CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

Revised September 27, 2004

H.R. 4324

A bill to amend title 5, United States Code, to eliminate the provisions limiting certain election opportunities available to individuals participating in the Thrift Savings Plan, and for other purposes

As ordered reported by the House Committee on Government Reform on July 21, 2004

SUMMARY

H.R. 4324 would make changes to the rules that govern participation in the federal employees' Thrift Savings Plan (TSP). Specifically, it would allow federal employees and members of the uniformed services to begin or alter their TSP contributions at any time instead of limiting such changes to biannual open-season periods. It also would allow agency contributions to begin as soon as an employee is eligible to participate in the TSP, rather than delaying the start of agency contributions by between 6 and 12 months. CBO estimates that implementing the bill would cost $69 million in 2005 and $1.1 billion over the 2005-2014 period, subject to the appropriation of the necessary amounts. We also estimate the bill would decrease tax revenues by $4 million in 2005 and $56 million over the 2005-2014 period. Finally, the bill would affect spending and collections of the U.S. Postal Service, but CBO estimates that those changes would result in no significant net effect on direct spending over the 10-year period.

H.R. 4324 contains no intergovernmental or new private-sector mandates as defined by the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4324 is shown in the following table. The costs of this legislation would fall within multiple budget functions.

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Estimated Authorization Level	72	99	102	106	109	112	116	119	123	126
Estimated Outlays	69	98	102	105	109	122	115	119	123	126
CHANGES IN REVENUES										
Estimated Revenues	-4	-4	-5	-5	-5	-5	-6	-7	-7	-8
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	36	-36	0	0	0	0	0	0	0	0
Estimated Outlays	36	-36	0	0	0	0	0	0	0	0

NOTE: The bill's estimated changes in direct spending are off-budget.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes the bill will be enacted this fall and that its provisions will become effective in January 2005. We also assume that the necessary appropriations for the additional federal agency contributions would be provided for each year.

Background

The TSP is a tax-deferred, defined contribution pension plan open to most federal employees and members of the uniformed services. Federal employees who are covered by the Federal Employees' Retirement System (FERS) may contribute up to 14 percent of basic pay to their TSP account up to the Internal Revenue Service (IRS) statutory maximum ($13,000 in 2004). Employees who are covered by the Civil Service Retirement System (CSRS) and members of the uniformed services may contribute up to 9 percent of basic pay up to the IRS maximum. Participants who are 50 years old or older may contribute an additional $3,000 above the caps that would otherwise apply to their contributions.

Employees who are covered by FERS also are eligible to receive contributions from their employing agency. Agencies automatically contribute 1 percent of basic pay toward the TSP accounts of employees who are covered by FERS, regardless of whether the employee is making a contribution. Employing agencies then match employee contributions up to 5 percent of pay. Agency matches are dollar for dollar on the first 3 percent of employee contributions and 50 percent on the next 2 percent. Agency contributions begin after the second open season after an employee becomes eligible to participate in the TSP. (Thus, agency contributions generally begin between 6 months and 12 months after employment starts.) CSRS employees and members of the uniformed services do not receive agency contributions to their TSP accounts.

Under current law, newly hired federal employees and members of the uniformed services have a 60-day period in which they may begin making TSP contributions. If they fail to do so, employees must wait until an open-season period to begin making contributions. Open seasons run each year from April 15 to June 30 and from October 15 to December 31. In addition, current TSP participants may only change their contributions during an open season period. Participants may elect to increase or decrease the amount of money they are contributing during those periods, with changes effective during the first pay period after the close of the open season. Participants may choose to terminate their TSP contributions at any time, although they must wait until the second open season after contributions are terminated before they can start contributing again.

H.R. 4324 would eliminate the initial enrollment period and allow participants to change their contributions at any time. Once a participant elects to change his or her contribution amount, the change would take effect almost immediately. The bill places no limit on how many times participants may change contributions, or how large such changes can be, as long as they remain within the overall contribution limits. Changes to agency contributions that would be initiated by changes to participant contributions would take effect immediately.

The bill also would change when agency contributions first begin. H.R. 4324 would eliminate the requirement that agency contributions begin after the second open season after which an employee is first eligible to participate in the TSP. Instead, agency contributions would begin as soon as a FERS employee is eligible to participate in the TSP. This change would apply to both the automatic 1 percent agency contribution, as well as agency matching contributions.

Spending Subject to Appropriation

Over time, participants generally increase the percentage of pay they contribute to their TSP accounts. The longer one has worked for the federal government, the greater percentage of pay one usually devotes to TSP contributions. According to data from the Thrift Investment Board, FERS employees who first participated in TSP in 1989 contributed an average of 5 percent of pay during their first year of participation. By the fifth year of participation, the average level of contribution for this group was about 6 percent, and by the 14th year of participation the average contribution level was almost 8 percent. The pattern for contributions is similar for those who first enrolled in TSP in later years.

