



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

January 22, 2008

H.R. 2761 **Terrorism Risk Insurance Program Reauthorization Act**

*As cleared by the Congress on December 18, 2007
and signed by the President on December 26, 2007*

SUMMARY

H.R. 2761 (enacted as Public Law 110-160) reauthorizes the Terrorism Risk Insurance Act (TRIA) for seven years—through calendar year 2014. The act also requires insurers to make property and casualty coverage available for losses resulting from domestic terrorism.

TRIA requires insurance firms that sell commercial property and casualty insurance to offer clients insurance coverage for damages caused by foreign and domestic terrorist attacks. Under TRIA, the federal government would help insurers cover losses in the event of a terrorist attack under certain conditions, and would also impose assessments on the insurance industry to recover all or a portion of the federal payments.

CBO estimates that H.R. 2761 will increase direct spending by \$3.1 billion over the 2008-2012 period and by \$6.6 billion over the 2008-2017 period. An additional \$1.1 billion will be spent after 2017. Further, CBO estimates that the act will increase revenues by about \$3.1 billion over the 2008-2012 period and by \$6.6 billion over the 2008-2017 period.

Considering both the direct spending and revenue impacts of the bill, CBO estimates that enacting the bill will reduce budget deficits or increase surpluses by less than \$50 million over the 2008-2012 and 2008-2017 periods.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2761 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Billions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	0.2	0.5	0.7	0.8	0.9	1.0	1.0	0.8	0.5	0.2	3.1	6.6
Estimated Outlays	0.2	0.5	0.7	0.8	0.9	1.0	1.0	0.8	0.5	0.2	3.1	6.6
CHANGES IN REVENUES												
Estimated Revenues	*	0.4	0.7	0.8	1.2	0.7	0.9	0.7	0.7	0.5	3.1	6.6
NET IMPACT OF LEGISLATION												
Estimated Change in Deficit or Surplus ^a	0.2	0.1	*	*	-0.3	0.3	0.1	0.1	-0.2	-0.3	*	*

Note: * = between \$0 and \$50 million.

a. Positive numbers indicate an increase in the deficit or decrease in the surplus; negative numbers indicate the opposite.

BASIS OF ESTIMATE

CBO's estimate of the cost of financial assistance provided under the bill represents an expected value of payments from the program—a weighted average that reflects industry experts' opinions of various outcomes ranging from zero damages up to very large damages resulting from possible future terrorist attacks. While this estimate reflects CBO's best judgment on the basis of available information, the cost of this program is a function of inherently unpredictable future terrorist attacks. As such, actual costs and revenues are likely to vary significantly from the estimated amounts—either higher or lower than the expected-value estimates provided each year.

Direct Spending

Federal payments under TRIA are based on expected insured losses from certain types of terrorist attacks, adjusted for the share of losses that would be paid by affected insurers in such an event. The program requires insurers to pay claims for terrorism losses up to a deductible amount and then to pay a portion of the losses above the deductible.

After taking into account maximum limits, deductibles, and the insurers' share of payments above the deductible, CBO estimates that the act will increase direct spending by about \$3.1 billion over the 2008-2012 period, \$6.6 billion over the 2008-2017 period, and \$7.7 billion over the full life of the program before taking into account any revenues from surcharges on policyholders.

Revenues

The act may affect federal receipts by authorizing the Secretary of the Treasury to recoup some or all of the cost of assistance provided under the program through surcharges paid by the insurance industry and purchasers of commercial property and casualty insurance.

The amount to be recovered would be 133 percent of the difference between the industry retention amount (the maximum aggregate loss to be paid by the insurance industry), which is set at \$27.5 billion annually over the seven-year term of the program and the Secretary's estimate of the total amount paid by the insurance industry for deductibles and the industry's share of payments over the deductible. Further, the act specifies that all amounts due are to be collected before the end of 2017.

CBO estimates that the act will increase governmental receipts by about \$3.1 billion over the 2008-2012 period and by about \$6.6 billion over the 2008-2017 period, net of income and payroll tax offsets.

PREVIOUS CBO ESTIMATES

On September 6, 2007, CBO transmitted an estimate for H.R. 2761, the Terrorism Risk Insurance Reauthorization and Extension Act of 2007, as ordered reported by the House Committee on Financial Services on August 1, 2007. That version of H.R. 2761 would have extended TRIA for 15 years; required insurers to make coverage available to property and casualty policyholders for losses resulting from domestic terrorism; required insurers to offer coverage for losses resulting from terrorist attacks using nuclear, biological, chemical, and radiological materials; and included group life insurance in the lines of insurance covered under the program. CBO estimated that enacting that version of H.R. 2761 would increase direct spending by \$3.7 billion over the 2008-2012 period and \$10.4 billion over the 2008-2017 period. An additional \$13.7 billion would be spent after 2017. CBO estimated that enacting that version of H.R. 2761 would increase federal revenues \$100 million over the 2008-2012 period and \$2.0 billion over the 2008-2017 period, net of income and payroll taxes.

On October 29, 2007, CBO transmitted an estimate for S. 2285, the Terrorism Risk Insurance Program Reauthorization Act of 2007, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on October 17, 2007. The bill would have extended TRIA for seven years and required insurers to make coverage available to property and casualty policyholders for losses resulting from domestic terrorism. CBO estimated that enacting S. 2285 would increase direct spending by \$3.1 billion over the 2008-2012 period and \$6.6 billion over the 2008-2017 period. An additional \$1.1 billion would be spent after 2017. CBO estimated that enacting S. 2285 would increase federal revenues by \$100 million over the 2008-2012 period and \$1.5 billion over the 2008-2017 period, net of income and payroll taxes.

ESTIMATE PREPARED BY: Susan Willie

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis