

Benefits

edge

KNOWLEDGE SERIES



THE M&A BLIND SPOT

WHY EMPLOYEE BENEFITS PROGRAM DUE DILIGENCE
DETERMINES M&A SUCCESS

EDITION **16**

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Executive Summary

Global M&A activity stayed strong through the first half of 2026, with deal volume reaching roughly US\$3.16 trillion.

Most M&A deals focus heavily on financial, legal, and operational due diligence. Yet one critical area is frequently overlooked: **employee benefits**.

Medical insurance, life insurance, disability cover, gratuity funding, parental benefits, wellness programs, retirement plans, and voluntary benefits are often viewed as routine HR programs. In reality, they represent significant financial commitments that can directly impact deal valuation, post-merger integration costs, employee retention, and compliance obligations.

In today's cross-border and multi-jurisdictional transactions, employee benefits are no longer an HR administrative issue. They are a strategic business risk that requires structured due diligence and governance. Increasingly, these transactions require organisations to integrate workforces that sit under different labour laws, retirement systems, healthcare frameworks, and cultural norms. It's telling that "people and culture" challenges are consistently cited as one of the leading causes of failed integrations. Employee benefits sit right at the intersection of finance, legal liability, governance, and employee trust — they are not simply an HR administration item.

This paper looks at why employee benefits matter in M&A, draws on lessons from real cross-border and Indian transactions, discusses how governance structures affect outcomes, and outlines the role a specialist broker or advisor plays in multi-jurisdictional due diligence.

{ USD 3.16T Global M&A
volume in H1 2026 }

BENEFITS

{ People and culture
are a leading cause of
failed integrations }

The Problem

Employee Benefits Are Often Discovered Too Late

During M&A transactions, leadership teams spend months reviewing balance sheets, contracts, tax structures, and legal exposures. Employee benefits frequently receive attention only toward the end of the process.

This creates a dangerous blind spot. Benefit programs sit at the intersection of:

	Finance
	Human resources
	Labour law
	Regulatory compliance
	Employee experience

Because of this complexity, liabilities can remain hidden until after the transaction closes.

Medical inflation is running significantly ahead of general inflation across most markets. Benefit programmes are designed differently across countries. Compliance responsibilities are often decentralised. Existing insurance premiums may not reflect the true future cost of the programs being acquired. And increasingly, multinational employers are under pressure to establish consistent minimum standards across geographies.

As a result, employee benefits can create unexpected liabilities, integration costs, compliance exposures, and talent retention challenges that materially affect deal outcomes.

Why Employee Benefits Become an M&A Blind Spot

Market Reality	Hidden Risk	Buyer Impact
Medical costs are rising faster than inflation	Historical premiums understate future benefit costs	Synergies erode due to higher-than-expected renewals
Healthcare costs vary significantly by country	Cost assumptions from one market may not apply elsewhere	Workforce cost model proves inaccurate post-closure
Benefits are often designed locally	Acquirer inherits fragmented insurers, policies, and funding approaches	Complex and costly integration effort
Premiums don't tell the full story	IBNR*, self-insurance exposure, reserves, and run-off liabilities may be hidden	Unexpected liabilities emerge after acquisition
Compliance is often decentralised	Existing coverage does not guarantee regulatory compliance	Regulatory, tax, or governance exposure transfers to buyer
Global minimum standards are becoming common	Acquired benefits may fall below buyer standards	Benefit uplift costs increase transaction economics
Benefit equity is difficult to achieve	Employees compare benefits across legacy and acquired entities	Retention risk and integration friction
Benchmarking visibility is limited	Management may not know whether benefits are competitive or excessive	Poor decisions based on incomplete information

*IBNR -Incurred but not reported claims

Country-Specific Learning

UNITED STATES

Workers' Compensation is mandatory in 49 states – 4 of them run monopolistic state-managed funds.

