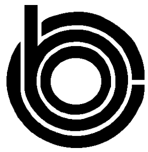

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 15, 1999

H.R. 1102
Comprehensive Retirement Security and Pension Reform Act

As ordered reported by the House Committee on Education and the Workforce on July 14, 1999

SUMMARY

H.R. 1102 would make numerous changes to the Internal Revenue Code (IRC) and the Employee Retirement Income Security Act of 1974 (ERISA) that would affect the taxation and operation of private pension plans.

CBO and the Joint Committee on Taxation (JCT) estimate that the bill would reduce federal tax revenues by $27 billion over the 2000-2004 period. CBO estimates that the bill would reduce direct spending by $3 million over the same period. Since this bill would affect direct spending and revenues, pay-as-you-go procedures would apply.

JCT and CBO have determined that H.R. 1102 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1102 is shown in the following table. The costs of this legislation would fall within budget functions 600 (income security) and 800 (general government).

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
CHANGES IN DIRECT SPENDING					
IRS User Fees	- 1	- 2	- 1	- 1	- a
Federal Retirement Benefits	- 3	- 3	- 3	- 2	- 2
Department of Labor Civil Penalties	1	1	1	1	2
Reduced PBGC Flat-Rate Premiums	0	0	a	a	a
Reduced PBGC Variable Premiums	0	0	3	3	3
Missing Participants in Terminated Plans	a	a	a	a	a
Substantial Owner Benefits	a	a	a	a	a
Total Direct Spending	- 3	- 4	a	1	3
CHANGES IN REVENUES					
IRS User Fees	- 9	- 29	- 11	- 12	0
Other Estimated Revenues	- 2,104	- 5,355	- 5,931	- 6,493	- 7,097
Total Revenues	- 2,113	- 5,384	- 5,942	- 6,505	- 7,097
TOTAL CHANGES					
Direct Spending and Revenues	2,110	5,380	5,942	6,506	7,100

NOTE: The Joint Committee on Taxation prepared the estimates of changes in revenues other than IRS user fees.

a. Less than $500,000.

BASIS OF ESTIMATE

Direct Spending

IRS User Fees. The Internal Revenue Service (IRS) has the authority to retain and spend without further appropriation action a small portion of the fees it collects from taxpayers for certain rulings and determinations by the office of the chief counsel and by the office for employee plans and exempt organizations. Because H.R. 1102 would eliminate the fee paid by small businesses for rulings and determinations, the bill would also reduce the amounts available for the IRS to spend. CBO estimates that eliminating the fee would decrease direct spending by a total of $5 million over the 2000-2004 period.

Federal Retirement Benefits. Most federal employees who were hired before 1984 are covered by the Civil Service Retirement System (CSRS). Under CSRS, employees must

have five years of service in order to qualify for retirement benefits. Employees who have qualified for retirement benefits but leave government service before retirement are eligible for a deferred annuity when they turn 62. If a former employee dies before reaching age 62, his or her retirement contributions are refunded in a lump sum, usually to the surviving spouse. The surviving spouse is not eligible to receive a survivor benefit. (By comparison, surviving spouses of current employees and annuitants are eligible for survivor benefits.)

Section 204 of the bill would allow these surviving spouses to receive survivor benefits. Surviving spouses would select one of two types of survivor benefit. The first type of benefit would be equal to 50 percent of the former employee's deferred annuity and payment would begin when the former employee would have turned 62. Under the second type of benefit, benefit payments would begin immediately after the former employee's death, but the amount of the benefit would be reduced to make it actuarially equivalent to the first type of benefit. Instead of a survivor benefit, surviving spouses would also be able to receive the refund of retirement contributions now available under current law.

According to the Office of Personnel Management, about 34,000 former CSRS employees are entitled to a deferred annuity but have not reached age 62. Based on Census data on marriage and mortality rates, CBO estimates that about 170 surviving spouses annually would be affected by this provision. The survivor benefits offered by the bill would be significantly more valuable than a refund of retirement contributions, so CBO assumes that all surviving spouses would opt for a survivor benefit, with half choosing a deferred benefit and half choosing an immediate benefit.

CBO estimates that this provision would reduce spending on CSRS retirement benefits by $13 million over the 2000-2004 period. Initially, outlays would decrease because surviving spouses would receive annual benefits of about $2,000 instead of a one-time payment of about $17,000 under current law. By 2007, spending on retirement benefits would be higher than under current law.

