



COALITION ON HUMAN NEEDS

The Taint of the Union 2006

The Favored Few Gain
at the Expense of the Forgotten Fourth

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January 27, 2006

The Coalition on Human Needs is an independent alliance of faith-based organizations, service providers, policy experts, and other advocates concerned about federal responses to the needs of low-income and vulnerable people.

We wish to thank the Annie E. Casey Foundation, George Gund Foundation, and Rockefeller Foundation for their generous support.

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Introduction

More than one in four American families with children has an annual income below \$30,000.

That's nearly 10.7 million families.

These families are the forgotten fourth of a nation. It is not easy for them to make ends meet. It takes an income of nearly \$33,000 to afford the rent and utilities for an average two-bedroom apartment. Families who earn less pay on average more than 30 percent of their income for shelter – in many cases, quite a lot more.¹ That does not leave much for food, medical coverage, child care, transportation, or other basic expenses.

As the President addresses the nation about the state of the union, he is likely to point to improvements in the economy. But these improvements have not reached many millions of Americans, and the latest economic news is not encouraging. The average wage of non-managerial workers has lost value over the past two years, taking inflation into account. (The average wage was \$16.34 an hour in December 2005.)² Since 2003, only the top 5 percent of wage-earners have gained ground. After inflation, median earners lost 0.7 percent from 2003 to 2005. The lowest wage-earners lost the most – 0.9 percent.³

The *real* state of the union is that millions of Americans are finding it a struggle to provide the necessities for their families. The taint of the union is that Congress and the Bush Administration are choosing to lavish tax breaks and sweet deals on wealthy and corporate special interests, with most other Americans paying the price, now or in the future.

The price is particularly steep for the forgotten fourth. Their wages are shrinking; health insurance and pensions are increasingly out of reach. Instead of helping, Congress is poised to make health care and college more expensive, to collect less child support, and provide less child care. Struggling families, people with disabilities, abused and neglected children and the relatives who've taken on their care – all are being asked to make sacrifices, so the favored few can get richer.

Some of the forgotten fourth are not poor by the official definition, (\$19,307 or less for a family of four in 2004), although their basic costs are starting to outstrip their earnings. But increasing numbers of people *are* living in poverty – since 2000, the number of impoverished people has

¹ National Low Income Housing Coalition, <http://www.nlihc.org/oor2005/>

² Economic Policy Institute, http://www.epi.org/content.cfm/webfeat_econindicators_wages_20060118

³ Economic Policy Institute, http://www.epi.org/content.cfm/webfeatures_snapshots_20060111

risen by 5.4 million, to nearly 37 million in 2004. The number of children in poverty has risen by 1.4 million in that same period; in 2004, more than 13 million children were poor.⁴

Does this matter? Yes – if we care about our nation’s capacity to raise healthy children prepared for the increasingly technological demands of our economy. As more families find themselves on the wrong side of America’s economic divide, they will be unable to afford the \$4,000 to \$10,000 a year for the best early childhood education to prepare their children for their start in school. They will not be able to afford housing in communities with good schools. Saving for their children’s college will slip down the priority list as parents struggle to pay each month’s bills.

If the President points to the 13.5 percent growth in productivity from 2001 to 2005, it is reasonable to ask why so many workers, and especially those with the lowest earnings, have so little to show for it.

The following pages document the conditions of vulnerable Americans: low-income families, children, people with disabilities, students, senior citizens, and a sad new category – disaster survivors. This report also looks at federal failures to provide help when it is needed, as in the woefully inadequate responses to the hurricanes and the implementation demands of the new Medicare prescription drug law. More positively, the report describes the Administration’s successes in getting food stamps to those in need.

Overall, this report shows that the federal government did little to improve the lives of the Americans most in need – and in fact plans to make things worse for them by reducing their access to affordable health care, child care, student loans, child support, foster care assistance, and work preparation services. These plans will take effect if Congress finally enacts service cuts through a budget reconciliation bill headed to the House floor February 1. These cuts are in addition to reductions already made in child care, job training, youth services, and public health services. The Administration made things worse by arbitrarily and probably lawlessly freezing IRS refund checks for thousands of low-income Americans. It certainly made things worse by the woeful inadequacies of most of the hurricane relief effort, and has aroused bipartisan dismay over the implementation of the Medicare prescription drug plan. And every year Congress fails to raise the minimum wage, its protections for workers erode.

