

FACT SHEET: SUPPORTING MIDDLE CLASS FAMILIES

As we make our way out of this deep recession, the most important thing we can do for the middle class is strengthen the economy and help the private sector create jobs as quickly as possible. We also must begin to reverse the declines middle-class families saw not just these past few years, but have seen for over a decade: working harder for less; college becoming more unaffordable, health care costs skyrocketing; home values plummeting; and retirement savings dwindling and becoming less secure. There are immediate steps we can take to reduce the strain on family budgets by helping middle class families manage their child and elder care responsibilities, save for retirement, and pay for college. A year ago, President Obama appointed a Task Force on the Middle Class, naming Vice President Joe Biden as its chair. After a year of meetings held all over the country, today we are previewing elements of the recommendations of the Middle Class Task Force (the full report will be released in February).

- **Help Families with Soaring Child Care Costs:** The administration proposes to nearly double the Child Care Tax Credit for families making under \$85,000 a year; with families earning up to \$115,000 a year seeing at least some increase in their credit.
- **Helping Families Pay for Care for Elderly Relatives:** At the same time, middle class families in the “sandwich generation” – struggling to care for both their children and their parents – will also benefit from new initiatives to support elder care for seniors, and respite for their caregivers.
- **Cap Payments on Student Loans:** To avoid squeezing recent college graduates entering a tough job market, we will ensure that payments on federal student loans are never more than 10 percent of the borrower’s discretionary income.
- **Save for Retirement:** The initiatives make it easier to save for retirement with voluntary Automatic IRAs for workers without access to existing retirement plans through their jobs, larger tax credits to match retirement savings for millions of additional workers, and new safeguards to protect retirement savings.

HELPING FAMILIES BALANCE WORK AND CAREGIVING OBLIGATIONS

Expanding the Child and Dependent Care Tax Credit for Middle Class Families: Two-thirds of families with children are headed by two working parents or a single working parent. But child care costs have grown twice as fast as the median income of families with children since 2000. Full-time care for an infant often costs more than \$10,000, and monthly child care fees for two children at any age are higher than the median cost of rent. Meanwhile, the Child and Dependent Care Tax Credit has only increased once in 28 years and is not indexed for inflation.

The Obama-Biden Administration will nearly double the credit for middle-class families making under \$85,000 a year by increasing their credit rate from 20 percent to 35 percent of child care expenses. Nearly all eligible families making under \$115,000 a year would see a larger credit. Families could claim up to \$3,000 in expenses for one child or \$6,000 for two children. The

maximum credit for a family with two children making \$80,000 a year would increase by \$900 from \$1,200 to \$2,100.

Expanding Child Care Funding for Working Parents: Child care costs are especially challenging for working families that struggle to make ends meet and lift their families into the middle class. Between 2001 and 2008, the number of children served by the Child Care Development Fund declined by about 200,000. The Obama-Biden Administration will provide an additional \$1.6 billion in child care funding in 2011, the largest one-year increase in 20 years, to serve an additional 235,000 children. The Administration will also work with Congress to improve the quality of care for all children through changes in the CCDF program and a new Early Learning Challenge Fund.

Helping Middle Class Families Care for Aging Relatives. An estimated 38 million Americans provide unpaid care to an aging relative, including approximately 23 million caregivers with jobs and 12 million who are also caring for their own children. The \$102.5 million Caregiver Initiative will ease the burden on families with elder care responsibilities and allow seniors to live in the community for as long as possible. The Initiative adds \$52.5 million in funding to Department of Health and Human Services caregiver support programs that provide temporary respite care, counseling, training, and referrals to critical services. The extra funding will allow nearly 200,000 additional caregivers to be served and 3 million more hours of respite care to be provided. It also adds \$50 million to programs that provide transportation help, adult day care, and in-home services, such as aides to help seniors bathe and cook, help which eases the burden for family members and helps seniors stay in their homes.

