



Deal Playbook Section 5:

Avoiding & Mitigating Integration Issues in Employee Benefits

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MOST OF A TARGET COMPANY'S EMPLOYEES WILL NOT BE AWARE THAT THEIR COMPANY WILL BE PART OF AN ADD-ON ACQUISITION UNTIL IT HAS ALREADY HAPPENED. When they learn the news, their top concerns will typically include job security, the acquiring company's culture, and any impact the acquisition will have on benefits, compensation, and organizational structure.

Introducing these new participants to a benefits program as part of an add-on acquisition will be crucial to fostering a sense of inclusion and ensuring the program's success. Effective harmonization involves creating a seamless integration process that educates participants about the program's features and addresses their individual needs and concerns.

To accomplish this, the employee benefits due diligence team — including the buyer's HR staff and any outside consultants — should be engaged early in the process.

Impacts on the Seller's Employees Pre-Transition

Employees of a company involved in an add-on acquisition will be impacted by a variety of changes, which can include changes to their health and welfare coverages, retirement benefits, paid time off benefits, payroll, and pay frequency. There will also be several employment-related uncertainties before the deal closes.

Although there may be competing priorities during the transaction timeline, an argument can be made that HR team members should be involved throughout the process, as they can better advise on how changes impact employees at all levels. Examples of where HR can add value and support include:

- ✔ **Medical:** Changes in employer contribution percentages for health premiums are possible. Employees could also experience a disruption of providers, whether for medical or pharmacy-related benefits; for example, certain providers that employees previously used may now be considered out of network. The transition of care — including possible disruptions of care for employees or their dependents during treatments or procedures — is another point of review.
- ✔ **Retirement benefits:** Employers have different contribution rates and optional provisions, such as student loan matching and differing distribution exceptions like natural disasters.
- ✔ **Changes in payroll:** After an acquisition, employees may need to transition to a different Human Resources Information System (HRIS). Additionally, there may be changes in payroll frequency.
- ✔ **Paid time off (PTO):** Changes to paid holidays, sick leave, and vacation time will likely impact new employees; employees coming from an organization with a robust PTO policy may find their PTO benefits reduced. This can contribute to negative perceptions of work/life balance at the buyer.
- ✔ **Future growth and development opportunities:** A buyer may have a different organizational map than the seller. Employees may find promotions or further growth more difficult after the acquisition.



Impacts on HR at the Buyer

In the due diligence stage, the buyer will either insource much of the due diligence work or hire outside advisors. However, HR still plays a vital role by providing advisors with documents pertaining to employee benefits and contracts, compensation, and more. HR's involvement in the pre-deal and due diligence stages will further its understanding of the impacts of additional human capital on the company, consider new benefits options, and [help drive more favorable results](#).

By participating in the initial stages of an acquisition, HR professionals can develop thoughtful strategies to harmonize the seller's employees with the buyer's. Moreover, they can formulate strategies to communicate their new employees' needs, including concerns about growth opportunities. This ensures that onboarding is a positive experience, especially during a time of uncertainty for the population.

As buyers take on new employees, the following questions will be important:

- Will termination of the target's plans be immediate, or will there be a transition period to assume the target's employees into the buyer's plans? If the latter, a Transition Services Agreement (TSA) will need to be addressed in the purchase agreement to ensure continuity of coverage for employees.
- What is the best way to handle the target's employees' concerns and communication challenges? Are there ways to bring value during this transition period?
- Are the buyer's plans favorable? Competitive? If not, what key wins can the buyer offer to smooth any areas of dissatisfaction?
- Is there an opportunity to provide additional benefits or eliminate underutilized benefits to better drive efficiencies and offer a program that can impact the entire workforce?



Tools for HR to Support Affected Employees

M&A transactions usually evoke mixed feelings among the employees of the companies involved. HR is responsible for ensuring that affected employees feel heard and accept the opportunity as new employees of the buyer.

HR professionals can use various tools to support these employees, including:

- ✓ **One-time “retention” bonuses:** Employers may distribute bonuses to key employees or the broader population to retain them, usually to avoid raising wages permanently. However, employers must assess if rewards are financially viable.
- ✓ **Paid time off (PTO):** Employers may consider more flexible PTO policies to increase employee retention and satisfaction, such as enabling employees to take time off at their choosing. Still, costs must be considered to determine if flexible PTO is an appropriate short- or long-term solution.
- ✓ **Raising pay:** One of the main reasons why employees leave their companies is compensation. In an M&A transaction, employees will primarily worry about their compensation aside from benefits. Increasing salaries to match or exceed competitors may be highly effective in retaining employees, but can be costly.
- ✓ **Insurance credit:** HR professionals should review whether the buyer’s health insurance carrier will allow for a carryover deductible or out-of-pocket maximum credit if the target and buyer have two different plan years.
- ✓ **Surveys:** If the target company is of size compared to the Buyer, consider distributing a survey on the benefit program to solicit feedback from the entire employee population.
- ✓ **Comprehensive and regular communication:** Employers must proactively communicate with employees throughout all stages of the M&A transaction. The buyer’s benefit package must be communicated to employees during the transitional and onboarding enrollment periods. Employees of the target company will need additional support even after electing benefits. Thus, ongoing communication is necessary.



What's Next?

A successful outcome after closing is critical, and in our experience the most promising outcomes occur when HR's expertise is involved throughout each stage of the transaction. HR professionals have a deeper understanding of employee retention and satisfaction, key factors companies in acquisition mode should consider. HR's involvement, particularly in the pre-deal and due diligence stages, ensures that employee impacts are considered and that HR teams are well-equipped with tools to drive a smooth transition and support the company's go-forward strategy.

Once the target company's employees are enrolled in the buyer's benefits program and the dust has settled from the transaction, HR and Lockton's People Solutions teams can address the go-forward benefit strategy factoring in this new population. The initial strategy with the buyer may have been altered with this acquisition, and understanding its philosophy around human capital will allow for an open dialogue for any network/carrier changes, plan design or contribution modifications, or adjustments as part of future renewal and marketing efforts.

Lockton's Transaction Advisory Practice assists HR professionals in the due diligence process by reviewing a company's benefits package, including its financial costs and related implications on employee satisfaction. After the M&A transaction, Lockton's People Solutions team can help HR execute the go-forward strategy with the new population factored in. This assistance enables HR to retain employees and maintain employee satisfaction post-acquisition proactively.



Your Lockton Team

For more on this topic or how Lockton can help, contact a member of your Lockton team.

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