

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS



815 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20006

RICHARD L. TRUMKA
PRESIDENT

ELIZABETH H. SHULER
SECRETARY-TREASURER

ARLENE HOLT BAKER
EXECUTIVE VICE-PRESIDENT

LEGISLATIVE ALERT!

(202) 637-5057

April 12, 2011



Dear Representative:

On behalf of the AFL-CIO, I am writing to urge you to vote against the Republican budget resolution for FY 2012, drafted by Budget Committee Chairman Paul Ryan, when it comes to the floor of the House for a vote this week. The Ryan plan is a “reverse Robin Hood” approach to federal budgeting that would constitute the single largest redistribution of income from the bottom to the top in U.S. history, according to the Center on Budget and Policy Priorities, and increase economic inequality and poverty more than any other piece of legislation in modern times, and perhaps in U.S. history.

Let us be clear: the Ryan budget plan is not designed to reduce the federal deficit. On the contrary, it is designed to cut taxes for Wall Street and the wealthy and to stick the middle class and the poor with the bill. The Ryan budget would reduce taxes for individuals and corporations by \$4.2 trillion over 10 years, while reducing federal spending by \$4.3 trillion. In other words, thanks to its massive tax cuts, the Ryan budget would only reduce the federal deficit by the paltry sum of \$155 billion over 10 years.

Let us also be clear that the tax cuts provided by the Republican budget would benefit primarily Wall Street and the wealthy. The Ryan budget would make permanent the Bush-era tax cuts for the wealthy, increasing the deficit by \$800 billion over 10 years and giving millionaires an average tax cut of \$125,000. Incredibly, the Republican budget would also reduce the top marginal income tax rate from 35 percent to 25 percent, its lowest level since 1931, and similarly lower the income tax rate on corporations from 35 percent to 25 percent. Finally, the Ryan budget would make permanent the estate tax giveaway that benefits the estates of the wealthiest one quarter of one percent of Americans who die, which congressional Republicans inserted into the December 2010 tax deal.

To pay for this profligate tax cut for Wall Street and the wealthy, the Ryan budget would demand extraordinary sacrifice from the middle class and the poor. Two-thirds of the spending cuts in the Ryan budget (\$2.9 billion of \$4.3 billion) would come from programs serving people of modest means, according to the Center for Budget and Policy Priorities.

In fact, the Ryan budget would launch a full frontal assault on the living standards of the middle class, simultaneously on multiple fronts. The Ryan budget would destroy good middle class jobs by cutting federal investment in infrastructure; dismantle Medicare as we know it and leave seniors at the mercy of insurance companies; dismantle the Medicaid safety net and slash support for seniors in nursing homes; deny health insurance coverage to 33 million people; repeal recently enacted consumer protections against abuse by health insurance companies;

worsen the budget crisis in the states; increase taxes on the middle class, possibly including a tax on middle class health benefits; decimate public education; make college more expensive for 10 million students; and literally eliminate all functions of the federal government other than Social Security, health care, and defense by 2050.

The most important economic challenge facing our country today is the jobs crisis, and poll after poll shows that the American people want Congress to do something about it. Yet the Ryan budget would take us in the opposite direction—destroying good jobs in highway, transit, and other infrastructure. The Ryan plan would cut transportation funding by \$29 billion in FY 2012; \$154 billion over 5 years; and \$318 billion over 10 years, for a total reduction of almost one third. The Ryan budget would also reduce the federal workforce by 10 percent, replacing just one out of three federal employees who retire or leave their jobs for other reasons.

In addition, the Ryan plan would destroy Medicare as we know it, ending the Medicare guarantee for seniors who turn 65 in 2022 or later. It would replace guaranteed Medicare benefits with a voucher worth \$8,000, on average, which the government would pay directly to private insurance companies. The Ryan vouchers would be underfunded: the value of all vouchers would grow with regular inflation, but health care costs are projected to grow at a much faster rate. According to the Congressional Budget Office's (CBO) analysis, by 2030 most middle-income retirees would have to pay almost half their income to buy an insurance package equivalent to Medicare, and an even higher share as they grow older.

And according to CBO seniors would have to pay significantly more out of their own pockets for health care under plans they could afford to buy with their vouchers. In the first year of the program, out-of-pocket costs for a typical senior would more than double, from \$6,150 to \$12,500. By 2030, seniors would have to pay 68 of their health care costs out of their own pockets, rather than 25-30 percent under the current program.

The committee description of the Ryan plan ("The Path to Prosperity") claims that vouchers are necessary to control health care costs. However, the Ryan voucher plan would not control health care costs at all; it would merely shift costs from the government onto seniors. In fact, CBO finds that the Ryan plan would *increase* health care costs overall—because Medicare has lower administrative costs than private health insurance plans and because it pays less to health care providers. According to CBO, total health care expenditures for a typical 65-year-old would be almost 40 percent higher under the Ryan voucher program than under the current program. As a result, the cost shift to seniors would actually be *greater* than the cost savings to the federal government.

