CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 31, 2005

Reconciliation Recommendations of the House Committee on Education and the Workforce

As approved by the House Committee on Education and the Workforce on October 20 and 26, 2005

SUMMARY

The legislation would make numerous changes to the Temporary Assistance for Needy Families (TANF) program, a child care grant program, and federal higher education programs, as well as changes to the premiums charged by the Pension Benefit Guaranty Corporation (PBGC). CBO estimates that enacting the legislation would reduce federal outlays by $7.7 billion in 2006, $20.4 billion over the 2006-2010 period, and $43.7 billion over the 2006-2015 period.

Changes in higher education programs would account for the largest portion of the savings ($14.3 billion over the first five years and $20.5 billion over the 10-year period, mostly as the result of diminished subsidy costs for the student loan programs). CBO estimates that the net savings from the changes in PBGC premiums and reimbursements, which are recorded as offsets to spending, would be $6.2 billion over the 2006-2010 period and $23.3 billion over 2006-2015 period.

The legislation also would authorize appropriations for child care, a new fatherhood grant program, administrative activities related to student aid, and loan forgiveness for certain types of workers. Subject to appropriation of the specified amounts, CBO estimates that spending for the first three activities would total $14.7 billion over the 2006-2010 period. CBO has not completed an estimate of the costs of expanding the loan-forgiveness program.

The legislation contains no intergovernmental mandates as defined by the Unfunded Mandates Reform Act (UMRA); any costs to state, local, or tribal governments would result from complying with conditions of federal assistance. The legislation would significantly affect the way states administer the TANF program, but because of the flexibility in the program as a whole, the new requirements would not be intergovernmental mandates as defined in UMRA.

Subtitle C contains private-sector mandates on single-employer sponsors of defined-benefit pension plans. CBO estimates that the direct cost of those new requirements would exceed the annual threshold specified in UMRA ($123 million in 2005, adjusted annually for inflation) in each of the first five years the mandates would be effective. Subtitles A and B do not contain any private-sector mandates as defined in UMRA.

MAJOR PROVISIONS

Subtitle A would establish new standards for the participation of TANF recipients in work activities and reauthorize funding for a child care grant program.

Provisions addressing the higher education programs (in subtitle B, part 1) that have significant budgetary effects include:

- Changing the formulas for calculating borrower interest rates and lender yields;
- Eliminating the separate formula for lender yields for loans supported with certain tax-exempt funding;
- Changing the insurance provided to lenders and the fees charged by lenders;
- Reducing borrower origination fees and requiring guaranty agencies to pay the government a 1 percent insurance premium that is often not required under current law;
- Eliminating mandatory funding for federal administrative costs for financial assistance programs;
- Increasing the loan limits for first-year, second-year, and graduate students;
- Cancelling the repayment of student loans for certain types of teachers; and
- Reducing the share of collections on defaulted loans that guaranty agencies would retain.

Part 2 of subtitle B would extend certain forms of relief to students and schools affected by Hurricanes Katrina and Rita.

The major provisions affecting the PBGC (subtitle C) would increase premiums paid by sponsors of defined-benefit, single-employer pension plans, and would impose a new charge on former plan sponsors if the PBGC takes over their pension plans as a result of bankruptcy or forced termination.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of the legislation on direct spending is shown in Table 1. The costs and savings from this legislation would fall within budget functions 500 (education, training, and social services) and 600 (income security).

TABLE 1. DIRECT SPENDING EFFECTS OF THE RECONCILIATION RECOMMENDATIONS OF THE HOUSE COMMITTEE ON EDUCATION AND THE WORKFORCE

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
Subtitle B: Higher Education												
Part 1 - Amendments to Higher Education Act of 1965												
Estimated Budget Authority	-8,230	-2,580	-1,980	-1,600	-1,245	-1,115	-1,175	-1,240	-1,305	-1,330	-15,635	-21,800
Estimated Outlays	-7,525	-2,100	-1,910	-1,605	-1,330	-1,155	-1,165	-1,230	-1,290	-1,355	-14,470	-20,665
Part 2: Higher Education Relief												
Estimated Budget Authority	210	0	0	0	0	0	0	0	0	0	210	210
Estimated Outlays	210	0	0	0	0	0	0	0	0	0	210	210
Subtotal, Subtitle B												
Estimated Budget Authority	-8,020	-2,580	-1,980	-1,600	-1,245	-1,115	-1,175	-1,240	-1,305	-1,330	-15,425	-21,590
Estimated Outlays	-7,315	-2,100	-1,910	-1,605	-1,330	-1,155	-1,165	-1,230	-1,290	-1,355	-14,260	-20,455
Subtitle C: Pension Benefit Guaranty Corporation Premiums												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-363	-729	-1,186	-1,678	-2,206	-2,837	-3,641	-3,585	-2,814	-4,214	-6,162	-23,252
Total Changes												
Estimated Budget Authority	-8,020	-2,580	-1,980	-1,600	-1,245	-1,115	-1,175	-1,240	-1,305	-1,330	-15,425	-21,590
Estimated Outlays	-7,678	-2,829	-3,096	-3,283	-3,536	-3,992	-4,806	-4,815	-4,104	-5,569	-20,422	-43,707

NOTES: Subtitle A would have no significant effect on direct spending. The legislation also would authorize spending subject to appropriation for some grant programs, for administrative costs for student aid, and for expansion of programs for student loan forgiveness.

