Aging and Retirement

Employer Withdrawal Activity Overview: U.S. Multiemployer Pension Plans

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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 withdrawal is a significant issue. When an employer withdraws from a plan, its 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withdrawal liability actually paid may not be sufficient to cover all unfunded liabilities associated with the now-withdrawn employer.[1] In that case, it falls to the remaining employers to contribute enough to fill the gap and/or to plan participants to suffer lower benefits.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.

The Society of Actuaries (SOA) is pleased to update its longitudinal overview of MEPP employer withdrawal. The update includes plan years 2009–2016, with preliminary results for 2017 based on a partial year of reporting. Analysis is based on the Department of Labor Form 5500 database as of Dec. 6, 2018. The figures in this study reflect the plan years of reporting; withdrawals reported on Form 5500 reflect the withdrawals that occurred in the previous plan year. The data presented are neither intended to nor should be interpreted to imply causation of or correlation to reasons for employer withdrawal.

Here are some of the key findings:

- At a high level, the general trend continues: A low percentage of employers withdraw annually, but they withdraw from a significant number of plans. In 2016, 0.9% of all employers withdrew from 15% of plans that covered approximately 60% of all participants, about the same as in 2015. On average over 2009–2016, 1.1% of all participating employers withdrew annually from about 17% of plans that covered 63% of all participants.
- The annual percentage of withdrawing employers continues to decline, and the percentage of plans experiencing employer withdrawal also continues to decrease. The percentage of withdrawing employers dropped from 1.49% in 2009 to 0.85% in 2016, and the percentage of plans that experienced withdrawal fell from 18.5% in 2009 to 15.1% in 2016. However, at 60%, the percentage of participants in plans that experienced withdrawal was the same in 2009 and 2016, although the percentage slowly increased to 67% in 2013 before slowly declining to 2016.
- While the rate of employer withdrawal was similar between construction and nonconstruction plans, the percentage of participants in nonconstruction plans that experienced withdrawal exceeded the percentage of participants in construction plans. However, the construction plans that experienced withdrawal were

[1] The Employee Retirement Income Security Act §§4201-4225, as amended, governs withdrawal liabilities.

generally larger, so the number of participants in plans that experienced withdrawal was greater among construction plans than nonconstruction plans.

- On average over 2009–2016, assessed withdrawal liabilities were 0.4% 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% of plan liabilities, 1% of plans that experienced withdrawal saw assessed withdrawal liabilities of more than 10% of plan liabilities.
- Preliminary data for 2017 suggest about the same percentage of plans experiencing withdrawal but a slight increase in both the percentage of employers withdrawing and the percentage of participants in plans that experienced withdrawal.
- Dependency ratios continued to generally increase among multiemployer plans, and plans that experienced withdrawal continued to have a significantly higher dependency ratio than plans that did not. On average over 2009–2016, plans that experienced withdrawal had dependency ratios of 181%, compared to 145% among plans that did not experience withdrawal. Because withdrawal further increases the dependency ratio, withdrawal tends to increase the risk of future funding challenges and may exacerbate any existing funding challenges.[2]

Withdrawal Frequency

Figure 1 illustrates the frequency of employer withdrawal over recent years. 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 reported counts for each plan. The reason for withdrawal is not reported on Form 5500 and is beyond the scope of this study.

Withdrawal 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.[3] While only a few plans are associated with the entertainment industry, the construction industry holds a signficant presence in the MEPP universe (see Figure 2). Accordingly, this study differentiates analyses by construction versus other industries.

In general, a small percentage of employers withdrew in any given year, and the percentage has been decreasing over recent years. Following a steady decline from 1.5% in 2009 to 0.8% in 2015, the percentage of employers that withdrew in 2016 was flat at 0.8%. On average, 1.13% of employers withdrew annually over 2009–2016.

Although relatively few employers withdrew, a significant number of plans experienced an employer withdrawal. During 2009 to 2013, the percentage of plans that experienced a withdrawal fluctuated in the range of 18.3%–18.8%. After declines to 16.2% in 2014 and 15.2% in 2015, the percentage remained nearly flat in 2016 at 15.1%. On average over 2009–2016, 17.4% of plans experienced an employer withdrawal annually.

