H.R. 397, Rehabilitation for Multiemployer Pensions Act of 2019
As published in Rules Committee Print 116-24 on July 19, 2019.

**At a Glance**

<table>
<thead>
<tr>
<th>By Fiscal Year, Millions of Dollars</th>
<th>2019</th>
<th>2019-2024</th>
<th>2019-2029</th>
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<td>Spending Subject to Appropriation (Outlays)</td>
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</table>

**Statutory pay-as-you-go procedures apply?**
- Yes

**Mandate Effects**
- Contains intergovernmental mandate? No
- Contains private-sector mandate? Yes, Under Threshold

**The bill would**
- Establish a new agency, the Pension Rehabilitation Administration (PRA), to provide loans to some multiemployer defined benefit pension plans that are financially troubled
- Appropriate funds to the Pension Benefit Guaranty Corporation to provide grants to some plans that receive loans
- Impose a private-sector mandate by requiring certain pension plans to apply for loans

**Estimated budgetary effects would primarily stem from**
- The cost of loans made to certain pension plans
- Grants to most plans that receive loans
- Provisions that would increase revenues, including modifying the required distribution rules for certain tax-favored assets

**Areas of significant uncertainty include**
- Predicting the long-term financial positions for the multiemployer plans that would receive loans and grants
- Predicting how lenient the PRA would be in forgiving loans
- Predicting the assumptions about plans’ financial positions used in plan applications

**Detailed estimate begins on the next page.**
Bill Summary

H.R. 397 would provide certain multiemployer defined benefit pension plans that are facing insolvency or are currently insolvent with federal assistance in the form of loans and grants from the government. The loans would be administered by the new Pension Rehabilitation Administration, to be housed in the Department of the Treasury, and the grants would be administered by the Pension Benefit Guaranty Corporation (PBGC), which currently provides financial assistance for insolvent pension plans.

Under the bill, certain pension plans facing insolvency could apply to the PRA for a loan and apply jointly to the PRA and PBGC for loans and grants; some plans would be required to apply. A plan could borrow up to the amount it needed to pay lifetime benefits to people who already receive benefits (referred to as being in pay status), to former employees who are entitled to receive benefits in the future (called terminated vested participants), and to their beneficiaries. The loan period would be 30 years and the interest rate would be tied to the rate for 30-year Treasury bonds.

If the PRA evaluated the application and determined that a plan could not repay a loan in full and still remain solvent, the plan would receive a smaller loan, and the difference would be covered by grants from PBGC. Those grants could not exceed the estimated value of benefits that would otherwise be guaranteed under current law by PBGC if the plan was insolvent on the day of its application. Pension plans would not be required to repay the grants received from PBGC.

The bill also includes several provisions that would increase revenues, including ones that would modify the required distribution rules for certain beneficiaries of tax-favored retirement plans after the death of the employee or account holder, increase penalties for certain required filings and notices, and require information sharing related to the heavy vehicle use tax.

Estimated Federal Cost

The estimated budgetary effect of H.R. 397 is shown in Table 1. The costs of the legislation fall within budget function 600 (income security).
Table 1.
Estimated Budgetary Effects of H.R. 397

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Background

Under current law, PBGC guarantees the payment of benefits for about 10 million participants by financially assisting plans that become insolvent. As a condition of receiving assistance, those plans must reduce participants’ benefits to a maximum guaranteed amount. The current-law guarantee varies according to a plan’s benefits and a participant’s years of service. The maximum is $12,870 annually for a participant with 30 years of service. On average, that guarantee covers about 70 percent of a participant’s scheduled benefits under the plan.

Under the bill, eligibility for loans and grants depends on a plan’s financial condition. Under current law, multiemployer plans are categorized according to how well-funded they are and how long they are projected to remain solvent. Plans are categorized as not in distress (green zone), endangered (yellow zone), seriously endangered (orange zone), or critical (red zone). In addition, to avert insolvency, the Multiemployer Pension Reform Act of 2014 (MPRA) allows the most financially troubled of the critical plans—the “critical and declining” plans—to reduce benefits (referred to as benefit suspension) if the Department of the Treasury approves. As of 2015, almost 300 plans were classified as critical and more than 80 of those were classified as critical and declining. Currently, 14 plans have been approved to suspend benefits under MPRA.

