CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 25, 2001

S. 361
A bill to establish age limitations for airmen

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on March 15, 2001

SUMMARY

S. 361 would increase the mandatory retirement age from 60 to 63 for pilots employed by air carriers. CBO estimates that implementing new regulations under the bill would cost less than $500,000 a year, subject to the availability of appropriated funds. S. 361 would reduce outlays for Social Security benefits in the near term if significant numbers of pilots who would otherwise retire instead worked until age 63. CBO estimates that such near-term savings could total up to $5 million a year through 2011, but that those savings would be offset by higher net Social Security costs after 2011.

The Joint Committee on Taxation (JCT) estimates that S. 361 would affect taxable pension benefits of certain pilots and taxable income of employers of certain pilots, but that overall there would be a negligible effect on federal revenues. Because the bill would affect receipts, pay-as-you-go procedures would apply. S. 361 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would have no impact on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

By increasing the mandatory retirement age from 60 to 63 for pilots employed by air carriers, the bill would decrease Social Security outlays and increase revenues. In addition, S. 361 would require the Federal Aviation Administration (FAA) to issue new regulations.

Spending Subject to Appropriation

Subject to the availability of appropriated funds, CBO estimates that issuing new regulations would increase the costs of the FAA by less than $500,000. Subsequent monitoring by FAA would also cost less than $500,000 a year.

Direct Spending

S. 361 would slightly reduce outlays for Social Security benefits in the near term if significant numbers of pilots who would otherwise retire instead worked until age 63.

Eligible people can file for Social Security retirement benefits beginning at age 62. For each month that they delay filing, their eventual benefit increases; that actuarial adjustment is meant to give retirees approximately the same lifetime benefits regardless of their age at filing.

A hypothetical pilot, because of his or her high lifetime earnings, probably has a primary insurance amount (PIA, the figure on which all Social Security benefits are based) at or near the maximum. In 2002, that PIA will be about $1,800. A pilot who reaches 62 in 2002 could collect 77.5 percent of that, or about $1,400 a month. But if he or she delays filing for a year, the monthly check would be 83.3 percent of PIA, or about $1,500, even before Social Security's annual cost-of-living adjustment (COLA). For that pilot, the first-year savings to the Social Security program would be about $17,000 and annual costs thereafter about $1,200.

There is little information, though, with which to determine how many of the roughly 1,400 pilots who would qualify each year resemble that example. Many of them would still file at 62, attracted by the combination of $17,000 in Social Security benefits plus their airline pension. Others would want to keep working in aviation, though not as pilots, deferring their Social Security benefits until "normal retirement age," or NRA. (Until that age—which will be 65 years and 6 months for people who reach 62 in 2002—Social Security benefits are reduced or erased when a worker has substantial earnings.) Neither of those groups would have reason to change those plans if S. 361 were enacted.

Male workers who do not face mandatory retirement overwhelmingly file at either age 62 or NRA. Only about 20 percent file between those ages. (Research suggests that retirees who apply at 63 or 64 were often waiting for something—such as a company pension or a spouse's retirement—before filing.) CBO assumes that, if S. 361 were enacted, about 20 percent of pilots would likewise delay filing until age 63. Thus, for each group of 1,400 pilots affected, about 300 would postpone filing for Social Security. Their total Social

Security benefits would be lower by about $5 million in the first full year but about $400,000 higher each year thereafter. Those amounts would increase gradually because of COLAs. Over the 2002-2011 period, total savings would be between $3 million and $5 million annually (see table). In the long run—well beyond CBO's 10-year horizon—Social Security savings would be zero, because the savings and the costs would offset each other.

ESTIMATED EFFECT OF S. 361 ON OUTLAYS FOR SOCIAL SECURITY BENEFITS

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CHANGES IN DIRECT SPENDING										
Retired-worker benefits										
Gross savings	-2	-5	-5	-6	-6	-6	-7	-7	-8	-9
Offsetting cost	0	*	1	1	2	2	3	4	5	5
Subtotal	-2	-5	-4	-4	-4	-4	-4	-4	-3	-3
Auxiliary benefits[a]	*	-1	-1	-1	-1	-1	-1	-1	-1	*
Total outlay changes	-3	-5	-5	-5	-5	-5	-4	-4	-4	-4

a. Benefits to eligible spouses, children, or survivors of retired workers.

NOTE: Components may not sum to totals because of rounding.

* = Less than $500,000.

Revenues

As a result of small and offsetting effects, S. 361 would have a negligible net effect on federal revenues. The taxable pension benefits of pilots are reduced when pilots retire before the mandatory retirement age, currently age 60. By increasing the mandatory retirement age to 63, S. 361 would reduce the taxable annual pension benefits for pilots who retire before age 60 more than under current law. The reduction in taxable annual pension benefits would result in a slight decrease in federal revenues. However, employers' pension liability would be reduced and employers may decrease the amount of deductible contributions made to their defined benefit pension plans. As a result, some employers may have a higher taxable income under S. 361 than under current law. The increase in employers' taxable income would result in a slight increase in federal revenues.

S. 361 also would have an additional negligible effect on federal revenues because some pilots may choose to postpone retirement after age 60, thereby postponing taxable pension distributions that otherwise would have been made under current law mandating retirement for pilots at age 60. However, once pension distributions commenced, the annual benefit would be greater than that made under current law. Overall, total pension benefits would be actuarially equivalent under current law and under the bill. Therefore, there would be a slight reduction in federal revenues in the early years after enactment of this proposal as some pilots would postpone taxable pension distributions, but there would be a small and offsetting increase in federal revenues in the later years after enactment as those pilots who postponed retirement would receive larger taxable pension benefits than under law.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. JCT estimates that S. 361 would affect taxable pension benefits of certain pilots and taxable income of employers of certain pilots, but that overall there would be a negligible effect on federal revenues. Spending for Social Security, however, is specifically excluded from pay-as-you-go rules.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 361 contains no intergovernmental or private-sector mandates as defined in UMRA and would have no impact on state, local, or tribal governments.

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