CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 18, 2013

S. 1302
Cooperative and Small Employer Charity Pension Flexibility Act

As reported by the Senate Committee on Health, Education, Labor, and Pensions on October 30, 2013

SUMMARY

S. 1302 would make changes to the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code to alter the funding requirements of certain private pension plans that are maintained by more than one employer where the employers are either cooperatives or charities. CBO estimates that enacting S. 1302 would increase offsetting receipts (which are recorded as an offset to direct spending) by $33 million over the 2014-2023 period. The staff of the Joint Committee on Taxation (JCT) estimates that enacting the bill would increase revenues by $145 million over the 2014-2023 period. In total, CBO and JCT estimate that enacting S. 1302 would reduce deficits by $178 million over the 2014-2023 period. (Of that total, $12 million in budgetary savings would stem from changes in Social Security revenues, which are classified as "off-budget.")

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. Implementing the bill would not have a significant effect on discretionary spending.

JCT and CBO have determined that S. 1302 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1302 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	*	*	*	-2	-3	-4	-6	-8	-9	-3	-33
CHANGES IN REVENUES												
Estimated Revenues												
On-Budget	5	8	4	2	5	10	14	21	29	36	24	133
Off-Budget[a]	*	1	*	*	1	1	1	2	2	3	2	12
Total	5	9	4	2	6	11	15	23	31	39	26	145
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND RECEIPTS												
Impact on Deficit												
On-Budget	-5	-8	-4	-2	-7	-13	-18	-27	-37	-45	-27	-166
Off-Budget	*	-1	*	*	-1	-1	-1	-2	-2	-3	-2	-12
Total	-5	-9	-4	-2	-8	-14	-19	-29	-39	-48	-29	-178

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Note: Details may not sum to totals because of rounding; * = less than $500,000.

a. Revenues from payroll taxes for the Social Security program are classified as “off-budget.”

BASIS OF ESTIMATE

The Pension Protection Act of 2006 (PPA) established more rigorous funding requirements for private pension plans. Under section 104 of PPA, certain multiple-employer pension plans that are maintained by cooperatives or charities are exempt from PPA funding rules until 2017 and continue to be subject to rules similar to those that were in place before PPA. Multiple-employer pension plans are maintained by two or more unrelated employers, but follow the pension rules that are in place for single-employer plans. Some single-employer plans that are currently exempt from PPA under section 104 would not be affected by S. 1302.

Starting in calendar year 2014, S. 1302 would give new options for funding to the roughly 30 multiple-employer pension plans that are currently exempt under section 104 of PPA.

Under the bill, such multiple-employer plans could elect to:

- Continue to operate under rules similar to those in place before the passage of PPA and be permanently exempt from PPA funding rules,

- Maintain their current exemption until 2017 and then begin to apply PPA funding rules, or

- In the case of charity plans, begin applying PPA funding rules early—in 2014 instead of 2017. Plans opting into PPA rules early would be allowed to contribute towards some of their funding shortfalls over a longer period of time than the standard rules allow.

CBO and JCT expect that S. 1302 would, on average, lower employer contributions to the affected pension plans. The forgone contributions to such plans would increase the taxable profits of some employers sponsoring the plans and in some cases the wages and salaries of employees. As a result, JCT estimates that S. 1302 would raise revenues by $145 million over the next 10 years.

The lower contributions also would increase the amount of underfunding in plans. Consequently, it would also increase federal offsetting receipts (a credit against direct spending) because plans must pay premiums to the Pension Benefit Guaranty Corporation that are based on their level of underfunding. Based on recent information on the funding of those plans, CBO estimates that premium income would increase by $33 million under the bill over the next 10 years.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

CBO Estimate of Pay-As-You-Go Effects for S. 1302 as reported by the Senate Committee on Health, Education, Labor, and Pensions on October 30, 2013

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT												
Statutory Pay-As-You-Go Impact	-5	-8	-4	-2	-7	-13	-18	-27	-37	-45	-26	-165
Memorandum:												
Changes in Outlays	0	0	0	0	-2	-3	-4	-6	-8	-9	-2	-32
Changes in Revenues	5	8	4	2	5	10	14	21	29	36	24	133

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1302 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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