CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 19, 1998

H.R. 2526

To amend title 5, United States Code, to make the percentage limitations on individual contributions to the Thrift Savings Plan more consistent with the dollar limitation on elective deferrals, and for other purposes

As ordered reported by the House Committee on Government Reform and Oversight on July 23, 1998

SUMMARY

H.R. 2526 would make three changes to the Thrift Savings Plan (TSP), the defined contribution component of the federal government's major civilian retirement programs. The bill would remove the current limits on the percentage of basic pay that employees may contribute to their TSP accounts, let newly hired federal employees make contributions to TSP sooner than allowed under current law, and allow federal employees to transfer balances from other tax-deferred savings plans to their TSP accounts.

The Joint Committee on Taxation (JCT) estimates that this bill would decrease revenues by about $1.1 billion over the 1999-2003 period. Under the bill, employees would contribute more money to their TSP accounts than under current law. This increase in contributions would decrease federal income tax revenues because TSP contributions are not taxed until withdrawn from the plan. Because the bill would affect revenues, pay-as-you-go procedures would apply.

H.R. 2526 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2526 is shown in the following table.

TABLE 1: ESTIMATED BUDGETARY EFFECTS OF H.R. 2526

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
CHANGES IN REVENUES					
Estimated Revenues	-156	-220	-237	-256	-275

Note: These estimates were provided by the Joint Committee on Taxation and assume that H.R. 2526 is enacted by October 15, 1998.

BASIS OF ESTIMATE

Increase the Limit on TSP Contributions

Under current law, federal employees covered by the Federal Employees' Retirement System (FERS) may contribute up to 10 percent of their basic pay to their TSP account and receive up to 5 percent in government contributions. Employees covered by the older Civil Service Retirement System (CSRS) may contribute up to 5 percent of their pay but do not receive any government contributions. In both cases, employee contributions cannot exceed the Internal Revenue Service's dollar limit on contributions to tax-deferred plans, currently $10,000 a year. H.R. 2526 would eliminate the 10 percent and 5 percent restrictions and allow all federal employees to make TSP contributions up to the IRS limit, regardless of pay.

According to the Federal Retirement Thrift Investment Board, about 30 percent of the FERS-covered employees who participate in the TSP are making contributions at the maximum rate of 10 percent, and about 70 percent of CSRS-covered employees who participate in the TSP contribute at the maximum rate of 5 percent. JCT assumes that a majority of the employees in both CSRS and FERS who currently contribute at the maximum allowable level would increase their contributions by some amount.

Because employee contributions to the TSP reduce an employee's taxable income, this increase in contributions would reduce federal income tax revenues. JCT estimates that this provision would reduce revenues by about $1.0 billion over the 1999-2003 period.

Allow New Hires to Participate in TSP Sooner

Newly hired employees must now wait two open seasons before they can begin making contributions to the TSP. H.R. 2526 would allow new hires to begin making TSP contributions immediately, although government contributions would still not begin until the second open season. JCT estimates that the federal government would forgo tax revenues of about $100 million over the 1999-2003 period as a result of this provision. Based on recent experience, JCT assumed that about 200,000 employees would be hired each year, and that most of these new hires would participate in the TSP.

Allow Rollovers from Other Tax-Deferred Savings Plans

H.R. 2526 would allow employees to transfer funds from certain tax-deferred savings plans, such as a 401(k) plan from a previous job, to their TSP accounts. JCT estimates that this provision would not have a significant budgetary impact.

PAY-AS-YOU-GO CONSIDERATIONS

The provisions of this bill would affect revenues and therefore be subject to pay-as-you-go procedures. The pay-as-you-go effects of the bill are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

TABLE 2: PAY-AS-YOU-GO EFFECTS OF H.R. 2526

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in outlays	Not applicable									
Change in receipts	-156	-220	-237	-256	-275	-296	-318	-341	-365	-391

INTERGOVERNMENTAL AND PRIVATE SECTOR IMPACT

H.R. 2526 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would not affect the budgets of state, local, or tribal governments.

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