U.S. Multiemployer Pension Plan Withdrawals

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Introduction and Executive Summary

Multiemployer pension plans (MEPPs) in the United States generally cover unionized participants from more than one participating employer. Given the considerable level of unfunded liabilities in the MEPP system, employer withdrawals are a significant issue. When an employer withdraws from a plan, their participation ceases. If the plan is underfunded, the employer is generally assessed withdrawal liability. Because of a variety of statutory and practical limitations, withdrawal liability actually paid may not be sufficient to cover any unfunded liabilities associated with the now-withdrawn employer.[1] In that case, it falls to the remaining employers to contribute enough to fill the gap and/or to all participants in the plan to suffer lower benefits. If the plan becomes insolvent, the burden is also borne by the Pension Benefit Guaranty Corporation (PBGC), as well as plan participants via further benefit cuts.

This study provides an overview of MEPP withdrawals for plan years 2009–2015, with preliminary results for 2016 based on a partial year of reporting. Analysis is based on the Department of Labor Form 5500 database as of Nov. 14, 2017. The data presented are neither intended to nor should be interpreted to imply causation of or correlation to employer withdrawal.

Here are some of the key findings:

- On average over 2009–2015, 1.2% of all participating employers withdrew annually, affecting 18% of plans which covered 63% of all participants. In 2015, 0.8% of all employers withdrew, affecting 15% of plans which covered 63% of all participants. Based on a partial year of data for 2016, 1.3% of all employers withdrew, affecting 19% of plans that covered 67% of all participants.
- On average over the period studied, an average of 1.2% of employers withdrew annually. The withdrawals affected about 18% of the plans each year, which covered 63% of participants, on average. While the rate of withdrawal was roughly the same between construction and non-construction plans, a greater percentage of participants in non-construction plans were affected than the percentage of participants in construction plans.
- On average over 2009–2015, assessed withdrawal liabilities were 0.3% of aggregate plan liabilities for zone determination. But the impact on individual plans varied widely. While over half of plans' assessed withdrawal liabilities were less than one-tenth of 1% (0.001%) of plan liabilities, a small number of plans saw assessed withdrawal liabilities of more than 10% of plan liabilities. Large withdrawal liabilities are more common among non-construction plans than construction plans. Preliminary results for2016 indicate more unusually large withdrawal liabilities than has been typical.
- Plans that experienced withdrawal had a significantly higher dependency ratio than plans that did not. Because withdrawals further increase the dependency ratio, withdrawals tend to exacerbate any existing funding challenges.

[1] Withdrawal liabilities are governed by the Employee Retirement Income Security Act §§4201-4225, amended by the Multiemployer Pension Reform Act of 2014.

Withdrawal Frequency

Figure 1 illustrates the frequency of employer withdrawals over recent years. Note that many employers contribute to more than one multiemployer plan, and many participants have earned benefits under more than one multiemployer plan. Employer and participant data reflected in this study are the sum of counts for each plan.

Figure 1 shows that across the MEPP universe, slightly fewer employers withdrew in 2015 than in the previous few years. But preliminary results for 2016 suggest a return to more typical recent levels of employer withdrawals. In general, the plans that experience withdrawal tend to be larger plans. The reason for withdrawals is not reported on Form 5500 and is beyond the scope of this study.

Through 2015, the construction industry reported a slightly lower rate of withdrawal than other industries. Preliminary results for 2016 suggest a potential increase in the number of large construction industry plans that experienced withdrawals. Note that withdrawals can be especially difficult to identify for plans in the construction and entertainment industries because of industry-specific dynamics, and special rules apply to recognize these differences.[2]

While there are only a few plans associated with the entertainment industry, the construction industry holds a signficant presence in the MEPP universe. Accordingly, this study differentiates analyses by construction versus other industries. Figure 2 shows that for 2015, 41% of participants, 55% of plans, 68% of employers were associated with the construction industry. The proportions remained similar across the period studied.