While fewer than 20% of plans experienced withdrawal annually, more than 60% of MEPP participants annually were in a plan that experienced an employer withdrawal. On average over 2009–2016, 63.0% of participants were in a plan that experienced an employer withdrawal.

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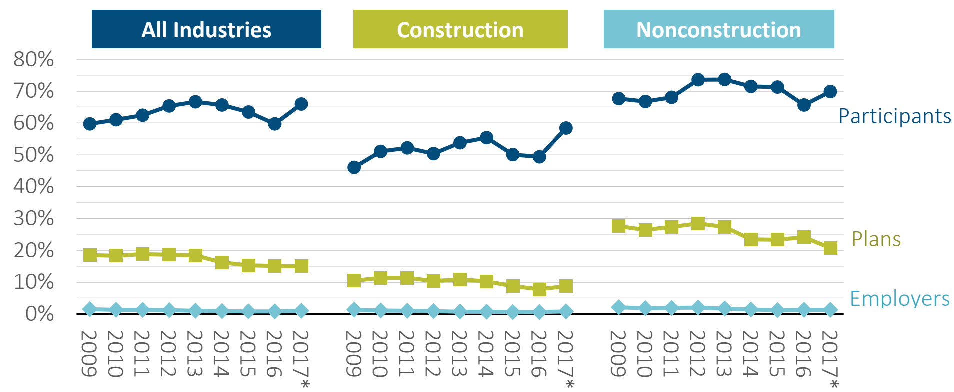
[2] Whether existing funding challenges are exacerbated depends on many factors, including the withdrawn employer's ability to pay the assessed withdrawal liability.
[3] Under §4203 of the Employee Retirement Income Security Act, in certain industries and certain situations, an employer that exits a plan may not be considered a withdrawal.

Figure 1

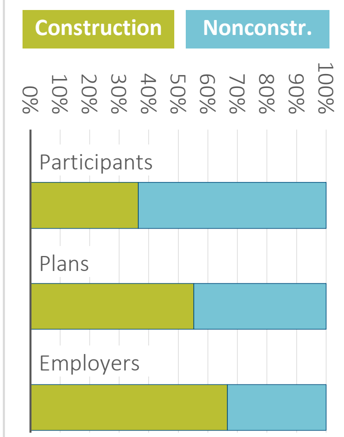
PERCENTAGE EXPERIENCING WITHDRAWAL



* Partial year of reporting; data as of Dec. 6, 2018, reflect roughly 55% of plans with 70% of liabilities reported for 2017.

Figure 2

2016 INDUSTRY PREVALENCE



Partial-year results for 2017 indicate a slight uptick in the percentage of employer withdrawal among a slightly lower percentage of plans that cover a higher percentage of participants. Partial-year results for 2016 also indicated an uptick that did not occur in the full year of data.

The disparity between the proportion of plans that experienced employer withdrawal versus the proportion of participants that experienced employer withdrawal indicates that many of the plans that experienced withdrawal tended to be larger plans. One would generally expect that larger plans would experience withdrawal more frequently than smaller plans because larger plans generally have more contributing employers. Interestingly, the average size of plans that experienced withdrawal has been increasing. In 2009, the average number of participants in plans across all industries that experienced withdrawal was about 25,300. By 2016, after steady annual increases, the average number of participants in plans across all industries that experienced withdrawal was approximately 32,700. The reasons for this trend are beyond the scope of this study.

Construction industry plans generally experienced a slightly lower rate of withdrawal than nonconstruction plans. As previously noted, withdrawal 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.[4]

Within the construction industry, employer withdrawals decreased slightly from 2015 to 2016. The percentage of construction employers that withdrew decreased from 0.7% in 2015 to 0.6% in 2016. The percentage of construction plans that experienced withdrawal declined from 9% in 2015 to 8% in 2016. And the percentage of participants in construction plans that experienced withdrawal decreased slightly from 50% in 2015 to 49% in 2016.