Finally, this assessment of the taint of the union notes that when Congress uses the federal budget to kick people when they’re down, it is because the well-heeled and well-connected special interests have the clout to get tax breaks and other deals that enrich them at the expense of everyone else. Banks, drug companies, health maintenance organizations, and people in the upper-income brackets are the favored few; all too often the needs of families without much money are forgotten.

Note: state fact sheets are available that provide state-specific information about the impact of some of the cuts described in the pages that follow. They can be found on the CHN website, at <http://www.chn.org/issues/opportunityforall/statefactsheets.html>.

⁴ Census Bureau Historical Poverty Tables, Current Population Survey, Table 2, <http://www.census.gov/hhes/www/poverty/histpov/hstpov2.html>, and Table 3, <http://www.census.gov/hhes/www/poverty/histpov/hstpov3.html>

What's more important?

Preventing cuts in medical coverage and increased costs to poor and near-poor families, children, and the elderly = **\$27 billion over 10 years**

Or

Making excessive federal payments to HMO's in the Medicare system \$22 billion over 10 years

Providing excessive profits to drug Companies participating in Medicaid +
= \$ 9.8 billion over 10 years
\$31.8 billion over 10 years

What's more important?

Child care and welfare to work services \$8.4 billion over 5 years

Avoiding higher interest costs for student loans +
= \$12.7 billion over 5 years
\$21.1 billion over 5 years

Or

Extending the capital gains and stock dividends tax breaks, more than half of which goes to millionaires = **\$21 billion over 5 years**

What's more important?

Collecting \$8.4 billion over 10 years in child support payments to families \$4.9 billion over 10 years

avoiding cuts in foster care aid to relative caregivers +
\$1.3 billion over 10 years

preventing cuts in medical care and increased costs to low-income people +
= \$27.0 billion over 10 years
\$33.2 billion over 10 years

Or

More tax deductions and exemptions for upper-income people (with 53% going to millionaires) = **\$150 billion over 10 years**

With *much* left over for deficit reduction, expanding health coverage, providing Head Start for every eligible child, expanding child care aid, investing in education...

Facts About the Forgotten Fourth

More than one-quarter of families with children – 27 percent – have incomes of less than \$30,000 a year. Racial disparities persist: 46 percent of African American families with children and 44 percent of Hispanic families have incomes below \$30,000, while 24 percent of white families have incomes this low.

Losing Ground: Their annual income bought less in 2005 than it did in 2003, taking inflation into account. The lowest-wage workers (in the bottom 20 percent) lost the most – 0.9 percent from 2003 to 2005. A worker earning a typical wage (the median) lost slightly less – 0.7 percent. (*EPI*, http://www.epi.org/content.cfm/webfeatures_snapshots_20060111.)

High Rent and Utilities: It now takes an hourly full-time wage of \$15.78 to keep rent and utilities at an affordable level (not more than 30 percent of a family's income). The earnings needed to keep housing affordable rose from \$15.37 an hour in 2004, according to the National Low Income Housing Coalition. (*National Low Income Housing Coalition*, <http://www.nlihc.org/oor2005/>.) Some of the rise is attributed to the steep increase in energy costs, which rose 17.1 percent from 2004 to 2005, the biggest jump since 1990. Home energy costs really skyrocketed in 2005, with natural gas up 30.2 percent and home heating oil up 27.2 percent. (*U.S. Bureau of Labor Statistics*, <http://www.bls.gov/news.release/pdf/cpi.pdf>.)

Losing Health Coverage and Paying More: Between 2002 and 2004 there were an additional 326,000 households earning less than \$25,000 without health insurance, and 146,000 more uninsured households with incomes between \$25,000 and \$49,999 over the same period. Nearly one-quarter of those with incomes below \$25,000 are uninsured. Unsurprisingly, households with higher income are most likely to have health insurance – only 8.4 percent of households with \$75,000 or more in income lacked health insurance. In all, nearly 46 million Americans were uninsured in 2004, a record high. (*Current Population Survey*, *U.S. Census Bureau*, <http://www.census.gov/hhes/www/hlthins/hlthin04.html>.) Families and young singles spent 43 – 45 percent more on health care from 2000 to 2003. (*Economic Policy Institute*, <http://www.epi.org/content.cfm/pm110>.)

