CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

May 9, 2014

Honorable Robert P. Casey Jr.
United States Senate
Washington, DC 20510

Dear Senator:

As you requested, CBO and the staff of the Joint Committee on Taxation (JCT) have analyzed S. 313, the Achieving a Better Life Experience (ABLE) Act of 2013, as introduced in the Senate on February 13, 2013.[1] CBO estimates that enacting S. 313 would increase direct spending by $17.5 billion over the 2015-2024 period. Additionally, JCT estimates that enacting S. 313 would decrease revenues by $1.7 billion over the 2015-2024 period. In total, CBO and JCT estimate that enacting the bill would increase deficits by $19.2 billion over the next 10 years. Components of that estimate are shown in the enclosed table and discussed below.

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 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 therefore federal spending.

However, the magnitude of those budgetary effects is highly uncertain. A significant number of people could potentially qualify for and benefit from establishing an ABLE account. But the decision about whether to establish such an account would depend on a variety of factors, including awareness of ABLE accounts, family status, financial situation, and health. Compounding those

1. The text of H.R. 647, the Achieving a Better Life Experience Act of 2013, as introduced on February 13, 2013, is identical to the text of S. 313. As a result, the estimated budgetary effects described in this letter also would apply to H.R. 647.

uncertainties, the legislation leaves many critical decisions to the federal and state agencies that would implement it. Because the behavioral changes and budgetary effects that would result from enacting the legislation are so uncertain, this estimate should be viewed as falling in the middle of a wide range of possible outcomes.

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. A contributor could establish multiple accounts in different states for the same eligible beneficiary.

- An eligible beneficiary would be anyone, irrespective of age, who is blind or has impairments that result in marked and severe functional limitations—which is the Supplemental Security Income (SSI) program's eligibility standard for children.

- Qualified disability expenses would be any expenses made for the benefit of the disabled beneficiary related to education; housing; transportation; employment support; health, prevention, and wellness; miscellaneous expenses (such as financial management or legal fees); assistive technology and personal support services; 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, a 529 qualified tuition program, or a section 1917 trust 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 Spending from the Supplemental Security Income Program
CBO expects that the ABLE Act would increase SSI caseloads for two distinct groups of people:

- First are individuals whose eligibility for SSI benefits was denied or interrupted because of so-called 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 S. 313, many of those individuals could establish an ABLE account more quickly than they could spend down their 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.

- Second are 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 $3.5 billion (or less than 1 percent of benefit payments in that program) over the 2015-2024 period. CBO estimates that the average monthly SSI caseload would increase by around 45,000 (or about one-half of one percent) in 2019 and by around 140,000 (or about 2 percent) in 2024. Roughly one-third of the estimated outlay and caseload increases would be for individuals age 65 or older.

Effects on Medicaid Spending
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 the elderly and for disabled adults under the age of 65 that require individuals to meet both income and asset tests. CBO expects that enacting S. 313 would increase the number of elderly and disabled adults who enroll in Medicaid because they could hold cash assets in an ABLE account that would not count against Medicaid eligibility. (In contrast, 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 S. 313 would increase federal Medicaid spending by $8.1 billion over the 2015-2024 period. Nearly three-quarters of that amount would stem from the increase in the number of elderly beneficiaries—about 100,000 people in 2024. That change would represent an increase of about 2 percent in the number of elderly Medicaid beneficiaries in that year.

The rest of the increase in Medicaid spending would arise from the increase in the number of disabled beneficiaries. That increase would be much smaller than the increase in elderly beneficiaries because 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 the current legislation would increase the 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 30,000 in 2024, or less than one-half of one percent of the number of nonelderly disabled Medicaid beneficiaries in that year.

Effects on Spending for the Low-Income Subsidy under Medicare Part D
The Low-Income Subsidy (LIS) under Medicare's prescription drug benefit program (Medicare 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 enacting S. 313 would increase participation in the LIS program by about 3 percent in 2024 and would increase Medicare spending by $5.9 billion over the 2015-2024 period. Roughly two-thirds of the increases in outlays and the number of beneficiaries would be for individuals age 65 or older.

The estimated increase of $5.9 billion in spending for Medicare Part D comprises two pieces:

- Most LIS beneficiaries are automatically enrolled in the program because they are enrolled in Medicaid. CBO estimates that the expansion of Medicaid enrollment discussed above would result in about 100,000 Medicare beneficiaries becoming either newly eligible for LIS subsidies or eligible for more generous LIS subsidies than they will receive under current law. That increase in eligibility would raise Medicare spending by an estimated $0.8 billion over the 2015-2024 period.

