

ADMINISTRATION

Pensions data and the M&A risk

Edmund Tirbutt explores the pension data challenges that occur when two
companies undergo a merger or acquisition

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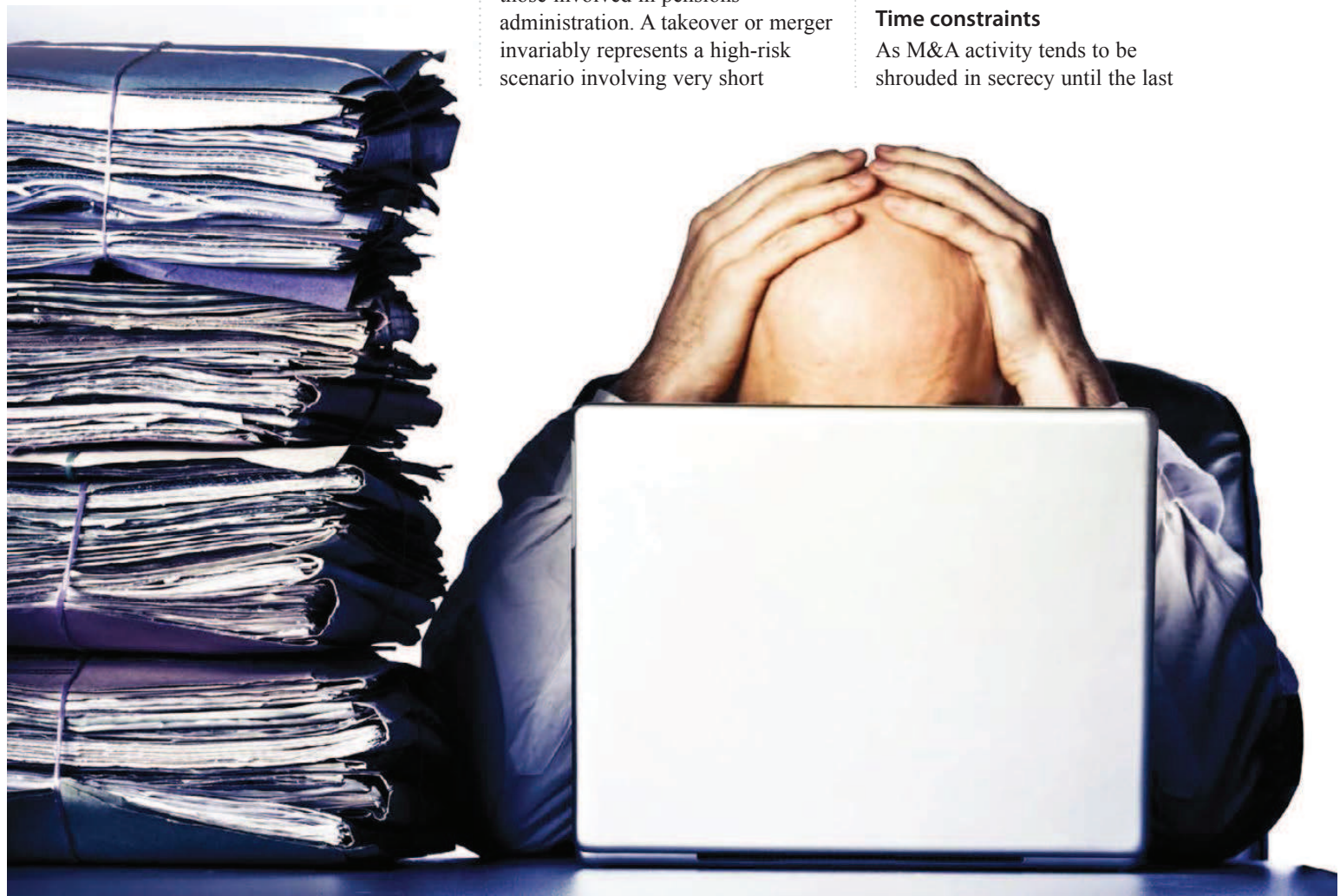
With M&G research released this July showing that European merger and

acquisition (M&A) activity is now at its highest level since 2007, life is unlikely to be getting any easier for those involved in pensions administration. A takeover or merger invariably represents a high-risk scenario involving very short

deadlines, and there have certainly been cases of significant tranches of pension data getting lost altogether.

Time constraints

As M&A activity tends to be shrouded in secrecy until the last



minute, pensions administrators rarely receive much notice and may find that the entire pensions transaction has to be completed in a couple of weeks. Furthermore, if the company being acquired has itself been acquiring companies, then some of these previous acquisitions may still be in the process of being integrated, as it can take years to decide how to integrate pensions or whether to keep them separate.

Bearing in mind that in normal circumstances transferring pension data from one company to another can easily take between four and six months, life in such a restricted completion window is bound to be pretty frenetic.

