CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 24, 2005

Reconciliation Recommendations of the Senate Committee on Health, Education, Labor, and Pensions

As approved by the Senate Committee on Health, Education, Labor, and Pensions on October 18, 2005

SUMMARY

The legislation would make numerous changes to federal higher education programs, including the student and parent-loan 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 $5.0 billion in 2006, $16.4 billion over the 2006-2010 period, and $37.6 billion over the 2006-2015 period.

Changes in higher education programs would account for the largest portion of the savings ($4.0 billion in 2006, $9.7 billion over the first five years, and $28.6 billion over the 10-year period—mostly measured on a subsidy-cost basis for the student loan programs). The net savings from the changes in PBGC premiums and reimbursements, which are recorded as offsets to spending, would be about $1.0 billion in 2006, $6.7 billion over the 2006-2010 period, and $9 billion over 2006-2015 period.

The legislation also would authorize spending for numerous higher education programs—including the Pell Grant program—but that spending would be subject to appropriation. CBO has not completed an estimate of the potential cost of the provisions that would depend on future appropriation action.

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.

This legislation contains private-sector mandates on 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.

MAJOR PROVISIONS

Provisions addressing the education programs (subtitle A, chapter 1) with significant budget effects include:

- Changing parent-loan interest rates and the formulas used to calculate lender yields;
- Imposing limits on when the separate formula for lender yields for loans supported with certain tax-exempt funding would apply;
- Changing the insurance provided to lenders and the fees charged by lenders;
- Reducing borrower origination fees and requiring collection of a 1 percent fee from guaranty agencies;
- Increasing the loan limits for first-year, second-year, and graduate students, as well as allowing graduate students to borrow under the parent-loan program;
- Cancelling the repayment of student loans for certain teachers and creating a new loan forgiveness program for certain public service workers with direct loans; and
- Establishing two new programs that would supplement the Pell Grant program during the 2006-2010 period.

Subtitle A, chapter 2 also would extend certain forms of relief to students and schools affected by Hurricane Katrina, which would have the effect of increasing direct spending by about $100 million in 2006.

The major provisions affecting the PBGC (subtitle B) would increase premiums in both the single-employer and multiemployer programs, and impose a new charge on former plan sponsors if the PBGC had taken on their pension plans as a result of bankruptcy or had initiated termination. These changes also would cause the agency to draw fewer reimbursements from the terminated pension plans for which it is responsible.

The reauthorization of the Higher Education Act (subtitle C) would increase overall direct spending (by less than $100 million over the next five years) by postponing the recall of Perkins loan funds and expanding eligibility for student aid in several ways. That subtitle also would authorize new discretionary spending for education programs.

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).

BASIS OF ESTIMATE

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

TABLE 1. DIRECT SPENDING EFFECTS OF THE RECONCILIATION RECOMMENDATIONS OF THE SENATE COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

	By Fiscal Year, in Millions of Dollars					
	2006	2007	2008	2009	2010	2006-2010
Subtitle A: Education Provisions						
Chapter 1 - Education						
Estimated Budget Authority	-3,468	-1,439	-1,701	-2,072	-2,363	-11,043
Estimated Outlays	-4,160	-960	-1,275	-1,601	-1,882	-9,878
Chapter 2: Hurricane Katrina Higher Education Recovery						
Estimated Budget Authority	105	0	0	0	0	105
Estimated Outlays	105	0	0	0	0	105
Subtotal, Subtitle A						
Estimated Budget Authority	-3,363	-1,439	-1,701	-2,072	-2,363	-10,938
Estimated Outlays	-4,055	-960	-1,275	-1,601	-1,882	-9,773
Subtitle B: Pension Benefit Guaranty Corporation Premiums						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	-966	-1,197	-1,387	-1,535	-1,649	-6,735
Subtitle C: Higher Education Reauthorization						
Estimated Budget Authority	11	16	20	20	20	87
Estimated Outlays	6	11	20	20	20	77
Total Changes						
Estimated Budget Authority	-3,352	-1,423	-1,681	-2,052	-2,543	-10,851
Estimated Outlays	-5,015	-2,146	-2,642	-3,116	-3,511	-16,431

Subtitle A: Education Provisions

Subtitle A contains some provisions that would reduce direct spending and others that would increase costs. On net, these changes would reduce outlays by $4.1 billion in 2006, $9.8 billion during the 2006-2010 period, and $31.3 billion over the 2006-2015 period. (Subtitle C, discussed later, also has an impact on direct spending for education.)

