Congressional Budget Office
Cost Estimate

April 5, 2019

At a Glance

H.R. 1994, Setting Every Community Up for Retirement Enhancement Act of 2019

As ordered reported by the House Committee on Ways and Means on April 2, 2019

Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	596	1,314
Revenues	1	-994	1,323
Deficit Effect	-1	1,590	-9
Spending Subject to Appropriation (Outlays)	0	0	0

Pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	**< $5 billion**	Contains intergovernmental mandate?	**No**
		Contains private-sector mandate?	**Yes, Over Threshold**

n.a. = not applicable; * = between -$500,000 and $500,000.

The bill would

- Modify the required distribution rules for beneficiaries of tax-favored employer-sponsored retirement plans or traditional individual retirement arrangements after the death of the employee or account-holder, generally requiring full distribution of those plans within 10 years.
- Increase to 72 the age after which required minimum distributions from certain retirement accounts must begin.
- Modify requirements for multiple-employer and pooled-employer pension plans to make it easier for businesses to maintain such plans.
- Reduce Pension Benefit Guaranty Corporation premiums for certain multiple-employer plans of cooperatives or charities.
- Allow penalty-free distributions from qualified retirement plans for births and adoptions.
- Make it easier for long-term, part-time employees to participate in elective deferrals.
- Increase penalties for failing to file individual and retirement plan returns.
- Require administrators of pension and benefit plans to disclose the plan's lifetime income stream to beneficiaries.

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. Most of the estimates for the provisions of H.R. 1994 were provided by JCT.

Detailed estimate begins on the next page.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

Bill Summary

H.R. 1994 would amend the tax code to modify requirements for tax-favored savings accounts and employer-provided retirement plans. The most significant provisions include changes to the rules governing multiple-employer and pooled-employer retirement plans; an increase in the age at which distributions must be taken from defined contribution retirement plans or traditional individual retirement arrangements (IRAs); and, after the death of an employee with a defined contribution retirement plan or traditional IRA account, establishing a 10-year timetable for full distribution of the plan or account to beneficiaries.

Estimated Federal Cost

The estimated budgetary effects of H.R. 1994 are shown in Table 1. The costs of the bill fall within budget function 600.

Basis of Estimate

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) will be the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates those estimates into its cost estimates of the effects of legislation. Most of the estimates for the provisions of H.R. 1994 were provided by JCT.[1]

1. For JCT's estimates of the provisions that include detail beyond the summary presented below, see Joint Committee on Taxation, *Estimated Revenue Effects of the Chairman's Amendment in the Nature of a Substitute to the "Setting Every Community Up For Retirement Enhancement (Secure) Act of 2019,"* JCX-14-19 (April 1, 2019), https://go.usa.gov/xmxmH.

Table 1.
Estimated Budgetary Effects of H.R. 1994

By Fiscal Year, Millions of Dollars

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
Increases or Decreases (-) in Revenues													
Title I. Expanding and Preserving Retirement Savings	0	-818	-1,025	-1,160	-1,305	-1,415	-1,547	-1,781	-1,822	-1,826	-1,887	-5,723	-14,584
Title II. Administrative Improvements	0	0	-9	-10	-11	-12	-13	-14	-15	-15	-16	-41	-113
Title III. Other Benefits	0	-29	-30	-25	-26	-26	-27	-27	-28	-29	-30	-136	-277
Title IV. Revenue Provisions	1	222	684	1,079	1,351	1,567	1,766	2,088	2,393	2,525	2,620	4,906	16,297
Total Revenues	1	-625	-380	-116	9	114	179	266	528	655	687	-994	1,323
On-Budget	1	-611	-366	-96	37	152	226	323	588	716	750	-880	1,726
Off-Budget[a]	0	-14	-14	-20	-28	-38	-47	-57	-60	-61	-63	-114	-403
Increases or Decreases (-) in Direct Spending													
Title I. Expanding and Preserving Retirement Savings													
Estimated Budget Authority	0	0	0	*	*	*	*	-1	-1	-1	-1	*	-4
Estimated Outlays	0	0	0	*	*	*	*	-1	-1	-1	-1	*	-4
Title II. Administrative Improvements													
Estimated Budget Authority	0	110	114	119	124	129	134	138	144	150	156	596	1,318
Estimated Outlays	0	110	114	119	124	129	134	138	144	150	156	596	1,318
Total Direct Spending													
Estimated Budget Authority	0	110	114	119	124	129	134	137	143	149	155	596	1,314
Estimated Outlays	0	110	114	119	124	129	134	137	143	149	155	596	1,314
Net Increase or Decrease (-) in the Deficit From Changes in Direct Spending and Revenues													
Effect on the Deficit	-1	735	494	235	115	15	-45	-129	-385	-506	-532	1,590	-9
On-Budget Deficit	-1	721	480	215	87	-23	-92	-186	-445	-567	-595	1,476	-412
Off-Budget Deficit	0	14	14	20	28	38	47	57	60	61	63	114	403

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.
Components may not sum to totals because of rounding; *= between -$500,000 and $500,000.
a. Off-budget revenues result from changes in Social Security payroll tax receipts.

