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

Keith Hall, Director

July 16, 2018

Honorable Orrin G. Hatch
Chairman
Joint Select Committee on Solvency
of Multiemployer Pension Plans
United States Senate
Washington, DC 20510

Re: Preliminary Analysis of S. 2147, the Butch-Lewis Act of 2017, as introduced.

Dear Mr. Chairman

As you requested, the Congressional Budget Office has prepared a preliminary analysis of S. 2147, the Butch-Lewis Act of 2017, as introduced. The bill would establish the Pension Rehabilitation Administration (PRA) to provide loans and financial assistance to certain multiemployer defined-benefit pension plans.

CBO has not completed a final, point estimate of the legislation. The estimated budgetary effects are highly uncertain because several key aspects of the legislation are broadly described, making it difficult to project how the proposal would be implemented. Several months ago, based on what CBO considered the most likely interpretation of the bill language, CBO provided a preliminary and partial analysis to interested Congressional parties that the bill would probably increase deficits by more than $100 billion over the 2019-2028 period. Under some interpretations of the bill language, however, few plans would qualify for loans and assistance, resulting in federal costs that would be substantially less than $100 billion.

As a general practice, CBO estimates the effects of legislation after a committee has ordered a bill to be reported. Committees often significantly amend introduced legislation before reporting it in ways that clarify how proposals would be implemented. CBO has been working with Congressional staff to analyze various changes to the bill, many of which would significantly reduce its costs.

The bill specifies that plans would have to apply to the PRA to qualify for loans and assistance, but does not describe exactly how the PRA would evaluate those applications. Even if CBO could determine which applications would be approved, the bill as introduced does not resolve uncertainties around several key elements with large budgetary effects. For example, the bill does not state when financial assistance payments would be made. If plans received that assistance when the loan was issued or shortly thereafter, federal costs would be higher over the 2019-2028 period than if plans received such assistance over a period that extended beyond 2028. The bill does not specify the interest rate that would be charged on the loan, which would affect how much plans would repay. The bill also does not specify what recourse the PRA would have if a plan defaulted on its loan. The bill allows the PRA to renegotiate the loan and to forgive part or all of the loan, but the conditions for adjusting repayment requirements are not strictly specified. Repayments of loans would depend on how the PRA used its discretion.

The results of a formal cost estimate could differ substantially in either direction based on further clarification.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

Mark P Hadley for

Keith Hall
Director