



**CONGRESSIONAL BUDGET OFFICE  
COST ESTIMATE**

June 23, 2003

**H.R. 2351  
Health Savings Account Availability Act**

*As ordered reported by the House Committee on Ways and Means on June 19, 2003*

**SUMMARY**

H.R. 2351, the Health Savings Account Availability Act, would create health savings accounts (HSAs) to provide for tax-favored savings for health care expenses, allow unused contributions to flexible spending accounts (FSAs) to be carried forward or transferred into certain retirement accounts or HSAs, and waive information reporting requirements for certain health arrangements, including FSAs.

The Joint Committee on Taxation (JCT) estimates that enacting the bill would reduce total federal revenues by \$615 million in 2004, by about \$20 billion over the 2004-2008 period, and by about \$72 billion over the 2004-2013 period. A portion of the reduction would be off-budget. JCT estimates that the reduction in off-budget receipts would be \$120 million in 2004, about \$1 billion over the 2004-2008 period, and about \$4 billion over the 2004-2013 period. CBO estimates that the bill would have no effect on direct spending.

JCT has determined that the bill contains no private sector or intergovernmental 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 H.R. 2351 is shown in the following table.

	By Fiscal Year, in Millions of Dollars				
	2004	2005	2006	2007	2008
<b>CHANGES IN REVENUES</b>					
Create health savings accounts	-231	-1,785	-3,410	-4,876	-6,371
Allow certain unused health benefits to be carried forward or transferred	-361	-627	-767	-867	-919
Waive information reporting requirements for certain health arrangements	-23	-24	-24	-25	-26
<b>Total Changes</b>					
On-budget	-495	-2,224	-3,927	-5,436	-6,933
Off-budget <sup>a</sup>	<u>-120</u>	<u>-212</u>	<u>-274</u>	<u>-332</u>	<u>-383</u>
<b>Total</b>	<b>-615</b>	<b>-2,436</b>	<b>-4,201</b>	<b>-5,768</b>	<b>-7,316</b>

SOURCE: The Joint Committee on Taxation.

a. A portion of the revenue loss from each of the three provisions in the bill affects off-budget receipts. A breakdown of the on- and off-budget effects for each provision is not available.

## **BASIS OF ESTIMATE**

For the purposes of this estimate, it is assumed that H.R. 2351 would be enacted near the end of fiscal year 2003.

### **Revenues**

All revenue estimates were provided by JCT. JCT estimates that, together, the three provisions contained in the bill would reduce total federal revenues by \$615 million in 2004, by about \$20 billion over the 2004-2008 period, and by about \$72 billion over the 2004-2013 period. A portion of the reduction would be off-budget. JCT estimates that the reduction in off-budget receipts would be \$120 million in 2004, about \$1 billion over the 2004-2008 period, and about \$4 billion over the 2004-2013 period.

The largest reduction in revenues would come from the creation of health savings accounts to provide tax-favored savings for health care expenses. Under the proposal, qualified individuals and their employers would be allowed to make contributions to an employee's HSA out of income not taxed to the employer. The amounts of such contributions would be limited depending on age and whether an individual has self-only or family insurance coverage. Family members would also be allowed to contribute to an individual's HSA; however, these contributions would be made out of income subject to federal income and

payroll taxes. All contributions, regardless of source, would be counted against the individual's maximum annual contribution limit. Earnings on HSA contributions and distributions from HSAs used to pay for qualified medical expenses would not be taxed. Qualifying medical expenses would generally be those which currently qualify for the itemized deduction for medical expenses. JCT estimates that this provision would reduce governmental receipts by \$231 million in 2004, by about \$17 billion over the 2004-2008 period, and by about \$63 billion over the 2004-2013 period. A portion of this reduction would be off-budget; however, as noted in the preceding table, the breakdown is not available.

H.R. 2351 also would change rules relating to unused contributions to flexible spending accounts and cafeteria plans. Under current law, contributions to an FSA that are not used for medical expenses by the end of a plan year must be forfeited (sometimes referred to as the "use it or lose it" rule.) The bill would allow these unused contributions to be carried forward to the following year's FSA balance, transferred to an HSA, or transferred to certain types of retirement accounts. JCT estimates that making this change would reduce revenues by \$361 million in 2004, by about \$4 billion over the 2004-2008 period, and by about \$9 billion over the 2004-2013 period. A portion of those reductions would apply to off-budget receipts.

Lastly, the bill would waive certain information reporting requirements for medical care payments made under flexible spending arrangements or certain health reimbursement arrangements. JCT estimates that making this change would reduce revenues by \$23 million in 2004, by \$122 million over the 2004-2008 period, and by \$263 million over the 2004-2013 period. A portion of those reductions would also apply to off-budget receipts.

## SUMMARY OF THE EFFECTS ON REVENUES AND DIRECT SPENDING

The overall effect of H.R. 2351 on on-budget receipts over the 2003-2013 period is shown in the table below.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	0	-495	-2,224	-3,927	-5,436	-6,933	-8,055	-8,854	-9,778	-10,657	-11,137
Changes in outlays											

SOURCE: The Joint Committee on Taxation.

## **INTERGOVERNMENTAL AND PRIVATE SECTOR IMPACT**

JCT has determined that the bill contains no private-sector or intergovernmental mandates as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

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