Congressional Budget Office
Cost Estimate

September 2, 2021

At a Glance

H.R. 2954, Securing a Strong Retirement Act of 2021

As ordered reported by the House Committee on Ways and Means on May 5, 2021

By Fiscal Year, Millions of Dollars	2021	2021-2026	2021-2031
Direct Spending (Outlays)	0	0	0
Revenues	333	15,171	158
Increase or Decrease (-) in the Deficit	-333	-15,171	-158
Spending Subject to Appropriation (Outlays)	0	70	not estimated

		Mandate Effects	
Statutory pay-as-you-go procedures apply?	Yes	Contains intergovernmental mandate?	Yes, Over Threshold
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2032?	> $5 billion	Contains private-sector mandate?	Yes, Over Threshold

The bill would

- Increase the age at which required minimum distributions from retirement plans must begin
- Require employers to automatically enroll eligible employees in certain defined contribution retirement plans, including section 401(k) and 403(b) plans
- Increase the current tax credit for start-up costs an employer incurs in adopting a new pension plan
- Make a portion of disability-related distributions from pensions or annuities to first responders nontaxable
- Require the Pension Benefit Guaranty Corporation to establish the Retirement Savings Lost and Found program
- Require certain retirement plans to designate catch-up contributions as Roth contributions
- Allow certain retirement plans to permit employees to designate employer matching contributions as Roth contributions

Estimated budgetary effects would mainly stem from

- Additional revenues from requiring some retirement contributions to be made on an after-tax basis
- Reduced revenues from provisions that would increase before-tax retirement contributions

Areas of significant uncertainty include

- Projections of contributions to and participation in retirement plans

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. Most of the estimates for the provisions of H.R. 2954 were provided by JCT.

Detailed estimate begins on the next page.

Bill Summary

H.R. 2954 would amend the tax code to modify rules for retirement plans and tax-favored savings accounts. Several provisions would reduce revenues significantly by expanding automatic enrollment in retirement plans and raising the age at which required minimum distributions (RMDs) from defined contribution retirement plans or traditional individual retirement arrangements (IRAs) must begin. Other provisions would increase revenues by directing some retirement plans to require catch-up contributions to be designated as Roth contributions and allowing some plans to permit employees to designate their employers' matching contributions as Roth contributions.

Estimated Federal Cost

The estimated budgetary effect of H.R. 2954 is shown in Table 1. The costs of the legislation fall within budget function 600 (Income Security).

Table 1.
Estimated Budgetary Effects of H.R. 2954

	By Fiscal Year, Millions of Dollars												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2021-2026	2021-2031
	Increases or Decreases (-) in Revenues												
Title I. Expanding Coverage and Increasing Retirement Savings													
Estimated Revenues	22	-581	-1,209	-1,567	-1,701	-1,948	-2,048	-2,114	-3,223	-3,383	-3,286	-6,984	-21,040
On-Budget	23	-564	-1,142	-1,480	-1,604	-1,845	-1,943	-2,005	-3,112	-3,271	-3,173	-6,614	-20,122
Off-Budget	-1	-16	-66	-87	-97	-102	-104	-108	-110	-112	-114	-370	-918
Title II. Preservation of Income													
Estimated Revenues	-6	-68	-126	-162	-180	-196	-166	-175	-30	188	437	-737	-482
Title III. Simplification and Clarification of Retirement Plan Rules													
Estimated Revenues	67	-716	-352	-107	-139	-146	-535	-816	-910	-995	-1,076	-1,393	-5,727
On-Budget	67	-715	-346	-100	-129	-134	-519	-795	-888	-967	-1,045	-1,355	-5,573
Off-Budget	0	-2	-5	-7	-10	-13	-16	-20	-23	-27	-31	-38	-154
Title VI. Revenue Offsets													
Estimated Revenues	249	4,180	5,258	5,364	4,652	4,581	3,399	1,988	592	-750	-2,105	24,284	27,407
Total Revenues	333	2,815	3,571	3,529	2,632	2,292	650	-1,117	-3,571	-4,940	-6,031	15,171	158
On-Budget	334	2,833	3,642	3,623	2,739	2,407	770	-989	-3,438	-4,801	-5,886	15,579	1,230
Off-Budget	-1	-18	-71	-94	-107	-115	-120	-128	-133	-139	-145	-408	-1,072
	Increases in Spending Subject to Appropriation												
Estimated Authorization	0	5	5	10	20	30	n.e.	n.e.	n.e.	n.e.	n.e.	70	n.e.
Estimated Outlays	0	5	5	10	20	30	n.e.	n.e.	n.e.	n.e.	n.e.	70	n.e.

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.
Components may not sum to totals because of rounding; n.e. = not estimated.

