Congressional Budget Office
Cost Estimate

November 15, 2023

At a Glance

H.R. 5688, Bipartisan HSA Improvement Act of 2023

As ordered reported by the House Committee on Ways and Means on September 28, 2023

By Fiscal Year, Billions of Dollars	2024	2024-2028	2024-2033
Direct Spending (Outlays)	0	0	0
Revenues	0	-3.3	-12.9
Increase in the Deficit	0	3.3	12.9
Spending Subject to Appropriation (Outlays)	0	*	0

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	No	Statutory pay-as-you-go procedures apply?	Yes
		Mandate Effects	
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	> $5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

* = between zero and $500,000.

The bill would

- Expand eligibility for health savings accounts (HSAs)
- Allow distributions in certain circumstances from health flexible spending arrangements or health reimbursement arrangements into HSAs

Estimated budgetary effects would mainly stem from

- Reduced collections of individual income taxes because of contributions made by newly eligible HSA participants
- Reduced collections of income and employment taxes because of exclusions for employer contributions to employees' HSAs

Areas of significant uncertainty include

- Anticipating the number of people who would contribute to HSAs and projecting the amounts distributed from various arrangements into HSAs

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) will be the official estimates for all tax legislation considered by the Congress. As such, CBO incorporates those estimates into its cost estimates of the effects of legislation. All of the estimates for the revenue provisions of H.R. 5688 were provided by JCT.

Detailed estimate begins on the next page.

See also
CBO's Cost Estimates Explained, *CBO Describes Its Cost-Estimating Process*, *Glossary*

Bill Summary

H.R. 5688 would amend the Internal Revenue Code to expand eligibility for health savings accounts (HSAs) and, in certain circumstances, allow distributions from health flexible spending arrangements (FSAs) and health reimbursement arrangements (HRAs) into HSAs. The bill's provisions would affect tax years beginning after December 31, 2025.

Estimated Federal Cost

The estimated budgetary effect of H.R. 5688 is shown in Table 1. The costs of the legislation fall within budget function 800 (general government).

Table 1.
Estimated Budgetary Effects of H.R. 5688

	By Fiscal Year, Billions of Dollars											
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2024-2028	2024-2033
	Decreases in Revenues											
Estimated Revenues	0	0	-0.6	-1.2	-1.5	-1.7	-1.8	-1.9	-2.0	-2.2	-3.3	-12.9
On-Budget	*0*	*0*	*-0.5*	*-0.9*	*-1.1*	*-1.2*	*-1.3*	*-1.4*	*-1.5*	*-1.6*	*-2.4*	*-9.5*
Off-Budget	*0*	*0*	*-0.2*	*-0.3*	*-0.4*	*-0.4*	*-0.5*	*-0.5*	*-0.5*	*-0.6*	*-0.9*	*-3.4*

Source: Staff of the Joint Committee on Taxation.

Enacting the bill would increase spending subject to appropriation by less than $500,000 in every year and over the 2024-2028 period. Any spending would be subject to the availability of appropriated funds.

Components may not sum to totals because of rounding.

Basis of Estimate

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. JCT provided the revenue estimates presented here for H.R. 5688.[1]

For this estimate, CBO and JCT assume that the bill will be enacted in fiscal year 2024 and that its provisions will affect tax years beginning in 2026.

Revenues

H.R. 5688 would modify HSAs, tax-favored savings accounts used to cover medical expenses for people enrolled in a high-deductible health plan (HDHP), a type of health

1. See Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 5688, the "Bipartisan HSA Improvement Act of 2023,"* JCX-40-23 (September 26, 2023), www.jct.gov/publications/2023/jcx-40-23. For more about the provisions, see Joint Committee on Taxation, *Description of H.R. 5688, the "Bipartisan HSA Improvement Act of 2023,"* JCX-39-23 (September 26, 2023), www.jct.gov/publications/2023/jcx-39-23

insurance plan with large deductibles and low monthly premiums. Contributions to HSAs are deductible from individual income taxes, and contributions on behalf of employees are excludable both from individual income taxes and from employment taxes. H.R. 5688 would reduce revenues from income tax and payroll tax receipts by increasing tax-exempt contributions to HSAs.

Sections 2, 3, and 4 would expand eligibility for HSAs. Under current law, people who are in an HDHP and also have additional coverage are not generally eligible to contribute to an HSA. H.R. 5688 would expand eligibility to people with certain types of additional coverage, such as an arrangement with a practitioner to provide primary care services for a fixed periodic fee (called a direct primary care service arrangement), access through an employer to primary care services at an on-site or retail clinic, or access to a spouse's FSA. The bill also would treat fees for direct primary care service arrangements as medical expenses, allowing participants to pay for the service from an HSA.

Section 5 would allow rollovers from a health FSA or HRA directly into an HSA if coverage is established under an HDHP when an enrollee has been without such coverage for a four-year period. The section sets the allowable amount of such qualified HSA distributions up to the total annual limit on FSA contributions ($3,050 in 2023, or twice that amount in the case of an eligible person who has family coverage under an HDHP). Such rollovers would reduce the amount allowable for tax-deductible contributions to an HSA during a given year.

JCT estimates that enacting the bill would decrease revenues by $12.9 billion over the 2024-2033 period. That change includes a reduction of $3.4 billion in off-budget revenues (from Social Security payroll taxes).

Spending Subject to Appropriation

CBO estimates that implementing H.R. 5688 would increase the Internal Revenue Service's administrative costs by less than $500,000 over the 2024-2028 period. That spending would be subject to the availability of appropriated funds.

Uncertainty

JCT's estimates of the budgetary effects of H.R. 5688 are uncertain because they are made on the basis of underlying projections and other factors that could change significantly. In particular, the estimates rely in part on CBO's economic projections for the next decade under current law and on expectations of the way taxpayers might respond to changes in tax law. In this case, the uncertainty involves how many people would contribute to an HSA and the amount of distributions from various arrangements into HSAs.

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. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures. The net changes in revenues that are subject to those procedures are shown in Table 2.

Table 2.
CBO's Estimate of the Statutory Pay-As-You-Go Effects of H.R. 5688, the Bipartisan HSA Improvement Act of 2023, as Ordered Reported by the House Committee on Ways and Means on September 28, 2023

	By Fiscal Year, Billions of Dollars											
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2024-2028	2024-2033
	Net Increase in the On-Budget Deficit											
Pay-As-You-Go Effect	0	0	0.5	0.9	1.1	1.2	1.3	1.4	1.5	1.6	2.4	9.5

Increase in Long-Term Net Direct Spending and Deficits

JCT estimates that enacting H.R. 5688 would not increase net direct spending in any of the four consecutive 10-year periods beginning in 2034.

JCT estimates that enacting H.R. 5688 would increase on-budget deficits by more than $5 billion in at least one of the four consecutive 10-year periods beginning in 2034.

Mandates

JCT has determined that H.R. 5688 would not impose intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

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