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IN THIS EDITION

BUDGET: **Breaking Out of the Budget Straitjacket:**
An Overview of the President's FY 2015 Budget

HEALTH CARE: **Critical Low-Income Health Care Programs Need To Be Extended**

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Breaking Out of the Budget Straitjacket: An Overview of the President's FY 2015 Budget
Written originally for ***The Huffington Post***, March 6, 2014

The President's annual budget demonstrates whether our values are driving our national choices. Are we going to continue to give extra tax breaks worth billions to hot shots in the finance industry or re-direct tax help to decrease the poverty of more than 13 million workers? Will we reduce Pentagon expenditures so that we can invest more in job creation here at home? President Obama makes some good choices in his FY 2015 budget that will result in reduced inequality and economic growth. But he could go a lot farther in breaking free of the budget spending caps that that are strangling our capacity to keep pace with our future needs.

One of the best choices made by the President: expanding the Earned Income Tax Credit to reduce poverty and encourage work for 13.5 million workers who don't have custody of children. The Administration's plan would raise the EITC for an individual working 35 hours per week at the minimum wage ($12,688) from the current $161 to $823. The maximum credit will rise from $503 to $1,005. For the first time, workers between 21 and 25-years-old who support themselves or between 65 and 67 would qualify. The President pays for this important step by closing very unfair tax loopholes for certain investors, hedge fund managers and other professionals with incomes ranging from high to stratospheric. Hedge fund managers are estimated to have earned about $45 billion over the past six years, and the top 25 earned more than $14.4 billion in 2012, according to the Congressional Research Service. Asking a small group of top earners to pay more in taxes so millions of workers at the bottom can get a better toehold on economic stability seems like a very good choice.

There are more choices like that. The President stayed within the spending caps approved by Congress for FY 2015, but then set up a separate "Opportunity, Growth, and Security Initiative" to allow $56 billion in spending beyond those caps, split equally between domestic and defense programs. The domestic share includes needed expansions in pre-k and other education, job training, apprenticeships and temporary jobs, juvenile justice programs, research and manufacturing innovation, infrastructure rebuilding, and other initiatives. These and the increased Pentagon spending are paid for half by savings such as reduced crop insurance payments and increased airline passenger fees and half from reducing tax benefits from multi-million dollar retirement accounts accumulated by the wealthy.

But this initiative exposes the President's dilemma. The domestic expansions are badly needed. The budget pays for them mostly from fair sources. His opponents will likely reject them no matter how he positions them in the budget. His proposal demonstrates that the spending caps are stopping us from making the investments we need to create jobs and open a route to employment for low-income and jobless people.

Further, the Opportunity, Growth and Security initiative illustrates the waste that occurs when the Pentagon is promised the same dollar increases as domestic programs. There is room to cut the Pentagon budget. It grew by 35 percent in the 10 years after 2001; domestic spending increased by 12 percent during that time, according to the National Priorities Project. It has managed to stash at least $20 billion of its base budget in the uncapped funding for the Afghanistan, so that the Pentagon was really cut less than 1 percent in FY 2014. The Pentagon doesn't need the $28 billion added in the President's initiative, or the $115 billion above the caps over the next several years. The budget tries to buy support for domestic increases by tying them to the same amount for the military. But the continued growth in Pentagon spending has already choked off domestic initiatives, and this will get worse if wasteful spending is not checked.

The President proposes ending the harsh sequestration cuts due to return in FY 2016. He pays for that with revenue increases from upper-income individuals and the estate tax. And he closes many corporate tax loopholes, using short-term revenue increases to fund job creation measures over the next two years, but holding nearly $250 billion in reserve over the next decade for "revenue-neutral business tax reform," which means plowing those billions into lowered corporate tax rates. Corporations don't need that. Citizens for Tax Justice recently found that 288 Fortune 500 businesses with profits in each year from 2008 to 2012 paid an average real tax rate of about 19 percent because of the many loopholes they enjoy. More than one-third of them paid nothing, or got a check back from the government, in at least one of these years. They can afford to pay more.

The cost of unnecessary corporate tax breaks and Pentagon funding is high. Even though the President stops sequestration, the overarching spending caps mean funding is woefully inadequate to meet the need for education, housing, infrastructure repair, job training and services for seniors and children alike over the next decade. Taking into account both inflation and population growth, the funds projected for domestic/international appropriations decline from $563 billion in FY 2015 to $458 billion in FY 2024 (see Table S-7 in Summary Tables).

The President builds in some important investments outside of the spending caps. He assumes the restoration of unemployment insurance for the long-term jobless. The budget also assumes immigration reform will pass, providing a boost to the economy that will generate hundreds of billions in new federal revenues. He uses revenues outside the appropriations caps to fund the National Housing Trust Fund at $1 billion over 10 years. He continues to reverse the loss of 70,000 rental housing vouchers. (Many low-income tenants also saw their rents rise last year; it is not clear if they will get some relief.) There is a notable increase in child care funding, providing subsidized care for 1.4 million children, or 74,000 more children than can be supported this year. The full Pre-K for All and home visiting initiatives are funded by an increase in the tobacco tax. There is $105 million to support state efforts to provide paid leave.

