

# CLASP

CENTER FOR LAW AND SOCIAL POLICY

## Summary of Key Provisions of the American Recovery and Reinvestment Act Aimed at Improving the Lives of Low-Income Americans

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Faced with growing unemployment and a full blown recession, Congress is in the process of passing the American Recovery and Reinvestment Act. The package negotiated by the House and Senate conferees invests in children, families and low-income individuals through education, workforce development, safety net programs and other important areas. It provides both tax relief and direct supports to those hurt by the economic downturn, and recognizes the need for investments that will have payoffs now and in the future.

Many of the provisions in the Recovery Act will directly affect low-income workers and their families. This summary provides a preliminary overview of these provisions. CLASP will continue to publish additional materials and resources identifying new funding that supports low-income workers and their families in the ARRA and will make recommendations to states and localities as they move to implement policy changes designed to stimulate the economy, put people back to work and make long-term investments in local communities.

### **Pathways to Prosperity**

- **Pell Grants:** The Recovery Act provides \$15.6 billion for Pell Grants to low-income students, increasing the maximum grant by \$500 for two years, to \$5,350 in 2009-2010, and \$5,550 in 2010-2011. The Act also addresses the existing shortfall in the program.
- **Workforce Investment Act:** The Recovery Act provides \$2.95 billion for the Adult, Youth, and Dislocated Worker employment and training programs, including \$500 million for the Adult program, \$1.25 billion for the Dislocated Worker program, and \$1.2 billion for summer jobs and other youth activities. The Act raises the age eligibility for the Youth program from 21 to 24. The Act also specifies that a priority use for the Adult funds is for public assistance recipients and other low-income individuals, and specifies that the funding can support the provision of needs-related payments and support services.

The Recovery Act provides \$200 million for the Dislocated Workers National Reserve.

The Recovery Act provides \$750 million for a program of competitive grants for worker training and placement in high growth and emerging industry sectors, of which \$500 million is designated for research, labor exchange and job training projects that prepare workers for careers in energy efficiency and renewable energy. The Act directs the Secretary of Labor to give priority to projects

that prepare workers for careers in the health care sector funded through the remaining \$250 million.

The Recovery Act provides \$50 million for YouthBuild.

- **Community Service Employment for Older Americans:** The Recovery Act provides \$120 million for the Community Service Employment for Older Americans program.
- **State Unemployment Insurance and Employment Service Operations:** The Recovery Act provides \$400 million for State Unemployment Insurance and Employment Service Operations. The Act requires that at least \$250 million be used by states for reemployment services for unemployment insurance claimants.
- **Worker Protection and Oversight:** The Recovery Act provides \$80 million for the Department of Labor for enforcement of worker protection laws and regulations, oversight, and coordination activities related to the infrastructure and unemployment insurance investments in the Act.
- **American Opportunity Tax Credit:** The Recovery Act temporarily (2009 and 2010) replaces the Hope tax credit with a new higher education credit worth up to \$2,500 a year for the first four years of college. In addition to tuition and fees, the costs of books and course materials can be claimed for the credit. For the first time, the credit is 40 percent refundable. A student with no tax liability could receive a maximum refundable credit of \$1,000 for \$4,000 in educational expenses.
- **Work Study:** The Recovery Act includes \$200 million for the Federal Work Study program, which provides part-time jobs for financially disadvantaged college students and allows them to earn money to help pay education expenses.
- **Work Opportunity Tax Credit:** Under current law, businesses can claim a work opportunity tax credit (WOTC) equal to 40 percent of the first \$6,000 of wages paid to employees who are members of one of nine targeted groups. Employees must work at least 400 hours to be counted for the full credit. The Recovery Act adds unemployed veterans and disconnected youth (ages 16 to 25) to the targeted groups for 2009 and 2010.
- **Trade Adjustment Assistance:** The Recovery Act amends the Trade Act of 1974 to reauthorize Trade Adjustment Assistance (TAA) programs for workers, firms and farmers. The Act extends eligibility for TAA to workers employed by firms in the services sector, workers at public agencies and workers who lose jobs as a result of a shift of production to any foreign country. The Act increases the amount of training funding allowed under TAA and clarifies the types of programs training funds may pay for. The Act establishes a new program for communities affected by trade and authorizes a range of discretionary grants that support worker training and sector partnerships.

### **Children, Youth and Families**

- **Child Care and Development Block Grant:** The Recovery Act provides \$2.1 billion in new discretionary funding for CCDBG, which does not require any state match or maintenance of effort. From the total, \$255 million of these funds are allocated for quality improvement, of which \$93.6

million are for activities to improve the quality of care for infants and toddlers. The current requirement that states spend a minimum of 4 percent of all funds on quality improvement activities is in effect.

- **Head Start and Early Head Start:** The Recovery Act includes a \$2.1 billion investment in Head Start (\$1 billion) and Early Head Start (\$1.1 billion). The Act designates funds for training, technical assistance and monitoring in the Early Head Start program. Conference language notes that tribes and migrant and seasonal programs are to be included in the distribution of Early Head Start funds.
- **Title I of No Child Left Behind:** The Recovery Act increases Title I funding by \$13 billion, but there is no specific language requiring local education agencies to use the funds for early childhood education. Current law allows funds to be used in this way.
- **Individuals with Disabilities Education Act (IDEA):** The Recovery Act includes \$500 million for Part C of IDEA, which funds early intervention services for infants and toddlers, and \$400 million for Section 619 of Part B, which funds services for preschool age children.
- **Department of Education State Fiscal Stabilization Fund:** The Recovery Act provides \$53.6 billion for the Department of Education's State Fiscal Stabilization Fund, the bulk of which would support elementary, secondary, and postsecondary education, and, as applicable, early childhood education programs and services. Nearly 82 percent of the fund's dollars must be spent to support the abovementioned education programs. The remainder of the fund can be used in areas beyond these, including adult education and public safety.

