

Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction

Low-Income Americans

The President's Plan for Economic Growth and Deficit Reduction lives up to a simple idea: as a Nation, we can live within our means while still making the investments we need to prosper – from a jobs bill that is needed right now to long-term investments in education, innovation, and infrastructure. It follows a balanced approach: asking everyone to do their part, so no one has to bear a disproportionate share of the burden. And it says that everyone – including millionaires and billionaires – has to pay their fair share. Pursuing a balanced approach to deficit reduction is critical to being able to help struggling low-income families and the millions of hard-working Americans who find themselves unemployed.

That is why this plan includes the American Jobs Act, which will put more people back to work and put more money in the pockets of working Americans – and details for how to play for it without adding a dime to the deficit. The American Jobs Act will provide tax cuts to 160 million American workers, provide key support for the long-term unemployed to help them get back to work, create incentives for employers to hire new workers, and create new jobs for rebuilding infrastructure, schools, and communities. Independent experts estimate that it will create millions of jobs across the country. From the start of this Administration, we've taken important steps to support low-income Americans during a tough economy including providing more than \$25 billion in enhanced Supplemental Nutrition Assistance Program (SNAP) benefits for more than 44 million low-income families; expanding the Earned Income Tax Credit and Child Tax Credit to put more money in the pockets of over 15 million working families with over 29 million children; placing about 260,000 low-income individuals in subsidized jobs through investments in the Temporary Assistance for Needy Families (TANF) Emergency Fund; and ensuring greater access to health care for the neediest Americans by expanding Medicaid coverage through the Affordable Care Act.

Still, as health care costs continue to rise and the demographics of our nation change, it's critical that we make prudent reforms to programs like Medicaid and Unemployment Insurance (UI) today to ensure that they are strong in the future. Recognizing that we all must share in the burden of reducing the deficit and to strengthen the programs that low-income Americans rely on as our economy recovers, the Administration proposes to:

Limit Medicaid provider taxes. Many States impose taxes on health care providers to help finance the State share of Medicaid program costs. While often a source of real financing, some States increase payments to those same providers in the amount of the revenue they receive in taxes, drawing Federal Medicaid matching payments with little benefit to the low-income populations the program serves. The Administration proposes to limit these types of State financing practices by phasing down, but not eliminating, Medicaid provider taxes. By delaying the effective date until 2015, the proposal gives States time to prepare for the change. This proposal is projected to save \$26.3 billion over 10 years.

Simplify Federal Medicaid payment formulas for States. Under current law, States face a patchwork of different Federal payment contributions for individuals eligible for Medicaid and the Children's Health Insurance Program (CHIP). Beginning in 2017, this proposal would replace the currently complicated formulas with a single matching rate specific to each State based on enrollment starting in 2014 that automatically increases if a recession forces enrollment and State costs to rise. The full Federal funding for people gaining Medicaid coverage in 2014 through 2016 would be preserved. The proposal may improve coverage since it gives States a financial incentive to enroll newly eligible individuals for Medicaid early. The more newly eligible people they enroll in the first year or so of the program, the higher the blended matching rate will be in 2017. This proposal is projected to save \$14.9 billion over 10 years.

Better target Medicaid resources by updating income definition. Starting in 2014, eligibility for Exchange premium tax credits and cost sharing reductions, Medicaid, and CHIP will be determined based on an individual's or family's modified adjusted gross income. The Administration proposes to amend this definition for purposes of health insurance assistance programs to include total Social Security benefits, consistent with current Medicaid practice, which will enable the States to better target those in need. This proposal is projected to save \$14.6 billion over 10 years.

Reduce unnecessary taxpayer Medicaid spending on overpayments for medical equipment. This proposal limits Federal reimbursement for a State's Medicaid spending on certain durable medical equipment services to what Medicare would have paid in the same State for the same services. This proposal is projected to save the Federal government \$4.2 billion and State governments over \$3 billion over 10 years.