* = Less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes the legislation will be enacted in December 2005.

Subtitle A: TANF and Child Care (Direct Spending Effects)

Section 102 would require states to have an increasing percentage of TANF recipients participate in work activities while receiving cash assistance. It would maintain current penalties for the failure to meet those requirements. Those penalties can total up to 5 percent of the TANF block grant amount for the first failure to meet work requirements and increase with each subsequent failure. (Under current law, funding for TANF block grants expires on December 31, 2005; those grants are assumed to be extended in the baseline, pursuant to the Balanced Budget and Emergency Deficit Control Act.) CBO expects that states would generally be able to either meet the requirements or avoid them by moving families to separate state programs or by some other means. Therefore, we estimate that any penalties for failing to meet the new requirements would total less than $500,000 annually. (The effects of this subtitle on discretionary spending are discussed later in this estimate.)

Subtitle B: Higher Education (Direct Spending Effects)

Subtitle B contains some provisions that would reduce direct spending and others that would increase costs. On net, these changes would reduce outlays by $7.3 billion in 2006, $14.3 billion during the 2006-2010 period, and $20.5 billion over the 2006-2015 period. Most of those savings represent estimated changes in the subsidy costs of student loans, calculated on a present value basis. (Subtitle B would also affect discretionary spending, but CBO has not completed an estimate of the potential discretionary costs of implementing this subtitle.)

Major Provisions Reducing Spending. Subtitle B would make changes to the government's student loan programs, affecting payments to lenders and guaranty agencies, fees paid by lenders, and mandatory funding for administrative costs, that would reduce spending significantly. These reductions would total $7.9 billion in 2006, $18.4 billion over the 2006-2010 period, and $33.6 billion over the 2006-2015 period (see Table 2).

TABLE 2. DIRECT SPENDING EFFECTS OF SUBTITLE B, PART 1: AMENDMENTS TO THE HIGHER EDUCATION ACT

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
Major Provisions Reducing Spending:												
Changes in Borrower Interest Rates and Lender Yields												
Estimated Budget Authority	-6,490	-1,580	-1,495	-1,460	-1,485	-1,510	-1,555	-1,600	-1,635	-1,675	-12,510	-20,485
Estimated Outlays	-5,925	-1,330	-1,340	-1,290	-1,295	-1,320	-1,355	-1,390	-1,425	-1,470	-11,180	-18,140
Changes to Certain Loans Financed with Tax-Exempt Bonds												
Estimated Budget Authority	-980	-265	-265	-270	-270	-275	-280	-290	-290	-290	-2,050	-3,475
Estimated Outlays	-850	-235	-235	-235	-240	-245	-245	-250	-255	-265	-1,795	-3,055
Changes in Lender Fees												
Estimated Budget Authority	-610	-355	-375	-395	-410	-430	-445	-465	-485	-495	-2,145	-4,465
Estimated Outlays	-520	-275	-325	-345	-360	-375	-390	-405	-425	-445	-1,825	-3,865
Changes in Lender Insurance												
Estimated Budget Authority	-425	-145	-150	-160	-165	-170	-180	-185	-195	-200	-1,045	-1,975
Estimated Outlays	-385	-115	-130	-140	-145	-150	-155	-160	-170	-175	-915	-1,725
Changes in Mandatory Administrative Costs												
Estimated Budget Authority	-13	-646	-665	-684	-705	-724	-744	-766	-789	-812	-2,713	-6,548
Estimated Outlays	17	-345	-549	-640	-689	-709	-730	-750	-773	-795	-2,206	-5,963
Changes in Guaranty Agencies' Share of Collections												
Estimated Budget Authority	-300	-60	-65	-65	-70	-70	-75	-80	-80	-80	-560	-945
Estimated Outlays	-270	-50	-55	-60	-60	-60	-65	-70	-70	-70	-495	-830
Subtotal												
Estimated Budget Authority	-8,818	-3,051	-3,015	-3034	-3,105	-3,179	-3,279	-3,386	-3,474	-3,552	-21,023	-37,893
Estimated Outlays	-7,933	-2,350	-2,634	-2710	-2,789	–2859	-2,940	-3,025	-3,118	-3,220	-18,416	-33,578
Major Provisions Increasing Spending:												
Changes in Borrower Origination Fees and Insurance Premiums												
Estimated Budget Authority	10	265	685	1,045	1,420	1,590	1,610	1,625	1,635	1,660	3,425	11,545
Estimated Outlays	-90	70	450	750	1,070	1,275	1,335	1,345	1,350	1,360	2,250	8,915
Increased Loan Limits												
Estimated Budget Authority	0	315	540	555	580	600	620	640	660	685	1,990	5,795
Estimated Outlays	0	185	410	485	505	525	540	560	580	595	1,585	4,385
Subtotal												
Estimated Budget Authority	10	580	1,225	1,600	2,000	2,190	2,230	2,265	2,295	2,345	5,415	16,740
Estimated Outlays	-90	255	860	1,235	1,575	1,800	1,875	1,905	1,930	1,955	3,835	13,300

