautious of hidden liabilities, such as those arising from special plan features or through undervaluation.

- *Bargained Agreements*—A transferred unit that includes union employees will involve additional layers of decision-making and administration. Pension plans that cover collectively bargained employees must be included in a negotiated agreement, preventing the unilateral amendment of the plan terms. In addition, an employer that partially or completely withdraws from a multiemployer plan can be assessed for withdrawal liability. The withdrawal liability assessment can be substantial for plans that are underfunded, as multiemployer plans commonly are. The purchaser of a business unit should carefully review and evaluate all benefits provided to unit employees under multiemployer plans, projecting any potential exposure to withdrawal liability that might arise. Conversely, unless special steps are taken to shield a corporate reorganization from exposure, a business unit's seller could be assessed for withdrawal liability for up to five years after the operation has been sold.

Both the seller and buyer will have to make special accounting determinations for purposes of financial reporting. From the seller's perspective, the transfer of a defined benefit plan is treated as a settlement, with previously unrecognized amounts attributable to the transferred unit recognized during the period of the transaction. For the buyer, a transferred defined benefit plan enters the accounting picture on the basis of its funded projected benefit obligation, without amortization.

The regulatory compliance and accounting are simpler for 401(k) plans and other defined contribution plans covering transferred employees than for defined benefit plans. Even so, many design and administration issues must be addressed, particularly if the buyer wishes to homogenize its benefit plans. Notably, both the buyer and seller must address the transaction's effect on compliance by the continuing plans after the transaction with the coverage and nondiscrimination requirements.

Planning the Benefits Transfer

The seller of a business unit should aim to protect the interests of employees remaining after the unit is transferred. Typically, the seller will have the advantage of superior access to all of the facts about the benefits programs covering employees of the transferred unit.

- The spinoff asset allocation determinations must be prepared. The seller will typically want to use assumptions and methods to establish the lowest amount of assets to be transferred without violating the spinoff rules.
- Effects on coverage and nondiscrimination rules of the change in the work force demographics should be addressed.
- Amounts to be recognized in the employer's financial statement under the accounting rules should be calculated.
- Steps should be taken to immunize the seller from future withdrawal liability under multiemployer plans involved in the transfer.
- Indemnification should be sought by the purchaser with respect to withdrawal liability and plan qualification status for periods prior to the transfer.

Because the buyer of a transferred unit has less access to complete facts in advance and because the follow-through process of normalizing benefits programs can be more extensive for the buyer, the buyer's need to be proactive in addressing the benefits for transferred employees becomes imperative. Negotiators need to know what to look for and how to emerge from the transaction with benefits that do not saddle the buyer with irreversible commitments inconsistent with long-range plans. For example:

- Employees to be involved in the transfer should be clearly identified in advance, with special care taken to recognize any employment status changes likely to occur after the transaction.
- Complete terms for all existing benefit plans covering employees to be involved in the transfer should be studied carefully, with a full comparison made with the terms in the buyer's existing programs.
- The purchase agreement should address how benefits plans covering transferred employees are to be handled, including whether or not plans are to be terminated or merged with the buyer's plans.
- The buyer should work toward an advance agreement with the seller on the method and assumptions to be used for determin-

ing the assets to be transferred. Too frequently this is not explicitly settled until after the transaction.

- Transition amendments should be adopted to bring the buyer's plans into compliance with the coverage and nondiscrimination requirements or to otherwise coordinate the transferred unit's benefits with the buyer's existing benefits programs.
- Communications of benefits changes must be prepared and issued to employees. Administrative procedures to accommodate the transfer should be developed and implemented.

Conclusion

Reserving a prominent place on the boardroom table for employee benefits concerns goes against the typical way business deals work. Negotiations are conducted under high-level confidentiality,

with personnel managers and benefits consultants often kept outside the loop until a settlement is reached. The negotiating team makes its moves without complete data and advice that could influence the transaction, and the benefits team is frequently left with limited alternatives for solving unintended problems. Because it is unlikely that this veil of secrecy will be lifted from a pending transaction, a corporation anticipating future acquisitions or mergers should prepare advance policies and procedures designed to keep top management abreast of the reorganization implications of critical benefits issues.

