



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 2, 2005

H.R. 2830 **Pension Protection Act of 2005**

*As ordered reported by the House Committee on Ways and Means
on November 9, 2005*

SUMMARY

H.R. 2830 would make changes to the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code (IRC) that would affect the operations of private pension plans. It would do so mostly by changing the funding requirements for tax-qualified, defined-benefit pension plans and the premiums paid to the Pension Benefit Guaranty Corporation (PBGC). It would also extend certain tax incentives for retirement savings and modify tax provisions related to spending for health care.

The budgetary effects of the bill would result from:

- Increased income to the PBGC from premiums paid by the sponsors of pension plans—totaling an estimated \$8.2 billion over the next 10 years.
- A loss of federal income tax revenue, primarily because more rigorous funding rules would be imposed on plans' sponsors; the Joint Committee on Taxation (JCT) estimates that the changes in law related to defined-benefit pension plans would reduce federal revenues by \$5.0 billion over the 2006-2015 period.
- Additional benefit payments—totaling an estimated \$0.5 billion over 10 years—that the PBGC would have to make as a result of a number of changes made by the bill.
- Tax provisions affecting retirement savings and health care spending, which JCT estimates would reduce federal revenues by \$37.7 billion and \$29.2 billion, respectively, over the 2006-2015 period.

In combination, those effects would increase federal budget deficits over the 2006-2015 period by \$64.1 billion, CBO estimates. The additional premium income would have another effect: it would increase the balances in the PBGC's on-budget revolving fund and therefore forestall the need for significant transfers to that revolving fund from the PBGC's

nonbudgetary trust fund in order pay insured benefits. Because those transfers are treated in the budget as offsetting collections (that is, offsets to outlays), smaller transfers would result in higher net outlays for PBGC's on-budget revolving fund. The improvement in the financial condition of that fund would eliminate the need for \$7.4 billion in transfers to the fund from 2013 through 2015, CBO estimates, thereby increasing on-budget outlays by that amount. Adding that effect to the other impacts of the bill, CBO projects that enacting H.R. 2830 would increase federal budget deficits by \$71.5 billion over the 2006-2015 period.

Major provisions of H.R. 2830 would:

- Require sponsors of single-employer pension plans to meet a funding target that is at least 100 percent of current liabilities;
- Specify that the discount rate used to calculate the present value of current pension liabilities be based on a segmented yield curve of corporate bonds rather than the interest rate on 30-year Treasury bonds;
- Restrict the use of credit balances to offset required pension contributions;
- Place limits on benefit accruals for participants in certain underfunded plans;
- Increase the limits on the tax-deductible contributions sponsors may make to plans;
- Increase the per-participant premium paid to the PBGC for single-employer plans;
- Require sponsors of single-employer pension plans that have undergone distress or involuntary terminations to pay a termination premium for 3 years;
- Change the funding rules for multiemployer pension plans;
- Enhance disclosure requirements for both single-employer and multiemployer pension plans; and
- Address the legal status of so-called hybrid defined-benefit pension plans.
- Permanently extend tax provisions relating to pensions and individual retirement accounts currently set to expire at the end of 2010;
- Permanently extend the saver's tax credit for certain retirement savings accounts set to expire at the end of 2006;

- Change the rules governing health flexible spending accounts;
- Modify the rules about combinations of life and long-term care insurance;
- Encourage firms to provide automatic enrollment for their employees in defined-contribution pension plans; and
- Allow tax-free distributions from retirement plans for certain public safety officers if the funds are used to pay premiums for health or long-term care insurance.

Not all of these policies would directly affect federal spending or revenues.

Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting H.R. 2830 would not cause an increase in direct spending greater than \$5 billion in any of the 10-year periods between 2016 and 2055.

CBO has reviewed the nontax portions of H.R. 2830 and determined that they contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. Those provisions would impose a number of mandates on sponsors and administrators of single-employer and multiemployer private pension plans. CBO estimates that the direct cost of those private-sector mandates, less the direct savings from those mandates, would exceed the annual threshold specified in UMRA (\$123 million in 2005, adjusted annually for inflation) in 2009 and subsequent years.

