

CASE STUDY:

Defined benefit plan termination

Building and executing a strategy for terminating a hard-frozen DB plan in a cost-efficient and timely way

THE CHALLENGE

The client's defined benefit (DB) plan was frozen and underfunded. The retirement plan committee didn't have a strategy to terminate the plan or have a full understanding of their pension and mortality risks. And the committee was in need of a clear path, including a targeted timeline, to plan termination.

THE BCG PENSION RISK CONSULTANTS' SOLUTION

BCG Pension Risk Consultants was engaged to complete a full analysis of the organization's pension risk. They were also asked to create a strategy for plan termination and implement the strategy.

Their first step was to understand the plan's liability. They discovered the plan had an asset-to-liability mismatch. Simply put, the current investment strategy was not appropriate for the plan's liability. To remedy that problem, BCG helped create and implement a strategy that **allowed the client to transfer risk to an insurance carrier** under the client's terms and conditions.

During this process, they quickly found significant potential for savings and made immediate recommendations for changes.

BCG also reviewed the competitiveness of plan fees and found they were not competitive to the market.

CLIENT PROFILE

- The organization is a **leading non-profit hospital** and healthcare provider in the Northeast with more than **4,000 employees**.

Errors are found in **30%**
of audited terminations.

Pension Benefit Guaranty Corporation (PBGC),
Q2 2014 Webinar

BCG then moved on to the plan's data, since a key ingredient in a successful plan termination is having plan data in good order. **By cleaning the data, BCG discovered significant errors.**

Some participants who had been paid out in the past were still being counted toward participant head counts. This led to over-payment to the Pension Benefit Guaranty Corporation (PBGC). **As a result, the client petitioned the PBGC for a credit against future contributions.**

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RESULTS

- BCG created a clear path and timeline to termination for the client. The client thought they would not be able to terminate the plan for seven or more years. BCG was able to move the timeline up to just three years. **Over time, this will save more than \$3 million** in administrative, PBGC, investment and actuarial fees.
- To date, the client has **eliminated over 30 percent of the plan's liability, saved in excess of \$1 million, and exceeded the client's goals and objectives.**
- Other changes implemented as a result of the plan and fee analysis **resulted in well over \$350,000 savings in the first year.**

BCG has successfully **de-risked** and **terminated more pension plans** over the last few years **than any other U.S. firm.**



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CONSULTANTS

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