CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 10, 1999

H.R. 3081
Wage and Employment Growth Act of 1999

As ordered reported by the House Committee on Ways and Means on November 9, 1999

SUMMARY

H.R. 3081 would increase the federal minimum wage in three steps from $5.15 to $6.15 in April 2002. It would reduce taxes for certain small businesses, change the tax treatment of certain pension plans, and reduce estate and gift taxes. The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that this bill would decrease governmental receipts by $30 billion over 2000-2004 period. In addition, CBO estimates that the bill would increase direct spending by $20 million over the same period. Because the bill would affect receipts and direct spending, pay-as-you-go procedures would apply.

H.R. 3081 contains one new intergovernmental mandate. In each of the fiscal years 2001-2004, the cost of that mandate would exceed the threshold for intergovernmental mandates ($50 million in fiscal year 1996, adjusted annually for inflation) established in the Unfunded Mandates Reform Act (UMRA). The bill also contains three new private-sector mandates. The costs of these mandates would exceed the threshold established by UMRA for private-sector mandates ($100 million in fiscal year 1996, adjusted annually for inflation) in each of the fiscal years 2000 through 2004. CBO has prepared separate mandate statements that provide more detail on the mandates and their estimated costs.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3081 is shown in the following table.

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	0	0	0	0	0
Estimated Outlays	5	10	-2	3	3
CHANGES IN REVENUES					
Estimated Revenues	0	-2,329	-8,360	-9,694	-9,852

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes H.R. 3081 will be enacted early in fiscal year 2000.

Revenues

All revenue provisions with the exception of the following were estimated by JCT.

IRS User Fees. Beginning on December 31, 2000, the bill would eliminate the fee the Internal Revenue Service (IRS) currently charges for determination letters regarding small business pension plans under five years old. CBO estimates that the eliminating these fees would decrease governmental receipts by $19 million over the 2001-2003 period, net of income and payroll tax offsets. CBO based its estimate on recent collections data and on information from the IRS.

Direct Spending

IRS User Fees. The IRS has the authority to retain and spend, without further appropriation action, a small portion of fees that would be eliminated. CBO estimates that the eliminating the fees would decrease direct spending by a negligible amount over the 2001-2004 period.

Federal Minimum Wage. H.R. 3081 would increase the federal minimum wage in three steps from $5.15 per hour to $6.15 per hour by April 2002. The increases would result in additional direct spending from the Welfare-to-Work grant program, under which states and nonprofit organizations subsidize the employment of individuals attempting to leave welfare for gainful employment. Funding totaling $3 billion has already been allocated to grantees, and CBO estimates that 10 percent of the total will ultimately not be spent.

Program data through June 1999 indicate that about 11 percent of the state grants and 25 percent of the grants to nonprofit organizations had been spent on subsidized employment. CBO assumes that grantees would continue to support the same number of workers in subsidized employment, and that the increased minimum wage would boost the costs of supporting them in those jobs. As a result, funds for this program would be spent more quickly than under current law, and some funds that otherwise would not be used will be spent as well. CBO estimates that additional spending would total $10 million during the 2000-2002 period, resulting from increases of $5 million in 2000 and $10 million in 2001 and a decrease of $5 million in 2002.

Reduced PBGC Premiums for New Plans. 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 participants 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 $0.4 million annually beginning in 2002 or by about $1.3 million over the 2000-2004 period.

Reduction of Additional PBGC Premiums for New and Small Plans. 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 $4.2 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. Premiums received by the PBGC would decline by $1.5 million in 2002 and by $4.6 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 $0.5 million 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.

Rules for Benefits of Substantial Owners of 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 $0.5 million in each year.

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 budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	5	10	-2	3	3	4	4	4	4	4
Changes in receipts	0	-2,329	-8,360	-9,694	-9,852	-11,220	-12,149	-13,192	-13,946	-14,906

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3081 contains one new intergovernmental mandate. In each of the fiscal years 2001-2004, the cost of that mandate would exceed the threshold for intergovernmental mandates ($50 million in fiscal year 1996, adjusted annually for inflation) established in the Unfunded Mandates Reform Act (UMRA). The bill also contains three new private-sector mandates. The costs of these mandates would exceed the threshold established by UMRA for private-sector mandates ($100 million in fiscal year 1996, adjusted annually for inflation) in each of the fiscal years 2000 through 2004. CBO has prepared separate mandate statements that provide more detail on the mandates and their estimated costs.

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