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Successfully Integrating Your Health and Welfare Benefits

by Ron Cornwell, F.S.A.

The reassurance given to a nervous bridegroom on his wedding day goes, "Behind every husband's success is a proud wife and a surprised mother-in-law." In the merger and acquisition world, it might read, "Behind every successful M&A is a proud chief executive officer and a surprised benefits manager."

Yet for all their difficulties, M&As are hot right now. A vigorous stock market with abundant capital, coupled with increasing competition to share costs and maximize resources, has created an environment ripe for them. And this is not primarily a dot-com phenomenon; it is hitting all industries and sizes of employers, with even greater M&A activity anticipated in the near future.

In this environment, the role of employee benefits is gaining prominence. Human resource executives are increasingly providing input into the merger process prior to companies merging. Rather than dictating the new company structure and culture in a vacuum, upper management is relying on HR knowledge and expertise to ease the transition.

This article presents methods and tools for constructing your health and welfare benefits plan within an M&A environment. Most of the solutions also can be modified for use outside of an M&A setting.

Defining Your Criteria for Success

For the benefits manager in an M&A, the task is simple to define: construct a new plan that correctly fits the new company. The unique challenge lies in balancing the sometimes competing interests in an evolving environment: corporate vs. employee, acquiring company vs. acquired company, one vendor vs. a competing

vendor. Facing this process, the benefits manager should consider the following factors, discussed in order of importance:

- The most important factor is *time*. After the formal announcement of an M&A, all parties generally want the transition to occur as soon as possible, and the benefits program is not allowed to delay the process. The benefits manager is expected to deliver a transitional plan with the design, funding, and vendors determined within weeks of the announcement. Complicating this task is the fact that many vendors and systems administrators ask for at least 30 days to set up new contracts. Having a clear strategy with achievable deadlines based on proven experience is a necessity.
- The benefits manager must define and manage *employee expectations*. For example, if one of the participating companies has never had a program offering flexible credits while the other has provided full flex including vacation buying and selling, the manager should balance these expectations in the final design. Most employees want few, if any, disruptions to their plans. Proper communications can go a long way toward employee acceptance of the new plans (see article on p. 6).
- The *cost* targets set by the finance department must be met. This is typically measured as a percent of payroll or a set dollar amount. In any case, the difficulty comes in predicting the costs for a new plan without having data on any prior claims experience of the newly combined plan. The new plan also will have different design elements (deductibles, coinsurance), funding levels (percent subsidized by the employer), participation (eligibility and enroll-

ment), utilization, and vendors. All of these require adjustments to the previous claim experience of the individual groups.

- The new plan should align with the *business philosophy* of the new organization. In what type of business is the organization involved? Is the organization more paternalistic or independent? Does length of service matter? Is the structure characterized as one large group or separate subsidiaries? Are there geographic differences? The answers to these questions help define the business philosophy and, consequently, the benefits plan. Many current benefit plans are not aligned with the company's core business philosophy, resulting in both employee and management frustration.
- The new plan must be *competitive with other employers' plans*. The benefits manager must obtain information on what others in the marketplace and industry are offering and compare how those plans stack up against the new plan. It is important not only to measure actual value, but also perceived value by employees. Some benefits, such as vision care, are not costly but are highly valued by employees. Failure to design a competitive plan may cause employees to consider working for other employers.

Proven Solutions: Filling Your Toolbox

Although each M&A project will require unique solutions, there are some approaches that work better than others. The method and tools described here have demonstrated their effectiveness in previous M&A projects. The keys to their effectiveness are the sophistication in completing analyses and the clarity in displaying results. Too many M&A projects err on one side and fall victim to shortcomings in other areas discussed previously. The process for developing a benefits plan can be described as a four-step process, continually repeated until all steps are consistent with one another.

Plan Design—What Will Our Plans Look Like?

The benefits manager should first tackle plan design because it is the most enduring piece of the project. In general, the benefits manager does not adjust design elements such as deductibles or coinsurance amounts from year to year. Design elements should consider employee expectations, business philosophy, and competitive issues and be set for a three- to five-year timeframe.

