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. When an employer withdraws—discontinues participation—from a plan, the employer stops making regular contributions. If the plan is underfunded, generally the employer is assessed withdrawal liability, which is typically paid to the plan over time. Because of a variety of statutory and practical limitations, withdrawal liability actually paid may or may not be sufficient to cover any unfunded liabilities associated with the now-withdrawn employer.[1]

This article provides an overview of MEPP withdrawals based on the Department of Labor Form 5500 database as of Oct. 28, 2016. The article shows relationships present among the data studied, but the relationships neither are intended to, nor should be understood to imply causation of or correlation to withdrawal.

Here are some of the key findings for plan years 2009–2014:

- Slightly fewer employers withdrew in 2014 than 2013, affecting somewhat fewer but larger plans; the percentage of MEPP participants in affected plans was the same.
- In general, fewer than 2% of employers withdrew in a given year. While only about 20% of the plans experienced withdrawals, these plans represent more than 60% of MEPP participants.
- The dependency ratio (ratio of inactive participants to active participants) continued to be consistently greater among plans that experienced withdrawal than among those that did not. For 2014, the aggregate dependency ratio among plans that experienced withdrawal was 1.9, while it was 1.5 for plans that did not experience withdrawal. Plans with higher dependency ratios may have greater funding challenges than plans with lower dependency ratios.
- For most plans that experienced withdrawal, assessed withdrawal liability was less than 1% of the plan's liabilities as measured using funding discount rates. Consistent with prior years, withdrawal liabilities assessed in 2014 exceeded 15% of plan liabilities for fewer than 10% of MEPPs.

Construction Industry

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. While there are only

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

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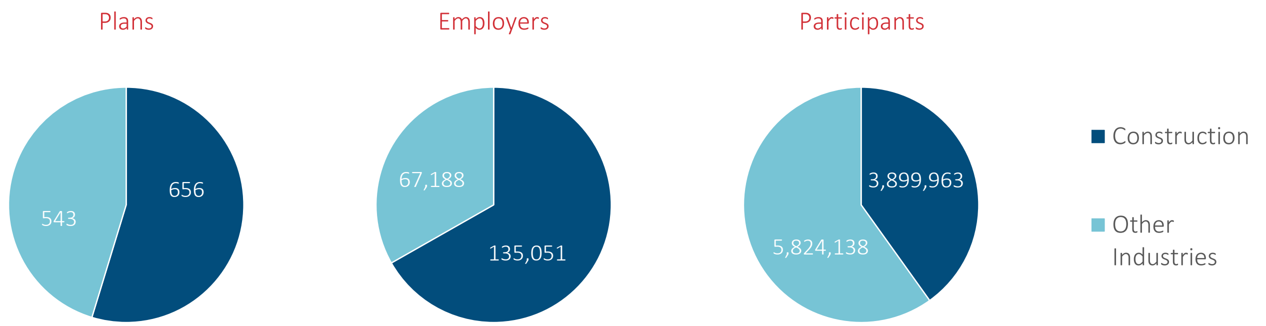
a few plans associated with the entertainment industry, the construction industry holds a signficant presence in the MEPP universe. Accordingly, this article differentiates analyses by construction versus other industries. Figure 1 shows that for 2014, 55% of plans, about two-thirds of employers, and 40% of participants were associated with the construction industry.