JCT has determined that the tax provisions of H.R. 2830 contain no intergovernmental or private-sector mandates as defined in UMRA. CBO has reviewed the non-tax provisions of H.R. 2830 and determined that they contain no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2830 is shown in the following table. The costs of this legislation would fall within budget function 600 (income security).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 2830

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
Changes in Flat-Rate Premiums Paid to PBGC										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-79	-158	-240	-314	-552	-586	-655	-690	-759	-828
Changes in Variable Premiums Paid to PBGC										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	-14	-186	-264	-274	-212	-90	50	219	341
Termination Premiums Paid to PBGC										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-36	-109	-220	-298	-343	-354	-364	-375	-386	-398
Changes in Net Benefit Payments										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-1	*	6	19	35	54	72	88	101	112
Subtotal										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-116	-281	-640	-857	-1,134	-1,097	-1,037	-927	-825	-773
Changes in Transfers from PBGC's Nonbudgetary Trust Fund										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	0	0	0	0	0	0	1,068	3,092	3,222
Total Changes in Direct Spending										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-116	-281	-640	-857	-1,134	-1,097	-1,037	141	2,267	2,449
CHANGES IN REVENUES										
Changes to Funding Rules for Single-Employer Plans	823	2,698	1,884	-1,345	-2,460	-2,179	-1,790	-1,115	-805	-711
Changes to Funding Rules for Multiemployer Plans	*	-2	-8	-18	-28	-34	-40	-46	-52	-58
Changes in Benefit Accrual Standards	-24	-9	1	6	-3	-8	6	25	29	13
Provisions Related to Retirement Savings	-88	-741	-1,892	-1,970	-2,029	-4,003	-5,732	-6,400	-7,078	-7,719
Provisions Related to Health Care Spending	-867	-1,490	-1,879	-2,238	-2,594	-3,071	-3,595	-4,028	-4,472	-4,918
Other Provisions	<u>1</u>	<u>4</u>	<u>11</u>	<u>20</u>	<u>28</u>	<u>32</u>	<u>33</u>	<u>33</u>	<u>32</u>	<u>32</u>
Total Changes in Revenues	-155	460	-1,883	-5,545	-7,086	-9,263	-11,118	-11,531	-12,346	-13,361
NET INCREASE OR DECREASE (-) IN BUDGET DEFICITS										
Net of Transfers from PBGC's Nonbudgetary Trust Fund	39	-741	1,243	4,688	5,952	8,166	10,081	11,672	14,613	15,810
Excluding Transfers from PBGC's Nonbudgetary Trust Fund	39	-741	1,243	4,688	5,952	8,166	10,081	10,604	11,521	12,588

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

NOTES: PBGC = Pension Benefit Guaranty Corporation.

* less than \$500,000.

BASIS OF ESTIMATE

H.R. 2830 contains changes to both ERISA and the Internal Revenue Code that would affect sponsors of defined-benefit pension plans. Under current law, the funding rules are exactly the same in both ERISA and IRC. In certain instances, however, changes made by the bill to the pension funding requirements of ERISA are inconsistent with changes made to the funding rules in the IRC. That occurs because the amendments to the IRC adopted by the Ways and Means Committee reflect some policy differences from the amendments to ERISA adopted by the Committee on Education and the Workforce. CBO's and JCT's budget estimates assume that, if H.R. 2830 is enacted, additional changes would be made to ERISA to make it consistent with those changes made to IRC by H.R. 2830. Those estimates also assume that H.R. 2830 and the corresponding changes to the ERISA will be enacted by December 2005.

Direct Spending

Increase in Flat-Rate Premium. Under current law, sponsors of single-employer pension plans insured by the PBGC are required to pay the agency a premium of \$19 per participant. H.R. 2830 would increase the flat-rate premium to \$30 per participant in 2006 and index it to wage growth starting in 2007. However, no plans would pay the full increase immediately. The bill would phase in the rate increase differently depending on whether the ratio of a plan's assets to its liabilities (known as its funding ratio) is above or below 80 percent. For plans that have a funding ratio of 80 percent or higher, the increased rate would be phased in over a five-year period; for plans with a funding ratio of less than 80 percent, the rate increase would be phased in over a three-year period. Both phase-in periods would begin in 2006 and the premium rate for all single-employer plans would be the same—approximately \$35 per participant—by 2010.