Assistance is currently paid from PBGC’s multiemployer revolving fund, which is supported by premiums that the plans pay and interest credited on the fund’s balance. CBO projects that under current law the revolving fund will be exhausted in 2025. PBGC will then be required to reduce current-law assistance to amounts that can be supported with premium income; that level of funding will reduce participants’ benefit payments substantially below the guaranteed amounts.
Detailed Description of the Bill

Under H.R. 397, the PRA would be required to establish a loan program by September 30, 2019, and to publish guidance by December 31, 2019. The PRA also could issue rules regarding the form and content of applications and the actuarial standards and assumptions to be used in making the estimates and projections contained in plans’ applications. As necessary to avoid a suspension of benefits, the PRA could issue loans before the program is fully established or guidance is issued. Before approving an application for a grant under H.R. 397, PBGC would be required to provide guidance on how plans should make their financial projections in an application.

Eligible Plans

Under H.R. 397, a plan could apply for a loan and a grant if by the date of enactment it met one of the following criteria:

- Was in critical and declining status or had an approved suspension of benefits,
- Was in critical status and funded at less than 40 percent, on the basis of current liability measures, and had a ratio of active to inactive participants of less than 2:5, or
- Became insolvent after December 16, 2014, but had not yet been terminated.

Plans that had been approved for a suspension of benefits under MPRA before enactment of H.R. 397 would be required to apply for a loan.

Application and Approval

Under H.R. 397, a plan that applied for a loan and, if necessary, for a grant would need to demonstrate that the funds received would permit it to avert or emerge from insolvency over at least the 30-year loan period. (The bill does not specify any solvency requirements for the plans for years after the 30-year loan period.) A plan also would need to demonstrate that it could reasonably be expected to pay benefits and interest during the period and to repay the principal when it came due.

Projections of contributions and benefits would depend on a plan’s assumptions about rates of employment, ages at retirement, and the life expectancy of its beneficiaries. Each plan would project the earnings on its assets, which would depend on rates of return specified in the application. The PRA would be required to accept the plan’s determinations unless it found that those determinations or their underlying assumptions were unreasonable or inconsistent with its guidance. PBGC could deny any grant application if it found that the application’s determinations or demonstrations were unreasonable or inconsistent with its guidance.
Loan Terms
Under the bill, the PRA would make a onetime loan disbursement to a plan after its application was approved. The plan would be required to make interest payments for the first 29 years of the loan and repay the principal in the last year. The interest rate would match the rate of interest on 30-year Treasury bonds as of January 1, 2020. To qualify for a lower rate, a plan could choose a different repayment schedule, under which it would make interest-only payments for the first 20 years of the loan, and repay the principal along with interest during years 21 through 30. The interest rate on those loans would be 0.5 percentage points lower than the 30-year Treasury rate. Under either repayment plan, the PRA could increase the interest rate by up to 0.2 percentage points to pay for administrative costs.

Grants
PBGC would determine the total amount of grants a plan could receive at the time the PRA approved a loan. The present value of grants would be limited to amounts determined by PBGC.\(^1\) Grants could be disbursed after a loan was repaid.

Under the bill, PBGC generally would disburse grants to plans slowly, releasing funds only in years when the fair-market value of a plan’s assets is less than five times its expected expenditures for benefits and administrative expenses for the year. Most plans’ assets are defined as any assets it holds at the beginning of a year plus any expected loan disbursements for that year. However, for plans that fit certain criteria, assets are defined as excluding any loan disbursements anticipated to be received in the coming year. The only plan that meets those criteria is the Central States, Southeast & Southwest Areas Pension Plan; as a result, that plan would receive about $3 billion in grants in 2020.

Once a plan qualifies for grants under the bill, PBGC would disburse the lesser of the following amounts:

- Five times a plan’s expected expenditures for the plan year minus its assets or
- The total expected expenditures for the plan year.

For purposes of calculating the grant amount, expenditures would consist of projected benefits, administrative expenses, and scheduled loan repayments for the year. Some plans could receive their grants in a lump sum at the beginning of the loan period if PBGC determines that such a payment is necessary to avert insolvency over the 30-year term of the loan.