Figure 1
PREVALENCE OF CONSTRUCTION INDUSTRY—2014

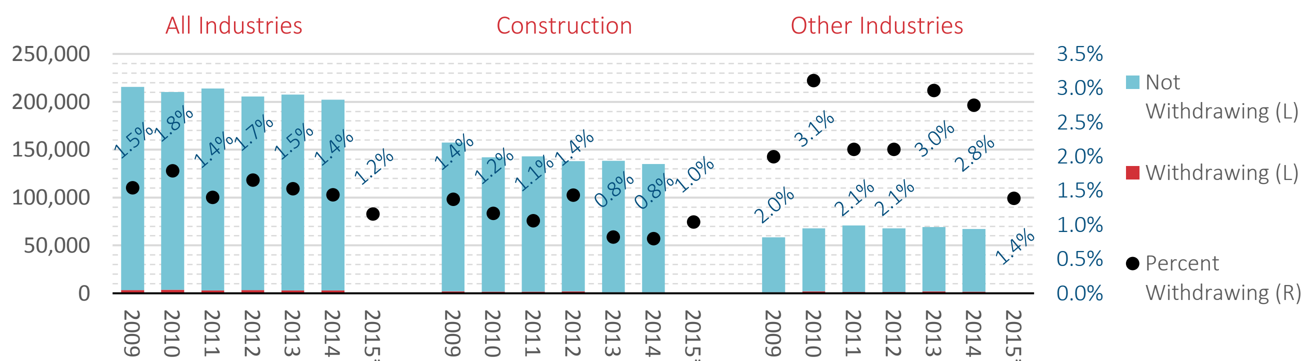


Withdrawal Frequency

Across the MEPP universe, employer withdrawals in 2014 were similar in almost all respects to 2013 and the period 2009–2014 in general. On average over those years, 1.6% of contributing employers withdrew annually, affecting 18% of the plans. The plans that experienced withdrawal tended to be larger plans, which generally have greater numbers of participating employers. On average since 2009, 63% of the system's roughly 10 million participants were in plans that experienced withdrawal. Compared to 2014, early indications for 2015 show slightly fewer employers withdrawing from slightly more but smaller plans.

Figure 2 illustrates the number and percentage of employers that withdrew each year, while Figure 3 shows plans affected and Figure 4 represents participants affected.

Figure 2
NUMBER OF EMPLOYERS



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

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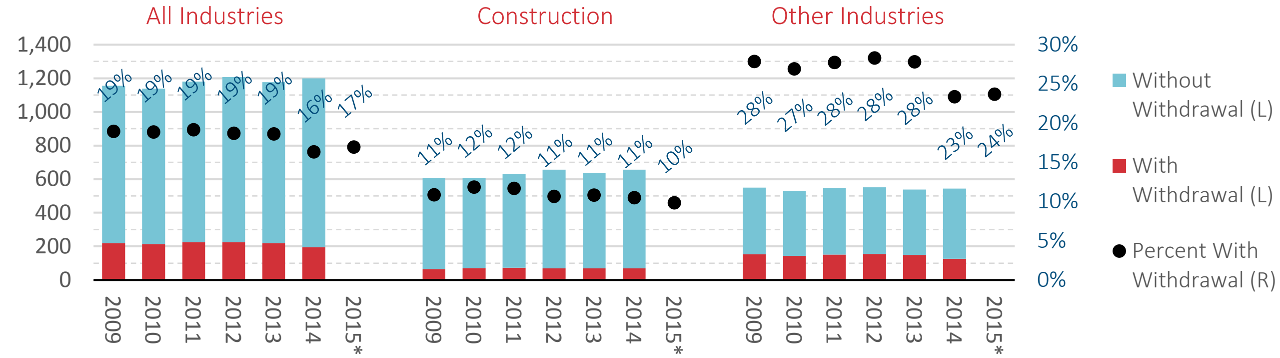
Figure 3

