

CASE STUDY:

Acquisitions: Implications of pension liability on purchase price

THE CHALLENGE

The organization was interested in acquiring one of the oldest providers of library information in the world. The library information company had an underfunded defined benefit pension plan on their balance sheet. Before moving forward with the acquisition, the organization first wanted to understand the pension liability risk involved and how it might factor into the purchase price of the company.

The organization engaged BCG Pension Risk Consultants (BCG) to help value the size of the pension liability, the costs to retain the risk, and solutions to limit their risk.

THE BCG PENSION RISK CONSULTANTS' SOLUTION

To arrive at a fair acquisition price with the pension plan in mind, BCG worked with the organization to help them determine their risk tolerance and objectives.

Understanding risk tolerance would determine two things:

- The **size of the pension liability** that would be absorbed upon the acquisition
- The **amount of assets needed** to satisfy full funding of the pension plan

The organization's objectives for the pension plan included to immediately de-risk it after the acquisition to avoid exposure to interest rate, longevity, and market risk — while staying within parameters defined by the Internal Revenue Service (IRS) and Pension Benefit Guaranty Corporation (PBGC).

>

CLIENT PROFILE

- Diversified into more than **40 businesses** since being founded in 1944
- Ranked in the **top 200** of the nation's largest privately held corporations by *Forbes* magazine
- Encompasses a broad spectrum of businesses including:
 - Real Estate
 - Publishing
 - Manufacturing
 - General Services
 - Outdoor Products
 - Corporate Services
 - Information Services
- **5,700 employees** worldwide
- **Seeks to acquire businesses** with sound management talent characterized by:
 - Entrepreneurial spirit
 - Sustainable growth and profitability record
 - Desire to leverage the organization's resources while retaining autonomy in decision making

BCG worked with the organization to help them determine their risk tolerance and objectives.

Once the organization had determined their risk tolerance and objectives for the pension plan upon acquisition, BCG gathered and reviewed all pension and actuarial information related to the plan. BCG then created a model for both the organization and the library information company clearly illustrating:

- The **size** of the pension liability
- **Costs** associated with retaining that risk
- The **amount of assets** needed to fully fund the plan.

BCG also demonstrated how interest rate movement could change the costs of the transaction—both positive and negative—through an interest rate sensitivity analysis.

BCG worked with the actuary to demonstrate the financial implications the pension plan would have on the purchase price.

Together with the actuary, legal counsel and other providers on the team, BCG implemented a strategy with plan design changes that would allow the organization to immediately de-risk the plan after the acquisition. The language drafted allowed for flexibility for the organization to unwind the strategy with no penalties if the organization had difficulties with the IRS and PBGC.

RESULTS

Through the leadership of BCG in collaboration with other providers on the acquisition team:

- Both the organization and the library information company **agreed to the determined pension liability.**
- **The pension liability was taken into account in the final purchase price** and the acquisition was transacted successfully.
- **The organization did not retain any pension risk** on their balance sheet after the acquisition.

BCG worked with the actuary to demonstrate the financial implications the pension plan would have on the purchase price.



BCG | PENSION RISK CONSULTANTS

Contact BCG Pension Risk Consultants at 855-4-DB Solutions (855-432-7658) if you are considering a merger or acquisition. The earlier in the process you engage us, the more opportunity we have to help you at the negotiating table.