Multiemployer Plan Withdrawal Overview

By Lisa Schilling and Patrick Wiese

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Introduction and Executive Summary

Multiemployer pension plans (MEPPs) in the United States generally cover unionized participants from more than one voluntarily participating employer. When an employer discontinues participation—or withdraws—from a plan, the employer stops making regular contributions and is generally assessed a withdrawal liability, which is typically paid over time.[1] Because of a variety of statutory and practical limitations, the withdrawal liability actually paid may or may not be sufficient to cover any unfunded liabilities associated with the now-withdrawn employer.

The Society of Actuaries has received questions as to the prevalence and impact of employer withdrawals across the MEPP system. This article addresses these questions by analyzing withdrawals over plan years 2009–2013 as reflected in data from Department of Labor Forms 5500 as of October 2, 2015. In some circumstances, identifying withdrawn employers can be difficult, especially in the construction and entertainment industries. The data presented herein are as reported on Forms 5500.

Tabulations shown in this article represent relationships present among the data studied, but are not intended to, nor should be understood to, imply causation or correlation to withdrawal. Employers withdraw from plans for any number of reasons that may or may not be related to the circumstances of the plan. Primary findings for plan years 2009–2013 follow:

- Annually, fewer than 2% of employers withdrew, but roughly 20% of the plans were affected. In each year, more than 60% of MEPP participants were in plans that experienced the withdrawal of one or more employers.
- The ratio of inactive participants to active participants was consistently greater among plans that experienced employer withdrawal than among those that did not. In addition, withdrawals tend to increase that ratio, which can exacerbate a plan's funding challenges.
- For most plans that experienced an employer withdrawal, the withdrawal liability assessed was less than 2% of total plan liabilities. However, for up to 15% of the plans (depending on the year), the withdrawal liability assessed was significantly greater—in some cases more than 10% of plan liabilities.
- The proportion of participants in the MEPP system who earned benefits while under the employ of now-withdrawn employers (commonly referred to as "orphaned" participants) slowly increased from 12% to 13% across 2009–2012. In 2013 the proportion of orphans jumped to 16%, primarily because of one plan.

This article explores each of these findings in more detail.

Plan Comparison

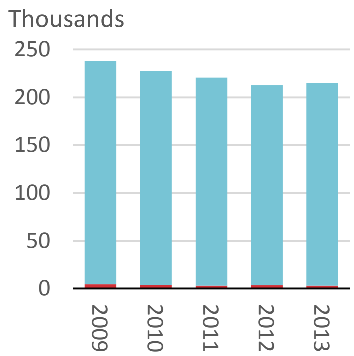
Across the MEPP universe for 2009–2013, employer withdrawals were fairly consistent. On average, 1.6% of contributing (actively participating) employers withdrew each year, affecting 18% of the plans. The plans that experienced withdrawal tended to be larger plans—on average, 63% of the system's roughly 10 million participants were in plans that experienced withdrawal.

The graphs on the following page illustrate the number and proportion of employers that withdrew each year as well as the plans and participants in those plans.

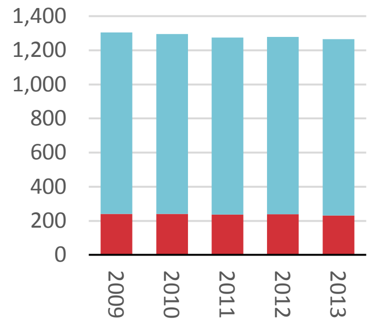
[1] Employee Retirement Income Security Act Section 4211, amended by the Multiemployer Pension Reform Act of 2014.

