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CBO'S USE OF CASH AND ACCRUAL ACCOUNTING

July 2025

The Congressional Budget Office (CBO) uses two different accounting methods when estimating the cost of legislation: cash accounting and accrual accounting. This brief analysis describes the differences between the two accounting methods and discusses proposals to expand accrual accounting.

Cash v. Accrual Accounting

For nearly all federal spending programs, CBO uses cash-basis accounting. Under this approach, cost estimates reflect only the funds flowing in and out of the Treasury during the first ten years after a bill is enacted. This ten-year period, known as the budget window, is required by congressional rules.[1] Cash accounting streamlines the estimating process, and it works well for most types of federal spending.

Cash accounting falls short, however, for federal programs where significant costs or savings are realized outside the ten-year budget window. An example is federal credit programs, like direct loan programs and loan guarantees, where financial effects unfold over much longer periods, and the annual cash flows of the loan programs do not reflect their true costs. To better capture those long-term effects, CBO uses a form of accrual accounting, as required by the Federal Credit Reform Act of 1990. Under this approach, CBO records the net present value, or lifetime cost, of a loan or guarantee in the year it is made, rather than spreading the cost over time. This lifetime cost is what the government pays minus what it gets back, adjusted for the fact that money today is worth more than money tomorrow.[2] This adjustment, known as discounted cash flow analysis, is commonly used in the private sector to evaluate long-term investments. Accrual accounting for these programs gives policymakers a clearer picture of a loan program's full cost at the time legislation is considered.

Proposals for Expanding Accrual Accounting

Some analysts have proposed allowing CBO to use accrual accounting to score health care policies with strong evidence of long-term fiscal effects. This change could encourage investment in policies that generate short-term costs and long-term savings and discourage policies that create short-term savings but impose higher long-term costs.

For example, under the current cash-accounting scoring rules, CBO estimates it would cost $6.1 billion over a decade to guarantee children three years of continuous Medicaid eligibility,

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[1] *See* Bill Heniff Jr., Cong. Research Serv., R41510, *House Rule XXI, Clause 10: The CUTGO Rule* (May 9, 2023), https://www.congress.gov/crs_external_products/R/PDF/R41510/R41510.5.pdf; Bill Heniff Jr., Cong. Research Serv., RL31943, *Budget Enforcement Procedures: The Senate Pay-As-You-Go (PAYGO) Rule* (Jan. 9, 2023), https://www.congress.gov/crs_external_products/RL/PDF/RL31943/RL31943.19.pdf;

[2] Cong. Budget Off., *How CBO Uses Discount Rates to Estimate the Present Value of Future Costs or Savings* (Oct. 2024), https://www.cbo.gov/system/files/2024-10/60284-Discount-Rates.pdf.

regardless of changes in family income.[3] But using an accrual approach, CBO projects that the policy would generate up to $5.2 billion in long-term savings by improving children's health, increasing their lifetime earnings, and boosting future tax contributions—offsetting most of the upfront cost.[4]

CBO did not use accrual accounting when scoring the 2025 budget reconciliation legislation (H.R. 1), but if it had, the estimated savings from provisions cutting children's Medicaid coverage might have been significantly lower.[5] For instance, the law blocks a federal rule that streamlines Medicaid coverage renewals, resulting in coverage losses over the first five years equivalent to 130,000 children losing Medicaid for one year.[6] CBO has previously found that when a child loses Medicaid for one year, the government may save $1,700 in the short term—but incur up to $4,600 in long-term costs due to poorer health outcomes, lower future earnings, and increased reliance on public programs.[7] On a cash basis, the coverage losses in that single year would generate $221 million in savings. But under an accrual approach that accounts for long-term impacts, the same policy would result in a net cost of roughly $377 million—highlighting the risk of short-term savings that ultimately cost more in the long run.[8]

Proposals for Revising Cash Accounting

In 2024, H.R. 766, the Dr. Michael C. Burgess Preventive Health Savings Act, passed the House by voice vote and had bipartisan cosponsors in the Senate. The bill would allow the budget committees to request that CBO estimate savings from preventive health measures over a 30-year period.

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[3] Cong. Budget Off., *Extending Medicaid and CHIP Coverage for Children: Long-Run Budgetary Effects of the President's 2025 Budget Proposal*, at 5 (Dec. 11, 2024), https://www.cbo.gov/system/files/2024-12/60666-Medicaid-CHIP.pdf.

[4] *Id.*

[5] Cong. Budget Off., *Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act, Relative to CBO's January 2025 Baseline* (June 29, 2025), https://www.cbo.gov/system/files/2025-06/61534-hr0001-Sen-2025Recon-CLB.xlsx.

[6] An Act To Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, § 71102, Pub. L. No. 119-2 (2025), https://www.congress.gov/119/bills/hr1/BILLS-119hr1eas.pdf (repealing rule streamlining Medicaid coverage renewals); Medicaid Program; Streamlining the Medicaid, Children's Health Insurance Program, and Basic Health Program Application, Eligibility Determination, Enrollment, and Renewal Processes, 89 Fed. Reg. 22,780, 22,862 (Apr. 2, 2024), https://www.govinfo.gov/content/pkg/FR-2024-04-02/pdf/2024-06566.pdf (estimating that streamlined Medicaid coverage renewals will increase enrollment by about 130,000 child-year equivalents over the first five years).

[7] Elizabeth Ash et al., *Exploring the Effects of Medicaid During Childhood on the Economy and the Budget*, Working Paper 2023-07, Cong. Budget Off. 13 (Nov. 2023), https://www.cbo.gov/system/files/2023-10/59231-Medicaid.pdf.

[8] This estimate assumes 130,000 child-year coverage losses. On a cash basis, each coverage loss saves the government approximately $1,700, for total savings of $221 million (130,000 × $1,700). However, long-term costs per child are estimated at $4,600, resulting in $598 million in future costs (130,000 × $4,600). The net fiscal impact under an accrual approach is therefore a cost of $377 million ($598 million – $221 million).

The legislation had a similar aim as accrual accounting because it would account for budgetary effects occurring outside the 10-year budget window. But it differed from accrual accounting in three key ways. First, long-term savings would not count under PAYGO rules; lawmakers would still need to offset a bill's full upfront cost. Second, it applied only to potential savings from expanding preventive care—not to long-term costs from cutting it. Third, it retains cash accounting: only effects that fall within the 30-year window are counted. For example, if vaccine costs occur in year 29 but avoided hospitalizations happen in year 31, only the former would be scored. This reflects a broader limitation of cash accounting, which ignores the time value of money and may understate long-term effects.[9]

[9] *See* H.R. 766, 118th Cong. (2023), https://www.congress.gov/bill/118th-congress/house-bill/766.