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1. Present value is a single number that expresses the flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time. It depends on the rate of interest (the discount rate) that is used to translate future cash flows into current dollars.
Other Provisions
H.R. 397 would require eligible pension plans to use their loan proceeds either to purchase annuities or investment-grade, fixed-income assets or to invest in a similarly low-risk portfolio.

The PRA would be required to negotiate with a plan’s sponsor for revised repayment terms if it determined that making a scheduled payment would result in plan insolvency within 18 months. Revised terms could include a change in the repayment schedule or loan forgiveness.

Revenue Provisions
The bill would modify the required-distribution rules for certain designated beneficiaries of certain tax-preferred retirement accounts. Under current law, if a person with a defined contribution retirement plan or traditional individual retirement account dies, the beneficiary of that plan or account must comply with minimum distribution requirements. The period over which a full distribution of the plan must be made varies depending on the age of the deceased and certain characteristics of the beneficiary. H.R. 397 would make full distribution within 10 calendar years of the death of the plan holder the general rule, with exceptions for surviving spouses and disabled or child beneficiaries. This generally would apply to employees and holders of individual retirement accounts (IRAs) who die after December 31, 2019.

H.R. 397 would increase the penalties for failure to file individual and retirement plan tax returns. Under current law, the penalty for failing to file an individual return is the lesser of a flat dollar amount or 100 percent of the unpaid tax. The bill would increase the flat dollar amount from $330 to $435. Under current law, employers that maintain qualified retirement plans must file annual reports (Form 5500 with various schedules, including actuarial reports for defined benefit plans) with the Department of Labor and registration statements with the Internal Revenue Service (IRS). The penalty for failing to file for a year generally is $25 per day with a maximum of $15,000. The penalty for failure to register is a maximum of $5,000 for the year. Each year, plan administrators and IRA custodians must send notices to payees of qualified retirement plans and IRAs, respectively, explaining their right to waive withholding of taxes from their benefits. The penalty for failing to provide withholding notices to payees is $10 per failure with a maximum of $5,000 for all failures in the year. H.R. 397 would increase the relevant per-day or per-failure penalties and the maximum penalties. Those changes would apply to returns filed after December 31, 2019.

H.R. 397 would allow the IRS to share returns and information with U.S. Customs and Border Protection to improve administration of the heavy-vehicle use tax.
How CBO Estimated the Costs of H.R. 397

To estimate the effects of H.R. 397, CBO used a model that simulates projections of the financial condition of multiemployer pension plans, including benefit amounts, employers’ contributions, plan assets and liabilities, probable defaults on loans, and financial assistance claims paid by PBGC. This simulation method helps measure the budgetary costs of loans and timing of grant payments in situations where cash flows have an asymmetric relationship with those underlying economic factors and asset returns.

The model’s inputs include information from public filings of IRS Forms 5500 for plan years 2015 and 2016. CBO generated a probability distribution of firms’ potential financial outcomes by running 500 simulations in which many factors (such as returns on assets, the 30-year Treasury rate, inflation, and the liability discount rate) were varied, and it then used the average of those simulations to produce this estimate.

Key Assumptions
This estimate incorporates several key assumptions with respect to the employers’ contributions to plans, information that plans would include in their loan and grant applications, the type of investments plans would make and their expected returns, and the PRA’s criteria for loan renegotiation. The economic projections in this estimate are consistent with the economic forecast that underlies CBO’s May baseline projections.

Active Participants and Plan Contributions. CBO projects that the number of active workers participating in plans that would be eligible to apply for loans and grants would decline by 2 percent annually for the next 10 years and then stabilize. The amounts that employers contribute to the plans are based on the number of active workers. CBO also projects that per-worker contribution rates would generally remain constant.

Application Process. When applying for assistance, a plan would have to present its financial projections with and without the assistance offered under the bill. Those projections would reflect assumptions about several factors, including benefit costs, employer contributions, mortality, and returns on assets. In general, CBO assumes that applications would reflect the same assumptions plans present in annual reports to the government, with one exception: we expect they would assume lower returns on the investments of their assets.

Plans would have an incentive to make pessimistic projections because a bleaker outlook could increase the amount they receive in grants compared with loans, although the plans also would need to demonstrate sufficient ability to repay those loans. The PRA and PBGC would need to approve the plans’ assumptions and projections, and the PRA could reject any application it found had used unreasonable assumptions or determinations. That constraint would reduce but not eliminate the ability of plans to adjust their projections to maximize the grant amount, because a range of assumptions might be considered reasonable.
CBO expects that approved applications would assume a 6 percent rate of return on plan assets—about 1 percentage point lower than the rates that are typically assumed in applications approved by the Treasury for benefit reductions under MPRA.