NUMBER OF EMPLOYERS

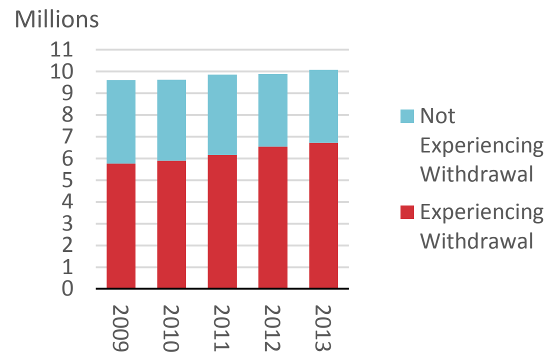
All Industries



NUMBER OF PLANS



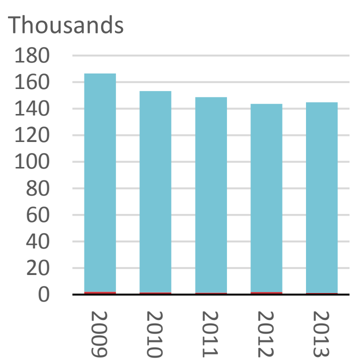
NUMBER OF PARTICIPANTS



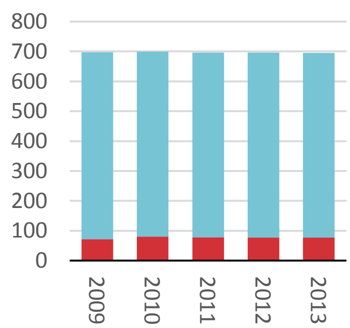
Slightly more than half of MEPPs—covering approximately 40% of MEPP participants and roughly 70% of MEPP employers—are in the construction industry. As shown in the following graphs, the construction industry experienced a slightly lower rate of withdrawal during this period. On average, 1.1% of approximately 150,000 construction employers withdrew annually, affecting 11% of the industry's roughly 700 plans and 56% of its nearly 4 million participants. For plans in other industries,[2] on average 2.6% of approximately 70,000 employers withdrew each year, affecting 27% of approximately 600 plans and 68% of roughly 6 million participants.