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,

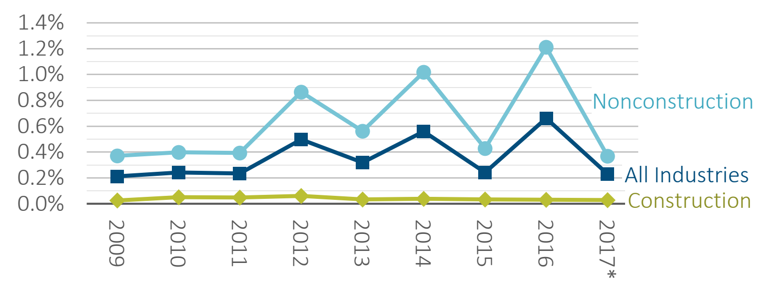
[4] Under §4203 of the Employee Retirement Income Security Act, in certain industries and certain situations, an employer that exits a plan may not be considered a withdrawal.

because of statutory and practical limitations, assessed withdrawal liabilities may not be paid in full.[5] Generally, the remaining employers bear the additional funding burden, as do participants via potential benefit cuts or smaller benefit increases. If the plan should become insolvent, the Pension Benefit Guaranty Corporation bears part of the burden up to guaranteed benefit levels, and participants suffer further benefit cuts to the extent their benefits exceed the guarantee.

Figure 3 compares aggregate assessed withdrawal liabilities[6] to aggregate plan liabilities for zone determination.[7] Withdrawal liabilities have been on a generally increasing trend. On average over 2009–2017, aggregate assessed withdrawal liabilities were 0.37% of aggregate plan liabilities across all industries.

Figure 3

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



* Partial year of reporting; data as of Dec. 6, 2018, represent roughly 55% of plans with 70% of liabilities reporting for 2017.

Relative to plan liabilities, assessed withdrawal liabilities have been increasing, but percentages vary widely among plans.

Aggregate withdrawal liabilities as a percentage of aggregate liabilities were noticeably smaller for the construction industry than for other industries. Within the construction industry, aggregate withdrawal liabilities were consistently less than one-tenth of 1% (0.1%) of aggregate liabilities for zone determination.

For nonconstruction plans, on average over 2009–2016, aggregate withdrawal liabilities were 0.66% of aggregate plan liabilities, although results in each year varied greatly. Aggregate assessed withdrawal liabilities for nonconstruction plans exceeded 1.0% of aggregate liabilities in both 2014 and 2016.

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

Taking a closer look at individual plans that experienced withdrawal, Figure 4 and Figure 5 show how much assessed withdrawal liability can vary as a percent of total benefit liabilities. Figure 4 shows the proportions of plans that reported withdrawn employers by ranges of assessed withdrawal liabilities as a percentage of total plan liabilities, as measured by the unit credit actuarial cost method and the discount rates used for funding purposes. Figure 5 shows the percentile distribution for the same information; because values below the median are so small, only the distribution above the median is shown.

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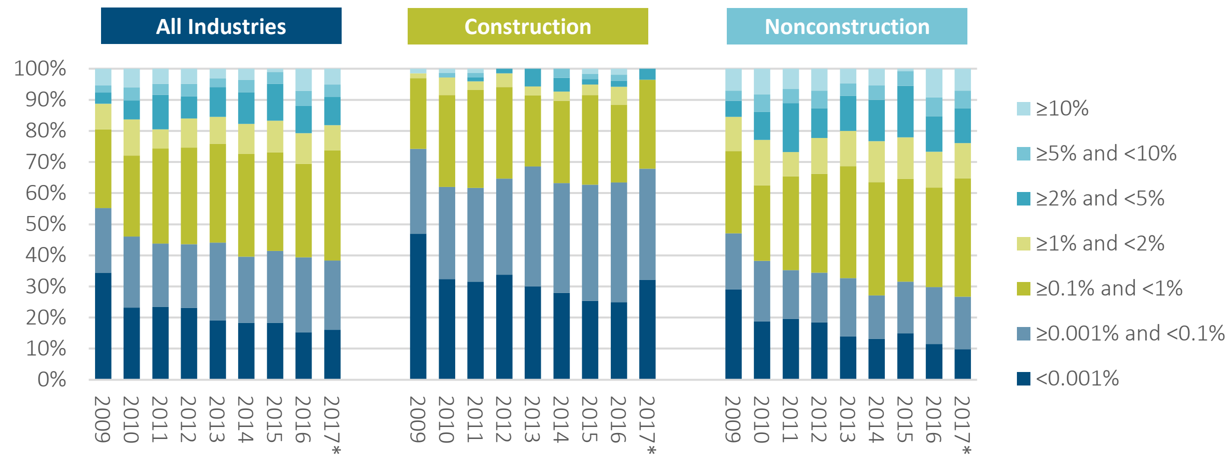
[5] The Employee Retirement Income Security Act §§4201-4225, as amended, governs withdrawal liability.
[6] Withdrawal liabilities are shown in the year they are reported. Withdrawal liabilities assessed or expected to be assessed are reported on Form 5500 for the year following the year during which the withdrawal occurred.
[7] To determine funded status zones, Employee Retirement Income Security Act §305 (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.

