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Revised November 2, 2005

UNSHARED SACRIFICE
Who's Hurt, Who's Helped, and What's Spared Under the House Budget Reconciliation Plan

By Sharon Parrott and Isaac Shapiro

The eight House Committees charged with making cuts in a wide range of mandatory (or "entitlement") programs under this year's budget process have all completed their work. The reconciliation proposals from each committee will be joined into a single bill and will be considered on the House floor next week. The House budget reconciliation bill has been defended as necessary to reduce the deficit and offset hurricane-related costs (though as explained below, neither claim is accurate). Yet the House proposals do not reflect an approach of shared sacrifice, particularly when viewed as part of an overall budget reconciliation process that also facilitates the adoption of more tax cuts.

Even though poverty, food insecurity, and the number of people lacking health insurance have all been rising, the House bills would ask low-income families to shoulder a large share of the budget-cutting burden, leaving them with less access to needed health care and basic food aid. Children would receive less of the child support they are owed, and many poor individuals with disabilities would have to wait longer to receive the back payments to which they are entitled.

While cutting programs that benefit low-income families and individuals, the House reconciliation proposals shy away from some sensible program cuts that are opposed by powerful lobbying interests, such as Medicare managed care companies. In addition, the House reconciliation proposals would not call for any sacrifice in the form of scaling back the benefits of tax cuts enacted in the last four years, whose benefits overwhelmingly have gone to higher-income taxpayers.

In fact, rather than asking those high-income households to share in the sacrifice, the House is planning to pass a new round of tax cuts under the same fast-track reconciliation process being used to push through the program cuts. These tax cuts, a substantial portion of which are expected to go to high-income households, would further exacerbate income inequality, which is already exceptionally large and growing. And because the new tax cuts would cost more money than the budget cuts would save, the budget cuts would in effect be used *not* to reduce the deficit or pay hurricane-related costs, but rather to help pay for the new tax cuts.

Who's Hurt

The House budget reconciliation bill calls for significant sacrifices from low-income families and individuals, including:

- **Low-Income food stamp recipients:** According to the Congressional Budget Office**,** the proposals approved by the House Agriculture Committee would deny food stamps — the nation's most important anti-hunger tool — to nearly *300,000 low-income individuals* through two provisions that would cut the program by a total of $844 million over the next five years.

  √ The bill would deny food stamps to 225,000 individuals in *working* families whose savings are just above food stamp eligibility limits or whose income is just above the income limits before housing and work expenses are taken into account, but below the limits *after* those expenses are taken into account.

  √ The bill would deny food stamps to 70,000 legal immigrants who have been in the United States between five and seven years, including immigrants who work in low-wage jobs and need food stamps to make ends meet. The new restrictions apply only to adults, but immigrant and U.S. citizen children whose parents lose food stamps as a result of this provision would be affected as well, since the entire household would be less able to purchase adequate food. Some of those affected would be elderly immigrants.

- **Low-income Medicaid beneficiaries, including children, pregnant women, the elderly, and people with disabilities.** The reconciliation proposals approved by the House Energy and Commerce Committee include significant cuts to Medicaid, with a substantial portion — $30 billion over the next ten years (estimate based on CBO data) — coming from allowing states to impose new costs on low-income Medicaid beneficiaries for health care services and needed medications and to restrict the health care services Medicaid covers.

  Children would be especially affected: the Energy and Commerce proposals would roll back federal benefits and cost sharing standards for about *six million children* who rely on Medicaid for their health care.[1] Under the bill, states would be permitted to:

  √ For the first time, charge premiums for children to participate in Medicaid and require copayments for children's doctor's visits, hospital stays, lab work, and other health care services that are not considered preventive care. Premiums and copayments could be applied to children under age six with income above 133 percent of the poverty line and children age six to 18 with income just above the poverty line. (The poverty line for a family of three is just $1,341 per month.) This is a significant change from current law, which exempts children from copayments and bars premiums for nearly all categories of Medicaid beneficiaries (including children). Under the House bill, the only restriction on these fees is an overall cap that limits total premiums and copayments (including those

