INVESTMENT INSIGHTS

The Case for Combining Defined Benefit and Defined Contribution Plans Under One Provider


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While defined contribution plans have displaced defined benefit plans as the retirement plan of choice for most private companies, many organizations still find themselves managing both.

And in today's business environment, with executives and managers looking for ways to contain administrative costs and streamline noncore but necessary functions, the idea of putting the management of pension and retirement savings plans under one roof is making more sense than ever.

Many organizations — including private companies and public sector organizations, and other entities that maintain both active and frozen pension plans — often use one retirement provider for their DB plans and another for DC plans. The dual-provider model, however, can make managing benefits more complicated than it needs to be, both for employers and plan participants.

"When you have multiple providers and multiple relationships, who owns that relationship?" asked Mark Valentine, national practice leader: defined benefit/Taft-Hartley/Public Sector at Transamerica. "If you have problems come up, who owns that? If it is a plan sponsor, who do I call and talk to?"

Increasingly, employers/entities are looking at ways to combine those plans under one provider. The move reflects a drive toward greater efficiency at stretched-thin human resources departments, as well as a first step for companies planning to transition away from a defined benefit structure through a pension risk transfer now or in the future.

"We are seeing more of a shift toward providers that offer total retirement outsourcing," said Laura Gaynor, senior vice president and defined contribution national practice leader at Transamerica. "They can really see the benefits of bundling DB and DC services together, not only from a plan sponsor perspective, but also from the plan participant perspective."

BENEFITS TO PLAN EMPLOYERS

For starters, combining plans under one provider can create immediate cost savings and efficiencies for the administrative staff.

"Just having to deal with multiple contracts and working with different entities is going to be more time consuming," Gaynor said. "From a plan-sponsor perspective, if they have to work with two different providers, the soft-dollar costs associated with that are going to be pretty significant. You're doing everything twice."

Having a single set of uniform data across both plans also makes it easier for employers to understand what's working and to get a full view of how the plans are performing. Having access to that data can make it easier to make overall plan-management decisions.

"If I am a plan sponsor, trustee or committee member who has two plans at the same provider, using uniformity of information technology, that should drive my costs lower, so I get the benefit of having a total relationship versus two separate ones," Valentine said. "As a fiduciary, I now can understand and clearly identify who services what and where potential issues or liabilities are that I need to be focused on."

If employers/entities do ultimately decide to freeze, terminate or even just downsize a DB plan, that process can go much more smoothly when it involves only one plan provider rather than two. That's particularly important for companies incorporating DB-style elements into a DC plan.

FINDING THE RIGHT PROVIDER

While there are lots of long-term benefits and savings to transitioning to one provider for DB and DC plans, the shift requires some upfront work, and the process can be lengthy. Converting a DC plan can take around 90 days, but converting a complicated DB plan with paper records can take longer, according to Valentine.

"You need the integrity of the data to be high, so you need the tech resources for that," he said. "If you have 500 boxes of paper, how do you get that information into a system? How do you recognize the data records? Data is number one when you look at transition. That's going to drive the onboarding experience for the client."

Companies should solicit multiple requests for proposals, including from providers with which they're not currently working, Gaynor said.

"You want to make sure you're working with a company that truly has experience working with both DB and DC plans and does not provide services for one or the other as an accommodation," Gaynor said. "Ask questions to make sure they have an integrated record-keeping system; and taking on fiduciary responsibility for the services they provide is always a plus for plan sponsors."

Companies should also ask how providers assist with communications and marketing to plan participants. One of the key factors in a successful transition is communicating early and often with current plan participants, as well as retirees, about the benefit of combining providers.

Those communications must explain to participants what changes to expect and when they'll occur. Companies should provide both emails and hard copies of education materials, and set up a website and call center to answer questions about the process.

MEASURES OF SUCCESS

One sign of a successful transition is that participants aren't bombarding the HR department with questions. In fact, the benchmark of success would be that not one person walked into the HR department asking about the transition. Other measures of a successful transition, according to Gaynor, include:

- Target dates were hit, records and assets were all transferred successfully, and either there were no surprises or surprises were quickly and effectively dealt with;
- Participants were effectively communicated with and were able to access all the tools and services available.

From a plan-participant perspective, integration of the DB and DC plans under one provider allows for continuity and a better understanding of the entire retirement plan. Participants have access to a single call center, a single website and a single statement. That makes it easier to get more comprehensive advice and guidance that takes into account their entire portfolio.

Oftentimes, participants don't truly understand how much their DB is worth, or how it complements their DC contributions, since, in many cases, they've never been able to look at them holistically. And when relatively conservative DB assets are considered, participants and/or their advisors may adjust their DC allocation to achieve an overall retirement investment allocation goal.

"It is just amazing for participants when they go online for the first time under an aggregated record-keeping arrangement and see this great benefit that they did not even realize they had," Gaynor said, "and they can also see what that benefit will mean for them at retirement, and how it affects their retirement forecasting." ■

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