Rising Poverty: Poverty has been increasing since 2000. In 2004, the most recent data available, there were 37 million people living in poverty, or 12.7 percent of all Americans. (In that year, the Census Bureau defined poverty as an income below \$15,067 for a three-person family, or \$19,307 for a family of four.) Poverty among children is also rising, to 17.8 percent of all children, or more than 13 million.

Poverty has been Climbing Since 2000

(numbers in millions)

	2004 Number	2004 Percent	2000 Number	2000 Percent	Number Increased
All People	36.997	12.7	31.581	11.3	+ 5.416
Blacks	9.393	24.7	7.982	22.5	+ 1.411
Hispanics	9.132	21.7	7.747	21.5	+ 1.385
Whites (not Hispanic)	16.870	8.6	14.366	7.4	+ 2.504
Children	13.027	17.8	11.587	16.2	+ 1.440

Source: U.S. Current Population Survey, Census Bureau, <http://www.census.gov/hhes/www/poverty/histpov/perindex.html>

Poverty is not only more widespread; it is also deeper. The percentage of people living below *half* the federal poverty line grew from 4.5 percent in 2000 to 5.4 percent in 2004. (In 2004, a family of three living in such deep poverty would have an income of less than \$7,534; or below \$9,654 for a four-person family.) Specifically, the proportion of people over 65 in deep poverty grew from 2.3 percent to 2.6 percent, and the proportion of children below half the poverty line grew from 6.4 percent to 7.6 percent – an increase of nearly one million children.

More Unable to Afford Adequate Food: In 2004, nearly 13.5 million Americans did not always have access to enough food for an active, healthy life (11.9 percent of all Americans). Of that group, nearly 4.5 million experienced outright hunger. The numbers of the food insecure have risen alarmingly since 2000 – up almost 2.4 million people. The number suffering from hunger has also risen – by 1.1 million since 2000. (*U.S. Department of Agriculture*, <http://www.ers.usda.gov/Publications/err11/>)

Millions Struck by Disaster: Hurricanes Katrina, Rita, and Wilma wrought devastation to parts of Louisiana, Mississippi, Alabama, Texas, and Florida. The Brookings Institution's Katrina Index regularly measures economic indicators in the areas affected by that storm. The January 4, 2006 installment finds serious indications of worsening conditions. In December of 2005, 12.4 percent of all Katrina evacuees were unemployed, according to the U.S. Bureau of Labor Statistics. Of all the 1.1 million people who had to leave their homes after the hurricane, the unemployment rate was far higher for those who were still unable to return home in December (20.7 percent, compared with 5.6 percent for those who had returned home). (Bureau of Labor Statistics, <http://www.bls.gov/opub/ted/2006/jan/wk2/art02.htm>.) Personal income in Louisiana dropped fully 25 percent between the second and third quarters of 2005; and mortgage delinquencies surged during the same period. (*Brookings Institution*, www.brookings.edu/metro/pubs/200601_KatrinaIndex.pdf.) At the peak, evacuees used 85,000 hotel or motel rooms. By January 23, there were still 27,000 hotel rooms in use. (Federal Emergency Management Agency, <http://www.fema.gov/news/newsrelease.fema?id=22739>.)

Millions of Americans are not sharing in the economic recovery.

What is the federal government doing about it?

Far too often, it is making things worse, either by letting inflation erode funding for important services like child care, by outright cuts, or by willfully or incompetently failing to provide services.

What government steps would help low-income and vulnerable people to do better? Raising the minimum wage would help. Recognizing that large numbers of families and individuals have inadequate earnings, government should help wage-earners get training and education so they can compete for higher-paying jobs. Government should assist families with a set of work supports – child care, enforcement of child support orders, access to health insurance and transportation, for example. Government should make sure that people with modest incomes receive the health coverage they need if it is not available through an employer. At a minimum, government should protect people from calamities over which they have little or no control – large-scale disasters like the hurricanes, accident or sickness, and abuse or neglect.

Over and over, the Bush Administration and Congress have rejected help for millions of Americans in favor of largesse for the favored few.