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[1] Estimate by Jocelyn Guyer and Cindy Mann, "Cost-Sharing Provisions in "Cost-Sharing Provisions in the Energy and Commerce Medicaid Package: Key Issues for Children and Families," Georgetown University Health Policy Institute Center for Children and Families, October 27, 2005, http://www.ccf.georgetown.edu/pdfs/costsharing1005pdf.

that apply to prescription drugs) to five percent of the family's *annual* income. Because the cap is based on annual income, Medicaid beneficiaries could be forced to pay much more than five percent of their *monthly* income for health care. Children in families unable to pay these fees could be denied needed care.

√ **Impose new copayments for prescription drugs for children.** The House proposal would allow states to charge *all children* — including those with incomes below the poverty line — for drugs not on a state's "preferred" drug list. Also, children with incomes just above the poverty level (or above 133 percent of the poverty level for younger children) could face copayments even for preferred drugs. The House proposal also increases the maximum level at which prescription drug copayments can be set. Under the proposal, these fees will rise much faster than the income of low-income families.

√ **Restrict the health care services available to children with incomes just above the poverty line.**[2] These children would no longer have protections under the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) provisions of the current Medicaid rules, which guarantee that children receive the medical services they need. As a result, states would be allowed to terminate or severely limit coverage for a wide range of services and medical devices, such as mental health services, eyeglasses, hearing aids, and other therapeutic services.

Low-income parents, the elderly, and people with disabilities also could be asked to pay premiums and higher copayments for health care and prescription drugs and could see the health care services covered by Medicaid reduced. Some of the increased costs and restricted benefit packages could affect people with incomes well below the poverty line. Many poor adults — including those with disabilities — could face increased copayments for doctor's visits and prescription drugs. Again, these fees are slated to rise faster than these individuals' incomes. Also, states would have new flexibility to limit the health care services covered by Medicaid for most non-institutionalized adult beneficiaries.

These cuts are likely to restrict access to needed care. Research consistently shows that when low-income Medicaid beneficiaries are required to pay premiums out of their limited budgets to participate in the program, many are unable to pay and lose coverage entirely. Research also shows that even modest copayments for health care services and medications lead a significant number of people to go without needed health services and drugs.

- **Children owed child support from non-custodial parents.** The reconciliation proposals approved by the House Ways and Means Committee would cut funding for child support enforcement efforts by $5 billion over the next five years. The Congressional Budget Office projects that while states will replace a portion of the lost federal funds with their own funds, this federal funding reduction would lead states to cut back their efforts to enforce non-custodial parents' child support obligations. CBO estimates that as a result of these cuts, $7.9 billion in child support payments over the next five years — and $24 billion over the next ten years — that would have been collected in the absence of these cuts will now go *un*collected.

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[2] Benefits could be restricted for children under age six with income above 133 percent of the poverty line and children age 6 to 18 with income above the poverty line.

Collecting child support is often most difficult (and thus most expensive) in the cases of low-income children because their non-custodial parents are more likely to have unstable employment and low incomes. Thus, as states scale back enforcement efforts, there is a strong risk that states will devote less effort to difficult (and costly) cases and, therefore, that low-income children could bear the brunt of the cutbacks and receive much less of the support they are owed.

- **Poor individuals with disabilities.** The House Ways and Means proposals would require people who are owed back benefits from the Supplemental Security Income (SSI) program — the program that provides basic income assistance to poor elderly individuals and poor people with disabilities — to wait up to an additional year to receive all of the benefits they are owed.

  SSI recipients often are owed back benefits that accrue while they wait for the Social Security Administration to determine whether they meet SSI's stringent disability standard, which can take many months in some cases. The House bill would require SSI recipients who are owed more than three months of back benefits to receive them in installments, rather than a single lump sum that would enable them to pay bills that accrued while they were waiting for SSA to process their application. (Under current law, only recipients owed more than 12 months in back benefits are required to receive them in installments.)