But although the budget expands some services in the mostly uncapped mandatory spending side of the budget, there are disappointments. SNAP/food stamps was cut twice last year, reducing all benefits by an average of about $30 per month for a family of four, and cutting another $90 per month from certain households. Unfortunately, the President's budget does not attempt to reverse either of these cuts. Home heating and cooling assistance is cut deeply, from $3.255 billion in FY 2013 to only $2.8 billion in the President's FY 2015 proposal. Home energy costs have been rising. The President's budget would mean even more families will suffer dangerously cold or hot weather without heating or air-conditioning. The budget once again proposes cutting Community Action's main federal funding nearly in half -- a reduction Congress has not been willing to make so far. Community Action agencies administer many important anti-poverty programs, such as Head Start, emergency food, job training and weatherization. While the President provides 10 years of funding to avert reduced payments to Medicare physicians, he provides only one year of funding for Transitional Medicaid for families leaving cash assistance for work and another health care program that helps low-income elderly and disabled pay their Medicare premiums.

President Obama does a pretty good job of wriggling out of the sequester straitjacket for the short-term. But he -- and Congress -- cannot create jobs and provide long-term economic security without fair increases in revenues and sensible reductions in Pentagon spending.

Critical Low-Income Health Care Programs Need To Be Extended

Unless Congress acts, several health programs important to low-income families will expire on March 31 and others will end later this year. These programs are key to providing health care to families transitioning from welfare to work, helping low-income elderly and people with disabilities pay their Medicare premiums, and making it easier to enroll children in the Children's Health Insurance Program (CHIP). Advocates hope these programs will be extended when Congress addresses the scheduled cuts in payments to doctors of Medicare patients. Medicare's sustainable growth rate (SGR) was put in place in 1997 to control growth in Medicare spending on physician services. Annually a determination is made regarding the physicians' fee schedule (colloquially known as the 'doc fix'), and physician groups lobby Congress to adjust the payment rates to avoid cuts. If Congress fails to act, a round of cuts will begin on April 1.

The Transitional Medical Assistance (TMA) program, part of the 1996 welfare reform law, allows families who have lost Medicaid eligibility because they have found a job or received a wage increase to stay on Medicaid for up to 12 months. This important work support program encourages parents who might otherwise fear losing health care coverage to take a job. The GAO estimates that TMA provided coverage to over 3.7 million people in 2011. This program is particularly important in the 24 states that have not agreed to the Affordable Care Act's (ACA) Medicaid expansion. Typically working parents in those states lose Medicaid eligibility when their income is $11,913 for a family of three, or even less in some states. In the expansion states Medicaid is available for families with incomes up to 133 percent of the poverty line (up to $26,039 for a three-person family), and those above that level can receive subsidies in the new health insurance exchanges. The Administration proposes to allow expansion states the option of providing TMA. The one-year cost of extending TMA is about $500 million according to the Congressional Budget Office (CBO). However, inaction on the part of Congress by March 31 would result in the expiration of the TMA program.

The Qualified Individuals (QI) Program helps more than 450,000 low-income seniors and people with disabilities pay for their Medicare Part B premium and other out-of-pocket costs (including out-patient care, testing, and doctor visits). If not extended, QI is also set to expire on March 31. QI serves people with incomes between 120 and 135 percent of the poverty line ($13,788 to $15,512 per year for an individual) by covering the full cost of their Part B premium or $1,259 in 2013. The cost of renewing QI for one year is about $900 million according to CBO.

The Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) provides funding for "performance bonuses" for states implementing strategies that make it easier for eligible children to enroll in Medicaid and CHIP, if the states achieve their enrollment target. In 2013, 23 states received a total of $307 million in bonuses. Those strategies have been credited with contributing to the historic low of 8.9 percent of children without coverage in 2012, a drop of 25 percent since 1999. The CHIPRA bonuses expired in September 2013 and should be renewed and reformed to include strategies not already required by the ACA.

Another provision included in CHIPRA called Express Lane Eligibility (ELE) allows states to use information from applications for other low-income programs like the School Lunch Program, SNAP (Food Stamps), Head Start and WIC to determine whether children are eligible for Medicaid and CHIP. This saves states paperwork and administrative costs, and families from providing duplicative information to multiple agencies. A positive improvement would be to allow states flexibility to extend ELE to programs for which adults are eligible. Currently 13 states use the ELE option. The program expires at the end of FY 2014.

Congress is focused on a 'doc fix' for the 24 percent cut in Medicare payment rates set to take effect on April 1. There is bi-partisan agreement in the Senate to suspend the cuts but no deal in place for how to pay for the adjustment. A temporary one-year fix would cost approximately $11-12 billion and a permanent replacement, depending on the legislative version, would vary from $121 billion to $153 billion over 10 years. The newly released President's FY 2015 budget reflects the fact that SGR cost estimates have been coming down compared to previous years, and its 10-year estimate is on the low end. Advocates believe that the low-income health programs with a substantially smaller combined price tag should be extended or made permanent corresponding to the relief granted to Medicare physicians. They are concerned that while the President's FY 2015 budget provides ten-year estimates for making SGR and Express Lane Eligibility permanent, it only extends for one year the TMA and QI programs.