CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 10, 2018

H.R. 6377
Save Community Newspaper Act of 2018

As ordered reported by the House Committee on Ways and Means on July 18, 2018

SUMMARY

H.R. 6377 would permit certain community newspapers to choose alternative minimum funding standards for the defined benefit pension plans that they maintain, effectively reducing the amounts they are required to contribute to those plans. Because employers can deduct pension fund contributions from taxable income, those smaller contributions would increase the newspapers' taxable corporate income and thus increase federal revenues. Pension plans pay premiums to the Pension Benefit Guaranty Corporation (PBGC) that are based partly on the amount by which a plan is underfunded. Smaller contributions from employers would increase funding shortfalls and increase federal premium receipts, which are recorded as reductions in direct spending. As a result, CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting the legislation would increase revenues by $13 million and reduce direct spending by $21 million over the 2019-2028 period.

Because enacting H.R. 6377 would affect direct spending and revenues, pay-as-you-go procedures apply.

CBO and JCT estimate that enacting H.R. 6377 would not increase net direct spending by more than $2.5 billion or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

CBO and JCT have determined that H.R. 6377 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 6377 is shown in the following table. The costs of the legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
DECREASES IN DIRECT SPENDING													
Estimated Budget Authority	0	0	0	-1	-1	-2	-2	-3	-3	-4	-5	-4	-21
Estimated Outlays	0	0	0	-1	-1	-2	-2	-3	-3	-4	-5	-4	-21
INCREASES IN REVENUES													
Estimated Revenues	0	1	1	1	1	1	1	2	2	2	1	5	13
NET DECREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES													
Effect on the Deficit	0	-1	-1	-2	-2	-3	-3	-5	-5	-6	-6	-9	-34

BASIS OF ESTIMATE

For this estimate, CBO and JCT assume that H.R. 6377 will be enacted by the end of 2018.

Current law specifies minimum funding requirements for single-employer private pension plans. In general, employers must contribute an amount that is at least equal to the present value of future benefits expected to be accrued that year (called the normal cost) plus a portion of the plan's funding shortfall.[1] The funding shortfall is the difference between the plan's assets and the funding target—a measure of the present value of future benefits—which generally must be funded over a seven-year period. The funding target and the normal cost are computed using a complex discounting formula in which different interest rates—currently below 5 percent—are used for benefits that are expected to be paid out over different future periods.

H.R. 6377 would allow community newspapers to reduce the amounts they contribute to their pension plans by choosing a higher discount rate. The plans could elect to use a discount rate of 8 percent to determine the present value of future benefits, thus reducing the funding target and the normal cost and, therefore, the funding shortfall. The bill also would allow plans to fund the shortfall over a period of 30 years rather than 7 years.

To be eligible to reduce their pension contributions, newspapers would need to meet several conditions, including the following: They would need to publish a daily paper in a single state, they could not control newspapers in other states, and they could not be

1. A present value expresses a flow of future payments as a single amount at a specific time. The value depends on the rate of interest, known as the discount rate, used to translate future cash flows into current dollars.

publicly traded companies. The pension plans also would have to be frozen after 2017 so that participants would not be earning new benefits.

CBO and JCT estimate that about 20 community newspaper plans would meet the eligibility criteria and a subset of those would choose to make smaller contributions. On average, annual contributions would decline by $10 million. Employers can deduct their pension fund contributions from taxable income, and JCT estimates that the reduction in contributions would result in $13 million in increased revenues from corporate income tax collections over the 2019-2028 period.

Most single-employer pension plans are underfunded and pay variable-rate premiums to PBGC that are based on the amount by which the plans are underfunded. For 2018, the premium rate is 3.8 percent of a plan's funding shortfall. Lower contributions would result in greater shortfalls and higher variable-rate premiums. (Variable-rate premiums would be based on the funding shortfall computed using current-law interest rates, not the higher rates that would be used to compute minimum contributions.) CBO estimates that receipts from variable-rate premiums would increase by $21 million over the 2019-2028 period because of the increase in underfunding.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 6377, the Save Community Newspaper Act of 2018, as Ordered Reported by the House Committee on Ways and Means on July 18, 2018

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2018-2023	2018-2028
NET DECREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Effect	0	-1	-1	-2	-2	-3	-3	-5	-5	-6	-6	-9	-34
Memorandum:													
Changes in Outlays	0	0	0	-1	-1	-2	-2	-3	-3	-4	-5	-4	-21
Changes in Revenues	0	1	1	1	1	1	1	2	2	2	1	5	13

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

The reduced contributions to pension funds that would be permitted under H.R. 6377 would slightly increase the likelihood that affected plans would fail and that PBGC would have to pay a portion of plan benefits. The long-term effect on federal outlays, however, is likely to be very small. CBO and JCT estimate that enacting H.R. 6377 would not increase net direct spending by more than $2.5 billion or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

CBO and JCT have determined that H.R. 6377 contains no intergovernmental or private-sector mandates as defined in UMRA.

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