EXPERTS' CORNER

Q Regulations governing annual contributions to pension plans combined with low interest rates have caused clubs with defined benefit plans to face increasing annual payments to maintain or diminish their financial liabilities. How are clubs dealing with this?

A Over the last decade, clubs that offer a traditional defined benefit plan have seen changes in both financial reporting standards as well as modification to pension laws governing the funding of such plans. Most notable was the employer requirement to recognize the overfunded or underfunded status of the defined benefit post-retirement plan as an asset or liability in the Statement of Financial Position (Balance Sheet). A plan's funded status is measured as the difference between the projected benefit obligation and plan assets (at fair value). In addition, the Pension Protection Act of 2006 strengthened pension plans by establishing a number of rules ranging from funding requirements, interest rate assumptions used in calculating the obligation, reporting and disclosures requirements.

In addition to these two major overhauls, pension plans over the last decade have also been significantly impacted by the drop in interest rates (discount rate), which are at historically low levels and by the financial crisis of 2008, which greatly affected the equity markets. The result of these financial impacts has caused clubs to have to increase their annual contributions to the plan. The market has since rebounded; however, interest rates still remain at very low levels.

Generally speaking, each time the discount rate falls, the pension liability increases, and given the tremendous decrease in the rate, it has been the driving force for the increase in the long-term pension liability for many clubs. Congress, recognizing that this continued low interest rate environment was affecting pension plan liabilities and requiring increased contributions, passed legislation in July 2012 that provided pension funding relief and interest rate stabilization in the near term; however, it did not change the ultimate funding a club will have to pay to extinguish its liability in connection with defined benefit plans.

In a recent survey of clubs with defined benefit plans, we found 100 percent of the clubs had a deficit, with one as high as $8 million. In addition, the survey indicated that the annual contributions to maintain these plans exceeded $250,000 in approximately 40 percent of the clubs. In an effort to shore up their plans as well as diminish the financial statement impact associated with defined benefit plans, clubs have been studying a number of ways to control these pension costs ranging from "freezing" the plan to completely terminating the plan.

Typically when a club undertakes freezing a defined benefit plan, there are immediate cost savings since future benefit accruals cease. There are different ways to freeze a plan: closing the plan to new entrants while allowing those participants in the plan to continue to accrue benefits (commonly referred to as a "soft freeze") or ceasing benefit accruals for all active participants (commonly referred to as a "hard freeze"). Although freezing a plan will affect future benefit accruals, the plans still remain subject to investment volatility, interest rate fluctuations and demographic changes and remain subject to all the same funding and compliance requirements.

On the other hand, terminating a defined benefit plan, which seems very attractive, does need to conform to a standard termination process that requires the club to fully fund the plan and pay out all benefits either by lump sum distribution (if permitted) or by purchasing annuities. Because a different set of assumptions are used when purchasing annuities, the cost of annuitizing these benefits is generally much higher than fully funding a frozen plan on an ongoing basis. There are also time-sensitive administrative issues that need to be followed when terminating a plan. Generally clubs have chosen to freeze their plans versus terminating primarily due to the funding requirements necessary to terminate the plan. However, we have recently seen a number of clubs obtain bank financing to terminate their defined benefit plan. The uncertainty associated with defined benefit plans coupled with the cost and the funding requirements made their decision to obtain bank financing in this low interest rate environment very attractive. In the previously mentioned survey of clubs with defined benefit plans, approximately 60 percent have amended their plan to "freeze" the plan to reduce future obligations. For those clubs that have frozen or terminated their plans, typically a new or an enhanced 401(k) plan is offered to employees.

Determining how to handle each club's defined benefit pension plan involves complex issues and clubs would be well advised to consult with experts in this area prior to making any decisions.

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Q **What are the most popular member retention and attraction strategies being used by private clubs in 2014?**

A Clubs appear to be taking a longer-term view when it comes to membership retention and attraction strategies in 2014 versus their approach between 2009 and 2012. This is the likely the result of several factors, including stabilization in the overall economy, an increase in the tools available to keep members connected to the club and one another and lessons learned from the discounting that took place in the period immediately following the financial meltdown. A recent Pulse Survey of the club industry conducted by McMahon Group found that roughly two-thirds of club executives feel attrition for this year will be unchanged or down from the prior year, while roughly one-third think it will increase. Although these figures don't vary much from management's views on attrition over the past few years, their responses to questions about their approach to these challenges indicate they are taking a different approach to membership retention and development.