Figure 1
PERCENTAGE EXPERIENCING WITHDRAWALS

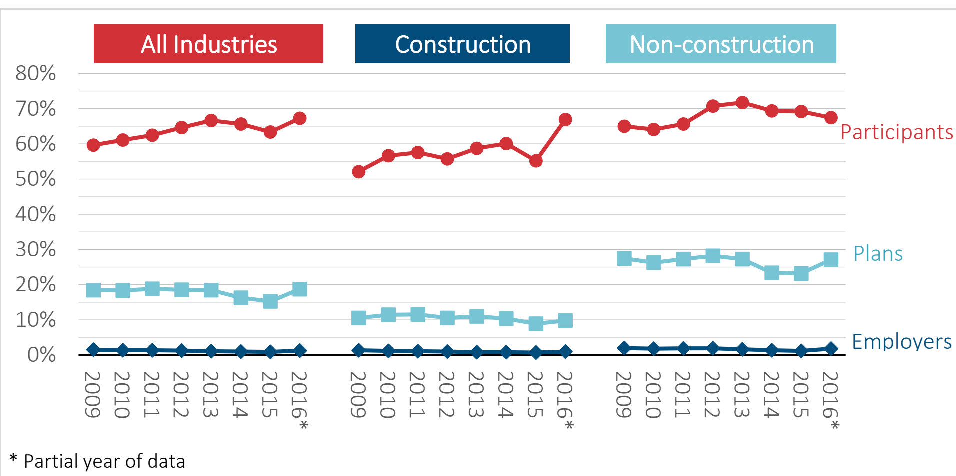
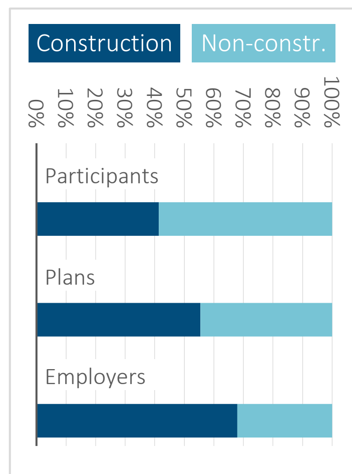


Figure 2
INDUSTRY PREVALENCE—2015



On average over 2009–2015, 1.2% of all participating employers withdrew annually, affecting 18% of plans and 63% of participants. In 2015, 0.8% of all employers withdrew, affecting 15% of all plans that covered 63% of all participants. Based on a partial year of data for 2016, 1.3% of all employers withdrew, affecting 19% of plans covering 67% of all participants.

Within the construction industry, on average 1.0% of employers withdrew annually over 2009–2015, affecting 11% of plans and 57% of participants. In 2015, 0.7% of construction employers withdrew, affecting 9% of construction plans and 55% of

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[2] Under §4203 of the Employee Retirement Income Security Act, in certain industries and certain situations, an employer that exits a plan may not be considered a withdrawal.

construction participants. Based on a partial year of data for 2016, 1% of construction industry employers withdrew, affecting 10% of plans and 67% of participants.

Withdrawal Liability

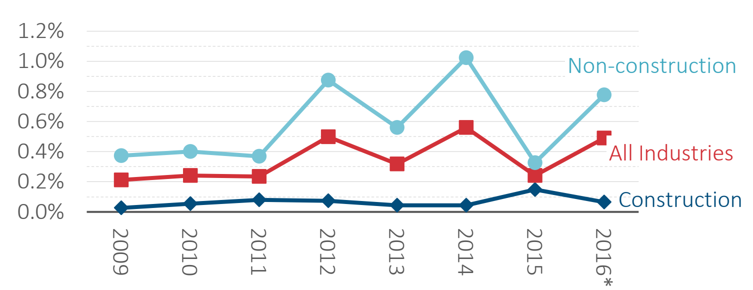
A withdrawing employer is generally assessed withdrawal liability that is typically paid over time. Regulations governing withdrawal liabilites are complex and sometimes vary by industry, with the result that the assessed withdrawal liability may not represent the unfunded liability associated with the withdrawing employer. Further, because of statutory and practical limitations, assessed withdrawal liabilities may not be paid in full.[3] Generally, the remaining employers bear the additional burden, as do participants via potential benefit cuts or lesser benefit increases. If the plan should become insolvent, the Pension Benefit Guaranty Corporation bears part of the burden up to guaranteed benefit levels and often participants suffer further benefit cuts to the extent their benefits exceed the guarantee.

