



# ANNUAL REPORT OF THE WHITE HOUSE TASK FORCE ON THE MIDDLE CLASS

FEBRUARY 2010







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Mr. President,

I'm proud to present you with the annual report of the White House Task Force on the Middle Class.

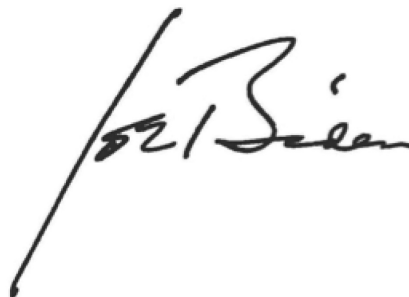
Shortly after we took office, you gave me the honor of chairing this Task Force, noting that "the strength of our economy can be measured by the strength of our middle class." Since that day, that simple yet powerful equation—a strong middle class equals a strong economy—has guided our work.

We report on those activities in the following pages. As you will see, the Task Force has been actively working on several of the issues that are most important to the aspirations and everyday lives of middle-class families, including access to higher education, balancing work and caregiving obligations, retirement security, and high-quality jobs for middle-class workers. This report will also discuss a number of important new initiatives in your Fiscal Year 2011 Budget that are designed to address these core middle-class issues, including the near-doubling of a tax credit to help middle-class families offset the rising costs of child care and a proposal to significantly lower student loan payments.

Our report examines the economic origins of the middle-class squeeze, including the growing gap between productivity and middle-class incomes, the dramatic rise in economic inequality, and the challenge of balancing work and family responsibilities as women's earnings have become increasingly important to middle-class families.

Mr. President, you have consistently stressed that we will be, and should be, judged by the extent to which our agenda lifts the living standards of hard-working, middle-class Americans. As you will see in these pages, our Task Force has worked diligently toward this goal over the past year, and we will continue to do so in the coming months.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Gibbs". The signature is written in a cursive style with a long, sweeping underline that extends to the left.



# Executive Summary

The White House Task Force on the Middle Class, chaired by Vice President Joe Biden, was created by President Obama a little more than one year ago, shortly after the Administration took office. The mission of the Task Force, as stated in the Executive Order that created it, is to work with our member agencies and councils to ensure that the economic challenges facing the American middle class, challenges that predate the recession that was deepening as the Task Force was formed, always remain front and center in the work of the Administration.

Over the past year, this has been our singular focus. Of course, in the context of the deepest recession since the Great Depression, the Administration's first priority for the middle class has been restoring job growth by stabilizing an economy that was in freefall. This economic contraction has dealt a serious blow to middle-class families, with staggering losses to their jobs, their savings, and the value of their homes. The Vice President, in his role as the Administration's chief overseer of the Recovery Act, has played a critical role in this central part of our economic agenda. And of course, the President's health care reform agenda targets one of the most important—and too often most precarious—aspects of middle-class life.

But at the same time, the Task Force has worked to address some of the longer term challenges facing the middle class: balancing work and family responsibilities, college access and affordability, and retirement security. And while restarting the engine of job creation is the Administration's highest priority, the Task Force is working to ensure that the jobs that are created as the economy begins to recover are good jobs.

This report details our activities in pursuing policy solutions to these challenges over the past year. The report also highlights some of the key Administration initiatives supported by the Task Force, many of which are part of the President's Fiscal Year 2011 Budget, including:

**Helping Middle-Class Families Balance Work and Caregiving Obligations.** For the majority of middle-class families, it is no longer the case that one parent is the breadwinner while the other is the caregiver. The economic stability of middle-class families depends at least in part on policies that help families balance work and caregiving obligations. The Budget will:

- **Provide a Bigger Child Care Tax Credit for Middle-Class Families.** Parents are working harder but with less to show for it after paying for child care, which keeps getting more expensive. The Budget nearly doubles the Child and Dependent Care Tax Credit for middle-class families making under \$85,000 a year, and nearly every family that makes under \$115,000 will see its credit increase.
- **Increase Child-Care Assistance to Help Working Families Move into the Middle Class.** Many working parents cannot lift their families into the middle class without child-care assistance. The Budget provides a \$1.6 billion increase in funding for the Child Care and Development Fund, which will fund services for approximately 235,000 children and improve quality.
- **Provide Help for Families Caring for Seniors and People with Disabilities.** The Budget boosts funding for programs that support caregivers and allow seniors to live in the community for as long as possible.

**Making College More Affordable and Accessible.** For many middle-class parents, higher education means the chance for their children to realize their full potential. Unfortunately, families across the country are seeing rising costs and falling family incomes threaten the dream of sending their children to college. The Budget will:

- **Cap Student Loan Payments.** The Budget strengthens the Income-Based Repayment plan for student loans by limiting a borrower's payments to 10 percent of his or her income above a basic living allowance and by forgiving all remaining debt after 10 years of payments for those in public service work and after 20 years for all others.
- **Reform Student Lending.** The Budget supports pending legislation that would shift all Federal loans to the Direct Loan program, in which the Federal Government provides the capital for all new student loans, and chooses private and nonprofit companies to service the loans. This shift will eliminate tens of billions of dollars in wasteful subsidies to banks and the resulting savings will be used to expand Pell Grants and invest in community colleges.
- **Increase Pell Grants and Put Them on a Firm Financial Footing.** The Recovery Act and the 2009 appropriations bill boosted the maximum Pell Grant award by more than \$600, for a total award of \$5,350, and the maximum award will increase to \$5,550 in 2010. The Budget proposes to make that increase permanent and guarantee that Pell Grants grow faster than inflation in the future. The Budget would increase Pell Grants by a total of nearly \$1,000 since the Administration took office, expand eligibility, and nearly double the total amount of Pell Grants available. It also proposes to make Pell Grant funding mandatory, rather than dependent on annual appropriations from Congress.
- **Extend the American Opportunity Tax Credit.** The Recovery Act created the American Opportunity Tax Credit, which is worth up to \$2,500 per year and can be claimed against tuition, fees, and textbook expenses for 4 years of college. The Budget proposes to make this temporary credit permanent, crediting families up to \$10,000 over 4 years.
- **Make Historic Investments in Community Colleges.** The Budget supports a new American Graduation Initiative that will offer competitive grants to help community colleges improve their outcomes and help meet the President's goal of graduating five million additional community college students by 2020.
- **Simplify Student Aid:** The Administration is working to simplify the student aid application, making life easier for 18 million students and families a year and increasing the programs' effectiveness at boosting enrollment. We are tailoring the online form to skip unnecessary questions, working with Congress to eliminate dozens of questions that are currently statutorily required, and letting families fill out forms electronically with information transferred from tax returns they have already filed.

**Enhancing Retirement Security.** After a lifetime of employment, American workers deserve a secure retirement. Yet for middle-class workers today, especially in the wake of the historic losses to retirement savings and housing wealth in the financial crisis, retirement seems anything but secure. The Budget will:



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- **Establish Automatic Individual Retirement Accounts.** The Administration will require most employers who do not currently offer a retirement plan to enroll their employees in a payroll-deduction IRA unless the employee opts out.
- **Simplify and Expand the Saver's Credit.** The Administration will help working families save for retirement by simplifying and expanding the Saver's Credit to provide a 50 percent match on the first \$1,000 of retirement savings for families earning up to \$65,000 and providing a partial credit to families up to \$85,000. We will also make this credit fully refundable.
- **Update 401(k) Regulations to Improve Transparency and Reliability.** A majority of American workers rely on 401(k)-style plans to finance their retirements. The Administration is proposing new regulations to improve the transparency and adequacy of 401(k) retirement savings.

**Protecting Workers and Creating Middle-Class Jobs.** Access to good quality jobs, with fair compensation and stable benefits, is a key factor in building a strong middle class. The Administration's most immediate imperative in this regard is to do all we can to jumpstart job creation. Building on some of the successes of the Recovery Act, the President has outlined a program to quickly generate job growth in small businesses, clean energy, and infrastructure. In addition, the Middle Class Task Force is focusing on the following initiatives to ensure that we create good jobs that can sustain a middle-class lifestyle and that workers are treated fairly:

- **Passing the Employee Free Choice Act.** To level the playing field for workers who want to form unions, the Administration is committed to passing the Employee Free Choice Act. The loss of bargaining power has been a factor in both the stagnation of middle-class earnings and the divergence of wage growth from productivity growth. Restoring the right to pursue collective bargaining in a more balanced environment would help middle-class workers get their fair share of the gains as the American economy recovers.
- **Responsibility in Federal Contracting.** The Federal Government spends over \$500 billion dollars a year on contracts, generating jobs for tens of millions of workers, but there are inadequate controls in place to prevent government contracts from being awarded to employers that violate tax, labor and employment, fraud, or environmental laws. In addition, the quality of jobs on some of these contracts can be very low, which can have a negative impact of the quality of goods or services purchased by the government. For these reasons, the Task Force is looking at ways to improve the procurement process by making it less likely that irresponsible businesses will get Federal contracts and by allowing procurement officers to consider job quality when awarding contracts while not raising the quality-adjusted costs of contracts.
- **Protecting Benefits for Employees by Ensuring Proper Classification.** As part of the Budget, the Department of Labor will launch a new initiative to prevent employees from being misclassified as independent contractors. Misclassification hurts workers by depriving them of benefits and protections to which they might be entitled and costs the government billions of dollars in unpaid taxes. The Department of Labor will increase enforcement using additional personnel and resources and will propose legislative changes that will require employers to properly classify their workers, provide for penalties when they do not, and restore protections for employees

who have been classified improperly. In addition, the Department of the Treasury is seeking legislation to allow it to better define and clarify worker classification standards—which benefits workers and firms by reducing uncertainty—and to prospectively reclassify misclassified workers.

- **Investing in Clean Energy Manufacturing.** The Recovery Act provided \$2.3 billion for the Section 48C Advanced Energy Manufacturing Tax Credit, but the credit was so popular that many qualified applications could not be accepted. The Administration will push to add \$5 billion for the credit to create good, middle-class jobs and build a domestic clean energy sector.



# I. Introduction

On January 30, 2009, ten days into his Administration, President Barack Obama signed an Executive Order creating the White House Task Force on the Middle Class, chaired by Vice President Joe Biden. On that day, the President stressed that “the strength of our economy can be measured by the strength of our middle class.” Vice President Biden elaborated:

“Quite simply, a strong middle class equals a strong America. We can’t have one without the other. This Task Force will be an important vehicle to assess new and existing policies across the board and determine if they are helping or hurting the middle class. It is our charge to get the middle class—the backbone of this country—up and running again.”

The new Administration did not develop these views overnight. During their campaign for office, then-candidates Obama and Biden observed the middle class struggling with a recession that began in December 2007. Moreover, this deep downturn came after an economic expansion that left too many middle-class families behind. As shown in the next section, productivity grew solidly over the 2000s expansion, but the real median income of working-age households actually fell between 2000 and 2007.

So when the Task Force was created, it was not intended simply to look out for the middle class over the course of the recession. The Task Force was created to keep a steady eye on a central goal of the Obama Administration’s economic policy: making sure that the middle class does not get left behind again. As the President’s Executive Order creating the Task Force puts it: “It is a high priority of my Administration to achieve a secure future for middle-class working families, one in which they share in prosperous times and are cushioned during hard times.”<sup>1</sup> And importantly, as President Obama said that day, our mission extends not only to families who are currently in the middle class, but also to those who aspire to rise into the middle class.

This document describes the activities of the Task Force since our inception. It includes discussions of the subject areas in which we focused our efforts, the events and public meetings we held on those topics, links to reports and documents created along the way, and discussions of policies under consideration to help achieve the goal of renewed middle-class prosperity.

First, however, we will provide a brief description of the structure and membership of the Task Force.

The Task Force was born from the ideas and experiences noted above and from the input of many members of the public and supporters of the Obama/Biden campaign. Various labor unions, for example, have consistently fought for better economic conditions for middle-class families, and their imprint on the Task Force has been clear. This appreciation for the role that unions play in connecting middle-class prosperity with broader economic growth has been part of the Task Force’s thinking since its creation, when the President stressed that “you cannot have a strong middle class without a strong labor movement.”

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<sup>1</sup> “Memorandum for the Heads of Executive Departments and Agencies,” January 2009, [http://www.whitehouse.gov/the\\_press\\_office/memorandum\\_for\\_the\\_heads\\_of\\_executive\\_departments\\_and\\_agencies/](http://www.whitehouse.gov/the_press_office/memorandum_for_the_heads_of_executive_departments_and_agencies/)

Of course, the role of business in creating middle-class jobs is also central to the goals of the Task Force, and in his very next sentence, the President pointed out: “We know that strong, vibrant, growing unions can exist side by side with strong, vibrant and growing businesses.” Taking our cue from the President, the Task Force has consistently stressed this balance, avoiding old arguments and false dichotomies while working together with all stakeholders interested in a strong American middle class.

The Vice President chairs the Task Force, and the Task Force’s members are drawn from Administration agencies and councils, including the Secretaries of Labor, Health and Human Services, Education, Energy, the Treasury, Commerce, Housing and Urban Development, Transportation, and Agriculture, as well as the Administrator of the Environmental Protection Agency, the Directors of the National Economic Council, the Office of Management and Budget, and the Domestic Policy Council, and the Chair of the Council of Economic Advisers.

Our activities over the past year included:

- Meetings of Task Force members—both principals and their staffs—to assess progress, generate ideas for middle-class initiatives, and move those ideas through the policy process;
- Holding 13 public events across the country and at the White House to promote the Task Force’s policy agenda and to engage with experts and members of the public;
- Working with our agency members to prepare seven white papers with policy analysis to accompany public events, which are available at [www.astrongmiddleclass.gov](http://www.astrongmiddleclass.gov);
- Using our website to keep the public informed about what this Administration is doing to help the middle class and to collect ideas and comments from the public;
- Outreach to external stakeholders in the labor, business, and advocacy communities to obtain information and hear their individual views.

Engaging with the public provides a way for the many stakeholders representing middle-class interests to learn from one another. But more importantly, it allows us to hear directly from ordinary middle-class Americans about their aspirations and the challenges they face.

We heard from people like the mother at our Task Force meeting in St. Louis, Missouri with two kids in college and two more at home, who wanted to get more training and education herself. She asked the Vice President, “How can I keep my son at Purdue and my daughter at Texas A&M, and two more still to go to college?”

Or people like Shannon from Pennsylvania, a single mom and veteran who is caring for two kids while working full-time. She wrote to tell us that her paycheck barely covers her bills, and she has already lost the “small luxuries” she works hard for.

Or people like the small-business owner we met in St. Cloud, Minnesota, who wants to grow his small engineering consulting company even during this recession, but was just looking for a little help tapping into the new clean energy economy.