(Continued)

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
Other Provisions With Measurable Effects												
Estimated Budget Authority	245	74	31	36	51	64	66	71	66	71	437	775
Estimated Outlays	192	79	56	31	51	64	69	69	69	74	409	754
Interaction Effects												
Estimated Budget Authority	333	-183	-221	-202	-191	-190	-192	-190	-192	-194	-464	-1,422
Estimated Outlays	306	-84	-192	-161	-167	-160	-169	-179	-171	-164	-298	-1,141
Total Changes												
Estimated Budget Authority	-8,230	-2,580	-1,980	-1,600	-1,245	-1,115	-1,175	-1,240	-1,305	-1,330	-15,635	-21,800
Estimated Outlays	-7,525	-2,100	-1,910	-1,605	-1,330	-1,155	-1,165	-1,230	-1,296	-1,355	-14,470	-20,665
Memorandum: Baseline Spending for Student Loans												
Estimated Budget Authority	8,713	8,937	3,965	9,268	9,467	9,703	9,932	10,149	10,360	10,613	45,350	96,107
Estimated Outlays	6,482	7,297	7,443	7,760	7,991	8,484	8,740	8,979	9,169	9,363	36,973	81,708

Borrower Interest Rate and Lender-Yield Formulas. The legislation would change many of the formulas used to compute what borrowers owe to lenders and what lenders receive from or pay the government under the guaranteed loan program. (The following table summarizes the current-law formulas and the proposed changes.) Borrower rates on new student and parent loans are scheduled to switch from a variable-rate formula to a fixed rate (6.8 percent for students and 7.9 percent for parents) in July 2006; the legislation would eliminate that change and continue the current variable-rate formulas. The rates on consolidated loans would change from a fixed rate based on the weighted average of the loans being consolidated, rounded up to the nearest one-eighth percent. Instead, the borrower would be able to choose between a variable rate (91-day Treasury bill rate plus 2.3 percentage points for students, or plus 3.1 percentage points for parents) and a fixed rate (set at the 91-day Treasury bill rate plus 3.3 percentage points for students, or plus 4.1 percentage points for parents). The borrowers of consolidated loans also would be charged a new origination fee of 1.0 percent. The rates on all student and parent loans would be capped at 8.25 percent and 9.0 percent, respectively.

The lender-yield formulas for student and parent loans would continue to be based on a variable-rate formula, but the legislation would no longer allow the borrowers' rates to serve as the minimum for the lenders' yield. Under current law, lenders receive the higher of the lender-yield formula or the rate paid by borrowers, but the legislation would require lenders to rebate the difference between the two rates to the government when the borrower rate is higher.

TABLE 3. COMPARISON OF FORMULAS FOR INTEREST RATES AND LENDER YIELDS UNDER CURRENT LAW AND SUBTITLE B

Type of Loan	Current law: Loans originating after December 1999 and before July 2006	Loans originating after June 2006	
		Current Law	Proposed
BORROWER INTEREST RATES			
Student loans			
In-school, grace, or deferment	Variable rate set annually at 91-day Treasury bill plus 1.7 percentage points (8.25 percent cap)	Fixed rate at 6.8 percent	Variable rate set annually at 91-day Treasury bill plus 1.7 percentage points (8.25 percent cap)
In repayment	Variable rate set annually at 91-day Treasury bill plus 2.3 percentage points (8.25 percent cap)	Fixed rate at 6.8 percent	Variable rate set annually at 91-day Treasury bill plus 2.3 percentage points (8.25 percent cap)
Parent loans	Variable rate set annually at the Treasury bill rate plus 3.1 percent (9.0 percent cap)	Fixed rate at 7.9 percent	Variable rate set annually at 91-day Treasury bill rate plus 3.1 percent (9.0 percent cap)
Consolidation loans			
Students	Fixed rate set at the weighted average of loans consolidated rounded up to nearest 1/8 percent	Fixed rate set at the weighted average of loans consolidated rounded up to nearest 1/8 percent	Choice of variable rate set annually at 91-day Treasury bill rate plus 2.3 percent (8.25 percent cap) or fixed rate set at 91-day Treasury bill rate plus 3.3 percentage points
Parents	Fixed rate set at the weighted average of loans consolidated rounded up to nearest 1/8 percent	Fixed rate set at the weighted average of loans consolidated rounded up to nearest 1/8 percent	Choice of variable rate set annually at 91-day Treasury bill rate plus 3.1 percent (9.0 percent cap) or fixed rate set at 91-day Treasury bill rate plus 4.1 percentage points

(Continued)

