CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 27, 2014

H.R. 647
Achieving a Better Life Experience Act of 2014

As ordered reported by the House Committee on Ways and Means on July 31, 2014

SUMMARY

H.R. 647 would allow for the creation of a new type of tax-favored account—an ABLE account—for the benefit of individuals with disabilities. Assets in an ABLE account and distributions from the account for qualifying expenses would be disregarded when determining the beneficiary's eligibility for most federal means-tested benefits.

CBO estimates that enacting H.R. 647 would increase direct spending by $1.2 billion over the 2015-2024 period. Additionally, the staff of the Joint Committee on Taxation (JCT) estimates that enacting H.R. 647 would decrease revenues by $0.9 billion over the 2015-2024 period. In total, CBO and JCT estimate that enacting the bill would increase deficits by $2.1 billion over the next 10 years. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

CBO has determined that the nontax provisions of the bill contain no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Similarly, JCT has determined that the tax provisions of the bill contain no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 647 is shown in the following table. The costs of this legislation fall within budget functions 550 (health), 570 (Medicare), and 600 (income security).

TABLE 1. SUMMARY OF ESTIMATED BUDGETARY EFFECTS OF H.R. 647

	By Fiscal Year, in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	1	12	31	47	78	109	150	202	243	280	170	1,153
Estimated Outlays	1	12	31	47	78	109	150	202	243	280	170	1,153
CHANGES IN REVENUES												
Estimated Revenues	-1	-4	-10	-24	-49	-82	-117	-158	-203	-249	-89	-898
NET INCREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	2	16	41	71	127	191	267	360	446	529	259	2,051

Sources: CBO and the staff of the Joint Committee on Taxation.

Note: Components may not sum to totals because of rounding.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted near the beginning of fiscal year 2015. CBO also assumes that, under the bill, states would establish qualifying ABLE programs during the 2015-2017 period.

The ABLE Act would amend section 529 of the Internal Revenue Code to permit individuals to establish "ABLE accounts" for disabled beneficiaries that resemble the qualified tuition programs—often called "529 accounts"—that have been established under that section of the tax code since 1996. Earnings on an ABLE account would not count as taxable income of the contributor to the account or the eligible beneficiary; because earnings on assets in other accounts would generally be taxed under current law, the legislation would reduce tax revenues. Moreover, assets in an ABLE account and distributions from the account for qualified disability expenses would be disregarded when determining the qualified beneficiary's eligibility for most federal means-tested benefits. Thus, the legislation would increase the number of beneficiaries of federal means-tested programs and federal spending from such programs.

Key Characteristics of ABLE Accounts

ABLE accounts would have the following features:

- Any contributor—such as a family member, a friend, or the disabled person—could establish an ABLE account for an eligible beneficiary. An eligible beneficiary could have only one ABLE account, which must be established in the state in which he resides (or in a state that provides ABLE account services for his home state).

- An ABLE account may not receive annual contributions exceeding the annual gift-tax exemption. Additionally, a state must provide adequate safeguards to ensure aggregate contributions to an ABLE account do not exceed the state-based limits for 529 accounts.

- An eligible beneficiary would be a child who meets the Supplemental Security Income (SSI) program's disability standard for children or an adult who meets the SSI program's disability standard for adults, provided that the adult's disability occurred before he reached age 26.

- Qualified disability expenses would be any expenses made for the benefit of the disabled beneficiary related to education; housing; transportation; employment training and support; assistive technology and personal support services; health, prevention, and wellness; financial management and administrative services; legal fees; expenses for oversight and monitoring; funeral and burial expenses; and any other expenses approved by the Secretary of the Treasury under regulations.

- Earnings on an ABLE account and distributions from the account for qualified disability expenses would not count as taxable income of the contributor or the eligible beneficiary. Contributions to an ABLE account would have to be made in cash from the contributor's after-tax income.

- Assets in an ABLE account and distributions from the account for qualified disability expenses would be disregarded when determining the qualified beneficiary's eligibility for most federal means-tested benefits. For SSI, only the first $100,000 in each ABLE account would be disregarded.