A side-by-side design analysis is useful in determining the design elements for an M&A project (see Exhibit 1). By displaying the most

Exhibit 1

SIDE-BY-SIDE DESIGN ANALYSIS			
BENEFIT	COMPANY A	COMPANY B	NEW COMPANY A&B
Medical			
Type	Indemnity	National POS*/local HMOs	National PPO*/local HMOs
Deductible	\$500	\$0/\$0	\$250/\$0
Coinsurance	80%	90%/100%	80%/100%
OV Copay	Incl. with deductible	\$15/\$10	\$15/\$10
Rx Copay (generic retail)	\$15	\$15	\$15
Dental			
Type	DMO	Indemnity	PPO*
Deductible	\$25 for preventative	\$50	\$25 for preventative
Coinsurance (prev., basic, major)	100% for all	80% for all	100/80/50%
Vision			
Type	PPO with scheduled benefits	Not offered	PPO with scheduled benefits
Life			
Basic	1x salary	2x salary	1x salary
Supplemental	2x salary	3x salary	4x salary
Dependent	Not offered	Up to \$25,000	Up to \$25,000
LTD			
Basic	50%	66%	60%
Supplemental	Not offered	75%	Not offered
STD/Sick Pay	Up to 5 days	PTO Bank based on LOS	PTO Bank based on LOS
Vacation	Schedule based on LOS	PTO Bank based on LOS	PTO Bank based on LOS
Cash Credits	Not offered	\$500	\$250
Actuarial Relative Value (excluding PTO programs)	0.8483	1.0000	0.9049
* Note: For brevity, design elements for PPO and POS show in-network levels only. Out-of-network levels are typically much lower (i.e., 20% lower coinsurance).			

Exhibit 2

COST OF BENEFITS ANALYSIS					
	ENROLLMENT	TOTAL COST (PEPY)	EE CONTRIBUTION	EMPLOYER ANNUAL COST	PERCENT OF TOTAL SALARY
Base Salary					
Full-Time Actives	12,343	\$55,487		\$684,876,041	
Part-Time Actives	750	\$43,654		\$32,740,500	
Total Base Salary	13,093	\$54,809		\$717,616,541	
Health and Welfare Plans					
Vacation & Holidays	13,093	\$5,112	\$0	\$66,937,056	9.33%
Sick Leave & ESL	13,093	\$591	\$0	\$7,739,682	1.08%
Basic Life	13,093	\$102	\$0	\$1,340,717	0.19%
STD	13,093	\$440	\$0	\$5,759,959	0.80%
Medical - PPO	7,014	\$5,463	\$1,100	\$30,603,077	4.26%
Medical - HMO	6,079	\$3,833	\$805	\$18,405,464	2.56%
Dental	11,784	\$596	\$120	\$5,608,602	0.78%
Vision	6,376	\$182	\$182	\$0	0.00%
LTD	9,492	\$336	\$336	\$0	0.00%
Retirement Plans					
Pension				\$55,405,504	7.72%
Savings Plan				\$28,293,962	3.94%
SERP (non-qualified)				\$6,387,381	0.89%
SESP (non-qualified)				\$1,380,082	0.19%
Medical (post-retirement)				\$9,488,066	1.32%
Statutory Plans					
Social Security	13,093	\$7,321	\$3,661	\$47,924,681	6.68%
Unemployment Comp.	13,093	\$527	\$0	\$6,895,958	0.96%
Workers' Comp.	13,093	\$276	\$0	\$3,617,433	0.50%
Total Benefits				\$295,787,624	41.22%
U.S. Chamber of Commerce Annual Survey (1996-1998)					39.25%
Difference (XYZ vs. USCC Survey Average)					2% higher

important features of a plan in a table format, one can quickly see the differences between the plans before an M&A and the final decision. In addition, the actuarial relative value listed at the bottom shows the relative cost differences between the designs. In this example, Company B's design is about 18% richer than Company A's in total, although individual elements, such as vision benefits, may vary considerably. The new company's plan blends the benefits of both companies, with the total value about 10% less than that of Company B.

Plan Funding—How Much Will We Pay for It?

Plan funding, sometimes referred to as contribution strategy, is the crucial step in meeting cost expectations. This step determines the level of employer subsidy for each benefit type. How much will employees be required to contribute? How will the employer subsidy vary between options in the same benefit? In contrast to plan design, this element usually changes each year in response to cost trends and other factors. While cost is the most important factor for decisions in this area, benefits managers also should consider employee expectations and business philosophy.