Budget Cuts, Special Deals, and Tax Breaks

Cuts Now Headed for a House Vote February 1

Less Health Care for Low-Income People, to Protect Special Interests

The conference agreement for the budget reconciliation bill worked out between the House and Senate chooses to squeeze \$27 billion over ten years from Medicaid recipients by increasing their co-payments and premiums, reducing health care benefits, and penalizing seniors who made perfectly innocent asset transfers years before they had any idea they would need help paying for long-term care. As a result, people just above the poverty line who currently pay no more than \$3 in co-payments for a particular service could now pay up to 10 percent of the cost for each service. Near poor children and adults can also be charged premiums. The legislation limits charges to 5 percent of income in some cases, but an apparent drafting error left out the 5 percent limit for many poor beneficiaries. Nearly all the 28 million children who now benefit from Medicaid may lose services and/or pay more than they can afford. Comprehensive care that now effectively prevents and treats child health problems would no longer be assured, even for the poorest children, and many deserving elderly who have no options other than nursing home care will not be able to afford it.

An insidious cut would require all new and renewing Medicaid applicants to provide a birth certificate or passport to document their citizenship. Many of the poorest citizens do not have such documents. One in five African Americans 60 years or older does not have a birth certificate; disaster survivors would also lack important documents.

Congress could instead have chosen to save \$26 billion over 10 years by lowering payments to health maintenance organizations with Medicare contracts, as the White House had earlier proposed and the Senate had written into its budget cut bill. The lower payments were seen as fair because Medicare HMOs were receiving reimbursements higher than their typically healthier patient base would justify. According to a January 24, 2006 *Washington Post* article by Jonathan Weisman, the HMO industry opposed these savings, and all but \$4 billion of them were dumped from the reconciliation bill in secret negotiations. (<http://www.washingtonpost.com/wp-dyn/content/article/2006/01/23/AR2006012301700.html>.) Another source of savings could have been \$10.5 billion in increased rebates paid by the pharmaceutical companies to the Medicaid program over 10 years, as proposed initially by the Senate. The drug companies were successful in resisting most changes to the rebate program; only \$720 million in 10-year savings from rebates survives in the bill about to return to the House.

(Center on Budget and Policy Priorities, <http://www.cbpp.org/12-20-05bud.htm>.)

At Least \$8.4 billion in Child Support Will Go Uncollected

Despite the success of child support enforcement in collecting payments owed to children, the budget cut bill headed back to the House cuts federal funding of enforcement activities by \$4.9

billion over 10 years. With less money for enforcement, families will receive \$8.4 billion less child support than they would otherwise have gotten. Families between 100 – 200 percent of the federal poverty line who receive child support average \$4,000 in collections each year, about 15 percent of their income. (Center for Law and Social Policy, http://www.clasp.org/publications/incentivepayments_jan18.pdf.) They are part of the forgotten fourth – their needs ignored despite child support’s proven track record in enabling single mothers to work and to lift their children out of poverty.

Students Will Pay More for School Loans While Banks are Protected

The budget reconciliation bill cuts \$12.7 billion out of student financial aid over 5 years – almost a third of all the budget cuts – and 70 percent of that is borne directly by students and their parents in the form of high interest rates and fees. When Education and Workforce Committee Chairman John Boehner was assigned the task of cutting billions from programs under his jurisdiction, he reassured the banks that lend to students by saying, "Relax. Stay calm. At the end of the day, I believe you'll be at least satisfied, or even perhaps happy. Know that I have all of you in my two trusted hands." The banks probably did relax even as Boehner announced provisions that would remove the excessively high guaranteed interest rates the banks enjoyed. Banks could relax because he took other steps favorable to them. Chairman Boehner chose instead to subject students and parents to higher-than-market interest rates, with the federal government capturing the overpayments back from the lenders. Banks could also relax because he doubled the fees for Direct Loans, adding to the cost of these currently cheap and efficient loans run directly by the federal government, thereby making them less effective competitors against private lenders.

As a result, students will pay more, though even now more than 39 percent of college students graduate with unmanageable debt. Nationwide, the average student borrower in school in 2003-2004 had federal loans of more than \$17,000. (Source: Congressional Research Service Memo, October 19, 2005, Meredith Peterson, "Undergraduate student debt by state and occupation.")