**Loan Terms.** CBO assumes that all loans would be disbursed in 2020 and that all plans would choose to repay the principal in years 21 to 30 in order to receive the 0.5 percentage-point discount on interest that is specified in the bill. CBO projects that the 30-year rate on Treasury bonds on January 1, 2020, will be approximately 3.8 percent so the resulting interest rate on those loans would be approximately 3.3 percent.

**Investment of Assets and Rates of Return.** H.R. 397 would require all plans to invest the funds they borrow from the PRA in low-risk portfolios, which CBO assumes would earn 3.7 percent—the same rate as that for Treasury bonds with a 15-year average maturity.

Plans could use loans and, in some cases grants, to pay benefits, which would increase the amount of their own assets that could be invested in non-Treasury securities; H.R. 397 would not set any requirements for how plans invest their own assets. CBO expects that plans would invest their nonloan assets in portfolios comprising about 80 percent stocks and 20 percent corporate bonds. Such portfolios would be more risky but would offer higher expected returns than Treasury securities. CBO expects that the average annual return on such assets would be 5.6 percent. (For purposes of calculating the loan subsidy cost, CBO assumes such assets earn the 30-year Treasury rate; that assumption is discussed below in “Basis of Estimate.”) CBO also assumes that plans would prioritize paying benefits out of loan assets in order to maximize the amount of assets that they could invest with fewer constraints.

**Forgiveness.** The PRA would be required to negotiate new payment terms if a plan is unable to make a scheduled loan payment and may renegotiate the timing of when payments are due or forgive a portion of the principal. However, under the bill the PRA could change the terms only if necessary to avert insolvency in the following 18 months. CBO expects the PRA would have some flexibility in what measure of insolvency it used to make that determination and thus assumes that the PRA would implement this authority to extend payment terms and forgive principal generously. Effectively, CBO assumed the PRA would forgive loan repayments (including the principal if the forgiveness occurs during the final 10 years of the loan) when a plan was within 5 years of having zero assets, rather than 18 months.

**Results**

CBO estimates that 157 multiemployer pension plans would be eligible to apply for loans under the criteria set forth in H.R. 397. (Numerous other plans probably will experience financial difficulty in the future, but will not be eligible to apply for loans under H.R. 397 because they would not meet any of the application criteria as of the date of enactment.) Of those 157 plans, CBO estimates that 8 would be ineligible for loans, 19 would receive loans
but not grants, and 130 would receive loans and grants (33 of that latter group of plans would receive a lump sum grant for the total amount of assistance in 2020).

CBO estimates that loans disbursed in 2020 would total $43.3 billion; $3.6 billion of that amount would be for plans required to apply for loans. Because loans that an entity is required to take under the law would not in CBO’s view meet the definition of a loan as set forth in the Federal Credit Reform Act of 1990 (FCRA), CBO estimated such loans under H.R. 397 on a cash basis.

For the $39.7 billion in loans disbursed to plans that would not be required to apply, CBO estimates that the present value of the repayments would total $7.9 billion (discounted to 2020, the year of disbursement), resulting in a net subsidy cost of $31.8 billion. Of that total, $1.8 billion is attributable to the interest rate discount of 0.5 percentage points below the 30-year Treasury rate, not to defaults.

**Basis of Estimate**

For this estimate, CBO assumes that the bill will be enacted before the end of fiscal year 2019 and that all loans would be disbursed in 2020. Detailed components of the estimate are shown in Table 2.

**Direct Spending**

H.R. 397 would increase net direct spending by $67.7 billion over the 2020-2029 period. CBO projects that the subsidy cost of loans under the bill would be $31.8 billion and new grants would total $38.6 billion. Administrative costs would total $23 million. Enacting the bill also would decrease spending on current-law assistance from PBGC by $2.7 billion.

**Loan Program.** CBO estimates that $39.7 billion in loans would be disbursed to multiemployer pension plans, not counting loans to plans that would be required to apply. The estimated cost of the loans to plans required to apply is incorporated in the estimate of the cost of providing grants, discussed below.

