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HOW LOW-INCOME CONSUMERS WOULD FARE IN THE KERRY-LIEBERMAN CLIMATE-CHANGE BILL

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The American Power Act, which Senators John Kerry (D-MA) and Joseph Lieberman (I-CT) released in draft form on May 12, includes important provisions to help ensure that the legislation's measures limiting greenhouse-gas emissions do not increase hardship by making poor families poorer or pushing more people into poverty.

Like the climate-change bill the House passed last year, the Kerry-Lieberman proposal includes a program of direct payments ("energy refunds") for low-income households.[1] The refunds would protect the typical household in the poorest 20 percent of the population from incurring a financial loss as a result of the policies necessary to reduce greenhouse-gas emissions. (The bottom 20 percent consists of households with incomes below roughly 150 percent of the poverty line, or about $33,000 for a family of four.) The proposal also includes a smaller refundable tax credit for families with modestly higher incomes.

The Need for Low-Income Consumer Relief

Reducing greenhouse-gas emissions is necessary to avoid costly and potentially catastrophic environmental and economic consequences from global warming, but it also imposes costs on businesses and households. Both the Kerry-Lieberman bill and the House bill would create a market-based system that "puts a price on carbon" to create incentives for businesses and households to reduce their carbon footprints. Under such a system, the compliance costs include not only the costs of reducing emissions (through conservation and investments in energy efficiency and alternative clean energy technologies), but also the costs arising from requiring companies that emit greenhouse gases to pay for those emissions.[2]

[1] For an analysis of the low-income consumer provisions in the House bill, see Dorothy Rosenbaum, Sharon Parrott, and Chad Stone, "How Low-Income Consumers Fare in the House Climate Bill," Center on Budget and Policy Priorities, October 7, 2009, http://www.cbpp.org/cms/index.cfm?fa=view&id=2865. The box on page **6** compares the Kerry-Lieberman provisions with those in the House bill.

[2] See "Policy Basics: Policies to Reduce Greenhouse Gas Emissions," Center on Budget and Policy Priorities, April 22, 2010, http://www.cbpp.org/cms/index.cfm?fa=view&id=3167.

Businesses will, for the most part, pass these compliance costs on to consumers in the form of higher prices for energy and energy-intensive goods and services. Low-income consumers are the most vulnerable to the higher costs arising from climate-change policy: 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 Use of Emissions Allowances to Fund Consumer Assistance

Putting a price on carbon would impose costs, but it also would generate revenues. In Kerry-Lieberman, as in the House bill, these revenues consist of the market value of the emissions allowances that the legislation would require electricity generators and other emitters to hold.

The draft Kerry-Lieberman legislation would establish an Energy Refund Program for low-income households that would provide the same level of benefits as the analogous program in the House bill; Kerry-Lieberman would make an amount equal to 12.5 percent of the total allowance value available to fund the program. The draft bill also would make an amount equal to 2.5 percent of the total allowance value available for a refundable tax credit for working families at modestly higher income levels. This total of 15 percent of allowance value for low- and moderate- income relief is the same amount as in the House bill, although the House bill uses the portion not going to the Energy Refund Program for an expansion of the Earned Income Tax Credit for low-income workers who are not raising minor children.[3] (See the box on page 6.)

As in the House bill, the low-income assistance in Kerry-Lieberman is in addition to relief that the bill would provide to all consumers, regardless of income, by giving free emissions allowances to retail electric and gas companies (called local distribution companies, or LDCs) that they are to use to provide their customers with relief on their utility bills.[4]

The Congressional Budget Office has not yet done a cost estimate or an economic analysis of Kerry-Lieberman. However, the low-income and other consumer protection provisions in Kerry-Lieberman are sufficiently similar to those in the House bill that such an analysis should find, as it did for the House bill, that the typical household in the poorest 20 percent of the population would not incur a net financial loss as a result of the legislation.

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[3] The amounts to be available for the Energy Refund Program and the tax credit for working families are specified in sections 3203 and 3201, respectively, of the Kerry-Lieberman draft legislation. Elsewhere in the legislation however, less than 15 percent of the allowance value is explicitly allocated for these purposes. The difference would be made up from other sources of revenue in the legislation and from over-allocations to other purposes.

[4] In a cap-and-trade system, the cost to companies of buying the emissions allowances is a business expense that they pass on to consumers as higher prices, including higher electricity and natural gas bills. The Kerry-Lieberman proposal would give free allowances to LDCs but 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. Natural gas utilities would be required to use a portion of their free allowances for energy efficiency programs; 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.

How the Low-Income Consumer Assistance Would Work

Under the Kerry-Lieberman proposal, 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 help offset the loss in purchasing power caused by the other provisions of the bill. Households with modestly higher incomes would be eligible for a refundable tax credit.

