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HOW LOW-INCOME CONSUMERS FARE IN THE HOUSE CLIMATE BILL

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On June 26, 2009, the House of Representatives passed the American Clean Energy and Security Act of 2009 (H.R. 2454). The legislation, which would place a cap on emissions of greenhouse gases to combat global warming, includes important provisions to help ensure that the legislation does not increase hardship by making poor families poorer or pushing more people into poverty.

The Need for Low-Income Consumer Assistance

Restricting activities that produce greenhouse gas emissions is necessary to avoid costly and potentially catastrophic environmental and economic consequences from global warming, but it also raises the cost of continuing to use "dirty energy." Low-income consumers are the most vulnerable to the higher costs arising from climate change policy because they spend a larger share of their budgets on necessities like energy than do better-off consumers, are the least able to afford new energy-saving vehicles and appliances, and already face major challenges making ends meet. The House climate bill is designed in a way that protects vulnerable households' budgets while still achieving the benefits of reduced emissions.

The Use of Emissions Allowances to Fund Consumer Assistance

The House bill uses a "cap-and-trade" system to limit carbon emissions from the burning of fossil fuels and other greenhouse gas emissions. A cap-and-trade system works by placing an overall limit on carbon dioxide emissions and requiring companies that emit carbon to hold an "allowance" (or "permit") for each ton of carbon they emit.

The bill uses proceeds from the sale of 15 percent of the emissions allowances to reimburse low-income households for the higher costs they will face for energy and energy-intensive goods and services under the bill. This low-income assistance is in addition to relief that would be provided to all consumers, regardless of income, by provisions in the bill that give free emissions allowances to retail electric and gas companies (called local distribution companies, or LDCs) for the purpose of providing their customers with relief on their utility bills.[1]

[1] In a cap-and-trade system, the cost to companies of buying the emissions allowances is a business expense that is passed on to consumers as higher prices, including higher electricity and natural gas bills. The House bill would give free

How the Low-Income Consumer Assistance Would Work

Under the House bill, low-income families with children, seniors, people with disabilities, and other low-income individuals would be eligible for a monthly federal benefit, administered through their state's human services agency, to offset the loss in purchasing power caused by the other provisions of the bill. This benefit would be delivered electronically onto the same debit cards that states now use to deliver food stamps and other benefits. The bill also uses a portion of the proceeds from auctioning 15 percent of the allowances to finance an expansion in the now-very-small component of the Earned Income Tax Credit (EITC) for low-income workers who do not live with children, the low-income group most likely to be missed by the benefit provided through the state human services agencies. This EITC expansion would help offset the rising costs those workers would face as a result of the climate legislation. It also would reduce taxes for the one group of Americans who must pay federal income taxes despite living below the poverty line and who thus are taxed deeper into poverty.

Energy Refund Program through State Human Service Agencies

Under the bill, households with incomes under roughly 160 percent of the poverty line — about $35,000 a year for a family of four in 2009 — would qualify for a monthly energy refund that would be delivered on Electronic Benefit Transfer (EBT) cards — the debit cards already used to deliver food stamps in every state and other benefits such as cash assistance and child care subsidies in many states. Households with incomes below 150 percent of the poverty line would qualify for a *full* benefit; the benefit would begin to phase down for households with incomes above this income level and phase out at roughly 160 percent of the poverty line.[2]

- **How is the refund amount set?** The Energy Information Administration (EIA, the statistical agency of the Energy Department) would calculate each year how much, on average, the higher energy prices resulting from the climate policies would reduce the purchasing power of households with incomes at 150 percent of the poverty line. The EIA would make this calculation for households of different sizes, since energy consumption — and, thus, the loss of purchasing power that results from higher energy costs — varies by household size. EIA would base these calculations on the market value of emissions allowances, other economic costs of capping carbon emissions, and the "carbon footprint" of low-income households in this income range, which can be derived from government data on consumer expenditures. A household's benefit would equal the amount that EIA calculated that energy prices would rise that year for a household of that size as a result of the legislation, after taking into account the relief the household would receive through the free allocation of permits to local utility

allowances to LDCs but would require them to use those allowances to benefit their customers, presumably by selling the allowances and using the proceeds to give customers relief on their utility bills. In the bill, natural gas utilities would be required to use a portion of their free allowances for energy efficiency programs, but there is no similar requirement for electric utilities. This creates ambiguity about whether and to what degree LDCs could use the proceeds from selling their allowances for energy efficiency expenditures, rather than to directly lower their customers' bills.

