QAS Case Study #1 - Surprising Interest

Concept: Know Your Market

QAS received a phone call regarding a plan termination that was in process. The employer was having financial difficulty and was operating under Chapter 11 in the Bankruptcy Code. New management was looking to aggressively slash costs but maintain services and employee morale. Their objective was to terminate the existing defined benefit plan and establish a 401?K incentive plan. The maximum surplus recovery from the plan termination would go a long way in revitalizing the ailing concern.

The defined benefit plan had, in fact, been terminated the previous year. The company retained an actuarial consultant to terminate that plan, calculate accrued benefits, and establish the new plan. Unfortunately, the time involved in assembling the employee data and obtaining bids through the actuarial firm ignored the obvious: Interest rates had been falling, therefore annuity buyout rates were increasing. The pension plan assets had been liquidated and placed in short term cash equivalents jeopardizing the employer's ability to obtain a surplus recovery.

After a brief meeting, the trustees engaged QAS' consulting services to complete the transaction. Although several "competitive" carriers were previously contacted by the actuarial consultant, the bid range indicated substantial discrepancies: Low Bid $7,750,000, High Bid $11,100,000.

Within two weeks, QAS obtained a bid from an additional carrier not previously solicited and the competitiveness of the issuer's cost was astounding. The group of terminated vested participants was priced 7% less than the next best bid.

The employer became very anxious. Providing the necessary assurances that the investment rate posture of the carrier would not change, QAS received a bid for the entire census one week later. The total cost was $7,450,000.

A final closing was set when formal proposals, containing all relevant plan provisions, were presented to the Trustees. A relatively small carrier provided a bid of $7,050,000. A larger carrier "sharpened it's pencil" to make a formal offer at $7,250,000, down from $7,450,000. Final negotiations produced an offer of $7,150,000 from this larger, more suitable carrier. The Trustees accepted this offer and the deal was completed.

☐ ☐ ☐ **Time Frame:**☐ ☐ 4 Weeks
☐ ☐ ☐ **High Bid:**☐ ☐ ☐ $11,100,000
☐ ☐ ☐ **Best Initial Offer:**☐ $7,750,000
☐ ☐ ☐ **Final Acceptance:**☐ $7,150,000
☐ ☐ ☐ **Savings:** ☐ ☐ ☐ $600,000 / 7.7%