Major Education Provisions That Decrease Spending. The major changes in subtitle A that would decrease direct spending include new formulas for lender yields, a higher interest rate for parent borrowers, a new fee on the guaranty agencies, increased fees on some lenders, and reduced insurance for lenders. CBO estimates that savings from these changes would total $4.7 billion in 2006, $19.5 billion over five years, and $44.8 billion over 10 years, mostly in the guaranteed loan program (see Table 2).

Borrower Interest Rates and Lender-Yield Formulas. The bill would change some 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. 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 bill would not change these rates for student loans, but would raise the fixed rate for parent loans to 8.5 percent.

The lender-yield formulas for student and parent loans would continue to be based on a variable-rate formula, but the bill would no longer allow the borrowers' rates to serve as the minimum for the lender 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.

The combination of these changes to borrowers and lenders would save an estimated $2.9 billion in 2006, $15.1 billion over the 2006-2010 period, and $36.2 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 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.

TABLE 2. DIRECT SPENDING EFFECTS OF SUBTITLE A, CHAPTER 1 - EDUCATION

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Major Provisions Reducing Spending										
Changes in Borrower Interest Rates and Lender Yields										
Estimated Budget Authority	-3,530	-3,050	-3,455	-3,785	-4,050	-4,305	-4,560	-4,820	-5,090	-5,175
Estimated Outlays	-2,920	-2,385	-2,965	-3,280	-3,525	-3,760	-3,990	-4,225	-4,470	-4,720
Changes to Certain Loans Financed with Tax-Exempt Bonds										
Estimated Budget Authority	-800	-195	-200	-200	-200	-205	-210	-210	-215	-215
Estimated Outlays	-705	-170	-175	-175	-175	-180	-185	-190	-190	-195
Changes in Borrower Insurance Premiums and Guaranty Agency Fees										
Estimated Budget Authority	-240	-330	-280	-305	-335	-365	-395	-430	-470	-500
Estimated Outlays	-240	-330	-280	-305	-335	-365	-395	-430	-470	-500
Changes in Lender Insurance										
Estimated Budget Authority	-410	-135	-140	-145	-155	-160	-165	-175	-180	-180
Estimated Outlays	-375	-105	-120	-130	-130	-140	-145	-150	-155	-165
Changes in Lender Fee										
Estimated Budget Authority	-445	-55	-60	-60	-60	-65	-70	-70	-75	-75
Estimated Outlays	-425	-45	-50	-50	-55	-55	-60	-60	-65	-65
Subtotal										
Estimated Budget Authority	-5,425	-3,765	-4,135	-4,495	-4,800	-5,100	-5,400	-5,705	-6,030	-6,145
Estimated Outlays	-4,665	-3,035	-3,590	-3,940	-4,220	-4,500	-4,775	-5,055	-5,350	-5,645
Major Provisions Increasing Spending										
Changes in Borrower Origination Fees										
Estimated Budget Authority	110	365	505	520	540	550	570	585	600	615
Estimated Outlays	65	240	395	450	465	480	490	505	520	530
Increased Loan Limits										
Estimated Budget Authority	180	515	515	530	555	575	590	615	635	655
Estimated Outlays	105	355	455	465	480	500	515	530	550	570
ProGAP and SMART Grants Programs										
Budget Authority	1,897	1,901	1,899	1,898	1,897	0	0	0	0	0
Estimated Outlays	455	1,860	1,900	1,899	1,898	1,442	38	0	0	0
Subtotal										
Estimated Budget Authority	2,187	2,781	2,919	2,948	2,992	1,125	1,160	1,200	1,235	1,270
Estimated Outlays	625	2,455	2,750	2,814	2,843	2,422	1,043	1,035	1,070	1,100

(Continued)

TABLE 2. CONTINUED

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Other Provisions with Measurable Effects										
Estimated Budget Authority	-35	-147	-134	-119	-99	-91	-94	-99	-99	-99
Estimated Outlays	8	-142	-124	-124	-104	-91	-91	-96	-101	-96
Interaction Effects										
Estimated Budget Authority	-195	-308	-351	-406	-456	-484	-521	-566	-591	-601
Estimated Outlays	-128	-238	-311	-351	-401	-429	-464	-494	-519	-549
Total Changes										
Estimated Budget Authority	-3,468	-1,439	-1,701	-2,072	-2,363	-4,550	-4,855	-5,170	-5,485	-5,575
Estimated Outlays	-4,160	-960	-1,275	-1,601	-1,882	-2,598	-4,287	-4,610	-4,900	-5,190

NOTES: ProGAP = Provisional Grant Assistance; SMART = National Science and Mathematics Access to Retain Talent.