Re-base Medicaid formula for supporting hospitals that serve low-income Americans in 2021. Supplemental disproportionate share hospital (DSH) payments are intended to help support hospitals that provide care to disproportionate numbers of low-income and uninsured individuals. With more individuals expected to gain health insurance coverage, the Administration proposes to align future Medicaid supplemental payments to hospitals with reduced levels of uncompensated care in 2020. This proposal is projected to save \$4.1 billion over 10 years.

Reduce fraud, waste, and abuse in Medicaid. Medicaid funds should not be wasted on fraudulent claims, abuses of the rules, or general waste in implementing the program. The following policies will save \$1.4 billion over the next 10 year while reducing waste, fraud, and abuse:

- Strengthen third-party liability for Medicaid beneficiary claims.
- Require manufacturers that improperly report items for Medicaid drug coverage to fully repay States.
- Track high prescribers and utilizers of prescription drugs in Medicaid.
- Enforce Medicaid drug rebate agreements.
- Increase penalties on drug manufacturers for fraudulent non-compliance with Medicaid drug rebate agreements.
- Require drugs to be properly listed with the FDA to receive Medicaid coverage.

- Prohibit States from using Federal funds as the State share of Medicaid or CHIP, unless specifically authorized by law.

Increase State flexibility and streamline oversight in Medicaid: This proposal would give State the flexibility to use a “benchmark” benefits plan for optional populations with income above 133 percent of the Federal poverty line. It also would consolidate and streamline redundant error rate programs.

Extend Unemployment Insurance and help it better serve the long-term unemployed, while restoring the solvency of the system: The President is calling for an extension of unemployment insurance in 2012 to prevent over 6 million Americans from losing their benefits next year. At the same time, the President is proposing a set of reforms that will both strengthen the ability of the program to help the long-term unemployed get back to work and bolster the health of the UI system. The Administration proposes to:

- **Target support to help the long-term unemployed get back to work.** The recession pushed long-term unemployment to its highest levels since 1948, the first year for which such data are available – with 6 million people out of work for six months or more. The President’s plan includes support for hiring the long-term unemployed through measures that include:
 - **Work Sharing.** UI reform to prevent layoffs. Preventing layoffs in the first place is a win-win for workers and businesses. The President’s plan – consistent with proposals championed by leaders like Sen. Jack Reed (D-RI) – calls for work sharing that would let workers receive pro-rated UI benefits as compensation for a reduction in hours at businesses that would otherwise lay workers off.
 - **“Bridge to Work” Programs.** States will be able to put in place reforms that build off what works in programs like Georgia Works or Opportunity North Carolina, while instituting important fixes and reforms that ensure minimum wage and fair labor protections are being enforced. These approaches permit long-term unemployed workers to continue receiving UI while they take temporary, voluntary work or pursue work-based training. The President’s plan requires compliance with applicable minimum wage and other worker rights laws.
 - **Wage Insurance.** States will be able to use UI to encourage older, long-term unemployed Americans to return to work in new industries or occupations.
 - **Start-up Assistance.** States will have flexibility to help long-term unemployed workers create their own jobs by starting their own small businesses.
 - **Other Reemployment Reforms.** States will be provided with flexibility to implement other innovative reforms to connect the long-term unemployed to work opportunities.

- **Improve performance of the Unemployment Insurance program.** As we make UI more flexible and responsive to the needs of the unemployed and the Nation, we cannot tolerate waste in the program. The Administration proposes new investments to strengthen UI program integrity by identifying ineligible claimants and reducing improper payments. They will also help reduce UI benefit costs by helping unemployed individuals return to work more quickly than they would were this targeted assistance not provided. This policy would reduce the deficit by \$256 million over 10 years.
- **Restore the solvency of the Unemployment Insurance system.** At the same time as the President is committed to extending supplemental unemployment benefits, we must recognize the fact that the economic downturn has taken a toll on the solvency of the UI program. Twenty-eight states currently owe more than \$37 billion to the Federal UI trust fund, and many have little prospect of paying these loans back in the foreseeable future. Employers in those states are now facing Federal tax increases as a result of this indebtedness. The Administration proposes to put the UI system back on the path to solvency by providing immediate relief to employers to encourage job creation now and reestablishing state fiscal responsibility going forward.

