

October 19, 2005

Honorable Barbara A. Mikulski  
United States Senate  
Washington, D.C. 20510

Dear Senator:

As you requested, the Congressional Budget Office (CBO) has estimated the effect on the 10-year net costs of the Pension Benefit Guarantee Corporation (PBGC) of enacting S. 1783 with the DeWine-Mikulski amendment.

This estimate would differ significantly from an estimate of the budgetary effects of the bill on a cash basis. The largest source of difference is that our estimate of net costs includes two items that are not included in the budget estimate: the cost of market risk and the present value of benefit payments outside the budget window for plans terminated in the next 10 years. As explained more fully in our recent report, *The Risk Exposure of the Pension Benefit Guarantee Corporation*, net costs are the estimated market price of insurance for net claims expected to occur over this period.

While the proposed amendment would marginally increase PBGC's 10-year net costs, the change is small relative to the overall uncertainty of such estimates. CBO estimates that S. 1783 with the DeWine-Mikulski amendment would increase 10-year net costs by \$9 billion, or by about the same amount as S. 1783 without the amendment. Behavioral effects from policy changes are not included in the estimates of net cost.

If you wish further information about this legislation, we would be pleased to provide it.

Sincerely,

Douglas Holtz-Eakin

cc:

Honorable Mike Enzi, Chairman  
Honorable Edward M. Kennedy, Ranking Member Committee on Health, Education,  
Labor, and Pensions

Honorable Judd Gregg, Chairman  
Honorable Kent Conrad, Ranking Member Committee on the Budget