Legislation in 2004 modified the 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). This policy would save an estimated $705 million in 2006, $1.4 billion over the 2006-2010 period, and $2.3 billion over the 2006-2015 period.

Borrower Insurance Premiums and Guaranty Agency Fees. Under current law, guaranty agencies may charge student and parent borrowers of guaranteed loans an insurance premium of up to 1 percent. These premiums show up as part of the offsetting collections in the student loan reserve account. In recent years, many agencies have waived part or all of the premium, thereby reducing these receipts, which are recorded on the budget as offsets to direct spending. The legislation would eliminate this premium and replace it with a 1 percent fee that the guaranty agencies would have to provide from their nonfederal resources.

CBO estimates that the net effect of these changes, which would become effective on April 1, 2006, would reduce direct spending by $240 million in 2006, $1.5 billion over the 2006-2010 period, and $3.7 billion over the 2006-2015 period.

Federal Lender Insurance. The legislation would reduce the portion of defaulted loans for which lenders are reimbursed. The reimbursements are paid from a federal student loan reserve account consisting of separate reserve accounts for the various guaranty agencies. Under current law, lenders are generally reimbursed for 98 percent of the outstanding

balances on loans that go into default. Lenders who meet certain requirements are classified as exceptional lenders, and they receive 100 percent insurance.

The legislation would reduce the 98 percent insurance level to 97 percent, and would eliminate the exceptional lender designation. For those lenders losing exceptional lender status, the insurance rate would drop from 100 percent to 97 percent. CBO estimates that these changes would reduce outlays by $375 million in 2006, $860 million over the 2006-2010 period, and $1.6 billion through 2015.

The legislation also would reduce the rate at which the federal government replenishes the reserve fund. However, these transfers are intrabudgetary transactions and have no effect on total federal spending or revenues.

Lender Fees. The legislation would increase fees charged lenders on consolidation loans from 0.5 percent of the loan principal to 1.0 percent. The additional fees would save an estimated $425 million in 2006, $625 million over the 2006-2010 period, and $930 million over the 2006-2015 period.

Major Education Provisions Increasing Spending. The provisions in subtitle A that would result in the largest increases in spending are changes to origination fees paid by borrowers, increases in loan limits, and funding for two new programs to supplement the Pell Grant program. CBO estimates that these provisions would cost $11.5 billion over the 2006-2010 period and $18.6 billion over the 2006-2015 period.

Borrower Origination Fees. The legislation would reduce borrower origination fees for both subsidized and unsubsidized student loans. Currently, origination fees for guaranteed loans are 3.0 percent (there is also an insurance premium of up to 1.0 percent). In the direct loan program, the origination fee is also 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).

Origination fees for student borrowers in the guaranteed loan program would drop to 2.5 percent in July 2007 under the legislation. In the direct loan program, the legislation would replace the required 3.0 percent fee with a fee of up to 2.5 percent to be determined by the Secretary of Education. CBO assumes that, under the Secretary's discretion, the direct loan fee could vary from year-to-year but would average 1.25 percent. CBO estimates that these changes would increase outlays by $1.6 billion over the 2006-2010 period and by $4.1 billion over the 2006-2015 period.

Increased Loan Limits. The legislation 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. In addition, the legislation 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 for most borrowers would be increased by $10,000. Graduate students also would be permitted to borrow through the parent-loan program. In addition, students who require further undergraduate course work to qualify for a graduate program or to gain a professional license or certification would be eligible for higher borrowing levels. CBO estimates that these increases would boost aggregate student loan borrowing from both the direct and guaranteed loan programs, and as a result, would increase direct spending by $1.9 billion over the 2006-2010 period and by $4.5 billion over the 2006-2015 period.

ProGAP and SMART Grant Programs. The legislation would provide a total of $9.5 billion for fiscal years 2006 through 2010 for two programs that would supplement the Pell Grant program: the Provisional Grant Assistance (ProGAP) program and the National Science and Mathematics Access to Retain Talent (SMART) grants program. CBO estimates that outlays from these appropriations would amount to $455 million in 2006, $8.0 billion over the 2006-2010 period, and $9.5 billion over the 2006-2015 period.

The ProGAP program would give approximately $1.45 billion in additional aid each academic year from 2006 through 2010 to students who are eligible for the Pell Grant program and who have submitted their student aid applications by June 30 for the upcoming academic year. The Department of Education would award these funds in the same manner as under the current Pell Grant program.

The National SMART grants program would give $450 million in additional aid each academic year from 2006 through 2010 to Pell Grant recipients in their third or fourth year at an institution of higher education with a major in mathematics, science, technology, engineering, or a foreign language deemed critical to the national security of the United States. Recipients would be eligible for up to $1,500 for each academic year.