Abused and Neglected Children Being Cared for by Relatives Will Lose Foster Care Assistance

The budget cut bill would reduce assistance to abused and neglected children by almost \$1.3 billion over 10 years (\$577 million over 5 years). This includes certain reductions to all states and specific cuts to services and benefits for relative caregivers in 9 western states (Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon, and Washington). Both cuts will limit access to foster care assistance by grandparents or other relatives. The bill restricts case management and planning to arrange for appropriate medical, mental health, educational, and other services. Although the bill includes some increases in child welfare spending, these are very small, and are far outweighed by these cuts. A kinship placement can offer children family stability and lifelong relationships. Making savings from the care of abused and neglected children while banks, drug companies, and HMO's are spared is simply wrong.

People with Severe Disabilities Will Have to Wait Longer for Aid

Approving applications for cash aid for poor people with disabilities can take many months. When benefits are approved, people now get lump sum payments for the time in which the

application was pending. The bill makes beneficiaries wait much longer to collect what they are owed, a real hardship for people who have been falling behind in bills, unable to work because of a disabling condition. Part of the \$425 million “savings” in the bill comes from the expectation that some seriously disabled people will die before they receive their full benefits – a true death tax.

Parents Trying to Move from Welfare to Work Will Face Harsher Rules, Less Child Care or Other Help

Budget negotiators slipped the reauthorization of Temporary Assistance for Needy Families (TANF) into the 774-page reconciliation bill. Because provisions in a budget reconciliation bill are supposed to result in savings, the deal-makers inserted new provisions that make it far more likely that states will fail to meet harsh new work participation requirements, and will therefore pay a penalty to the federal government. Turning a program intended to serve the poorest families with children into a formula for failure is a real step backwards. California’s Legislative Analyst’s Office has estimated that California will have to pay \$445 million in penalties in 2009 and 2010, as the harsher provisions are implemented.

(http://www.lao.ca.gov/2006/deficit_reduction/deficit_reduction_012006.pdf.) On average, states will have to increase the number of families participating in work activities by 69 percent – an additional 236,000 families, with very little planning time and few resources. The Congressional Budget Office has estimated that the cost to states of meeting the new welfare to work requirements is \$8.4 billion over 5 years. (Center for Law and Social Policy, http://www.clasp.org/publications/tanfagreement_update_jan12.pdf.) The small increase in child care funding (\$200 million a year) is inadequate to cover the increased work demanded of parents. Funding for child care is estimated to be so inadequate that 255,000 fewer children in working families will receive child care assistance in 2010 than in 2004.

States will lose the flexibility to design their own strategies for moving families from welfare to work, such as the Parents as Scholars post-secondary education program in Maine.

Declines in “discretionary” spending means fewer services for families

Even beyond cuts made to health care and child support enforcement through the budget reconciliation bill, Congress has cut other services for moderate- and low-income families. Contrary to the overblown rhetoric about out-of-control spending, Congress spent *less* money for discretionary programs (not related to defense) in 2006. “Discretionary” programs are those appropriated each year by Congress. They include spending on education, veteran’s benefits, housing, Head Start, and many others – and they are not discretionary for the families who rely on them. In 2006, spending for these domestic appropriations programs is a smaller share of the economy than in 2001. (Center on Budget and Policy Priorities, <http://www.cbpp.org/1-24-06bud.htm>)

Congress made outright cuts to certain programs – such as services designed to reduce juvenile delinquency and help keep kids off the street. Other services have suffered from Congress’ benign neglect because their funding has not been increased to reflect inflation or population

growth. Without inflation adjustment, programs lose purchasing power and must serve fewer families and/or cut back on benefits or services.

In addition to real cuts or cuts due to inflation, Congress has hit human service discretionary programs with small – but painful – across-the-board cuts for the last several years. Trying to impose spending limits of its own making, Congress has ended the last four legislative years by cutting between one-half to one percent from all domestic discretionary programs in order to fit within the limits. This year’s across-the-board cut of one percent was the largest in recent years – and even applied to defense and homeland security programs.

