CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 21, 2018

H.R. 6757
Family Savings Act of 2018

As ordered reported by the House Committee on Ways and Means on September 13, 2018

SUMMARY

H.R. 6757, the Family Savings Act of 2018, would amend the tax code to modify requirements for tax-favored savings accounts and employer-provided retirement plans. The largest provisions include changes to the rules governing multiple and pooled employer retirement plans, the creation of new tax-preferred "Universal Savings Accounts," to which an individual would be able to contribute up to $2,500 each year, and an exemption from required minimum distribution rules for individuals with account balances below certain amounts.

The staff of the Joint Committee on Taxation (JCT) estimates that enacting the bill would reduce revenues by $21.0 billion over the 2019-2028 period. The change in revenues includes a reduction of about $0.3 billion over the 2019-2028 period that would result from changes in off-budget revenues (from Social Security payroll taxes). CBO estimates that enacting H.R. 6757 would increase direct spending by $2 million over the 2019-2020 period for a study for the Pension Benefit Guarantee Corporation (PBGC). Pay-as-you-go procedures apply because enacting the legislation would affect revenues and direct spending.

CBO and JCT estimate that enacting H.R. 6757 would increase on-budget deficits by more than $5 billion in at least one of the four 10-year periods beginning in 2029. CBO and JCT estimate that enacting the bill would not increase net direct spending in any of the four consecutive 10-year periods beginning in 2029.

CBO and JCT have determined that H.R. 6757 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 6757 is shown in the following table. The costs of the legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES OR DECREASES (-) IN REVENUES													
Title I. Expanding and Preserving Retirement Savings	0	-28	-433	-590	-745	-962	-1,100	-1,238	-1,591	-1,675	-1,733	-2,758	-10,099
Title II. Administrative Improvements	0	*	-9	-10	-10	-11	-12	-13	-14	-15	-16	-40	-111
Title III. Other Savings Provisions	0	13	-185	-605	-822	-1,073	-1,319	-1,583	-1,646	-1,723	-1,816	-2,673	-10,760
Total Estimated Changes in Revenues	**0**	**-15**	**-627**	**-1,205**	**-1,577**	**-2,046**	**-2,431**	**-2,834**	**-3,251**	**-3,413**	**-3,565**	**-5,471**	**-20,970**
On-Budget	0	-13	-624	-1,195	-1,557	-2,015	-2,390	-2,782	-3,189	-3,351	-3,502	-5,405	-20,624
Off-Budget[a]	0	-2	-3	-10	-20	-31	-41	-52	-62	-62	-63	-66	-346
INCREASES IN DIRECT SPENDING													
Estimated Budget Authority	0	2	0	0	0	0	0	0	0	0	0	2	2
Estimated Outlays	0	1	1	0	0	0	0	0	0	0	0	2	2
NET INCREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES													
Effect on Deficit	**0**	**16**	**628**	**1,205**	**1,577**	**2,046**	**2,431**	**2,834**	**3,251**	**3,413**	**3,565**	**5,473**	**20,972**
On-Budget Deficit	0	14	625	1,195	1,557	2,015	2,390	2,782	3,189	3,351	3,502	5,407	20,626
Off-Budget Deficit	0	2	3	10	20	31	41	52	62	62	63	66	346

Source: Staff of the Joint Committee on Taxation and CBO.

Components may not add to totals due to rounding; * = between -$500,000 and $500,000.

a. Off-budget revenues result from changes in Social Security payroll tax receipts.

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 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. Nearly all of the estimates for the provisions of H.R. 6757 were provided by JCT.[1] The date of enactment is generally assumed to be October 1, 2018.

Revenues

Expanding and Preserving Retirement Savings. H.R. 6757 would make a number of changes to tax law relating to the treatment of retirement plans. JCT estimates that those changes would reduce revenues by $10.1 billion over the 2019 to 2028 period. One of the provisions in this section would affect off-budget revenues, reducing them by $0.3 billion, JCT estimates. The largest provisions in this section are the following, which would take effect in 2019 unless otherwise noted:

- **Exempt Individuals with Certain Account Balances from Required Minimum Distribution Rules.** After reaching 70 years and 6 months, individuals with employer-provided qualified retirement plans, traditional individual retirement accounts (IRAs), or individual retirement annuities must begin withdrawing a given amount each year – the required minimum distribution. H.R. 6757 would exempt individuals with less than $50,000 across all eligible retirement plans (other than defined benefit plans) from required minimum distribution rules. This would apply to required distributions made during the calendar year beginning at least 120 days after enactment. JCT estimates that the changes in this provision would reduce revenues by $6.2 billion from 2019 to 2028.

- **Modify Requirements for Multiple Employer Plans and Pooled Employer Plans**. Under current law, employers may join together to maintain a qualified retirement plan if they share a nexus (e.g. a common industry) outside of the retirement benefit they jointly provide. Additionally, if one participating employer in a multiple employer plan violates a requirement, the entire plan can be disqualified (the "bad apple rule"). H.R. 6757 would allow multiple employers without a nexus to jointly maintain a qualified retirement plan, called a "pooled provider plan," and allow both multiple employer plans and pooled provider plans to maintain their qualified status as a whole if one employer in the group fails to satisfy qualification requirements. This provision would take effect in 2020, and JCT estimates that the changes in this provision would reduce revenues by $3.7 billion from 2019 to 2028.