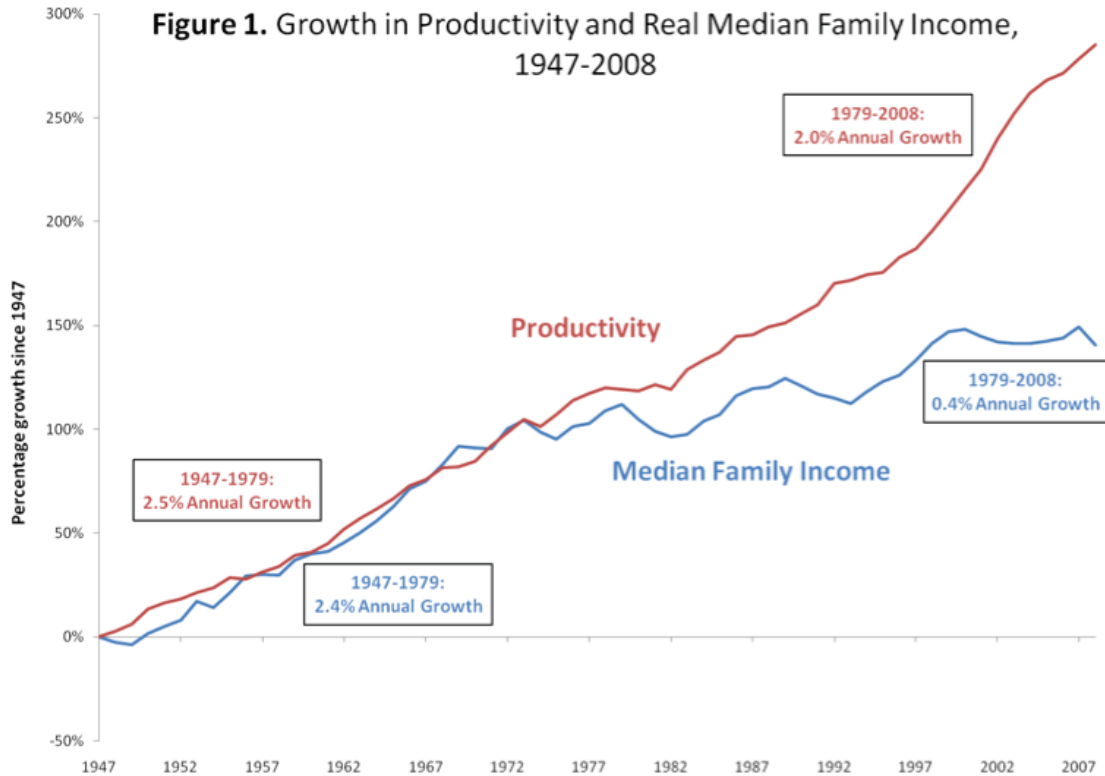
The input we have gotten from people like these across the country has guided the development of our policy agenda throughout the year.

## The State of the American Middle Class

Understanding the economic challenges facing middle-class families is essential in crafting the policy agenda to help meet those challenges. In this section, we briefly examine some of the longer-term trends responsible for the middle-class squeeze, including the increased gap between productivity and wages; economic inequality and mobility; and shifts in gender roles and the need for work-life balance in today's economy.

**Figure 1** presents a long-term trend of middle-class income—in this case, the inflation-adjusted median income for all families, which is the longest time series of this type available. We plot productivity growth along with the income measure, to provide a broad benchmark against which to judge the relationship between economic output and middle-class income growth.

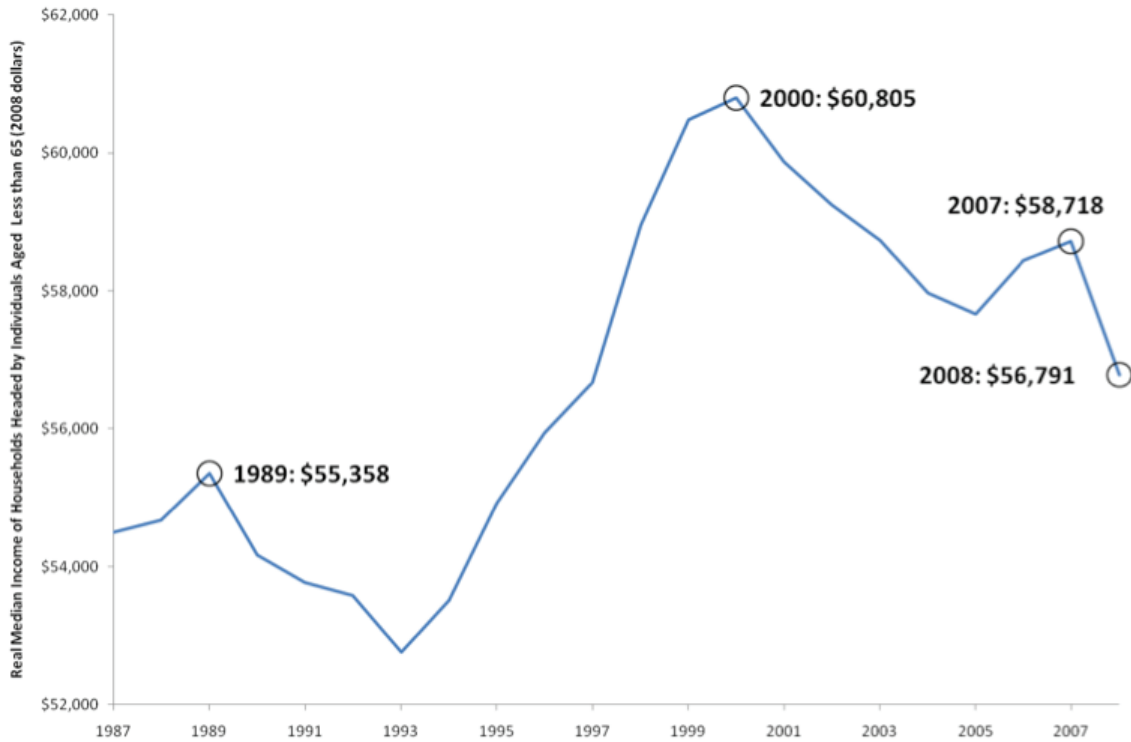
The figure makes two broad points. First, regarding family income, it shows that there have been two very different growth regimes over different periods of history. Between 1947 and 1979, for example, real median family income grew at an annual rate of 2.4 percent, which amounts to about a doubling of real income over this period. After 1979, however, this trend decelerated significantly, as real median family income grew only 0.4 percent per year, for a total increase of 14 percent. Second, as we will discuss in more depth below, it shows that in the latter regime, since 1979, the growth of family income has become increasingly disconnected from the broader growth of output and productivity. While productivity has continued to grow robustly, middle-class families are no longer getting their share of that growth.



Source: Census Bureau, Bureau of Labor Statistics.

Note also the poor performance of real median family income in the 2000s, when it was essentially flat, before declining 3.4 percent in the recession year of 2008 (it is typical in this research to measure income over peak years, separating out recessions).

**Figure 2.** Real Median Income of Working-Age Households, 1987-2008



Source: Census Bureau.

Since we have more refined data for this recent time period, we can look at a more relevant group in the context of working families: working-age households, or those headed by someone less than 65. **Figure 2** shows clearly that the economic expansion of the 2000s did not reach this group of households. As the weak labor market and anemic job growth of the 2000s reduced the upward pressure on workers’ wages, the real median income for working-age households fell by about \$2,100 between 2000 and 2007, or 3.4 percent, and fell another 3.3 percent in the recessionary year of 2008.<sup>2</sup>

The second point illustrated by Figure 1 involves the comparison of real median family income growth and productivity growth. The rationale behind this comparison is that as the rate of output per hour rises, living standards for middle-class families should also rise. After all, many of these families are responsible for generating that growth, and one view of the implicit social contract that has defined the American middle class is that as the economy expands, the living standards of middle-class families will improve.

And in fact, as the figure reveals, that contract was fully operative in the first few decades of the period shown. Family income and productivity grew at about the same annualized rate. However, in the last three decades, the relationship has broken down and middle-class incomes have diverged sharply from

<sup>2</sup> United States Census Bureau. All figures measured in real 2008 dollars.

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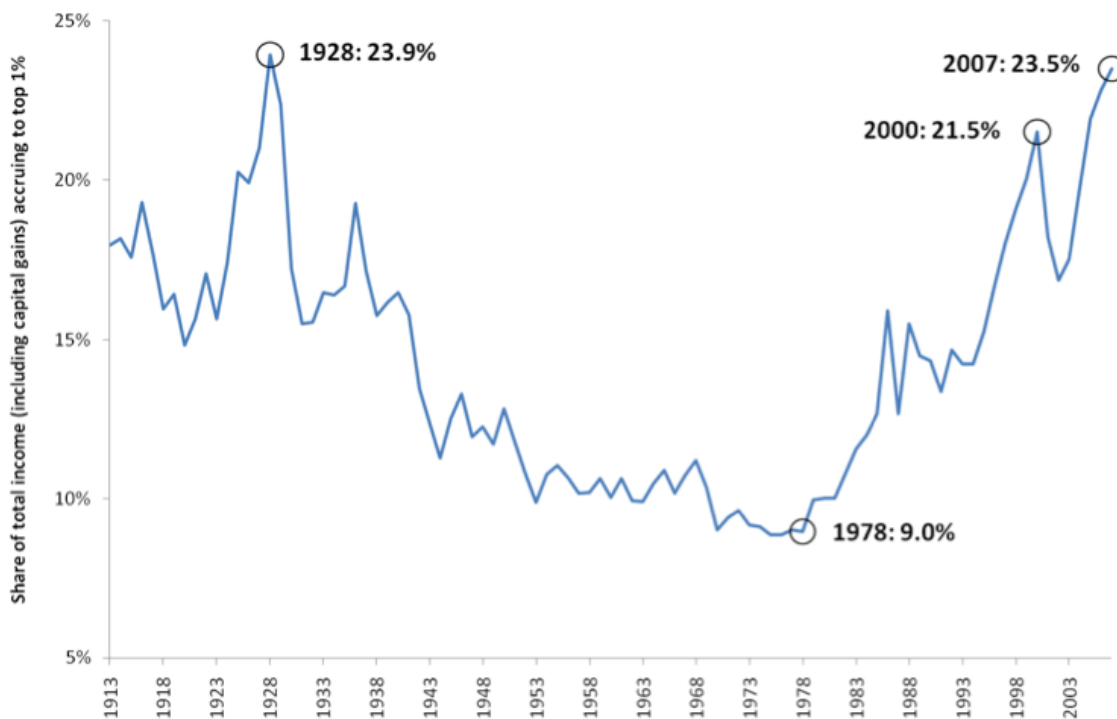
productivity, with a large, yawning gap developing by the end of the series. This divergence has become even more dramatic in recent years; half of the total increase in the gap occurred in the years between 2000 and 2008, a period of particularly weak middle-class income growth.

Of course, there are many dynamics at work behind this breakdown. The composition of families and the demographics of the country shifted as well. Some of these changes put downward pressure on income growth, such as the growth of single-parent families. But other trends pushed the other way, such as an older, more experienced, and more highly educated workforce, as well as much more labor supply in the paid labor market by working women. In sum, such trends fail to explain away this divergence between middle-class incomes and productivity. It is a solid symbol of the breakdown of an implicit social contract.

Where did the growth go, if not to middle or lower-income families? The well-documented increase in income inequality during these years suggests that much of it accrued to households in the top reaches of the income scale. **Figure 3** shows the share of total income, including income from realized capital gains (like profits from selling stocks), going to the top one percent of households over a span of more than 90 years. In the most recent year of available data—2007—over 23 percent of income was held by the top 1 percent, the highest level of income concentration since 1928, the year before the market crash that began the Great Depression.

In other words, there is strong evidence that a major cause of the middle-class squeeze is the wedge of inequality: the fact that, at any given level of growth, a smaller share of the benefits of that growth is flowing to the middle on down.

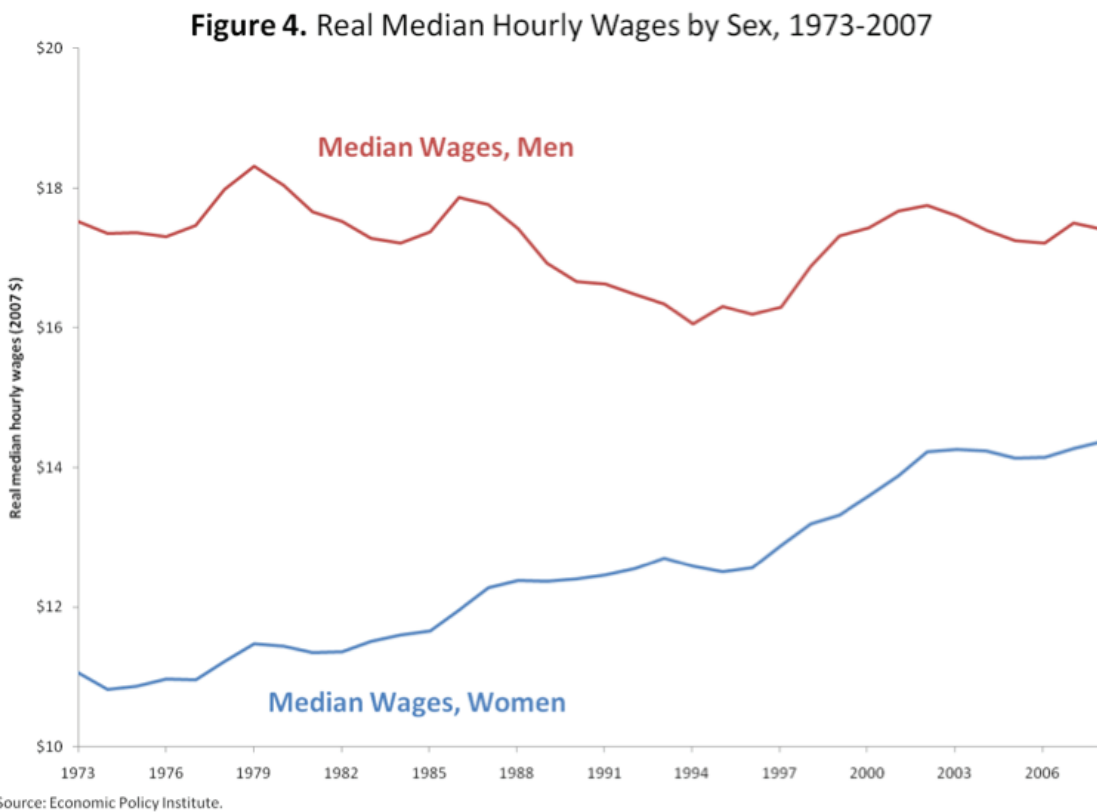
**Figure 3.** Share of Total Income Going to Top 1% of Families, 1913-2007



Source: 2007 update to Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics* 118:1, Feb. 2003.

A full elaboration of the factors behind the growth of inequality is beyond our scope in this report. Surely, technological changes, like the increased presence of computerization in the workplace, have boosted employers' skill demands, but this is actually a fairly smooth, ongoing process, and is by no means the only or even the most important factor boosting inequality. Globalization has played a role as well, as increased competition with lower-wage countries has raised competitive pressures, especially in our manufacturing sector. And a very important factor that tends to get less attention is the diminished bargaining power of many workers in the middle class, in part because there is less of a union presence in the workplace, and in part because the combined dynamics of technological change, trade, and the growth of the financial sector have tilted the bargaining scale against many mid-level workers.

The impact of these factors is evident in the historical trend of real median hourly wages, especially those of men. **Figure 4** shows these trends, using data developed by the Economic Policy Institute. Note that even though the series undergoes a growth period in the 1990s, the median wage of men was at about the same level, in real terms, at the end of this series as it was at the beginning. This is a remarkable result underlying one dimension of the middle-class squeeze: the earnings of the typical or median male worker, while undergoing various ups and downs over the past generation, have not increased in real terms since 1973.