Figure 3 shows that in aggregate, for all years studied, assessed withdrawal liabilities[4] across all industries were less than 1% of aggregate plan liabilities for zone determination. On average over 2009–2015, they were 0.3% of aggregate plan liabilities for zone determination.[5]

As previously noted, rules for determining withdrawal liabilities are complex and can vary by industry. In addition, because of industry dynamics, withdrawals can be especially difficult to identify in the construction industry.

Figure 3

AGGREGATE ASSESSED WITHDRAWAL LIABILITIES AS A PERCENT OF UNIT CREDIT LIABILITIES AT FUNDING DISCOUNT RATES



* Partial year of reporting.

On average from 2009–2015, assessed withdrawal liabilities were 0.3% of total plan liabilities. But the impact on individual plans varies widely.

Withdrawal liabilities as a percentage of total liabilities were noticeably smaller for the construction industry than for other industries. Among the construction industry, aggregate withdrawal liabilities were typically less than one-tenth of 1% (0.1%) of aggregate benefit liabilities for zone determination, although 2015 was an exception at 0.15%.

Among non-construction industries, assessed withdrawal liabilities reported in 2015 were significantly less than 2012–2014, but only slightly less than 2009–2011. Preliminary results for 2016 point to a return to the general levels of 2012–2014.

Figure 4 shows that although most plans' assessed withdrawal liability is usually less than 1% of its total benefit liability, for a small number of plans it can be a significant percentage of liabilities. In all years studied except for 2012, over half of plans'

[3] Withdrawal liabilities are governed by the Employee Retirement Income Security Act §§4201-4225, amended by the Multiemployer Pension Reform Act of 2014.

[4] Withdrawal liabilities assessed or expected to be assessed are reported on Form 5500 for the year following the year during which the withdrawal occurred.

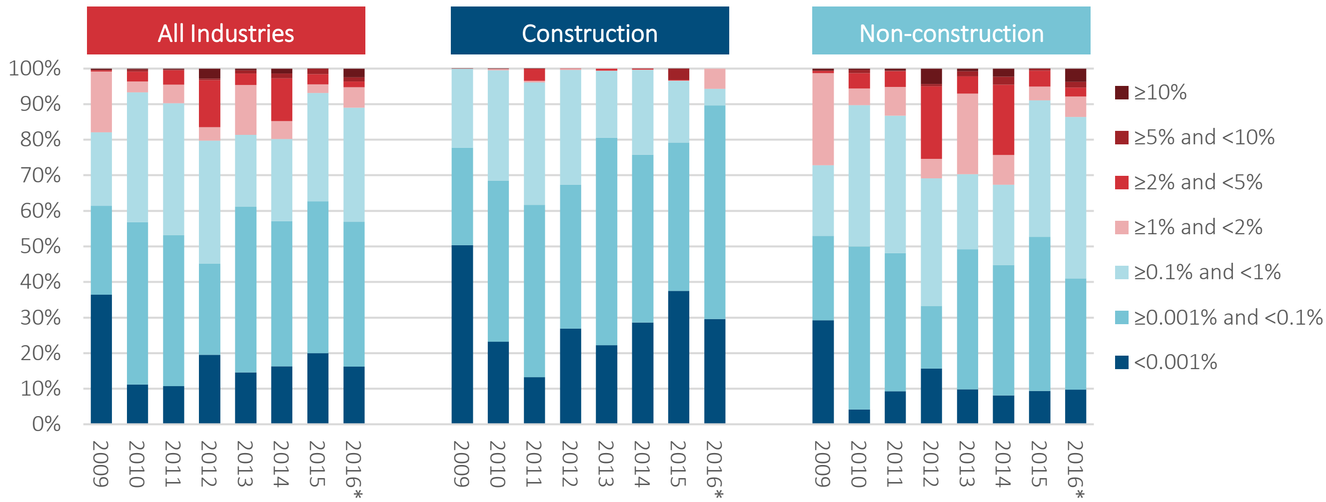
[5] To determine funded status zones, Internal Revenue Code §432 calls for plan liabilities to use the Unit Credit Cost Method and the discount rates used by plan actuaries for funding purposes.

assessed withdrawal liabilities were less than one-tenth of 1% (0.001%), and fewer than one-fifth of plans were assessed withdrawal liabilities of more than 1.0% of their total benefit liabilities. Note that in Figure 4, distributions are weighted by plan liabilities.