Club leaders now view improved communications as their most effective tool for improving retention.

Club leaders now view improved communications as their most effective tool for improving retention. Understanding that it is less costly to keep a customer than find a new one, managers are dedicating more resources to increasing member awareness of the club's offerings and programs so they use the club more frequently and stay in the fold. In our 2011-12 Pulse Surveys, just over half of the clubs indicated they had a paid staff person in charge of communications. That figure increased to 74 percent in 2013 and now 80 percent in 2014—that's commitment.

In a similar vein, other highly rated retention strategies include marketing to members, monitoring their satisfaction, improving facilities and adding new programs. As documented in Navigating the Future, the 2013 joint NCA-McMahon study on club trends, we anticipate continued growth in programming as a way to maintain member engagement. Where most clubs used to be rather hands off regarding utilization, they now see that creative programs are essential for drawing members to the club. This includes all manner of wine clubs, book groups, fitness classes and theme night dinners so members can make regular appointments to visit the club.

In regard to membership development, club managers tell us they are focusing much more on incentives to existing members and updating existing facilities than price based drives. This is a change from 2011 when the leading actions were discounting dues and lowering initiation fees. In our experience, the dues discounting strategy was short lived and often regretted by clubs that took this step. Once the height of the financial emergency passed, longstanding members began to clamor for dues equalization and when the new members were hit with rapid increases in their dues, they headed for the exits.

Looking through the lens of a better economy, particularly among the affluent segment that clubs serve, more and more clubs are seeing facility enhancements as one of their chief tools for attracting new members. Programming that is being developed needs to take place in purpose-designed facilities that are relevant to modern users. While it is possible to offer aerobics classes in the ballroom for a time, a club will eventually need a true exercise studio if it is going to meet membership's expectations. This holds true with all the other hot button improvements of the times, including pubs and outdoor dining venues, full-service fitness, children's activities rooms and resort style pools. Having bounced off the bottom, it appears the club industry is thinking more strategically and investing to grow—which is what ultimately drives the success of all businesses.

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Q **How do you hold consultants accountable?**

A Clubs engage consultants for expertise in a variety of services. The first step is to determine what your club really wants to achieve. Is it realistic? What do you hope to learn or solve? What would success look like? How do you envision the consultant's role? Will they support your current staff or fill a gap in resources? Clarity around these nuances is critical. »

Define the Project

Once you define the project, you can consider consultants with the appropriate expertise and experience. Ideally, develop an RFP—request for proposal—that will define what the project goal is and request the same information from each firm about their process, experience and approach. You can find samples of RFPs online to guide you.

Do Your Research

Interview a number of firms, and benchmark their responses to make the most informed decision possible. Also, review the firm's client list and understand their approach to assess if they are the right fit for your club. Does the list reflect clubs with similar culture to yours? Have they done many projects similar to yours? Ask past clients: Were they easy to deal with? Were they smart about the industry? Each firm's style may not fit with every club or every project, so it is important that you are clear as to how each firm is different in culture and approach. Further, the consultant needs to make the project as effortless and effective as possible for the stakeholders because they are volunteers. Ideally, it should be a valuable and productive experience for the club's stakeholders.

As outsiders, consultants rely on the staff and board members to navigate the workings of the club, aggregate data, etc., so they can accurately diagnose the club's issues and propose solutions.

While a budget is important, there is a range of consulting fees. How much is the club willing to invest to achieve a desired situation? Invariably, clubs may get a number of proposals reflecting a range of scope and resulting fees. The lowest fee is often not the best work product.

Get it in Writing

Once a club selects the consulting firm, a scope of services should be agreed upon that outlines specific goals. Create a formalized agreement and understanding of the mutual expectations and objectives of the project in order to monitor and track the project's progress. It should include the estimated resources, time frame and additional costs based on the criteria set by the client. Note what is included and what is not. Agreeing on this at the onset of the project is important as changes to its scope during the project can result in delays or additional costs.

