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

Douglas Holtz-Eakin, Director

October 11, 2005

Honorable Judd Gregg,
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As you requested, the Congressional Budget Office (CBO) has estimated the effect on the 10-year net costs to the Pension Benefit Guaranty Corporation (PBGC) of enacting S. 1783, the Pension Security and Transparency Act of 2005.

That estimate differs significantly from our estimate of the cash-basis budgetary effect of the bill, which was provided in a letter to the Majority Leader dated October 5, 2005. The largest source of difference is that our estimate of net costs includes two items that are not included in 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. As explained more fully in our recent report, *The Risk Exposure of the Pension Benefit Guaranty Corporation*, net costs are the estimated market price of insurance for net claims expected to occur over this period.

By that measure, S. 1783 would increase PBGC's 10-year net costs by $9 billion, or by about 15 percent compared with what it would be under current policy. That increase is the result of a $9 billion reduction in net costs from terminations of pension plans by investment-grade sponsors and an $18 billion increase in net costs from plans terminated by below investment-grade sponsors.

The largest effects on overall net costs from the bill are due to 1) extending the use of corporate interest rates rather than reverting to Treasury interest rates for discounting future pension obligations and 2) lengthening the period over which underfunding is amortized--both of which increase PBGC's net costs. The largest reduction in net costs results from the increase in the fixed rate premium.

As noted in CBO's letter to Majority Leader Frist on October 5 2005, S.1783 would defer the exhaustion of PBGC's on-budget trust fund from 2013 to 2015. 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

cc: Honorable Kent Conrad
Ranking Democratic Member