CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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# ADMINISTRATION'S BUDGET WOULD UNDERMINE KEY "ASSET-BUILDING" PROGRAM FOR LOWER-INCOME WORKING FAMILIES WHILE HELPING WEALTHY FAMILIES BUILD SAVINGS THROUGH EXPENSIVE NEW TAX BREAKS

The Administration's fiscal year 2005 budget proposes new, very expensive tax breaks to help higher-income families build wealth through tax-sheltered savings accounts, while undermining a key federal program designed to help low-income families build assets. The contrast is striking:

- The budget proposes two new tax-advantaged individual savings accounts — Lifetime Savings Accounts (LSAs) and Retirement Savings Accounts (RSAs). These accounts differ from currently authorized savings vehicles in that they substantially expand the amount of tax-sheltered savings permitted and remove all eligibility restrictions related to income. Since current tax-sheltered savings accounts, such as Roth Individual Retirement Accounts (IRAs), are limited to households with incomes below $160,000 (and below lower income limits for traditional IRAs), the principal beneficiaries of the new proposals would be families with incomes above $160,000.

  Although the LSA and RSA proposals contain gimmicks that make them appear to increase tax revenue in the short-term, their costs over the long term would be very large. The Urban-Brookings Tax Policy Center estimates that, "if everyone who could benefit from LSAs takes advantage of the new accounts, the revenue losses could be on the order of $100 to $200 billion over the first 10 years, and growing over time. Over the next 75 years, the revenue loss of these proposals alone would amount to about one-third of the actuarial deficit in Social Security."[1]

- At the same time, the Administration's budget proposal for the Department of Housing and Urban Development would substantially undercut the little-known "Family Self-Sufficiency" (FSS) Program, a program established in 1990 based on a proposal by the first President Bush to help low-income working households build assets and make progress towards self-sufficiency. The budget proposes to: (a) eliminate the $48 million per year in dedicated HUD funding for the "FSS

[1] Leonard E. Burman, William G. Gale, Peter R. Orszag, "Key Thoughts on RSAs and LSAs," Urban-Brookings Tax Center. Washington D.C., February 4, 2004. See also the authors' earlier and more extended analysis, "The Administration's Savings Proposals: Preliminary Analysis," Tax Notes, March 3, 2003; Peter R. Orszag, Progressivity and Saving: Fixing the Nation's Upside-Down Incentives for Saving," testimony before the House Committee on Education and the Workforce, February 25, 2004; and Robert Greenstein and Joel Friedman, "President's Savings Proposals Likely to Swell Long-Term Deficits, Reduce National Saving, And Primarily Benefit Those With Substantial Wealth," Center on Budget and Policy Priorities, February 27, 2004.

> coordinators" who administer most FSS programs; (b) convert the Section 8 housing voucher program, the nation's largest low-income housing assistance program, to a block grant under which housing agencies would no longer be made whole for deposits into FSS accounts on behalf of FSS participants; and (c) substantially reduce funding for the housing voucher program, rendering it difficult if not impossible for local housing agencies to continue to fund the FSS program with available federal funding. The most likely result of these proposals would be a sharp reduction in the number of voucher recipients who are able to use the FSS program as a vehicle for building assets and making progress towards self-sufficiency.
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> The proposals also could jeopardize the savings accounts that current participants have built; local housing agencies could terminate these accounts, reclaim the savings in them, and use the recaptured funds to lessen the degree to which the agencies have to cut rental assistance to families with vouchers. The FSS contracts that housing agencies enter into with FSS participants allow the agencies to take such action if they must do so to deal with funding shortages, and the cuts in voucher-program funding that are proposed in the Administration's budget are so large that many housing agencies may feel compelled to follow such a course if the cuts are enacted.
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> The substantial weakening of the FSS program stands in sharp contrast with one of the ostensible goals of the Administration's proposed conversion of the housing voucher program into a block grant, which is to help families make progress toward self-sufficiency.[2] It also runs counter to HUD's Strategic Objective to "Help HUD-Assisted Renters Make Progress Towards Self-Sufficiency," and the strategic plan HUD issued a year ago, which described FSS as "HUD's primary tool for helping families in the Housing Choice Voucher and public housing programs build assets and increase their incomes" and promised that HUD would "work to significantly expand participation in the FSS program."

For a fuller analysis of the effects of the Administration's budget proposal on the Family Self-Sufficiency program, see Barbara Sard, "Family Self-Sufficiency" Program Imperiled by HUD's Fiscal Year 2005 Budget Request," Center on Budget and Policy Priorities, March 23, 2004. For further analysis of the Administration's LSA and RSA proposals, see the papers cited in note 1.

[2] See February 12, 2004 HUD Press Release: "Reform to Section 8 Aims to Help Families Achieve Self-Sufficiency" and page 16 of HUD's FY 2005 Budget summary, which lists the proposed Flexible Voucher program as one of three "key initiatives for FY 2005" that advance the goal of "Helping Individuals Achieve Self-Sufficiency."