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 H.R. 2830 would increase receipts by \$1.3 billion over the 2006-2010 period and \$4.9 billion over the 2006-2015 period. The varying amounts of additional premiums from year to year reflect both the phase in of the rate increase and the rounding of the new rates to the nearest

dollar, as specified by the bill. Because the PBGC's premiums are recorded as offsetting collections to a mandatory spending account, increases in premium collections are reflected in the budget as decreases in direct spending.

Variable Premiums. Under current law, sponsors of single-employer plans with assets less than liabilities are generally required to pay a variable premium, which is based on the amount of underfunding in the plan. The variable premium rate is \$9 per \$1,000 of underfunding. The amount of income from this type of premium varies from year to year; in 2004 it generated approximately \$800 million in receipts.

H.R. 2830 would affect how much the PBGC collects from variable premiums because it would change the way plans' sponsors calculate the amount of underfunding. Starting in 2006, current law will require plans to discount their current liabilities, in order to determine the amount of underfunding, using an interest rate that is the four-year moving average of the rate on 30-year Treasury bonds. Public Law 108-218, the Pension Funding Equity Act, changed how current liabilities of covered plans are discounted during plan-years 2004 and 2005. During those two years, current liabilities are discounted using an interest rate on high-grade corporate bonds, as determined by the Department of the Treasury. H.R. 2830 would extend the use of the corporate bond rate for plan-year 2006. Then, beginning with plan-year 2007, the bill would require plans to discount their pension obligations using a yield curve based on a three-year weighted average of yields on investment-grade corporate bonds. The yield curve, which would be determined by the Secretary of the Treasury, would be divided into three segments: yields for bonds maturing in the five-year period following the first day of each new plan-year; yields for bonds maturing during the next 15-year period; and yields for bonds maturing after the initial 20-year period. These segments would be used to discount benefit payments expected to be made by plans during each of the three periods. The shift to the segmented yield curve would be phased in over three years.

When compared to interest rates on 30-year Treasury bonds, the segmented yield curve (and the single corporate bond rate) would result in lower discount rates for participants whose benefits will be paid in the near term, and higher discount rates for participants whose benefits will be paid in later years. Discount rates and the present value of pension liabilities have an inverse relationship: increasing the discount rate results in a lower valuation of liability, while lowering the discount rate produces a higher valuation of liability. Based on information provided by the PBGC, CBO estimates that the segmented yield curve would reduce the present value of liabilities among all underfunded plans by approximately 5 percent, thus reducing required future contributions by plans' sponsors.

Other changes to the funding rules (which are discussed in more detail later) would increase contributions. CBO estimates that, under H.R. 2830, firms initially would have to contribute

less to their plans, but later would have to contribute more than under current law. The change in contribution patterns would affect how many plans are underfunded and how much underfunding exists in those plans. This, in turn, would affect the PBGC's income from variable premiums. (The change in contributions would also have significant effects on federal revenues, as discussed later in this estimate.)

H.R. 2830 would also have an effect on which plans are required to make a variable premium payment. Current law provides underfunded plans with ways to reduce or avoid variable premium payments. Plans that have reached a statutory "full funding limit" are exempt from paying a variable premium, even though they may be substantially underfunded. H.R. 2830 would eliminate the full funding limit exemption and would require all plans that are underfunded to pay the variable premium on any underfunding.

CBO estimates that enacting H.R. 2830 would increase receipts from variable premiums by \$738 million over the 2007-2010 period and by \$430 million over the 2007-2015 period.¹ As with flat-rate premiums, increases in receipts from variable premiums are reflected as decreases in direct spending.

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 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.

Based on recent PBGC data on terminations, CBO estimates that underfunded plans with about 120,000 participants on average will be terminated in each of the next five years and the number of participants affected will be somewhat greater in subsequent years. We estimate that one-quarter of those terminations will involve liquidation bankruptcy filings. CBO assumes that firms will emerge from bankruptcy over several years following their filing date. The annual income from these payments would grow rapidly during the first few years as sponsors emerge from bankruptcy.

