

# SMOOTHING OUT THE WRINKLES

*Tips for streamlining benefits plans during a merger or acquisition*

BY SADIE JANES

## BY THE NUMBERS

- In the first nine months of 2024, global companies announced deals totalling around **US\$1 trillion**, spread across about **22,400** transactions, a **10%** increase in deal value compared to the same period in 2023.
- In the third quarter of 2024, global M&A deals held steady at **9,141** (+6% over Q3 of 2023).
- In Canada, between Jan. 1 and May 31, 2024, there were **952** M&A deals with a total value of **\$72 billion**.

Sources: Boston Consulting Group, S&P Global, PricewaterhouseCoopers

**W**hen a company is undergoing a merger or acquisition, it's important to maintain consistency regarding benefits plans and streamline the process as much as possible.

"It's crucial to allocate the proper resources to make sure the process goes smoothly and benefits coverage is maintained or improved upon," says Connie Cooper, associate vice-president of executive financial counselling and education services at CWB Wealth. "In a lot of instances, these processes can be gradual or transitioned over time, so there isn't necessarily a reason to be hasty. [It's better to take the time to] make sure everything is done right."

At the outset of benefits work, she suggests employers revisit what the M&A is hoping to accomplish, whether that's heightening efficiencies or more of a growth strategy. "Employers should keep this in mind for alignment as the work unfolds. Compensation, benefits and any changes to the strategy or the details of the offering will often be the first and lasting impression in an M&A, so it should be top of mind throughout the project."

Conducting a standard comparison line item by line item of both the host company and acquiring entity is key to a smooth transition, as well as putting someone in charge of ensuring compliance with laws and regulations, adds Cooper.

## Common challenges

In a typical year, EY Canada supports roughly two dozen M&A transactions, assisting its clients by performing human resources due diligence on their acquisition targets, says Uros Karadzic, the organization's people advisory services and rewards leader.

Each M&A deal is unique, he notes, but there are some common challenges when it comes to benefits plans. "In all cases, the costs and risks associated with these plans must be understood and evaluated. Sometimes, especially when large unfunded liabilities exist for pension plans or post-retirement benefits, the purchase price may need to be adjusted or the client may even decide not to pursue the deal."

Typically, benefits plans that come with actuarial liabilities during an M&A tend to be more complex to assess and deal with, since they impact the balance sheet, says Karadzic.

He also recommends employers consider any data they can get their hands on. "Deals often move quickly and you rarely have all the data you'd like to have. Making informed calls on

potential risks and costs based on the data that's available takes a lot of experience and careful analysis."

Another challenge is the differences in benefits entitlements, especially in deals where two companies are coming together and merging their respective employees into the new entity, says Karadzic. The key is to help manage costs without negatively impacting employees in a material way.

"Of course, where there are challenges, there are often opportunities, too. Sometimes, the increased size of the new business can lead to benefits cost savings as the plans are merged and economies of scale are realized."

Another consideration around employees is understanding the value they attach to their benefits plans when going through an M&A, says Cooper. "Total rewards professionals need to be ambitious about [cohesion and continuity]. You can review analytics, but to truly understand the value, you need to canvas all stakeholders, including employees.

"Be curious — review HR goals and strategy, collaborate, conduct surveys and take the time to understand employees' attitudes towards their benefits."

Some options for including employee feedback are surveys and a channel where plan members can submit questions. Since there are often a lot of changes in the beginning of an M&A process, offering a forum where employees can ask questions and get help is critical, says Cooper.

### **Communicating the changes**

Along the same lines, once the deal is completed and the new plan design is established, communicating it to employees requires care and good change management, says Karadzic.

"In most M&A cases, there are changes to benefits and it's usually a mix of good and bad news. Many sale agreements stipulate that employee total rewards before and after the close of the transaction should be similar in aggregate, so the hope is that, while the benefits may change, they'll be similar on a net basis."

Communicating clearly and assisting employees with understanding their new entitlements can help them make better choices that meet their needs under the new plan, he adds.

Cooper agrees that communication is key during an M&A, but notes it's often overlooked. "Employers should ensure all stakeholders are represented when developing a communications plan and put the proper feedback channels in place. A plan could include a town hall and dedicated benefits meetings, newsletters and online resources.

"It should have timelines, address changes and give a sense of the impact as there could be a tendency to focus on what's lost over what's gained."

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**Sadie Janes is an associate editor at *Benefits Canada* and the *Canadian Investment Review*: [sadie.janes@contexgroup.ca](mailto:sadie.janes@contexgroup.ca).**