Work With Key Leaders & Staff

Buy-in from the board and key staff is especially important if the consultant is coming into a politically charged or sensitive situation. As outsiders, consultants rely on the staff and board members to navigate the workings of the club, aggregate data, etc., so they can accurately diagnose the club's issues and propose solutions. Whoever manages the consultant must ensure that those involved understand the engagement's goals and support the consultant.

If the staff or board members feel threatened or perceive the engagement as unnecessary, it can hamper the consultant's ability to get the job done effectively. In these situations, it can be difficult to hold the consultant accountable if they are faced with internal opposition.

There are many benefits to engaging an outside consultant to achieve your goals and objectives. Following these guidelines can help you find the right consultant and hold them accountable to achieve the desired results.

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Q **What is seafood fraud and how might it affect your business?**

A Seafood fraud can occur in many different forms, but the most prevalent today is the "bait and switch," when seafood is intentionally mislabeled. A processor or distributor may swap an expensive species with a cheaper, more abundant one for financial gain. For example, wild salmon and farmed Atlantic salmon are difficult to distinguish, and the cost differential can sometimes be as much as 65 percent.

As much as 80 percent of seafood consumed in the U.S. is imported, and only about two percent is inspected by any sort of regulatory agency. Recent studies indicate that as much as one-third of all seafood in the United States is currently being mislabeled, and this includes both fresh and frozen cuts. Apart from lining the pockets of bait and switch perpetrators, incorrect labels lead to serious health concerns for consumers. Additionally, chefs pay for high quality seafood that they do not, in the end, receive.

Government Regulations

These high impact public health and commercial consequences have prompted food providers along with the Food and Drug Administraion (FDA) to take proactive measures to ensure that seafood is safe and correctly labeled. The FDA, in partnership with state agencies and the Department of Commerce, maintain "The Seafood List," wherein you can find acceptable names for seafood on the U.S. market. They have developed the "Regulatory Fish Encyclopedia" in order to help chefs spot a mislabeled species. The FDA has also compiled a public database of DNA sequences for popular seafood species so that members of the seafood industry can verify private DNA testing.

How to Mitigate the Risks of Seafood Fraud

Unfortunately, the FDA has neither the jurisdiction nor the resources to inspect the food that makes it onto consumers' plates thoroughly. You may use the FDA resources like the ones listed below to differentiate between species. At Avendra, we speak directly to distributors to find out where the seafood is coming from. We visit suppliers and document receiving logs and product tags to ensure that the fish coming in is legal and safe. We perform surprise audits to ensure that products are labeled correctly by hiring third-party seafood DNA testers. Seafood is traded on a world market, and there are currently 1,700 different species available for sale in the United States; DNA testing is the only way to know with certainty that you are getting the correct product.

If you suspect a supplier of seafood fraud, report them to the "Better Seafood Board," sponsored by the National Fisheries Institute. Seafood fraud is now being prosecuted by the U.S. Department of Justice under the Lacey Act, which regulates the commercial exchange of plants and animals, especially seafood.

Discovering bait and switches can be difficult for even highly trained experts, but by demanding transparency in your supply chain, and by leaning on governmental agencies and regulations, you and your customers can avoid the perils of seafood fraud. ■

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Additional Resources

http://www.accessdata.fda.gov/scripts/fdcc/?set=seafoodlist

The Seafood List is FDA's Guide to Acceptable Market Names for Seafood sold in Interstate Commerce. The Acceptable Market Name can be used to label seafood products in interstate commerce.

http://www.fda.gov/food/foodscienceresearch/rfe/default.htm

The Regulatory Fish Encyclopedia is a compilation of data that assists with the accurate identification of fish species. It was developed to help federal, state, and local officials and purchasers of seafood identify species substitution and economic deception in the marketplace.

http://www.fishwatch.gov/index.htm

This website provides the most up-to-date information on popular seafood harvested or farmed in the United States. FishWatch helps you understand the complex science, laws, and management process actively sustaining our seafood supply.