TABLE 3. CONTINUED

Type of Loan	Current law: Loans originating after December 1999 and before July 2006	Loans originating after June 2006 Current Law	Loans originating after June 2006 Proposed
	LENDER YIELDS		
Student loans			
In-school, grace, and deferment	Greater of the borrower rate or 3-month commercial paper rate plus 1.74 percentage points	Greater of the borrower rate or 3-month commercial paper rate plus 1.74 percentage points	3-month commercial paper rate plus 1.74 percentage points
In repayment	Greater of the borrower rate or 3-month commercial paper rate plus 2.34 percentage points	Greater of the borrower rate or 3-month commercial paper rate plus 2.34 percentage points	3-month commercial paper rate plus 2.34 percentage points
Parent Loans	Greater of the borrower rate or 3-month commercial paper rate plus 2.64 percentage points (only when the borrower rate is capped at 9.0 percent)	Greater of the borrower rate or 3-month commercial paper rate plus 2.64 percentage points (only when that formula exceeds 9.0 percent)	3-month commercial paper rate plus 2.64 percentage points
Consolidation loans			
Student loans	Regular formula less 1.05 percentage points	Regular formula less 1.05 percentage points	Regular formula less 1.05 percentage points
Parent loans	Regular formula less 1.05 percentage points	Regular formula less 1.05 percentage points	Regular formula less 1.05 percentage points

These changes in rates and yields would save an estimated $5.9 billion in 2006, $11.2 billion over the 2006-2010 period, and $18.1 billion through 2015.

Changes in "9.5 Percent" Loans. Another change in the payment formulas for lenders would affect loans that are funded with financing based on tax-exempt bonds issued between 1980 and 1993. Historically, these loans have had a different formula for determining payments to lenders. Specifically, the formula for the government's special allowance payments to the holders of these loans was 50 percent of the sum of the 91-day Treasury bill rate plus 3.5 percentage points or 9.5 percent, whichever was higher. In recent years, the 9.5 percent rate was higher. Consequently, these have come to be referred to as "9.5 percent loans." Legislation enacted in 2004 modified this policy for most new loans from tax-exempt lenders during the October 2004 to December 2005 period, changing the lender formula to conform to the rates paid to other lenders. Under current law, the formula on new loans will revert back to the pre-October 2004 structure. The legislation would continue the practice currently in place (instead of allowing it to expire at the end of December 2005), but expand its scope to include all new loans supported with this type of financing. This policy would save an estimated $850 million in 2006, $1.8 billion over the 2006-2010 period, and $3.1 billion over the 2006-2015 period.

Lender Fees. The legislation would increase two fees currently charged to lenders. The first fee, which is charged on all loans disbursed, would rise from 0.5 percent to 1.0 percent. The second, which is a fee charged annually on outstanding consolidation loans, would be boosted from 1.05 percent to 1.30 percent, but only for those lenders for whom consolidated loans constitute more than 90 percent of their student and parent loan portfolios. CBO estimates that the changes in these fees would save $520 million in 2006, $1.8 billion over the 2006-2010 period, and $3.1 billion over the 2006-2015 period.

Federal Lender Insurance. The legislation would reduce the portion of defaulted loans for which lenders are reimbursed. Under current law, lenders are generally reimbursed for 98 percent of the outstanding balances on loans that go into default. Lenders that meet certain requirements are classified as exceptional lenders and receive 100 percent insurance.

The legislation would reduce the 98 percent insurance level to 96 percent, and would tighten eligibility for designation as an exceptional lender. For those lenders losing exceptional lender status, the insurance rate would drop from 100 percent to 96 percent. CBO estimates that these changes would reduce outlays by $385 million in 2006, $915 million over the 2006-2010 period, and $1.7 billion through 2015.

The legislation also would reduce the rate at which the federal government replenishes the student loan reserve funds held by the various guaranty agencies. However, because those funds are considered the property of the federal government, such transfers are intrabudgetary transactions and have no effect on total federal spending or revenues.

Funding for Mandatory Administrative Costs. Section 458 of the Higher Education Act of 1965 specifies a direct appropriation for the government's administrative costs associated with operating the financial assistance programs for post-secondary education students. The statute does not limit the amount provided for those activities after 2002; thus, this account is an uncapped direct spending program. CBO's baseline assumes that the portion of the account that funds the government's administrative activities would be equal to the actual amount used in 2004, adjusted for anticipated inflation. The other major component of this account is an account maintenance fee paid to guaranty agencies, which equals 0.10 percent of the original principal on outstanding guaranteed student loans.

The legislation would eliminate mandatory funding for the section 458 administrative activities beginning in 2007, but retain the mandatory funding for the account maintenance fees through 2011. Section 458 funding in 2006 would be limited to $820 million. CBO assumes that the entire amount of the fees would be paid, but that a portion would be paid out of the federal student loan reserve funds (the on-budget accounts held by guaranty agencies) instead of section 458 funds. These changes would increase direct spending outlays by $17 million in 2006, but reduce them by $2.2 billion over the 2006-2010 period and by $6.0 billion over the 2006-2015 period, CBO estimates. (The offsetting increases in discretionary spending for administrative costs are discussed in the section on spending subject to appropriation.)