For women, the trend in real median earnings has been more positive, though they too saw less progress in recent years. These relative wage trends raise another very important dynamic related to women and middle-class families, one that feeds directly into some of our policy discussions below regarding



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work-family balance. Due both to the stagnation of men's earnings and to increased labor market opportunities, women's labor supply has increased significantly. Back in the 1960s, their labor market participation as a share of the working-age population was about 40 percent. In 2007, the most recent economic peak, it was almost 60 percent, compared to just over 70 percent for men.<sup>3</sup>

Particularly germane to our work is the increase in the number of working mothers, as their increased time in the paid labor market raises challenges for both men and women in balancing work and family responsibilities. Working wives in middle-income, married-couple families with children increased their labor supply by almost 500 hours between 1979 and 2006, the equivalent of 3 more months of full-time work.<sup>4</sup> Notably, over this same period, their husbands' hours were unchanged (they generally worked full-time, full-year throughout the period).

Also, single parent families with children, most headed by women, have become a much larger share of all families with kids, rising from 15 percent in the early 1970s to 25 percent in 2008.<sup>5</sup> These trends were discussed in detail at a November Task Force meeting at the Center for American Progress. As Heather Boushey, an economist who participated in that meeting, has shown, there has been a significant increase in the share of women whose income contributions are essential to their families' well being.<sup>6</sup> Clearly, this change underlies the time squeeze many families increasingly experience.

**Figure 5** shows the median share of family income coming from wives' contributions over time. These earnings have become increasingly important over time, with the median share rising from around 20 percent to around 35 percent over the past few decades. According to a new Pew Research Center study exploring the shifting economics of marriage, the percentage of wives who bring home more income than their husbands shot up from 4 percent in 1970 to 22 percent in 2007.<sup>7</sup>

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<sup>3</sup> Bureau of Labor Statistics.

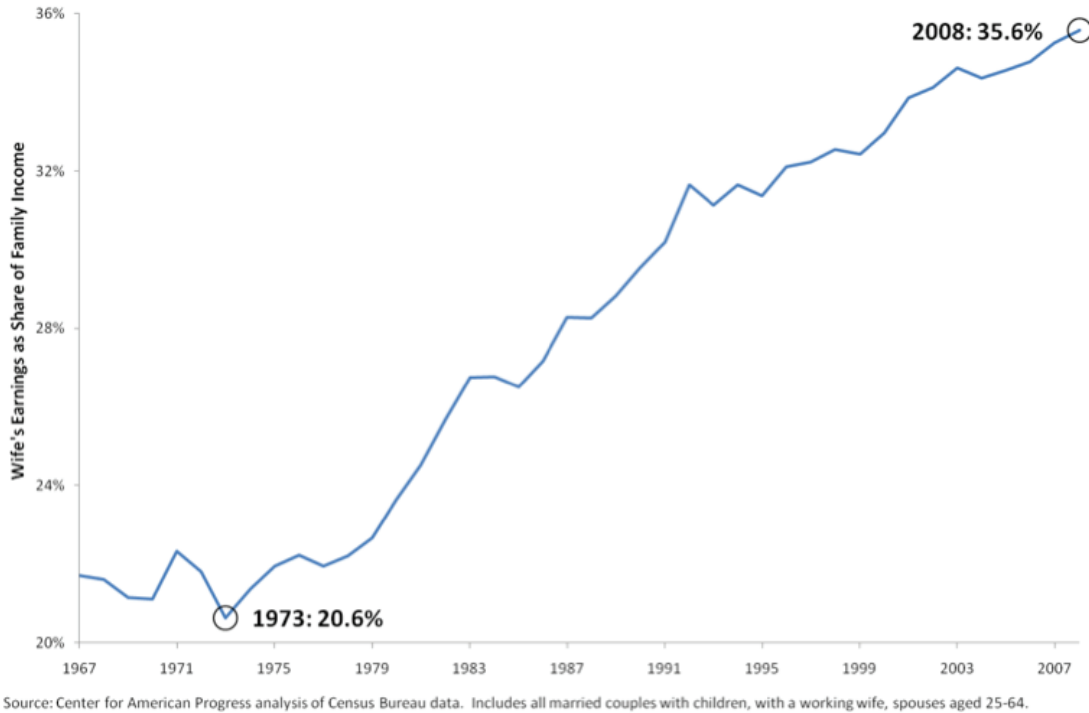
<sup>4</sup> Lawrence Mishel, Jared Bernstein, and Heidi Shierholz. *The State of Working America 2008/2009*. An Economic Policy Institute Book. Ithaca, NY: ILR Press, an imprint of Cornell University Press, 2009.

<sup>5</sup> United States Census Bureau.

<sup>6</sup> Heather Boushey, "The New Breadwinners," in "The Shriver Report: A Woman's Nation Changes Everything," October 2009, [http://www.americanprogress.org/issues/2009/10/womans\\_nation.html/](http://www.americanprogress.org/issues/2009/10/womans_nation.html/).

<sup>7</sup> Richard Fry and D'Vera Cohn, "Women, Men and the New Economics of Marriage," Pew Research Center, January 2010, <http://pewsocialtrends.org/pubs/750/new-economics-of-marriage>.

**Figure 5. Median Share of Family Income Generated by Wife's Earnings**  
Working-Age Married Couples with Children and Working Wives, 1967-2008



These data reveal some of the origins of the middle-class squeeze, including the divergence of growth and median incomes, inequality, wage stagnation, and the increased need to balance work and family responsibilities. They have also shaped the policy agenda of the Task Force, and of the Administration as a whole, over the past year.

Of course, first and foremost, our Administration's highest priority must be pulling the economy out of the deepest recession in decades, stabilizing housing and financial markets, and above all, creating jobs for middle-class workers. The Administration has always believed that regardless of the growth of gross domestic product or the proclamations of economists, this recession is not truly over until we have returned to robust job growth, which is why the President has proposed a targeted new package of job-creation initiatives. These proposals, which are discussed briefly in the next section, will create the conditions for the private sector to start hiring again by making key investments in infrastructure, incentivizing clean energy and energy efficiency, and giving tax cuts to the small businesses that are the engine of American job creation. But the figures above underscore the critically important reality of today's economy: a return to economic growth, or even robust job creation, is necessary but not sufficient to lift the living standards of middle-class families and loosen the squeeze.

One of the Administration's first actions after we took office was to take a first step towards addressing the middle-class squeeze by enacting the Making Work Pay tax credit, which immediately started putting money back in the pockets of 95 percent of working Americans. The Administration is proposing to extend this tax credit for another year and to permanently extend the tax cuts for middle-class families that were enacted in 2001 and 2003.

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But in order to reconnect the growth of American prosperity and productivity with the growth of middle-class living standards, we also need to ensure that middle-class families have access to the things they need in order to succeed: affordable child and elder care, opportunities for higher education, secure retirement savings options, and of course, quality, affordable health care.

While not the focus of this report, the rising cost of health care and health insurance is one of the primary strains on middle-class family budgets. Increases in insurance premiums and out-of-pocket expenses have dramatically outpaced growth in family income over the past 20 years.<sup>8</sup> Furthermore, families are losing insurance at an alarming rate. In 2009, an average of 15,000 Americans lost their private health insurance each day, often because of job loss or because their employer dropped their coverage.<sup>9</sup> Between 1997 and 2006, half of Americans under the age of 65 found themselves without health insurance at some point, and current trends suggest that the fraction is likely to be even greater in the next decade.<sup>10</sup>

Health insurance reform has the potential to rein in costs, improving the financial stability of families nationwide. The Congressional Budget Office estimates that more than 30 million Americans will gain coverage by the end of the decade under current proposals for reform, which will have a significant impact in limiting out-of-pocket costs.<sup>11</sup> Reform will also lower the cost of premiums for many Americans who are already insured.<sup>12</sup> The creation of a new insurance exchange will increase employment flexibility for working Americans and lower health care costs. Economists estimate that by slowing the explosive growth in health care costs, comprehensive insurance reform will reduce average annual family premiums by up to \$1,000 by 2019.<sup>13</sup>

Comprehensive health insurance reform remains one of the highest priorities of this Administration. While the Task Force believes passing reform is critical in order to ease the burden on middle-class families, we have primarily focused on other key needs of middle-class families.

In the sections that follow, we examine the different aspects of this middle-class agenda: protecting workers and creating middle-class jobs, retirement security, work-family balance, and pathways into the middle class. We discuss our activities in these areas, describe some of the key new policies and proposals that have been associated with the Task Force, and highlight other policies that we hope to explore further in the coming months.

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<sup>8</sup> "Middle Class In America," U.S. Department of Commerce, Economics and Statistics Administration, January 2010, [http://www.commerce.gov/s/groups/public/@doc/@os/@opa/documents/content/prod01\\_008833.pdf](http://www.commerce.gov/s/groups/public/@doc/@os/@opa/documents/content/prod01_008833.pdf)

<sup>9</sup> Drew Altman, "A Holiday Reminder on the Economy and Health Care," Kaiser Family Foundation, December 2009, [http://www.kff.org/pullingittogether/120409\\_altman.cfm](http://www.kff.org/pullingittogether/120409_altman.cfm)

<sup>10</sup> "The Risk of Losing Health Insurance Over a Decade: New Findings from Longitudinal Data," Department of the Treasury, September 2009. <http://www.treas.gov/press/releases/docs/final-hc-report092009.pdf>

<sup>11</sup> "Patient Protection and Affordable Care Act, Incorporating the Manager's Amendment," Congressional Budget Office, December 2009, [http://www.cbo.gov/ftpdocs/108xx/doc10868/12-19-Reid\\_Letter\\_Managers\\_Correction\\_Noted.pdf](http://www.cbo.gov/ftpdocs/108xx/doc10868/12-19-Reid_Letter_Managers_Correction_Noted.pdf)

<sup>12</sup> "An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act," Congressional Budget Office, November 2009, <http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf>

<sup>13</sup> Council of Economic Advisers, "The Economic Case for Health Care Reform: An Update," December 2009, <http://www.whitehouse.gov/sites/default/files/microsites/091213-economic-case-health-care-reform.pdf>

## What Does It Mean To Be Middle Class?

Economists, policy makers, and just about everyone else talk about the middle class, but no standard definition exists. The Task Force asked one of our members, the U. S. Department of Commerce, to examine the literature on this question and to think about what it means to be middle-class and how middle-class aspirations can be achieved. Their report can be seen in full at the Department of Commerce’s website.<sup>14</sup> The authors examine various definitions, discuss middle-class values and aspirations, and present hypothetical budgets showing how these aspirations might be achieved with different incomes. Finally, the report considers whether or not it is harder to be middle-class today than it was 20 years ago.

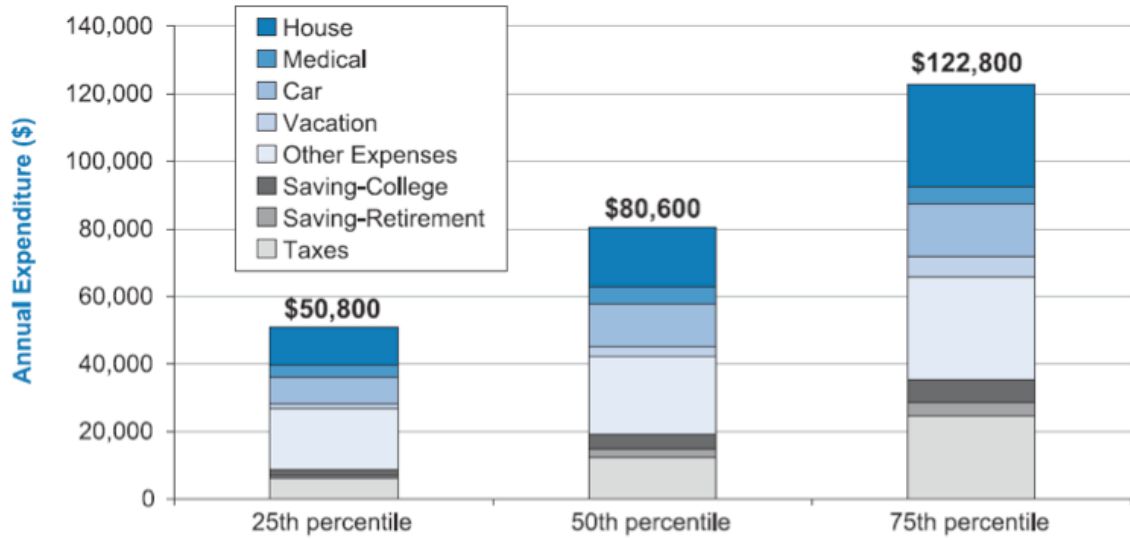
The principal findings of the report are:

- Middle-class families are defined by their aspirations more than their income. The Commerce report assumes that middle-class families aspire to home ownership, a car, college education for their children, health and retirement security and occasional family vacations.
- Families at a wide variety of income levels aspire to be middle class and under certain circumstances can put together budgets that allow them to obtain all six items above, which are assumed to be part of a middle-class lifestyle. **Figure 6** shows Commerce’s estimates of a middle-class family budget for married-couple families with two school-aged children. The estimates range from about \$51,000 for this type of family at the 25th percentile of the income distribution to about \$123,000 for those at the 75th percentile. The Figure breaks out the six components of the budget that relate to middle-class aspirations—homeownership, cars, savings for children’s college education and parents’ retirement, health care and vacations—and also shows the budget components that go to “non-aspirational” goods and services (such as utilities, food, and clothing) and taxes.

The technique used to construct Figure 6 adds all of these budget costs together except housing, and then assigns the residual—what’s left in income at that percentile after netting out all these other costs—to housing. For example, the median family in this group, with annual income equal to about \$81,000, could afford a mortgage on a home worth about \$231,000; families at the 25th percentile could only afford a home worth about \$144,000. The Commerce report then shows that the actual prices of median homes in different parts of the country range from \$123,000 to over \$400,000. Thus, depending on where they reside, even higher-end middle-class families will face a budget squeeze.