1. Because plans would be better funded on a current-liability basis in the long run, CBO expects that collections of variable premiums under H.R. 2830 would fall starting in 2013.

PBGC's Disbursements. H.R. 2830 would affect both how much sponsors are required to contribute to their plans and how much benefits may increase under certain plans insured by the PBGC. Such changes would affect the amount of unfunded liabilities that the PBGC assumes in the event that a pension plan is terminated (i.e., claims) and thus the payments the agency makes to beneficiaries in terminated plans. CBO estimates that the policies contained in H.R. 2830 would increase benefit outlays by \$59 million over the 2006-2010 period and by \$486 million over the 2006-2015 period.

Several of the changes to the pension funding rules would have countervailing effects on the contributions plans' sponsors would be required to make over the next 10 years. Basing the discount rate for calculating the present value of liabilities on corporate bonds instead of Treasuries would cause the present value of current liabilities among underfunded plans to shrink by more than \$50 billion in 2006, CBO estimates. This policy would have the effect of reducing required contributions by plans' sponsors.

Other changes made by the bill would also have an effect on required contributions. Current funding rules require that sponsors of insured plans make contributions to cover the costs of benefits accrued in a given year and that contributions above that amount are required only if the actuarial value of a plan's assets is less than 90 percent of its current liabilities. These additional payments (referred to as "deficit reduction contributions") can be amortized over periods ranging from three to 30 years, depending on how the underfunding occurred.² H.R. 2830 would require that, in addition to covering its normal costs, a sponsor must make additional contributions if assets are less than 100 percent of current liabilities (referred to as its "funding target"). The bill generally would require the shortfall to be amortized over a period of seven years. These changes would have the effect of reducing required contributions for some plans (due to the seven-year amortization period) and increasing required contributions for others (because of the higher funding target).

The bill also would limit the use of previously accumulated funding balances, which can be used to offset required contributions. Funding balances usually occur when a sponsor contributes more than the minimum required in a given year. Under current law, no matter how underfunded a plan is, its sponsor may use funding balances to reduce or eliminate required contributions. In addition, the value of funding balances is not adjusted for actual gains or losses on the assets in which they are invested. Instead, these balances are increased each year by the same rate of return assumed for other assets held by the plan. H.R. 2830 would allow only plans that have a funding ratio of 80 percent or higher to use funding balances to offset required pension contributions. In addition, the bill would require plans

2. Under certain circumstances, plans can be between 80 percent and 90 percent funded before being required to make deficit reduction contributions.

to adjust the value of any balances for net gains or losses on the plan's assets. These changes to the use of funding balances would generally have the effect of increasing required contributions.

H.R. 2830 would also affect required contributions by: reducing the "smoothing" period used to calculate the actuarial value of assets and liabilities; updating the mortality table used to project future benefits; and adding a "loading factor" to the funding target of plans that are less than 60 percent funded.

In addition to changes in the funding rules, H.R. 2830 would also restrict some benefit payments for certain underfunded plans. Specifically, the bill would limit the ability of plans with a funding ratio of less than 80 percent to make lump-sum payments or to amend the plan to increase benefits. It also would effectively freeze normal benefit increases in plans with funding ratios of less than 60 percent. In addition, the bill would prohibit plans from paying benefits for unpredictable contingent events, such as shutdown benefits to workers in facilities that are closed. If enacted, these policies would reduce liabilities, and therefore reduce benefit payments that the PBGC would be required to make for plans that are terminated in the future.

Accounting for all the policy changes contained in H.R. 2830, CBO estimates that the annual shortfall between assets and liabilities (on a present-value basis) among plans that the PBGC takes over during the 2006-2015 period would increase by several hundred million dollars. The larger shortfall would manifest itself in higher outlays for benefit payments by the PBGC, as those liabilities eventually come due, with a significant portion of those claims being paid well after 2015. The biggest reason for the increase in claims is the projected decrease in required contributions, at least during the first several years of the period, due to use of the corporate bond yield curve to discount current liabilities.³ This effect would be offset to some degree, especially during the second half of the budget window, by the higher funding target and limits on benefit accruals. Overall, however, CBO estimates that the bill would lead to an increase in underfunding among plans that would be terminated over the next decade, thus increasing outlays by the PBGC for pension benefits.

