CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 13, 2003

H.R. 1000
Pension Security Act of 2003

As ordered reported by the House Committee on Education and the Workforce on March 6, 2003

SUMMARY

H.R. 1000 would make numerous changes to the Employee Retirement Income Security Act of 1974 (ERISA) that would affect the operations of private pension plans. These include new reporting requirements, limitations on certain investments, modifications in premiums paid to the Pension Benefit Guaranty Corporation (PBGC), and other changes.

CBO and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase federal revenue by $196 million in 2003 and by $19 million over the 2003-2008 period, but would reduce revenue by $482 million over the 2003-2013 period. CBO estimates that the bill would decrease direct spending by $39 million in 2003, by $101 million over the 2003-2008 period, and by $87 million over the 2003-2013 period. Discretionary spending under the bill would total $24 million over the 2004-2008 period, assuming appropriation of the necessary amounts.

State, local, and tribal governments are exempt from the requirements of ERISA that H.R. 1000 would amend, and other provisions of the bill would impose no requirements on those governments. Consequently, CBO has determined that the non-tax provisions of the bill contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

JCT has determined that the tax provisions of H.R. 1000 contain no intergovernmental or private-sector mandates as defined in UMRA. The bill does contain private-sector mandates on sponsors, administrators, and fiduciaries of private pension plans. CBO estimates that the direct cost of those new requirements would not exceed the annual threshold specified in UMRA ($117 million in 2003, adjusted annually for inflation) in any of the first five years the mandates would be effective.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1000 is shown in the following table. The costs of this legislation would fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
CHANGES IN REVENUES						
Interest Rate Range for Calculating Plans' Funding Requirements	196	401	50	-266	-179	-90
Treatment of Qualified Retirement Planning Services	0	-10	-15	-20	-23	-25
Total Changes in Revenues	196	391	35	-286	-202	-115
CHANGES IN DIRECT SPENDING						
Reduced PBGC Flat-Rate Premiums	0	*	*	1	1	1
Changes in PBGC Variable Premiums	-39	-37	-26	-10	-4	-3
Payment of Interest on Overpayments of PBGC Premiums	0	3	3	3	3	3
Benefits Paid to Substantial Owners	0	*	*	*	*	*
Total Additional Outlays	-39	-34	-23	-6	*	1
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Studies by the Department of Labor						
Estimated Authorization Level	0	2	0	0	0	0
Estimated Outlays	0	*	1	*	*	*
Informational and Educational Support for Pension Plan Fiduciaries						
Estimated Authorization Level	0	5	5	5	5	6
Estimated Outlays	0	3	5	5	5	5
Total Changes						
Estimated Authorization Level	0	7	5	5	5	6
Estimated Outlays	0	3	6	5	5	5

SOURCES: CBO and Joint Committee on Taxation.

NOTE: * = Less than $500,000.

BASIS OF ESTIMATE

Revenues

CBO and JCT estimate that, if enacted, H.R. 1000 would increase receipts to the federal government during the 2003-2005 period, but decrease federal receipts after that. For the purposes of this estimate, CBO and JCT assume the bill will be enacted by July 1, 2003.

H.R. 1000 would reduce revenues by modifying the treatment of qualified retirement planning services for purposes of computing gross income in years after 2003 and by altering the interest rate range for pension funding requirements. The former would reduce taxable income for employees, and would decrease revenues by $93 million over the next five years and by $261 million over the 2004-2013 period. Changing the interest rate range (the change would increase the interest rates used to calculate how much sponsors must contribute to pension plans) would reduce tax deductible contributions by pension plan sponsors in 2003 and 2004, but would increase such contributions thereafter. This has the opposite effect on taxable income, and therefore on revenues. JCT estimates that the interest rate provision would increase revenues by $112 million over the 2003-2008 period, but would decrease revenues by $221 million over the 2003-2013 period.

In addition, section 101 of H.R. 1000 would require plan sponsors to provide quarterly benefit statements to plan participants, and would subject sponsors to civil penalties for failure to meet these requirements. Based on information from the Department of Labor, CBO expects that additional civil penalties resulting from section 101 would increase revenues by less than $500,000 annually.

Direct Spending

Reduced Flat-Rate Premiums Paid to the PBGC. Under current law, defined benefit pension plans operated by a single employer pay two types of annual premiums to the Pension Benefit Guaranty Corporation. All covered plans are subject to a flat-rate premium of $19 per participant. In addition, underfunded plans must also pay a variable-rate premium that depends on the amount by which the plan's liabilities exceed its assets.