Basis of Estimate

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) will be the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates those estimates into its cost estimates of the effects of legislation. Most of the estimates for the provisions of H.R. 2954 were provided by JCT.[1] For this estimate, CBO and JCT assume that the bill will be enacted before the end of fiscal year 2021.

Revenues

In total, JCT estimates, H.R. 2954 would raise revenues by $158 million over the 2021-2031 period, raising on-budget revenues by $1.2 billion and reducing off-budget revenues by $1.1 billion.

Title I. Expanding Coverage and Increasing Retirement Savings. H.R. 2954 would implement changes to tax law concerning the treatment of retirement plans. JCT estimates that title I would reduce total revenues by $21.0 billion over the 2021-2031 period. Five provisions in title I would affect off-budget revenues over that period, reducing those revenues by $918 million. The provisions listed here would have notable effects.

- Section 105 would raise the age at which participants must begin to receive RMDs from retirement plans. Under current law, participants generally must take distributions starting at age 72. The bill would raise the age for some participants to 73 on January 1, 2022, increase it to 74 on January 1, 2029, and raise it again to 75 on January 1, 2032. JCT estimates that the change would reduce revenues by $6.9 billion over the 2021-2031 period.

- Section 101 would require employers that offer section 401(k) or 403(b) plans with salary reduction agreements to automatically enroll eligible employees in those plans. Under current law, retirement plans may provide for automatic contributions. H.R. 2954 would require employers to automatically enroll employees at contribution rates of 3 percent to 10 percent in the first year. That rate would increase by 1 percentage point annually until it reached at least 10 percent (with a cap at 15 percent). Employees could still opt out of automatic enrollment or adjust their contributions. JCT estimates that the change would reduce revenues by $6.1 billion over the 2021-2031 period; of that amount, $449 million would be off-budget.

- Section 102 would increase the current nonrefundable tax credit for start-up costs that employers incur when they adopt a new pension plan. Under current law, employers are allowed a nonrefundable tax credit equal to 50 percent of the cost of starting up a plan.

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1. For JCT's estimates of the provisions that include detail beyond the summary presented below, see Joint Committee on Taxation, *Estimated Revenue Effects of H.R.__, The "Securing a Strong Retirement Act of 2021," Scheduled for Markup by the Committee on Ways and Means on May 5, 2021,* JCX-22-21 (May 3, 2021), www.jct.gov/publications/2021/jcx-22-21.

H.R. 2954 would increase the credit to 100 percent for employers with up to 50 employees. JCT estimates that the change would reduce revenues by $3.1 billion over the 2021-2031 period.

- Section 107 would raise the limits on catch-up contributions to employer-sponsored retirement plans. Under current law, starting at age 50, employees can make additional contributions each year to their 401(k), 403(b), or governmental section 457(b) plan or to a Savings Incentive Match Plan for Employees (SIMPLE IRA). For 2021, the catch-up limit for most plans is $6,500; the SIMPLE limit is $3,000. (Both amounts are indexed to inflation.) H.R. 2954 would raise the catch-up amount for employer-sponsored plans to $10,000 and increase the SIMPLE amount to $5,000. The new limits would apply at age 62, 63, and 64. JCT estimates that the change would reduce revenues by $2.2 billion over the 2021-2031 period.

- Section 109 would allow employees to receive matching contributions to their retirement plans when they make payments on student loans. Under current law, employers may make matching contributions when employees make elective deferrals to retirement plans. H.R. 2954 would allow employers to make matching contributions to 401(k), 403(b), and 457(b) plans or to a SIMPLE IRA when an employee makes a student loan payment. The total payments for a year could not exceed the amount of elective deferrals that the employee would otherwise be permitted to contribute under current law, and the payments would be reduced by any elective deferrals made by the employee for the year. JCT estimates that the change would reduce revenues by $2.0 billion over the 2021-2031 period.

- Section 113 would allow employers time to correct mistakes to elective deferrals from or automatic enrollments in retirement plans. H.R. 2954 would provide employers offering a 403(b) tax-sheltered annuity, an IRA, or a 457(b) plan up to 9½ months after the end of the plan year to correct such mistakes. JCT estimates that the change would increase revenues by $639 million over the 2021-2031 period.

- Section 103 would direct the Internal Revenue Service to promote the Saver's Credit (a tax credit for contributions to retirement plans and IRAs) to increase its use. JCT estimates that the change would reduce revenues by $409 million over the 2021-2031 period.

- Section 114 would reduce the time some employees must wait to participate in a 401(k) plan. Under current law, employers offering those plans must allow employees to participate if they complete one year of employment in which they worked at least 1,000 hours or three consecutive years in which they worked at least 500 hours. H.R. 2954 would reduce the latter requirement to two years. JCT estimates that the change would reduce revenues by $268 million over the 2021-2031 period.

