

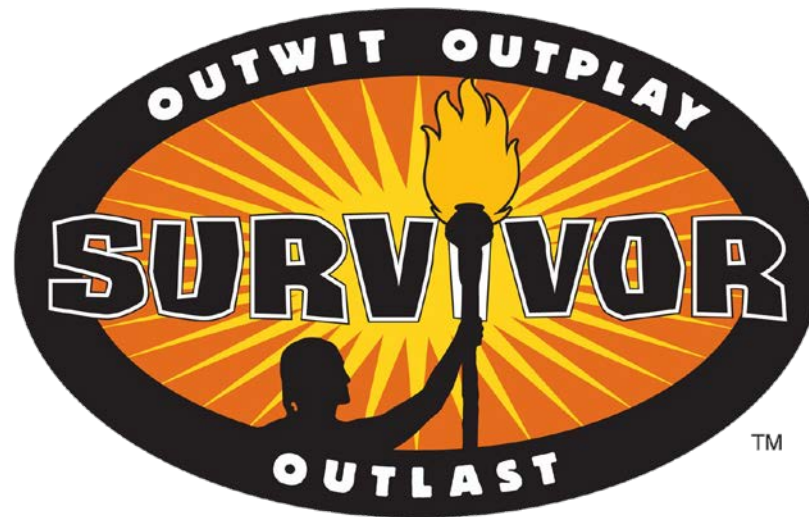
Mergers & Acquisitions:

Benefits and Pension Survival Skills Workshop

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What you will learn today





Canada M&A Outlook

Legislative Influences

- Canadian take over bid
- US anti-inversion rules
- SOE Guidelines

Historical Experience

- Historically pro-longed periods of low commodity prices and weak energy stock market valuations have led to consolidation in the energy sector
- In 2014 there was a significant increase in oil and gas M&A – more than 3x the aggregate value in 2013



US M&A Outlook

- M&A Activity is expected to accelerate in 2015 due to:
 - Growing consumer confidence
 - Favorable credit markets
 - Limited prospects for organic growth
- In 2014 global deal value increased at a much higher rate (33% over 2013) than deal volume (7%) largely due to a number of mega-deals
- In 2015 it is expected that the M&A environment will be dominated by smaller deals in the following industries:
 - Healthcare related
 - Technology/media/telecom
 - Energy
 - Consumer markets

Assess the Situation

Get involved as early as possible in the M&A transaction to pose the following questions:

- ✓ Does the company being acquired (seller) have any outstanding plan deficits or liabilities?
- ✓ Is the acquired asset going to be left mainly intact OR integrated
- ✓ Is the seller's company smaller/similar/larger in size?

Gather Information

- Employee Census information
- Contracts, booklets and valuations
- Renewals and financial statements
- Employee communications
- Paid time-off
- Non-traditional employee benefits and perks:

Inventory Programs and Identify Gaps

Plan provisions

- Compare both high level and detailed plan provisions
- Prepare a side-by-side inventory of both programs
- The devil is in the details



Inventory Programs and Identify Gaps

Plan COSTS

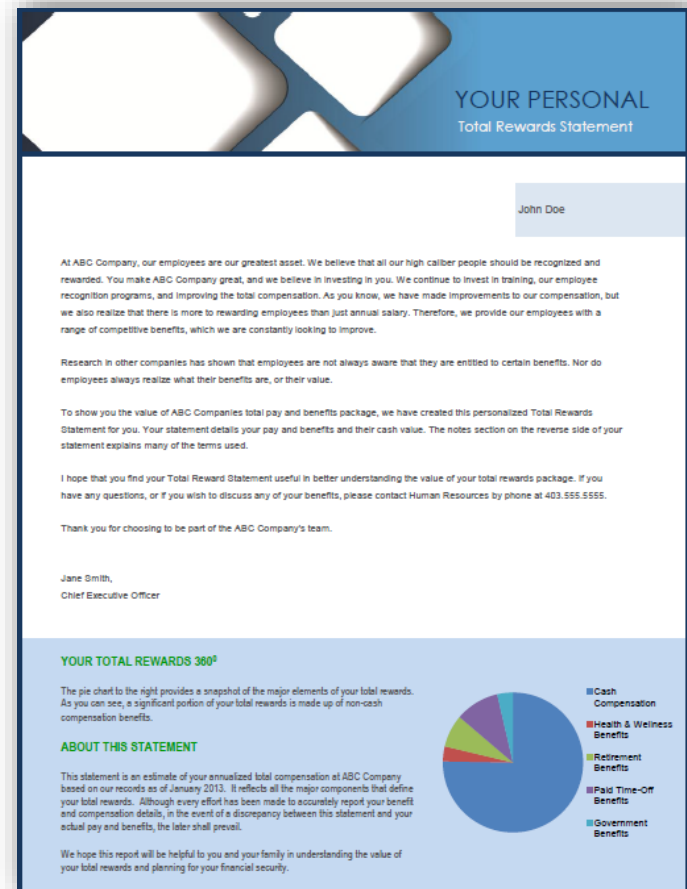
- Compare actual plan costs on both an aggregate and per capita basis
- Compare employer vs. employee costs
- Determine whether the retirement plan benefits are equal