Transfers from PBGC's Trust Fund. The PBGC's assets are held in two separate funds: an on-budget revolving fund and a nonbudgetary trust fund.⁴ The on-budget fund receives

3. The higher discount rate would be used to calculate plans' "current liability," which is used to determine funding requirements and any premium payments on underfunding. The bill would not, however, affect the discount rate used to calculate plans' "termination liability," which represents the present value of all future benefit payments owed by the PBGC upon termination of a plan.

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

premium payments and makes outlays for benefit payments and administrative costs. The nonbudgetary trust fund holds assets from terminated plans until those assets are liquidated, transferred to the on-budget revolving fund, and spent. Transfers from the nonbudgetary fund to the on-budget fund cover approximately 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 are reflected in the budget as offsets to outlays.

In CBO's current-law projections, the combination of rising benefit payments and level 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 H.R. 2830 would cause the on-budget fund to remain solvent beyond 2015. Because the bill would improve the finances of the on-budget fund, the PBGC would not need to increase the amounts transferred from the nonbudgetary fund in order to help cover benefit payments and other expenses during most of the 10-year projection period. By allowing the on-budget fund to remain solvent through the next decade, the bill 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.

Revenues

H.R. 2830 would alter existing tax law related to the treatment of pension plans, certain types of retirement savings, and health care spending. CBO and JCT estimate that enacting H.R. 2830 would reduce revenues by \$14.2 billion over the 2006-2010 period and by \$71.8 billion over the 2006-2015 period (see Table 2).

H.R. 2830 would affect federal revenues by:

- *Altering funding rules for single-employer, defined-benefit pension plans.* By affecting the amount of tax-deductible contributions firms make to their pension plans, these changes would increase revenues by \$5.4 billion over the 2006-2008 period and then decrease revenues by \$10.4 billion over the 2009-2015 period. The change from increases to decreases in revenues is due to the differing phase-in rates of the stricter funding rules and the new discount rates. In the short run, the higher

discount rates would reduce contributions and increase revenues before the stricter funding rules come fully into effect. Over the longer term, however, the stricter funding rules would more than offset the effect of the higher discount rates, leading to overall revenue losses.

- *Permanently extending provisions relating to pensions and individual retirement accounts (IRAs) that were enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).* Those provisions, which include increased annual contribution limits for IRAs and qualified pension plans, are scheduled to expire at the end of 2010. JCT estimates that the permanent extensions would decrease revenues by \$20.4 billion over the 2011-2015 period.

TABLE 2. ESTIMATED IMPACT OF H.R. 2830 ON FEDERAL REVENUES

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Changing Funding Rules for Single-Employer Plans	823	2,698	1,884	-1,345	-2,460	-2,179	-1,790	-1,115	-805	-711
Permanent Extension of Certain EGTRRA Provisions	0	0	0	0	0	-1,899	-3,581	-4,274	-4,977	-5,625
Changing Flexible Spending Account Rules										
On-Budget	-474	-825	-1,012	-1,155	-1,238	-1,336	-1,407	-1,465	-1,530	-1,587
Off-Budget	<u>-207</u>	<u>-356</u>	<u>-429</u>	<u>-482</u>	<u>-510</u>	<u>-531</u>	<u>-551</u>	<u>-570</u>	<u>-585</u>	<u>-601</u>
Subtotal	-682	-1,181	-1,441	-1,637	-1,748	-1,867	-1,958	-2,035	-2,115	-2,188
Permanent Extension of the EGTRRA Saver's Credit	0	-481	-1,428	-1,318	-1,238	-1,210	-1,181	-1,093	-1,009	-943
Changing Combined Insurance Rules	0	-63	-159	-284	-502	-833	-1,200	-1,523	-1,852	-2,188
Encouraging Automatic Enrollment	-50	-174	-358	-528	-655	-749	-818	-875	-927	-979
Tax-free Distributions for Public Safety Officers	-185	-246	-279	-317	-344	-371	-437	-470	-505	-542
Other Provisions	<u>-61</u>	<u>-93</u>	<u>-102</u>	<u>-116</u>	<u>-139</u>	<u>-155</u>	<u>-153</u>	<u>-146</u>	<u>-156</u>	<u>-185</u>
Total Changes in Revenue										
On-Budget	52	816	-1,454	-5,063	-6,576	-8,732	-10,567	-10,961	-11,761	-12,760
Off-Budget	<u>-207</u>	<u>-356</u>	<u>-429</u>	<u>-482</u>	<u>-510</u>	<u>-531</u>	<u>-551</u>	<u>-570</u>	<u>-585</u>	<u>-601</u>
Total	-155	460	-1,883	-5,545	-7,086	-9,263	-11,118	-11,531	-12,346	-13,361