However, depending on the year, for roughly 10%–20% of all plans, the assessed withdrawal liability exceeded 2% of the plan's total liability. And in some years, it exceeded 10% for a very small number of plans.

Figure 4

WITHDRAWAL LIABILITIES AS A PERCENTAGE OF UNIT CREDIT LIABILITIES AT FUNDING DISCOUNT RATE FOR PLANS EXPERIENCING WITHDRAWAL (DISTRIBUTION IS PLAN-LIABILITY-WEIGHTED)



* Partial year of reporting; data as of Oct. 28, 2016, represent roughly 50% of plans with 60% of liabilities reporting for 2015.

Orphaned Participants

Participants of withdrawn employers are commonly known as "orphaned" participants. To the extent that withdrawal liability paid does not cover the cost of orphaned participants' benefits, any remaining funding costs must be borne by the remaining contributing employers and their employees as well as by all the plan's participants via lower or even reduced benefits.

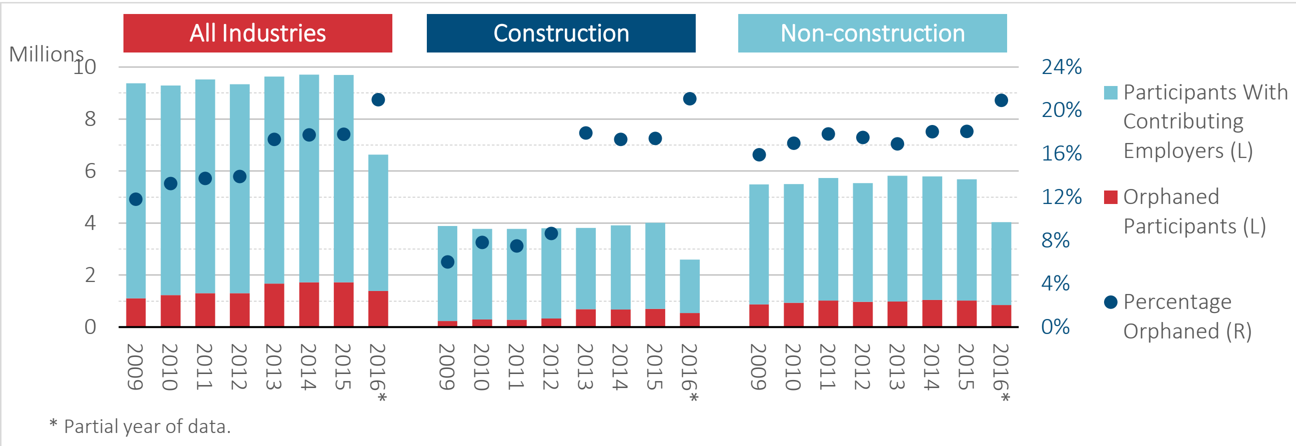
In addition, the presence of orphaned participants typically increases a plan's risk of declining funded status. For example, in the event of poor investment performance that results in increased unfunded liabilities, the liability associated with benefits earned by orphaned participants also typically increases. However, the orphans do not have an employer contributing on their behalf. Increased costs must again be borne by the remaining contributing employers and their employees as well as by all the plan's participants via lower or even reduced benefits.

Figure 5 illustrates that the percentage of participants who are orphaned increased over the period studied. Across all industries, the percentage of participants who are orphaned increased from 12% in 2009 to 18% in 2015. In 2012, construction industry plans reported a significant increase in the number of orphans. Note that identifying withdrawals is especially challenging in the construction industry, which makes identifying orphaned participants especially challenging and may affect these results.[6]

[6] Under §4203 of the Employee Retirement Income Security Act, in certain industries and certain situations, an employer that exits a plan may not be considered a withdrawal.