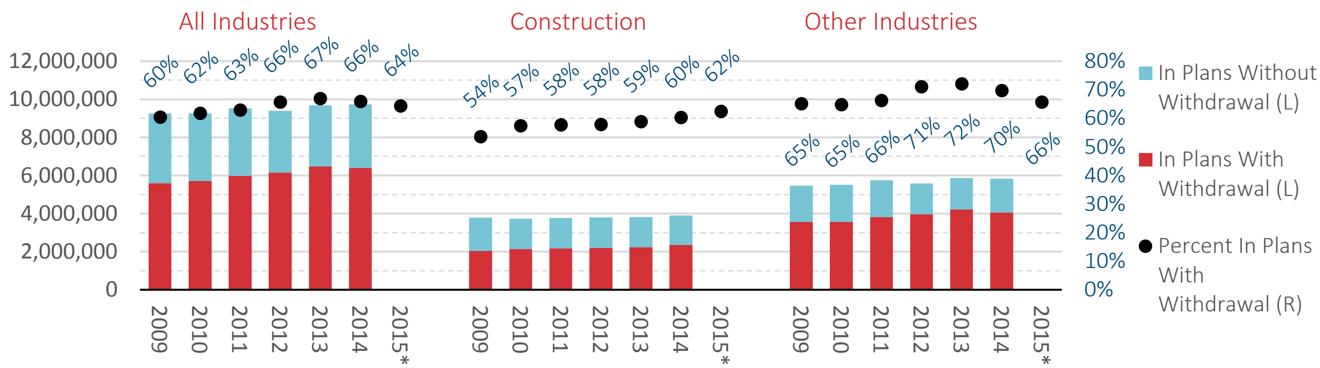
NUMBER OF PLANS



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

Figure 4

NUMBER OF PARTICIPANTS



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

The construction industry reported a slightly lower rate of withdrawal than other industries during these years; note that withdrawals can be especially difficult to identify in the construction industry. On average during 2009–2014, 1.1% of about 140,000 construction employers withdrew annually, affecting 11% of the industry's roughly 700 plans and 57% of its roughly 4 million participants. For other industries, on average 2.5% of roughly 70,000 employers withdrew annually, affecting 27% of about 600 plans and 68% of roughly 6 million participants.

Impact of Withdrawal

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 most significant variations applying to the construction and entertainment industries. In short, assessed withdrawal liability may not represent the unfunded liability attributable to a withdrawing employer. In addition, because of statutory and practical limitations, assessed withdrawal liabilities may not be paid in full.[2]

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

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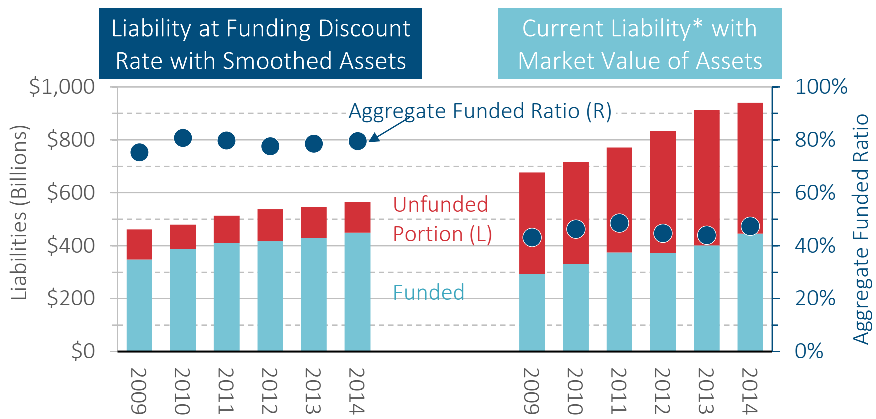
When withdrawal liabilities paid do not cover unfunded liabilities attributable to the withdrawn employer, the remaining employers generally bear the burden. In addition, if the plan should become insolvent, Pension Benefit Guaranty Corporation bears part of the burden and often participants bear part of the burden through benefit cuts.

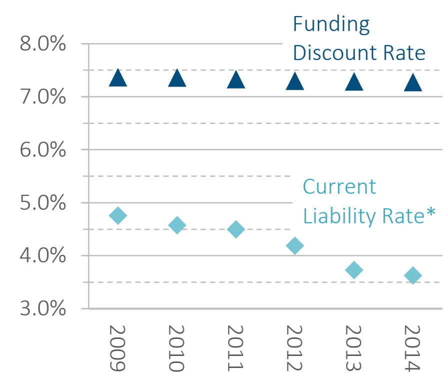
The vast majority of MEPPs have an unfunded liability. Figure 5 shows that in aggregate MEPP unfunded liabilities are significant, regardless of how they're measured and Figure 6 shows the average discount rate used in the liabilities shown in Figure 5.