FCRA requires that the lifetime cost of federal loans be recorded on an accrual basis (that is, those costs are recognized in the year in which the loan is made). The lifetime cost of a federal loan—called its subsidy cost—is measured by discounting all expected future cash flows associated with the loan to a present value when the loan is disbursed. Cash flows include amounts disbursed, principal repaid, interest received, and fees charged.

Under FCRA rules, the present value of expected future cash flows is calculated by discounting them using the rates on Treasury securities with similar terms to maturity. For example, the yield on a Treasury security maturing in one year is used to discount cash flows one year from disbursement, a two-year rate is used for cash flows two years from disbursement, and so on. By that method, over the 2020-2029 period, H.R. 397 would increase direct spending on loans by $31.8 billion.
Table 2.
Estimated Effect of H.R. 397 on Direct Spending and Revenues

By Fiscal Year, Millions of Dollars

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<tr>
<td>Total Change in Revenues</td>
<td>0</td>
<td>220</td>
<td>679</td>
<td>1,093</td>
<td>1,483</td>
<td>1,814</td>
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<td>3,332</td>
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<td><strong>Net Increase or Decrease (-) in the Deficit</strong></td>
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<td>32</td>
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<td>716</td>
<td>964</td>
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Components may not sum to totals because of rounding; * = between zero and $500,000.

CBO interprets FCRA to require the cost of a loan to be calculated separately from the cost of any grants provided to the same entity and thus did not consider any federal grant funds as available to repay the loan. (For a broader discussion of how to interpret FCRA, see “Alternative Method of Estimating Loans and Grants” below.)

Although plans are required to invest the loan amounts in safe assets, we expect that plans would pay benefits first with loan funds, because that would free up funds that could be invested in assets with greater risk and higher expected returns. To estimate the budgetary costs of the loans under H.R. 397, CBO assumed that plan assets attributable to the loans—
that is, any assets in excess of those that plans are projected to have according to CBO’s baseline projections—would earn the 30-year Treasury rate.

Such an assumption avoids the implication that a government loan to a party that passively invests in financial securities could result in budgetary savings. Although CBO does not generally incorporate the cost of risk into cost estimates under FCRA, except where directed to by statute, instances where government funds are passively invested in risky financial securities represent a special case.\(^2\) Investing in financial securities, such as equities, with money borrowed from the government is financially equivalent to leveraged equity investment, which would have both high expected returns and high risk. In a case where the borrower paid an interest rate that was higher than the rate for government borrowing, an estimate that did not adjust for risk would inappropriately indicate that the federal government could reduce the deficit through such investment. CBO’s assumption in this case is consistent with the approach it took to projecting the returns on financial assets owned by the National Railroad Retirement Investment Board and similar proposals for the Postal Service.\(^3\)

**New Grants.** As specified in H.R. 397, PBGC would disburse grants to eligible plans that CBO estimates would total $36.0 billion over the 2020-2029 period, $44.9 billion over the 2030-2039 period, $26.0 billion over the 2040-2049 period, and $3.5 billion in later years. CBO projects that, discounted to 2020, the present value of spending for grants would total $71.1 billion.

As discussed above, the loans to plans that are required to take them are treated on a cash basis. CBO estimates that $3.6 billion in loans would be disbursed to such multiemployer pension plans in 2020 and that $1.0 billion in interest payments would be received between disbursal and the end of the projection period in 2029. Thus, the net estimated cost would be $2.6 billion over the 2020-2029 period.

**Current-Law Assistance.** CBO estimates that PBGC will make $6.0 billion in assistance payments under current law to multiemployer pension plans that are projected to become insolvent over the 2019-2029 period. CBO also projects that the multiemployer revolving fund will be exhausted in 2025, at which point PBGC will reduce financial assistance to amounts that can be supported with premium income. Consequently, spending under current law will not cover the full guaranty payment of benefits for retirees receiving payments from PBGC. Under H.R. 397, CBO estimates, fewer plans would draw from the revolving fund because the new financial assistance would allow them to remain solvent for longer. As a

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result, under the bill net direct spending on current-law assistance would decrease by $2.7 billion over the 2019-2029 period. Additionally, CBO expects that the multiemployer revolving fund would continue to provide assistance at the maximum guaranteed level for 15 to 20 years longer than under current law.