Revenues

Title I. Expanding and Preserving Retirement Savings. H.R. 1994 would change tax law relating to the treatment of retirement plans that JCT estimates would reduce revenues by $14.6 billion over the 2019 to 2029 period. Three provisions in this section would affect off-budget revenues, reducing them by $391 million, JCT estimates. The provisions in title I with the largest effects are:

- Increase the age after which required minimum distributions must begin. After reaching the age of 70 years and 6 months, a person with a defined contribution retirement plan or traditional IRA must begin withdrawing a given amount each year—the required minimum distribution. H.R. 1994 would increase the age that triggers required minimum distributions to 72 and would apply to employees and IRA account holders who reach 70 years and 6 months after December 31, 2019. JCT estimates that the change would reduce revenues by $8.9 billion over the 2019-2029 period.

- Modify requirements for multiple-employer and pooled-employer plans. Under current law, employers may join together to maintain a qualified retirement plan if they share a nexus (for example, a common industry) outside of the retirement benefit they jointly provide. Additionally, if one participating employer in a multiple-employer plan violates a requirement, under the "bad apple rule," the entire plan can be disqualified. H.R. 1994 would allow multiple employers without a nexus to jointly maintain a qualified retirement plan, a pooled-employer plan, and allow multiple-employer and pooled-employer plans to maintain their qualified status as a whole if one employer in the group failed to satisfy qualification requirements. This provision would take effect in calendar year 2021. JCT estimates that the change would reduce revenues by $3.4 billion over the 2019-2029 period.

- Allow penalty-free retirement distributions for births and adoptions. Distributions from qualified retirement plans before the age of 59 years and 6 months generally face a 10 percent early-withdrawal tax. H.R. 1994 would exempt distributions of up to $5,000 from the 10 percent penalty in the case of a birth or adoption, starting with distributions made in calendar year 2020. JCT estimates that the change would reduce revenues by $1.2 billion over the 2019-2029 period.

- Allow long-term, part-time employees to participate in elective deferrals. A section 401(k) retirement plan may require that employees reach 1,000 hours of service in a 12-month period before they are allowed to participate. H.R. 1994 would change that requirement to allow employees who have worked for the employer at least 500 hours per year for at least three consecutive years to contribute to those plans. It does not require those employees to be eligible for nonelective or matching contributions. This provision would take effect in calendar year 2021, although for determining whether the three-consecutive-year period has been met, employment before January 1, 2021, would not be taken into account. JCT estimates that the change would reduce revenues by $769 million over the 2019-2029 period.

- Treat excluded difficulty-of-care payments as compensation for determining retirement contribution limitations. A difficulty-of-care payment is compensation for providing additional care to a qualified foster individual. Those payments are excluded from gross income, and thus are not considered compensation upon which contributions to defined contribution plans or IRAs can be made. H.R. 1994 would treat those payments as compensation for the purpose of calculating contribution limits to defined contribution plans and IRAs, effective for contributions after December 31, 2015. JCT estimates that the change would reduce revenues by $249 million over the 2019-2029 period.

Title II. Administrative Improvements. H.R. 1994 would make several administrative changes affecting revenues, including permitting businesses that adopt a retirement plan before the due date of their tax return to treat the plan as adopted by the last day of the tax year. JCT estimates that the provisions would reduce revenues by $113 million over the 2019-2029 period.

H.R. 1994 also would make several administrative changes that have either no budgetary effects or negligible revenue effects. Those changes include a requirement that the annual benefit statements of defined contribution plans include a lifetime income disclosure, a calculation of the monthly income a participant's retirement savings could provide. That provision would take effect 12 months after the Secretary of Labor issued rules on calculating the lifetime income stream.

