CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 5, 2009

H.R. 7327

Worker, Retiree, and Employer Recovery Act of 2008

As cleared by the Congress on December 11, 2008,
and signed by the President on December 23, 2008

SUMMARY

H.R. 7327 (enacted as Public Law 110-458) affects the operations of private pension plans and retirement accounts. It does so mainly by waiving, for one year, the rules that require individuals to make annual withdrawals from their retirement plans and accounts. It also reduces the funding requirements for tax-qualified, defined-benefit pension plans.

The Congressional Budget Office estimates that enacting H.R. 7327 will increase offsetting receipts by $455 million over the 2009-2013 period and about $1 billion over the 2009-2018 period. The Joint Committee on Taxation (JCT) estimates that the act will decrease revenues over the same periods by $2.1 billion and $3.5 billion, respectively.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 7327 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
CHANGES IN DIRECT SPENDING												
PBGC Premiums [a]	0	-50	-50	-130	-225	-170	-115	-105	-95	-100	-455	-1,040
CHANGES IN REVENUES												
Estimated Revenues												
On-budget	577	-3,044	483	4	-257	-369	-408	-176	-108	-178	-2,234	-3,475
Off-budget	28	57	43	-9	-32	-48	-50	-18	-22	-24	88	-74
Total	605	-2,987	526	-5	-289	-417	-458	-194	-130	-202	-2,146	-3,549
NET BUDGET IMPACT												
Net Effect on the Budget Deficit or Surplus [b]												
On-budget	-577	2,994	-533	-134	32	199	293	71	13	78	1,779	2,435
Off-budget	-28	-57	-43	9	32	48	50	18	22	24	-88	74
Total	-605	2,937	-576	-125	64	247	343	89	35	102	1,691	2,509

Note: Details may not add to totals because of rounding; PBGC = Pension Benefit Guaranty Corporation.

a. Budget authority equals outlays for these changes in offsetting receipts.

b. Negative numbers represent decreases to the deficit; positive numbers represent increases to the deficit.

BASIS OF ESTIMATE

Direct Spending

The legislation will relax the funding requirements placed on single-employer defined-benefit pension plans by the Pension Protection Act of 2006. That legislation adjusted the minimum funding rules for such plans and allowed for a transition period during which a pension plan would be considered fully funded during a plan year by reaching an applicable percentage of its funding target. However, if a plan failed to fund up to that percentage in any year during the transition, it would lose the ability to apply that transitional percentage in all future years of the period. Under H.R. 7327, a plan would be permitted to continue along that transitional path even if it failed to meet the funding percentage in a previous transitional year. Additionally, the legislation reduces a plan's shortfall amount to the shortfall from the applicable percentage of the funding target, rather than 100 percent of the funding target. (The shortfall amount is the difference between the plan's required funding target and its actual funding.)

CBO expects that the law will increase the amount of underfunding in plans. Consequently, it will increase federal offsetting receipts because sponsors must pay premiums to the Pension Benefit Guaranty Corporation (PBGC) that are based on their level of underfunding. Based on information from PBGC, CBO estimates that premium income will increase by about $1 billion under the act over the 2009-2018 period.

To the extent that firms affected by the act may terminate their plans in the next 10 years, PBGC may assume those plans' assets and pay pension benefits to the retirees. Under H.R. 7327, CBO expects the terminated plans will have fewer assets to fund retirees' pension payments, so any terminations would add to PBGC's expected deficit. (The PBGC program had liabilities that exceeded its assets by about $11 billion at the end of 2008.) Generally, those effects will not be recognized on the federal budget until benefits are paid. Although some of that spending could occur in the 2009-2018 period, most is likely to occur in later years. For this estimate CBO assumes those payments will occur after 2018.

Revenues

The legislation waives for one year the rules that require individuals to withdraw certain amounts annually from their retirement plans and accounts. The waiver applies to withdrawals from defined-contribution plans that would have been made in 2009. Such withdrawals are generally included in an individual's gross income for tax purposes; thus the provision will reduce taxable income in 2009. Those amounts waived by the provision will be included in future withdrawals, thus increasing taxable income in subsequent years.

The legislation also will relax the funding requirements placed on single-employer defined-benefit pension plans by the Pension Protection Act of 2006. By relaxing such requirements, the act will allow certain plans that would have been required to meet stricter funding targets to delay such action and instead remain in a transitional period during which the plan is to become fully funded. Thus, the forgone contributions to such pension plans will increase taxable profits during the transitional period. Additionally, the act will increase the penalties for the failure to properly file certain types of tax returns and allow the sponsors of multiemployer defined-contribution pension plans to delay designating certain plans as having endangered or critical status.

All together, JCT estimates that the provisions of the act will reduce revenues by $3.5 billion over the 2009-2018 period.

ESTIMATE PREPARED BY:

Outlays: Sheila Dacey and Jessica Sherry
Revenues: Zachary Epstein

ESTIMATE APPROVED BY:

Keith Fontenot
Deputy Assistant Director for Health,
Income Security, and Education
Budget Analysis Division