For most plans, assessed withdrawal liability is less than 1% of the total benefit liability. But for a small number of plans it can be a significantly greater percentage of liabilities. In all years studied, approximately 70% or more of assessed withdrawal liabilities were less than 1% of the corresponding total benefit liabilities. Roughly 40% of assessed withdrawal liabilities were less than one-tenth of 1% (0.1%) of the associated total benefit liabilities.

Figure 4

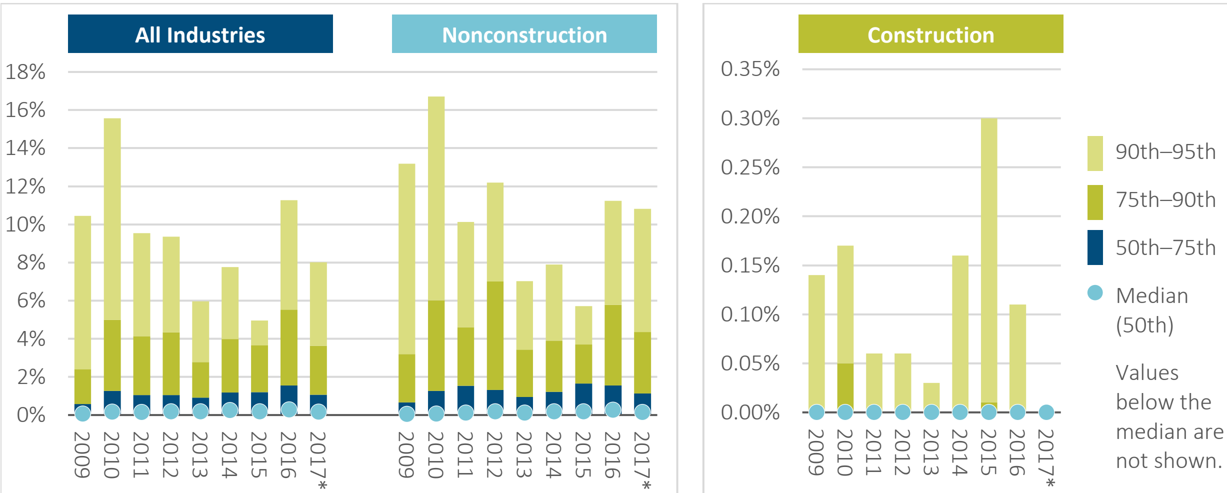
ASSESSED WITHDRAWAL LIABILITIES FOR PLANS EXPERIENCING WITHDRAWAL
AS A PERCENTAGE OF TOTAL PLAN UNIT CREDIT LIABILITIES AT FUNDING DISCOUNT RATE



This distribution is weighted one per plan. Because data are reported by plan, the distribution could also be considerd unweighted.
* Partial year of reporting; data as of Dec. 6, 2018, represent roughly 55% of plans with 70% of liabilities reporting for 2017.

Figure 5

PERCENTILE DISTRIBUTIONS OF ASSESSED WITHDRAWAL LIABILITIES FOR PLANS EXPERIENCING WITHDRAWAL AS A PERCENTAGE OF TOTAL PLAN UNIT CREDIT LIABILITIES AT FUNDING DISCOUNT RATE



* Partial year of reporting; data as of Dec. 6, 2018, represent roughly 55% of plans with 70% of liabilities reporting for 2017.

* Partial year of reporting.

However, depending on the year, between 10%–30% of plans that experienced withdrawal reported assessed withdrawal liabilities of more than 1.0% of their total benefit liabilities, including roughly 10% of plans with assessed withdrawal liabilities of more than 5% of their total benefit liabilities (Figure 4). And in all years, assessed withdrawal liabilities exceeded 10% of the plan's benefit liability for a very small number of plans (Figure 4 and Figure 5). For example, in 2016, of the plans that were assessed withdrawal liability, only 5% of plans across all industries (the 95th percentile in Figure 5) were assessed withdrawal liability of 11.26% or more of plan liabilities.