The bill would reduce the flat-rate premium from $19 to $5 per participant for plans established by employers with 100 or fewer employees during the first five years of the plan's operation. According to information obtained from the PBGC, approximately 8,300 plans would eventually qualify for this reduction. Those plans cover an average of about 10 participants. CBO estimates that the change would reduce the PBGC's premium income by less than $500,000 in 2004, by $3 million over the 2004-2008 period, and $8 million from 2004 through 2013. Because PBGC premiums are offsetting collections to a mandatory spending account, reductions in premium receipts are reflected as increases in direct spending.

Changes in Variable Premiums Paid to the PBGC. H.R. 1000 would make several changes affecting the variable-rate premium paid by underfunded plans. CBO estimates, in total, those provisions would decrease premium receipts by $39 million in 2003, $119 million over the 2003-2008 period, and $125 million during the 2003-2013 period.

First, for all new plans that are underfunded, the bill would phase in the variable-rate premium. In the first year, plans would pay nothing. In the succeeding four years, they would pay 20 percent, 40 percent, 60 percent, and 80 percent, respectively, of the full amount. In the sixth and later years, they would pay the full variable-rate premium determined by their funding status. Based on information from the PBGC, CBO estimates that this change would affect the premiums of approximately 250 plans each year. It would reduce the PBGC's total premium receipts by about $14 million over the 2004-2008 period and $41 million over the 2004-2013 period.

Second, the bill would reduce the variable-rate premium paid by all underfunded plans (not just new plans) established by employers with 25 or fewer employees. Under the bill, the variable-rate premium per participant paid by those plans would not exceed $5 multiplied by the number of participants in the plan. CBO estimates that approximately 2,500 plans would have their premium payments to the PBGC reduced by this provision beginning in 2004. As a result, premium receipts would decline by $4 million during the 2004-2008 period, and by $9 million over the 2004-2013 period.

Third, the bill would alter the pension funding requirements in ERISA, which would allow plans to become more underfunded in plan year 2001 without subjecting them to tax and other penalties. JCT estimates that this provision would initially cause employers to reduce pension plan contributions, but later increase contributions until funding returns to baseline levels. As a result, some plans would have to pay higher premiums because their level of underfunding would increase. Based on preliminary information from the PBGC, CBO estimates plan underfunding would initially increase by roughly $5.8 billion and that the net effect would be an increase of $39 million in premium receipts in 2003. Over the 2003-2008 period, CBO estimates this provision would cause receipts to increase by a net of $137 million. The effects through 2013 would total $176 billion.

Finally, H.R. 1000 would set the interest rate used to determine variable-rate premiums at 115 percent of the 30-year Treasury bond rate once new mortality tables are issued by the Department of the Treasury, but only through the remainder of plan-years 2002 and 2003, at which time the interest rate would return to 100 percent. CBO anticipates that the new mortality tables will be issued immediately before the start of plan-year 2004. Therefore CBO assumes the bill would have no effect on premium collections.

Authorization for the PBGC to Pay Interest on Premium Overpayment Refunds. The legislation would authorize the PBGC to pay interest to plan sponsors on premium overpayments. Interest paid on overpayments would be calculated at the same rate as interest charged on premium underpayments. On average, the PBGC receives $19 million per year in premium overpayments, charges an interest rate of 8 percent for underpayments, and experiences a two-year lag between the receipt of payments and the issuance of refunds. Based on this information, CBO estimates that direct spending would increase by $3 million annually.

Substantial Owner Benefits in Terminated Plans. H.R. 1000 would simplify the rules by which the PBGC pays benefits to substantial owners (those with an ownership interest of at least 10 percent) of terminated pension plans. Only about one-third of the plans taken over by the PBGC involve substantial owners, and the change in benefits paid to owner-employees under this provision would be less than $500,000 annually.

National Summit on Retirement Income Security. H.R. 1000 would extend the authorization for the National Summit on Retirement Income Security so that meetings would be held in 2006 and 2010. The most recent summit was held in January 2002. Based on donations received for that summit, CBO estimates that the Department of Labor would receive about $500,000 in private donations for each future summit, which would be spent to defray part of the costs of the conferences. Therefore, this provision would increase revenues and direct spending by the same amounts and would have no net impact on the budget surplus.

Discretionary Spending

H.R. 1000 includes several provisions that would, assuming the appropriation of the necessary amounts, cost $24 million over the 2004-2008 period.

Studies by the Department of Labor. H.R. 1000 would direct the Department of Labor to undertake three studies: one on the impact of requiring fiduciary consultants for individual account plans, one on making employee pension plans more widely available to workers, and one on the impact of the legislation on pension security and availability. Based on the costs of studies with comparable requirements, CBO estimates these studies would cost about $2 million over the 2004-2008 period.

Informational and Educational Support for Pension Plan Fiduciaries. The bill also would require DOL to provide information and educational resources to persons serving as fiduciaries for employee pension benefit plans. Based on a review of other federal programs that provide consumer-related and technical information to the public, CBO estimates that providing this support would cost about $5 million per year.