<sup>14</sup>“Middle Class in America,” U.S. Department of Commerce, Economics and Statistics Administration, January 2010, [http://www.commerce.gov/s/groups/public/@doc/@os/@opa/documents/content/prod01\\_008833.pdf](http://www.commerce.gov/s/groups/public/@doc/@os/@opa/documents/content/prod01_008833.pdf)

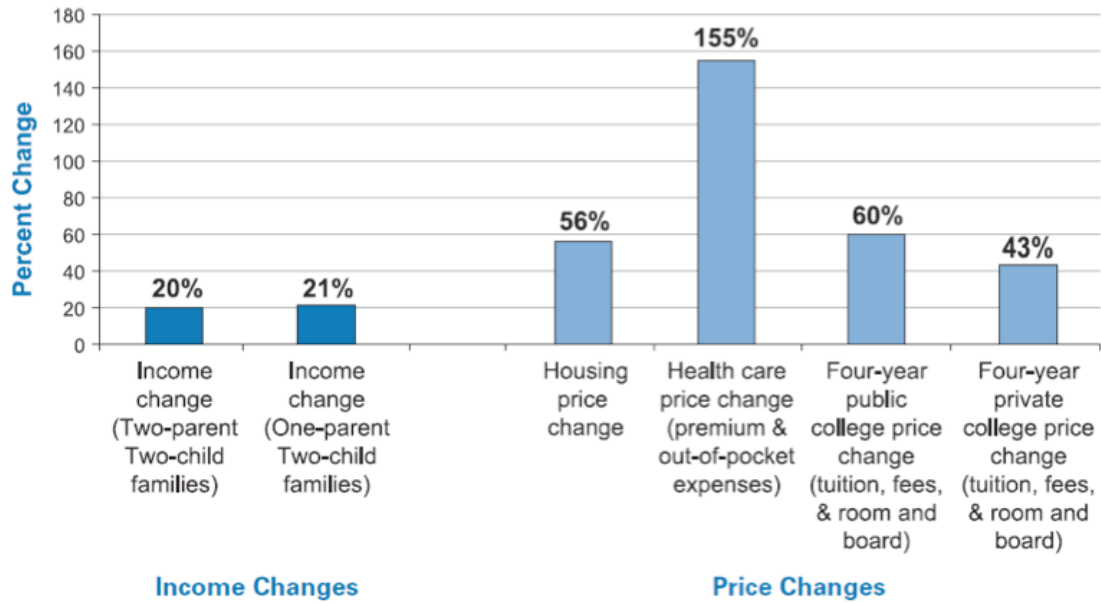
### Hypothetical Budgets for Married-Couple Families with Two School-Age Children



Selected Points in the Income Distribution for Two-parent Two-child Families

- Planning and saving are critical elements in attaining a middle-class lifestyle for most families. Under the right circumstances, even lower-income families may be able to achieve many of their aspirations if they are willing to undertake present sacrifices and necessary saving.
- However, many families, particularly those with less income, will find attaining a middle-class lifestyle difficult if not impossible. Areas with high housing costs can make even higher-income families feel pinched. Lack of employer-provided health insurance can confront a family with bankrupting health costs. And unforeseen expenses can ruin even the best-laid budget plans.
- It is more difficult now than in the past for many people to achieve middle-class status because prices for certain key goods—health care, college and housing—have gone up faster than incomes. **Figure 7** shows that between 1990 and 2008, real median income for two-family types—married couples and single parents, both with two children—grew about 20 percent, with virtually all that growth occurring in the 1990s, as incomes were virtually flat at best in the 2000s. However, prices of key budget components grew much faster (after adjusting for economy-wide inflation), led by health care—up 160 percent—followed by housing and college.

### Changes in Median Real Family Income vs. Price Changes in Key Middle Class Items: 1990 - 2008



In the current economy, even with home prices falling, many middle-class families will be hard-pressed to meet the reasonable set of aspirations described. The fact that the prices of these aspirational goods have risen much faster than middle-class incomes over the last two decades reveals a longer-term challenge for these families. Thus, the report concludes that it is harder to attain a middle-class lifestyle now than it was in the recent past.



## II. Protecting Workers and Creating Middle-Class Jobs

For middle-class families of working age, the main determinant of their living standards is their paycheck, not their stock portfolio. Therefore, access to good quality jobs—employment opportunities with fair compensation and stable benefits—is a key factor in solving the middle-class squeeze and building a stable middle class.

Of course, the Administration's most immediate imperative in this regard is to do all we can to jump-start job creation. This was a central theme in President Obama's State of the Union Address, and the President outlined a program to quickly generate job growth in small businesses, clean energy and energy efficiency, and infrastructure. Some of the key components of this proposed agenda include:

- Tax cuts targeted at small business to provide incentives to hire new workers, raise pay, and invest in new equipment;
- Proposals to create jobs weatherizing homes and buildings and expanding the production of clean energy equipment here in America (this latter policy is discussed in more detail below);
- Infrastructure investment that will create good jobs building and repairing roads, bridges, transit and aviation systems, and water systems.

While these initiatives are needed immediately to tackle unemployment, the Task Force is mindful of the longer-term need to ensure quality jobs, strong labor standards, and expanding opportunity for middle-class families well after the recession is over. Once again, our policy agenda is consistently guided by an awareness that the economic challenges facing today's middle class largely are structural, not cyclical, phenomena.

To this end, the Task Force has focused on green jobs, manufacturing employment, Project Labor Agreements, responsible Federal contracting, strong enforcement of labor standards and helping workers to build their voice at work, often through a fairer process in support of collective bargaining.

### Supporting the Manufacturing Sector

President Obama has stressed the importance of a strong manufacturing sector, both for the good, middle-class jobs it creates and for the positive macroeconomic benefits it provides. Back in September, when the President appointed him as Senior Counselor for Manufacturing Policy, Ron Bloom described the Administration's position regarding manufacturing:

A strong manufacturing sector is a cornerstone of American competitiveness and a critical part of President Obama's economic strategy. As we meet the challenges of globalization and technological change, it is vital to have a concerted effort across the Administration to support an innovative, vibrant manufacturing sector.



In keeping with this Administration’s commitment to supporting American manufacturing, the Task Force has focused on manufacturing throughout the year, holding two manufacturing events since the Task Force’s inception.

The first was an event in Perrysburg, Ohio at Willard and Kelsey Solar Group, a research, development and manufacturing facility that produces thin-film solar panels. Task Force members toured the innovative facility, after which they held a roundtable discussion with participants from industry, labor, government, and academia, as well as a town hall-style forum for the Vice President to get input and answer questions from members of the public.



Vice President Joe Biden at a Task Force meeting on American manufacturing at Willard and Kelsey Solar Group, a manufacturer of solar panels in Perrysburg, Ohio. Official White House Photograph by David Lienemann.

The event also provided an opportunity for the Vice President to highlight some of the Administration’s actions and proposals to support the American manufacturing sector, including:

- The Administration’s expanded commitment to Research & Development (R&D) targeted at new manufacturing, including doubling our R&D investment in key science agencies; expanding the Technology Innovation Program, which supports innovation in the U.S. through high-risk, high-reward research in areas of critical national need; and making permanent the research and experimentation tax credit, another important boost for manufacturing R&D.



## II. PROTECTING WORKERS AND CREATING MIDDLE-CLASS JOBS

- The expansion of the Hollings Manufacturing Extension Partnership (MEP), which is positioned to play a helpful role in meeting the challenges facing our manufacturers. This Commerce Department program exists to enhance the competitiveness of small- and medium-sized U.S. manufacturers by helping firms transition to expanding sectors, adapt new technologies, and provide the best possible training to their staff. Recognizing MEP's importance, especially given the unique challenges and opportunities facing the manufacturing sector, the Vice President used this event with Secretary Locke to highlight the role played by the MEP and support the doubling of the program's resources in the President's budget by 2015.
- The manufacturing programs in the American Recovery and Reinvestment Act (ARRA), ranging from new tax credits for advanced energy manufacturing, to safety net and training measures, to the Act's purchase of over 17,000 domestic vehicles, to new high-speed and commuter rail and smart grid investments.

The Task Force's focus on the manufacturing sector continued with its second manufacturing event, held in Washington, DC on December 16. At this event, the Vice President announced the Administration's support for a significant expansion of the 48C Advanced Energy Manufacturing Tax Credit, a new Recovery Act credit "for qualified investments in advanced energy projects, to support new, expanded, or re-equipped domestic manufacturing facilities." This event also featured the release of "A Framework for Revitalizing American Manufacturing" a detailed presentation of the Administration's approach to the sector.<sup>15</sup>

While the Recovery Act included a number of programs designed to help lift the manufacturing sector out of recession, one of the most forward-looking was the Advanced Energy Manufacturing Tax Credit (Section 48C in the IRS code). This credit is run through the Department of Energy and the Department of the Treasury to encourage investment in facilities to manufacture the machinery of the clean energy economy right here in America. As Leo Gerard, President of the United Steelworkers, said at our first Task Force event, "we need to make sure that the green economy is an American economy. We need to make sure that it's made in America. We need to make sure that what we're going to be exporting is our ideas and our vision and our values and our science—not our jobs."

The Recovery Act provided \$2.3 billion for the tax credit, but the credit was so popular that we received many more qualified applications than we were able to accept. As part of this Task Force event, the Vice President announced the Administration's support for an additional \$5 billion to build on this credit's success.

The 48C tax credit is unique in that while many tax credits and loans have long incentivized the *production* of renewable energy, the 48C credit promotes the domestic manufacture of the *components* that are used to produce that energy. The tax credit is available for advanced energy manufacturing facilities, such as investments in:

- Technologies that create energy from renewable resources (sun, wind, geothermal and other renewable resources)

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<sup>15</sup> "A Framework for Revitalizing American Manufacturing," Executive Office of the President, December 2009, <http://www.whitehouse.gov/sites/default/files/microsites/20091216-manufacturing-framework.pdf>

- Energy storage technologies (fuel cells, microturbines or other energy storage systems used in electric vehicles)
- Advanced transmission technologies that support renewable generation (including storage)
- Renewable fuel refining or blending technologies
- Energy conservation technologies (advanced lighting, smart grid)
- Plug-in electric vehicles & vehicle components (motors, generators)
- Property to capture and sequester carbon dioxide
- Other property designed to reduce greenhouse gas emissions

The 48C program provides a 30 percent credit against tax liabilities that can be used to offset the costs of investments in these areas. Following its introduction in the Recovery Act, the credit generated three times more acceptable applications than the \$2.3 billion initial funding level could support. Given the dual need for good, middle-class jobs and for seed capital to help build a new, domestic clean energy sector, providing additional funding for this successful tax credit is a high priority of the Task Force, and one we will work on moving forward.

Looking ahead, the Vice President and Task Force intend to work with the agencies and with Senior Counselor Bloom to continue to promote the Administration's manufacturing agenda. Policies in this space may include: export promotion, transitional assistance to supply chains (especially former auto suppliers), public/private partnerships (especially in green manufacturing), and continuing to build off of the ARRA investments noted above.

## Green Jobs

Connecting the American middle class to opportunities in the clean energy sector is a critical component of this Administration's economic strategy. The extension of the Section 48C Advanced Energy Manufacturing Tax Credit discussed above is only one piece of our agenda in this area; the Administration's commitment to green jobs also includes the other historic investments in clean energy that we made in the American Recovery and Reinvestment Act, as well as an unprecedented inter-agency commitment to working together to remove barriers to the growth of green industries.

This commitment is reflected in the three events that the Task Force has held on the subject of green jobs. Our very first meeting, held in Philadelphia, Pennsylvania in February 2009, discussed the potential of green jobs as a pathway into the middle class. The green sector will grow rapidly as we transform the way that we produce and consume energy—and this growth is good news for working families.

At the request of the Task Force, the White House Council of Economic Advisers (CEA) conducted an analysis of green jobs in advance of our first Task Force meeting. The CEA found that green jobs typically pay more than comparable jobs outside of the green sector. The wage premium for workers in occupations that are concentrated in green industries ranges from about 10 to 20 percent compared

to similarly qualified workers in comparable jobs. And even among workers with the same occupation, those in green industries tend to receive significantly higher wages. For example, welders in the turbine manufacturing and power generation sectors make 13.5 percent more than the average for welders across all industries.<sup>16</sup> It is no surprise that these higher-paying jobs are also more likely to be union jobs. A more complete analysis of green jobs, along with a description of several local green jobs initiatives, including efforts to open up green job opportunities for disadvantaged workers, can be found in our first Middle Class Task Force Staff Report.<sup>17</sup>

As our economy recovers, millions of Americans will rejoin the workforce or transition to new jobs in growing sectors of the economy. If the coming recovery is to truly lift the middle class, these Americans must be connected to career-track jobs that offer real opportunities for advancement and wages and benefits that can support a family. That is why this Administration's unprecedented investments in catalyzing the clean energy economy and creating more good green jobs are so important.

### *Clean Energy Jobs in the Recovery Act*

The Recovery Act included the largest single investment in clean energy in American history -- \$90 billion. This money will leverage private investment to produce a total of up to \$150 billion in clean energy projects. For a detailed analysis, please see Vice President Biden's memorandum to President Obama on America's transformation to a clean energy economy.<sup>18</sup> Among the key investments are:

- \$23 billion for renewable energy generation and advanced energy manufacturing, which will likely create over 250,000 jobs and leverage over \$43 billion in additional investment that could support up to 469,000 more jobs.<sup>19</sup> These investments put us on track to double our renewable energy generation in 3 years and double our capacity to manufacture wind turbines, solar panels and other renewable energy components by 2012.
- \$2.7 billion in federal investments, which will leverage an additional \$3 billion of private capital for projects designed to transform the transportation sector, including the production of advanced batteries, plug-in hybrid electric vehicles, and all-electric vehicles.
- \$4 billion in smart grid investments that will increase reliability, reduce electricity usage and save businesses and consumers billions of dollars. These smart grid investments will likely result in 43,000 new jobs and leverage enough private capital to support up to 61,000 additional jobs.
- \$5 billion for the Weatherization Assistance Program, so states can weatherize hundreds of thousands of homes by the end of next year, delivering energy savings to low-income families and creating green jobs in the process. The Recovery Act also expanded tax credits for energy efficiency home upgrades.

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<sup>16</sup> "Green Jobs: A Pathway to a Strong Middle Class," Middle Class Task Force Staff Report, [http://www.whitehouse.gov/assets/documents/mctf\\_one\\_staff\\_report\\_final.pdf](http://www.whitehouse.gov/assets/documents/mctf_one_staff_report_final.pdf).

<sup>17</sup> Ibid.

<sup>18</sup> Memorandum for the President from the Vice President, "Progress Report: the Transformation to a Clean Energy Economy," December 2009, [http://www.whitehouse.gov/sites/default/files/administration-official/vice\\_president\\_memo\\_on\\_clean\\_energy\\_economy.pdf](http://www.whitehouse.gov/sites/default/files/administration-official/vice_president_memo_on_clean_energy_economy.pdf).

<sup>19</sup> All job estimates correspond to jobs that last for one year. Some jobs could last longer, which would proportionately reduce the number of distinct jobs.

- \$500 million in competitive grants administered by the Department of Labor for projects that train workers for green jobs.

The Vice President and other members of the Task Force are deeply engaged in the continuing implementation of Recovery Act programs in the clean energy sector.

### *Agency Partnerships on Green Jobs Facilitated by the Middle Class Task Force*

At the first meeting of the Task Force in Philadelphia in February, Task Force members and outside experts discussed ways to expand the demand for green jobs. As the renewable energy and energy efficiency sectors grow, training will become even more critical. We need to equip workers with the skills they need to perform these new middle-class jobs. This need was the focus of our second Task Force meeting on green jobs, which was held on May 26th in Denver, Colorado. The Vice President and Secretaries Solis, Donovan, and Vilsack were joined by representatives from several model training programs, including programs operated by community colleges and labor unions.<sup>20</sup> Secretary Solis officially announced the availability of \$500 million in Recovery Act grants for green jobs training, funds that have since been distributed to grantees around the nation.



Vice President Joe Biden at a Task Force meeting on green jobs in Denver, Colorado.  
Official White House Photograph by David Lienemann.

<sup>20</sup> For more information on the model programs, see "Middle Class Task Force: Green Jobs Update," [http://www.whitehouse.gov/assets/documents/Middle\\_Class\\_Task\\_Force\\_Green\\_Jobs\\_Update.pdf](http://www.whitehouse.gov/assets/documents/Middle_Class_Task_Force_Green_Jobs_Update.pdf).