In general, assessed withdrawal liabilities within the construction industry are extremely small. Even the high outliers (90th–95th percentiles) typically fall below 0.20% (two-tenths of 1%) of plan liabilities, and the median was 0% in all years studied. As previously noted, withdrawal 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.[8]

Orphaned Participants

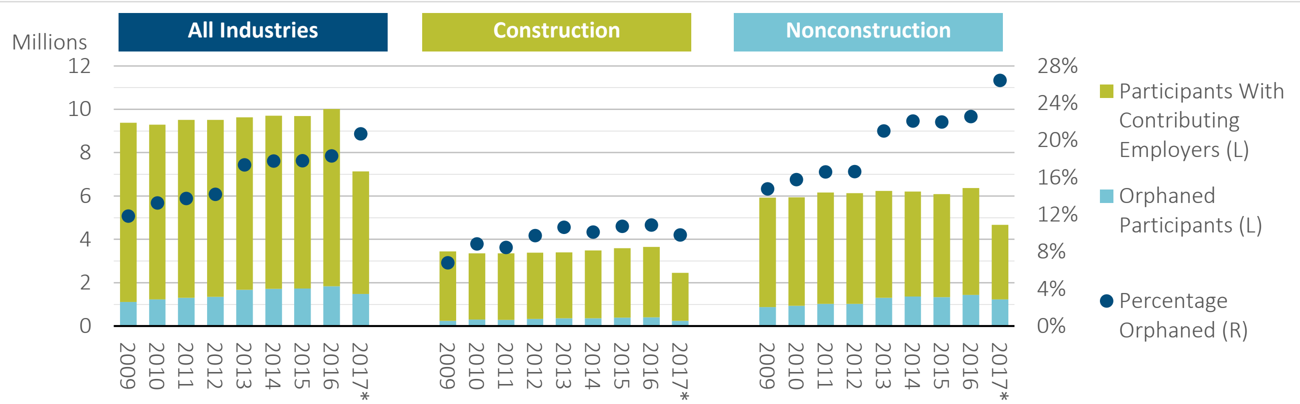
Participants of withdrawn employers are commonly known as "orphaned" participants. To the extent that withdrawal liability paid does not cover the cost of orphaned participants' benefits, the remaining contributing employers and their employees must bear remaining funding costs, as well as by all the 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 unfunded 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 6 illustrates that the percentage of participants who are orphaned increased over the period studied.

Figure 6

NUMBER AND PERCENTAGE OF ORPHANED PARTICIPANTS



* Partial year of reporting; data as of Dec. 6, 2018, represent roughly 55% of plans with 70% of liabilities for 2017.

Across all industries, the percentage of participants who are orphaned increased from 12% in 2009 to 18% in 2016. From 2012 to 2013, the percentage of nonconstruction orphaned participants jumped; the jump is also evident among all industries. The authors believe that the jump is attributable primarily to one plan's reporting.[9] Identifying

[8] 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.

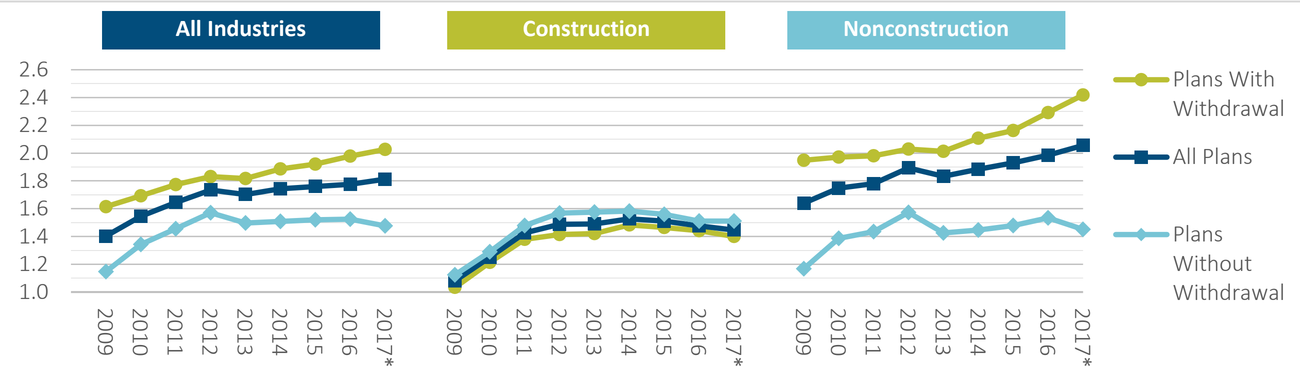
[9] On 2013 Schedule R, one plan reported greater than 320,000 orphaned participants for 2013, 2012 and 2011. On 2012 Schedule R and earlier filings, the number of orphaned participants for all three years reported on each year's form was blank.

