CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 19, 2005

S. 1309
Trade Adjustment Assistance Equity for Service Workers Act of 2005

As introduced in the Senate on June 23, 2005

SUMMARY

S. 1309 would extend Trade Adjustment Assistance (TAA) for workers to cover certain dislocated workers from the services sector and expand coverage within the manufacturing sector. In addition, the bill would amend provisions relating to TAA for firms and industries.

CBO estimates that enacting the bill would increase direct spending by $77 million in 2006, by $1.4 billion over the 2006-2010 period, and by $3.8 billion over the 2006-2015 period. Based on information provided by the Joint Committee on Taxation (JCT), CBO estimates that enacting the bill would reduce revenues by $1 million in 2006, $21 million over the 2006-2010 period, and $54 million over the 2006-2015 period.

The bill also would affect discretionary spending. CBO estimates that implementing S. 1309 would cost $1 million in 2006, $28 million over the 2006-2010 period, and $32 million over the 2006-2015 period, assuming appropriation of the necessary amounts.

S. 1309 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Under voluntary agreements with the Secretary of Labor, states administer the trade adjustment assistance and transitional adjustment assistance programs in a manner similar to that of unemployment insurance programs. Benefits for those programs are funded entirely by the federal government.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1309 is shown in the following table. The costs of this legislation fall within budget functions 450 (community and regional development), 500 (education, employment, training, and social services), 550 (health), and 600 (income security).

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
TAA for Workers										
Estimated Budget Authority	170	330	350	355	390	420	440	475	515	545
Estimated Outlays	75	225	320	355	380	400	430	455	485	525
Credit for Health Insurance Costs of Eligible Individuals										
Estimated Budget Authority	2	9	9	9	10	11	12	12	13	14
Estimated Outlays	2	9	9	9	10	11	12	12	13	14
Total Changes in Direct Spending										
Estimated Budget Authority	172	339	359	364	400	431	452	487	528	559
Estimated Outlays	77	234	329	364	390	411	442	467	498	539
CHANGES IN REVENUES										
Credit for Health Insurance Costs of Eligible Individuals	-1	-5	-5	-5	-5	-6	-6	-7	-7	-7
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
TAA for Firms										
Estimated Authorization Level	16	16	0	0	0	0	0	0	0	0
Estimated Outlays	1	4	7	8	8	4	0	0	0	0

NOTE: TAA = Trade Adjustment Assistance.

BASIS OF ESTIMATE

For this estimate, CBO assumes the bill will be enacted sometime this fall and that the amounts necessary to implement the bill will be appropriated for each year.

Direct Spending

Under current law, the TAA for Workers program provides ongoing unemployment compensation for up to 104 weeks to individuals who lose their job because of trade-related circumstances. Workers certified as eligible for TAA also may receive benefits to offset the costs associated with retraining, job search, and relocation expenses. In addition, TAA beneficiaries are eligible to receive a subsidy of the costs of purchasing health insurance coverage during their period of unemployment (the health insurance tax credit also is available to pensioners of the Pension Benefit Guaranty Corporation). In fiscal year 2004, 146,205 workers were certified as eligible to receive TAA benefits, and about 88,000 individuals started to receive cash and training benefits. TAA outlays, including the outlays from the health insurance subsidy, totaled $781 million in 2004. CBO's baseline projects that outlays for TAA for workers (including the health insurance subsidy) will total $834 billion in 2005, and $10.2 billion over the 2005-2015 period. Although the TAA for workers program expires at the end of fiscal year 2007, CBO's baseline assumes extension of the program, as specified in section 257 of the Balanced Budget and Emergency Deficit Control Act.

S. 1309 would expand coverage of TAA for workers by including service workers, relaxing the eligibility criteria for certification, and raising the cap on training. Together, these changes would increase outlays by an estimated $3.8 billion over the 2006-2015 period. The vast majority of the new costs—about $3.7 billion—would result from increases in extended unemployment and training benefits, while the remaining expenses would be for increases in the refundable portion of the health insurance cost credit.

Extended Unemployment and Training Benefits. Provisions in S. 1309 would increase costs of the TAA for Workers program by allowing workers who produce services to be eligible for TAA, and by relaxing other eligibility criteria for the program. In addition, S. 1309 would increase the maximum amount of federal funds that could be used for training expenses for TAA beneficiaries.

Inclusion of Service Workers. CBO estimates that provisions in S. 1309 to include workers involved in the provision of services in the class of workers eligible for TAA benefits would increase outlays by $2.5 billion from 2006 through 2015. About $1.9 billion of these costs would be from ongoing unemployment compensation payments, while about $0.6 billion would be training costs.

CBO derived its estimates of potential new TAA caseload using data from the displaced workers supplement to the January 2002 Current Population Survey (CPS). From that survey, CBO estimated that in 2000 and 2001 nearly as many workers were displaced from jobs in the service-sector industries that are likely to be affected by outsourcing—such as computer and data processing—as were displaced from jobs in the manufacturing sector. However, workers displaced from those service-sector jobs were less likely to receive and exhaust unemployment insurance benefits than were workers displaced from manufacturing jobs. Moreover, because the service-sector workers are less likely to be unionized and would be less familiar with the process of applying for TAA certification, CBO assumes that service workers would be less likely to apply for and be certified as eligible for TAA.

CBO concluded that nearly 90,000 dislocated service workers would be certified as eligible for TAA in 2006 (assuming a full year of operation), rising to about 140,000 in 2015. CBO estimates that about 15,000 individuals certified under the service worker provisions would begin to collect TAA cash and training benefits in 2006, rising to about 25,000 beneficiaries by 2015. CBO estimates an effective "take-up" rate of less than 20 percent beneficiaries out of the larger pool of certified individuals because in order to collect cash benefits under TAA, a certified individual must first exhaust his or her eligibility for regular unemployment compensation. Based on the CPS data for service workers, CBO expects that the majority of dislocated workers would find new employment before reaching that point. CBO assumed that average benefits for eligible services workers would be the same as for those who currently receive TAA benefits—about $10,000 per beneficiary for continuing unemployment compensation and training subsidies.