## II. PROTECTING WORKERS AND CREATING MIDDLE-CLASS JOBS

In Denver, we announced two new agency partnerships, facilitated by the Task Force, which will make it easier for people to find green jobs and connect to the training they need to fill them. First, the Secretaries of Labor and Housing and Urban Development (HUD) announced a partnership aimed at building on Recovery Act investments to create green employment opportunities for residents of HUD housing. Secretaries Solis and Donovan encouraged local Workforce Investment Boards (WIBs) and Public Housing Agencies (PHAs) to work together to train and place public housing residents into Recovery Act-funded jobs improving public housing. They also called on PHAs and WIBs to engage in joint outreach to inform public housing residents of these opportunities and collaboratively ensure that quality work supports are in place.<sup>21</sup>

Secondly, the Secretaries of Education, Labor, and Energy announced a new agreement to advance the development of a skilled clean energy and energy efficiency workforce by collaborating to link American workers to jobs, training and educational opportunities funded by the Recovery Act and future Federal investments. The Departments will share information and work together to develop mutually supportive programs that create career pathways for green jobs. The terms of the agreement are laid out in a Memorandum of Understanding between the three agencies.<sup>22</sup> Both of these partnerships represent the kind of interagency collaboration and communication that the Task Force seeks to promote. As Secretary Donovan said, “in these challenging economic times, it is crucial for government agencies to collaborate to find innovative ways to create jobs and get Americans working again.”

### *The Middle Class Task Force Recovery Through Retrofit Report*

At the second Task Force meeting on green jobs in May, the Vice President asked the White House Council on Environmental Quality to develop a plan that lays the groundwork for a self-sustaining home energy efficiency retrofit industry that supports good, green jobs long after the Recovery Act investments in energy efficiency are gone. In response, the Council on Environmental Quality convened a policy process that included 11 departments and agencies and 6 White House offices. The result was the Recovery Through Retrofit Report, which was released at another Task Force meeting in October.<sup>23</sup>

The report identifies three barriers that stand in the way of a robust national home retrofit market. First, consumers do not have access to reliable information about retrofits. Second, the upfront costs of home retrofits can be high but consumers do not have access to financing. Finally, there are not enough workers with sufficient training to serve a robust national retrofit market.

The report then lays out steps that the Federal Government will take, using existing authority and funding, to address each of the barriers. First, to address the information barrier, we will develop a standardized home energy performance measure applicable to every home in America, and an energy performance label that energy auditors, retrofitters, lenders, realtors, and consumers can use to identify

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<sup>21</sup> U.S. Department of Labor, U.S. Department of Housing and Urban Development, [http://portal.hud.gov/portal/page/portal/RECOVERY/transparency\\_resources/DOL%20-%20HUD%20WIB%20PHA%20Letter%20Final.pdf](http://portal.hud.gov/portal/page/portal/RECOVERY/transparency_resources/DOL%20-%20HUD%20WIB%20PHA%20Letter%20Final.pdf).

<sup>22</sup> “Memorandum of Understanding Among the United States Departments of Education, Energy, and Labor,” <http://www.dol.gov/recovery/green-jobs-mou.pdf>.

<sup>23</sup> “Recovery Through Retrofit,” Middle Class Task Force, Council on Environmental Quality, October 2009, [http://www.whitehouse.gov/assets/documents/Recovery\\_Through\\_Retrofit\\_Final\\_Report.pdf](http://www.whitehouse.gov/assets/documents/Recovery_Through_Retrofit_Final_Report.pdf)



the most energy efficient homes. Second, we will make it easier for homeowners to pay for retrofits by promoting accessible and affordable financing options. Finally, we will develop voluntary, nationally recognized standards for worker training and certification so that workers receive the skills needed to assure that retrofit jobs are done well.

The Council on Environmental Quality is convening an interagency working group chaired by the Departments of Energy, Housing and Urban Development, Labor and Agriculture as well as the Environmental Protection Agency, to implement the recommendations. The participating Agencies are reporting back to the Task Force on a regular basis.

## Project Labor Agreements and Other Executive Orders

One of the first actions taken on behalf of the Middle-Class Task Force was President Obama's signing of Executive Order (EO) 13502 encouraging executive agencies to consider using project labor agreements (PLAs) when they engage in large-scale construction projects. Project labor agreements are pre-hire collective bargaining agreements with one or more labor organizations that establish the terms and conditions of employment for a specific construction project. The use of a project labor agreement can provide structure and stability to large-scale construction projects. PLAs also help ensure compliance with laws and regulations governing safety and health, equal employment opportunity, and labor and employment standards. The coordination achieved through PLAs can significantly enhance the economy and efficiency of Federal construction projects.

Along with assisting the preparation and signing of the EO, the Task Force recognized that it was not enough simply to sign the EO encouraging the use of PLAs; we needed to help promote their appropriate use by agency contracting offices, most of whom had little knowledge of, or experience with, PLAs. To boost implementation of the President's order, the Task Force convened an inter-agency PLA Working Group to provide technical assistance to agencies on PLAs. The working group currently includes the Department of Energy, the Department of Labor, the Department of Commerce, the Department of Justice, the Department of Housing and Urban Development, the Department of Agriculture, the Department of Transportation, the Department of the Interior, the Tennessee Valley Authority, the National Aeronautics and Space Administration, the General Services Administration, and the Office of Management and Budget.

Building on the Department of Energy's successful use of PLAs to effectively coordinate large construction projects, other agencies are investigating the benefits of PLAs, and we expect to see increased utilization of Project Labor Agreements in the future.

As part of the Administration's commitment to protecting workers on government contracts while promoting economy and efficiency in government contracting, the President also signed three other Executive Orders:

- **Economy in Government Contracting** (EO 13494) requires the Federal Government to remain impartial concerning any labor-management dispute involving government contracts and, to this end, prevents Federal contractors from being reimbursed by the Federal Government for activities undertaken to persuade or influence employees' decisions whether or not to form or

join unions and engage in collective bargaining. However, the Executive Order permits reimbursement for costs related to maintaining satisfactory labor relations between the government contractor and its employees.

- **Notification of Employee Rights under Federal Labor Laws** (EO 13496) requires that Federal contractors post notices of workers' rights under Federal labor laws.
- **Nondisplacement of Qualified Workers under Service Contracts** (EO 13495) provides that, when a Federal service contract expires and the Federal Government awards the follow-on contract to a successor contractor, the employees of the predecessor have a right of first refusal under the new contract for positions for which they are qualified.

### Enforcing Labor Standards and Preventing Misclassification

Strong enforcement of employment and labor laws is critical to ensuring that, as the economy begins to recover, the jobs we create are good jobs that can support a middle-class family. If labor standards are not enforced, too many workers will be poorly positioned to improve their economic status. Working men and women in many low-wage jobs will never earn enough to support themselves and their families. Noncompliant employers will be able to avoid responsibility for providing fair wages and safe workplaces by improperly relegating many employees to independent contractor status, which also unfairly puts the vast majority of employers—those who play by the rules—at a competitive disadvantage.

The enforcement agencies at the Department of Labor, including the Wage and Hour Division, the Office of Federal Contract Compliance Programs, the Occupational Safety and Health Administration (OSHA), the Mine Safety and Health Administration, and the Employee Benefits Security Administration, are charged with protecting 135 million workers against these kinds of abuses at more than seven million establishments throughout the United States.

This Administration has worked vigorously to defend and protect workers, beginning by restoring worker protection agencies' enforcement staff to 2001 levels. Significant progress was made in achieving this goal. The proof is in the numbers:

- 710 new enforcement personnel were hired in worker protection agencies.
- OSHA inspected workplaces employing 5.4 million people, provided on-site assistance to over 30,000 small businesses that employ 3.7 million workers, and provided 34,000 individuals with assistance and information. These enforcement activities included over 1,900 inspections of workplaces receiving Recovery Act funding to ensure that workers involved in these projects were adequately protected.
- Since the beginning of 2009, the Wage and Hour Division recovered more than \$171 million in back wages for approximately 214,000 workers.
- The Office of the Solicitor received a jury verdict against one of the nation's largest poultry producers and filed a consent judgment against the nation's largest chicken processing company for violating the Fair Labor Standards Act, resulting in back wage awards.

- The Office of Federal Contract Compliance Programs helped recover more than \$9 million in back pay for more than 21,000 affected workers.

In addition, the Office of Labor-Management Standards issued a final rule that preserved union members' access to meaningful financial information about their union while eliminating unnecessary paperwork requirements. And the Mine Safety and Health Administration announced a comprehensive strategy to end new cases of black lung among the nation's coal miners.

This year, the Wage and Hour Division will launch a multilingual campaign titled "We Can Help" targeting worker populations and industries in which workers are reluctant to report violations, and OSHA is holding a major worker safety and health summit to address the concerns of vulnerable Latino workers in low-wage, high hazard industries.

Yet there is considerably more that can be done to help workers. The Administration is undertaking efforts that will build on the progress we have already made, including a new focus on misclassification, which has been a key issue for the Task Force. Currently, workers wrongly classified as independent contractors are denied access to critical benefits and protections to which they may be entitled as employees, including overtime, health and workers' compensation coverage, family and medical leave, equal employment protections, safe and healthy workplaces, and unemployment insurance. In addition to denying workers the protections and benefits of the Nation's most important employment laws, misclassification gives unfair advantages in the marketplace to employers who misclassify their workers and generates billions of dollars of losses to the government through unpaid taxes.

An August 2009 Government Accountability Office report noted that the precise extent of misclassification is unknown, but studies suggest that it may affect 10 to 30 percent of firms. A number of recent studies suggest that misclassification—while it occurs in many industries—is most prevalent in several high-risk industries: construction, janitorial, home health care, child care, transportation and warehousing, meat and poultry processing, and other professional and personnel service industries. The construction industry, in particular, is cited in each of the studies as rife with employee misclassification.

As part of the FY 2011 Budget, the Department of Labor will propose legislative changes that will require employers to properly classify their workers, provide for penalties when they do not, and restore protections for employees who have been classified improperly. The Budget also includes \$25 million to hire additional enforcement personnel targeted at misclassification and to fund competitive grants to boost states' incentives and capacity to address this problem.

In addition, the Department of the Treasury is seeking legislation to allow it to better define and clarify worker classification standards—which benefits workers and firms by reducing uncertainty—and to prospectively reclassify misclassified workers. The Budget estimates that this would increase Treasury receipts by more than \$7 billion over 10 years, much of it consisting of unpaid taxes.

The Departments of the Treasury and Labor will explore avenues of collaboration with respect to worker classification.



## Responsible Federal Contracting

The Federal Government spends over half a trillion dollars a year on contracts for goods and services, generating employment for tens of millions of workers. However, there are inadequate controls on the records of firms who get these contracts and on the quality of the jobs these contracts create. Ignoring these factors has negative implications, not only for the workers on these contracts, but for the quality and efficiency of services rendered. For these reasons, the Task Force has participated in a review process to identify ways to reform the procurement process to increase the quality of both the services procured and the jobs created under Federal contracts.

The Task Force recognizes that contracts should not be awarded to irresponsible sources with unsatisfactory records of business ethics, including noncompliance with labor and employment, tax, fraud, and consumer protection laws. We also recognize that substandard wages and benefits can have negative impacts on employees' productivity and stability, which in turn can reduce the quality of performance on Federal contracts.

We expect to produce shortly some new recommendations to bring these ideas into practice.

## National Equal Pay Enforcement Task Force

With more women in the labor force than ever before, the earnings of women are essential to the economic well-being of American families. But too often, women are paid less than men for doing the same job. The first bill President Obama signed into law was the Lilly Ledbetter Fair Pay Act, which restores basic protections against pay discrimination for women and other workers.

The Administration will follow through on this commitment to equal pay for men and women by creating an Equal Pay Enforcement Task Force. Responsibility for equal pay enforcement is fragmented across three different agencies with distinct responsibilities and inadequate means for coordinating efforts or limiting potential gaps in enforcement. The Task Force will improve coordination between the Departments of Justice and Labor and the Equal Employment Opportunity Commission with the goal of ensuring that all applicable equal pay laws are vigorously enforced throughout the country. The Task Force will conduct an inter-agency review of existing regulations, reporting requirements, and administrative practices that relate to equal pay, and will recommend modifications to improve compliance. It will also conduct a public education campaign to educate employers and employees about their rights.

## Employee Free Choice Act

As noted in the introduction to this report, both the President and Vice President have consistently voiced support for collective bargaining and unions, viewing them as central to building America's middle class. Many of the Task Force's events and activities, from helping to pass executive orders that promote labor fairness, to joining with Labor Secretary Solis to elevate the role of union apprenticeship programs in green job training, have stressed the positive role unions can play in supporting middle-class jobs and incomes.

It is, however, the case that union membership has fallen in recent decades from about 25% in the early 1970s to about half of that today.<sup>24</sup> Part of the explanation for this trend is that the industrial mix of jobs in our economy has changed over the past few decades, as jobs have shifted from traditionally unionized sectors, like manufacturing, to less unionized service sectors. But this compositional shift explains only a small share of decline in unionism. The main reason is that fewer workers within any given industry have joined unions.

One might think that this represents a benign shift in American workers' sentiments about unions—perhaps in a more global economy with fewer jobs in heavy industry, people no longer view unions as relevant institutions. But the evidence belies that view. Noted Harvard labor economist Richard Freeman reports that “[t]he proportion of workers who want unions has risen substantially over the last 10 years, and a majority of nonunion workers in 2005 would vote for union representation if they could.”<sup>25</sup>

One reason there is less collective bargaining in our workforce than workers desire is that the organizing playing field is far from level. Of course, not all employers oppose union organizing campaigns. Those who do, however, are able to block the wishes of their employees with relative impunity as the current system makes it much easier for them to prevent their employees from forming or joining a union than for workers to exercise their legal right to do so.

The Administration has supported the Employee Free Choice Act (EFCA) as a way to rebalance the union organizing playing field. In our policy work and events, as well as in various statements by the Vice President, the Task Force has consistently stressed the importance of EFCA as well. This support stems from our diagnosis that one underappreciated reason for the negative trends portrayed in our economic analysis of middle-class families is the loss of worker bargaining power. While raising the unionized share of the workforce would not close the gap between income and productivity, it would help to provide low- and middle-income workers with some of the clout they need to claim a fairer share of the fruits of their labors.

The Employee Free Choice Act would institute three basic changes designed to make the organizing process more equitable. It would allow workers to choose to organize either through a balloting process or through a “majority sign-up” process in which a majority of workers signs cards stating their desire to form a union, whereas the current system lets employers refuse to voluntarily recognize such a majority sign-up. EFCA would also prevent employers from stalling on the first contract, and it would increase penalties against employers who illegally block organizing drives.

Over the course of this year, the Task Force will continue to promote the benefits of union membership and to amplify the President’s message of the importance of EFCA as a way to guarantee workers who want to organize a fair chance to do so.

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<sup>24</sup> Bureau of Labor Statistics. In 2009, total union membership was about 12% of the wage and salary workforce; private-sector membership was about 7% and public-sector membership was about 37%.