Inventory Programs and Identify Gaps

Plan value

- In addition to comparing actual plan consider a value comparison:
- Communicate plan changes on a “Total Rewards” basis



Program Design

Philosophy

- Formalize benefits and retirement philosophy for combined organizations
- This statement will serve as the litmus test for decisions and help simplify the plan design process



Program Design

Design considerations

- Competitive benchmarking
- New program for all merged employees?
- Consider employee involvement (surveys and focus groups)
- Review data to determine how many employees will be impacted



Vendor Selection

Options

Maintain existing vendor relationship(s)

- If both companies have same vendor(s) and service is good
- If combined group size is much larger, negotiate a better deal

Obtain quotes from both vendors

- If each legacy organization has different vendors it's customary to invite quotes from both vendors

Conduct a full marketing

- If there are service issues, or as a matter of due diligence consider extending the bidding exercise to the greater marketplace

Retiree Benefit Plans

Existing Retirees

- Must continue plans for existing retired employees already on the program without reductions
- Consider offering cash settlements to reduce this benefit and its associated accounting liability
 - Offer must be voluntary (i.e. can't be mandatory)
 - Settlements can be as little as 50% of the associated accounting liability

Retiree Benefit Plans

Future Retirees

- While you can discontinue retiree programs for future retirees, generally you will need to fulfil the promise to any active employees who have already met the retiree plan eligibility
- Give employees ample notice if terminating or making major changes
- Make special provisions for employees that are close to meeting these eligibility requirements
- Seek legal advice on exactly how much notice should be provided as it may differ in each case

Special Groups

Unionized Employees

- Thoroughly review the collective bargaining agreement (CBA) for all references to benefit programs
- Even if benefits aren't specifically referenced in the CBA, give your labour relations team plenty of advanced notice of any proposed plan changes as these may impact on future collective bargaining



Special Groups

Employee on leaves of absence

- Don't forget about inactive employees:
 - MLOA
 - Short & long term disability
 - Maternity/Paternity leaves
 - Sabbaticals
 - Other leaves (e.g., military, compassionate care, etc.)
- Special consideration will need to be made regarding how you handle benefit changes and communication for these groups.



Communication

Identify key stakeholders

- Leaders, HR advisors and labour relations need to be given advanced warning of any benefits changes and associated employee communications
- Inform these groups and ask them to be ambassadors for change
- Involve payroll in any benefits changes to ensure they can handle the systems changes within the proposed timelines