CBO estimates outlays for the ProGAP and National SMART grants programs based on the historical outlay rates of the Pell Grant program.

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 and the eligibility for interest deferments. Other provisions with some estimated budget effects during the 2006-2010 period include changes in the income protection allowance for students and in the disbursement requirements for certain loans for schools with low default rates. Taken together, CBO estimates that these provisions would cost $8 million in 2006, but would reduce direct spending by $486 million over the 2006-2010 period and by $961 million over the 2006-2015 period.

Interactions Among Education Provisions. The overall reductions in direct spending that subtitle A would yield are significantly larger than the sum of the individual provisions because many of those provisions interact. For example, the lender-yield and borrower interest rate changes save even more when the increased loan volume from the changes in loan limits is considered. However, those same loan limit increases boost the costs of the provisions that reduce borrowers' fees. On balance, the interactions among the various provisions would generate additional estimated savings of $128 million in 2006, $1.4 billion over the 2006-2010 period, and $3.9 billion over the 2006-2015 period.

Hurricane Katrina Higher Education Recovery. The legislation would provide relief to certain student loan borrowers and educational institutions that were adversely affected by Hurricane Katrina. CBO estimates that the total costs of this relief would be $105 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 lenders provide up to one year of forbearance on student and parent loans for borrowers affected by the hurricane and that borrowers in a grace period or deferment period could remain in that status through June 2006. CBO estimates, based on data provided by the Department of Education, 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 $64 million.

CBO estimates that the subsidy costs for the deferments and forbearance on loans for borrowers affected by Hurricane Katrina would amount to about $30 million. Data were not available to precisely estimate the numbers 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 Hurricane Katrina to help 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 for requiring that lenders provide certain deferment and forbearance benefits were reduced to reflect the likely use of existing authority for deferment and forbearance 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 where 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. In addition, student borrowers at schools affected by Hurricane Katrina would be allowed to retain in-school status even if they do not attend another school. Together, these three provisions would cost an estimated $11 million in 2006.

Subtitle B: Pension Benefit Guaranty Corporation Premiums

The legislation would increase the per-participant premiums charged to sponsors of defined-benefit pension plans, as well as institute a new premium, which would be charged to sponsors whose plans are terminated 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 $1.0 billion in 2006, $6.7 billion over the 2006-2010 period, and $16.4 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 the reserves of the pension plans for which it is responsible. 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 about $9 billion. Components of these estimated changes are shown in Table 3 and are 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. The legislation would increase the flat-rate premium to $46.75 per participant in 2006 and index it to wage growth starting in 2007. Under CBO's projections of wage growth, the premium rate for all single-employer plans would rise to approximately $55 per participant in 2010 and $67 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 $5.4 billion over the 2006-2010 period and $12.8 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.

TABLE 3. 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
Increase in Flat-Rate Premiums for Single-Employer Plans	-876	-1,035	-1,104	-1,173	-1,242	-1,311	-1,380	-1,483	-1,552	-1,656
Increase in Flat-Rate Premiums for Multiemployer Plans	-54	-54	-64	-64	-64	-74	-74	-84	-84	-84
Premiums for Certain Terminated Single-Employer Plans	-36	-109	-220	-298	-343	-354	-364	-375	-386	-398
Subtotal, Pensions	-966	-1,197	-1,387	-1,535	-1,649	-1,738	-1,818	-1,942	-2,022	-2,168
Changes in Transfers from PBGC's Nonbudgetary Trust Fund	0	0	0	0	0	0	0	1,068	3,092	3,222
Total Changes	-966	-1,197	-1,387	-1535	-1,649	-1,738	-1,818	-874	1,070	1,084

NOTE: PBGC = Pension Benefit Guaranty Corporation.

Increase in Flat-Rate Premium for Multiemployer Plans. Under current law, sponsors of multiemployer pension plans insured by the PBGC are required to pay the agency a premium of $2.60 per participant. The legislation would increase the flat-rate premium to $8.00 per participant in 2006 and index it to wage growth starting in 2007. Under CBO's assumptions about wage growth, the premium rate for all single-employer plans would rise to approximately $9 per participant in 2010 and $11 in 2015.

Nearly 10 million people currently participate in tax-qualified, multiemployer 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 multiemployer 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 $2.60 per participant generates roughly $25 million in premium income annually for the PBGC. CBO estimates changes to the flat-rate premiums made by the legislation would increase receipts by $300 million over the 2006-2010 period and $700 million over the 2006-2015 period.

Premiums for Certain Terminated Single-Employer Plans. The legislation would create a new premium for sponsors of plans that are terminated 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 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.