Guaranty Agency Retention Allowance. The legislation would reduce the share of collections on defaulted loans that guaranty agencies are allowed to retain from 23 percent to 20 percent, and would increase the share retained by the government commensurately. CBO estimates that this change would reduce federal costs by $270 million in 2006, $495 million over the 2006-2010 period, and $830 million over the 2006-2015 period.

Major Provisions Increasing Spending. The provisions in the bill that would result in the largest increases in spending are the changes to origination fees and insurance premiums paid by borrowers and increases in loan limits. The estimated costs resulting from these portions of subtitle B total $3.8 billion over the 2006-2010 period and $13.3 billion over the 2006-2015 period.

Borrower Origination Fees and Premiums. The legislation would gradually reduce borrower origination fees for both subsidized and unsubsidized student loans, while at the same time requiring guaranty agencies to charge all borrowers of guaranteed student and parent loans the 1.0 percent insurance premium now authorized. Currently, the origination fee for guaranteed loans is 3.0 percent, and the insurance premium may be as much as 1.0 percent. In the direct loan program, the origination fee is 3.0 percent (although in practice, the Department of Education generally charges 1.5 percent up front and another 1.5 percent if the borrower fails to make timely payments) and there is no insurance fee. The changes in the bill would equalize the total fees charged to students in the guaranteed and direct loan programs.

Total fees on student borrowers would drop to 2.5 percent in July 2007, to 2.0 percent in July 2008, to 1.5 percent in July 2009, and to 1.0 percent in July 2010. (A new origination fee on consolidated loans of 1.0 percent would also be charged, as discussed earlier.) These changes would reduce outlays by $90 million in 2006 because the increased insurance premiums are recorded more quickly than the reduced origination fees (fees are tied to loan disbursements that often fall into a subsequent year). CBO estimates that these changes would increase outlays by $2.3 billion over the 2006-2010 period and by $8.9 billion over the 2006-2015 period.

Increased Loan Limits. Subtitle B would increase the maximum amount of subsidized loans for first- and second-year students from $2,625 and $3,500, respectively, to $3,500 and $4,500 beginning in 2007. In addition, the bill would increase the limit for unsubsidized loans for each year of graduate school from $10,000 to $12,000. To conform the aggregate borrowing limits to the latter changes, the limit on unsubsidized loans would be increased by $10,000. CBO estimates these increases would boost aggregate student loan borrowing from both the direct and guaranteed loan programs, and as a result would increase spending by $1.6 billion over the 2007-2010 period and by $4.4 billion over the 2007-2015 period.

Other Provisions With Measurable Effects. The legislation contains numerous provisions that would have much smaller budgetary effects than those described above. Among them are changes in loan cancellation programs, borrower repayment terms, and interest deferment eligibility. Other provisions with some estimated budget effects during the 2006-2010 period include changes in the income protection allowance for dependent students, the restriction on eligibility for students with certain drug-related convictions, the eligibility of schools to participate on the basis of distance learning programs, and the multiple disbursement requirements for certain loans for schools with low default rates. Taken together, CBO estimates that these provisions would cost $192 million in 2006, $409 million over the 2006-2010 period, and $754 million over the 2006-2015 period.

Interactions. The overall spending reductions that the legislation would yield are larger than the sum of the individual provisions because many provisions interact. For example, the lender-yield and borrower interest rate changes save even more when the increased loan volume flowing from the changes in loans limits is considered. However, those same loan limit increases boost the costs of the provisions that reduce borrower fees. As another example, the application of the proposed lender yields and borrower interest rates to the 9.5 percent loans increases the savings when compared to that provision alone. In total, the interactions among the various provisions would generate additional estimated savings of $298 million over the 2006-2010 period and $1.1 billion over the 2006-2015 period.

Higher Education Relief. The legislation would provide relief to certain student loan borrowers and educational institutions that were adversely affected by Hurricanes Katrina and Rita. CBO estimates that the total costs of this relief would be $210 million in fiscal year 2006 (with no effect after this year).

The largest portions of the costs are attributable to two policies: (1) the cancellation of repayment for all student loans that were disbursed for cancelled enrollment periods at post-secondary schools that were closed, and (2) the requirement that the federal government pay the interest for up to six months on student and parent loans for borrowers affected by the hurricanes. Based on data provided by the Department of Education, CBO estimates that the costs of cancelling repayments for the loans that had been disbursed for schools that closed as a result of the storm would be $70 million.

CBO estimates that the interest payments on the loans for borrowers affected by the hurricanes would amount to about $130 million. Data are not available to precisely estimate the number of borrowers and amount of outstanding principal that could be affected by this policy. CBO used demographic and economic data from the Census Bureau for the jurisdictions covered by the major disaster designation for Hurricanes Katrina and Rita to estimate the potential number of affected borrowers. CBO estimates that student loan indebtedness for affected borrowers in the affected areas is roughly $5 billion. The estimated gross costs were reduced to reflect the likely use of existing authority for deferment of payments for interest and principal for economic hardship.

