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

Douglas Holtz-Eakin, Director

December 29, 2005

Honorable Carolyn McCarthy
U.S. House of Representatives
Washington, DC 20515

Dear Representative:

As you requested, the Congressional Budget Office (CBO) has estimated how the enactment of H.R. 2830, the Pension Protection Act of 2005 as passed by the House of Representatives on December 15, 2005, would affect the 10-year net economic costs of the Pension Benefit Guaranty Corporation (PBGC). Net economic costs differ significantly from the cost measures used for budgetary purposes; specifically, the 10-year net economic costs of the PBGC equal the present value of the unfunded insured liabilities of pension plans that terminate during the period minus the present value of premiums that PBGC receives over the period. CBO estimates that under current law the 10-year net economic costs of the PBGC are $68 billion. We estimate that H.R. 2830 would increase PBGC's 10-year net economic costs by $3 billion, or about 4 percent, compared with current policy.

This estimate differs from CBO's previous estimates of net economic costs for three technical reasons: it is based on more recent data on the financial condition of sponsors and pension plans; it reflects current Treasury and corporate bond rates; and it incorporates a revised assumption about the amortization of plan underfunding. This estimate also differs from previous estimates because the bill now delays the effective date of the new funding requirements by 1 year and requires sponsors of plans that have undergone distress or involuntary terminations to pay a termination premium for three years.

This estimate also differs significantly from CBO's estimate of the budgetary effect of the proposal. First, the net economic costs of PBGC do not include the effects on federal tax revenues, which would be reduced by an estimated $5.0 billion over the 2006-2015 period as a result of changes in employers' contributions to plans.[1] In addition, net economic costs include elements that are excluded from the budget estimate: the cost of market risk and the present value of benefit payments outside the budget window for plans terminated in the next 10 years. Further, net economic costs include the effects on both the on-budget and nonbudgetary accounts for PBGC, while the budget cost estimate excludes the nonbudgetary account.

The largest contributor to the increase in net economic costs to PBGC is the continued use of corporate interest rates rather than reverting to Treasury interest rates for discounting future pension obligations. The permanent use of a corporate rate would decrease the contributions of sponsors to plans and increase net costs by 7 percent from our base case estimate. The largest reductions in net economic costs are due to increases in fixed, variable, and termination premiums.

CBO's most recent estimate of when the on-budget trust fund will be exhausted under current law is 2013. CBO does not have an estimate of the year in which PBGC's total resources—including both on-budget and non-budget sources—will be fully depleted under either current law or this bill.

If you wish further information about this legislation, we would be pleased to provide it. The staff contacts are Wendy Kiska and Marvin Phaup.

Sincerely,

Douglas Holtz-Eakin
Director

1. See Congressional Budget Office cost estimate for H.R. 2830, the Pension Protection Act of 2005, December 2, 2005. As a whole, the act would reduce revenues by about $72 billion over 10 years, but about $67 billion of the revenue loss would be attributable to the provisions affecting retirement savings and health care spending.

cc: Honorable John A. Boehner
Chairman
Committee on Education and the Workforce

Honorable George Miller
Ranking Member

Honorable William “Bill” M. Thomas
Chairman
Committee on Ways and Means

Honorable Charles B. Rangel
Ranking Democrat