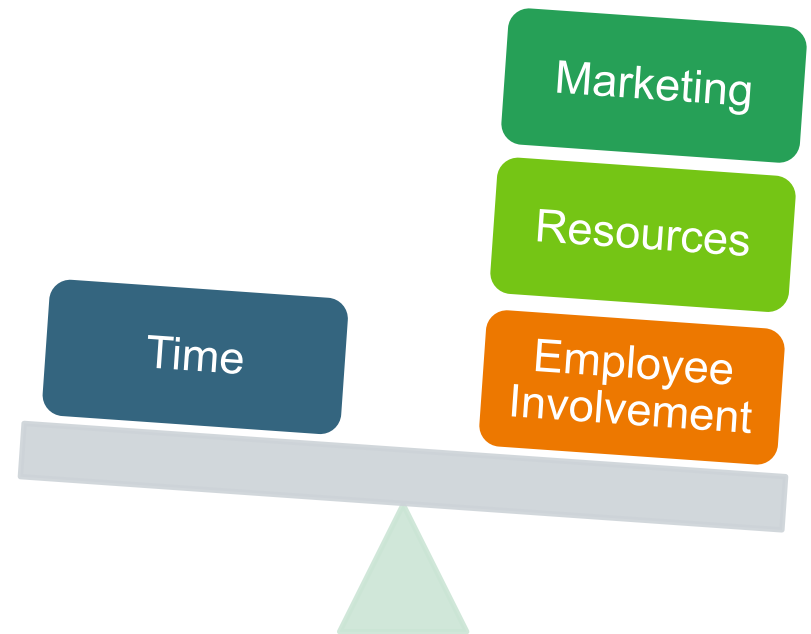
Communication

Think beyond email

- There is no communication more impactful than live in-person information sessions. However, it may not always be possible to reach all of your employees this way, so also consider:
 - Webinars
 - Recorded video (post to YouTube or company intranet)
 - Print media (bulletins, postcards, posters, table tent cards)
 - Social media (Facebook, Twitter, Instagram, etc.)

Time & Resources

- The course of action you decide to take will depend on these two finite limitations
- If deadlines are tight, you may need to forgo things like employee involvement in the design process and full vendor marketings
- Consider expanding your project scope and hiring additional resources like experienced benefits advisors and communicators to help



Case Study 1 - Divestiture

- Divestor:
 - Large 4,000 employee organization
 - Divests assets and associated resources through establishment of new entity
 - Initially retains significant ownership in the new entity, but within months of divestiture sells remaining assets
- New Entity:
 - Small 80 employee organization (all employees except management have transitioned from Divestor)
 - Benefits and retirement plans designed and established by Divestor before being rolled out to new entity
 - Plan designed on basis of best understanding of the needs of the new entity

Case Study 1 – Divestiture

- Designed benefit and retirement plans
- Implemented and communicated plans

Divestor

**New
Entity**

- First exposed to new plans upon roll out
- Perception of loss

Case Study 1 – Divestiture

LEARNINGS – Benefits

- If possible engage the leadership of the new or acquiring organization in the benefits/group retirement discussion – ask for a meeting/call
 - Where possible get specific/written direction
- Understand general key messages being communicated during change and tie into that benefits messaging – it may in turn inform design!
 - Get written approval from the new leadership team on all employee communication
 - Have local Human Resources/Leader in the room prepared to reinforce messaging
- Talk to the elephant in the room
 - If there is a loss in coverage value – why? And how does it tie back to Total Compensation

Case Study 2 – Acquisition

- Divestor:
 - Large 2,500 employee organization
 - Divests assets and associated resources through sale to large US based company
 - Sale announced in the middle of a flex plan roll out for the divestor but close was delayed numerous times.
- Acquirer:
 - Large US based company that is tripling in size with US and Canadian assets being acquired
 - Legacy 30 person group in Canada
 - No one in HR on the ground in Canada

Case Study 2 – Acquisition

Divestor

- Established side by side flex projects
- Collaborative and shared Canadian logic and information pertaining to benefits changes
- Continued to manage employee communication in advance of close
- Transitioned independent contracts at time of close

Designed benefit and retirement plans
Implemented and communicated plans

Acquirer

- US based benefits team actively participated in flex project
 - Supportive of Divestor's legacy work and flex roll out
 - Made quick decisions to ensure employee communications to divesting group were not delayed
- First exposed to new plans upon roll out
Perception of loss

Case Study 2 - Acquisition

LEARNINGS - Benefits

- When roles, responsibilities and decision making authority is established quickly both parties and their employees are set up for project success.
- Having both parties at the table and sharing information allows for quick and collaborative decisions.
- Regular communication means that ‘bumps’ don’t become ‘mountains’
- Give the lawyers as much time as possible with documents – only play the urgent card when absolutely required.

Road Map for Success

- Assess the situation and gather information
- Inventory programs details, costs and value
- Identify gaps
- Establish benefits philosophy and benchmark programs
- Review utilization data and consider employee involvement in the design process
- Consider marketing the plan or negotiating a better deal with existing vendors

Road Map for Success

- Consider pension and group retirement savings legislation, contribution amounts and fund line-up
- Tread lightly before changing benefits for retirees and unionized employees
- Don't forget about inactive employees
- Consider all key stakeholders in your communications strategy
- Don't overextend what you can do with your available resources within the allotted timeline

Just found out?

- Assess the situation and gather information
- Inventory programs details, costs and value – identify gaps
- Don't forget about inactive employees
- Consider all key stakeholders in your communications strategy

Questions

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