Energy Refunds Through State Human Service Agencies

Households with incomes under 150 percent of the poverty line would qualify for a monthly energy refund that would be delivered by direct deposit or on electronic benefit transfer (EBT) cards, the debit cards that states already use to deliver food stamps and other benefits.

- **How would the refund amount be 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 restrictions on emissions would reduce the purchasing power of households with income at 150 percent of the poverty line. The EIA would make this calculation for households of different sizes, since energy consumption — and, thus, the impact of higher energy costs — varies by household size.[5] A household's benefit would equal EIA's calculation of how much purchasing power a household of that size would lose 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 companies and the Universal Refund (described below). The benefit would be delivered on a monthly basis.[6]

- **Who would be eligible?** All households with incomes below 150 percent of the poverty line — about a fifth of the population — would qualify.[7]

- **How would families learn about and enroll in the program**? The legislation directs state human service agencies to *automatically* enroll certain groups of individuals in the refund program. This includes households that participate in the Food Stamp Program (now called the Supplemental Nutrition Assistance Program), and low-income seniors and people with disabilities who participate in Supplemental Security Income (SSI) or receive the low-income subsidy for the Medicare prescription drug program.[8]

  While these programs reach most very poor families with children and others, a substantial number of people have incomes below 150 percent of the poverty line but do *not* participate in

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[5] EIA would base this calculation on the market value of emissions allowances, other economic costs of capping carbon emissions, and the carbon footprint of low-income households at this income level, which can be derived from government data on consumer expenditures.

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

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

[8] Since all low-income seniors and people with disabilities who participate in both Medicare and Medicaid are automatically enrolled in the low-income subsidy, they would automatically receive the energy refund.

food stamps, SSI, or Medicare's low-income drug subsidy. Accordingly, the bill includes several additional provisions to facilitate participation by eligible low-income households:

- It requires states to screen all Medicaid, CHIP (Children's Health Insurance Program), and TANF (Temporary Assistance for Needy Families) applicants for eligibility for the Energy Refund Program.[9] It also directs the Department of Health and Human Services (the agency that will oversee the Energy Refund Program) to develop streamlined eligibility rules so that states can automatically enroll families receiving Medicaid or CHIP into the program if the information the states collect for Medicaid and CHIP purposes shows they are eligible. This provision would help low-income working families who sign their children up for Medicaid or CHIP but do not receive food stamps to receive the Energy Refund.

- It requires efforts to ensure that the health insurance exchanges that states will create under the new health reform law can automatically enroll in the Energy Refund Program all families containing individuals who receive subsidies to purchase health insurance if the family's income is below 150 percent of the poverty line. The exchanges and state agencies will be setting up data-sharing arrangements to administer the health insurance programs and subsidies, so it should not be difficult for states to implement this linkage.

- It 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 provide the energy refund directly to their low-income beneficiaries if the HHS Secretary determines that the various agencies can adequately determine income eligibility, that they can ensure that beneficiaries do not receive multiple refunds, and that this direct payment would be more efficient and would reach a larger number of eligible beneficiaries than the state human services approach.

- Other households not reached by these mechanisms would be permitted to apply for the refund.

- **How would the refund be delivered?** Refunds would be deposited in households' bank accounts or delivered through state EBT systems or other federally approved delivery systems.

- **How would the bill avoid high administrative costs?** States would be able to enroll most eligible families in the refund program without collecting any new information or paperwork from them because the program builds off of the eligibility rules for food stamps, SSI, and Medicare's low-income drug subsidy, as well as the information that states already collect to determine Medicaid and CHIP eligibility. Also, since states already operate EBT systems, building on these systems is far less expensive than using paper checks or setting up a new delivery system. Nevertheless, states will incur some additional expenses administering the program, especially setting it up; the legislation calls for the federal government to pay the states' full administrative costs.

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[9] Under the recently enacted health care reform law, many additional individuals will qualify for Medicaid, notably low-income parents and childless adults with income below about 133 percent of the poverty line. This improves the reach of the Energy Refund Program and obviates the need for an EITC expansion to reach childless adults, as was the strategy under the House bill.

The Working Families Refundable Relief Program

Taxpayers with adjusted gross incomes between roughly 150 and 250 percent of the poverty line — about $33,000 to $55,000 for a family of four in 2010 — would be eligible for the Working Families Relief refundable tax credit.[10] Revenue equal to 2.5 percent of the allowance value would be dedicated to fund the credit, and the Secretary of the Treasury would determine the size of the credit each year based on the total revenue available. (The credit amount would be adjusted by household size.) The credit would be refundable, meaning that if the amount of a family's credit exceeded its income tax liability, the family could receive the difference in the form of a tax refund check.

The tax credit is intended to provide some relief to taxpayers in the second income quintile, but it is not expected to fully offset these households' loss in purchasing power from the bill's other provisions.