Premier head of administration Dan Taylor says: “When a merger takes place it’s often the funding position of the scheme that draws the most focus. It’s therefore easy to overlook the important role that administration plays in both achieving the timescales for a merger, as well as delivering the support and advice to members to help them understand what is happening to their benefits.

“From an administration perspective mergers involve a great deal of work behind the scenes that, although likely to be on most trustee agendas, needs to be completed in very short order. From completing GMP reconciliations, to improving data and filling gaps, the administrator plays a pivotal role in the transition of schemes which, unless properly engaged, could scupper the plans for a speedy merger.”

Previnet senior manager pension fund services and international clients Martino Braico goes against the grain somewhat in viewing an M&A scenario as representing more of an opportunity than a risk.

He says: “We are fully aware that

an M&A situation can result in the loss of pension data but from our point of view it is maybe the right, or maybe even the only, moment to cleanse and verify such data. Running an M&A process implies that robust due diligence is performed on the entire pensions database and represents a unique opportunity to fill in any gaps. Data before and after consolidation needs to be matched and reconciled, and manual solutions should not be ignored. M&A represents the right occasion to convert paper into electronic files.”

Key persons

Braico notes that while due diligence is mainly the charge of the new organisation, the two organisations need to work together to fill in the gaps in data. “Old pension schemes particularly can have gaps, especially where the administration is based on paper,” he adds.

Nevertheless, whether you see the M&A glass as half full or half empty, there is always going to be a minefield to navigate and a host of best practice considerations to take on board. It is also important for the acquiring party to realise that its cause isn’t likely to be helped by any job losses that result in the pensions department being taken over.

Pensions staff, because they are non-income generating, tend to be seen as easy targets for redundancy and those who are worried about their job security or who are actually working out their notice periods may not be at their most co-operative. But the problems escalate to another level once they have actually left the company, as pension

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staff often keep a lot of important information in their heads.

Legacy benefits

“People may have historic guarantees or underpins and, although the written rules may say how an underpin applies, they may not go down to the day-to-day level,” JLT Benefit Solutions director and head of governance services Lorraine Harper says. “Although many schemes in the UK and Holland involve trust-based promises, for which the trustees are independently liable, in most of Europe we are concerned with employer-based promises, so the employer could be liable if a member can demonstrate they should have had a certain benefit.”

According to Harper, it is important to have good records of the pension arrangements themselves and of the legal documents determining the benefits payable. “It’s also worth asking for contracts of employment because individuals from the party being acquired may have been made promises of enhancements via these contracts that you are not aware of. Because these enhancements tend to be for very senior people they can be very costly,” she adds.

“It is also essential to back up information and make sure there’s a full audit trail, Veratta CEO Monica Cope says, “so if years down the line someone comes back with a question you can answer them”. The technology that people are using also needs looking at, she adds, as it is potentially easy to fall foul of data protection regulations,

particularly if acquiring a company from another country with unfamiliar data protection laws.

A particular issue can arise in places like Holland, Germany and Scandinavia where industry-wide – as opposed to corporate – pension schemes are commonplace and scheme members have a very specific identity and can be resistant to change if they have been used to certain benefits over a period of time. If, for example, a scheme for doctors has very different benefits from a scheme for dentists it could result in the two schemes being kept separate rather than merged.

BlackRock head of Continental European institutional business Peter Nielsen says: “It’s very rare you hear about pensions mergers that fail as it tends to happen behind the scenes, but it does happen. There are very few cross-border mergers and acquisitions of industry-wide pension schemes but there are of corporate pension schemes and there are stumbling blocks here as well because there are no common standards. When you start to talk to your members the benefits vary, and it can be difficult to change legacy benefits.”

Muse Advisory client director Ian McQuade highlights how with defined contribution schemes in countries like Portugal, Ireland and the UK, the organisation administering the scheme being merged often merely wants to hand over a closing balance, whereas the scheme receiving this would prefer a history to understand how the balance is made up.

He says: “They want to know

what contributions have been made and how they’ve been invested but the scheme transferring prefers just to give figures and say if there are any questions just come back and ask us. But it may not be possible to get hold of them. Ideally, before the merger or acquisition you should have standard contract clauses ensuring you receive all the required data at the point of exit, not just the balances. It will help if you come across future problems.”

Another important step to be taken to safeguard against future problems is to address the issue of how to get in touch with scheme members who have already left the company being acquired, and may well have moved address. This can be done by making use of tracking organisations, which now operate in most major European countries and can normally track down leavers within a couple of weeks.

Towers Watson head of business development for technology and administration solutions group Clive Witherington says: “Those who have left previous pension schemes often get completely left out and really struggle to know who to contact, and the problem often doesn’t arise until they reach retirement age or they die and the beneficiary tries to make contact. This problem gets magnified by M&A activity as there’s no-one really taking ownership of the issues of people who have left, so both parties need to consider a full communications programme and contact all the parties affected.” ■