- **Children in low-income working families who need child care assistance.** Many children in low-income working families would lose access to child care assistance under the House Ways and Means reconciliation package. The House bill reauthorizes the Temporary Assistance for Needy Families (TANF) block grant, significantly increasing the number of TANF-assisted parents that states must place in welfare-to-work programs. Yet to meet these new requirements — which CBO has previously estimated would cost states $8.3 billion over five years — the bill gives states *fewer* resources than prior versions of House TANF reauthorization bills, and *less* child care funding than is needed just to keep pace with inflation.

  Because of inadequate child care funding under the House bill, states would need to divert existing child care resources away from low-income working families in order to cover the cost of providing child care to the increased numbers of TANF recipients participating in welfare-to-work programs. As a result, an estimated 330,000 fewer children in low-income working families not receiving TANF income assistance would receive child care assistance in 2010 than in 2004. [3]

- **Foster children living with grandparents and other relatives.** The House Ways and Means proposal would eliminate federally funded foster care benefits for children who do not meet the foster care eligibility criteria based on their biological parents' circumstances, but who *do* meet those criteria based on the circumstances of the relatives with whom they now reside. In some cases, grandparents and other relatives would receive TANF benefits on behalf of these children instead of foster care benefits (which are significantly higher). In other cases, states may continue to provide the full foster care benefit, but would have to fund those benefits

[3] The bill includes $500 million in additional child care funding over the next five years as compared to the CBO baseline which assumes that the child care block grant will be frozen-funded. Earlier versions of the House TANF reauthorization bill — including the version that twice passed the full House — included $1 billion in additional child care. This level also is less than is needed just to ensure that child care funding keeps pace with inflation.

entirely with state resources, forcing them either to increase state spending or reduce other benefits and services to abused and neglected children and troubled families.

The House reconciliation proposals also include cuts that do not directly affect low-income families, including elimination of the so-called "Byrd Amendment" (related to fees collected from trade dumping disputes) and cuts in student loans. Yet when the full array of cuts is considered, it is clear that low-income families are being asked to shoulder a large share of the cuts.

It is interesting to note that the House reconciliation proposals would undermine two of the broadly shared goals of welfare reform — encouraging and supporting work and requiring *both* parents to take financial responsibility for their children. Under the House proposals, the food stamp changes would cut 225,000 individuals in *working* households with children from the program; an estimated 330,000 children in low-income *working* families would lose child care assistance due to the inadequate funding levels; CBO projects that *90 percent* of the child support that goes uncollected because of the cuts in funding for enforcement efforts would have gone to families *not receiving TANF income assistance;* and the children most likely to face increased fees in Medicaid are those in low-income working families.

The Senate reconciliation proposals, in contrast, do not include *any* cuts to the food stamp, child support enforcement, SSI, or foster care programs. The Senate proposals do include Medicaid cuts, but the Senate achieves most of the savings by reducing the prices Medicaid pays for prescription drugs. The Senate does not achieve any savings by imposing premiums or increased copayments on low-income Medicaid beneficiaries or by reducing the health care services covered by the Medicaid program.[4]

What's Spared

While the House proposals would force low-income families — a politically weak constituency — to shoulder significant cuts, the House has shied away from some other cuts that represent sound policy but affect politically powerful constituents.

Health care is a prime example. As noted, many of the House proposals to achieve savings in Medicaid would reduce low-income Americans' access to needed health care and shift more of the cost of health care to low-income children, parents, seniors, and people with disabilities. The Senate Finance Committee took a much different approach: it avoided changes that harm Medicaid beneficiaries and instead took on powerful lobbying interests such as managed care providers and drug companies. To minimize its Medicaid cuts, for example, the Senate Finance Committee obtained savings by reducing overpayments to Medicare managed care plans, as recommended by the non-partisan Medicare Payment Advisory Commission (MedPAC). These provisions are not in the House bill.

