



Let us help you manage your benefits cost and risk.

Solutions for Over/Underfunded Defined Benefit Pension Plans

Many companies are considering terminating or freezing their defined benefit pension plans because of the significant costs associated with the ongoing operation of these plans. However, there are tax and financial statement issues that must be given careful consideration in making that decision, e.g., the taxes on reversions from termination of an overfunded defined benefit pension plan will utilize the majority of the cash that the company was hoping to recover. We can design alternative structures that can assist companies with either overfunded or underfunded defined benefit pension plans.

The current funded status of a qualified underfunded defined benefit pension plan can have a significant impact on a company's ability to operate its businesses properly. Further, in the context of a corporate merger or acquisition transaction, many companies will not be interested in even participating in such transactions with a company that sponsors an underfunded defined benefit pension plan(s). This is primarily because of uncertainty in the funding requirements, unfamiliarity with these plans in general, and because the Pension Benefit Guaranty Corporation closely monitors and controls underfunded defined benefit pension plans, their sponsors, and former sponsors. That said, in these and other situations, substantial value can be added in structuring attractive financial alternatives. We call this the "private sector alternative."

Because of the confiscatory taxation on any surplus pension assets in a termination situation (around 90%), sponsors of overfunded defined benefit pension plans look to structure transactions with sponsors of underfunded defined benefit pension plans so that both parties may benefit from the ultimate merger or consolidation of the plans. Ideally there would be other strategic synergies, but that can only make these situations even more attractive.

There are important benefits for both underfunded and overfunded defined benefit pension plan sponsors to consider. First, underfunded defined benefit plan sponsors can potentially reduce their obligation by as much as 30% and eliminate a liability. Secondly, there are opportunities for sponsors of overfunded defined benefit pension plans who are looking to maximize and monetize the value of potentially redundant plan surpluses and allocate that value to general corporate purposes. The positive effects for both buyer and seller are apparent and meaningful.

These highly beneficial results come from what can be a relatively simple transaction. For example, a seller that sponsors an underfunded defined benefit pension plan sells the stock of one or more structured corporations (one of which has become the plan sponsor) to a buyer for an agreed-upon price. The corporation sold would be valued to include the liability of the underfunded defined benefit pension plan along with the other assets. *(Please note this is just one example of many possible structures.)*

The buyer receives the extra value in the structured corporations as consideration for the assumption and management of the pension liability. This can include cash sufficient to fund the underfunded defined benefit pension obligation after taking into account the agreed discount or other agreed-upon corporate property.

If in the above example the buyer already sponsored an overfunded defined benefit pension plan, the two plans could be merged, thereby minimizing and/or eliminating the underfunding in the acquired defined benefit pension plan. In this situation, the buyer would have the additional consideration paid by the seller as assets to be utilized in the management of his ongoing business.



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We work with companies that are looking to discount and/or eliminate their underfunded defined benefit pension plan liability exposure. We also assist companies with overfunded defined benefit pension plans to make use of or to monetize, in a tax-favored manner, the values obtained through these structured acquisitions.