NUMBER OF EMPLOYERS

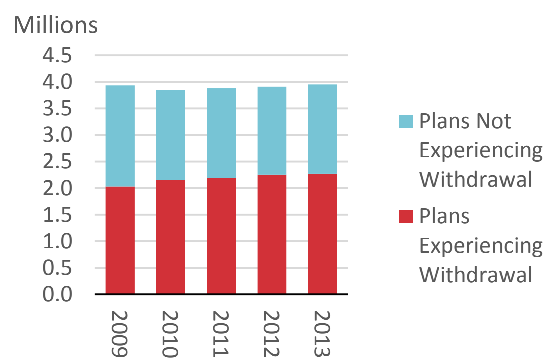
Construction



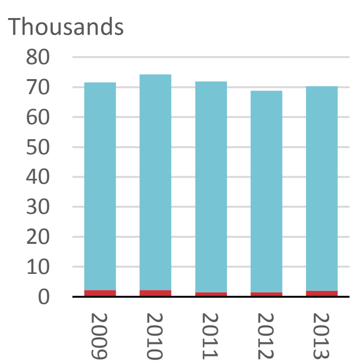
NUMBER OF PLANS

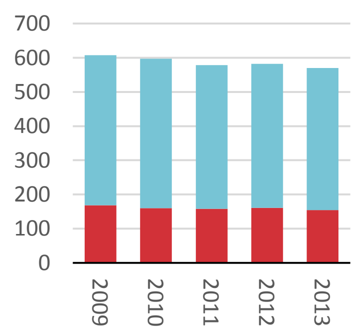


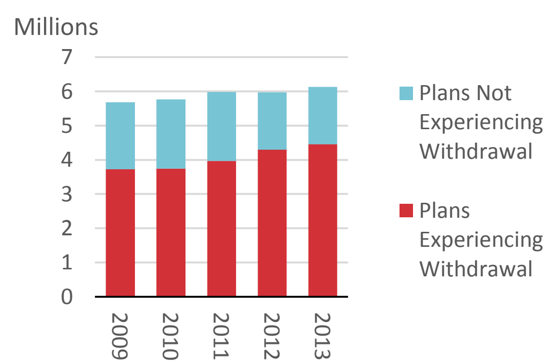
NUMBER OF PARTICIPANTS



Other Industries



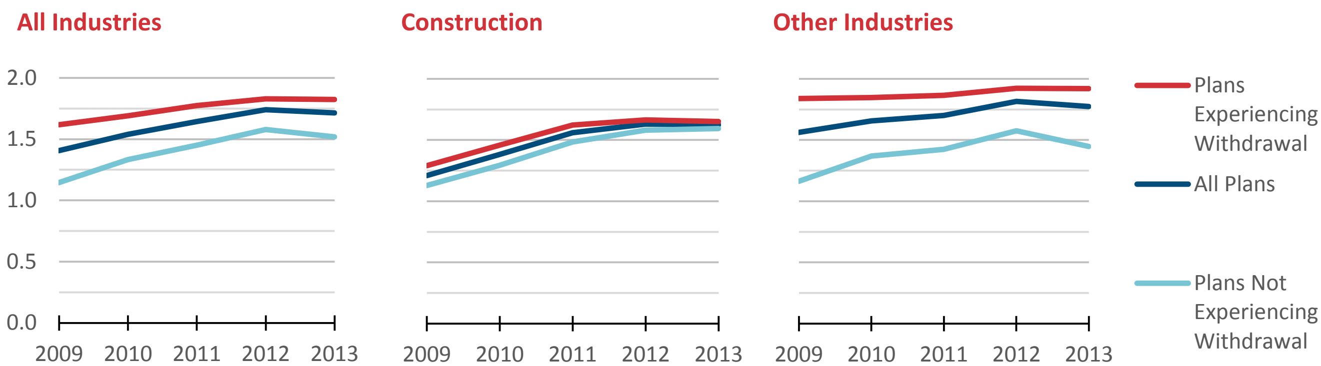




[2] Data specific to the entertainment industry are not shown separately because the number of plans is fairly small.

Among plans experiencing withdrawal during 2009–2013, the aggregate ratio of inactive participants to active participants is higher than among those not experiencing withdrawal, as shown below. The difference is especially marked among industries other than construction.

RATIO OF INACTIVE PARTICIPANTS TO ACTIVE PARTICIPANTS

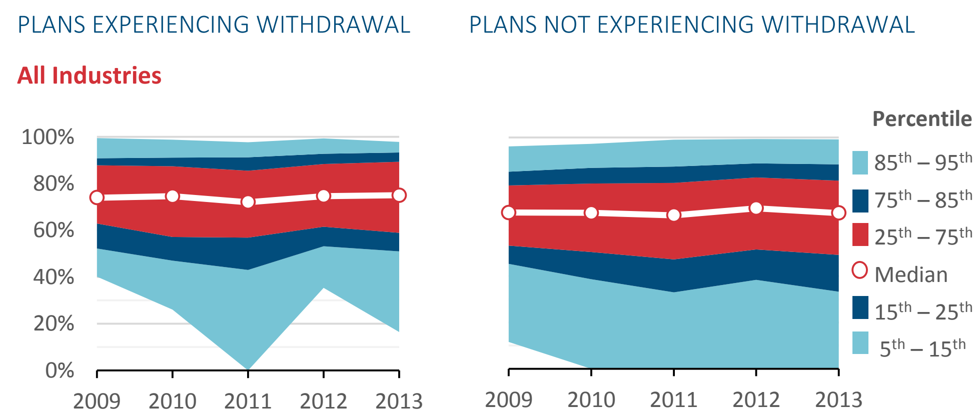


The ratio of inactive to active participants is important, especially when a plan has an unfunded liability. MEPP contributions are typically negotiated as a cost that is a function of active participants (for example, $X per hour worked). When the ratio of inactive participants to active participants is higher, the cost per active is greater than it would be if the inactive-to-active ratio were lower. The vast majority of plans in the MEPP system have an unfunded liability.

Previous Benefit Cost Ratio Comparison

Recently the Society of Actuaries introduced the previous benefit cost ratio (PBCR) for measuring financial stress posed on MEPPs by their unfunded liabilities.[3] PBCR results always range from zero to one, with higher measurements indicating higher stress levels. Across the years 2009–2013, PBCRs were slightly higher among plans that experienced withdrawal than among those that did not. Although construction industry PBCRs were more volatile from year to year, the general ranges were fairly consistent with plans of other industries.