COLLEGE AFFORDABILITY

Limiting Student Loan Payments to 10 Percent of Discretionary Income. Over the past three decades, college tuition has grown ten times faster than real median incomes for families with children. About two-thirds of graduates took out loans to pay for college and their average student debt is over \$23,000. Debt is particularly burdensome for workers in low-paying public service careers, as well as those who lose their jobs or who did not complete their degree.

The Obama-Biden Administration will expand make student loans more affordable by limiting a borrower's payments to 10 percent of his or her income above a basic living allowance. It will also keep the total cost of loan repayment manageable by forgiving all remaining debt after 10 years of payments for those in public service work and 20 years for all others. The monthly payment for a single borrower earning \$30,000 who owes \$20,000 in loans would be \$115 a month, compared to \$228 a month under the standard 10-year repayment plan. These steps – which build on the Income-Based Repayment plan implemented last summer -- will help with the staggering burden of student loan debt and allow a generation of young adults to enter public service and other careers with historically low pay.

The additional flexibility in repaying student loans will complement the Administration's ambitious agenda to make higher education more affordable, including increasing Pell grants, reforming the student loan program, making permanent the new \$2,500 American Opportunity Tax Credit for college costs, expanding low-cost Perkins loans, strengthening community

colleges and increasing graduation rates at both two- and four-year institutions.

RETIREMENT SECURITY

Establishing Automatic IRAs. Currently, 78 million working Americans—roughly half the workforce—lack employer-based retirement plans. Fewer than 60 percent of working heads of families were eligible to participate in any type of job-related pension or retirement plan in 2007. The Obama-Biden Administration will promote the establishment of a system of automatic IRAs in the workplace by requiring employers who do not currently offer a retirement plan to enroll their employees in a direct-deposit IRA unless the employee opts out. The contributions will be voluntary and matched by the Savers Tax Credit for eligible families. The Administration is also streamlining the process for employers to automatically enroll workers in 401(k) plans, which has been shown to boost participation, especially for low- and middle-income workers. New tax credits would help pay employer administrative costs and the smallest firms would be exempt.

Simplifying and Expanding the Saver's Credit. The struggle to save enough to ensure a secure retirement became particularly pronounced in the wake of the recent financial crisis, which delivered a major hit to the savings on which workers rely for their retirement security. The Administration proposes to help working families save for retirement by expanding and simplifying the Saver's Credit to match 50 percent of the first \$1,000 of contributions by families earning up to \$65,000 and providing a partial credit to families earning up to \$85,000. The Administration will also make this tax credit refundable to ensure that millions of additional middle-income families can take advantage of it even though they have no income tax liability.

Updating 401(k) Regulations to Improve Transparency and Reliability. A majority of American workers rely on 401(k)-style plans to finance their retirements, making it critical that the 401(k) system be safe, transparent, and well-regulated. Even workers who save significant amounts may see their returns eaten away by fees and expenses. We need to do more to give families better choices to reach a secure retirement. The Administration is:

- Improving the transparency of 401(k) fees to help workers and plan sponsors make sure they are getting investment, record-keeping, and other services at a fair price.
- Encouraging plan sponsors to make unbiased investment advice available to workers, helping workers avoid common errors that undermine retirement security, while providing strong protections against conflicts of interest.
- Promoting the availability of annuities and other forms of guaranteed lifetime income, which transform savings into guaranteed future income, reducing the risks that retirees will outlive their savings or that their retirees' living standards will be eroded by investment losses or inflation.
- Reviewing and requiring clear disclosure regarding target-date funds, which automatically shift assets among a mix of stocks, bonds, and other investments over the course of an

individual's lifetime. Due to their rapidly growing popularity, these funds should be closely reviewed to help ensure that employers that offer them as part of 401(k) plans can better evaluate their suitability for their workforce and that workers have access to good choices in saving for retirement and receive clear disclosures about the risk of loss.