### **Modernizing the Safety Net**

- **Child Tax Credit:** Currently a family earning less than \$8,500 a year cannot benefit from the child tax credit, which provides a maximum credit of \$1,000 per child. The Recovery Act lowers the threshold for refundability to \$3,000 for 2009 and 2010. Refundability phases in at a rate of \$0.15 per \$1 of earnings, so a family with two children would still need \$16,333 in earnings to qualify for the full tax credit.
- **Earned Income Tax Credit:** The Recovery Act temporarily creates a new "third tier" of the Earned Income Tax Credit (EITC) for families with three or more qualifying children. In this tier, the credit phases in at 45 percent of earned income (up from 40 percent under current law), and the maximum credit for these families increases by almost \$600. In addition, the Act increases marriage penalty relief by raising the phase-out threshold for married couples by \$1,880.
- **Making Work Pay Tax Credit:** The Recovery Act implements a modified version President Obama's proposal for a new refundable Making Work Pay Tax Credit. For 2009 and 2010, the Act creates a credit of up to \$400 for individuals and \$800 for married couples, who work. It phases in at 6.2 percent of each dollar earned, so an individual would need \$6,452 in earnings to qualify for the full \$400 credit. The credit phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly).

- **Recovery Payments to Retirees and Disabled Individuals:** The Recovery Act provides a one-time \$250 payment to individuals receiving SSI, Social Security, veterans' benefits, and railroad retirement. It also provides a one-time refundable \$250 tax credit to certain government retirees who are ineligible for Social Security.
- **Unemployment Insurance:** The Recovery Act provides up to \$7 billion in incentive payments to states that adopt or already have in place state Unemployment Insurance (UI) laws that expand access to benefits for low-income workers, part-time workers and workers who leave jobs for compelling family reasons. The Recovery Act also allocates \$500 million to states for administration and services to UI claimants. The emergency unemployment compensation program that provides federally funded benefits to workers who exhaust regular state benefits is extended through the end of December 2009. In addition, a federally funded \$25 weekly UI benefit is made available to all individuals receiving regular UI benefits and the first \$2,400 of unemployment benefits per recipient are exempted from the federal income tax.
- **TANF Emergency Contingency Fund:** The Recovery Act creates a new TANF Emergency Contingency Fund that covers 80 percent of the cost of increased assistance payments in states with caseload increases, as well as 80 percent of additional spending on short-term non-recurring benefits and subsidized employment. A total of \$5 billion is appropriated for the contingency fund, but no state may receive (over two years) more than 50 percent of its annual block grant from this and the existing contingency fund. The Act also includes a provision that temporarily removes the disincentive to allowing families to receive assistance created by the caseload reduction credit, extends the TANF Supplemental Grants for FY 2010, and allows states to use unspent TANF funds from previous years for any benefit or service allowable under TANF.
- **Medicaid Aid to States:** The Recovery Act temporarily increases the rate of federal matching funds provided to all states (Federal Medicaid Assistance Percentage or FMAP) by 6.2 percent for the twenty-seven months ending December 31, 2010. States that are experiencing higher unemployment rates would receive an additional FMAP increase (5.5 percent, 8.5 percent, or 11.5 percent). Each state temporarily is "held harmless" from any drop in its rate under the regular FMAP formula. The Act also provides an extension of the current moratorium on Medicaid case management and other regulations through July 1, 2009.
- **Title IV-E of the Social Security Act:** The Recovery Act provides a temporary FMAP increase of 6.2 percent to state child welfare payments through Title IV-E of the Social Security Act.
- **Child Support Enforcement:** The Recovery Act temporarily restores federal incentive matching funds through September 30, 2010. The provision would temporarily reverse a 20 percent cut to federal child support program funds made by the Deficit Reduction Act of 2005.
- **Health coverage for the uninsured:** The Recovery Act provides for a 65 percent subsidy of the cost of continuing the group insurance plans of unemployed people through COBRA for up to 9 months. This is limited to individuals with income under \$125,000 and families with income under \$250,000.
- **Transitional Medical Assistance:** The Recovery Act extends Transitional Medical Assistance (TMA) from June 30, 2009 through December 31, 2010. TMA provides families with up to 12 months of

Medicaid coverage once they become employed and would otherwise lose benefits due to their earnings.

- **Food Assistance:** The Recovery Act provides \$20 billion to temporarily increase benefits under the Supplemental Nutrition Assistance Program (SNAP), formerly called Food Stamps, by 13.6 percent. The Act also lifts restrictions that limit how long unemployed individuals without children can receive benefits. The Act also provides \$500 million for the Women, Infant, and Children (WIC) nutrition program, \$150 million for the Emergency Food Assistance Program, and \$100 million for equipment grants for the school lunch program.

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CLASP develops and advocates for policies at the federal, state and local levels that improve the lives of low income people. We focus on policies that strengthen families and create pathways to education and work. Through careful research and analysis and effective advocacy, we develop and promote new ideas, mobilize others, and directly assist governments and advocates to put in place successful strategies that deliver results that matter to people across America.