[2] As discussed below, some families with members who receive Medicaid or CHIP likely would be able to receive a refund at somewhat higher income levels based on the authority for the Secretary to create a process for them to automatically be enrolled, based on the information that the state has available in their Medicaid or CHIP records.

companies. The benefit would be delivered on a monthly basis.[3]

- **Who is eligible for the energy refund**? All households with incomes below 150 percent of the poverty line would qualify for a full refund. As noted, households with incomes just above this level would qualify for a partial benefit.[4] Based on Congressional Budget Office (CBO) cost estimates and estimated average refund amounts, approximately 70 million individuals would participate in the refund program.

- **How will families learn about and be enrolled in the energy refund program**? The legislation directs state human service agencies to *automatically* enroll certain groups of individuals into the refund program. This includes food stamp households, and low-income seniors and people with disabilities who participate in the Supplemental Security Income (SSI) program or who receive the low-income subsidy for the Medicare prescription drug program. (All low-income seniors and people with disabilities who participate in Medicare and in the Medicaid program are automatically enrolled in the low-income subsidy for the prescription drug program and, thus, would automatically receive the energy refund benefit.)

  While the Food Stamp Program (now called the Supplemental Nutrition Assistance Program) reaches most very poor families with children, a substantial number of people have incomes below 150 percent of the poverty line but do *not* participate in the Food Stamp Program, SSI, or the low-income subsidy program for the Medicare prescription drug benefit. These households would be permitted to apply for the refund. Recognizing the importance of ensuring that those who are eligible know about and can easily enroll in the program, the bill includes several additional provisions to facilitate participation by eligible low-income households:

  - The bill requires states to screen all Medicaid, CHIP (Children's Health Insurance Program) and TANF applicants for eligibility for the energy refund program. The bill also allows the Department of Health and Human Services, the agency that will oversee the energy refund program, to develop simplified eligibility rules that would enable states to automatically enroll families receiving Medicaid and CHIP into the energy refund program based on the income and family size information that states collect in determining Medicaid and CHIP eligibility. This provision will facilitate enrollment among low-income working families who sign their children up for Medicaid or CHIP but may not qualify for or participate in the Food Stamp Program.

  - The bill directs the heads of the Department of Health and Human Services, the Social Security Administration, the Railroad Retirement Board, and the Department of Veterans Affairs to work together with state human service agencies to develop effective mechanisms to ensure that low-income retirees, veterans, and people with disabilities receive the refund for which they are eligible.

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[3] The bill allows the Secretary of Health and Human Services to convert the payments to quarterly if the benefit amount is modest compared to the administrative costs of delivering it on a monthly basis.

[4] Undocumented immigrants would not be eligible for a refund.

- **How is the refund delivered?** The refunds would be deposited in households' bank accounts or delivered through state electronic benefit transfer systems — the debit card systems that states use to deliver food stamps, cash assistance, and other benefits — or other federally-approved delivery systems.

- **How does the bill avoid high administrative costs**? The House bill holds down administrative costs in several ways. First, states will be able to enroll the majority of eligible families into the program without collecting any new information or paperwork from the family. This is because the new refund program builds off of the eligibility rules for the Food Stamp Program, SSI Program, and the low-income subsidy for the Medicare prescription drug program, as well as the information that states already collect to determine eligibility in Medicaid and CHIP. Second, states already operate Electronic Benefit Transfer debit card systems. Building on to these systems to deliver an additional benefit is far less expensive than using paper checks or setting up a new delivery system.

The EITC for Workers Who Do Not Live with Children

While the Energy Refund Program delivered through state human service agencies' EBT systems is likely to reach a large share of eligible seniors, people with disabilities, and families with children, one group is unlikely to have high participation in the program — non-elderly adult workers who do not live with children. Only about one in four eligible working adults without children in the home participates in the Food Stamp Program. The bill provides consumer relief to these individuals by expanding the Earned Income Tax Credit for workers without children.