By providing participants with greater flexibility to start, stop, and change contributions, H.R. 4324 would cause some people to increase or decrease contribution levels sooner or later than they do under the current open season system. However, given the tendency for participants to increase their contributions over time, CBO assumes that allowing greater flexibility would generally lead participants to increase their contributions slightly sooner than they would have otherwise. On average, participants increase their contributions by roughly 0.2 percent of pay each year, and CBO predicts that under H.R. 4324 this increase would take place one month earlier than under the current system. For those in FERS who are contributing less than 5 percent (about 500,000 federal workers), the faster increase in participant contributions would increase agency matching contributions as well. Agency contributions, which are paid from personnel budgets, are usually spending subject to appropriation. CBO estimates that this provision of H.R. 4324 would cause agency contributions to increase by $2 million in 2005, $12 million over the 2005-2009 period, and $29 million over the 2005-2014 period.

Eliminating the requirement that agency contributions begin following the second open season after a new participant is eligible to participate in the TSP also would increase agency spending. Under current law, agency contributions begin on average more than seven months after a participant is first eligible to participate in the TSP. H.R. 4324 would start the automatic 1 percent agency contribution as soon as an employee is eligible to participate in TSP and would match any employee contributions (up to 5 percent of pay) as soon as they are initiated.

Approximately 110,000 non-Postal FERS employees enroll in the TSP each year, three-quarters of whom defer an average of 7 percent of salary toward their TSP accounts. (The remaining quarter of new participants do not defer any of their own pay, but receive the automatic 1 percent agency contribution.) Because of statutory limits on matching contributions, the average agency contribution is about 4.3 percent. The bill would increase agency costs in the following ways: it would begin agency matching contributions for new enrollees earlier than they would have been made otherwise; it would begin the automatic 1 percent contribution for those who do not make their own contribution earlier than would have otherwise; it would induce some employees to begin making contributions earlier than they would have otherwise, thus increasing agency matching contributions. All together, CBO estimates this provision of the bill would increase spending subject to appropriation by $68 million in 2005, $472 million over the 2005-2009 period, and $1.1 billion over the 2005-2014 period.

Revenues

Because income taxes are deferred on TSP contributions, the anticipated increase in participant contributions initially would result in lower income tax revenue.[1] The program maintains nearly 3 million accounts, with approximately 2.3 million participants currently making their own contributions. Social insurance taxes would not be affected by the bill, as wages invested in TSP remain subject to social insurance taxes. CBO estimates H.R. 4324 would reduce income tax revenue by $4 million in 2005, $23 million over the 2005-2009 period, and $56 million over the 2005-2014 period.

Direct Spending

CBO anticipates that H.R. 4324 would have a similar effect on contributions among employees of the U.S. Postal Service as it would on participants employed by other agencies. It also would affect contributions that the Postal Service makes to the TSP accounts of its FERS employees in much the same way other federal agencies would be affected. As such, TSP contributions among Postal Service employees would increase, as would agency contributions for both new and existing FERS Postal workers. However, unlike most other agencies, the Postal Service has the ability to increase its income to cover increases in its operating costs, which are classified as direct spending. CBO estimates the bill would increase Postal Service TSP contributions (which are off-budget) by roughly $36 million to $60 million annually, but that such increases would be offset by increased receipts from postal rates. Such changes may not be simultaneous, so CBO estimates there would be an increase in direct spending in 2005 of $36 million, but this would be offset by an increase in offsetting receipts in 2006 and beyond.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4324 contains no intergovernmental or new private-sector mandates as defined by UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

This estimate supersedes our previous cost estimate for H.R. 4324, which CBO transmitted on August 17, 2004. Our August 17 estimate indicated the bill would increase spending

1. TSP assets and earnings on those assets are subject to tax once they are drawn upon.

subject to appropriation by $2 million in 2005 and $30 million over the 2005-2014 period. We also estimated the bill would decrease tax revenues by $1 million in 2005 and $23 million over the 2005-2014 period. CBO now estimates the bill would increase spending subject to appropriation by $72 million in 2005 and $1.1 billion over the 2005-2014 period, and would decrease tax revenues by $4 million and $56 million during the same periods, respectively. The updated estimate reflects a better understanding of the bill's intended effect on agency contributions. The previous estimate was based on an erroneous interpretation of the bill's language that agency contributions would continue to begin after the second open-season following a participant's enrollment in the TSP rather than immediately after enrollment.

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