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] The on-budget fund 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.

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 resulting from the bill would cause the on-budget fund to remain solvent beyond 2015. Because the legislation would improve the finances of the on-budget fund, 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

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.

period. Because this change would reduce an offset to mandatory spending, it would result in a net increase in such spending.

Subtitle C: Higher Education Reauthorization

Subtitle C would reauthorize—through 2011—the Higher Education Act of 1965. Much of this portion of the legislation would authorize or reauthorize higher education programs that are subject to annual appropriation. (The largest of these the Pell Grant program.) CBO has not completed an estimate of those costs.

Some portions of this subtitle would affect direct spending, including the postponement of the recall of Perkins Loan balances and changes in the eligibility for student loans. In total, CBO estimates that enacting this subtitle would increase direct spending by $6 million in 2006, $77 million over the 2006-2010 period, and $2.7 billion over the 2006-2015 period (see Table 4).

Distance Education. Current law limits participation in the Title IV aid programs for institutions that provide more than 50 percent of their education or training courses through distance education. This legislation would eliminate those restrictions for institutions that meet certain criteria.

For a school to become an approved institution, it must meet an extensive set of institutional eligibility requirements. In addition, proprietary and postsecondary vocational institutions are restricted by a two-year rule that states that an institution must be legally authorized to give, and has been giving, postsecondary instruction for at least two consecutive years. Therefore, costs in the first two years would be insignificant. After that, new and expanded institutions would cause costs to rise by $15 million for the 2008-2010 period and by $50 million over the 2008-2015 period.

Perkins Loan Revolving Fund. Under current law, schools participating in the Perkins Loan program are required to return to the government the federal share of any balances they hold beginning in 2012. This legislation would delay that date until 2020.

Based on data from the Department of Education, CBO estimates that the recall of the federal share would total—under current law—about $2.5 billion over the 2012-1015 period. Consequently, the delay that would result from enacting this legislation would reduce federal collections by that amount.

TABLE 4. DIRECT SPENDING EFFECTS OF SUBTITLE C: HIGHER EDUCATION REAUTHORIZATION

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Distance Education										
Estimated Budget Authority	0	0	5	5	5	5	5	10	10	10
Estimated Outlays	0	0	5	5	5	5	5	5	10	10
Perkins Loan Revolving Fund										
Estimated Budget Authority	0	0	0	0	0	0	361	675	696	800
Estimated Outlays	0	0	0	0	0	0	361	675	696	800
Eligibility Restrictions for Certain Drug Offenders										
Estimated Budget Authority	10	15	15	15	15	15	20	20	20	20
Estimated Outlays	5	10	15	15	15	15	15	15	15	15
Other Provisions										
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*
Estimated Outlays	*	*	*	*	*	*	*	*	*	*
Total Changes										
Estimated Budget Authority	11	16	20	20	20	20	386	705	726	830
Estimated Outlays	6	11	20	20	20	20	381	695	721	825

NOTE: * = Less than $500,000.

Eligibility Restrictions for Certain Drug Offenders. Under current law, students are barred from receiving federal financial assistance if they have been convicted of any drug offense. The period of ineligibility lengthens with the number of convictions and depends on whether the convictions were for the sale or possession of the drugs. If the student participates and successfully completes a drug rehabilitation program, the period of ineligibility is shortened. This legislation would limit applicability of these restrictions to students with convictions that occur while the student is receiving federal aid. In addition, the Secretary could not require that applicants for financial aid report their convictions.

Based on data on federal financial-aid applications, CBO estimates that about 28,000 students are denied aid under the current restrictions. CBO estimates that this provision would increase annual student loan borrowing by $110 million to $140 million over the next 10 years. This borrowing would increase the costs of the student loan program by $5 million in 2006, $60 million over the 2006-2010 period, and $135 million over the 2006-2015 period.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The legislation contains no intergovernmental mandates as defined by UMRA. It would provide assistance to states and institutions of higher education affected by Hurricane Katrina. This legislation 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

The legislation would make changes to the Employee Retirement Income Security Act that would impose mandates on sponsors of defined-benefit pension plans. Those changes would increase the per-participant premium rates paid to the Pension Benefit Guaranty Corporation by sponsors of single-employer and multiemployer defined-benefit pension plans and create a termination premium for sponsors of single-employer plans whose plans are terminated on an involuntary or distressed-termination basis. CBO estimates that the cost of those mandates would total about $1 billion in 2006 and $6.7 billion over the 2006-2010 period.

The provisions affecting education programs do not contain any private-sector mandates as defined by UMRA.

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