CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 17, 2004

S. 2479
Thrift Savings Plan Open Elections Act of 2004

As ordered reported by the Senate Committee on Governmental Affairs on June 2, 2004

SUMMARY

S. 2479 would make changes to the rules that govern participation in the federal employees' Thrift Savings Plan (TSP). Namely, it would allow federal employees and members of the uniformed services to begin or alter their TSP contributions at any time instead of limiting such changes to biannual open-season periods. The bill also would require the Federal Retirement Thrift Investment Board—the agency which administers the TSP—to evaluate and report on efforts to increase education programs for TSP participants. CBO estimates that implementing the bill would cost $2 million in 2005 and $30 million over the 2005-2014 period, subject to the appropriation of the necessary amounts. We also estimate the bill would decrease tax revenues by $1 million in 2005 and $23 million over the 2005-2014 period. Finally, the bill also would affect spending and collections of the U.S. Postal Service, but CBO estimates that those changes would result in no significant net effect on direct spending in any year.

The bill contains no intergovernmental or private-sector mandates as defined by the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2479 is shown in the following table. The costs of this legislation would fall within multiple budget functions.

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Estimated Authorization Level	2	2	3	3	3	3	3	3	4	4
Estimated Outlays	2	2	3	3	3	3	3	3	4	4
CHANGES IN REVENUES										
Estimated Revenues	-1	-2	-2	-2	-2	-2	-3	-3	3	-3

NOTE: Enacting S. 2479 also would affect direct spending, primarily at the U.S. Postal Service; but CBO estimates that there would be no significant net effect on direct spending in any year.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes this would be effective in January 2005 and that the necessary appropriations for the additional federal agency contributions would be provided.

Background

The TSP is a tax-deferred, defined contribution pension plan open to most federal employees and members of the uniformed services. Federal employees who are covered by the Federal Employees' Retirement System (FERS) may contribute up to 14 percent of basic pay to their TSP account up to the Internal Revenue Service (IRS) statutory maximum ($13,000 in 2004). Employees who are covered by the Civil Service Retirement System (CSRS) and members of the uniformed services may contribute up to 9 percent of basic pay up to the IRS maximum. Participants who are 50 years old or older may contribute an additional $3,000 above the caps that would otherwise apply to their contributions.

Employees who are covered by FERS are also eligible to receive contributions from their employing agency. Agencies automatically contribute 1 percent of basic pay toward the TSP accounts of employees who are covered by FERS, regardless of whether the employee is making a contribution. Employing agencies then match employee contributions up to 5 percent of pay. Agency matches are dollar for dollar on the first 3 percent of employee contributions and 50 percent on the next 2 percent. Agency contributions begin after the second open season after an employee becomes eligible to participate in the TSP. CSRS employees and members of the uniformed services do not receive agency contributions to their TSP accounts.

Under current law, newly hired federal employees and members of the uniformed services have a 60-day period in which they may begin making TSP contributions. If they fail to do so, employees must wait until an open season period to begin making contributions. Open seasons run each year from April 15 to June 30 and from October 15 to December 31. In addition, current TSP participants may only change their contributions during an open season period. Participants may elect to increase or decrease the amount of money they are contributing during those periods, with changes effective during the first pay period after the close of the open season. Participants may choose to terminate their TSP contributions at any time, although they must wait until the second open season after contributions are terminated before they can start contributing again.

S. 2479 would eliminate the initial enrollment period and allow participants to change their contributions at any time. Once a participant elects to change his or her contribution amount, the change would take effect almost immediately. The bill places no limit on how many times participants may change contributions, or how large such changes can be, as long as they remain within the overall contribution limits. Changes to agency contributions that would be initiated by changes to participant contributions would also take effect immediately. The bill would not affect when agency contributions begin for newly eligible employees—those would still start after the second open season after which an employee is first eligible to participate in the TSP.

Spending Subject to Appropriation

Over time, participants generally increase the percentage of pay they contribute to their TSP accounts. The longer one has worked for the federal government, the greater percentage of pay one usually devotes to TSP contributions. According to data from the Thrift Investment Board, FERS employees who first participated in TSP in 1989 contributed an average of 5 percent of pay during their first year of participation. By the fifth year of participation, the average level of contribution for this group was about 6 percent, and by the 14th year of participation the average contribution level was almost 8 percent.

By providing participants with greater flexibility to start, stop, and change contributions, S. 2479 would cause some people to increase or decrease contribution levels sooner or later than they do under the current open season system. However, given the tendency for participants to increase their contributions over time, CBO assumes that allowing greater flexibility would generally lead participants to increase their contributions slightly sooner than they would have otherwise. On average, participants increase their contributions by roughly 0.2 percent of pay each year, and CBO predicts that under S. 2479 this increase would take place one month earlier than under the current system. For those in FERS who are contributing less than 5 percent (about 500,000 federal workers), the faster increase in participant contributions would increase agency matching contributions as well. Agency contributions, which are paid from personnel budgets, are usually spending subject to appropriation. CBO estimates that S. 2479 would cause agency contributions to increase by $2 million in 2005, $13 million over the 2005-2009 period, and $30 million over the 2005-2014 period.

Revenues

Because income taxes are deferred on TSP contributions, the anticipated increase in participant contributions initially would result in lower income tax revenue.[1] The program maintains nearly 3 million accounts, with approximately 2.3 million participants currently making their own contributions. Social insurance taxes would not be affected by the bill, as wages invested in TSP remain subject to social insurance taxes. CBO estimates S. 2479 would reduce income tax revenue by $1 million in 2005, $9 million over the 2005-2009 period, and $23 million over the 2005-2014 period.

Direct Spending

CBO anticipates that S. 2479 would have a similar effect on contributions among employees of the U.S. Postal Service as it would on participants employed by other federal agencies. As such, increases in TSP contributions among Postal Service employees would increase slightly, as would agency matching contributions for those in FERS contributing less than 5 percent of pay. However, unlike most other agencies, the Postal Service has the ability to increase its income to cover increases in its operating costs, which are classified as direct spending. CBO assumes the bill would increase Postal Service matching contributions by about $1 million to $2 million annually, but that such increases would be offset by increased receipts from postal rates. Such changes may not be simultaneous, so there could be some small net effect on direct spending in any particular year, but CBO estimates that there would be no significant net effect in any year.

In addition to granting increased flexibility over participant contributions, S. 2479 also would require the Federal Retirement Thrift Investment Board to periodically study and report on efforts to educate TSP participants about the financial products and services which the

1. TSP assets and earnings on those assets are subject to tax once they are drawn on.

program offers. Operations of the Board are funded from forfeitures of the automatic 1 percent agency contribution for employees who separate before vesting and from a share of earnings on participant and agency contributions. CBO does not anticipate the bill would cause a significant increase in the Board's administrative costs. Any cost increases which do occur would be offset by drawing funds available from contribution forfeitures or by increasing the share of investment earnings that are used to cover administrative expenses. Therefore, S. 2479 would have no net effect on direct spending over time.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2479 contains no intergovernmental or private-sector mandates as defined by UMRA and would impose no costs on state, local, or tribal governments.

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