Figure 5
AGGREGATE LIABILITIES AND FUNDED STATUS



* For MEPPs, Current Liability discount rates are based on an average of Treasury rates.

Figure 6
AVERAGE DISCOUNT RATES

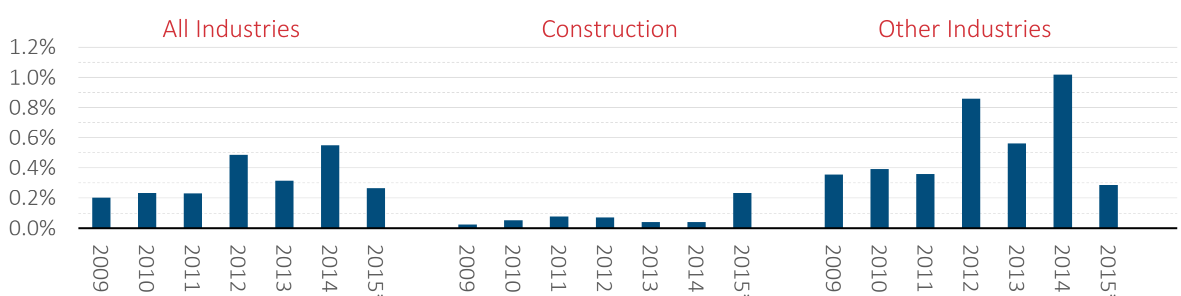


* Based on an average of Treasury rates

Withdrawal Liability

Figure 7 shows that the aggregate withdrawal liability assessed is usually a very small portion of MEPP aggregate liabilities. Across all industries, for all years but 2014, aggregate withdrawal liabilities were less than one-half of 1% (0.5%) of liabilities, and 2014 was less than 0.06% of liabilities.[3] If compared to the higher Current Liabilities, the percentages would be markedly smaller.

Figure 7
AGGREGATE ASSESSED WITHDRAWAL LIABILITIES AS A PERCENT OF AGGREGATE MEPP FUNDING RATE LIABILITIES



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

[3] Plan liabilities are based on the Unit Credit Cost Method and the discount rates used by plan actuaries for funding purposes.

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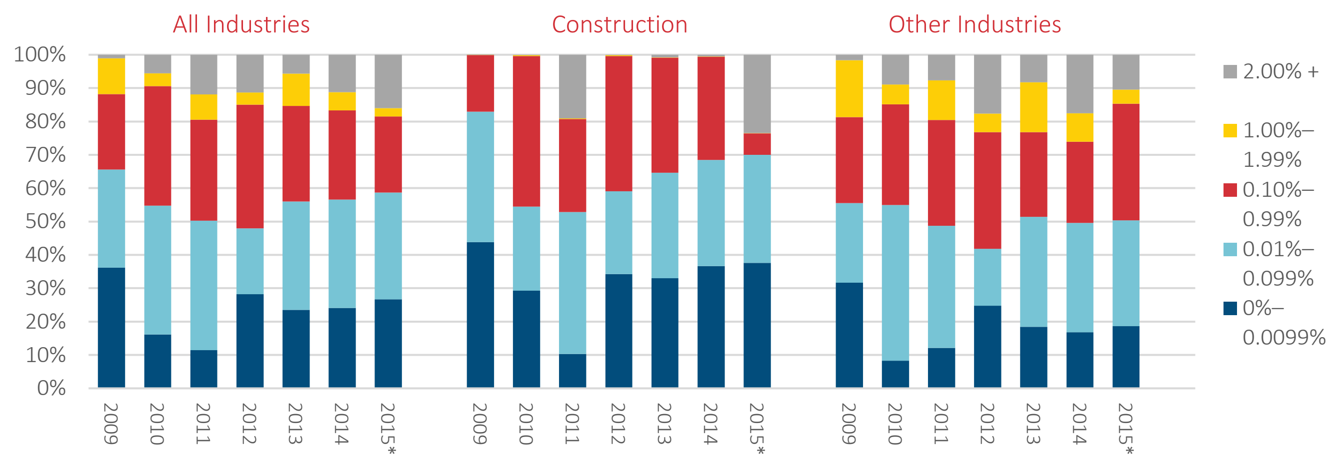
As previously noted, rules for determining withdrawal liabilities are complex and can vary by industry. In addition, because of industry dynamics, withdrawals can be especially difficult to identify in the construction industry. Withdrawal liabilities as a percentage of total liabilities were noticeably smaller for the construction industry than other industries. Aggregate withdrawal liabilities among the construction industry were typically less than one-tenth of 1% (0.1%), although early indications for 2015 look to be an exception.

