



LAYING THE GROUNDWORK

Proper preparations will help plan sponsors successfully restructure defined contribution plan assets.

BY GRANT JOHNSEY

Transitioning assets for defined contribution (DC) plans is far more complex than transitioning defined benefit (DB) plans and therefore requires careful planning to be successful. Although the goals are the same — minimize costs, manage risk and effectively coordinate the entire event — there are significant differences in the transition processes that need to be addressed.

Among the prime differentiating factors of a DC plan transition are the potential for ongoing investment activity and the greater visibility by participants. During the transition, participants will be able to monitor their investments and may continue to move their assets in a variety of ways, including payroll contributions, retiree disbursements, new loans, loan repayment, inter-fund transfers and full distribution for departing employees.

Putting Plans on Hold

To avoid ongoing participant activity, many DC plans institute a blackout period during the transition. A blackout period restricts participant activity and prohibits any movement of assets.

While this simplifies the transition and makes planning easier, a blackout period is undesirable from a participant perspective because no fund changes, contributions or payments are permitted. For these reasons, it typically makes sense to conduct a transition without a blackout period whenever possible.

Keeping Participants Involved

Consider these points when transitioning DC assets to help facilitate a smooth event without a blackout period.

Hire the transition manager early: A DC transition requires considerably more planning and coordination than a DB restructuring. Transition managers should be hired well in advance of the event so they may participate in the planning and contribute to strategy development.

Coordinate communication: Communication between all parties involved in the restructuring is critical leading up to the event and during the transition. Communication should be established in the early planning stages.

Develop a timeline: As part of the planning process, a timeline of the event should be completed at least one month prior to the transition. The timeline needs to integrate the expectations of the plan participants as communicated by the plan sponsor.

Map fund flows: A map of anticipated fund flows will detail the projected movement of assets. The ultimate goal of fund flow mapping is to coordinate the timing of necessary asset movements. Since plan participants will continue to make contributions and shift assets, the investment amounts involved will be moving and the mapping must remain flexible.

Plan for liquidity: The transition plan must include a strategy to provide sufficient liquidity to accommodate participant activity. Since flows will happen on a T+1 basis, but the majority of equities and bonds settle T+3, liquidity must be planned in advance to accommodate activity.

Through careful planning, a DC plan sponsor not only can better manage a transitioning event, but also keep participants active and assets growing. ❖



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