Currently, the EITC for this group is very small — the maximum benefit in 2009 is just $457, far below the maximum benefit of $3,043 for a family with one child. Moreover, the EITC for adults who do not live with children is too small to ensure even that single workers living below the poverty line are not taxed deeper into poverty; this is the only group of workers in the country who begin to owe federal income tax before their income reaches the poverty line. In addition, the current EITC for workers without children has such a low eligibility limit that a full-time minimum wage worker is wholly ineligible for the credit.

The House bill provides consumer relief to these workers through an expansion of the childless workers' EITC. The maximum benefit would remain very modest compared to the EITC benefit for families with children — in 2012, the maximum EITC credit for a single worker without children would be $932, or less than one-third the benefit for a parent with one child. In addition, the bill would raise the income level at which the credit begins to phase out, from $7,620 in 2012 dollars (69 percent of the poverty line) to $11,640 in 2012 dollars (about 105 percent of the poverty line; the *end* of the phase-out range would be raised to about 160 percent of the poverty line). Much of the increased EITC would offset the loss of purchasing power these workers will face as a result of the climate legislation. The remainder of the EITC increase would go to reducing the tax bills of these poor and near-poor workers.

Low-income Consumer Relief:
Final House Bill Compared to the Energy and Commerce Committee Bill

On May 19, 2009, the Energy and Commerce Committee reported a climate change bill that included low-income consumer relief. Because the Ways and Means Committee has primary jurisdiction over such provisions, however, it drafted revisions to the low-income provisions that the Energy and Commerce Committee had approved, which were included in the House-passed bill.[a]

Both the legislation that the House passed on June 26 and the Energy and Commerce version use the proceeds from auctioning 15 percent of the emissions allowances to finance relief for low-income households, offsetting the losses in purchasing power that would otherwise result from enactment of cap-and-trade legislation. Both bills include a state human services EBT component to reach the lowest-income households. In both bills, this low-income relief supplements the relief that low-income households would receive from the provisions in the bill that give free emissions allowances to retail electric and gas companies to hold down utility bills.

The principal difference between the two bills is that the House-passed bill targets more of the relief on households below 150 percent of the poverty line through the state human services agency mechanism, and limits the bill's low-income tax credit provision to low-income workers who do not live with children, the group most likely to be missed by the state human services agency mechanism. The Energy and Commerce bill set the refund amount for low-income households at the *average* loss in purchasing power to households in the lowest income quintile, adjusted by household size. As a result, households experiencing a higher-than-average loss in purchasing power would receive relief to compensate them for part, but not all, of the increase in energy costs they would face. The House-passed bill sets the refund amount provided through the human services agency at a somewhat higher level (the average loss to households with incomes right at 150 percent of the poverty line). By setting the refund level at this somewhat higher level, the House-passed bill ensures that the full loss in purchasing power is offset for a greater share of low-income households.

The Energy and Commerce bill included a larger tax credit component than the House-passed bill. The House-passed bill expands the EITC for workers without qualifying children, the group most unlikely to participate in the energy refund program operated through state human service agencies. (Many of these individuals are either ineligible for food stamps or do not participate in that program, and most are neither elderly nor people with disabilities and hence do not participate in the Medicare prescription drug program or SSI.) The Energy and Commerce bill included a broader tax credit that also would be available to low- and moderate-income working households with children.

As a result of these changes, the House-passed bill extends consumer relief to a smaller number of moderate-income households than the Energy and Commerce bill would have done, but ensures that a larger share of lower-income households see their loss in purchasing power fully offset. In the bill the House approved, the consumer relief phases out at about 160 percent of the poverty line, or about $35,000 a year for a family of four, compared to closer to 200 percent of the poverty line, or about $45,000 a year for a family of four, under the Energy and Commerce version.[b]

Moving forward through the Senate and conference processes, Congress should consider whether more resources can be made available for consumer relief so that such relief can be provided to more moderate-income households without diminishing the relief, and thereby causing hardship, among low-income families and individuals.