National Summit on Retirement Income Security. H.R. 1000 would amend the authorization for the National Summit on Retirement Security to require the President to convene a conference on national savings in 2006 rather than in 2005, and to hold an additional summit in 2010. The bill would authorize the appropriation of such sums as may be necessary for that purpose. The Secretary of Labor is authorized to accept private donations to defray the costs of the conference, and must spend the donated funds prior to spending the appropriated funds. Based upon the experience of the 1998 and 2002 National Summits, CBO estimates that future summits would cost less than $1 million and that more than one-half of the expenses would be offset by private donations.

EFFECTS ON DIRECT SPENDING AND REVENUES

The net changes in governmental receipts (i.e., revenues) and outlays from direct spending over the 2003-2013 period are shown in the following table.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	-39	-34	-23	-6	0	1	1	1	4	5	3
Changes in outlays	196	391	35	-286	-202	-115	-56	-76	-142	-148	-79

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed all provisions of H.R. 1000 that are not amendments to the Internal Revenue Code and determined that those provisions contain no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. State, local, and tribal governments are exempt from the requirements of ERISA that H.R.1000 would amend; the other non-tax provisions of the bill would impose no requirements on those governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the tax provisions of H.R. 1000 contain no intergovernmental or private-sector mandates as defined in UMRA. However, CBO has determined that the non-tax provisions of the bill do contain private-sector mandates as defined in UMRA.

With only limited exceptions, private employers who provide pension plans for their workers must follow rules specified in ERISA. Therefore, CBO considers changes to ERISA that expand those rules to be private-sector mandates under UMRA. H.R. 1000 would make changes to ERISA that would affect sponsors, administrators, and fiduciaries of pension plans. CBO estimates that the direct cost to affected entities of the new requirements in the bill would not exceed the annual threshold specified in UMRA ($117 million in 2003, adjusted annually for inflation) in any of the first five years the mandates would be effective.

Benefit Statements. Section 101 of the bill would require administrators of private, individual-account (defined contribution) pension plans to provide quarterly statements to participants and beneficiaries who are able to direct investments. Those statements would have to contain several items, including the amount of accrued benefits, the amount of nonforfeitable benefits, the value of any assets held in the form of securities of the employing firm, an explanation of any limitations or restrictions on the right of the participant or beneficiary to direct an investment, and an explanation of the importance of a well-balanced and diversified portfolio. Currently, plans must provide more limited statements to participants upon request.

CBO estimates that the direct cost of this new requirement on private plans would be about $70 million annually. According to industry sources, the majority of plans sponsored by large employers already provide pension statements on a quarterly basis, and it is becoming increasingly common for plans sponsored by smaller employers to do so as well. CBO estimates that fewer than half of the approximately 70 million participants in private individual account plans in 2004 would newly receive statements four times per year under the bill. The average cost of providing each statement would be relatively small because plans are now required to provide benefit statements on request and because the bill would allow statements to be provided electronically to participants with access to the Internet.

Section 101 would also require administrators of private, defined-benefit pension plans to provide vested participants currently employed by the sponsor with a benefit statement at least once every three years, or to provide notice to participants of the availability of benefit statements on an annual basis. CBO estimates that the added cost of this provision would be less than $5 million per year.

Fiduciaries' Liability. Currently, plan fiduciaries generally are not liable for investment decisions made by participants, nor are they liable for the inability of participants to alter their investments during blackout periods. Section 102 of the bill would potentially expand the personal liability of plan fiduciaries during blackouts by removing the current limitation on liability and adding specific new requirements under which they could avoid liability. Fiduciaries would be required to consider the reasonableness of the length of the blackout period, provide 30 days notice to participants, and act solely in the interest of participants in entering the blackout. CBO estimates that abiding by the new requirements to avoid liability in the bill would add little to their costs.

Investment in Employers' Securities. Section 104 would require individual-account plans to allow participants to sell securities issued by their employer and acquired through employee contributions and elective deferrals. Participants would also be allowed to sell securities issued by their employer and allocated to their accounts through employer contributions either three years after the securities are allocated to their accounts or after three years of service. (The bill would phase in the requirements in 20 percent annual increments for certain assets acquired before the effective date of the bill.) Section 104 would also require plans that offer participants securities issued by employers to offer a range of investment opportunities.

Both the expansion of participants' allowable investments of future contributions and the phase-in for past contributions would increase the administrative and record-keeping costs of affected pension plans. Based on information from the Employee Benefit Research Institute about company stock in individual account plans, CBO estimates that the added administrative costs attributable to these provisions would be about $20 million annually. Requiring plans to offer a range of investment options would probably add little to plan costs because many plans now abide by a safe harbor provision in ERISA that has similar requirements.

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