SOURCE: Joint Committee on Taxation.

NOTES: EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001.
Revenue components may not sum to totals because of rounding.

- *Changing the rules for health flexible spending accounts (FSAs).* Under current law, employees may participate in tax-preferred FSAs, and any balance remaining in the accounts at the end of the year reverts to the employer. This legislation would allow employees to carry to the next year up to \$500 in unused amounts in their FSAs. JCT estimates that this carry-over would reduce revenues by \$6.7 billion over the 2006-2010 period and by \$16.9 billion over the 2006-2015 period. Of that decline, \$4.8 billion over the 2006-2015 period would be a reduction in receipts from Social Security taxes.
- *Permanently extending a credit for contributions to certain retirement savings accounts.* This “saver’s credit” was enacted in EGTRRA and is set to expire at the end of 2006. The non-refundable credit is available to taxpayers with incomes below certain thresholds who make contributions to qualified retirement plans, such as 401(k)s and IRAs. JCT estimates that making this credit permanent would reduce revenues by \$4.5 billion over the 2006-2010 period and by \$9.9 billion over the 2006-2015 period.
- *Changing the rules about combinations of life and long-term care insurance.* Currently, long-term care insurance benefits are tax-free, but distributions from annuities that are used to pay for such insurance are not. The bill would allow annuities to include riders for long-term care insurance policies, and withdrawals from these new annuity combinations would be tax-free if used for long-term care. It would also modify the rules for policies containing both life insurance and long-term care coverage. This provision, JCT estimates, would decrease revenues by \$1.0 billion over the 2006-2010 period and by \$8.6 billion over the 2006-2015 period.
- *Making it easier for firms to offer automatic enrollment.* Currently, employees must elect to participate in defined-contribution pension plans. In order to encourage employers to offer automatic participation in such plans, this bill would create safe harbors from nondiscrimination testing under certain circumstances. As a result, employees would make more pre-tax contributions to those plans and employers would make larger tax-deductible matching contributions. JCT estimates that this provision would reduce revenues by \$1.8 billion over the 2006-2010 period and by \$6.1 billion over the 2006-2015 period.
- *Allowing certain public safety officers to withdraw limited amounts from governmental retirement plans tax-free.* Under current law, amounts withdrawn from retirement plans are taxable if the contributions were made on a pre-tax basis. This bill would allow certain public safety officers to withdraw up to \$5,000 per year tax-free if the amounts are used to pay directly for premiums for health and long-term

care insurance. JCT estimates that this provision would decrease revenues by \$1.4 billion over the 2006-2010 period and by \$3.7 billion over the 2006-2015 period.

Several other provisions would affect revenues. These include changing funding rules for multiemployer defined-benefit plans, changing IRA eligibility for the disabled, allowing rollovers by non-spouse beneficiaries, allowing distributions during working retirement, changing benefit accrual standards, and altering distribution and contribution rules for guardsmen, public safety employees, and those receiving combat zone compensation. In sum, these provisions would reduce revenues by \$510 million over the 2006-2010 period and by \$1.3 billion over the 2006-2015 period, JCT estimates.

