



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

May 4, 2015

Honorable Mac Thornberry
Chairman
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office has completed a preliminary estimate of the direct spending effects of H.R. 1735, the National Defense Authorization Act for Fiscal Year 2016, as ordered reported by the House Committee on Armed Services on April 30, 2015. This preliminary estimate is based on legislative language for H.R. 1735 that was provided to CBO on May 1, 2015. CBO's complete cost estimate for H.R. 1735, including discretionary costs, will be provided shortly.

H.R. 1735 would make several major changes to the military retirement system beginning in 2018. One such change, requiring the Department of Defense to make matching contributions to the Thrift Savings Plan (TSP) on behalf of military personnel, would encourage service members to increase their contributions to the TSP, thereby reducing their taxable income. CBO and the staff of the Joint Committee on Taxation estimate that enacting this bill would reduce revenues by about \$1.3 billion over the 2018-2025 period (see attached table). Several other provisions would change direct spending by less than \$500,000 over the 2016-2025 period. Because the bill would affect revenues and direct spending, pay-as-you-go procedures apply.

In the decade after 2025 and in subsequent decades, CBO expects that other changes to the military retirement system in the bill would reduce mandatory spending from the Military Retirement Trust Fund by more than the revenue losses from expanded participation in the TSP in those years.

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If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is David Newman.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Hall". The signature is stylized and cursive.

Keith Hall
Director

Attachment

cc: Honorable Adam Smith
Ranking Member

PRELIMINARY ESTIMATE OF THE IMPACT OF H.R. 1735 ON REVENUES AND DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars											2016-	2016-
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2020	2025	
Thrift Savings Plan													
Changes in Revenues ^a	0	0	-51	-125	-154	-168	-183	-198	-214	-230	-330	-1,323	

Sources: CBO and the Staff of the Joint Committee on Taxation (JCT).

Notes: Sections 631-634 would make several major changes to the military retirement system beginning in 2018. One such change, requiring the Department of Defense to make matching contributions to the Thrift Savings Plan (TSP) on behalf of military personnel, would encourage service members to increase their contributions to the TSP, thereby reducing their taxable income. As a result, CBO and JCT expect that revenues would decline relative to current law. In the decade after 2025 and in subsequent decades, CBO expects that other changes to the military retirement system in sections 631-634 would reduce mandatory spending from the Military Retirement Trust Fund by more than the revenue losses from expanded participation in the TSP in those years.

Other provisions of H.R. 1735 would change direct spending by less than \$500,000 over the 2016-2025 period.

a. Negative numbers signify a reduction in revenues.