**Administrative Costs.** Under H.R. 397, the PRA would issue rules for the program, review loan applications, disburse loans, and regularly evaluate the financial status of the plans receiving the loans. To fund those administrative activities, the bill would allow the Treasury to transfer whatever amounts were necessary from the general fund. Additionally, the bill would allow PBGC to review applications for new grants and provide that assistance to plans as needed; the bill would appropriate whatever amounts are necessary for PBGC to administer the grant program. Using information from the Treasury and PBGC as well as data from similar programs, CBO estimates that those administrative costs would total $23 million over the 2019-2029 period.

**Revenues**

CBO and the staff of the Joint Committee on Taxation (JCT) estimated the bill’s revenue effects as discussed below.

**Pension Provisions.** The pension provisions of H.R. 397 would increase revenues because retirees would receive retirement benefits under the bill that they will not receive under current law if the pension plans become insolvent. The estimated effective marginal tax rate on those increased benefits grows from 17 percent in 2020 to 22 percent in 2029. CBO and JCT estimate that the multiemployer pension provisions of H.R. 397 would result in an additional $3.2 billion in revenues over the 2019-2029 period. CBO and JCT estimate that the bill would not affect corporate income or total taxable compensation received by workers.

**Other Revenue Provisions.** JCT estimates that the provision to modify the required-distribution rules for designated beneficiaries of certain tax-preferred retirement accounts would increase revenues by $15.5 billion over the 2020-2029 period. Increasing the penalty for failure to file individual and retirement plan returns would increase revenues by about $300 million over that period, and allowing the IRS to share returns and return information with U.S. Customs and Border Protection would increase revenues by about $160 million in those years.

**Uncertainty**

Estimating the budgetary effects of H.R. 397 involves uncertainty primarily because of the difficulty in projecting the long-term financial positions of the multiemployer pension plans that would receive assistance. Over the next 30 years, unforeseen changes in mortality rates, trends in employment, and fluctuations in financial markets, for example, could significantly affect plans’ financial conditions. Such outcomes as the timing and amount of financial
assistance a plan receives under the bill and whether a given loan ends in default also could vary significantly if plans’ assets and liabilities differ from what CBO projects.

CBO examined three areas—interest rates, the PRA’s loan collections, and plans’ projections of their financial condition in their application documents—in which different assumptions could result in higher or lower estimates of the bill’s costs.

**Interest Rates.** If interest rates were a percentage point lower than assumed for this estimate but other underlying assumptions remained generally the same, the estimated 10-year outlays would increase by about $6 billion. In this scenario, the interest rate on 30-year Treasury bonds would be 2.8 percent (rather than 3.8 percent), but the projected return on plans’ investments used in loan applications, which are determined primarily by expected stock returns, would remain at 6 percent. With lower borrowing costs, plans would receive larger loans and smaller grants. Lower interest rates would reduce both the cost of borrowing and plans’ actual returns on the investment of their assets, so their ability to repay loans would remain generally unchanged. The resulting loan subsidy amount would be higher because plans would repay a smaller portion of their loans.

**Collection Practices.** H.R. 397 requires the PRA to make every effort to collect on loans. However, it also requires the PRA to negotiate revised terms with plans with loans facing insolvency, although the PRA may forgive repayments only as necessary to avert insolvency over the 18 months following the required repayment. CBO assumed that the PRA would forgive a loan or renegotiate terms whenever a plan was within five years of insolvency. If the PRA instead collected payments until a plan was within 18 months of insolvency, plans would make more repayments and the estimated loan subsidy cost would be $4 billion lower. Alternatively, if the PRA was more lenient about forgiving loans than CBO assumes, plans would repay less and the loan subsidy cost would be higher.

**Rates of Return in Applications.** In certain cases, pension plans would have an incentive to present an assumption of a lower rate of return in their loan applications; doing so might result in a plan receiving a smaller loan and a larger grant. CBO’s assumption was that plans’ applications would anticipate a 6 percent rate of return on their asset investments. If plans used lower rates and if the Treasury and PGBC approved the use of those rates, the bill’s net cost would be higher than projected. For example, if plans assumed a 5 percent rate of return, the estimated 10-year outlays would increase by about $5 billion, to $73 billion. The loan subsidy would be several billion dollars smaller, but that amount would be more than offset by larger grants. (CBO did not expect that plans would adopt a significantly higher assumed rate of return on their applications because doing so would reduce the amount of grants they would receive.)
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 Table 3.

