CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 5, 2002

H.R. 3340

A bill to amend title 5, United States Code, to allow certain catch-up contributions to the Thrift Savings Plan to be made by participants age 50 or over

As ordered reported by the House Committee on Government Reform on March 14, 2002

SUMMARY

H.R. 3340 would amend the Federal Employees Retirement System Act of 1986. This amendment would allow the Federal Thrift Savings Plan (TSP) to permit federal employees at least 50 years of age to make additional contributions to the TSP. CBO estimates that enacting H.R. 3340 would reduce revenues by $280 million over the 2003-2007 period, and by $408 million over the 2003-2012 period. Since H.R. 3340 would affect receipts, pay-as-you-go procedures would apply.

H.R. 3340 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Because the bill would allow certain federal employees to increase the amount of taxable income they defer, state and local governments could face reduced income tax receipts. CBO estimates such losses would not exceed $20 million in any of the first five years after enactment of the bill.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3340 is shown in the following table.

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
CHANGES IN REVENUES						
Estimated Revenues	0	-59	-77	-71	-42	-31

BASIS OF ESTIMATE

Current law limits the amounts that federal employees can contribute to the TSP. Contributions to the TSP are tax-deferred, and thus no federal income tax is paid on the contribution, or the associated investment earnings, until the money is withdrawn from the TSP. The Economic Growth and Tax Relief Reconcilation Act of 2001(Public Law 107-16) expanded the provisions of the tax code pertaining to tax deferred accounts to permit "catch-up" contributions. H.R. 3340 would change federal retirement provisions to take advantage of the new tax law changes. Under H.R. 3340, federal employees at least 50 years of age could make additional catch-up contributions to the TSP. The allowable amount of catch-up contributions would be $2,000 in 2003, $3,000 in 2004, $4,000 in 2005, $5,000 in 2006, and indexed to inflation thereafter. Under the bill, employees would contribute more money to their TSP accounts than under prior law, and thus taxes would be deferred on more of their income.

Based on data from the Office of Personnel Management and the Federal Retirement Thrift Investment Board, CBO estimates approximately 200,000 federal employees would make catch-up contributions in 2003. Under current law, the amount of allowable contributions to the TSP is scheduled to rise substantially between 2002 and 2006, so CBO estimates that the number of employees making catch-up contributions would drop to fewer than 50,000 by 2006. CBO estimates the federal government would forgo about $408 million in federal income taxes over the 2003-2012 period as a result of this provision.

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 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 through 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in receipts	0	-59	-77	-71	-42	-31	-32	-33	-33	-19	-11
Changes in outlays	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3340 contains no intergovernmental or new private-sector mandates as defined in UMRA. Because the bill would allow certain federal employees to increase the amount of taxable income they defer, state and local governments could face reduced income tax receipts, CBO estimates such losses would not exceed $20 million in any of the first five years after enactment of the bill.

ESTIMATE PREPARED BY:

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