- Assets in an ABLE account could be rolled over without penalty into another ABLE account for either the qualified beneficiary or any of the beneficiary's qualifying family members. Any assets remaining in an ABLE account upon the death of the qualified beneficiary could be used to reimburse a state Medicaid agency for payments it made on behalf of the beneficiary.

Effects on Direct Spending

CBO estimates that enacting H.R. 647 would increase direct spending by $170 million over the 2015-2019 period and by about $1,150 million over the 2015-2024 period (see Table 2). The SSI and Medicaid programs would each account for roughly half of the increase, with the Medicare program experiencing a very small increase in outlays.

TABLE 2. ESTIMATED EFFECTS OF H.R. 647 ON DIRECT SPENDING, BY PROGRAM

	By Fiscal Year, Outlays in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
CHANGES IN DIRECT SPENDING												
Supplemental Security Income	*	5	15	25	45	60	80	110	125	135	90	600
Medicaid	1	7	16	22	33	49	69	91	117	144	79	549
Medicare	0	0	*	*	*	*	1	1	1	1	1	4
Total Changes	1	12	31	47	78	109	150	202	243	280	170	1,153

Source: Congressional Budget Office.

Notes: Components may not sum to totals because of rounding.

* = less than $500,000.

Supplemental Security Income. CBO expects that the ABLE Act would increase SSI caseloads for two distinct groups of people:

- Individuals whose eligibility for SSI benefits was denied or interrupted because of excess resources (defined as assets exceeding $2,000 for an individual or $3,000 for a couple, excluding the value of a home, a vehicle, and several other categories of assets). Under current law, those individuals must spend down their excess resources before gaining or reestablishing eligibility for SSI. Under H.R. 647, many such individuals could establish an ABLE account more quickly than they could spend down excess resources—accelerating their participation in SSI by several months to several years. CBO anticipates that, by the 10th year after enactment, about one-third of the individuals who could accelerate their SSI eligibility by establishing an ABLE account would do so.

- Individuals who do not apply for SSI under current law because of excess resources, but who would meet SSI's age or disability requirement and income requirement. CBO anticipates that, by the 10th year after enactment, about 10 percent of the individuals in this group would establish an ABLE account.

Based on data from the Social Security Administration and the Current Population Survey, CBO estimates that SSI outlays would increase by roughly $600 million (or one-tenth of one percent of benefit payments in that program) over the 2015-2024 period. CBO estimates that the average monthly SSI caseload would increase by around 25,000 (or about one-quarter of one percent) in 2024.

Medicaid. As discussed above, assets in an ABLE account would be disregarded when determining a qualified beneficiary's eligibility for most federal means-tested benefits. There are several pathways to Medicaid eligibility for disabled adults under the age of 65 that require individuals to meet both income and asset tests. CBO expects that enacting H.R. 647 would increase the number of disabled adults under the age of 65 who enroll in Medicaid because they could hold cash assets in an ABLE account that would not count against Medicaid eligibility. Because a beneficiary of an ABLE account must have a disability that occurred before he reached age 26, CBO does not expect an increase in the number of elderly individuals who enroll in Medicaid. Additionally, CBO does not expect that establishment of ABLE accounts would increase the number of children and nondisabled adults enrolled in Medicaid because those individuals are not required to meet an asset test under current law.

CBO estimates that enacting H.R. 647 would increase federal spending for Medicaid by about $550 million over the 2015-2024 period. Many disabled adults who might have benefitted from the current legislation in the absence of the Affordable Care Act (ACA) are, or will soon become, eligible for Medicaid under current law. Under the ACA, states are permitted to expand their Medicaid programs to cover adults earning less than 138 percent of the federal poverty level. That pathway to Medicaid eligibility has a higher income limit than most of the income limits used to determine Medicaid eligibility for disabled adults, and it does not require individuals to meet an asset test. Therefore, CBO expects that enacting H.R. 647 would lead to an increase in enrollment of disabled adults to only a small degree in states that expand Medicaid eligibility under the ACA and to a larger degree in states that do not. Altogether, CBO estimates that enacting the bill would increase the number of disabled adults under age 65 who are covered by Medicaid by about 10,000 in 2024, or less than one-tenth of one percent of the number of nonelderly disabled Medicaid beneficiaries in that year.