### Table 3.
CBO’s Estimate of Pay-As-You-Go Effects of H.R. 397

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<td>Statutory Pay-As-You-Go Effect</td>
<td>0</td>
<td>46,635</td>
<td>32</td>
<td>-622</td>
<td>-1,177</td>
<td>-1,438</td>
<td>573</td>
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<td>Changes in Revenues</td>
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<td>1,093</td>
<td>1,483</td>
<td>1,814</td>
<td>2,057</td>
<td>2,486</td>
<td>2,890</td>
<td>3,119</td>
<td>3,332</td>
<td>5,289</td>
<td>19,173</td>
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</table>

Increase in Long-Term Deficits

CBO estimates that enacting H.R. 397 would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2030. The bill would increase outlays over that period, but the increase would be offset by revenue increases.

In total, about $36 billion in grants would be directed to eligible plans in the 2020-2029 period, $45 billion* in the 2030-2039 period, $26 billion in the 2040-2049 period, and $4 billion in later years. In present value, discounted to 2020, CBO projects total grants of $71 billion.

Under current law, CBO projects, PBGC’s multiemployer revolving fund will be exhausted in 2025 and PBGC will reduce current-law assistance to amounts that can be supported with premium income. CBO projects that under H.R. 397, the revolving fund would be exhausted about 15 to 20 years later because the plans receiving loans and grants would draw down significantly less current-law assistance from PBGC. However, CBO expects that some multiemployer plans that did not receive loans or grants under H.R. 397 would become insolvent and draw PBGC financial assistance after 2029. As a result, direct spending for PBGC’s current-law assistance would increase by about $3 billion over the 2030-2039 period.

*On January 16, 2020, CBO corrected this number.
Over the 2030-2039 period, the revenue increase is projected to be slightly smaller than the increase in outlays. In subsequent decades, the revenue increase would be larger than the increase in outlays.

CBO also anticipates that most multiemployer pension plans that received loans under H.R. 397 would become insolvent within a few years after the end of their loan repayment periods.

**Alternative Method of Estimating Loans and Grants**

In estimating the cost of H.R. 397, CBO projected loan repayment as if plans would not receive any grant funds. Although FCRA specifies the method for calculating the cost of a loan, it does not clearly state whether federal grant assistance should be considered. Under CBO’s interpretation, FCRA requires the cost of the loan to be calculated separately from the cost of grants provided to a single entity (that is, as though the grant funds were not available to repay the loan).

Other interpretations of FCRA are possible, and in order to provide complete information to the Congress, CBO also calculated the loan subsidy cost assuming that such grant assistance, which would generally be disbursed over the next three decades, would be available to make loan repayments. Under that assumption, CBO estimates that plans would be able to repay more of the loans and that the loans’ subsidy costs would total $5.8 billion rather than $31.8 billion.

This estimating method accounts for the effects of the PRA’s grants on the subsidy cost, even though most of the grants are made outside the 2019-2029 baseline window and would not be counted on the Statutory Pay-As-You-Go scorecard or in other 10-year tabulations.

**Mandates**

H.R. 397 would impose a private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA) by requiring sponsors of multiemployer pension plans who have suspended benefits to apply for a loan under the program established by the bill. According to Treasury data, 14 plans have suspended benefit payments and therefore would fall under the requirements of the bill. CBO estimates that $3.6 billion in loans would be made to those plans, an amount expected to be sufficient to pay retroactive benefits to plan participants and their designated beneficiaries.

Receiving a loan would obligate those plans to make interest payments, resume payment of suspended benefits, and incur administrative costs. The bill would require plans to hold any remaining loan proceeds in annuities or low-risk, fixed-income assets, which would generate interest and offset some of the costs imposed by the bill. CBO estimates the net interest and administrative costs, taken together, would not exceed the private-sector threshold.
established in UMRA ($164 million in 2019, adjusted annually for inflation) in any of the first five years the mandate would be in effect.

H.R. 397 contains no intergovernmental mandates as defined in UMRA.
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