

CASE STUDY:

Reducing cost and managing risk for a pension plan

THE CHALLENGE

This large hospital had several changes in upper management — including a new CEO. **The CEO desired to create immediate savings for all areas of the hospital including the defined benefit pension plan.** The CEO, together with the executive committee, was looking for an **independent view of their pension plan separate from an analysis done by their actuary.** The executive committee was interested in a review of the pension plan that considered:

- Overall **cost**
- **Balance sheet** implications
- The **regulatory environment**, including the impact of any legislation
- Ways to **decrease and manage pension volatility**

The executive committee's **ultimate goal was to terminate the pension plan.** Current cash flow and upcoming expansions to the hospital meant the termination would need to happen five to seven years out.

The committee partnered with BCG Pension Risk Consultants to complete a holistic review of the pension plan. This review took a deep dive into past acquisition recommendations, strategies, and census data to uncover any pension liability and data issues brought about by acquisition activity.

CLIENT PROFILE

- Leading healthcare provider for over **130 years**
- Active in acquisitions for **20 years**
- Most of the acquisitions that had taken place included **pension plans that were absorbed into one plan**
- Defined benefit pension plan with **\$350 million in assets**

BCG Pension Risk Consultants created a model to help illustrate to the executive committee the:

- **Size of the pension plan liability and**
- **The cost and risk associated with the current pension plan liability**

The holistic pension plan review had several key findings:

- The **fee analysis** showed that the **plan was not running efficiently.**
- The **balance sheet analysis** showed a few **red flags that were costing the hospital money.**
- **Plan data** had quality issues, was not in good working order, and was a **serious concern.**

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THE BCG PENSION RISK CONSULTANTS' SOLUTION

BCG Pension Risk Consultants recommended solutions to the executive committee that could be implemented right away to help control volatility and make an immediate impact on the cost of running the plan.

1. Minimize adverse balance sheet implications.

- BCG Pension Risk Consultants **identified a block of participants with less than \$5,000 in their accounts that hadn't been removed from the plan.**
- The hospital had a block of 1,400 terminated, vested participants with balances above the minimum \$5,000 threshold for forcing out of the plan but below \$20,000. BCG Pension Risk Consultants **recommended offering this group a one-time lump sum distribution option window.**

2. Assess quality of plan data. According to the Pension Benefit Guaranty Corporation (PBGC), **errors are found in 30% of audited terminations.**¹ The accuracy and overall integrity of data is imperative for many reasons including:

- Audits
- IRS audits
- Personal and fiduciary liability
- To position plan sponsors to terminate the plan under their own terms and to implement any of the strategies mentioned above.

Data clean-up can take up to six months to complete and result in unnecessary delays and cost implications if not dealt with early on and in a thorough manner.

RESULTS

These recommendations are projected to save the hospital **hundreds of thousands dollars annually**, while **decreasing volatility and increasing their probability of successfully terminating the pension plan.**

- BCG identified and helped implement a **termination strategy** to meet the client's time horizon to terminate the pension plan in five to seven years.
- Removing individuals with less than \$5000 in the account from the balance sheet would equate to a **\$135/year per head savings.**
- **Assuming a 50 percent take-up rate** of the lump sum offer, this recommendation was **projected to save the hospital up to \$94,000 per year** on an ongoing basis in costs associated with administration, the PBGC, and other legislation.
- BCG negotiated with a new provider to handle data clean-up for the hospital.



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Contact BCG Pension Risk Consultants at 855-4-DB Solutions (855-432-7658) to develop a custom solution for your organization. The earlier in the process you engage us, the more opportunity we have to help you manage risk and reduce costs.

¹ Pension Benefit Guaranty Corporation (PBGC), Q2 2014 Webinar