Support job growth now – especially among lower-income Americans. The American Jobs Act the President has put forward includes several measures that will have a direct impact on lower-income Americans across the country. In addition to initiatives that will put Americans back to work by rebuilding our infrastructure, modernizing our schools, supporting small businesses that hire and invest, and preventing teacher layoffs, these initiatives include:

- **Tax credits for hiring the long-term unemployed.** The President is proposing a tax credit to provide up to \$4,000 to businesses for hiring workers who have been looking for a job for six months or more.
- **A Pathways Back to Work Fund to invest in low-income youth and adults.** Building on highly successful Recovery Act programs that provided job opportunities for low-income adults and youths, the President's Pathways Back to Work Fund will make it easier for workers to remain connected to the workforce and gain new skills for long-term employment. The Initiative will include:
 - **Support for summer and year-round jobs for youth.** The Recovery Act provided 367,000 summer job opportunities through the public workforce investment system to young people in the summers of 2009 and 2010, according to the National Association of State Work Force Agencies. Such programs not only provided young people with their first paycheck, but taught them life-long employment skills. Building on this success, the new Pathways Back to Work Fund will provide states with support for summer job programs for low-income youth in 2012, and will build on that success by supporting year-round employment for economically disadvantaged young adults.
 - **Subsidized employment opportunities for low-income individuals who are unemployed.** This proposal would build off the successful TANF Emergency

Contingency Fund program, which supported 260,000 low-income adults and youth in paid jobs during a time of high unemployment, according to an analysis by the Center on Budget and Policy Priorities (CBPP). The CBPP found that this flexible program allowed states to reduce the cost and risk associated with new hiring, encouraging private-sector businesses to hire new workers.

- **Support for local efforts.** Provide support for local efforts to implement promising work-based strategies and to provide training opportunities that have good records of placing low-income adults and youths in jobs quickly. Chief local officials, in partnership with local workforce boards, business, community colleges, and other partners, will be able to apply for funding to support promising strategies designed to lead to employment within the short-term.
- **Project Rebuild.** Putting People Back to Work Rehabilitating Homes, Businesses and Communities. The President is proposing to invest \$15 billion in a national effort to put construction workers on the job rehabilitating and refurbishing hundreds of thousands of vacant and foreclosed homes and businesses. Building on proven approaches to stabilizing neighborhoods with high concentrations of foreclosures, Project Rebuild will bring in expertise and capital from the private sector, focus on commercial and residential property improvements, and expand innovative property solutions like land banks. This approach will not only create construction jobs but will help reduce blight and crime and stabilize housing prices in areas hardest hit by the housing crisis.
- **A payroll tax cut that benefits all workers.** The President is proposing to extend and expand the payroll tax cut passed last December, increasing it to 3.1% for 2012. In total, this will help an estimated 160 million American workers who pay payroll taxes. And because earnings subject to the Social Security taxes are capped, and higher-income people derive more income from sources other than wages, cutting payroll taxes benefits lower- and moderate-income workers in a targeted, progressive way.

Pursue balanced deficit reduction to prevent drastic cuts. We have little doubt that some of these proposals will not be popular with those who benefit from these affected programs. These are tough choices that we had to make -- and some of these changes are those that we would not make if it were not for our fiscal situation. But we are all in this together, and all of us must contribute to getting our economy moving again and on a firm fiscal footing. If we all don't pitch in, we know what happens if we try to do this much deficit reduction without a balanced approach -- because the congressional Republicans have proposed to do that. Millionaires and big corporations keep all their special tax breaks and tax cuts while there are severe cuts in programs we need to grow and prosper on which many Americans rely. For instance, under their budget, there would be deep cuts to SNAP and the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) which would mean that hundreds of thousands of pregnant women or new mothers and their children will be kicked out of WIC; and a restructuring of Medicaid that would cut funding by a third and could leave an estimated 50 million Americans in need without health insurance. Moreover, 320,000 kids would be cut from Head Start as well as 75,000 of their teachers and staff would have to be laid off.

We believe the President's plan is the most fair and effective way to keep the promises made to all Americans while achieving the deficit reduction needed to win the future.