1. For JCT's description of the bill and estimates of the provisions, which include detail beyond the summary presented below, see Joint Committee on Taxation, Description Of H.R. 6757, the "Family Savings Act Of 2018," JCX-73-18, https://www.jct.gov/publications.html?func=startdown&id=5138, and Estimated Revenue Effects of H.R. 6757, the "Family Savings Act Of 2018," JCX-75-18, https://www.jct.gov/publications.html?func=startdown&id=5141.

- **Repeal Maximum Age for Traditional IRA Contributions.** H.R. 6757 would repeal the maximum age for contributions to a traditional IRA, which is currently 70 years and 6 months. JCT estimates that this change would reduce revenues by $0.1 billion from 2019 to 2028.

- **Allow a Separate Limit Elective Deferrals by Members of the Ready Reserve of a Reserve Component of the Armed Forces.** Under current law, an employer-provided retirement plan may allow an employee to choose between receiving cash compensation or an employer contribution to their retirement plan, called an elective deferral. An individual is subject to an overall limit on elective deferrals, across all of their eligible employer retirement plans. H.R. 6757 would allow members of the Ready Reserve a separate limit on deferrals to the Thrift Savings Plan associated with their reserve service, rather than apply the aggregate limit on deferrals to all their qualified retirement plans. JCT estimates that this provision would reduce revenues by $0.1 billion from 2019 to 2028.

Administrative Improvements. H.R. 6757 would make several administrative changes, including permitting businesses that adopt a retirement plan before the due date of their tax return to treat the plan as adopted as of the last day of the tax year. JCT estimates that this provision would reduce revenues by $0.1 billion over the 2019 to 2028 period.

Other Savings Provisions. H.R. 6757 includes other savings provisions, which JCT estimates would reduce revenues by $10.8 billion over the 2019 to 2028 period. One of the provisions in this section would affect off-budget revenues, reducing them by $0.1 billion, JCT estimates. The provisions in this section, which would all take effect in 2019, are the following:

- **Create Universal Savings Accounts.** H.R. 6757 would allow the creation of "Universal Savings Accounts," to which an individual could contribute $2,500 after-tax each year, and withdraw from tax-free for any purpose. JCT estimates that this provision would reduce revenues by $8.6 billion from 2019 to 2028.

- **Expand Allowable Uses of Section 529 Plans.** Under current law, income earned on amounts in college savings plans authorized under section 529 of the Internal Revenue Code accumulates on a tax-free basis, and the distribution of such income is not included in the taxable income of the recipient if used to pay for certain higher education expenses. H.R. 6757 would allow tax-free distributions from 529 plans to also cover expenses from apprenticeship programs, homeschooling, elementary or secondary school tutoring or supplies, or payments on a qualified education loan. JCT estimates that the changes in this provision would reduce revenues by $0.3 billion from 2019 to 2028.

- **Allow Penalty-Free Retirement Distributions for New Births and Adoptions**. Distributions from qualified retirement plans before the age of 59 years and 6 months generally face a 10-percent early withdrawal tax. H.R. 6757 would exempt distributions of up to $7,500 from the 10% penalty in the case of a birth or adoption. JCT estimates that the changes in this provision would reduce revenues by $1.9 billion from 2019 to 2028.

Direct Spending

The bill would require PBGC to contract with an appropriate agency or organization to conduct an independent study related to PBGC's single-employer pension program. Based on the cost of similar studies, CBO estimates that implementing that provision would increase direct spending by $2 million over the 2019-2028 period.

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. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures. Enacting the bill also would reduce off-budget revenues by $346 million over the 2019-2028 period.

CBO Estimate of Pay-As-You-Go Effects for H.R. 6757, as ordered reported by the House Committee on Ways and Means on September 13, 2018.

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
NET INCREASE IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Effects	0	14	625	1,195	1,557	2,015	2,390	2,782	3,189	3,351	3,502	5,407	20,626
Memorandum:[a]													
Changes in Outlays	0	1	1	0	0	0	0	0	0	0	0	2	2
Change in On-Budget Revenues	0	-13	-624	-1,195	-1,557	-2,015	-2,390	-2,782	-3,189	-3,351	-3,502	-5,405	-20,624

Source: Staff of the Joint Committee on Taxation and CBO.

Components do not add to totals due to rounding.

a. A positive sign for outlays indicates an increase in outlays. A negative sign for revenues indicates a reduction in revenues.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO and JCT estimate that enacting H.R. 6757 would increase on-budget deficits by more than $5 billion in at least one of the four 10-year periods beginning in 2029. CBO and JCT estimate that enacting the bill would not increase net direct spending in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

CBO and JCT have determined that H.R. 6757 contains no private-sector or intergovernmental mandates as defined by UMRA.

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