<sup>25</sup> Richard B. Freeman, “Do Workers Still Want Unions? More Than Ever,” Economic Policy Institute, February 2007, <http://www.sharedprosperity.org/bp182/bp182.pdf>



## III. Retirement Security

In the wake of the stock market crash and the credit crisis, many middle-class workers are feeling more anxiety about their retirement security than ever before. Many workers saw their 401(k)s lose 30 or 40 percent of their value; workers who are nearing retirement are now facing the prospect of living on significantly less than they had planned. This decline in the value of financial assets has been coupled with an equally dramatic decline in home prices across America, which has further diminished workers' retirement security by eroding the value of the largest single investment for many middle-class families. Household net worth plummeted by over \$16 trillion from 2007 through the first quarter of 2009, and while it has since stabilized and begun to recover, households remain far less wealthy and less secure than they appeared in the first half of this decade.<sup>26</sup>

But while the recent financial crisis has raised awareness of this issue and increased the urgency of the need to address it, the problem itself is not new. Many workers, especially low- and middle-income workers, have long lacked access to quality workplace retirement plans, and some of those who do have access to retirement plans save too little or do not participate at all. And the gradual shift from defined-benefit pensions to 401(k)s and other defined-contribution retirement plans, which has been taking place for decades, has left more workers than ever before to plan their retirements for themselves and to bear the risk of investing for retirement alone. Many of these workers, even those who save at recommended rates over long periods, have seen the returns on their retirement savings eaten away by high fees and expenses, leaving them with less than they had hoped for.

This Administration recognizes that the current system does not provide sufficient retirement security for millions of Americans, which is why we are proposing a set of initiatives to help more workers save for retirement, to help those who already have retirement accounts start saving more, and to help workers with 401(k)s save with confidence.

### Establishing Automatic IRAs

Many workers had saved too little for retirement even before being hit by steep drops in asset prices, in large part because too many workers in America have no access to a retirement plan at work. Workers with access to a 401(k) or other pension plans fared relatively well prior to the crash, but just 60 percent of working heads of families were eligible to participate in any type of job-related pension or retirement plan in 2007. Even among those who *were* eligible, more than 15 percent did not participate in the plan, leaving roughly half of the workforce—78 million working Americans—with no employer-based retirement plan.<sup>27</sup>

Furthermore, there are significant disparities in participation in retirement plans among workers of different income levels. Those at the top end of the income scale almost universally choose to participate in workplace retirement programs; meanwhile, of those who have access to a retirement plan at work,

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<sup>26</sup>“Flow of Funds Accounts of the United States,” The Federal Reserve, December 2009, <http://www.federalreserve.gov/releases/z1/current/z1.pdf>.

<sup>27</sup>Brian K. Bucks, et al, “Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances,” Federal Reserve Bulletin, February 2009, <http://www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf>

one in five families headed by a worker in the middle fifth of the income scale do not participate. The situation is much worse still for workers in the bottom fifth of the income scale, where among the subset of workers who have access to a retirement plan, half of families do not participate.<sup>28</sup>

The Administration recognizes that inadequate access to retirement savings plans is threatening the retirement security of workers, which is why we have proposed to lay the groundwork for a system of automatic Individual Retirement Accounts (IRAs) in the workplace. This system will require employers who do not currently offer a retirement plan to enroll their employees in a payroll-deduction IRA, providing a valuable new way to save for many workers. This proposal will allow workers to voluntarily opt out of these automatic contributions, but including nearly all workers in this system by default will make it dramatically easier to save for the nearly half of the workforce that currently has no access to an employer-based retirement plan. Small businesses will receive tax breaks to help them establish these arrangements and the smallest businesses (those with no more than ten employees) will be exempt from these requirements.

### **Simplifying and Expanding the Saver's Credit**

Even among those who already have retirement accounts, it is not always easy for workers to save enough to provide themselves with the retirement they deserve. Even when combined with Social Security, many workers' account balances at retirement are not enough to provide a comfortable income.

To help address this issue, we have proposed to help families save for retirement by simplifying and expanding the Saver's Credit, a tax credit that provides a government match for workers' contributions to retirement savings plans. The expanded Saver's Credit will match 50 percent of the first \$1,000 of contributions (\$500 for an individual and \$500 per spouse in the case of a married couple filing jointly) to retirement plans by families earning up to \$65,000, and provide a partial credit to families earning up to \$85,000.

While the credit was previously targeted more to lower-income savers, this expansion will make many more middle-class families eligible for the credit. At the same time, we are proposing to make the credit fully refundable, allowing lower-income savers to take full advantage of the credit for the first time. The Saver's Credit will also work together with our automatic IRA proposal, encouraging workers to participate in the retirement savings system for the first time by matching the retirement savings of the lower-income workers who currently lack workplace retirement plans.

Together, these two policies will help middle-class families build up the nest eggs they need to provide themselves with a secure retirement, while helping lower-income families start to build up crucial savings that will help them rise into, and remain part of, the American middle class.

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<sup>28</sup> Ibid.

## Updating 401(k) Regulations to Improve Transparency and Reliability

The proposals above are significant legislative steps, and this Administration will continue to work with Congress to make these proposals law because we believe they are crucial to strengthening the retirement security of American workers. These policies will help more workers to save, and will help those who already have retirement accounts to save more, but even workers who are saving enough may see their returns diminished by high fees and expenses. A majority of American workers with retirement plans rely on 401(k)-style defined-contribution plans, making it critical that the 401(k) system be safe, transparent, and well-regulated.<sup>29</sup>

We need to do more to give families better choices to reach a secure retirement. To ensure that workers have good options to save for retirement, and to provide workers with all the information they need to make the best choices about their retirement savings, the Administration is improving the regulation of 401(k)s to make the system more reliable and transparent. These regulatory actions include:

- 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 guaranteed lifetime income products, which transform at least a portion of retirees' savings into guaranteed future income, reducing the risks that retirees will outlive their savings or that their 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.

## Administrative Actions to Improve Retirement Security

In addition to the proposals discussed above, this Administration has already taken smaller steps to strengthen retirement security through direct administrative actions. President Obama has already announced, and this Administration has begun to implement, a series of common-sense measures to help workers save for retirement. These include:

- Making it easier for small businesses to help their employees save by automatically enrolling their workers in a 401(k) or a "SIMPLE" individual retirement account plan.

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<sup>29</sup> "Defined Contribution Plans More Common Than Defined-Benefit Plans," U. S. Bureau of Labor Statistics, March 2009, <http://www.bls.gov/opub/perspectives/issue3.pdf>

- Making it easier for people to save their Federal tax refunds by letting them choose to receive their refund as a savings bond that can be deposited into IRAs or bank accounts.
- Making it possible for employers to allow workers to put payments for unused vacation and sick days in to their retirement plans, an option that is not currently available to most workers.
- Making it easier for people to understand their options for retirement saving with the help of an easy-to-follow guide and website created by the IRS and the Treasury. So that complicated rules will not discourage workers from saving, so we need to simplify and clarify rules and instructions, especially for workers changing jobs who are often unsure of their options for managing their existing 401(k) or other retirement funds and continuing to save for retirement.

### **Another Option: Safe Investment Choices**

The proposals above are designed to encourage workers, especially low- and middle-income workers, to save more for retirement. This is a critical goal, and will have an especially pronounced impact on the half of the workforce that currently has no access to a retirement plan at work. But the problems workers are now facing go beyond the fact that many workers save too little for retirement. Even for workers who save at recommended rates for their entire lives, the possibility of a market crash always poses a serious risk, as the recent financial crisis has tragically illustrated.

All workers, no matter their level of financial sophistication, should have access to well-diversified low-cost investment options. They should also have an easy way to put a portion of their savings in a safe, inflation-protected investment choice. While Treasury Inflation-Protected Securities (TIPS) and I Savings Bonds offer this kind of protection today, many investors are unfamiliar with them or lack an easy way to access these options in their retirement accounts. To address this, some have suggested the creation of Guaranteed Retirement Accounts (GRAs), which would give workers a simple way to invest a portion of their retirement savings in an account that was free of inflation and market risk, and in some versions under discussion, would guarantee a specified real return above the rate of inflation. These accounts would allow workers to be sure that the funds invested in them will grow steadily without the risk of a market collapse.

GRAs would not replace Social Security, which provides and will continue to provide a dependable retirement income on which tens of millions of Americans rely, and most workers will want to continue to have a mix of assets with different risk and return profiles in their overall retirement portfolios. But in combination with the proposals above, increased access to safe investment options may provide a more secure retirement for American workers. The Task Force recommends further study of these issues.



## IV. Balancing Work and Family Responsibilities

The American workforce looks very different than it did two decades ago—two-income families are the norm, older workers are staying in the workforce longer, and men and women are more evenly sharing caregiving responsibilities—but the workplace has, for the most part, not changed to reflect these realities. For the majority of middle-class families, it is no longer the case that one parent is the breadwinner while the other is the caregiver. The economic stability of middle-class families depends at least in part on policies that help families balance work and caregiving obligations so that adults do not need to step away from the workforce to care for children or elderly parents or to update their own training, certifications, or skills.

The shift to two-income families has been accelerated by this recession, in which male-dominated industries have been hit particularly hard. Women make up nearly half of all workers on US payrolls, and two-thirds of families with children are headed either by two working parents or by a single parent who works.<sup>30</sup> In addition, older workers are forgoing retirement and working longer, a trend that began in the last expansion and has continued through the downturn.<sup>31</sup> These changes are unlikely to go away as the economy recovers. As economist Heather Boushey said at our November Task Force meeting, “Taking seriously the challenges facing middle-class families means taking a long, hard look at the reality of their day-to-day lives—the dual-earner families, the single-parent families and the one-in-five traditional families—and adapting to this reality by ensuring that every worker can be a good family caregiver, as well as a good employee.”

### Child Care

In 1970, 30 percent of married women with children under the age of six were in the labor force.<sup>32</sup> By 2007, more than 60 percent of these moms were in the labor force.<sup>33</sup> The employment rate for single moms has similarly skyrocketed. Child care is more important than ever—and it is very expensive. Since 2000, child-care costs have grown significantly faster than inflation and twice as fast as the median

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<sup>30</sup> “Families with own children: Employment status of parents by age of youngest child and family type,” Bureau of Labor Statistics, <http://www.bls.gov/news.release/fameet04.htm>.

<sup>31</sup> Peter R. Orszag, “Why Are Older Workers Working Longer,” September 2009, <http://www.whitehouse.gov/omb/blog/09/09/25/WhyAreOlderWorkersWorkingLonger/>.

<sup>32</sup> “The 2007 Statistical Abstract: Table 584,” Census Bureau, [http://www.census.gov/compendia/statab/2007/labor\\_force\\_employment\\_earnings/labor\\_force\\_status.html](http://www.census.gov/compendia/statab/2007/labor_force_employment_earnings/labor_force_status.html).

<sup>33</sup> “Women in the Labor Force: A Databook (2009 Edition),” Bureau of Labor Statistics, <http://www.bls.gov/cps/wlftable6.htm>



household income.<sup>34</sup> The average annual cost of full-time center-based care for an infant ranges from \$4,560 in Mississippi to \$15,895 in Massachusetts. More than 126 million Americans live in states where the price exceeds \$10,000. The average cost of care for a four year old ranges from \$4,055 to \$11,680 a year.<sup>35</sup>

Home-based care is slightly less expensive but still costs more than \$5,000 per year for a four year old, and even more for an infant, in nearly 40 states. And the expenses do not end when children reach school age; before- and after-school care costs more than \$4,000 a year in the majority of states where that data is available.<sup>36</sup>

To put those costs into perspective, in every region of the country, the average price of child care for one infant exceeds average annual expenditures on food. In 39 states and the District of Columbia, child-care center fees for an infant are higher than a year's tuition at a four-year public college. And in every state, monthly child-care fees for two children at any age are higher than the median cost of rent.<sup>37</sup>

### *Expanding the Child and Dependent Care Tax Credit*

While the cost of child care has skyrocketed, the Child and Dependent Care Tax Credit has only increased once in 28 years and is not indexed for inflation. For families with incomes above \$43,000, the credit covers 20 percent of qualifying child-care expenses, up to \$3,000 in expenses for one child and \$6,000 in expenses for families with two or more children. This results in a maximum credit of \$600 per child and \$1,200 per family. The credit also applies to expenses incurred for the care of a spouse or dependent with a disability.

We should be providing more financial assistance to families who must put their kids in child care so they can work. The Task Force led a policy process aimed at restructuring the Child and Dependent Care Tax Credit to deliver significantly more help to middle-class families. As a result, the Budget includes a \$900 increase in the maximum credit available to many middle-class families. Currently, families with incomes below \$15,000 are eligible for a 35 percent credit, which phases down to 20 percent for all families above \$43,000. Under our proposal, all families with incomes up to \$85,000 would get a 35 percent credit on their expenses. The credit rate would phase down slowly so that nearly all families with incomes below \$115,000 would receive a larger credit than they do under the current structure.

### *Increasing Child Care Assistance to Low-Income Working Families*

Many working parents simply cannot lift their families into the middle class without child-care assistance. The Administration recognizes the connection between child care and economic mobility. The Recovery Act provided \$2 billion for the Child Care and Development Fund to provide child-care assistance to

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<sup>34</sup> Bureau of Labor Statistics, Consumer Price Index, [www.bls.gov](http://www.bls.gov). Census Bureau, Historical Income Tables, <http://www.census.gov/hhes/www/income/histinc/inchhtoc.html>.

<sup>35</sup> "2008 Price of Child Care," National Association of Child Care Resource and Referral Agencies, [http://www.naccrra.org/randd/docs/2008\\_Price\\_of\\_Child\\_Care.pdf](http://www.naccrra.org/randd/docs/2008_Price_of_Child_Care.pdf).

<sup>36</sup> Ibid.

<sup>37</sup> "Parents and the High Price of Child Care: 2009 Update," National Association of Child Care Resource and Referral Agencies, <http://issuu.com/naccrra/docs/parents-and-the-high-price-of-child-care-2009?mode=embed&layout=white>.



low-income families and improve the quality of this care. The Budget builds on this important investment by providing a \$1.6 billion increase in funding that will fund services for approximately 235,000 children and support an improvement in quality, safety and outcomes through a reauthorization of the Child Care and Development Fund.

The Recovery Act also included \$1 billion in additional funding for Head Start and \$1.1 billion for Early Head Start. These programs promote healthy child development and school readiness for children from low-income families. The Recovery Act funds will allow both programs to serve more children, will improve staff training, and will allow for Head Start centers and classrooms to be upgraded. The Budget continues the Recovery Act expansions while adding new funds focused on lifting program outcomes.

### ***Early Learning Challenge Fund***

The Administration's interest in helping families with children in early learning and care arrangements outside the home goes beyond increasing affordability. The quality of early-learning programs varies widely. The President has proposed a \$9.3 billion Early Learning Challenge Fund to raise the bar and ensure that more children are ready to succeed when they start school. This competitive grant program will drive states to develop models of coordinated early-learning systems that promote high standards of quality and a focus on outcomes. The House of Representatives passed the President's proposal in September and the Administration is working closely with the Senate to ensure that this initiative becomes law.