Consumer Relief After 2026

The bill would allocate free emissions allowances to electric and gas utilities, which would then give their customers at all income levels relief on their utility bills. The number of allowances provided for this LDC relief would begin to phase down in 2026, and the free allocations to LDCs would end in 2030. Starting in 2026, the proceeds from auctioning the allowances freed up from the phaseout of the LDC allocation would be deposited in a Universal Trust Fund. (Also deposited in the fund would be the proceeds from auctioning allowances freed up by the phasing out of other provisions in the bill, such as funding for the development of carbon sequestration technologies.)

By 2035 (and in succeeding years), over three-quarters of the total allowance value would be deposited in the Universal Trust Fund. Twenty-five percent of the amount deposited would be used to reduce the federal budget deficit; the remaining 75 percent would be used for a Universal Refund program.

The Universal Refund would be identical to the Working Families Relief credit, except that it would *not* be limited to moderate-income taxpayers. Like the Working Families Relief credit, it would be a refundable tax credit adjusted for family size and the Secretary of the Treasury would determine the amount of the credit each year based on the total revenue available for the program. Low-income families that receive the monthly Energy Refund could receive the Universal Refund through the same mechanism through which they receive the Energy Refund (usually the EBT system) in lieu of receiving it as a tax credit.[11]

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[10] Technically, eligibility would start at $1,000 below 150 percent of poverty and would begin to phase out at $2,000 below 250 percent of poverty. The income range for the full tax credit would be about 145 percent to about 240 percent of poverty, and households with incomes between 240 and 250 percent of poverty would receive a partial credit. All taxpayers in the income range would be eligible for the credit, except people who are dependents on another return or nonresident aliens, such as tourists or foreign students. Undocumented immigrants could not qualify for the tax credit.

[11] The legislation also calls for a study on the feasibility of administering the refunds to *all* consumers using monthly electronic transfer.

Comparing Low-Income Consumer Protections in Kerry-Lieberman and the House Bill

The low-income consumer relief provisions in the House and Kerry-Lieberman bills are very similar. Both bills dedicate 15 percent of the allowance value for this purpose and would, on average, fully protect households in the bottom fifth of the population from increased hardship.

Energy Refunds

- *Same benefits*. Both bills determine the size of the Energy Refund in largely the same way, based on offsetting the average hit to households at 150 percent of the poverty line (when combined with any relief on their utility bills from the free allocation to utilities). Both bills use the same delivery mechanism: direct deposit or states' EBT programs.
- *Same eligibility for full benefit, but no phase-out range in Kerry-Lieberman*. Households with incomes at or below 150 percent of the poverty line would receive a full refund in either bill. The House bill phases out the refund between 150 and 160 percent of the poverty line; Kerry-Lieberman does not have a phase-out range, but families between 150 and 160 percent of poverty would qualify for the Working Families Relief tax credit. Both bills piggy-back on existing programs to reach the vast majority of low-income households.
- *Only Kerry-Lieberman covers states' administrative costs*. In the Kerry-Lieberman proposal, states would receive full federal funding to administer the energy refund program. The House bill contains no such funding.

Tax Credit for Low- and Moderate-Income Households

- *House bill expands Earned Income Tax Credit for childless workers*. The House bill would expand the EITC as a way to offer relief to low-income workers without children — the group least likely to receive food stamps or participate in other programs through which they could have been automatically enrolled in the energy refund program. However, with the passage of health care reform, many childless workers could be automatically enrolled in the Energy Refund Program through their participation in the expanded Medicaid program. CBPP preliminary analyses find that this latter approach would likely reach more childless adults.
- *Kerry-Lieberman creates new refundable tax credit*. Since an expansion of the EITC is no longer necessary to increase participation for workers without children, Kerry-Lieberman uses these resources instead to create a refundable tax credit for households with incomes between 150 and 250 percent of the poverty line (up to about $55,000 for a family of four). Though small, the credit would offset some of the increased costs for moderate-income households.

Broad-Based Tax Credit

- *Same timing*. From 2026 onwards, both bills allocate the majority of the allowance value towards a tax credit available to all households.
- *Different forms*. The House credit (called a Climate Change Consumer Refund) would be available on a per-capita basis. The Kerry-Lieberman credit (called a Universal Refund) would be available to households and would be adjusted by household size.

Conclusion

The Kerry-Lieberman American Power Act provides the same funding for low-income relief as the bill that the House passed last year (an amount equal to 15 percent of the allowance value). It uses the same mechanism to deliver that relief to most low-income households (the state-administered EBT system), and the size of the benefit is calculated in the same way. As a result, it meets the goal of protecting the typical household in the poorest fifth of the population from incurring a financial loss as a result of policies necessary to fight global warming.