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

Douglas Holtz-Eakin, Director

October 5, 2005

Honorable William H. Frist, M.D.
Senate Majority Leader
United States Senate
Washington, DC 20510

Dear Senator Frist:

As you requested, the Congressional Budget Office has estimated the budgetary impact of enacting S. 1783, the Pension Security and Transparency Act of 2005, as introduced on September 28, 2005. The attached table shows the estimated budget effects. On balance, CBO estimates that enacting S. 1783 would reduce direct spending by $2.2 billion over the 2006-2010 period, but increase direct spending by $1.6 billion over the 2006-2015 period. CBO and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase federal revenues by $3.7 billion over the next five years, but would decrease such revenues by $3.1 billion over the 10-year period. The bill would also have a very small impact on discretionary spending.

S. 1783 would make changes to the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code that would affect the operations of private-pension plans. It would do so mostly by changing the funding requirements for tax-qualified, defined-benefit pension plans and the premiums paid to the Pension Benefit Guaranty Corporation (PBGC). The bill would also make changes to the Railroad Retirement program, Black Lung disability trusts, treatment of unemployment compensation, and retirement benefits for judges of the United States Tax Court.

The budgetary effects of the bill would result from:

- Increased income to the PBGC from premiums paid by the sponsors of pension plans—totaling an estimated $2.5 billion over the next five years and $4.5 billion over the next 10 years.

- An initial increase in federal tax revenues followed by a loss of tax revenues, primarily because of changes in funding rules imposed on plans' sponsors; JCT estimates that enacting S. 1783 would increase federal revenues by $3.7 billion over the 2006-2010 period and reduce federal revenues by $3.1 billion over the 2006-2015 period.

- Additional PBGC benefit payments—totaling an estimated $57 million over five years and $0.5 billion over 10 years—that the PBGC would have to make as a result of a number of changes made by the bill.

- Non-PBGC related provisions of the bill that would increase direct spending by $0.5 billion over 10 years and increase spending subject to appropriation by $13 million over 10 years.

The additional premium income to PBGC would have another effect: it would increase the balances in the agency's on-budget revolving fund, and therefore, forestall the need for significant transfers to that revolving fund from the PBGC's nonbudgetary trust fund in order to pay insured benefits. In CBO's current-law projections, the combination of rising benefit payments and level premium income will cause the agency's on-budget fund to be completely exhausted in 2013. No precedent exists for how the PBGC would proceed if its on-budget fund is depleted. However, CBO assumes that the agency would cover its expenses by increasing the percentage of benefits and other expenses being paid through transfers from its nonbudgetary trust fund, thus increasing offsetting collections above what they would have been if the fund had remained solvent.

CBO estimates the increases in premium receipts resulting from S. 1783 would cause the on-budget fund to remain solvent until part-way through 2015. Because the bill would improve the finances of the on-budget fund, the PBGC would not need to increase the amounts transferred from the nonbudgetary fund in order to help cover benefit payments and other expenses during most of the 10-year projection period. By allowing the on-budget fund to remain solvent through most of the next decade, the bill would reduce those transfers by $5.1 billion over the 2013-2015 period. Because this change would reduce an offset to mandatory spending, it would result in a net increase in such spending.

Pursuant to section 407 of H. Con. Res. 95 (the Concurrent Resolution on the Budget, Fiscal Year 2006), CBO estimates that enacting S. 1783 would not cause an increase in direct spending greater than $5 billion in any of the 10-year periods between 2016 and 2055.

CBO has reviewed the nontax portions of S. 1783 and determined that they contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. State, local, and tribal governments are exempt from the provisions of ERISA amended by the bill; the remaining provisions of the bill contain no intergovernmental mandates.

The nontax provision of the bill would impose a number of mandates on sponsors and administrators of single-employer and multiemployer private-pension plans. CBO estimates that the direct cost of those private-sector mandates, less the direct savings from those mandates, would exceed the annual threshold specified in UMRA ($123 million in 2005, adjusted annually for inflation) in one or more of the first five years the mandates would be effective.

JCT has not reviewed the tax provisions of S. 1783 to determine whether they contain any intergovernmental or private-sector mandates as defined by UMRA.

If you wish further information about this legislation, we would be pleased to provide it. The staff contact is Geoffrey Gerhardt.

Sincerely,

Douglas Holtz-Eakin
Director

Attachment: Estimated Budgetary Effects of S. 1783

cc: Honorable Harry Reid
Democratic Leader

Honorable Charles E. Grassley
Chairman
Committee on Finance

Honorable Max Baucus
Ranking Democratic Member

Honorable Mike Enzi
Chairman
Committee on Health, Education, Labor,
and Pensions

Honorable Edward M. Kennedy
Ranking Member

Honorable Judd Gregg
Chairman
Committee on the Budget

Honorable Kent Conrad
Ranking Member

ATTACHMENT October 5, 2005

ESTIMATED BUDGET EFFECTS OF S. 1783, AS INTRODUCED

	Outlays in Millions of Dollars, by Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN DIRECT SPENDING										
Changes in Flat-Rate Premiums Paid to PBGC	-327	-378	-378	-377	-377	-377	-377	-377	-377	-377
Changes in Variable Premiums Paid to PBGC	0	-25	-114	-235	-305	-244	-153	-31	101	269
Changes in Net Benefit Payments	-1	*	6	18	35	54	72	88	102	114
Authorization for the PBGC to Pay Interest on Refunds of Premium Overpayments	3	3	3	3	3	3	3	3	3	3
Subtotal	-325	-400	-483	-591	-645	-564	-455	-318	-171	10
Changes in Transfers from PBGC's Nonbudgetary Trust Fund	0	0	0	0	0	0	0	1,068	3,092	972
Total Changes in PBGC Spending	-325	-400	-483	-591	-645	-564	-455	750	2,921	982
Railroad Retirement Benefits	*	*	*	*	*	1	1	2	2	2
Unemployment Insurance Offsets of 401(k) Rollover	15	26	37	38	40	42	45	47	49	52
Pension Benefits for Tax Court Judges	2	*	*	*	*	*	*	*	*	*
Changes to Black Lung Disability Trusts	1	16	17	8	2	1	1	1	1	1
Total Changes in Direct Spending	-307	-359	-429	-545	-603	-520	-408	800	2,973	1,036
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Agency Contributions for Tax Court Judge Pensions	1	1	1	1	1	1	1	1	1	1
CHANGES IN REVENUES										
Changes to Funding Rules for Single-Employer Plans	839	3,685	2,935	-904	-1,994	-2,010	-1,756	-1,151	-850	-693
Changes to Funding Rules for Multiemployer Plans	*	-3	-8	-18	-27	-33	-39	-45	-51	-54
Changes to Benefit Accrual Standards	-24	-26	-33	-35	-42	-34	2	45	67	61
Other Pension-Related Provisions	-119	-173	-157	-130	-134	-138	-108	-96	-93	-90
Unemployment Insurance Offsets of 401(k) Rollover	0	2	8	18	28	36	43	47	50	52
Changes to Black Lung Disability Trusts	3	16	17	8	2	1	1	1	1	1
Total Changes in Revenue	699	3,501	2,762	-1061	-2,167	-2,178	-1,857	-1,199	-878	-723

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

NOTES: PBGC = Pension Benefit Guaranty Corporation.

* = less than $500,000.