### **Supporting Family Caregivers**

AARP and the National Alliance for Caregiving estimate that 65 million Americans provide unpaid care to seniors or people with disabilities.<sup>38</sup> Caring for an elderly person is difficult enough, but many caregivers are part of the "sandwich generation"—they must care for their children and their aging parents at the same time. Nearly one-third of those caring for someone over the age of 50 have their own children at home.<sup>39</sup> Many caregivers struggle to balance work with their family obligations—nearly 60 percent of caregivers work full or part-time and two-thirds of these working caregivers say they have had to go in late, leave early, or take time off as a result of their caregiving responsibilities.<sup>40</sup>

To ease the burden on families with elder care responsibilities and improve the quality of life for seniors, the Task Force worked with the Department of Health and Human Services to develop a new Caregiver Initiative in the FY 2011 Budget. The Caregiver Initiative provides a total of \$50 million in additional funding for the National Family Caregiver Support Program and the Native American Caregiver Support Program. These programs provide temporary respite care, counseling, and training, and help with retro

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<sup>38</sup>"Caregiving in the U.S.: Executive Summary," AARP and National Alliance for Caregiving, November 2009, <http://www.caregiving.org/data/CaregivingUSAllAgesExecSum.pdf>.

<sup>39</sup>"Caregiving in the U.S.: A Focused Look at Those Caring for the 50+," AARP and National Alliance for Caregiving, November 2009, <http://www.caregiving.org/data/FINALRegularExSum50plus.pdf>.

<sup>40</sup>"Caregiving in the U.S.: Executive Summary," AARP and National Alliance for Caregiving, November 2009, <http://www.caregiving.org/data/CaregivingUSAllAgesExecSum.pdf>

fitting homes to accommodate the needs of aging relatives. They also link caregivers with information and referrals to other supports. The extra funding will allow nearly 200,000 additional caregivers to be served and three million more hours of respite care to be provided.

The Caregiver Initiative also adds \$50 million in funding to programs that provide transportation assistance for medical and other appointments, adult day care, and in-home services, such as aides to help seniors bathe, cook and clean. The new resources will support one million additional hours of adult day care and three million rides to critical daily activities. All of the programs boosted by the Caregiver Initiative are administered through the successful network of local aging agencies across the country, which are already providing critical help to seniors and caregivers, but whose strained resources limit their reach. Just ask Mary Lynn, a social worker from North Carolina, who wrote in to the Task Force website to tell us that there are not enough resources to provide needed respite care to the family caregivers she works with, and to ask whether we could help.

This initiative is not exclusively focused on caregivers of the elderly. The Lifespan Respite Care Program, which will double in size, is designed to help families caring for people of all ages with disabilities. The National Family Caregiver Support Program is primarily focused on caregivers of seniors, but it also provides assistance to people over the age of 55 who are taking care of younger relatives with disabilities. Many of the workplace flexibility initiatives that we discuss below will also provide support for people with disabilities, and the Task Force will continue to explore ways to support people with disabilities and their families.

### ***Idea for Further Consideration: More Financial Assistance for Caregivers***

Going forward, the Task Force believes that we should study additional options for easing the financial burden of caregiving. Many caregivers spend thousands of dollars a year out of their own pocket.<sup>41</sup> According to survey data, only 20 percent of care recipients over the age of 50 live with their caregiver.<sup>42</sup> Yet the Child and Dependent Care Tax Credit provides no break for out-of-pocket caregiving expenses paid on behalf of an elderly relative who does not live in the taxpayer's home. We should consider modifying this credit to cover taxpayers who do not live with their elderly parents or grandparents. But even an expanded Dependent Care Credit would not defray many of the costs that caregivers face. We should also study proposals for a new tax credit—not tied to any particular expenses—for the primary caregivers of people with long-term care needs.

It is also important to note that, as more families depend at least in part on paid caregivers, the Task Force believes these should be *good* jobs, so that these workers can support their own families and provide high quality care to our children and parents.

<sup>41</sup> "Family Caregivers—What they Spend, What they Sacrifice," National Alliance for Caregiving and Evercare, November 2007, [http://www.caregiving.org/data/Evercare\\_NAC\\_CaregiverCostStudyFINAL20111907.pdf](http://www.caregiving.org/data/Evercare_NAC_CaregiverCostStudyFINAL20111907.pdf)

<sup>42</sup> "Caregiving in the U.S.: Executive Summary," AARP and National Alliance for Caregiving, November 2009, <http://www.caregiving.org/data/CaregivingUSAllAgesExecSum.pdf>

## More Flexible Workplaces

### *Expand paid leave*

The United States is one of the only industrialized countries without any requirement that employers provide paid family leave.<sup>43</sup> Workers covered by the Family and Medical Leave Act can take up to 12 weeks of unpaid time off annually without losing their jobs, but millions of families cannot afford to use unpaid leave. A handful of states have enacted policies to offer paid family leave, but more states should have that chance. The Budget establishes a \$50 million State Paid Leave Fund within the Department of Labor that will provide competitive grants to states to plan and establish paid-leave programs.

Roughly 40 percent of private-sector employees work at a company that does not offer sick pay for their own illness or injury. And low- and middle-income workers are much less likely to be offered paid sick leave than highly paid workers.<sup>44</sup> In November, the Administration announced its support for the Healthy Families Act. This legislation would allow millions of working Americans to earn up to 56 hours per year of paid sick time, which they could use to care for themselves or for a sick family member. Providing job security and a short-term continuation of income when a worker must take time off to get well or provide care to a family member is an important step in meeting the needs of modern working families.

### *Conduct Research and Disseminate Data on Work/Life Policies and Flexible Work Arrangements*

It is imperative that we expand our understanding of work/life policies and their impact on the labor market—both to learn more about key issues for working families and learn more about the impact of these policies on the performance of the labor market. In the coming year, the Department of Labor will enhance its data collection and analysis around issues like parental leave, child-care responsibilities, usage of family leave insurance programs, and other topics related to the intersection of work and family responsibilities. The Budget provides additional funding to the Women’s Bureau at the Department of Labor to support this effort.

### *Idea for Further Consideration: Modernize the Family and Medical Leave Act*

The Family and Medical Leave Act (FMLA) provides for up to 12 weeks of unpaid leave. It applies to employers with 50 or more employees and protects workers who have worked at least 1,250 hours over the past 12 months. It was an important first step in providing economic security to dual-income, dual-caregiving parents or single parents, but more is needed.

In October, the President signed legislation expanding FMLA coverage for military families. In December, the President signed legislation that will make flight attendants and crewmembers eligible for FMLA for the first time. These changes will make a huge difference for the families that are impacted, but there is much more that needs to be done. More than 40 percent of American workers are in firms that are not covered by the Act. And millions of workers at businesses covered by the Act are not eligible for its protections because they do not work enough hours or have worked for their employer for less than a

<sup>43</sup> Ann O’Leary and Karen Kornbluh, “Family Friendly for All Families,” in “The Shriver Report: A Woman’s Nation Changes Everything,” 2009, <http://www.awomansnation.com/government.php>.

<sup>44</sup> Bureau of Labor Statistics, National Compensation Survey, <http://www.bls.gov/news.release/ebs2.t06.htm>

year.<sup>45</sup> The Task Force believes that we should consider extending FMLA to employers with 25 or more employees. In addition, the Task Force recommends that the Administration explore the possibility of expanding the activities and circumstances that are covered by FMLA protections.

***Idea for Further Consideration: Make the Federal Government a Model Employer***

The Task Force also recommends gathering data on flexible work arrangements in the Federal workforce and considering piloting a variety of best practices from the private sector in the Federal workforce, including enhanced telework options, results-based management systems that improve productivity and encourage flexibility, and a “right to request” process for flexible work arrangements for Federal workers. Policies like these have the potential not only to help middle-class families balance their work and family responsibilities, but also to enhance the efficiency and competitiveness of the Federal workforce.

**An Administration-Wide Commitment**

The Task Force is not the only entity focused on helping families balance work and caregiving obligations. In March, President Obama signed an executive order creating the White House Council on Women and Girls. Like the Task Force, the Council is based in the White House, but brings together the best minds from across the Administration to address pressing problems. One of the Council’s specific areas of focus is working closely with each agency to ensure that the Administration evaluates and develops policies that support a balance between work and family responsibilities. When he announced the Council, the President noted that “issues like equal pay, family leave, child care and others are not just women’s issues; they are family issues and economic issues. Our progress in these areas is an important measure of whether we are truly fulfilling the promise of our democracy for all our people.”<sup>46</sup>

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<sup>45</sup> “Use of the FMLA,” U.S. Department of Labor, <http://www.dol.gov/asp/archive/reports/fmla/chapter3.htm>.

<sup>46</sup> “President Obama Announces White House Council on Women and Girls,” [http://www.whitehouse.gov/the\\_press\\_office/President-Obama-Announces-White-House-Council-on-Women-and-Girls/](http://www.whitehouse.gov/the_press_office/President-Obama-Announces-White-House-Council-on-Women-and-Girls/)



## V. Pathways to the Middle Class

### **Making Higher Education Affordable and Accessible**

It has long been one of the core aspirations of middle-class families to provide their children with the opportunity to get a college education. Postsecondary education is strongly linked to higher earnings and greater economic mobility, offering one of the most reliable routes to a good career while providing a critical pathway *into* the middle class for children from lower-income families.<sup>47</sup> For many middle-class parents, higher education means the chance for their children to realize their full potential and represents the hope that their children will do even better than they did themselves.

Unfortunately, the cost of college has risen rapidly while the income of typical American families has stagnated in recent years, making it increasingly difficult for working- and middle-class families to afford college and leading more and more students to take on significant debt to pay for higher education.

The Task Force heard about these challenges first-hand at the two events on college affordability that we held over the course of the past year. The first event was held on April 17 at the University of Missouri-St. Louis, and in September, the Task Force traveled to Syracuse University for our second meeting on this topic. At these two events, the Vice President and members of the Task Force, including Secretary of Education Arne Duncan and Secretary of the Treasury Timothy Geithner, heard from students, parents, faculty, and administrators in open, town hall-style question-and-answer sessions. We got a variety of feedback at these sessions, but one message we heard over and over again was that while postsecondary education remains as important as ever, middle-class families are finding it harder and harder to afford a college education.

The magnitude of this problem is striking: growth in the cost of college has dramatically outpaced the growth of middle-class incomes. Since the 1979-80 academic year, the inflation-adjusted value of the average published college tuition has shot up from \$2,174 to \$7,020 for public four-year colleges and from \$9,501 to \$26,273 for private four-year colleges.<sup>48</sup> Family incomes, by contrast, have stagnated, as documented above. From 1979 to 2008, the real median income of American families with children grew just 7.6 percent, from \$55,830 to \$60,055.<sup>49</sup>

These figures translate into a 0.25 percent annual growth rate in median family income over the past three decades, compared to an annual growth rate of 3.98 percent for public four-year colleges and 3.45 percent for private four-year institutions over that same time span. In other words, college tuition costs

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<sup>47</sup> See "Barriers to Higher Education," Middle Class Task Force, [http://www.whitehouse.gov/assets/documents/MCTF\\_staff\\_report\\_barriers\\_to\\_college\\_FINAL.pdf](http://www.whitehouse.gov/assets/documents/MCTF_staff_report_barriers_to_college_FINAL.pdf)

<sup>48</sup> "Trends in College Pricing: 2009," The College Board, 2009, [http://www.trends-collegeboard.com/college\\_pricing/1\\_4\\_over\\_time\\_constant\\_dollars.html?expandable=0](http://www.trends-collegeboard.com/college_pricing/1_4_over_time_constant_dollars.html?expandable=0).

<sup>49</sup> United States Census Bureau, <http://www.census.gov/hhes/www/income/histinc/incfamdet.html>



have grown over *ten times* as fast as real median incomes for families with children. This trend is partially offset by increasing levels of financial aid; most students are aided by various grants and adjustments, bringing the average actual cost paid by students for college in 2009-10 to \$1,620 for public four-year institutions and \$11,870 for private four-year institutions.<sup>50</sup> This expansion of financial aid is a significant and positive development, but despite the growing generosity of aid, families are finding it harder to afford college as prices continue to rise and their incomes fail to keep pace.



Vice President Joe Biden and members of the Middle Class Task Force at a Task Force meeting on higher education in St. Louis, Missouri. Official White House Photograph by David Lienemann.

One reflection of the persistent difficulties that families are having in paying for college is the rising debt load with which students leave college. About two-thirds of students now take out loans to pay for college, and the average debt of a college graduate is now more than \$23,000.<sup>51</sup> Like tuition, the size of these student loans is growing significantly faster than middle-class incomes, placing increasingly heavy burdens on students and their families.

<sup>50</sup> "Trends in College Pricing: 2009," The College Board, 2009, [http://www.trends-collegeboard.com/college\\_pricing/3\\_1\\_net\\_prices.html?expandable=0](http://www.trends-collegeboard.com/college_pricing/3_1_net_prices.html?expandable=0).

<sup>51</sup> "Student Debt and the Class of 2008," Project on Student Debt, December 2009, <http://www.projectonstudentdebt.org/files/pub/classof2008.pdf>.

Partly because of these difficulties paying for college, middle-income children are not only less likely to enroll in college than their high-income peers, they are less likely to complete college once enrolled. High school graduates from middle-income families are significantly less likely to enroll in two- or four-year colleges than children from high-income families.<sup>52</sup> In addition, middle-income children are about half as likely to *complete* college as wealthier children, with a 25 percent college completion rate, compared to 53 percent for children from families in the top income fifth.<sup>53</sup> These income effects can be seen even among students with comparable merit or academic ability; about 30 percent of high-ability eight-graders from low-socioeconomic status families eventually completed college, which is similar to the share of their high-socioeconomic status peers with unusually low scores on ability tests.<sup>54</sup>

These problems are compounded in the case of lower-income children and families by additional nonfinancial barriers. Low-income students often do not have access to information and networks that would encourage them to attend college, help them find good, affordable colleges and universities, or alert them to the availability of financial aid.

For low- and middle-income families, these financial and nonfinancial barriers to college are deeply troubling because college is such a critical pathway to a good career. The returns to higher education are not only high, they are growing; in 1973, a college graduate earned 46 percent more per hour than a high school graduate, and by 2007, this difference had grown to 77 percent.<sup>55</sup>

The benefits of college are perhaps even more striking for low-income individuals, as college is strongly linked to upward mobility. Among children who grew up in low-income families, those who did not graduate from college were almost three times more likely to remain in the bottom fifth of the income scale than were low-income children who went on to complete college.<sup>56</sup> Even among middle-income children, higher education is linked to upward mobility; those with college educations are significantly more likely to move toward the top of the income scale than their peers without college educations.

These statistics all underscore a critical point, which families across America already understand: higher education is not just a core component of the American dream and a widespread aspiration of middle-class families, it is the single best route to a good career for children from all backgrounds and a crucial pathway for low-income children to reach the middle class for the first time. Access to college is critically important for American families, and it is our responsibility to ensure that if a qualified student wants to attend college, he or she can, regardless of income or background.

<sup>52</sup> U.S. Department of Education, Institute of Education Sciences, <http://nces.ed.gov/programs/coe/2009/section3/table-trc-1.asp>

<sup>53</sup> Ron Haskins, Harry Holzer, and Robert Lerman, "Promoting Economic Mobility by Increasing Postsecondary Education," Pew Economic Mobility Project, 2009, [http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic\\_Mobility/PEW\\_EM\\_Haskins%207.pdf](http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic_Mobility/PEW_EM_Haskins%207.pdf)

<sup>54</sup> Mary Ann Fox, Brooke A. Connolly, and Thomas Snyder, "Youth Indicators 2005: Trends in the Well-Being of American Youth," National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education, July 2005, <http://nces.ed.gov/pubs2005/2005050.pdf>. The socioeconomic status was measured with a composite score, based on family income as well as on the parents' education levels and on the occupations in which the parents worked.