Relaxation of Eligibility Criteria. S. 1309 would change the criteria for determining whether a class of workers lost their jobs because of increases in imports and shifts in production. Both changes would make it easier for workers to prove their dislocation was trade-related. These relaxed criteria were assumed in creating the estimate for service workers discussed above. For manufacturing workers, CBO estimates that these changes would increase the annual number of certified workers by about 7,000, or roughly 3 percent (resulting in about 1,900 beneficiaries each year). Taken together, these two changes would increase outlays by $265 million over the 2006-2015 period. About $210 million of this increase would be for cash benefits, with $55 million for increased training costs. The caseload assumptions are detailed below.

In lieu of other methods for determining whether an increase in imports of an article or service has occurred, the bill would allow the Secretary of Labor to accept an attestation from the dislocated workers' firm or subdivision, or from customers of the firm or subdivision representing at least 20 percent of the sales of the firm or subdivision, that they are obtaining the article or service from a foreign country. The Department of Labor (DOL) does not publish detailed data on petition denials. Anecdotal evidence suggests that around one-half of petitions may be denied in part because they could not prove an increase in imports had occurred. However, because petitions may be denied for multiple reasons, CBO assumed that about 5 percent of denials (which have averaged about 80,000 individuals annually over the past three years) would be approved under the new criteria—for an addition of about 4,000 certified workers (about 1,100 would ultimately collect benefits).

S. 1309 also would eliminate the requirement that a qualifying shift in production be to a specified country with which the United States has a free trade or other preferential agreement. Instead, the petitioners need only prove that they have been laid off from a company that has obtained or is likely to obtain services from another country, as indicated by an attestation from the original employer. Based on mass layoff data from the Bureau of Labor Statistics, CBO estimates that roughly 6,000 dislocated workers could be newly eligible for TAA, based on the location of the production shift. However, because petitions may be denied for multiple reasons, CBO assumed about half of these petitioners would be made eligible under the new eligibility criteria, adding about 3,000 certified workers (800 of whom CBO assumes would collect benefits).

Other Expenses. Under current law, training expenses for TAA are capped at $220 million annually. This legislation would raise that cap to $440 million annually. CBO assumes that, if the cap is increased, spending would increase by about $1.2 billion over the 2006-2015 period. About half of these costs are accounted for by the program expansions discussed above. The remaining costs are due to the estimated unmet demand for those dislocated workers eligible under current law.

In addition, individuals who are certified as eligible for TAA also may receive up to $1,250 to assist with job search and relocation expenses. Also, certain older individuals may opt to receive alternative trade adjustment assistance through a temporary pilot program under provisions of current law. This benefit would subsidize employment for older individuals who otherwise qualify for TAA, and who accept lower paying employment prior to exhausting their regular unemployment benefits. CBO estimates that providing these benefits to the new beneficiaries under this bill would increase outlays by about $45 million over the 2006-2015 period.

CBO assumes that DOL would continue the practice of providing administrative funding to the states, which in the past has equaled about 15 percent of training costs. CBO estimates that these costs would total about $205 million over the 2006-2015 period.

Health Insurance Cost Credit. Under current law, TAA beneficiaries and certain recipients of PBGC pensions are eligible for a 65 percent refundable tax credit for the purchase of health insurance. By expanding eligibility for TAA, S. 1309 also would expand the eligibility for this tax credit. The Joint Committee on Taxation estimates that these changes would result in subsidy payments totaling $156 million over the 2006-2015 period. About two-thirds of those costs would be paid in the form of refundable tax credits. Refundable tax credits are recorded in the budget as outlays. The balance would be reflected as reduced revenue to the federal government.

S. 1309 would result in negligible savings to Medicaid by adding to the number of TAA beneficiaries and their dependents who would take the health insurance tax credit. In the absence of the tax credit, some portion of those workers would enroll in Medicaid under current law. Under the bill, those individuals instead would use the Health Coverage Tax Credit to enroll in a qualified health insurance plan. CBO estimates that these savings to Medicaid would be less than $500,000 in each year.

Revenues

JCT estimates that enacting S. 1309 would increase outlays and decrease revenues to the federal government by extending the tax credit for the purchase of health insurance to more individuals. As discussed above, JCT estimates the tax subsidy to total about $156 million over the 2006-2015 period. About $55 million of these costs would be reflected as reduced revenues to the federal government.

Spending Subject to Appropriation

S. 1309 would make service-sector firms eligible for grants from the Department of Commerce's TAA program. In addition, the bill would double the amount currently authorized for these grants to $32 million per year for fiscal years 2006 and 2007. CBO estimates that implementing this provision would cost $28 million from 2006 through 2010, and $32 million from 2006 through 2015.

ESTIMATED LONG-TERM DIRECT SPENDING EFFECTS

Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting S. 1309 would cause an increase in direct spending greater than $5 billion in each 10-year period beginning after 2015.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed the nontax provisions of S. 1309 and determined that they contain no intergovernmental mandates as defined in UMRA. Under voluntary agreements with the

Secretary of Labor, states administer the trade adjustment assistance and transitional adjustment assistance programs in a manner similar to that of their unemployment insurance programs. Benefits for those programs are funded entirely by the federal government.

JCT has determined that the tax provisions in this bill would not impose any mandates on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO has determined that the nontax provisions in S. 1309 contain no private-sector mandates as defined in UMRA. JCT has determined that the tax provisions in this bill would not impose any mandates on the private sector.

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