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We are entering a new era for professional sports teams in which defined benefit (DB) pension plans for non-players are being replaced by defined contribution (DC) plans. This means team owners and management are going to have to decide whether they need to redesign their retirement plans — a long and complicated process that is fraught with pitfalls that can lead to unintended consequences. Teams should carefully evaluate how to proceed towards the ultimate goal of a benefit plan that will make both the team and its employees satisfied in the years ahead.

Background

The shift from DB to DC pensions among corporate plan sponsors has been underway for quite a while. In professional sports, in 2009, the National Football League announced it would allow teams to opt out of the League-run DB pension plan for non-players; in the five years since, about half of the teams have done so. Major League Baseball (MLB) recently announced teams can opt out of the League-run pension plan for non-uniformed personnel, continuing the trend of a traditionally "DB-only" industry moving towards DC pension plans. This opportunity will make it incumbent on all MLB teams to at least consider whether the current pension plan is the most appropriate one given their individual circumstances.

How to Proceed

Evaluating a team's current pension plan and, if necessary, determining the most appropriate design for a new plan requires a systematic and measured approach. We suggest the following steps:

- ***Know the team's goals — compare the advantages and disadvantages of the existing DB plan versus the proposed DC plan.*** A Qualitative Analysis can be used to lay the foundation for further study and can lead to a discussion of alternative plan design attributes to be included. Typically, this analysis examines the pros and cons of alternative designs from the team's and the employees' perspective. This includes examining the impact of:
  - Shifting the investment risk (as well as the longevity risk) from the team to the employees,

- The perceived value of the benefit plans to the employees,
- The administrative ease of the plans,
- The impact on workforce planning,
- The flexibility of contributions, and
- The predictability of contributions and benefits.

> ***Evaluate the cost of the existing DB plan versus the cost of the proposed DC plan.*** Because teams considering a switch are sometimes interested in reducing costs, they should compare their current DB plan's expected costs (as a percent of pay) to those of any proposed DC plan. A Stochastic Analysis can be conducted to demonstrate the ranges and probabilities of expected cost levels for the plan. These analyses allow the team to make key observations. Examples include:

- Acknowledging that the DB plan's expected cost does not go to zero simply because it is frozen,
- Recognizing that there are things that can be done to mitigate the DB plan's cost volatility that are not being done currently, and
- Allowing for a separate focus on short-term costs versus long-term costs.

> ***Analyze which participants will be helped and which will be hurt by the plan change.*** Teams need to measure the impact a change in retirement plans will have on the projected benefits of the individual participants. A Helped/Hurt Analysis can be used to project each active participant's benefits to various ages to compare the expected benefits under the old plan structure with those under the new plan. There are many important things to keep in mind in doing a Helped/Hurt Analysis. For example, DB and DC plans deliver differing levels of benefits by comparison when looking at retirement (and termination) ages other than normal retirement age. In addition, the expected benefit from a DC plan depends heavily on capital market assumptions.

> ***Review what the competition is offering. Teams should undertake Competitive Benchmarking to understand the level of benefits being offered by the other organizations with which it competes for talent.*** This may be crucial for attracting and retaining key individuals and allows the team to focus on items such as total compensation, geographic competition for talent, and consideration of whether competition is different for different cohorts of employees. Competitive Benchmarking is not necessarily limited to other sports organizations, as there may be needs within the team that require skill sets independent of the sport itself (e.g., logistics, marketing).

- ***Consider benefit adequacy by reviewing the expected retirement income for plan participants.*** The ultimate goal of the team's benefit plan is to produce income to be used in retirement. Teams considering a new plan should conduct a Benefit Adequacy Analysis that projects the participants' benefits at retirement under a variety of economic scenarios. This analysis is a particularly effective method to focus on benefit delivery to new hires and mid-career hires and allows the team to anticipate potential workforce management issues. For example, unintended consequences could result if employees do not have sufficient replacement income to retire at the desired ages.

- ***Plan how to most effectively communicate any changes to individual participants.*** The success or failure of a plan design change can depend on the effectiveness of how well the new plan is communicated to those affected. No matter how well an alternative plan is designed, it is not likely to be received well unless accompanied by a thorough communications campaign. A lack of transparency and clarity when a new plan is rolled out can lead to employee disenchantment.

Redesigning a team's retirement plan is a complicated process. Careful consideration of an organization's goals and the many issues involved can lead to a successful new plan, from both the team's and employees' point of view.

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