Figure 5

NUMBER AND PERCENTAGE OF ORPHANED PARTICIPANTS



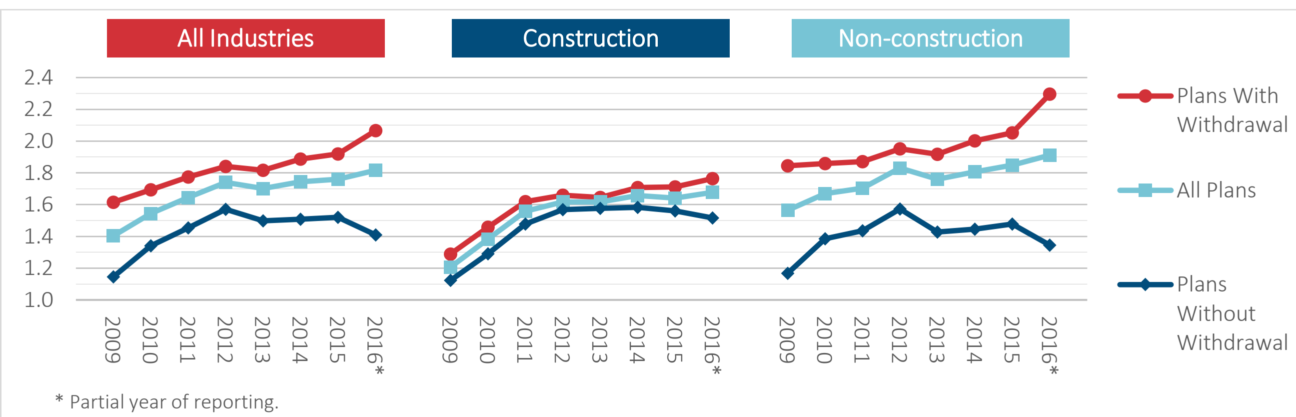
* Partial year of data.

Dependency Ratio

One measure of plan maturity is the dependency ratio: the ratio of inactive participants to active participants. With significant unfunded liabilities, MEPP dependency ratios are important because MEPP contributions are typically negotiated as a function of active participants (e.g., $*X* per hour worked). Thus to fund a given plan's funding deficit, a higher dependency ratio generally requires a higher contribution rate than if the plan had a lower dependency ratio. Further, withdrawals tend to increase the dependency ratio, which can exacerbate a plan's funding challenges. Figure 6 illustrates how the aggregate dependency ratios differ between plans that are and are not experiencing withdrawal.[7]

Figure 6

AGGREGATE DEPENDENCY RATIO



* Partial year of reporting.

Across all industries, the aggregate dependency ratio was consistently and significantly higher among plans experiencing withdrawal than those not experiencing withdrawal over the period studied. The disparity generally increased, with preliminary results for 2016 suggesting a significantly wider disparity.

[7] For additional information on dependency ratios among MEPPs, refer to the Society of Actuaries research report on MEPP stress metrics Previous Benefit Cost and Previous Benefit Cost Ratio, stress metrics that measure the impact of unfunded liabilities in conjunction with dependency ratio.at https://www.soa.org/research-reports/2016/2016-multi-pension-plan-stress-metrics/.

Among construction industry plans, the disparity was less significant than among non-construction plans. It is worth repeating that identifying withdrawals is especially challenging in the construction industry, which may affect these results.

Data Notes

Tabulations are based on publicly available data from the Department of Labor Form 5500 as of Nov. 14, 2017. One entertainment plan is excluded from analysis because many of its employers exist for only short lengths of time; the plan's circumstances are unusual, even within the entertainment industry. To include the plan may skew results. Otherwise, except for adjustments for obvious errors, data were used as reported. The use of the reported values is not intended to provide commentary on the accuracy of reported data nor the appropriateness of the underlying assumptions and methods for funding these plans or for any other purpose.

Table 1 shows a summary of the data included in this study. Note that following items:

- Participants may have earned benefits under more than one multiemployer plan, and many employers contribute to more than one of these plans. This study reflects the sum of reported counts for each plan.
- Plan year 2016 reflects a partial year of reporting. With typical extensions, Form 5500 is generally due 9½ months after the end of the plan year. For example, for a plan year that runs from Jan. 1, 2016, through Dec. 31, 2016, Form 5500 is due Oct. 15, 2017.

Table 1
SUMMARY OF DATA INCLUDED

Plan Year	Number of Plans	Number of Participants (Millions)	Number of Contributing Employers
2009	1,197	9.375	219,486
2010	1,172	9.287	204,629
2011	1,202	9,518	207,480
2012	1,207	9.335	199,394
2013	1,193	9.630	201,953
2014	1,215	9.706	197,127
2015	1,220	9.792	199,195
2016	631	6.631	110,411

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