Press Release

Pension Smoothing, Ephemeral Revenue, and Budget Gimmicks

PAULINA ENCK | AUGUST 5, 2021

In an effort to fund the proposed infrastructure bill, Congress has included a “pension smoothing” provision allowing firms to defer pension contributions. This provision is a budget gimmick, contends Director of Fiscal Policy Gordon Gray. While pension smoothing insulates firms from interest rate volatility, the proposed deferral in pension plan sponsors only allows a temporary increase in tax revenue, as firms will make the tax-deductible contributions eventually.

Gray concludes:

Congress is particularly innovative in avoiding hard decisions. Nowhere is that more evident than in fiscal policy, where congressional innovation in irresponsibility has been perfected to a near art form. Pension smoothing policy is a masterwork in budget gimmickry. It underfunds pensions while generating ephemeral tax revenue that can be spent on new pet projects. For Congress, it’s close to ideal. As a matter of public policy, it’s somewhat less inspiring.

Read the analysis