Here are just a few examples of how discretionary program cuts are affecting services:

Fewer Workers Receiving Job Training

Since fiscal 2002, funding for adult training has fallen 18 percent and fewer workers are getting job training. The funding cuts, coupled with the overhaul of the workforce training system in 1998, has led to 17 percent fewer adults receiving job training. Low-income workers are increasingly less likely to receive job training. Among those who have received some job training, the proportion that is low-income has also declined. In 1998, 96 percent of adults who received job training under the JTPA system were low-income. In 2003, just 68.4 percent of adults who received training under WIA were low-income. (Center for Law and Social Policy, http://www.clasp.org/publications/decline_in_wia_training.pdf)

Preventive Health Services for Women and Children Cut

The Maternal and Child Health Block Grant serves approximately 28 million pregnant women, infants and children, including more than 80 percent of all newborns. But funding for this critical program has fallen at least 14 percent since 2002. States are serving even more people but with less federal support. Ohio has closed some clinics, and some children with special health care needs living in rural areas will have to travel long distances or forgo needed care. Missouri ended a primary health care program that served more than 30,000 low-income women. Iowa Child Health Specialty Clinics cut nutrition services to all children with special needs across the state. (Association of Maternal and Child Health Programs, <http://www.amchp.org/aboutamchp/publications/blockgrant.pdf>)

Less Commitment to Reduce Juvenile Delinquency

Funding for juvenile justice, anti-gang and delinquency prevention services has been cut nearly in half since 2002. Youth violence prevention activities are so woefully under-funded that they reach only a fraction of the youth who would benefit from them. Because of a lack of after-school programs, at least 14 million children and teens are unsupervised during the peak hours of juvenile crime from 3:00 p.m. to 6:00 p.m. Unsupervised children are much more likely to drink, smoke, use drugs, commit a crime or become a victim of a crime during these after school hours.

One gang-prevention program funded through the Juvenile Accountability Block Grant (which has been cut 81 percent since 2002) has been shown to reduce the rates of re-arrest of youth offenders 25 to 70 percent. Each young person served through the program produces a net savings to taxpayers of \$32,000. Yet the program serves fewer than 10 percent of the young

offenders who could benefit from it. (Fight Crime: Invest in Kids, <http://www.fightcrime.org/JABG.php>)

Energy Assistance – Prices Surge, with Little Congressional Response So Far

In fiscal year 2005, the Low Income Home Energy Assistance Program (LIHEAP) block grant funds totaled only \$1.885 billion – which was enough for states to help only five million people out of an estimated 32 million low-income people eligible for assistance. This winter the Department of Energy projects natural gas prices will be 38 percent higher, fuel oil 21 percent higher, propane 15 percent higher and electricity 7 percent higher. (U.S. Department of Energy, <http://www.eia.doe.gov/neic/speeches/anderson010606.pdf> p. 6.) LIHEAP program operators report that applications are up 10.8 percent over last year. The number served has risen to 5.6 million families, up from 4.2 million four years ago. During that same period, average home heating oil costs have risen from \$627 to \$1,474; natural gas more than doubled, from \$465 to \$1,000. With more families in need, galloping prices, and inadequate funds, the average LIHEAP grant will only cover 19.5 percent of heating oil costs, down from more than half (50.9 percent) four years ago, with similar declines for natural gas and propane. (National Energy Assistance Directors' Association, <http://www.neada.org/comm/press/pr2006-01-24.pdf>)

Congress's response to this crisis has been to continue to fund LIHEAP *below* its authorized level. The Energy Policy Act of 2005 increased the authorized spending level to \$5.1 billion annually. Congress has appropriated only \$2.2 billion for the LIHEAP block grant for fiscal year 2006. The budget cutting reconciliation bill that is expected to reach the House floor on February 1 would add \$1 billion in LIHEAP funds for FY 2007 (not usable this winter). Senate leadership has promised a separate vote on a supplemental appropriation of \$2 billion more for FY 2006, but it is very unclear whether this promise will be kept or whether this supplemental could pass in the House of Representatives.

Tax Breaks for the Favored Few

The same budget resolution that called for cuts to low-income programs also called for \$100 billion in tax breaks, many of which target the very wealthiest households. The House and Senate are trying to meet that goal – the combined costs of all the tax breaks in either the House and Senate tax reconciliation bills is about \$90 billion over 5 years.