withdrawal is especially challenging in the construction industry, which makes identifying orphaned participants especially challenging and may affect these results.[10]

Dependency Ratio

A plan's dependency ratio is the ratio of inactive participants to active participants. Dependency ratios are important among MEPPS because MEPP contributions are typically negotiated and paid 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, withdrawal tends to increase the dependency ratio, which increases the plan's risk of future funding challenges and may exacerbate a plan's funding challenges. Whether existing funding challenges are exacerbated depends on many factors, including the withdrawn employers' ability to pay the assessed withdrawal liability. Figure 7 illustrates how the dependency ratios differ in aggregate between plans that did and did not experience withdrawal.[11]

Figure 7
AGGREGATE DEPENDENCY RATIO



*Partial year of reporting; data as of Dec. 6, 2018, represent roughly 55% of plans with 70% of liabilities reporting for 2017.

Overall, dependency ratios among multiemployer plans have been increasing. The aggregate dependency ratio among plans that experienced withdrawal steadily increased from 161% in 2009 to 198% in 2016. Among plans that did not experience withdrawal, the aggregate dependency ratio increased from 115% in 2009 to 152% in 2016.

Over 2009–2016, plans that experienced withdrawal had average dependency ratios of 181%, compared to 145% among plans that did not experience withdrawal. In addition, aggregate dependency ratios among plans that experienced withdrawal have been generally increasing at a faster rate than plans that did not experience withdrawal.

Because withdrawal further increases the dependency ratio, withdrawal tends to increase the risk of future funding challenges and may exacerbate any existing funding challenges. Whether existing funding challenges are exacerbated depends on many factors, including the withdrawn employers' ability to pay the assessed withdrawal liability.

[10] 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.
[11] 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/.

In nonconstruction plans, the aggregate dependency ratio was consistently, significantly higher among plans that experienced withdrawal than among plans that did not experience withdrawal. The disparity generally increased over the period studied.

Among construction plans, aggregate dependency ratios of plans that experienced withdrawal were slightly lower than those of plans that did not experienced withdrawal. It is worth repeating that identifying withdrawal is especially challenging in the construction industry, which may affect these results.

Data Notes

Tabulations and analyses are based on publicly available data from the Department of Labor Form 5500 database as of Dec. 6, 2018, which reflects completed reporting for plan years through 2016 and a partial year of reporting for 2017. Data for 2017 represent roughly 55% of plans with 70% of liabilities reporting. Refer to Table 1 for a summary of the data included in this study, and note the following items about the data:

- With typical extensions, Form 5500 is generally due.9.5 months after the end of the plan year. For example, for a plan year that runs from Jan. 1, 2017, through Dec. 31, 2017, Form 5500 is due Oct. 15, 2018. Most plans file on or immediately before the deadline. Thus 2017 data reflects primarily plans with calendar year plan years plus any plans that filed earlier than required.
- 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.
- In addition to the entertainment plan exclusion noted above, data were excluded or adjusted for obvious errors. Otherwise, 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.
- Many participants 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.
- Data available in the DOL database for earlier years may have changed, and authors' criteria for errors and missing data may differ slightly from some previous analyses. In addition, industry categorization may have been revised or corrected from previous analyses. Consequently, results for previously published years may differ.

Table 1
SUMMARY OF DATA INCLUDED

Plan Year	Number of Plans	Number of Participants (Millions)	Number of Contributing Employers
2009	1,197	9.37	219,486
2010	1,172	9.29	204,629
2011	1,202	9.52	207,480
2012	1,208	9.52	199,436
2013	1,193	9.63	201,953
2014	1,215	9.71	197,127
2015	1,220	9.69	199,195
2016	1,211	10.02	194,159
2017	662	7.13	117,482

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