Department of Labor Civil Penalties. Under current law, the Department of Labor (DoL) is responsible for administering ERISA's reporting, disclosure, and fiduciary conduct requirements for private pension plans. In cases of fiduciary misconduct, DoL is required to assess a civil penalty equal to 20 percent of any amount that is restored to a pension plan as part of a settlement or court judgment. These penalties, which totaled $3 million in 1998, are recorded as offsetting receipts.

Section 614 of the bill would allow DoL to assess these civil penalties at its discretion and to assess penalties that could be less than 20 percent of the recovered amount. With this

more flexible authority, DoL has indicated that it would no longer assess penalties in cases where companies comply voluntarily with DoL's enforcement efforts. According to DoL, these cases comprise about a third of the total. The full 20-percent penalty would still be assessed in the remaining cases, which are typically resolved through litigation. CBO estimates that this provision would reduce penalties collected by about a third relative to current law, and that the drop in penalties would total $6 million over the 2000-2004 period.

Reduced PBGC Flat-Rate Premiums. Under current law, single-employer defined benefit pension plans pay two types of annual premiums to the Pension Benefit Guaranty Corporation (PBGC). All covered plans are subject to a flat-rate premium of $19 per participant. In addition, underfunded plans must also pay a variable 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 3,000 plans would qualify for this reduction. Those plans contain an average of about 10 participants each. CBO estimates that the change would reduce PBGC's premium income, which is classified as an offsetting collection, by about $400,000 annually beginning in 2002 and by about $1.3 million over the 2000-2004 period.

Reduced PBGC Variable Premiums. The bill would make two changes affecting the variable-rate premium paid by underfunded plans. 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. On the basis of information on premium payments to the PBGC in 1996 and 1997, CBO estimates that this change would affect the premiums of approximately 400 plans each year. It would reduce PBGC's total premium receipts by about $4 million over the 2000-2004 period.

The bill would also 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 8,300 plans would have their premium payments to PBGC reduced by this provision beginning in 2002. Premium receipts by the PBGC would decline by $1.5 million in 2002 and by $5 million over the 2002-2004 period.

Missing Participants in Terminated Pension Plans. The legislation would expand the missing participant program. The Retirement Protection Act of 1994 established a missing participant program at PBGC for terminating defined benefit plans. The bill would expand the program to include terminating multiemployer plans, defined benefit plans not covered by PBGC, and defined contribution plans.

The budgetary impact of this provision would be less than $500,000 annually. PBGC does not expect a high volume of missing participants as a result of this proposal, and the administrative costs of expanding the program would not be high. The net budgetary effect of increased benefit payments would also be small. Amounts paid by a pension plan to PBGC for missing participants are held in PBGC's trust fund, which is off-budget. Amounts paid by PBGC to participants at the time they are located are funded in the same manner as benefit payments to participants in plans for which PBGC is the trustee—partially by the trust fund and partially by on-budget revolving funds.

Substantial Owner Benefits in Terminated Plans. The legislation 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 PBGC involve substantial owners, and the change in benefits paid by PBGC to owner-employees under this provision would be less than $500,000 annually.

Revenues

IRS User Fees. H.R. 1102 would eliminate the fee that the IRS charges small businesses for providing ruling, opinion, and determination letters regarding the companies' pension plans. This provision would take effect on December 31, 1999. Based on the amount of recent fees and on information from the IRS, CBO estimates that eliminating the fee would decrease governmental receipts by a total of $61 million over fiscal years 2000 through 2003. Under current law, the IRS's authority to charge such fees will expire at the end of fiscal year 2003, so the provision would have no impact on receipts beyond 2003.

Other Estimated Revenues. JCT estimates that the bill's amendments to the Internal Revenue Code would reduce federal revenues by $27 billion over the 2000-2004 period. This revenue loss is attributable primarily to provisions that would increase the amount of contributions to an Individual Retirement Account that are tax-deductible from $2,000 per person to $5,000 ($14.4 billion in lower revenues over the 2000-2004 period), exempt $100,000 in assets from the minimum distribution rules that apply to defined contribution

retirement plans ($5.6 billion in lower revenues), and increase the limit on annual contributions to 401(k) plans from $10,000 to $15,000 ($2.6 billion in lower revenues).

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	- 3	- 4	0	1	3	4	4	5	6	7
Changes in receipts	0	-2,113	-5,384	-5,942	-6,505	-7,097	-7,742	-8,391	-9,033	-9,604	-10,233

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT and CBO have determined that H.R. 1102 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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