Tax Deductions and Exemptions Start Increasing for the Wealthy in 2006

Congress could have replaced many of the harmful service cuts with legislation repealing two particular tax cuts that solely benefit high-income people and that do not even take effect until this year. These tax cuts will cost \$27 billion over five years – about two-thirds of the \$40 billion “saved” under the budget reconciliation bill – and \$150 billion over ten years. These particular tax cuts eliminate the “Pease” provision limiting tax deductions for people with high-incomes and the “personal exemption phase-out” or PEP provision that limits exemptions for those with high-incomes. Over 53 percent of the benefits of these tax cuts will flow to the 0.2 percent of American households with incomes above a million dollars a year, while 97 percent will go to those with incomes over \$200,000 a year. <http://www.cbpp.org/12-28-05tax.htm>

Billions to Extend Capital Gains and Dividend Tax Breaks

The House included in its tax reconciliation bill a two-year extension of the capital gains and dividend tax breaks previously enacted even though they don't expire until 2008. The extension of these tax breaks would cost a total of \$21 billion over five years and \$51 billion over ten. Fifty-three percent of the benefits would flow to the richest 0.2 percent of families, those with incomes of over a million dollars a year. Some 90 percent of the benefits would go to those with incomes of over \$100,000 a year.

Health Savings Accounts – Tax Breaks That Won't Help Most Uninsured

President Bush is expected to promote Health Savings Accounts in his State of the Union message by proposing to make contributions to them tax-deductible, whether or not the taxpayer itemizes. Health Savings Accounts are intended to help people with high-deductible health insurance to save money to pay for health care not covered by their insurance. This proposal is not likely to make much of a dent in the number of uninsured, because most people without health insurance have incomes (and tax liability) too low to benefit from tax breaks. The tax breaks might encourage higher-income, healthy people to shift to high-deductible coverage, reducing the pool of people in more comprehensive plans. Their costs would then be likely to rise, pricing people with low to moderate incomes out of the market. Cloaked in the language of increasing health coverage, Health Savings Accounts will ask taxpayers to subsidize health care for people who need help the least, while once again making things tougher for the forgotten fourth – families with modest earnings. (The Commonwealth Fund, http://www.cmwf.org/usr_doc/811_Glied_effect_hlt_savings_accounts_coverage.pdf)

The Administration's Failure to Provide Effective Services; But Give Credit When it Succeeds

Taking stock of Washington's role in helping or hurting Americans must not be limited to the legislation Congress enacts or rejects. The state of the union – and in this case, the taint – depends on effective implementation of services. Here are four examples:

Failure to Start the Medicare Drug Benefit Smoothly

The Administration has failed to implement the Medicare Part D prescription drug program to benefit seniors in the ways that lawmakers intended. First, many who are signed up for the benefit are not showing up on databases as being enrolled or facing other obstacles. This has forced about 20 states to help pay for prescription drugs and avoid health catastrophes. <http://www.washingtonpost.com/wp-dyn/content/article/2006/01/15/AR2006011500162.html>

Second, many of the seniors not receiving their prescriptions are low-income people who were already covered through Medicaid. The new drug benefit requires them to transition automatically into Medicare Part D. They were forced to replace reasonably effective coverage with chaos. The governor of California said that these “dual eligibles” faced an error rate of 20 percent in his state. <http://www.nytimes.com/2006/01/18/national/18medicare.html>

Third, less than a fifth of non-Medicaid seniors who were eligible for subsidized prescription drugs had been approved by beginning of the year when Part D went into effect. Seniors who are below 150 percent of the official poverty line but not receiving Medicaid benefits are able to sign up for the plan – but only a million out of 5.7 to 6.6 million seniors in this category were approved according to Families USA <http://www.familiesusa.org/resources/newsroom/press-releases/less-than-18-of-low-income.html>.

Fourth, a fundamental goal of Medicare Part D is to save seniors money, and yet the private drug plans through which Part D operates are charging very high rates for drugs when compared to the prices negotiated by the Department of Veterans' Affairs (VA). A Families USA study examined the 20 most frequently prescribed drugs in two regions under Part D and found the average price to be 48.2 percent higher than the lowest price for those same drugs negotiated by the VA. <http://www.familiesusa.org/assets/pdfs/PDP-vs-VA-prices-special-report.pdf>