EUROPE

Pension contributions dominate cost; Belgium notice periods run 1-60 weeks, tiered by tenure.

MEXICO

Mandatory benefits add 25-40% over base salary; supplemental benefits can push total cost to 35-60%+.

COLOMBIA

Recent labour reforms have raised employer costs and strengthened employee protections.

BRAZIL

Mandatory benefits add 25-40% over base salary; supplemental benefits can push total cost to 35-60%+.

Organisations that identify benefit-related risks early are better positioned to:



Protect deal value



Avoid hidden liabilities



Retain critical talent



Accelerate integration



Improve employee trust during change

What Successful Acquirers Do Differently

Leading organisations treat employee benefits as a strategic diligence workstream.

Rather than treating benefits as an HR task, they assess them alongside legal and financial due diligence.

A Structured Benefits Due Diligence Framework

PHASE 1	Inventory Identify • Health and risk programs • Retirement plans • Gratuity arrangements • Vendor contracts	OBJECTIVE	Create a complete picture of benefit obligations.	
PHASE 2	Assess Liabilities Evaluate • Funding levels • Actuarial liabilities • Claims experience • Regulatory compliance • Collective bargaining exposure		Quantify financial and compliance risks.	
PHASE 3	Plan Day-One Continuity Ensure • Employee coverage continues uninterrupted • Payroll administration remains compliant • Communication plans are ready • Claims servicing remains operational		Deliver a seamless employee experience immediately after closure.	
PHASE 4	Harmonise Thoughtfully Avoid forcing immediate standardisation Instead • Benchmark existing programs • Identify critical gaps • Evaluate statutory requirements • Design futuristic benefits		Create fairness without disrupting workforce stability.	
PHASE 5	Establish Governance Build a governance model Centralised Oversight that balances <table><tr><td> • Policy governance • Compliance monitoring • Data visibility • Vendor management • Global reporting </td><td>Local Execution • Regulatory compliance • Employee communication • Cultural alignment • Operational administration </td></tr></table>		• Policy governance • Compliance monitoring • Data visibility • Vendor management • Global reporting	Local Execution • Regulatory compliance • Employee communication • Cultural alignment • Operational administration
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Case Studies

from Prudent's
Deal Experience

Case Study 1

A US private equity firm acquired three business units from a large multinational, including about 3,000 India-based engineers who lacked dedicated local HR and finance support. Replicating employee benefits for this smaller population proved complex. The seller was initially unwilling to share claims history, limiting planning and benchmarking efforts. In addition, establishing a new gratuity trust required board resolutions and local director approvals, creating significant delays. The process took nearly 18 months and had to be repeated when the business later split again. Key lessons emerged: empowered local management accelerates design, implementation, and compliance; strong collaboration between global and local broker teams helps overcome obstacles; and contractual obligations for post-closure data sharing improve readiness and execution.

Case Study 2

Harmonisation across two entities (stock purchase): two related entities spread across three Indian cities came into a deal with different insured benefits and different state-mandated statutory leave structures. Working with an experienced benefits leader, the buyer chose to standardise upward — adding employer-paid parental cover for the group that didn't have it and bringing other benefits up to the 75th percentile — which meant no dilution under Indian labour law. Clear, empathetic communication from the benefits leader and in-person roadshows helped secure buy-in locally. The case is a good example of how fair harmonisation paired with strong change communication tends to produce a smoother integration.

Case Study 3

Cultural mismatch in an asset sale: a European seller with a generous, high-cost benefits culture was acquired by a US buyer focused on cost discipline. Since existing employees' benefits couldn't legally be reduced, the buyer grandfathered the legacy plans and introduced a leaner design for new hires. The decision itself was reasonable; the problem was how it landed. Resistant local HR leadership communicated it poorly, and the friction over parental-cover cost sharing lingered for years.

KEY TAKEAWAYS

In carve-out transactions, access to claims data and local governance support are often more critical than benefit design itself.

