

January 28, 2010

## **A Middle Class Success Agenda**

### How to Help the Middle Class Move Forward Again

For the American middle class, the recession has dealt a blow not just to their economic security but to their aspirations for success. This memo summarizes a variety of ideas proposed by Third Way to get the middle class back on the path to getting ahead. These ideas can help weave a new compact for the middle class, based on three pillars critical to middle class success: (1) the ability to gain marketable skills and earning power, (2) a comfortable cushion of savings and wealth and (3) reliable supports for work and family such as stable health coverage and dependable child care.

#### **Middle Class Success Pillar 1: Marketable Skills and Earning Power**

*In a globally competitive economy, higher education is increasingly a must. But while college savings accounts have dwindled – casualties of the crisis – college tuitions continue to spiral higher. For jobless Americans who must refresh their skills, options for help are few.*

- **College Tuition Tax Credit:** Consolidate and expand the existing college tuition tax credits and deductions to create a single, simplified, and generous \$5,000 college tuition tax credit.
- **529 Match:** To help individuals save for higher education, provide a federal match of up to \$1,000 per year for contributions to a 529 plan.
- **Expanded Student Loan Interest Deduction:** Expand the current student loan interest deduction, which currently begins to phase out at \$60,000 for single filers and covers up to \$2500 in interest, to keep up with rising college costs and student debt burdens.
- **Increase Federal Student Loan Limits:** Increase the current limit on federal student loans to \$10,000 and index the limit to tuition inflation to help families cope with the rising cost of college.
- **Community College Capacity Development Fund:** Create a \$500 million emergency fund to help community colleges cope with the crush of recent enrollments due to high unemployment rates. This would relieve the burden on community colleges that have been forced to turn away students due to a lack of capacity and enable more students to retool their skills while they are searching for work.

- **Federal Student Loan Eligibility for Less Than Part-time Students:** Expand access to federal student loan funding for mid-career students who are currently ineligible for aid because they are enrolled less than half-time. This would make returning to school more manageable and affordable for mid-career students who have limited time and resources to further their education.
- **Subsidized Unemployment Deferment for Student Loans:** Expand the ability of unemployed recent college graduates to temporarily defer their loan payments by creating a six-month, interest-free deferment for all types of student loans. This would help reduce the debt burden on recent college graduates, many of whom have had difficulty finding work and already face high student loans.
- **529 Distribution Deferment:** Enable accountholders to defer distribution from their 529 accounts in order to let the value of the assets recover, and to use recovered funds to pay back loans used to finance educational expenses.

## Middle Class Success Pillar 2: Savings and Wealth

*Middle-class Americans lost trillions in home equity and retirement savings as a result of the financial crisis. For some Americans, this means postponing retirement, and for others, it means the loss of a cushion in the event of an unforeseen catastrophe. For still others, it means deferring dreams – opening a small business, going back to school.*

- **Auto-consolidation for 401(k) Accounts:** Expand the automatic IRA roll-over option to any employer-sponsored retirement account, regardless of the outstanding balance when an employee leaves. This would help prevent the problems of too many workers “cashing out” their retirement accounts when they leave a job or collecting multiple retirement accounts as they move from employer to employer.
- **Federal 401(k) Match:** Provide federal matching funds to 401(k) and IRA contributions, up to \$1,000 per worker per year.
- **Temporary Deduction for 401(k) Losses:** In order to help seniors weather the recession and cope with retirement losses caused by the financial crisis, create a new, temporary tax deduction on 401(k) withdrawals for eligible retirees. In a fashion similar to the capital loss deduction, qualifying seniors would be allowed to take an income tax deduction of up to \$3,000 based on losses incurred during 2008, with excess losses being carried forward for up to an additional two years.
- **Ban on Short-sale Penalties:** Protect responsible home sellers in areas where home prices have fallen for reasons beyond their control by preventing them from taking a hit on their credit if the sale price of their home is less than what they owe on the mortgage.
- **Home Sale Loss Deduction:** Create a temporary capital loss tax deduction for home sales that would allow homeowners to recoup some of their home investments and make it easier to sell property in order to pursue economic opportunities in other parts of the country.

- **Low-interest Emergency Mortgage Bridge Loans:** Offer short-term, emergency bridge loans to help Americans avoid losing their homes if they lose a job in order to stem foreclosures tied to unemployment, rather than exotic mortgage products.
- **Federal Financial Education Grants:** Create a grant program in the Department of Education to provide resources to states that require high school students to take financial education courses.