[4] Both the House and Senate achieve savings by modifying the "asset transfer" rules in the Medicaid program. The changes are intended to ensure that elderly individuals do not shield their assets so that the Medicaid program pays for their long term care instead of relying on their own resources. While some tightening of asset transfer policies is warranted, some of the changes that the House has proposed could have the unintended effect of penalizing people who make relatively small gifts or donations while they are still healthy and without any intention of doing so to qualify for Medicaid. The Senate Finance proposals relating to asset transfer offer a much more careful, well-targeted approach to preventing abuses in this area without denying coverage to innocent people who need long-term care.

While both the House and Senate achieve savings by reducing the amount the Medicaid program pays for prescription drugs, the Senate approach is more comprehensive and achieves greater savings — while the House achieves $2.2 billion in savings in this area, the Senate achieves $6.3 billion. The House proposals do not achieve greater savings in part because the Energy and Commerce Committee did not include a provision to increase the rebates that pharmaceutical companies pay to Medicaid for prescription drugs provided to Medicaid beneficiaries — the Senate proposal includes a rebate increase. The is broad consensus among governors that the Medicaid program is not getting the best price possible for prescription drugs from drug companies because these rebates are set too low, but the pharmaceutical industry has been staunchly opposed to this cost reduction measure.

On the tax side, neither the House nor the Senate appears willing to ask for even a modicum of sacrifice from upper-income households, which have received generous tax cuts in recent years. The Urban Institute-Brookings Institution Tax Policy Center reports that households with incomes of over $1 million are receiving tax cuts this year from the 2001 and 2003 tax-cut legislation that on average total $103,000 a year.

In addition, neither chamber appears willing to reconsider two costly tax cuts that will exclusively benefit high-income households and that will start taking effect on January 1, 2006.[5] The Urban Institute-Brookings Institution Tax Policy Center reports that nearly all (97 percent) of the benefits from these tax cuts will go to the four percent of households that have incomes of more than $200,000. The Tax Policy Center also found that when these two tax cuts are fully in effect, 54 percent of their benefits will go to households with income of over $1 million a year, which will receive $19,200 each year on average from these two measures alone.

The costs of these two new tax cuts will be substantial, totaling $27 billion over the next five years — more than enough to replace the savings the House achieves through cuts in low-income programs. The cost of these two tax cuts also will grow over time. Assuming they are extended beyond 2010, their cost will be *$146 billion* over the first ten years they are in full effect (2010 through 2019). When the added interest payments on the debt are taken into account, the total cost rises to nearly $200 billion over that ten-year period.

Who's Helped

Not only have the House and Senate spared already enacted tax cuts from any reduction, but over the next several weeks both chambers each plan to consider tax reconciliation legislation that allows for $70 billion in new tax cuts between fiscal years 2006 and 2010. A large portion of the benefits of these tax cuts will flow to upper-income households and to businesses. Thus, many high-income households, rather than contributing their fair share to deficit reduction or to offsetting the costs

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[5] One of the two new tax cuts repeals a provision of the tax code under which the personal exemption is phased out for people at high income levels. The other repeals a tax-code provision under which limits are placed on the total amount of itemized deductions that taxpayers with high incomes may claim. Both of these tax-code provisions were signed into law by President Bush's father as part of the landmark, bipartisan deficit-reduction law of 1990.

resulting from the hurricanes, will actually receive *more* resources as a result of the budget process. Most notably:

- The tax-cut packages are expected to extend capital gains and dividend tax cuts (which expire in 2008) through 2010. This would cost about $21 billion — more than the House's cuts to Medicaid, child support, and food stamps *combined*. According to the Tax Policy Center, in 2005 more than half (53 percent) of the benefits of the capital gains and dividend tax cuts will flow to the 0.2 percent of households with incomes over $1 million, while three-quarters of the benefits will go to households with incomes over $200,000 and 90 percent of the benefits will go to households with incomes over $100,000.