While Figure 7 focuses on the MEPP system in aggregate, Figure 8 shows the relative magnitude of withdrawal liabilities for plans experiencing withdrawal. Across all industries, at least half of plans were assessed withdrawal liability that was less than one-tenth of one percent (0.10%) of total liabilities measured at funding rates, and fewer than one-fifth of plans were assessed withdrawal liabilities of more than one percent (1.0%) of liabilities.

Figure 8
WITHDRAWAL LIABILITIES AS A PERCENTAGE OF
UNIT CREDIT LIABILITIES AT FUNDING DISCOUNT RATE
FOR PLANS EXPERIENCING WITHDRAWAL



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

However, for roughly 10% of the plans, the assessed withdrawal liability exceeded 2% of the plan's total liability. For a small number of those plans, it exceeded 15% of liabilities.[4]

While withdrawal liabilities exceeded 2% of total plan liabilities for only a small percentage of plans, in those cases the amount assessed could be quite large. In each year studied, for a handful of plans, withdrawal liabilities exceeded 15% of liabilities valued at the funding discount rate, with a few of those exceeding 30%.

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. Identifying orphaned participants can be challenging, especially in some industries such as construction and entertainment. Data

[4] Plan liabilities are based on the Unit Credit Cost Method and the discount rates used by plan actuaries for funding purposes.

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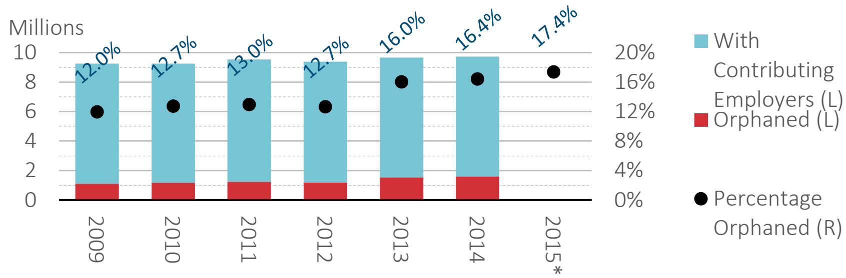
presented are as reported on Form 5500; to minimize the impact of industry-specific data challenges, only all-industry data is shown.

Figure 9

NUMBER AND PERCENTAGE OF ORPHANED PARTICIPANTS—ALL INDUSTRIES



* The graph shows only percentages for 2015 because it is a partial year of reporting; data as of Oct. 28, 2016, represent roughly 50% of plans with roughly 60% of liabilities for 2015.

Figure 9 reveals that throughout 2009–2014, the number of orphaned participants increased faster than the total number of participants, and the percentage of orphaned participants across all industries increased from 12% to 16%. Early indications for 2015 suggest a further increase to 17%.