Disastrous Disaster Relief

The Administration's inept initial response to the hurricanes is well-known. But it needs to be said that the continuing needs of low-income people displaced by the catastrophes have *still* not been met, despite some new legislation enacted by Congress. Legislation to ensure that survivors have access to Medicaid has never passed, leaving many families who had been Medicaid beneficiaries in Louisiana unable to receive medical services where they had relocated. Legislation to extend or expand unemployment insurance has not passed, even though unemployment is *rising* in the affected areas. Housing remains a desperate problem, with assistance lurching from one deadline to the next. From the outset, the Bush Administration refused to expand the existing Section 8 rental voucher program, preferring to create new and more limited vouchers. These are now about to expire, with the possibility of extensions through March 1. Congress did recently approve \$390 million in new Section 8 rental vouchers for evacuees who were previously homeless or in HUD-assisted housing before Hurricanes Katrina or Rita. It is a positive step to serve these families through the existing and effective Section 8 program. Still, families that lost their homes but were not previously in the HUD system are left uncertain. A new program is being designed, the disaster supplemental voucher program, with details not yet known. Existing law (the Stafford Act) requires that victims of disasters receive rental assistance for up to 18 months if they are not otherwise able to find adequate housing. The Administration has not made this assistance clear to families, or provided a smooth means of delivering the necessary help.

Emergency Food Stamps: A Disaster Relief Model

In contrast to the failures to provide adequate shelter to the hurricane survivors, the U.S. Department of Agriculture deserves credit for swiftly getting Emergency Food Stamps to well over one million households. Preliminary data show that over 770,000 households received disaster Food Stamp payments due to the Katrina hurricane. In addition, 318,000 households were able to receive supplements or replacements if they were already recipients newly eligible for higher benefits or had lost their EBT cards. Another 188,000 households were helped after Hurricane Rita. Only the earliest data is in from Florida's Hurricane Wilma, but more than 660,000 households received disaster Food Stamps at the outset. Because the Food Stamp Program operates with a uniform set of rules nationwide, and because USDA had effective disaster plans in place in advance, evacuees generally received speedy help no matter where they settled.

Frozen Refunds – Leaving the Forgotten Fourth in the Cold

One of the most important forms of help for the quarter of American families earning less than \$30,000 is the Earned Income Tax Credit. Married parents earning \$29,000 a year with two children can receive an EITC refund of \$1,735 for the 2005 tax year. But the IRS has frozen hundreds of thousands of tax refunds to low-income families, most of whom were claiming the EITC. According to the IRS' Taxpayer Advocate Nina Olsen, families were not informed that their refunds were frozen or that they were suspected to be fraudulent. Some refunds are being held for months or years. Olsen reported to Congress that four-fifths of the cases her office examined were not questionable or suspicious. The maximum collected from these low-income returns could be no more than \$9 billion, to Olsen a dubious use of IRS resources as compared to targeting cash-only small businesses, whose audits could produce \$100 billion.

Families earning under \$15,000 receive the majority of EITC benefits and families with incomes of less than \$30,000 receive 99 percent of the benefits. <http://www.cbpp.org/7-19-05eic.htm> The maximum annual EITC benefit is \$4,400 for a family with two or more children and \$2,662 for a family with one child.

After the IRS' practice became public, Commissioner Mark Everson ordered a review of the refunds frozen without notice and pledged to revise its fraud screening procedures. (David Cay Johnston, I.R.S. Limited Tax Refunds of Poor, Congress Is Told, *The New York Times*, January 10, 2006; links to Taxpayer Advocate's Report:

<http://www.irs.gov/advocate/article/0,,id=152735,00.html>.)

The Taint of the Union: Special Interests Over the Public Interest

When trillions in deficits are allowed to accumulate in order to feed tax breaks to the well-heeled and well-connected, the public interest is not served. When basic protections against sickness, disability, or even child abuse are compromised in order to protect drug companies and HMO's, there ought to be an outcry against the abandonment of commonsense priorities. When our leaders make it harder for young people to go to college or for struggling families to make ends meet, they are wrongly choosing largesse for special interests over investments that benefit us all. That is the taint of the union in 2006 – and as the public wakes up to the consequences, they are demanding something better. For Congress and the Administration, removing the taint should start with rejecting service cuts that threaten the health, safety, and education of millions of Americans, and abandoning unaffordable and unfair tax breaks. Thousands and thousands across the nation are watching, learning, and speaking out against the ascendancy of the favored few over the public good. They will remember the choices that our leaders make.

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