Low-Income Subsidy under Medicare Part D. The Low-Income Subsidy (LIS) under Medicare's prescription drug benefit program (known as Part D) provides premium and cost-sharing assistance to individuals whose income is up to 150 percent of the federal poverty level and whose assets do not exceed $13,440 per individual or $26,860 per couple in 2014. CBO estimates that LIS spending would increase by less than $5 million over the 2015-2024 period. CBO expects that very few Medicare beneficiaries would be permitted to establish ABLE accounts because a beneficiary of an ABLE account must have a disability that was diagnosed before he or she reached age 26.

Effects on Revenues

H.R. 647 would allow for the creation of a new type of tax-favored account—an ABLE account—for the benefit of individuals with disabilities. Qualified distributions from such accounts would include payments for education, medical and dental care, housing, community-based support services, moving, and funeral and burial services. For purposes of this estimate, JCT assumes that the provision allowing for the creation of ABLE accounts would be effective for taxable years beginning after December 31, 2014. JCT estimates that the resulting reduction in federal tax collections would total $898 million over the 2015-2024 period.

JCT's estimate primarily reflects the revenue loss attributable to savings by households with qualified disabled dependents and incomes higher than $40,000. Under H.R. 647, earnings on the assets deposited in ABLE accounts would be untaxed; in contrast, earnings on assets in other accounts would generally be taxed under current law. There would be an additional, but much smaller, revenue loss stemming from transfers from qualified disability trusts.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 647 as ordered reported by the House Committee on Ways and Means on July 31, 2014

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
						NET INCREASE IN THE DEFICIT							
Statutory Pay-As-You-Go Impact	0	2	16	41	71	127	191	267	360	446	529	259	2,051
Memorandum:													
Changes in Outlays	0	1	12	31	47	78	109	150	202	243	280	170	1,153
Changes in Revenues	0	-1	-4	-10	-24	-49	-82	-117	-158	-203	-249	-89	-898

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO has determined that the nontax provisions of the bill contain no intergovernmental or private-sector mandates as defined in UMRA. CBO estimates that the provisions in the bill that would increase federal spending for Medicaid would similarly result in $415 million of additional Medicaid spending by states over the 2014-2024 period. Those provisions, however, would not be intergovernmental mandates as defined by UMRA because Medicaid provides states with significant flexibility to make programmatic adjustments to accommodate the changes.

JCT has determined that the tax provisions of the bill contain no intergovernmental or private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On May 9, 2014, CBO transmitted a cost estimate for S. 313, the Achieving a Better Life Experience Act of 2013, as introduced on February 13, 2013. The text of S. 313 is identical to the text of H.R. 647 that also was introduced on February 13, 2013. CBO and JCT estimated that the introduced version of S. 313 would increase direct spending by $17.5 billion and reduce revenues by $1.7 billion over the 2015-2024 period. S. 313 and H.R. 647 (as introduced) would increase the deficit by significantly more than the version of H.R. 647 that was ordered reported by the Ways and Means Committee primarily for three reasons:

- S. 313 would allow a beneficiary to have multiple ABLE accounts. In contrast, the committee-approved version of H.R. 647 would limit each beneficiary to a single account.

- S. 313 would allow effectively unlimited contributions into a beneficiary's accounts. The committee-approved version of H.R. 647 would limit annual and aggregate contributions into a beneficiary's account.

- S. 313 would permit adults of any age to be a beneficiary—even if they were retired or were earning substantial income from work—provided they had a marked and severe functional limitation (the SSI program's disability standard for children). The committee-approved version of H.R. 647 would limit adult eligibility to those who are incapable of engaging in substantial gainful (work) activity (the SSI program's disability standard for adults) and whose disability occurred before the age of 26.

Relative to the earlier cost estimate for S. 313 as introduced, CBO and JCT estimate that those differences would significantly reduce the number of individuals who would be eligible to become beneficiaries of ABLE accounts, the amount of assets that would receive tax-preferred treatment, and the additional months of means-tested benefits received by those whose assets were placed in an ABLE account.

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