- Other provisions in title I include the expansion of a start-up credit available for employers joining multiemployer retirement plans and a new credit for employers that would allow military spouses to participate in retirement plans sooner than they would otherwise be eligible. JCT estimates that those provisions, along with others that would have smaller budgetary effects, would reduce revenues by $432 million over the 2021-2031 period.

Title II. Preservation of Income. H.R. 2954 would make several changes to the treatment of life annuities in retirement plans and to regulations related to variable annuities. JCT estimates that those provisions would reduce revenues by $482 million over the 2021-2031 period. The following provisions in title II would have the largest effects:

- Section 203 would allow variable annuities to offer exchange-traded funds (ETFs) that are insurance dedicated. ETFs are pooled investment vehicles that are traded on stock exchanges and widely available through retirement plans and taxable investment accounts. Under current law, ETFs are not generally available through individual variable annuities because they cannot satisfy the regulatory requirements to be insurance dedicated. H.R. 2954 would direct the Department of the Treasury to update regulations for annuities to allow ETFs to be offered. JCT estimates that the change would reduce revenues by $866 million over the 2021-2031 period.

- Section 201 would remove certain required minimum distribution rules related to life annuities in retirement plans and IRAs. Under current law, several tests regarding RMDs are intended to limit tax deferrals by precluding commercial annuities from providing certain guaranteed annual increases. Those tests also may limit the return of premium death benefit funds or guaranteed specific payment amounts distributed over a set period of time (known as period certain guarantees) for participating annuities. H.R. 2954 would amend the RMD rules to allow commercial annuities to offer those features. For example, section 201 would allow annual annuity payments to increase by a constant percentage and allow for a lump-sum payment that accelerates a beneficiary's receipt of annuity income. JCT estimates that the change would increase revenues by $445 million over the 2021-2031 period.

Title III. Simplification and Clarification of Retirement Plan Rules. This title would change certain rules for retirement plans. JCT estimates that title III would reduce total revenues by $5.7 billion over the 2021-2031 period. One provision in title III (section 318) would affect off-budget revenues over that period, reducing those revenues by $154 million. Six provisions in particular would have notable revenue effects:

- Section 311 would make a portion of certain disability-connected distributions from pensions or annuities to qualified first responders nontaxable. JCT estimates that the provision would reduce revenues by $2.6 billion over the 2021-2031 period.

- Section 309 would allow for a onetime $50,000 IRA distribution to a split-interest entity—a planned-giving instrument, such as a charitable remainder annuity trust, charitable remainder unitrust, or a charitable gift annuity. The provision also would index the exclusion limit on qualified distributions to inflation. JCT estimates that the provision would reduce revenues by $2.3 billion over the 2021-2031 period.

- Section 318 would establish new rules for determining ownership of a business for the purposes of coverage and nondiscrimination tests for retirement plans. JCT estimates that the provision would reduce revenues by $1.0 billion over the 2021-2031 period.

- Section 316 would allow certain retirement plan administrators to rely on employees' certification that they qualify for hardship distributions from retirement plans and that the distribution amounts do not exceed immediate and heavy financial need. JCT estimates that the provision would increase revenues by $407 billion over the 2021-2031 period.

- Section 306 would require the Pension Benefit Guaranty Corporation (PBGC) to create the Retirement Savings Lost and Found program to collect unclaimed pension balances of up to $1,000 from pension funds and maintain a database allowing people to locate their balances and contact plans in which they participated. JCT estimates that the provision would reduce revenues by $410 million over the 2021-2031 period. This provision also would affect discretionary spending, which is discussed further under the heading "Spending Subject to Appropriation."

- Section 314 would allow retirement plans to separately apply the top-heavy test to excludable and nonexcludable employees. Under current law, top-heavy rules ensure that the benefits of employer-sponsored retirement plans are not overly concentrated among higher-compensated employees. H.R. 2954 would allow retirement plans to separately consider nonexcludable employees and excludable employees (such as workers under age 21 who have less than one year of employment) for determining whether a plan is top heavy, thus reducing the risk to employers of allowing excludable employees to participate. JCT estimates that the provision would increase revenues by $398 million over the 2021-2031 period.

Title VI. Revenue Offsets. This title contains four provisions that would increase revenues by a total of $27.4 billion over the 2021-2031 period, as follows:

- Section 603 would require certain retirement plans to designate catch-up contributions as Roth contributions. Under current law, employees age 50 or older can make additional contributions to retirement plans, usually on a before-tax basis. The bill would require catch-up contributions to be made on an after-tax (Roth) basis for certain government and private-sector plans. JCT estimates that the provision would increase revenues by $13.2 billion over the 2021-2031 period.