PREVIOUS BENEFIT COST RATIO DISTRIBUTION

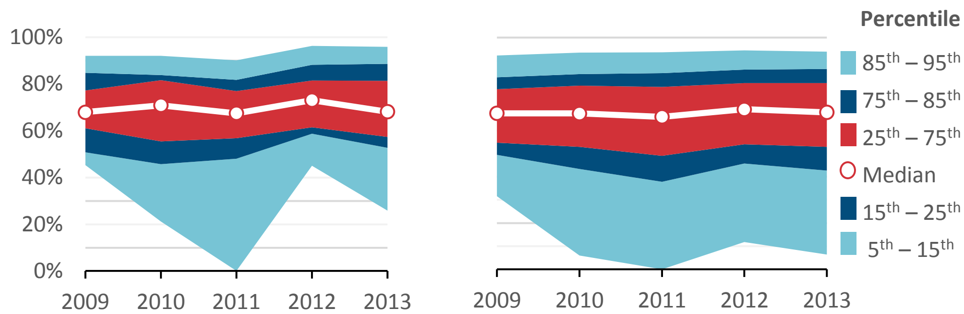


[3] The Previous Benefit Cost Ratio was introduced in August 2015 in the Society of Actuaries' paper "Multiemployer Plan Stress Metrics." The PBCR is the annualized cost of unfunded liability, if any, as a portion of annualized total plan costs, including administrative expenses. Unfunded liability is calculated using the Unit Credit Cost Method and market value of assets. For this analysis, PBCR is calculated using a 7% discount rate. For additional information, see the research paper at https://www.soa.org/Research/Research-Projects/Pension/research-2015-08-multiemployer-plan-stress-metrics.aspx.

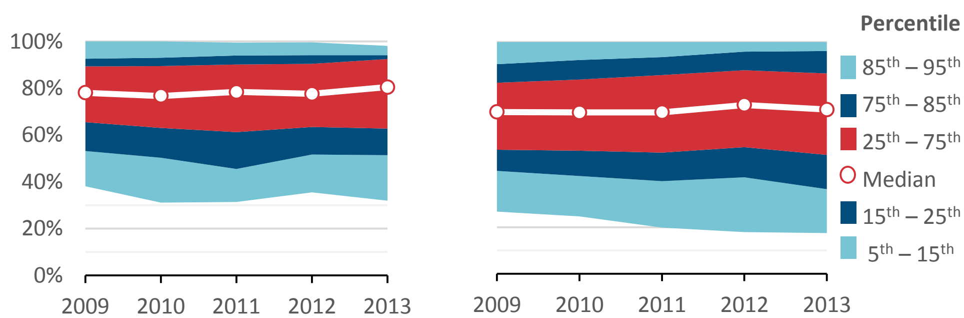
PREVIOUS BENEFIT COST RATIO DISTRIBUTION (CONTINUED)

PLANS EXPERIENCING WITHDRAWAL   PLANS NOT EXPERIENCING WITHDRAWAL

Construction



Other Industries



Withdrawal Liabilities Assessed

When an employer withdraws from a MEPP, a withdrawal liability is generally assessed. Typically the withdrawal liability is paid over time. Federal regulations allow a variety of methods for calculating withdrawal liability.[4] Thus, the assessed withdrawal liability may not represent the unfunded liability attributable to a withdrawing employer. In addition, because of a variety of statutory and practical limitations, sometimes the assessed withdrawal liability may not be paid in full. So for numerous reasons, an employer's withdrawal exposes a portion of the plan's liabilities to the possibility that it will not be funded by the now-withdrawn employer.

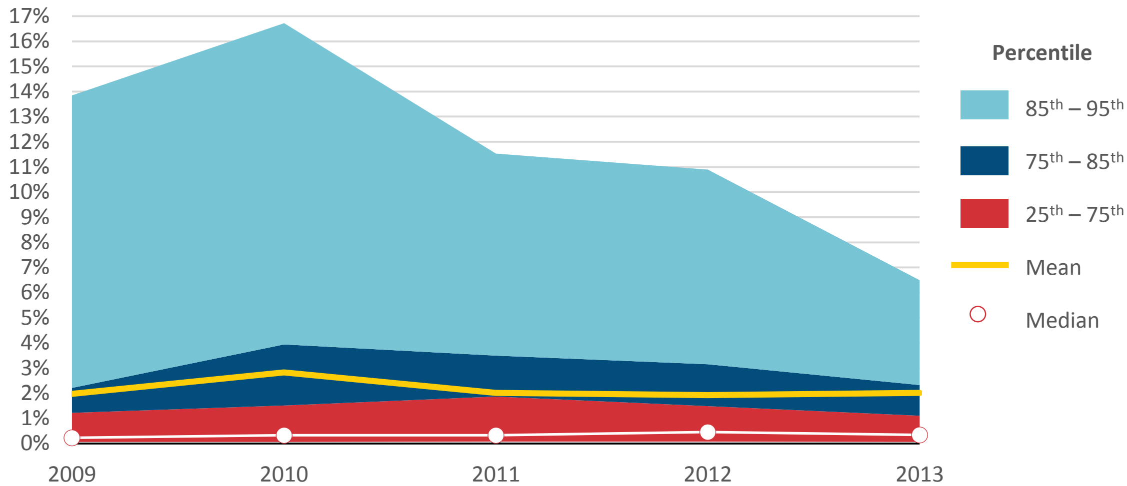
Although the total amount of outstanding withdrawal liability is not reported on Form 5500, the amount assessed for a given year's withdrawals is reported. The amount of withdrawal liability assessed can be an indicator of the relative size of a plan's total liability that is potentially left exposed by a withdrawal.