A cost of benefits analysis is helpful in assessing funding levels (see Exhibit 2). Using employer census data with enrollment and current rates, the cost of benefits analysis can be produced for

each party in the M&A. This is extended to the new company with adjustments for design and reductions in force. While the primary purpose is to present a budgeting cost estimate, it also can be used to compare funding levels on a percent-of-pay basis.

Competitive Analysis—How Do We Compare with Other Employers?

With the initial design and funding components complete, the next step is for the benefits manager to compare the design with other employers' plans. For an M&A project, this is an important evaluation. Underestimating the competition creates the risk of losing the best employees in the transition. Overestimating creates the risk of cost overruns. Although the primary factor to consider in this step is competitiveness with other employers, time and employee expectations will also influence the scoring.

To obtain recent, broad information, many benefit managers purchase an externally conducted comparative survey, which allows them to make meaningful comparisons (e.g., restricting data only by company size, industry, or geographical area).

Administration—Who Is the Best Person to Complete this Work?

The final step in the process is determining the administration of

the plan. This includes both claims administration (paying the providers for services) and benefits administration (group-specific functions such as eligibility, enrollment, billing, and customer service). For claims administration, most employers turn to an insurance carrier or a third-party administrator. For benefits administration, most employers keep the functions in-house, although outsourcing is gaining in popularity. For M&A projects, the primary factors affecting the decision are employee expectations, cost, and time.

A request for proposal (RFP) is commonly used to select an external administrator. In an M&A situation, presenting the best data is most important. Respondents to the RFP are eager for new business, but are wary of—and will encounter difficulties with—pricing their products if there are unknown factors such as number of subsidiaries, plan design exceptions, and other variants to the standard plan. Finally, given the politics typically associated with M&As or other business transactions, benefits managers must clearly define the standards for evaluating the RFP before responses are received. In addition to bringing credibility and confidence to the final decision, having established standards also saves a considerable amount of time, which is one of the most important commodities in an M&A.

Circle Back to Ensure Consistency

Different factors come into play at different steps in the process. After

completing all of the steps once, the benefits manager should go through them again to ensure consistency. Perhaps the claims administrator cannot administer the proposed design. Perhaps the competitive analysis shows the need for further funding of a vision plan. Review the decisions within each area until all are consistent with each other, especially if different parties have completed different steps.

Conclusion

The process of integrating health and welfare plans during an M&A is challenging. At the same time, it can be exciting and possibly even desirable for the growth of a benefits plan. An M&A can be the vehicle for ushering in changes that would not be possible under the current employers' plans. It gives additional leverage with vendors. It may supply the momentum to clear up nagging problems or to address underlying benefits concerns.

It is possible that an M&A transaction will affect your company, either directly or indirectly. The tools and methods described in this article provide a proven blueprint to prepare for this possibility, but they also may be used in ongoing benefits strategy work.

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Communicating Employee Benefits after a Corporate Metamorphosis

by Phyllis Berger

Today, corporate mergers and acquisitions are common business transactions. During the course of a reorganization, companies more often than not tend to leave their employees out of the loop. With a lack of communication comes suspicion and fear among the workforce. Open dialogue before, during, and after this volatile period is crucial in maintaining high performance, easing workers' uncertainties, and keeping the rumors from spreading through the employee grapevine.

Most, if not all, of the workforce—from senior executives to the minimum-wage workers—will somehow be affected by a corporate reorganization. Employees will generally look to management for leadership and will undoubtedly be influenced by the messages conveyed.

This article focuses on some of the key details that employers should address when communicating employee benefits to the workforce after a reorganization. It does not address the overall strategic framework employed in managing the process of change itself.

Overview

During any corporate reorganization, employees want to know,

“What does this mean for me?” From their perspective, changes in healthcare and retirement benefits are usually a major concern, perhaps second only to job security.

Management is presented with the challenge of getting employees to accept these changes, which must be effectively addressed to ensure a successful transition. Human resource representatives often play a major role in facilitating information sharing during the transition period, and must be prepared to respond honestly and consistently to tough questions, particularly about employee benefits.

