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

Douglas Holtz-Eakin, Director

October 17, 2005

Honorable Michael B. Enzi, Chairman
Committee on Health, Education, Labor, and Pensions
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

As you requested, the Congressional Budget Office (CBO) has estimated the effect on the 10-year net costs of the Pension Benefit Guaranty Corporation (PBGC) of enacting the Administration's pension reform proposal and H.R. 2830, the Pension Protection Act of 2005.

These estimates differ significantly from CBO's estimates of the cash-basis budgetary effect of the proposals. The largest source of difference is that the 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.

The Administration's pension reform proposal would increase PBGC's 10-year net costs by $7 billion, or by about 11 percent compared with what it would be under current policy. H.R. 2830 would increase PBGC's 10-year net costs by $9 billion, or by about 14 percent compared with what it would be under current policy.

The largest effects on overall net costs from both proposals 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 reductions in net costs result from the increases in the fixed-rate premium.

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 Edward M. Kennedy
Ranking Democratic Member