The legislation would also waive the requirement for the return of federal student aid in cases when the storm resulted in a cancelled period of enrollment, and would exclude any disbursements for cancelled enrollment periods from the aggregate loan and grant aid limits for affected students. Together, these two provisions would cost an estimated $10 million in 2006.

Subtitle C: Premiums Charged by the Pension Benefit Guaranty Corporation

The legislation would increase the per-participant premiums charged to sponsors of defined-benefit pension plans, as well as institute a termination premium, which would be charged to sponsors whose plans are taken over by the PBGC as a result of an involuntary or distress termination. These premium receipts, which are shown in the budget as offsets to direct spending, would total about $363 million in 2006, $6.2 billion over the 2006-2010 period, and $30.6 billion over the 2006-2015 period. The higher premium receipts would eliminate the need for the PBGC to increase the rate at which it reimburses itself from a nonbudgetary fund where it holds the reserves of the pension plans it has taken on. These reimbursements, that also show up as offsets to spending, would decline by $7.4 billion during the 2013-2015 period, thereby reducing the net 10-year savings to $23.3 billion. These estimated changes are displayed in Table 4 and discussed below.

Increase in Flat-Rate Premium for Single-Employer Plans. Under current law, sponsors of single-employer, defined-benefit pension plans insured by the PBGC are required to pay the agency a premium of $19 per participant per year. The legislation would increase the flat-rate premium to $30 per participant in 2006 and index it to wage growth starting in 2007. The PBGC also would have the authority to further increase those premiums by up to 20 percent each year if it determined that such an increase would be necessary to achieve an actuarially sound program. The PBGC has already incurred substantial losses in recent years, and CBO anticipates further losses in the future. (See CBO's recent report, *The Risk Exposure of the Pension Benefit Guaranty Corporation*, issued in September 2005.) Therefore, CBO believes that the PBGC would need to raise premiums each year by the full 20 percent. If so, the premium rate for single-employer plans would rise to approximately $73 per participant in 2010 and $223 in 2015.

About 35 million people currently participate in tax-qualified, single-employer pension plans. This figure includes active workers, former workers who are vested but have not started collecting retirement benefits, and annuitants. The number of participants in single-employer plans insured by the PBGC has remained nearly constant for the past decade, and CBO assumes it would remain steady for the next 10 years.

The current premium of $19 per participant generates about $650 million in premium income annually for the PBGC. CBO estimates changes to the flat-rate premiums made by the legislation would increase receipts by $5.2 billion over the 2006-2010 period and by $27.8 billion over the 2006-2015 period. Because the PBGC's premiums are recorded as offsetting collections to a mandatory spending account, an increase in premium collections is reflected in the budget as a decrease in direct spending.

Premiums for Certain Terminated Single-Employer Plans. The legislation would create a new premium for sponsors of plans that the PBGC takes over on an involuntary or distressed-termination basis. The required payments would be $1,250 per plan participant for three years after the termination. For sponsors whose plans were terminated while the program was being reorganized under chapter 11 of the bankruptcy code, the premium would be levied after the sponsor emerges from bankruptcy. The premium would not apply to firms that are liquidated by a bankruptcy court. CBO estimates that these new premiums would total about $1.0 billion over the 2006-2010 period and $2.9 billion over the 2006-2015 period.

TABLE 4. DIRECT SPENDING EFFECTS OF SUBTITLE B: PENSION BENEFIT GUARANTY CORPORATION PREMIUMS

	Outlays in Millions of Dollars, by Fiscal Year											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2006-2010	2006-2015
Increase in Flat-Rate Premiums for Single-Employer Plans	-327	-621	-966	-1,380	-1,863	-2,484	-3,277	-4,278	-5,520	-7,038	-5,155	-27,750
Premiums for Certain Terminated Single-Employer Plans	-36	-109	-220	-298	-342	-354	-364	-375	-386	-398	-1,007	-2,883
Subtotal, Premiums	-363	-729	-1,186	-1,678	-2,206	-2,837	-3,641	-1,653	-5,906	-7,436	-6,162	30,635
Changes in Transfers from PBGC's Nonbudgetary Trust Fund	0	0	0	0	0	0	0	1,068	3,092	3,222	0	7,382
Total Changes	-363	-729	-1,186	-1678	-2,206	-2,837	-3,641	-3,585	-2,814	-4,214	-6,162	-23,252

NOTE: PBGC = Pension Benefit Guaranty Corporation.

Based on recent PBGC data on terminations, CBO estimates that underfunded plans that will be terminated over the next five years would contain about 120,000 participants per year, with three-quarters of these terminations relating to nonliquidation bankruptcy filings. CBO assumes that a year's bankruptcy cases will emerge from bankruptcy over several years following the filing date. The annual savings would grow rapidly during the first few years because of the likely timing of sponsors emerging from bankruptcy.