As the graph on the following page shows, the aggregate withdrawal liability assessed in each year studied was a very small portion of the MEPP system's aggregate total liabilities. For half of the plans that experienced withdrawal in any given year, the withdrawal liability assessed was less than one-half of 1% of total plan liability; for two-thirds of the plans, it was less than 1%. However, for roughly 10% of the plans, withdrawal liability exceeded 5% of the plan's total liability. In a relatively small number of those cases, it exceeded 15% of the plan's liabilities.[5]

[4] *Supra*, note 1.
[5] Plan liabilities are estimated using the Unit Credit Cost Method and the discount rate used by the plan actuaries for funding purposes.

WITHDRAWAL LIABILITIES AS A PERCENTAGE OF TOTAL LIABILITIES FOR PLANS EXPERIENCING WITHDRAWAL[6]

All Industries



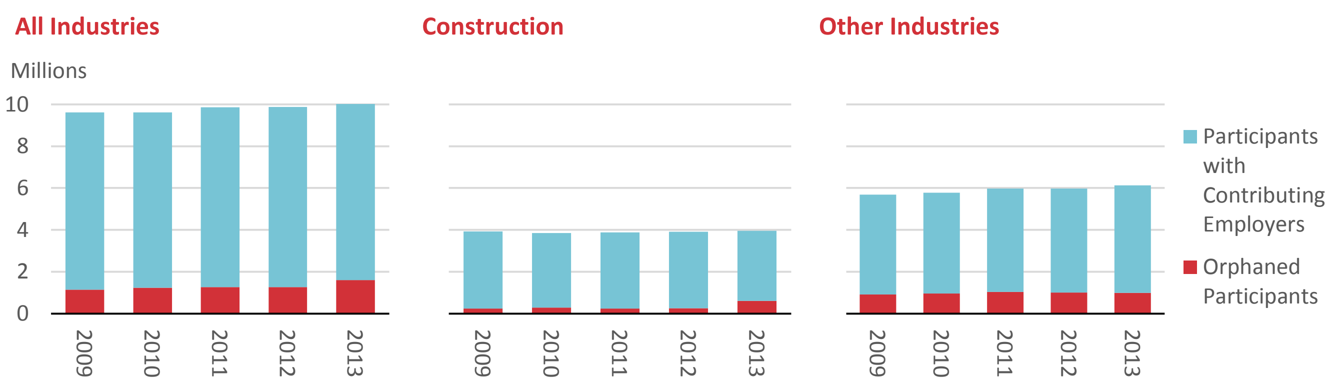
For the construction industry, withdrawal liabilities assessed were consistently less than 1% of plan liabilities with very few exceptions.

Orphaned Participants

Participants of withdrawn employers are commonly known as "orphaned" participants. Monitoring the proportion of participants who are orphaned is a way of gauging the potential stress that employer withdrawals may pose on the system. When employers withdraw, they stop making regular contributions, although they generally make withdrawal liability payments. After a withdrawal liability is assessed, any additional funding needed for benefits earned under service for a now-withdrawn employer must be borne by the remaining contributing employers.

Throughout 2009–2013, the total number of orphaned participants in the MEPP system increased faster than the total number of participants.[7] As a result, the proportion of orphaned participants increased from 12% to 16%.[8]

NUMBER OF PARTICIPANTS



[6] *Supra*, note 5.
[7] As with identifying withdrawn employers, identifying "orphaned" participants can be difficult, especially among the construction and entertainment industries. All figures presented here are as reported on Form 5500.
[8] The percentage of orphans increased to 13% in 2010 and then held steady through 2012. The increase to 16% in 2013 is attributable primarily to one plan.

Liabilities and Withdrawal Liability Assessments

The table below shows a summary of plan liabilities and withdrawal liabilities assessed across the MEPP universe.