- Both chambers are also poised to extend Alternative Minimum Tax relief, which will expire at the end of 2005. This AMT relief includes setting higher exemption levels and allowing taxpayers to claim personal credits under the AMT; a one-year extension would cost about $30 billion. According to the Tax Policy Center, 83 percent of the benefits of AMT relief in 2005 will go to those with incomes between $100,000 and $500,000, and about 30 percent of AMT relief will go to those with incomes between $200,000 and $500,000. While there is legitimate concern about certain middle-class households being subject to higher taxes under the AMT, that problem could be addressed outside of the reconciliation process and paid for by eliminating abusive tax shelters or closing other tax loopholes.

House Budget Priorities Especially Skewed in Light of Recent Economic Trends

Congressional budget priorities are especially misdirected when recent economic trends are taken into account. Poverty has risen considerably since 2001. The number of people in poverty increased from 32.9 million in 2001 to 37 million in 2004, while the poverty rate climbed from 11.7 percent in 2001 to 12.7 percent in 2004.

Indeed, poverty increased from 2003 to 2004 even though 2004 represented the third full year of the economic recovery. This continued rise in poverty is not typical for a recovery period. In no other downturn over the past 45 years did poverty increase between the second and third full years of the recovery.

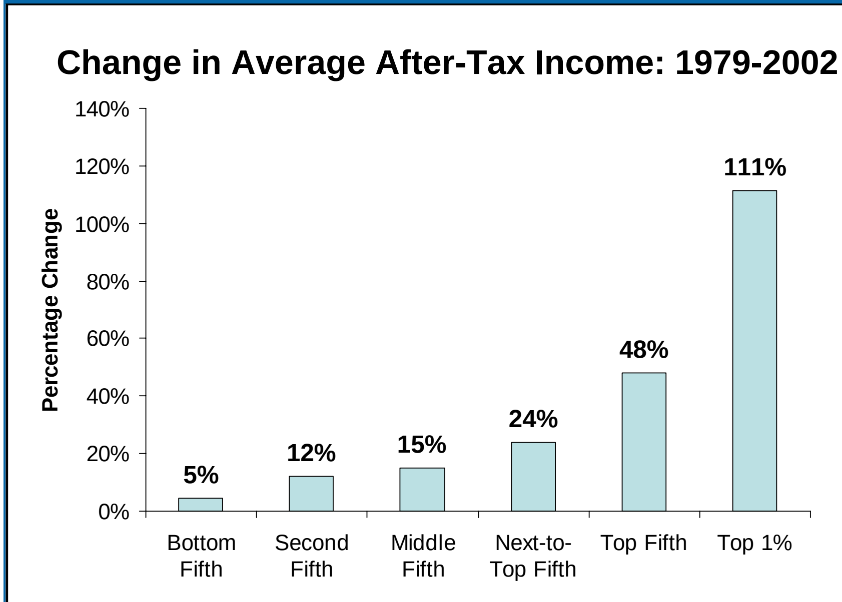
Recent years have also been marked by growing food insecurity and declining health care coverage. The U.S. Department of Agriculture just released information showing that there were 38.2 million individuals lived in households that experienced food insecurity in 2004, a significant increase from the 2003 level. A household is considered "food insecure" if, at some time during the year, it was uncertain of having, or unable to acquire, enough food because of a lack of resources.

In August, the government released data showing that the number of people lacking health insurance reached an all-time high in 2004, as 45.8 million Americans were uninsured. One in six people — 15.7 percent — lacked health coverage (this percent is not statistically different from the 15.6 percent level in 2003).