### **Middle Class Success Pillar 3: Reliable Supports for Work and Family**

*The entry of women into the workforce dramatically increased middle-class household incomes, boosted the middle-class standard of living and widened opportunities for women to succeed professionally. But it has also created a new source of stress for modern families who must juggle the demands of their careers with the obligations of caring for their families.*

- **Double the Child Care Tax Credit:** To help middle-class families afford child care, increase the allowable credit for child care expenses to 35% of expenses for all families.
- **Elder Care Tax Credit:** In order to help families in the “sandwich generation,” allow non-dependent elder care expenses to be claimed under the Dependent Care Tax Credit.
- **Elder Care FSA:** Modify the current rules for employer Flexible Spending Accounts to allow expenses incurred for the care of non-dependent family members to be eligible for reimbursement.
- **Health Insurance Bridge Tax Credit:** Extend the COBRA health insurance subsidy included in the American Recovery and Reinvestment Act and improve options for workers to maintain health coverage post-employment.
- **New Baby Tax Credit:** Defray the “start-up” costs of having (or adopting) a child by increasing the child tax credit by \$1,000 for at least the first year of a child’s life.
- **Paid Leave for New Parents:** Establish a paid leave benefit for new parents as part of the unemployment insurance system.

## Appendix – Proposal Background

### Middle Class Success Pillar 1: Marketable Skills and Earning Power

- **College Tuition Tax Credit:**  
[http://content.thirdway.org/publications/220/Third\\_Way\\_Idea\\_Brief\\_-\\_College\\_Tuition\\_Tax\\_Cut.pdf](http://content.thirdway.org/publications/220/Third_Way_Idea_Brief_-_College_Tuition_Tax_Cut.pdf)
- **Increase Federal Student Loan Limits:**  
[http://content.thirdway.org/publications/160/Third\\_Way\\_Idea\\_Brief\\_-\\_Increase\\_Federal\\_Student\\_Loan\\_Limits.pdf](http://content.thirdway.org/publications/160/Third_Way_Idea_Brief_-_Increase_Federal_Student_Loan_Limits.pdf)
- **Community College Capacity Development Fund:**  
[http://content.thirdway.org/publications/189/Third\\_Way\\_Idea\\_Brief\\_-\\_Build\\_Community\\_College\\_Capacity.pdf](http://content.thirdway.org/publications/189/Third_Way_Idea_Brief_-_Build_Community_College_Capacity.pdf)
- **Subsidized Unemployment Deferment for Student Loans:**  
[http://content.thirdway.org/publications/191/Third\\_Way\\_Idea\\_Brief\\_-\\_Student\\_Loan\\_Relief\\_for\\_New\\_Graduates.pdf](http://content.thirdway.org/publications/191/Third_Way_Idea_Brief_-_Student_Loan_Relief_for_New_Graduates.pdf)

### Middle Class Success Pillar 2: Savings and Wealth

- **Ban on Short-sale Penalties:**  
[http://content.thirdway.org/publications/165/Third\\_Way\\_Idea\\_Brief\\_-\\_Stop\\_Short\\_Sales\\_from\\_Damaging\\_Credit.pdf](http://content.thirdway.org/publications/165/Third_Way_Idea_Brief_-_Stop_Short_Sales_from_Damaging_Credit.pdf)
- **Home Sale Loss Deduction:**  
[http://content.thirdway.org/publications/175/Third\\_Way\\_Idea\\_Brief\\_-\\_Deduction\\_for\\_Home\\_Sale\\_Losses.pdf](http://content.thirdway.org/publications/175/Third_Way_Idea_Brief_-_Deduction_for_Home_Sale_Losses.pdf)
- **Low-interest Emergency Mortgage Bridge Loans:**  
[http://content.thirdway.org/publications/167/Third\\_Way\\_Idea\\_Brief\\_-\\_Low-Interest\\_Emergency\\_Mortgage\\_Bridge\\_Loans.pdf](http://content.thirdway.org/publications/167/Third_Way_Idea_Brief_-_Low-Interest_Emergency_Mortgage_Bridge_Loans.pdf)
- **Federal Financial Education Grants:**  
[http://content.thirdway.org/publications/227/Third\\_Way\\_Idea\\_Brief\\_-\\_Federal\\_Financial\\_Education\\_Grants.pdf](http://content.thirdway.org/publications/227/Third_Way_Idea_Brief_-_Federal_Financial_Education_Grants.pdf)

### Middle Class Success Pillar 3: Reliable Supports for Work and Family

- **Elder Care Tax Credit:**  
[http://content.thirdway.org/publications/158/Third\\_Way\\_Idea\\_Brief\\_-\\_Elder\\_Care\\_Tax\\_Credit.pdf](http://content.thirdway.org/publications/158/Third_Way_Idea_Brief_-_Elder_Care_Tax_Credit.pdf)