Employees are more likely to embrace integration when benefit harmonisation is positioned as an enhancement rather than a reduction.

Even well-designed benefit strategies can fail without local stakeholder alignment and effective communication.

Why Global Benefit Advisors Matter

The challenge in cross-border M&A is rarely understanding one country. It is creating a consistent view of employee benefits risk across multiple jurisdictions, each with different regulations, insurers, funding arrangements, and market practices.

Global benefit advisors like Prudent, help organisations translate fragmented local programs into a single, actionable view of workforce cost, risk, and integration priorities.

Where They Add Value

PROBLEM

SOLUTION

Fragmented jurisdictional rules. Each country has its own labour code, benefit definitions, and severance rules, making local requirements hard to compare.

1

Local specialist brokers translate legal vs. customary practice into a single comparable liability estimate.

Mandatory vs. discretionary benefits are unclear. Statutory obligations (e.g. India's Gratuity Act, Mexico's PTU, Belgium's notice periods, etc.) get confused with negotiable or bargained perks.

2

Brokers flag which benefits are legally mandated vs. collectively bargained with limited post-close flexibility.

Claims and funding data sit with third parties | Deal teams often lack direct access to plan-level data needed to value liabilities accurately.

3

Brokers coordinate with TPAs, insurers, and plan administrators to pull claims and funding data.

Liability transfer risk across deal structures | Asset vs. stock deals, carve-outs, and earn-outs, each shift benefit liabilities differently, and missteps carry cost.

4

Brokers advise on how liability transfers under each structure and act as the link between local specialists and the buyer's M&A/HR team.

Post-merger integration drifts into ad hoc standardisation | Combining vendors, plans, and communications across countries is costly and can chase uniformity for its own sake.

5

Coordinated networks run communication planning, vendor consolidation, and harmonisation roadmaps toward sustainable governance, not standardisation for its own sake.

How Prudent Can Help

Successful M&A integration depends on integrating people as effectively as businesses. Employee benefits can present significant financial, compliance, and employee-retention risks when different benefit structures, statutory obligations, and workforce expectations are not addressed early.

As an employee benefits broker and consultant, Prudent supports organisations throughout the M&A lifecycle, from due diligence to post-merger harmonisation. In India, Prudent **helps buyers, investors, and HR leaders assess** employee benefit liabilities, including gratuity, provident fund, healthcare, insured and self-funded programs. We also identify compliance risks, and develop practical harmonisation strategies.

For cross-border transactions, Prudent provides a coordinated approach to benefits due diligence and integration across jurisdictions.

Through its partnership in established international networks, **Prudent combines central coordination with local benefits expertise.** This enables clients to assess pension, healthcare, statutory and other benefit obligations, benchmark local practices, and develop effective harmonisation roadmaps across countries.

We help organisations determine what benefits can be standardised globally and what should remain locally tailored, balancing business objectives with regulatory and workforce considerations.

Ultimately, benefits harmonisation is not just a cost or compliance exercise—it is a key element of M&A value creation. By reducing hidden liabilities, supporting employee retention, strengthening governance, and enabling smoother transitions, Prudent helps organisations integrate benefits with confidence, whether the transaction is within India or spans multiple countries.



Conclusion

Cross-border M&A integration is, in the end, as much a human capital challenge as a financial one. Employee benefits and retirement obligations aren't a side issue; they're financial, legal, governance, and workforce-stability considerations all tangled together, and they can materially affect how a deal turns out. This pattern shows up just as clearly in large domestic Indian mergers as it does in cross-border ones. There's no single governance model that fits every organisation.

The models that tend to work best combine centralised governance and oversight with execution that stays adapted to local conditions. The goal isn't simply cutting costs — it's building governance that improves visibility, manages workforce risk, protects employee trust, and supports integration that actually holds up over time. Handled well, benefits governance becomes a core part of enterprise risk management and long-term deal value protection, not an afterthought.



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