<sup>55</sup> See "Financing the Dream: Securing College Affordability for the Middle Class," Middle Class Task Force Staff Report, [http://www.whitehouse.gov/assets/documents/staff\\_report\\_college\\_affordability1.pdf](http://www.whitehouse.gov/assets/documents/staff_report_college_affordability1.pdf).

<sup>56</sup> Lawrence Mishel, Jared Bernstein, and Heidi Shierholz. *The State of Working America 2008/2009*. And Economic Policy Institute Book. Ithaca, N.Y.:ILR Press, an imprint of Cornell University Press (2009).



### *Reforming Student Aid and Restoring American Leadership in Higher Education*

To compete in the global economy and build a strong foundation for future economic growth, America must have a highly skilled and educated workforce. That is why the President has set a goal that by 2020, America will once again have the highest proportion of college graduates in the world. This Administration's commitment to expanding educational opportunity is reflected in the Recovery Act and in the comprehensive plan that the President has laid out to reform student aid and restore America's leadership in higher education. The Administration is currently working with Congress to make each element of the President's plan a reality.

**Capping Student Loan Payments.** Last July, the Department of Education launched the Income-Based Repayment (IBR) plan for Federal student loans. This repayment option protects borrowers by linking payments to their income and family size, so that those with a high debt-to-income ratio will have lower payments than they would under the standard repayment plan.<sup>57</sup>

Right now, the annual repayment amount for IBR participants is capped at 15 percent of the difference between the borrower's income and 150 percent of the poverty line for the borrower's family size. A borrower is eligible for IBR if this calculation produces a lower repayment amount than the borrower would owe under the standard ten-year repayment plan. If the borrower still has a remaining balance after making payments under IBR for 25 years, the debt is forgiven. For borrowers working continuously in a public-service job, the remaining debt is forgiven after only 10 years.

The Task Force has advocated for an expansion of the Income-Based Repayment plan to provide more relief from crushing debt burdens. The President's FY 2011 Budget includes a proposal to make IBR more generous, so that borrowers would have to pay only 10 percent of their income above 150 percent of the poverty line, and their remaining debt would be forgiven after only 20 years of IBR payments. Borrowers in public-service jobs would have their debt forgiven after 10 years. This proposal would significantly reduce monthly payments for eligible borrowers; 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 ten-year repayment plan.

At our Task Force meeting in St. Louis, Missouri, we heard from a mother whose daughter was struggling after graduating from college with \$60,000 in student loans and taking a job as a teacher. This proposal 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.

**Student Loan Reform.** The Administration is proposing to make student loans more reliable and cost-effective by shifting all loans to the Direct Loan program. Right now, Federal loans are processed and delivered through either the Federal Family Education Loan (FFEL) program or through the Direct Loan program. In the FFEL program, private student lenders get excessive entitlement subsidies at

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<sup>57</sup> For more information about the Income-Based Repayment Plan, see [http://studentaid.ed.gov/students/attachments/siteresources/IBRQ&A\\_template\\_123109\\_FINAL.pdf](http://studentaid.ed.gov/students/attachments/siteresources/IBRQ&A_template_123109_FINAL.pdf). The Department of Education has developed an online Income-Based Repayment eligibility calculator that can be found at <http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRCalc.jsp>

levels set by Congress. In the Direct Loan program, the Federal Government provides the capital for all new student loans, and contracts with private companies to manage and collect on those loans in a competitive process that rewards good performance. Shifting all loans to the Direct Loan program will eliminate FFEL subsidies on new student loans and generate billions of dollars in savings that can be used to expand Pell Grants and make historic investments in community colleges.

The shift to Direct Loans will not only save money, it will make Federal student loans more reliable. Lenders are more interested in their short-term bottom line than in the long-term ability of the FFEL program to guarantee that every eligible student seeking a loan will receive one. The FFEL program was rocked by the turmoil in our financial markets and might have collapsed were it not for Congressional intervention. The Direct Loan program suffered no disruptions.

**Larger Pell Grants.** The Recovery Act provided more than \$17 billion in additional Pell Grant funds for needy students, and the combination of the Recovery Act and the 2009 appropriations bill increased the maximum Pell Grant by more than \$600, for a total award of \$5,350.<sup>58</sup> For the 2010-2011 academic year, the maximum Pell Grant award will increase to \$5,550. The Administration is proposing to build on these increases by making Pell Grant funding mandatory, rather than partially dependent on annual appropriations from Congress, and by guaranteeing that Pell Grants, which are worth less than half as much as they were 30 years ago, grow faster than inflation in the future.

**The American Opportunity Tax Credit.** The Recovery Act created a new American Opportunity Tax Credit, which is worth up to \$2,500 per year and can be claimed against tuition, fees and textbook expenses for 4 years of college. The full credit is available to families making up to \$160,000, and is partially refundable so that working-class and low-income families can benefit.<sup>59</sup> The Administration is now working to make this temporary credit permanent.

**Expanding the Work-Study Program.** The Recovery Act provided an additional \$200 million in funding to the Federal Work-Study program, which allows colleges and universities to provide jobs that help students with their expenses.<sup>60</sup>

**Expansion of Low-Interest Perkins Loans.** The Administration has proposed a dramatic increase in the availability of Perkins Loans. Perkins Loans, which carry an interest rate of only 5 percent, help fill the gap for students who still have unmet financial need after other Federal student loans are taken into account. The Administration's plan would make Perkins Loans available to 2.4 million students each year.

**Simplifying the Federal Student Aid Application.** The historic increases in Federal student aid outlined above will only achieve their desired result if students know they are available and are not deterred by the application process. Unfortunately, the application for Federal student aid—known as the Free

<sup>58</sup>"The American Recovery and Reinvestment Act of 2009: Saving and Creating Jobs and Reforming Education," March 2009, <http://www.ed.gov/policy/gen/leg/recovery/implementation.html>.

<sup>59</sup> More information on the American Opportunity Tax Credit is available at <http://www.irs.gov/newsroom/article/0,,id=205674,00.html>

<sup>60</sup>"The American Recovery and Reinvestment Act of 2009: Saving and Creating Jobs and Reforming Education," March 2009, <http://www2.ed.gov/policy/gen/leg/recovery/implementation.html>

Application for Federal Student Aid, or FAFSA—is needlessly long and complex. According to a National Economic Council and Council of Economic Advisers report that was released and discussed at our Task Force meeting at Syracuse University, the FAFSA acts as a barrier to college access for many students and their families, and can be simplified with little or no impact on aid eligibility or the amount of aid granted for the vast majority of students.<sup>61</sup>

The Department of Education has already streamlined the online FAFSA, and more improvements have recently been implemented. Some applicants can now access data they have provided to the IRS and transfer it to the FAFSA, and the Administration is working with Congress on legislation that would eliminate the financial questions that cannot be answered with IRS data.

**Strengthening Community Colleges.** Last year, the President called for a \$12 billion investment in community colleges over the next 10 years that would support the President’s goal of graduating five million additional community college degree or credential recipients by 2020. The Administration strongly supports the American Graduation Initiative, contained in pending legislation, which would create a new competitive grant program to encourage community colleges and states to innovate and expand on proven reforms, a new online skills laboratory with freely available courses offering new opportunities for students to gain knowledge on their own time, and a new fund to help community colleges modernize their facilities to meet growing demand.

The Administration’s plan to improve quality and raise graduation rates will give students a cost-effective choice. The average price of tuition and fees at public two-year colleges is \$2,544, compared to \$7,020 for in-state students at four-year public schools and \$26,273 at private four-year schools.<sup>62</sup> Community college degrees and certificates are valuable as standalone credentials or as a low-cost intermediate step towards a bachelor’s degree from a four-year institution. The American Graduation Initiative would provide an incentive to states to establish better articulation agreements, which would allow students to more easily transfer from a community college to a four-year institution.

**College Access and Completion Fund.** Only about half of all college students graduate within 6 years, and the graduation rate is much worse for low-income students. These statistics have consequences—workers with bachelor’s degrees make an average of 54 percent more than those who attended college but did not graduate.<sup>63</sup> The Administration has proposed the creation of a College Access and Completion Fund to finance innovative efforts at the state level to boost college graduation rates and close achievement gaps. The Fund will devote resources to evaluating these efforts and expanding programs that are proven to be successful.

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<sup>61</sup> “Simplifying Student Aid: The Case for an Easier, Faster, More Accurate FAFSA,” Council of Economic Advisers/ National Economic Council, September 2009, [http://www.whitehouse.gov/assets/documents/FAFSA\\_Report.pdf](http://www.whitehouse.gov/assets/documents/FAFSA_Report.pdf).

<sup>62</sup> *Trends in College Pricing: 2009*. The College Board, 2009. [http://www.trends-collegeboard.com/college\\_pricing/1\\_4\\_over\\_time\\_constant\\_dollars.html?expandable=0](http://www.trends-collegeboard.com/college_pricing/1_4_over_time_constant_dollars.html?expandable=0)

<sup>63</sup> Bureau of Labor Statistics.

### *Improving 529 College Savings Plans*

At our first Task Force meeting on college affordability in St. Louis, the Vice President directed the Department of the Treasury to prepare a report with recommendations for making Section 529 college savings plan more effective and reliable for middle-class families. The Treasury Department released the report at our second Task Force meeting on college affordability in Syracuse.<sup>64</sup> The report identifies several approaches that states and plan administrators should take to improve Section 529 plans, including:

- Providing age-based index funds, which have lower fees than actively-managed funds and automatically shift to more conservative investments as the beneficiary approaches college age.
- Eliminating home-state bias in state tax policies to stimulate competition between plans and give consumers more investment options.
- Improving transparency so it is easier for investors to access data on the historical returns of different plans.

### *Idea for Further Consideration: Slowing Tuition Increases*

When middle-class families sit down to figure out how they will pay for college, they consider at least two key factors: the total cost of attendance and the aid package their child has received. This Administration is seeking to address both of these issues. In addition to laying out a comprehensive plan to increase student aid and make it easier for students and families to pay for college, we took critical steps to mitigate the impact of the economic crisis on tuition.

The recession has made it especially difficult for states to hold down tuition at public universities. However, the Recovery Act responded to this challenge by setting aside nearly \$50 billion for a State Fiscal Stabilization Fund, which has already had a tangible effect as public universities in at least 22 states used Recovery Act funds to scale back tuition increases. For example, the Minnesota State College and University System reduced a planned tuition increase from 5 percent to 2 percent. At the University of Virginia, a tuition increase was cut in half by Recovery Act funds.<sup>65</sup>

As our economy begins to recover, it is time to take the next step and ask colleges and universities to think about ways to increase productivity and lower operating costs as they simultaneously seek to improve quality. In his State of the Union speech, the President challenged colleges to do their part. The Task Force focused on rising tuition in our first staff report on higher education, which highlighted several strategies that could help schools control costs, and we plan to continue working on this important issue in the future.<sup>66</sup>

<sup>64</sup> "An Analysis of Section 529 College Savings and Prepaid Tuition Plans," Department of the Treasury, September 9, 2009, <http://www.treas.gov/press/releases/docs/529.pdf>.

<sup>65</sup> For more examples of the Recovery Act's impact on tuition see "U.S. Department of Education, American Recovery and Reinvestment Act Report: Summary of Programs and State-by-State Data," November 2, 2009, <http://www.recovery.gov/News/featured/Documents/Education%20Dept.%20ARRA%20Programs%20and%20Jobs.pdf>

<sup>66</sup> "Financing the Dream: Securing College Affordability for the Middle Class," Middle Class Task Force Staff Report, [http://www.whitehouse.gov/assets/documents/staff\\_report\\_college\\_affordability1.pdf](http://www.whitehouse.gov/assets/documents/staff_report_college_affordability1.pdf)

## Connecting Workers to Career Ladders

The Administration is committed to expanding economic opportunity on several fronts. Effective job training is critical to helping workers get and keep middle class jobs. It can help workers expand their skills to continue and improve their careers, provide new skills that put workers on promising career pathways, or supply basic skills for those seeking to enter and remain in the workforce. Over the past year, we invested heavily in workforce development to ensure that American workers are equipped to compete for the good jobs of the future. Our FY 2011 Budget continues this commitment and supports evidence-based innovation in the job training system that will provide improved training and employment services and produce better outcomes for workers.

The Recovery Act provided nearly \$5 billion for Workforce Investment Act training and employment programs, including \$750 million for competitive grants to support worker training and placement in high-growth industries, of which \$500 million is focused on the clean energy sector. Close to \$75 million of the funds in this competitive grant program are being used to help communities impacted by restructuring in the auto industry.<sup>67</sup> The Recovery Act also provided over \$500 million for employment assistance for people with disabilities.

Innovation is a key to strengthening training programs and providing good jobs for middle-class families in the clean energy jobs of the future. For this reason, the Department of Labor's green job training initiatives funded by the Recovery Act include new and innovative partnerships among labor unions, businesses, community colleges, registered apprenticeship programs, and workforce investment boards. These partnerships help prepare dislocated workers, young people, veterans, women, persons with disabilities, persons from underserved and diverse communities, and older workers for the economy of tomorrow. They are training workers to be weatherization experts, solar panel installers, energy auditors, and sustainable manufacturing and hybrid automobile experts. In short, they are preparing workers for good jobs — safe, secure jobs that pay family-supporting wages. The FY 2011 Budget builds on the Recovery Act's investments in training programs that target high-growth sectors and dislocated workers by providing an additional \$85 million for green job training and \$40 million for transitional jobs demonstration projects.

In addition to presenting principles for Workforce Investment Act reauthorization, the President's FY 2011 Budget increases total funding for displaced workers, adults, and youth, including those with disabilities—the three major funding streams under Title I of the Act. The Budget invests in innovation by setting aside \$321 million for the Partnership for Workforce Innovation, a coordinated effort between the Departments of Labor and Education to provide incentives to create and replicate new and improved ways of producing better employment outcomes for workers more efficiently. The two departments will support state and local efforts to accelerate and improve outcomes for jobseekers through collaboration across state and Federal programs, streamlined service delivery, and innovative service delivery models. They will award competitive grants that support and test promising strategies, such as summer and year-round work experiences and comprehensive services for disconnected youth, "learn and earn" models such as apprenticeships and on-the-job-training, and regional and sectoral collaborations.

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<sup>67</sup>"DOL Information Related to the American Recovery and Reinvestment Act," <http://www.dol.gov/recovery/implement.htm>.



## VI. Conclusion

Just over a year ago, the President created the Middle Class Task Force, chaired by the Vice President, to focus on raising the living standards of middle-class families. We believe that the proposals outlined in this report represent an important first step toward addressing some of the biggest economic challenges facing the American middle class. In the coming year, the Task Force will work with Congress to enact our legislative proposals, and the Administration will press forward on those proposals that do not require legislation. We will also continue studying new policies that have the potential to further help working families, with an eye toward making additional recommendations in the future. And we will once again travel the country to engage with policy experts, advocates, and most importantly, middle-class Americans.

The challenges facing the middle class took many years to develop, and they will take time to address. The American economy is beginning to pull out of this deep recession, but as the economy returns to growth, the middle class must not be left behind again. As the Vice President said on the day the Task Force was created, "it is our charge to get the middle class—the backbone of this country—up and running again." The Task Force will continue working tirelessly in pursuit of this goal in the months ahead.