Title III. Other Benefits. H.R. 1994 would expand allowable uses of college savings plans authorized under section 529 of the Internal Revenue Code for distributions made after December 31, 2018. It also would allow a partial exclusion from gross income of state and local tax reductions received by volunteer firefighters and emergency medical responders for taxable years beginning in 2020, which would reduce off-budget revenue by $12 million. In total, JCT estimates, those provisions would reduce revenues by $277 million over the 2019-2029 period.

Title IV. Revenue Provisions. H.R. 1994 includes several provisions that JCT estimates would increase revenue by $16.3 billion over the 2019-2029 period. Those provisions would:

- Modify the required-distribution rules for designated beneficiaries. If a person with a defined contribution retirement plan or traditional IRA dies, the beneficiary of that plan or account must comply with after-death minimum distribution requirements. The period over which a full distribution of the plan must be made varies on the basis of the age of the deceased and certain characteristics of the beneficiary. H.R. 1994 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. That would apply to employees and IRA account-holders who die after December 31, 2019. JCT estimates that change would increase revenues by $15.7 billion over the 2019-2029 period.

- Increase the penalty for failure to file individual and retirement plan returns. The penalty for failing to file an individual return is the lesser of a flat dollar amount or 100 percent of the unpaid tax. H.R. 1994 would increase the flat dollar amount from $205 to $400. Employers maintaining qualified retirement plans must file annual actuarial reports with the Department of Labor, file annual registration statements with the Internal Revenue Service (IRS), and send annual notices to plan participants stating the right to waive withholding. Penalties for failing to file or provide notice are calculated as a dollar amount per failure, up to a maximum amount. H.R. 1994 would increase both the per-failure penalty and the maximum penalty. Those increased penalties would apply to returns filed after December 31, 2019. JCT estimates that those provisions would increase revenues by $385 million over the 2019-2029 period.

- Increase information sharing to administer excise taxes. H.R. 1994 would allow the IRS to share returns and return information with employees of U.S Customs and Border Protection, which administers the heavy-vehicle use tax. This provision would be effective on the date of enactment, and JCT estimates that it would increase revenues by $163 million over the 2019-2029 period.

Direct Spending

Title II of H.R. 1994 would reduce Pension Benefit Guaranty Corporation (PBGC) premiums for certain multiple-employer plans of cooperatives or charities. Those premiums are classified as offsetting receipts, so CBO estimates that implementing that provision would increase direct spending by $1.3 billion over the 2019-2029 period.

Title I would allow the single-employer pension plans of some community newspapers to reduce contributions. That would increase taxable corporate income, thereby increasing federal revenues by $5 million over the 2019-2029 period. Underfunded single-employer pensions are required to pay variable-rate premiums to PBGC. With lower funding, the affected plans would pay more in variable-rate premiums, which are classified as offsetting receipts. As a result, direct spending would decrease by $4 million over the same period.

Uncertainty

These budgetary estimates are uncertain because they rely on underlying projections and other estimates that are uncertain. Specifically, estimates for many of the provisions in this bill rely on projections of retirement plan contributions and participation, which are based on CBO's economic projections for the next decade under current law and on estimates of the way taxpayers would change their saving behavior in response to changes in retirement plan rules.

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 2. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

Table 2.
CBO's Estimate of Pay-As-You-Go Effects Under H.R. 1994

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
	Net Increase or Decrease (-) in the On-Budget Deficit												
Statutory Pay-As-You-Go Effect	-1	721	480	215	87	-23	-92	-186	-445	-567	-595	1,476	-412
Memorandum:													
Changes in Outlays	0	110	114	119	124	129	134	137	143	149	155	596	1,314
Changes in Revenues	1	-611	-366	-96	37	152	226	323	588	716	750	-880	1,726

Increase in Long-Term Deficits

CBO and JCT estimate that enacting H.R. 1994 would not increase on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2030.

Mandates

CBO and JCT have determined that H.R. 1994 would impose no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

CBO and JCT have determined that H.R. 1994 would impose two private-sector mandates as defined in UMRA. On the basis of information from JCT, CBO estimates that the aggregate direct cost of the mandates imposed by H.R. 1994 would exceed the annual private-sector threshold established in UMRA ($164 million in 2019, adjusted annually for inflation).

Specifically, the tax provisions of the bill impose a private-sector mandate by modifying the rules that require distribution of retirement plan assets to surviving beneficiaries upon the death of the plan holder.

The nontax provisions of the bill would require administrators of pension and benefit plans to disclose the plan's lifetime income stream, as defined by the bill, in statements provided to beneficiaries. Because the mandate imposes a minor administrative burden, CBO estimates that the cost to comply would be small.

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