WITHDRAWAL LIABILITIY ASSESSMENTS COMPARED TO TOTAL LIABILITIES[9]

(billions of U.S. dollars)[10]	2009	2010	2011	2012	2013
All industries					
Withdrawal liability for current year withdrawals	1.0	1.4	1.2	2.7	1.8
Liability for plans experiencing current year withdrawal	273.7	291.0	325.4	353.9	393.2
Unfunded liability for plans experiencing current year withdrawal	118.1	111.3	114.4	140.3	148.2
Normal cost for plans experiencing current year withdrawal	5.1	5.1	5.5	5.8	6.1
Liability for all plans	528.2	544.1	577.7	616.4	642.1
Unfunded liability for all plans	222.9	201.8	195.3	231.5	227.1
Normal cost for all plans	11.1	10.2	10.2	10.7	10.6
Construction					
Withdrawal liability for current year withdrawals	0.1	0.1	0.2	0.2	0.1
Liability for plans experiencing current year withdrawal	93.8	106.2	120.5	126.6	148.0
Unfunded liability for plans experiencing current year withdrawal	41.8	41.9	43.0	51.8	54.6
Normal cost for plans experiencing current year withdrawal	2.2	2.1	2.2	2.3	2.5
Liability for all plans	252.6	253.9	267.5	286.7	300.1
Unfunded liability for all plans	108.6	96.5	90.0	108.4	105.9
Normal cost for all plans	6.0	5.2	5.0	5.0	5.2
Other industries					
Withdrawal liability for current year withdrawals	1.0	1.3	1.0	2.5	1.7
Liability for plans experiencing current year withdrawal	179.9	184.8	204.9	227.2	245.2
Unfunded liability for plans experiencing current year withdrawal	76.2	69.3	71.5	88.5	93.6
Normal cost for plans experiencing current year withdrawal	2.9	3.0	3.3	3.5	3.6
Liability for all plans	275.6	290.2	310.2	329.8	342.0
Unfunded liability for all plans	114.3	105.3	105.3	123.1	121.2
Normal cost for all plans	5.0	5.0	5.2	5.6	5.4

Closing

Given the considerable level of unfunded liabilities in the MEPP system, employer withdrawals are a significant issue. When an employer withdraws, if the withdrawal liability paid does not fully cover the unfunded liability attributable to that employer, it falls to remaining employers to fill the funding gap. Because MEPP employer contributions are generally a function of their active participants, the resulting funding challenges are exacerbated for plans that have a relatively high ratio of inactive participants to active participants. This analysis shows that for the 2009–2013 plan years, plans that experienced withdrawal had a higher inactive-to-active participant ratio than plans that did not.

For any number of reasons—including pension funding challenges—it is reasonable for contributing employers to contemplate withdrawal. As a result, employer withdrawals warrant further study. Potential topics include the impact of withdrawal liability calculation methods, withdrawal liability payment rates and the impact of withdrawals on remaining employers and plan participants.

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[9] Estimated for this analysis using the Unit Credit Cost Method and the discount rate used by plan actuaries for funding purposes; unfunded liabilities use the market value of assets.

[10] Some figures may not add because of rounding.

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The Society of Actuaries (SOA), formed in 1949, is one of the largest actuarial professional organizations in the world dedicated to serving 24,000 actuarial members and the public in the United States, Canada and worldwide. In line with the SOA Vision Statement, actuaries act as business leaders who develop and use mathematical models to measure and manage risk in support of financial security for individuals, organizations and the public.

The SOA supports actuaries and advances knowledge through research and education. As part of its work, the SOA seeks to inform public policy development and public understanding through research. The SOA aspires to be a trusted source of objective, data-driven research and analysis with an actuarial perspective for its members, industry, policymakers and the public. This distinct perspective comes from the SOA as an association of actuaries, who have a rigorous formal education and direct experience as practitioners as they perform applied research. The SOA also welcomes the opportunity to partner with other organizations in our work where appropriate.

The SOA has a history of working with public policymakers and regulators in developing historical experience studies and projection techniques as well as individual reports on health care, retirement, and other topics. The SOA's research is intended to aid the work of policymakers and regulators and follow certain core principles:

Objectivity: The SOA's research informs and provides analysis that can be relied upon by other individuals or organizations involved in public policy discussions. The SOA does not take advocacy positions or lobby specific policy proposals.

Quality: The SOA aspires to the highest ethical and quality standards in all of its research and analysis. Our research process is overseen by experienced actuaries and non-actuaries from a range of industry sectors and organizations. A rigorous peer-review process ensures the quality and integrity of our work.

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