Income inequality is also on the rise. Recently released Internal Revenue Service data show that income disparities grew substantially from 2002 to 2003. After adjusting for inflation, the after-tax income of the one percent of tax filers with the highest incomes shot up in 2003 by an average of nearly $49,000 per household, while the after-tax incomes of the bottom 75 percent of tax filers *fell* on average. The IRS data are especially important because they provide the first full snapshot of trends since 2002 at the very top of the income spectrum. Also, less-complete data from the Census Bureau (as well as other information) suggest that income disparities have widened further since 2003.

Income disparities were already at near-record levels before this latest increase. Income inequality in 2002 was wider than in all but six years (1988 and 1997-2001) since the middle of the 1930s. This conclusion is based in part on Congressional Budget Office data for the 1979-2002 period, which are summarized in Figure 1.[6] During this period, average after-tax incomes more than doubled for the top one percent of the population, rose relatively modestly for the middle fifth of the population, and rose just 5 percent for the lowest-income fifth of the population.

FIGURE 1



Source: Congressional Budget Office

Rather than helping to mitigate these trends, the House approach would cut programs for low-income families while shielding high-income households from reductions in their tax cuts and granting still more tax cuts to many of these same households. The net effects of this approach would be to harm low-income households and widen further the gulf between high-income households and other Americans.

Additional Information on the House Reconciliation Proposals

The following reports provide more in-depth analysis of the House reconciliation proposals and of the other issues raised by this paper:

Food Stamps

House Agriculture Committee Reconciliation Package Targets Food Stamp Program for Cuts, Center on Budget and Policy Priorities, October 27, 2005: http://www.cbpp.org/10-27-05fa.htm

[6] This conclusion is reached by viewing the CBO data in conjunction with data from a ground-breaking historical analysis of income distribution trends published in a leading economics journal. See Thomas Pickety and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, 118, 2003. Their tables have been updated through 2002 at http://emlab.berkeley.edu/users/saez/

Child Support, Child Care, SSI, Foster Care

Ways and Means Reconciliation Proposal Targets Key Low-Income Programs, Center on Budget and Policy Priorities, October 25, 2005: http://www.cbpp.org/10-25-05wel.htm

Ways and Means Committee Proposes Deep Cuts in Child Support, Center for Law and Social Policy (includes state-by-state data on the child support funding cuts and the projected loss in child support collections), October 27, 2005: http://www.clasp.org/publications/child_support_cuts.pdf

Medicaid

Energy and Commerce "Chairman's Mark" Imposes New Costs on Low-Income Medicaid Beneficiaries, Center on Budget and Policy Priorities: http://www.cbpp.org/10-25-05health.htm
(revision to this report will be completed when the Committee completes action on its bill)

Health Opportunity Accounts for Low-In come Medicaid Beneficiaries: A Risky Approach, Center on Budget and Policy Priorities, October 27, 2005: http://www.cbpp.org/10-26-05health.htm

Cost-Sharing Provisions in the Energy and Commerce Medicaid Proposal: Key Issues for Children and Families, Georgetown University Health Policy Institute Center for Children and Families, October 26, 2005: http://www.cbpp.org/10-25-05health2.pdf

Differences that Make a Difference: Comparing Medicaid and the State Children's Health Insurance Program Federal Benefits Standards, Georgetown University Health Policy Institute Center for Children and Families, October 2005: http://www.cbpp.org/10-25-05health3.pdf (summary: http://www.cbpp.org/10-25-05health3-sum.pdf)

General

Getting Serious About Deficits? Calls to Offset Hurricane Spending Miss the Point; Balanced Set of First Steps Toward Fiscal Discipline Needed, Center on Budget and Policy Priorities, October 6, 2005: http://www.cbpp.org/10-6-05bud2.htm

New IRS Data Show Income Inequality Is Again on the Rise, Center on Budget and Policy Priorities, October 17, 2005: http://www.cbpp.org/10-17-05inc.htm

Economic Recovery Failed to Benefit Much of the Population in 2004, Center on Budget and Policy Priorities, August 30, 2005: http://www.cbpp.org/8-30-05pov.htm