Transfers from PBGC's Nonbudgetary Trust Fund. The PBGC's assets are held in two separate funds: an on-budget revolving fund and a nonbudgetary trust fund.[1] In its on-budget fund, the PBGC receives premium payments and makes outlays for benefit payments and administrative costs. The nonbudgetary trust fund holds assets from terminated plans until they are needed to help pay for benefits and other expenses. The PBGC makes periodic transfers from the nonbudgetary fund to the on-budget fund, where they are used to cover about half of all benefit payments and most of the PBGC's administrative costs. As with premiums, these transfers are offsetting collections to a mandatory account, and so are reflected in the budget as offsets to outlays.

1. The PBGC has several different on-budget revolving funds and two nonbudgetary trust funds. For simplicity in budgetary presentation, CBO combines the various on-budget and nonbudgetary funds into just two funds.

In CBO's current-law projections, PBGC's increasing liabilities and steady premium income will cause the agency's on-budget fund to be completely exhausted in about 2013. No precedent exists for how the PBGC would proceed if its on-budget fund is depleted. However, CBO assumes that the agency would cover its expenses by increasing the percentage of benefits and other expenses being paid through transfers from its nonbudgetary trust fund, thus increasing offsetting collections above what they would have been if the fund had remained solvent.

CBO estimates the increases in premium receipts would improve the finances of the on-budget fund and would enable it to remain solvent beyond 2015. As a result, the PBGC would not need to increase the amounts transferred from the nonbudgetary fund to help cover benefit payments and other expenses during the 10-year projection period. By allowing the on-budget fund to remain solvent through the next decade, the legislation would reduce those transfers by $7.4 billion over the 2013-2015 period. Because this change would reduce an offset to mandatory spending, it would result in a net increase in such spending.

Spending Subject to Appropriation

This legislation would amend and reauthorize the Child Care and Development Block Grant Act of 1990, and would make changes to the Temporary Assistance for Needy Families program, including increasing work participation rates and establishing a new program of grants to promote fatherhood. In addition, the legislation would authorize appropriations for the administrative costs of operating the student financial aid programs. It also would expand eligibility for the discretionary student loan forgiveness program to include early childhood educators, nurses, librarians, first responders, and others. CBO has not estimated how much this provision would increase the program's authorization.

Subtitle A. This subtitle would authorize appropriations totaling $2.3 billion in 2006 and increasing amounts in subsequent years. Authorizations would total $13.6 billion over the 2006-2010 period. CBO estimates that appropriation of these amounts would result in additional outlays of $12.5 billion over those five years.

Child Care. The legislation would amend and reauthorize the Child Care and Development Block Grant (CCDBG) program. The CCDBG program was authorized through 2002 by Child Care and Development Block Grant Act of 1990 and has been authorized in appropriation acts since then; it is currently authorized through November 18, 2005, by Public Law 109-77. This legislation would authorize appropriations of $2.3 billion in 2006, $2.5 billion in 2007, $2.7 billion in 2008, $2.9 billion in 2009, and $3.1 billion in 2010.

(Funding in 2005 was $2.083 billion.) If these amounts are appropriated, outlays from those appropriations would total an estimated $12.4 billion over the 2006-2010 period.

The CCDBG program provides funding to states for child-care subsidies to low-income families, improvement in the quality of child care services, and other activities. It is one of the two federal programs for child-care subsidies within a program grouping often referred to as the Child Care and Development Fund. The other program is the Child Care Entitlement to States, a mandatory program that would not be affected by the legislation.

TABLE 5. DISCRETIONARY SPENDING EFFECTS OF SUBTITLES A AND B: TANF, CHILD CARE, AND HIGHER EDUCATION

	By Fiscal Year, in Millions of Dollars					
	2005	2006	2007	2008	2009	2010
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law (from existing appropriations)						
Budget Authority	2,083	0	0	0	0	0
Estimated Outlays	2,116	614	113	21	0	0
Proposed Changes:						
Child Care and Development Block Grant Program						
Authorization Level	0	2,300	2,500	2,700	2,900	3,100
Estimated Outlays	0	1,633	2,327	2,609	2,830	3,030
Fatherhood Grant Program						
Authorization Level	0	20	20	20	20	20
Estimated Outlays	0	2	12	22	23	22
Student Aid Administrative Costs						
Estimated Authorization Level	0	0	646	665	684	705
Estimated Outlays	0	0	345	549	640	689
Total Proposed Changes						
Authorization Level	0	2,320	3,166	3,385	3,604	3,825
Estimated Outlays	0	1,635	2,684	3,180	3,493	3,741
Total Spending Under the Legislation						
Authorization Level	2,083	2,320	3,166	3,385	3,604	3,825
Estimated Outlays	2,116	2,249	2,797	3,201	3,493	3,741

NOTE: CBO has not completed its estimate for the expansion of a loan forgiveness program.

Fatherhood Grant Program. Section 105 would establish new grant programs to promote responsible fatherhood and would authorize appropriations of $20 million annually over the 2006-2010 period. At least 65 percent of the funds would be allotted for competitive grants to community entities and Indian tribes to test the effectiveness of various approaches to promoting responsible fatherhood. At least $5 million annually would be directed to national organizations to test the use of economic incentives to encourage noncustodial parents to enter the workforce. The remainder could be used for other demonstration projects or for program evaluations. CBO estimates implementing the programs would cost $81 million over the 2006-2010 period.