- Section 604 would allow certain retirement plans to permit employees to designate employers' matching contributions as Roth contributions. Those government and private-sector plans could make matching contributions, designated as Roth contributions, on an after-tax basis. JCT estimates that the provision would increase revenues by $13.0 billion over the 2021-2031 period.

- Section 601 would allow Simplified Employee Pension and SIMPLE IRA plans to be designated as Roth IRAs. JCT estimates that the provision would increase revenues by $711 million over the 2021-2031 period.

- Section 602 would allow 403(b) retirement plans to make hardship distributions. Such plans are most commonly available to employees of public schools and nonprofit organizations. Currently, the plans can distribute elective deferrals in the case of an employee's immediate and heavy financial need. The provision also would allow 403(b) plans to distribute qualified nonelective contributions and qualified matching contributions, or earnings on any contributions, in a case of financial hardship. JCT estimates that the provision would increase revenues by $602 million over the 2021-2031 period.

Spending Subject to Appropriation

As discussed above, section 306 would require PBGC to establish the Retirement Savings Lost and Found program. Under that program, PBGC would collect unclaimed pension balances of up to $1,000 and maintain a database allowing people to find those balances and contact the pension plans in which they participated. The program would cover defined benefit plans as well as 401(k) and other defined contribution plans. The bill would require PBGC to establish the new program within three years of enactment. For this provision, CBO assumes that the authorized and necessary amounts will be provided in each year beginning in 2022.

Under current law, if a pension plan terminates but cannot locate a participant who is owed benefits, the funds are transferred to PBGC's Missing Participants Program. The new program would be much larger than the existing one because it would apply to all plans, not just terminated ones.

When a worker with accrued pension benefits of less than $5,000 leaves a company, under current law the pension plan may distribute the balance to the worker rather than maintaining that worker in the plan; under H.R. 2954, that amount would increase to $6,000. The bill also would require unclaimed accrued benefits of less than $1,000 to be transferred to PBGC, which would hold the assets as a trustee for the worker until the benefits were claimed. Because those assets would still belong to the worker, the transfer would not be considered a governmental receipt.

CBO estimates that enacting H.R. 2954 would cost $70 million over the 2022-2026 period (see Table 1). Costs over the first four years would mainly be for planning. Beginning in 2024, spending also would cover the initial costs of hardware and software for the online system and initial operational costs. (Using information from PBGC and data about similar programs, CBO expects that more than three years would be needed to implement the new PBGC program.)

Uncertainty

These estimates of the budgetary effects of H.R. 2954 are subject to uncertainty because they are made on the basis of underlying projections and other estimates that are subject to change. Specifically, estimates for many of the bill's revenue provisions rely on projections of contributions to and participation in retirement plans, which in turn are based on CBO's economic projections for the next decade under current law and on estimates of the way taxpayers could change their saving behavior in response to changes in retirement plan rules.

The estimate of spending for the Retirement Savings Lost and Found program also is subject to uncertainty in several areas. For example, CBO cannot predict how many accounts would be created under the program or what services would be provided to people who are searching for their pension accounts. More than half of U.S. workers now participate in a pension plan. The number of transfers from those plans to PBGC would depend on the number of workers participating in a plan who left a job with less than $1,000 in accrued benefits and the share of that group that did not claim those benefits. Under current law, plans need not report unclaimed benefits, and CBO is unaware of any current comprehensive data on such benefits, so it is unclear how many transfers would be made to PBGC.

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 revenues that are subject to those pay-as-you-go procedures are shown in Table 1. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

Increase in Long-Term Deficits

CBO and JCT estimate that enacting H.R. 2954 would increase on-budget deficits by more than $5 billion in at least one of the four consecutive 10-year periods beginning in 2032.

Mandates

JCT has determined that the tax provisions of H.R. 2954 would impose intergovernmental and private-sector mandates as defined in Unfunded Mandates Reform Act (UMRA) by no longer allowing participants to make before-tax catch-up contributions to retirement plans other than IRAs. The cost of those mandates would exceed the annual intergovernmental and private-sector thresholds established in UMRA ($85 million and $170 million in 2021, respectively, adjusted annually for inflation).

The nontax provisions of H.R. 2954 would impose a private-sector mandate by requiring retirement plans to provide benefit statements on paper at least once each year for defined contribution plans and once every three years for defined benefit plans. Under current law, such statements must be made quarterly, and they can be delivered on paper or electronically. CBO estimates that the cost of the mandate would be small.

The nontax provisions of the bill would not impose an intergovernmental mandate.

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