- About 15 percent of LIS beneficiaries enroll in the program after applying for LIS benefits at the Social Security Administration (SSA). CBO expects that the ability to hold cash assets in an ABLE account would increase the number of individuals who enroll in the LIS program after applying at SSA by about 500,000 in 2024. That increase in enrollment would raise Medicare spending by an estimated $5 billion over the 2015-2024 period.

  The additional people who would enroll in the LIS program after applying at SSA would be in two categories:

  1. Under current law, CBO estimates that about 50,000 applications for LIS benefits will be denied each year because the applicants have so-called excess assets. CBO expects that many of those applicants will eventually become eligible for LIS benefits after spending those assets. Under S. 313, CBO estimates that, by 2024, about one-third of those applicants who have disabilities would enroll in the LIS program three years earlier than otherwise (on average) because they would place their excess assets into ABLE accounts.

  2. Under current law, CBO estimates that the number of individuals who are eligible for LIS benefits through applying at SSA but will not enroll in those benefits—often because of concern about their ability to satisfy the asset requirement—will grow from about 3 million currently to about 4 million in 2024. The number of individuals who will not be eligible for LIS benefits under current law because they have excess assets—even though they will meet the income standard for eligibility—is substantially larger. Because Medicare beneficiaries with low income who establish ABLE accounts under the bill could be confident that they would be eligible for the LIS program, CBO expects that the number of applications for LIS benefits would increase. Accordingly, CBO estimates that more than 500,000 people who will not apply for LIS benefits in 2024 under current law would receive those benefits under S. 313.

Effects on Revenues

S. 313 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 $1.7 billion over the 2015-2024 period.

Because ABLE accounts, like qualified tuition programs under section 529 of the Internal Revenue Code, could be opened in multiple states by the same individual for the same beneficiary, JCT expects that there would be effectively no limit on the amount of contributions that could be made to such accounts for each beneficiary. Indeed, the opening of multiple accounts would be more likely for ABLE accounts than for qualified tuition programs because the proceeds from ABLE accounts could be used for a much wider array of expenses that would be incurred over a much longer part of beneficiaries' lives.

JCT's estimate primarily reflects the revenue loss attributable to savings by households with qualified disabled dependents and incomes higher than $40,000. Under S. 313, 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 rollovers from qualified disability trusts.

Staff Contact
I hope this information is helpful. The CBO staff contact for this analysis is Sam Papenfuss.

Sincerely,

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Ron Wyden
Chairman, Committee on Finance

Honorable Orrin G. Hatch
Ranking Member

Honorable Richard Burr

Identical letter sent to the Honorable Ander Crenshaw.

ESTIMATED BUDGETARY EFFECTS OF S. 313 AS INTRODUCED ON FEBRUARY 13, 2013

	By Fiscal Year, in Billions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
CHANGES IN DIRECT SPENDING												
Supplemental Security Income												
Estimated Budget Authority	*	*	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.6	3.5
Estimated Outlays	*	*	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.6	3.5
Medicaid												
Estimated Budget Authority	*	0.1	0.2	0.4	0.5	0.8	1.0	1.3	1.7	2.1	1.2	8.1
Estimated Outlays	*	0.1	0.2	0.4	0.5	0.8	1.0	1.3	1.7	2.1	1.2	8.1
Medicare												
Estimated Budget Authority	*	0.1	0.2	0.3	0.4	0.6	0.7	0.9	1.2	1.4	1.1	5.9
Estimated Outlays	*	0.1	0.2	0.3	0.4	0.6	0.7	0.9	1.2	1.4	1.1	5.9
Total Changes in Direct Spending												
Estimated Budget Authority	0.1	0.2	0.5	0.8	1.2	1.7	2.2	2.9	3.6	4.3	2.9	17.5
Estimated Outlays	0.1	0.2	0.5	0.8	1.2	1.7	2.2	2.9	3.6	4.3	2.9	17.5
CHANGES IN REVENUES												
Total Changes in Revenues	*	*	*	*	-0.1	-0.2	-0.2	-0.3	-0.4	-0.5	-0.2	-1.7
NET INCREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Total Changes	0.1	0.2	0.5	0.9	1.3	1.8	2.4	3.2	4.0	4.7	3.1	19.2

SOURCES: Congressional Budget Office and the staff of the Joint Committee on Taxation.

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

Estimates are relative to CBO's April 2014 baseline.

* = between -$50 million and $50 million.