Subtitle B. This legislation would authorize funding over the 2007-2011 period for the administration of student financial aid programs, as well as for an expanded program of loan forgiveness. CBO estimates that appropriations for the administrative costs, which are authorized at such sums as may be necessary, would be $646 million in 2007 and $2.7 billion over the 2007-2010 period, based on the current mandatory costs for those activities. If these amounts are appropriated, discretionary outlays would total $2.2 billion over the period. CBO has not completed its estimate for the expansion of the loan forgiveness program.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The legislation contains no intergovernmental mandates as defined by UMRA. It would significantly affect the way states administer the TANF program, but because of the flexibility in the program as a whole, the new requirements would not be intergovernmental mandates as defined in UMRA.

In particular, this legislation would increase the work participation rates required in the TANF program, prohibit states from using funds from the TANF program to pay offshore contracting expenses, and increase the proportion of Child Care Development Block Grants that is used for earmarked purposes. It also would authorize funding for child care programs and fatherhood grants and would provide greater flexibility to states through demonstration programs.

The legislation would provide assistance to institutions of higher education affected by or serving students affected by the recent hurricanes. It also would authorize funding for student aid and higher education programs, much of which would go to public institutions of higher education. Any costs to those institutions or to state, local, or tribal governments would result from complying with conditions for receiving federal assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Subtitle C would make changes to the Employee Retirement Income Security Act that would impose mandates on single-employer sponsors of defined-benefit pension plans. Those changes would increase the per-participant premium rates paid to the Pension Benefit Guaranty Corporation and would create a termination premium for sponsors whose plans are terminated by the PBGC on an involuntary or distressed-termination basis. CBO estimates that the cost of those mandates would total about $363 million in 2006 and $6.2 billion over the 2006-2010 period.

Subtitles A and B do not contain any private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATES

CBO has transmitted a number of cost estimates earlier this year for legislation that would affect the TANF, child care, and higher education programs, and the PBGC.

On March 16, 2005, CBO transmitted a cost estimate for S. 525, the Caring for Children Act of 2005, as ordered reported by the Senate Committee on Health, Education, Labor and Pensions. On March 25, 2005, CBO transmitted a cost estimate for S. 667, the Personal Responsibility and Individual Development for Everyone Act, as reported by the Senate Committee on Finance. Those bills would set up several grant programs and establish requirements for participation in work activities that are different from those in this legislation. S. 525 would authorize the same level of child care funding as this legislation, but S. 667 would authorize fatherhood grants at a slightly higher level.

For higher education programs, CBO has provided estimates for H.R. 609 (as ordered reported by the House Committee on Education and the Workforce) on September 16, 2005, and for the reconciliation recommendations of the Senate Committee on Health, Education, Labor, and Pensions on October 24, 2005. This legislation contains many of the provisions of H.R. 609, but adds changes to lender and borrower fees, mandatory administrative expenses, and payments to guaranty agencies. It differs from the Senate legislation (now embodied in S. 1932, the Deficit Reduction Omnibus Reconciliation Act of 2005) with regard to provisions governing borrower interest rates and loan limits, mandatory administrative expenses, and payments to and fees collected from guaranty agencies. This legislation also does not include two new mandatory grant programs contained in S. 1932.

CBO has provided the Congress with three cost estimates for legislation that would affect the PBGC and private pension plans. On September 26, 2005, CBO transmitted a cost estimate for H.R. 2830, the Pension Protection Act of 2005, as ordered reported by the House Committee on Education and the Workforce. On October 5, 2005, CBO transmitted a cost estimate for S. 1783, the Pension Security and Transparency Act of 2005, as introduced. Unlike the reconciliation recommendations of the House Committee on Education and the Workforce, those bills would require pension sponsors to meet stricter funding targets and rules and to adhere to more stringent accounting rules. The increase in PBGC premiums required by those bills would be substantially less than those specified in this legislation.

The reconciliation recommendations of the Senate Committee on Health, Education, Labor, and Pensions (which are included in S. 1932) also include pension provisions. That legislation would initially set the flat-rate premium at $46.75 in 2006 and increase it with wage inflation thereafter. This House legislation would set the 2006 rate at $30 and subsequently index it; it would also authorize the PBGC to raise those premiums by an additional 20 percent per year. In addition to the increase for sponsors of single-employer plans, the Senate legislation would increase the rate for multiemployer plans. Both sets of reconciliation recommendations would require sponsors who have terminated pension plans via distress or involuntary terminations to pay an additional $1,250 annual premium for three years.

ESTIMATE PREPARED BY:

Federal Spending:
TANF and Child Care: Sheila Dacey
Education: Deborah Kalcevic, Chad Chirico, and Justin Humphrey
Pensions: Geoffrey Gerhardt and Craig Meklir
Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum and Leo Lex
Impact on the Private Sector: Nabeel Alsalam and Peter Richmond

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis