**CONGRESSIONAL BUDGET OFFICE**
**COST ESTIMATE**

July 24, 2008

# H.R. 6500
## Thrift Savings Plan Enhancement Act of 2008

*As ordered reported by the House Committee on Oversight and Government Reform on July 16, 2008*


## SUMMARY

H.R. 6500 would require the automatic enrollment of newly-hired eligible federal employees and members of the uniformed services in the Thrift Savings Plan (TSP). The contributions of new participants would be set a 3 percent of their basic pay, and they would have the option of modifying the contribution percentage or completely declining enrollment. The bill also would authorize the Federal Thrift Retirement Investment Board (FRTIB) to establish a Roth contribution plan and self-directed investment options within the TSP.

CBO estimates that implementing this bill would cost $10 million in 2009 and $279 million between 2009 and 2013, subject to appropriation of the necessary amounts.

Enacting H.R. 6500 would also increase revenues by an estimated $157 million over the 2009-2013 period and nearly $1.3 billion over the 2009-2018 period. Establishing a Roth contribution program would result in some TSP participants electing to contribute after-tax income to their retirement plan rather than contributing pre-tax amounts, thereby boosting income tax revenues by an estimated $382 million over the five-year period and $2.0 billion over the 10-year period; however, because income taxes are deferred on regular TSP contributions, the anticipated increase in participants' contributions from automatic enrollment would offset part of the revenue increase, reducing receipts by $225 million over five years and by $736 million from 2009 through 2018.

H.R. 6500 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of is shown in the following table. The costs of this legislation fall within all budget functions (except functions 900 and 950).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2009-2013 | 2009-2018 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | | | | | | | | |
| Estimated Authorization Level | 10 | 47 | 61 | 75 | 89 | 102 | 113 | 123 | 133 | 142 | 282 | 895 |
| Estimated Outlays | 10 | 46 | 61 | 74 | 88 | 102 | 112 | 122 | 132 | 142 | 279 | 889 |
| **CHANGES IN REVENUES** | | | | | | | | | | | | |
| Increase in revenues from adding Roth IRA provision to TSP[a] | 0 | 3 | 81 | 133 | 165 | 204 | 252 | 310 | 383 | 472 | 382 | 2,003 |
| Reduction in revenues due to auto-enrollment | -13 | -34 | -49 | -59 | -70 | -81 | -91 | -102 | -113 | -124 | -225 | -736 |
| Total Changes in Revenues | -13 | -31 | 32 | 74 | 95 | 123 | 161 | 208 | 270 | 348 | 157 | 1,267 |

Notes: IRA = individual retirement account; TSP = Thrift Savings Plan.

a. Estimates provided by the Joint Committee on Taxation.

## BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes the bill will be enacted near the start of fiscal year 2009 and that its provisions will become effective in January 2009. We also assume that the necessary appropriations for additional TSP contributions by federal agencies will 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) or Civil Service Retirement System (CSRS), as well as members of the uniformed services , may currently contribute up to $15,500 of basic pay (the Internal Revenue Service statutory maximum) to their TSP account. Participants may contribute an additional $5,000 per year starting in the year that they reach 50 years of age. Employees who are covered by FERS also are eligible to receive contributions from their employing agency. Employing agencies match employee contributions up to 5 percent of basic 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 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, 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. Newly hired federal employees may elect to increase or decrease the amount of money they are contributing. Participants may choose to terminate their TSP contributions at any time.

H.R. 6500 would require the FRTIB to automatically enroll all newly hired eligible federal employees and members of the uniformed armed services into the TSP at a default contribution rate of 3 percent of basic pay. The FRTIB would have the authority to change this rate anywhere from 2 percent to 5 percent. Those so enrolled would have the opportunity to decline enrollment or change their contribution rate.

The bill also would require the FRTIB to submit an annual report to the Congress on the operations of the TSP. CBO estimates that producing this report would have an insignificant annual cost.

## Spending Subject to Appropriation

The automatic enrollment of new participants would increase the matching contributions of the agencies that employ them (which are paid from personnel budgets and are usually considered spending subject to appropriation) by creating a greater and earlier participation rate of employees in the TSP. According to data from a 2006 FRTIB survey, 52 percent of FERS employees voluntarily contribute to the TSP program in their first year of eligibility, but 86 percent contribute by their sixth year. Using information from that 2006 survey, CBO expects that under automatic enrollment more than 90 percent of eligible new entrants would contribute to TSP in their first year and that a similar proportion would continue to contribute by their 10th year (some would opt out in the beginning and others would likely change their status in the future).

Assuming the bill becomes effective in January and that agencies would not begin matching contributions for an additional six months, CBO estimates that participants would receive an increase in matching agency contributions of 3 percent of their basic pay for the last quarter of fiscal year 2009 and 3 percent a year thereafter. Using projections of the number of eligible employees, termination rates, and merit increases from the Office of Personnel Management, CBO estimates that enacting H.R. 6500 would increase agency contributions by $10 million in 2009 and $279 million over the 2009-2013 period.

### Revenues

Under section 3 of H.R. 6500, the FRTIB would be authorized to adopt a qualified Roth contribution program. In such a program, contributions would be nondeductible but earnings would accrue tax-free and withdrawals in excess of a participant's contributions would be exempt from income tax. For purposes of this estimate, the Joint Committee on Taxation (JCT) has assumed that the Roth contribution program will be adopted and effective for contributions made to the TSP beginning after July 1, 2010. Some TSP participants would likely designate a portion of their existing contributions to the Roth program; some would make new payments as Roth contributions. Such contributions would increase federal tax receipts during the 2009-2018 period because the majority of Roth participants in the TSP would be giving up the current exclusion from income taxes of contributions to the TSP in exchange for excluding future earnings from such taxes at the time of distribution, as provided for under the Roth program. CBO and JCT estimate that establishing a Roth program will increase revenues by $2 billion between 2009 and 2018.

Because income taxes are deferred on TSP contributions to non-Roth accounts, the anticipated increase in participants' contributions would result in lower receipts of individual income taxes. CBO estimates that this provision in H.R. 6500 would reduce revenues by $13 million in 2009 and $736 million over the 2009-2018 period. Overall, H.R. 6500 would increase federal revenues by nearly $1.3 billion from 2009 to 2018.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 6500 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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