Communicating information about employee benefit programs following a merger or acquisition can be a major undertaking. Often, there are both winners and losers during the reorganization process. Benefit plans vary widely, and each company emphasizes and values different benefits according to its corporate culture. Individuals affected by a merger or acquisition each have their own needs and expectations and operate under different circumstances. Thus, a change that does not affect one employee can significantly affect another.

Employee Benefits Issues

Some of the key benefit communication issues raised after a reorganization may be illustrated by the following case study:

The QRS Corporation (QRS) acquired the XYZ Company (XYZ) through a stock sale on July 1, 2000. Because of overlapping job functions and consolidation of positions, several employees from each organization were terminated as a result of the acquisition. All remaining employees will participate or will be eligible to participate in the QRS benefit plans, which will not change at this time. Thus, QRS’s benefits communications efforts should target former XYZ employees.

The following table shows some of the more popular benefits offered by each company before QRS acquired XYZ.

BENEFITS	QRS CORPORATION	XYZ COMPANY
Traditional defined benefit pension plan	No	Yes
401(k) plan	Yes	Yes
Employer match to 401(k)	Yes	No
Medical/dental plan	Medical only (Point of Service (POS) plan)	Yes (Preferred Provider plan (PPO) for both medical and dental)

Retained Employees

For former XYZ employees who begin working for the newly restructured QRS, the key messages in the communications will differ according to the type of benefit.

Traditional Defined Benefit Pension Plan

XYZ sponsored a defined benefit pension plan covered by the Pension Benefit Guaranty Corporation (PBGC). The plan’s board of directors decided to terminate the pension plan upon the company’s acquisition by QRS. (Note that this process alone is quite an involved matter and is not addressed in this article.) Each XYZ pension plan participant is given the option to roll over a lump-sum equivalent of his or her benefit to the QRS 401(k) plan or to an individual retirement account, or to receive benefits in the form of an annuity.

As part of the plan termination process, XYZ is required to distribute numerous pieces of information, not only to active employees, but also to former employees with vested benefits and to retirees. Furthermore, these legal communications (notice to interested parties, notice of intent to terminate, individual notices of plan benefits, annuity purchase information, etc.) must all be distributed within a specific timeframe. In addition to the legal materials associated with the plan termination, other specific types of information that might need to be communicated include:

- *Explaining how a monthly benefit from the pension plan is converted to a lump-sum equivalent (for rollover eligibility).* One way is by example, showing “Joe Employee” with a mid-range aver-

age salary. Include Joe’s age, lump-sum conversion factor (which is age-sensitive), and his monthly accrued benefit. A simple formula multiplying the accrued benefit by the conversion factor based on Joe’s age will illustrate, in basic terms, how a lump sum is calculated. It is important for participants to understand that lump-sum calculations are based on personal data, so that even though an individual may be close in age, work the same number of years, and have a similar average salary as in the example, they should not compare data with others.

- *Describing investment funds available under QRS’s 401(k) plan.* This may be a deciding factor for XYZ participants in determining whether or not to roll over their pension benefit. Perhaps some of the employees never enrolled in the XYZ 401(k) plan and have little experience with making investment decisions. Investment education should therefore be considered part of the overall communications campaign.
- *Describing rollover options and annuity options.*

Those employees at or nearing retirement eligibility could be adversely affected by a change to a pension environment that only offers a 401(k) arrangement. The elimination of future accruals in the traditional pension plan might not be able to be “made up” in the 401(k) plan in a short horizon. This can present management with a difficult message to convey.

Under these circumstances, QRS might consider providing a form of supplemental benefit to the affected group to make up for any loss in future accruals. This situation will need to be carefully assessed. Regardless of how management chooses to handle this issue, QRS should consider special communications targeting these individuals. Obviously, offering a supplemental benefit will make the communication efforts less onerous and can go a long way toward relieving anxieties about having sufficient retirement income.

401(k) Plan

Although both QRS and XYZ maintain 401(k) plans, each plan has different trustees, recordkeepers, and investment options. The board of directors at QRS decides to “freeze” the XYZ 401(k) plan, permitting no additional employee contributions. However, investment activity (gains and losses) and any participant loan repayments will continue to be allocated to participants’ accounts.