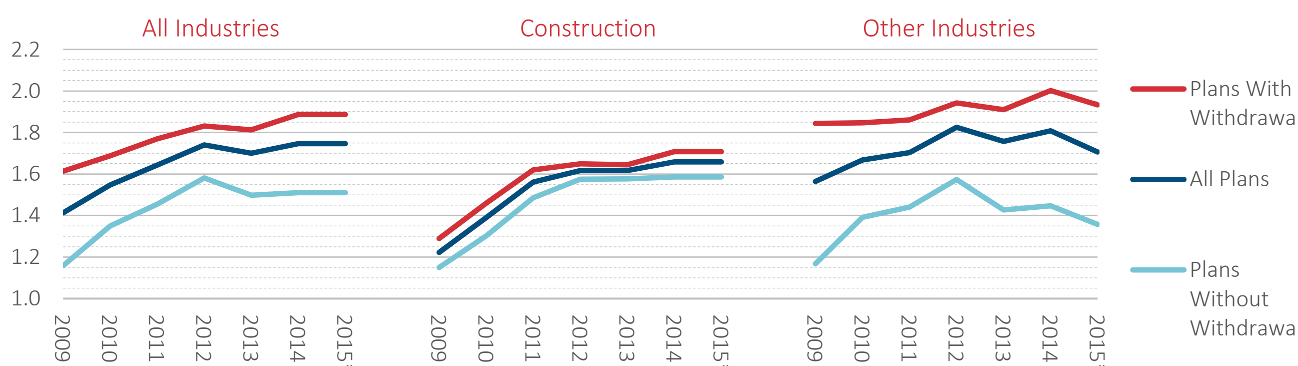
Dependency Ratio

With significant unfunded liabilties, MEPP dependency ratios (the ratio of inactive to active participants) are important. MEPP contributions are typically negotiated as a function of active participants (e.g., $X per hour worked). So in order to fill 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.

Figure 10 illustrates how the MEPP system's aggregate dependency ratio has increased over recent years. The ratio was consistently and significantly higher among plans experiencing withdrawal than those not experiencing withdrawal. The disparity increased in recent years, especially among nonconstruction industries. Further, withdrawals tend to increase the dependency ratio, which can exacerbate a plan's funding challenges.

Figure 10

AGGREGATE DEPENDENCY RATIO



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

For 2014, the aggregate dependency ratio was 1.9 for plans experiencing withdrawal—26% higher than the corresponding ratio of 1.5 for plans not experiencing withdrawal. Early indications for 2015 show little change from 2014 for construction industries, but a decrease among nonconstruction industries.

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Summary

Given the considerable level of unfunded liabilities in the MEPP system, employer withdrawals are a significant issue. When an employer withdraws, if withdrawal liability paid does not fully cover the unfunded liability attributable to that employer, it falls to the remaining employers to fill the gap. If the plan becomes insolvent, the burden is also borne by the Pension Benefit Guaranty Corporation (PBGC) and participants via benefit cuts.

The frequency and impact of withdrawals were generally consistent from year to year from 2009 to 2014. While withdrawal liabilities assessed in any given year are generally quite small relative to a plan's total liabilities, in some cases they can be quite large. Because MEPP employer contributions are generally a function of active participants, the resulting funding challenges are exacerbated by the fact that, over the 2009–2014 plan years, plans that experienced withdrawal had a significantly higher dependency ratio than plans that did not.

Data Notes

Tabulations are based on publicly available data from the Department of Labor Form 5500 as of Oct. 28, 2016. Other than adjustments for obvious errors, including missing data, data were used as reported. The use of the reported values is not intended to provide commentary on the appropriateness of the underlying assumptions and methods for funding these plans or for any other purpose. Following are some specific notes about the data:

- Many employers contributed to more than one plan, and many participants participate in more than one plan. Employer and participant data reflected in this article are the sum of counts for each plan.
- Frozen plans are included in this analysis; the analysis released in December 2015 excluded frozen plans.
- Criteria for errors and missing data differ slightly from previous analyses, so results for previously published years may differ slightly.

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