LONG-TERM EFFECTS ON DIRECT SPENDING

Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting H.R. 2830 would not cause an increase in direct spending greater than \$5 billion in any of the 10-year periods between 2016 and 2055. During the four decades following 2015, reductions in outlays due to higher premium receipts would be larger than increases in outlays resulting from changes to transfers from the nonbudgetary fund and additional benefit payments.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO and JCT have reviewed the provisions of H.R. 2830 and determined they contain no intergovernmental mandates as defined in UMRA. State, local, and tribal governments are exempt from the provisions of ERISA that the bill would amend, and the remaining provisions of the bill contain no intergovernmental mandates and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Some of the bill's changes to ERISA would impose mandates on sponsors and administrators of single-employer and multiemployer private-pension plans. CBO estimates that the direct cost to affected entities of the mandates in the bill, less the direct savings resulting from those mandates, would exceed the annual threshold specified in UMRA (\$123 million in 2005, adjusted annually for inflation) in 2009 and thereafter. Most of that cost would result from the increase in premiums paid to the PBGC. JCT has determined that the tax provisions in the bill contain no private-sector mandates.

Premiums

The bill would increase the premiums that sponsors of single-employer plans are required to pay to the PBGC. CBO estimates that the additional premiums would total \$3.1 billion over the 2006-2010 period.

Disclosures

Title II would require multiemployer plans to provide certain information to participants and beneficiaries when a plan enters into “endangered” or “critical” status. Title V would require single-employer plans to provide certain information to participants and beneficiaries when one or more plans sponsored by the employer are in “at risk” status. Both single-employer and multiemployer plans would be required to provide annual funding notices to all participants and beneficiaries within 90 days of the end of the plan-year. CBO estimates that the direct cost of those new requirements would be less than \$30 million annually.

Funding Rules

Title I would make several changes to the funding rules in ERISA for single-employer, defined-benefit pension plans. Changes in the discount rate plans are required to use to value future liabilities would decrease the contributions sponsors would be required to make to their pension plans. Several other changes in funding rules would increase the amount of annual contributions that they would be required to make. Title II would change the funding rules in ERISA for multiemployer defined-benefit pension plans such that some sponsors would be required to increase the amount of annual contributions that they make to their plans.

The net effect of those changes would be to decrease the total amount of required pension contributions for sponsors of single-employer plans in the early years, and increase total required contributions in later years. The changes in funding rules would not change the liabilities that plans’ sponsors have to current and future pension recipients, however. They would only affect the timing of the sponsors’ contributions. Because we have little basis for estimating the costs or benefits to sponsors of changes in the amounts contributed to their pension plans (for example, the cost of borrowing additional funds or of using funds that would otherwise be available for other purposes), CBO cannot estimate the direct cost or savings from those provisions.

Lump-Sum Distributions

Title III would change the rules in ERISA used for determining the amounts of lump-sum distributions to plans' participants. A segmented interest rate based on corporate bond yields and an updated mortality table would be phased in for use in such calculations. Although the updated mortality table would cause a short-term increase in the amount of distributions, the substitution of the segmented interest rate for the 30-year Treasury rate would decrease that cost in most cases. Taken together, CBO estimates that these changes would likely have the net effect of reducing plans' costs.

PREVIOUS CBO ESTIMATE

On September 26, 2005, CBO transmitted a cost estimate for H.R. 2830, as ordered reported by the House Committee on Education and the Workforce on June 30, 2005. The pension provisions of the two versions of the bill are similar in many ways, but there are several significant differences. Rather than beginning the shift to the segmented bond rate in plan-year 2006, as in the Education and Workforce version of the bill, the Ways and Means Committee's version would extend the single corporate bond rate for one more year and begin the transition to the segmented bond rate in 2007. The latter version also includes a new premium on sponsors of plans that terminate and are taken over by the PBGC. The Ways and Means bill also includes numerous tax provisions affecting retirement savings and health care spending that are not in the earlier version of the bill.

The Education and the Workforce Committee's version of H.R. 2830 would increase federal budget deficits by an estimated \$6.5 billion over the 2006-2015 period. CBO and JCT estimate that this version of the bill would increase deficits by \$71.5 billion over the 10-year period.

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