September 6, 2019

Honorable Mike Enzi
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Re: Potential Effects of H.R. 397, the Rehabilitation for Multiemployer Pensions Act of 2019

Dear Mr. Chairman:

I am writing in response to your request for additional analysis of H.R. 397, the Rehabilitation for Multiemployer Pensions Act of 2019. On July 23, 2019, the Congressional Budget Office transmitted a cost estimate of that legislation, as published in Rules Committee Print 116-24 on July 19, 2019. The House of Representatives passed the legislation on July 24, 2019.

Specifically, you asked CBO to provide three pieces of information: a calculation of the subsidy cost of the act's loan provisions using a fair-value approach, which accounts for market risk; a description of changes in the act's estimated budgetary effects that would occur if H.R. 1994, the SECURE Act of 2019, was enacted prior to this act's enactment; and further explanation of CBO's analysis of pension plans' ability to repay their loans as well as the long-term solvency of affected plans.

CBO's analysis supports the following conclusions:

- The estimated subsidy cost under a fair-value approach is higher than that calculated using rules in the Federal Credit Reform Act of 1990 (FCRA).

- If H.R. 1994 was enacted, the estimated increase in budget deficits from enacting H.R. 397 would be higher.

- About one-quarter of the affected pension plans would be unable to repay their loans in full and most of the remaining plans would probably become insolvent in the decade after they repay their loans.

Summary of CBO's Cost Estimate of H.R. 397

H.R. 397 would provide federal loans and grants to certain multiemployer defined benefit pension plans that are insolvent or facing insolvency.

To calculate the cost of the act's loan program under H.R. 397, CBO used the methodology specified in FCRA. FCRA rules require the subsidy cost of federal loans to be recorded on an accrual basis—that is, with costs recognized in the year in which a loan is made—and that all of the expected cash flows be discounted using the rates on Treasury securities. The subsidy cost is the estimated lifetime cost to the government, as measured by discounting all expected future cash flows associated with the loan to a net present value.[1]

In that cost estimate, CBO provided two different estimates of the cost of the loans under FCRA. CBO interprets FCRA to require the cost of a loan to be calculated without considering any grants also provided to the same entity, although other interpretations of FCRA are possible. Thus, in order to provide complete information to the Congress, CBO calculated the loan subsidy cost two ways. In the official estimate, CBO assumed that any grant assistance provided under the act, which would generally be disbursed over the next three decades, would not be available to make loan repayments. In the alternative approach, the subsidy cost was calculated under the assumption that pension plans could use grant money to repay their loans.

CBO estimated that under H.R. 397, the government would disburse $39.7 billion in loans to certain multiemployer pension plans. (That total excludes some forms of assistance that resemble loans but do not receive FCRA treatment because they do not meet the definition of a loan under FCRA.) Under CBO's official approach (which excludes grant assistance), the present value of loan repayments would total $7.9 billion, CBO estimated, leading to a net subsidy cost of $31.8 billion. Under the alternative approach (which includes grant assistance), the estimated net subsidy cost would be $5.8 billion because some loans would be repaid using grant assistance. The subsidy cost for all loans (regardless of the estimating approach) would be recorded as direct spending.

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1. Present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time. The present value of expected future cash flows is calculated by discounting them to the year of a loan's disbursement and, in this case, using the rates on Treasury securities with similar terms to maturity.

Fair-Value Cost of the Loan Program

To estimate the fair-value cost of both approaches, CBO discounted the expected cash flows using a rate that is higher than the rate on Treasury securities.[2] Excluding grant assistance, CBO estimates that the present value of loan repayments under fair-value accounting would be $7.4 billion, slightly below the FCRA estimate of $7.9 billion (see Table 1). As it did for the July 23 cost estimate, CBO expects that most pension plans would not fully repay their loans and most repayments would occur early in the loan period. Thus, using fair-value, which adds a risk adjustment to the discount rate, would have a relatively small effect on the estimate of the present value of those repayments. The fair-value estimate of the subsidy cost of the loans excluding grant assistance would be $32.4 billion.