The company matching contribution under QRS’s 401(k) plan is a benefit enhancement that XYZ participants did not previously enjoy. Communicating good news is always an easier task. QRS’s communications efforts are likely to address plan eligibility and vesting service for the matching contributions. In addition, QRS should convey whether XYZ employees will be “grandfathered” into the QRS plan (i.e., count employment service with XYZ toward eligibility and vesting service in the QRS plan).

As previously mentioned, investment education is an important part of the overall communications campaign. Former XYZ employees who will be eligible to participate in the QRS plan should be provided information to understand:

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- New investment options
- Criteria for receiving company matching contributions (e.g., are they based on total compensation, base pay, or other factors; and must participants be employed on the last day of the year to receive a matching contribution?)
- Allocation requirements (e.g., may participants allocate their employee contributions and the company matching contributions to different investment funds offered under the plan?)

For those XYZ employees who never participated in a 401(k) plan, QRS should provide materials explaining some of the basic concepts, such as pre-tax vs. after-tax contributions, asset allocation, dollar-cost averaging, and long-term investment horizons.

In conjunction with employee meetings or workshops on savings, useful tools that QRS could distribute to those unfamiliar with investing in a 401(k) plan include interactive modeling tools, investment workbooks, planning and asset allocation guides, and savings calculators.

Health and Welfare Benefits

Although a Preferred Provider Organization (XYZ's arrangement) and a Point of Service plan (QRS's arrangement) both have in- and out-of-network benefits, there are differences that must be addressed when communicating these types of plans to individuals. In a POS plan, for instance, the participant must select a primary care physician as his or her "gatekeeper." As gatekeeper, the primary care physician coordinates patient care and generally must provide a referral before the patient can see a specialist.

Additional issues that the QRS health plan communication materials might include are enrollment processes (i.e., by paper, voice-response system, or web-based application); the list of providers and the distribution of identification cards; continuity of care, where a course of treatment began under the former plan with providers who are not part of QRS's plans; pre-existing condition limitations; and whether claim forms need to be submitted by the individual.

Miscellaneous Benefits

QRS should also inform the newly acquired employees about any other benefits available, such as life insurance, accidental death and dismemberment insurance, disability insurance, a cafeteria plan, or flexible spending arrangements. Some of the administrative functions related to these miscellaneous benefits include: obtaining beneficiary designation forms; enrolling and obtaining deferral elections for healthcare and dependent care reimbursement accounts; explaining the "use it or lose it" rule under a flexible spending account; and describing other perks that QRS offers (e.g., free parking, flex time, paid time off, tuition reimbursement, etc.).

Departing Employees

QRS also has a significant responsibility to communicate to those employees terminated as a result of the acquisition. Although the company may be working under time constraints, setting up individual exit interviews to provide departing employees specific information about their benefit entitlements upon severance of employment should be one of its most important communications efforts. The loss of a job can be devastating and must be handled in a sensitive manner. Some key benefit questions QRS should consider and resolve before communicating to affected employees are:

- Will severance packages, benefit enhancements, or job placement assistance be made available?
- What administrative notices must be supplied (e.g., COBRA healthcare continuation coverage, HIPAA portability information, and retirement plan distribution paperwork)?
- What actions must affected individuals take to receive benefits (e.g., elect healthcare continuation or retirement plan payment options)?
- Will there be internal and/or external resources to help these individuals get through this trying time (e.g., a telephone hotline, website information, or one-on-one counseling)?

Conclusion

Any employer involved in a corporate metamorphosis will confront many issues that must be resolved prior to rolling out the communications campaign for both those employees who remain with the company and former employees. Integrating staff into a new environment can be quite daunting. But under optimum conditions, a strategic campaign that shares information with employees can ease the transition of a reorganization.

Including communication professionals in discussions and asking them to be part of the company's strategic team from day one can help pave the way in maintaining high performance and few disruptions, as well as dispelling rumors. Although companies undergoing a reorganization might not have a lot of time to plan such a campaign, the employers involved should take all steps necessary to keep their workforce in the loop and get their message out in a clear and consistent manner. Repetition through a variety of creative communication vehicles such as e-mail, websites, print materials, and employee meetings are all helpful in producing an effective communications program. Although good communications cannot always guarantee a successful transition, poor communications will surely guarantee a failed one.

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