The Ryan plan would repeal most of the major provisions of the Affordable Care Act (ACA), including the health insurance subsidies and exchanges, the expansion of Medicaid eligibility; the provisions that close the coverage gap for prescription drugs (the "donut hole"); the consumer protections against abuses by insurance companies; the provisions for full Medicare coverage of key preventive services and annual checkups; and the Independent Payment Advisory Board (IPAB), a key mechanism for cost control. The Ryan budget would repeal all the ACA provisions that together expand health insurance coverage to 33 million more people by 2019.

In addition to repealing the ACA's expansion of Medicaid eligibility, the Ryan budget would raise the cost and reduce the quality of nursing home care for millions of families by slashing funding for Medicaid, the primary source of funding for nursing home and other long-term care. The Ryan plan would end Medicaid as we know it by turning it into a "block grant" program whose fixed funding stream would increase every year at about four percentage points below the need for Medicaid services. As a result, the Ryan plan would cut Medicaid funding by 35 percent by 2022 and 49 percent by 2030, according to the CBO. In total, the Ryan budget would slash Medicaid funding by \$1.4 trillion over 10 years.

The Ryan plan's cuts to Medicaid would not lead to greater efficiency, since Medicaid is already an extremely efficient program that covers individuals with similar health status at a much lower cost than private insurance. Because Medicaid has lower administrative costs than private insurance and can pay providers less, it can cover children for 27 percent less and adults for 20 percent less. Instead, as CBO makes clear, the Ryan plan's devastating cuts to Medicaid would force states to roll back eligibility, increasing the number of people who are uninsured, and reduce coverage, increasing the number of people who are underinsured.

Under the Ryan budget, taxes would have to be raised on the middle class to pay for tax cuts for the wealthy. The Ryan plan calls for tax reform that "broadens the tax base" by paring back tax expenditures, and then using the resulting increase in tax revenues to pay for income tax rate reduction rather than deficit reduction. As the Center for American Progress points out, "the basic math makes a middle class tax hike unavoidable" because "broadening the tax base means removing some tax expenditures that currently benefit both the middle class and the rich—though the rich are getting a huge rate cut." Currently, the largest tax expenditure in the code is the tax exclusion for employer-provided health insurance, and the Ryan plan calls the tax-free treatment of health benefits "inequitable." Limiting this tax expenditure means taxing health care benefits, and to raise any significant amount of money to pay for tax cuts for the wealthy, a health benefits tax would have to reach deep into the middle class.

Although the Ryan budget does not specifically cut Social Security benefits, it does call for unprecedented procedures that would make it easier to cut benefits. If the annual Social Security Trustees Report projects a shortfall in Social Security's funding over 75 years, legislation to close the gap would have to be introduced in Congress, and both houses would have to consider such legislation under "expedited procedures." The committee summary of the Ryan plan points to benefit cuts as the sole means of addressing any shortfall, highlighting an increase in the retirement age and benefit cuts for those whose annual earnings exceeded \$27,000, while asserting that raising revenue by lifting the cap on taxable earnings would cause "profound economic damage."

The Ryan budget also proposes an enormous shift in responsibility for funding the modest defined benefit of the Federal Employees Retirement System (FERS) from employer to employee. This change is unjustified, given that the FERS system is currently funded at 100 percent of what the law requires. The result of this shift would be to cut the paychecks of federal employees by 6.2 percent.

The Ryan plan would extend to five years the current freeze on federal employee wages and salaries, which it attempts to justify with inaccurate information about federal employee compensation. Recruitment, retention, and morale of federal employees could not withstand a five-year pay freeze.

The Ryan budget would also cut funding for education, job training, and social services over 10 years by more than 25 percent below levels needed to maintain services at current levels. It would cut Pell grants back to their 2008 levels, repealing the guaranteed increases enacted last year, slashing the maximum award by more than 60 percent, and making it harder for almost 10 million students to afford college. And the Ryan budget would cut elementary and secondary education by more than 25 percent below current levels.

Overall, the Ryan plan would freeze non-security discretionary spending at pre-2008 levels for five years, cutting these programs by \$1.6 trillion over 10 years and one-third by 2021 (compared to 2010 levels adjusted for inflation). Because one-third of federal non-security discretionary spending consists of grants to states and local governments, these cuts would make the state budget crisis even worse.

The Ryan budget would also punish state budgets by turning the Medicaid and food stamps (SNAP) programs into block grant programs. The impact of this change would be felt most during recessions, when the need for Medicaid and food stamps increases. By weakening these automatic economic stabilizers, the Ryan plan would increase job loss during recessions.

According to CBO, the Ryan plan would reduce all federal spending other than Social Security and health care from 12 percent in 2010 to 3.5 percent by 2050. Since defense spending has exceeded 3 percent of GDP in every year since 1940, this spending path would necessarily eliminate all government functions other than Social Security, health care, and defense by 2050.

In short, the Ryan budget would continue and exacerbate a disturbing trend of growing economic inequality, now at its highest level since before the Great Depression. If we keep going down this road of making the rich richer and the middle class poorer, we will have another economic crisis like the one we had in 2008 that blew a hole in the federal deficit and left almost 25 million people still needing a job—three and a half years after the recession began and almost two years after it officially ended.

We urge you to oppose the Ryan budget's full frontal assault on the middle class when it comes to the floor for a vote in the House this week.

Sincerely,



William Samuel, Director
GOVERNMENT AFFAIRS DEPARTMENT