Table 1.

Components of FCRA and Fair-Value Subsidy Costs for Loans Under H.R. 397, by Two Estimating Methods

Billions of Dollars

	CBO's Approach, Excluding Grant Assistance		Alternative Approach, Including Grant Assistance	
	FCRA	**Fair Value**	**FCRA**	**Fair Value**
Loans to Pension Plans	39.7	39.7	39.7	39.7
Present Value of Repayments	7.9	7.4	34.0	29.1
Subsidy Cost	31.8	32.4	5.8	10.6

Numbers may not sum to totals because of rounding; FCRA = Fair Credit Reform Act of 1990.

CBO's estimate of the act's fair-value cost including grant assistance results in a lower present value of repayments than under FCRA—$29.1 billion. The difference between the estimated costs under FCRA and fair-value is larger when grant assistance is included because the expected repayment amounts would be larger and would occur over a longer period. The resulting fair-value estimate of the subsidy cost including grant assistance is $10.6 billion.

Budgetary Effects of Revenue Provisions in H.R. 1994 and H.R. 397

On April 5, 2019, CBO transmitted a cost estimate for H.R. 1994, the SECURE Act of 2019, as ordered reported by the House Committee on Ways and Means on April 2, 2019. If that legislation was enacted, the estimated increase in budget deficits from enacting

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2. For more on CBO's methods, see Congressional Budget Office, *How CBO Produces Fair-Value Estimates of the Cost of Federal Credit Programs: A Primer* (July 2018), www.cbo.gov/publication/53886.

H.R. 397 would be higher because certain provisions that would increase revenues in H.R. 397 also appear in H.R. 1994. Had H.R. 1994 been enacted before CBO's estimate of H.R. 397, those revenue provisions would not have been available to reduce the estimated deficits under H.R. 397.

The revenue effects of sections 9 through 12 of H.R. 397, as estimated by the staff of the Joint Committee on Taxation (JCT), are shown in the top four lines of the revenue section of Table 2 on page 10 of the cost estimate for H.R. 397. Those provisions are either similar to or identical to provisions in H.R. 1994. If those provisions were excluded, H.R. 397 would increase revenues by $3.2 billion rather than by $19.2 billion over the 2019-2029 period. CBO and JCT estimate that without those provisions, enacting H.R. 397 would increase on-budget deficits by more than $5 billion in the 2030-2039 period but not over the three subsequent 10-year periods.

Analysis of Plan Solvency
For purposes of calculating the subsidy cost of the loans to pension plans, CBO does not consider any of the grants those plans would receive under the act. However, when calculating the financial condition of those plans, CBO does take into account those grants.

CBO projects that about one-quarter of the affected pension plans would become insolvent in the 30-year loan period and would not fully repay their loans. (CBO based its analysis only on the availability of plan assets and did not distinguish between loan forgiveness, renegotiated loan terms, and other reasons for nonpayment.) Most of the other plans would become insolvent in the decade following their repayment of their loans.

To estimate projected cash flows and defaults, CBO generated a probability distribution of financial outcomes by running 500 simulations in which factors such as returns on assets, the 30-year Treasury rate, inflation, and the liability discount rate were varied and used the average of those simulations to produce the estimates for H.R. 397 (both under FCRA and under fair value). The outcomes for each plan, including the amount of loan repayments and whether a plan became insolvent, varied by simulation. As a result, CBO does not have specific projected outcomes for individual plans.

If you have any other questions related to H.R. 397, we would be pleased to answer them. The CBO staff contacts for this estimate are Noah Meyerson and Wendy Kiska.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Bernie Sanders
Ranking Member

Honorable Richard Neal
Chairman
House Ways and Means

Honorable Kevin Brady
Ranking Member

Honorable Bobby Scott
Chairman
House Education and Labor

Honorable Virginia Foxx
Ranking Member