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[a] For a description of the Energy and Commerce provisions see: Chad Stone, Sharon Parrott, and Dottie Rosenbaum, "Waxman-Markey Climate Change Bill Fully Offsets Average Purchasing Power Loss for Low-Income Consumers: Also Reaches Some Moderate-Income Households," Center on Budget and Policy Priorities, April 20, 2009.

[b] Some families with members who receive Medicaid or CHIP likely may be able to receive a refund at somewhat higher income levels, based on the authority for the Secretary to create a process for them to automatically be enrolled based on the information the state has available for Medicaid or CHIP.

Impact of the Consumer Relief Mechanisms

The consumer refund mechanisms, in combination with the allocations to utility companies that the House bill makes, would succeed in providing meaningful relief to households with incomes below 150 percent of the poverty line and ensuring that, on average, households in the bottom quintile are not made worse-off by the legislation.[5]

A recent Congressional Budget Office (CBO) analysis of the bill confirms that the legislation would succeed in preventing increased hardship among low-income households overall. CBO examined how the costs and financial benefits of the legislation would be distributed among households in each fifth (or quintile) of the income distribution. It estimated that people in the bottom quintile would incur an average *gross* cost of $430 per household but incur no *net* loss, on average, because they would receive back an average of $555 per household in relief.[6]

TABLE 1: Net Cost per Household in 2020

Bottom 20 percent	-$125
Second 20 percent	$150
Middle 20 percent	$310
Fourth 20 percent	$375
Top 20 percent	$165
Average	*$160*

Source: Congressional Budget Office, based on 2020 program provisions applied to 2010 income levels

The CBO analysis finds that the average household in the bottom quintile would be fully protected from the effects of the increase in energy prices; the provision in the legislation that uses 15 percent of the allowance value for low-income assistance is critical to achieving this outcome. (The CBO analysis shows there would be a net increase in cost in the other income quintiles but it would be modest. It would range from an average of $150 per household in the second — i.e., the next-to-the-bottom — quintile to an average of $375 in the next-to-the-top quintile; see Table 1.)

Moreover, the legislation delivers much of this assistance through existing mechanisms that are efficient and effective.[7] By using existing delivery mechanisms, the bill would automatically reach a very large share of low-income families without their having to file new paperwork, and would have low administrative costs.

While the bill would provide enough consumer relief to fully offset most low-income families' increased costs, some households — such as those that rent poorly-insulated apartments or have inefficient appliances — will face increased costs that exceed the amount of relief they receive. These households could have difficulty making ends meet even with the consumer assistance provided in the bill. For that reason, as the legislation moves forward, it could be strengthened by providing additional funds for the Low-Income Home Energy Assistance Program (LIHEAP), a

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[5] As other Center on Budget and Policy Priorities analyses explain, distributing consumer relief through utility companies poses a series of problems. See Chad Stone, "Holding Down Increases in Utility Bills Is a Flawed Way To Protect Consumers While Fighting Global Warming: Direct Consumer Rebates a Better Approach," Center on Budget and Policy Priorities, April 27, 2009.

[6] Congressional Budget Office, "The Economic Effects of Legislation to Reduce Greenhouse-Gas Emissions," September 2009.

[7] See Sharon Parrott, Dottie Rosenbaum, and Chad Stone, "How to Use Existing Tax and Benefit Systems to Offset Consumers' Higher Energy Costs Under an Emissions Cap," Center on Budget and Policy Priorities, April 20, 2009.

program that provides energy assistance to low-income consumers and often targets aid on those who face utility shut-offs or other hardships.[8]

The consumer relief provisions also could be strengthened by extending the consumer relief either through the EBT mechanism, or more likely through an income tax credit, to families with incomes somewhat above the eligibility cut-off of the House bill's relief provisions.

[8] See Jennifer Kefer and Robert Greenstein, "Adding Funding to the House Climate Bill for Low-income Home Energy Assistance Would Help Poor Families Facing Particularly Large Increases in Energy Costs," Center on Budget and Policy Priorities, July 8, 2009.