



Policy Update: Biden Administration Announces \$1.8 Trillion American Families Plan

Lewis-Burke Associates LLC – April 28, 2021

On April 28, President Biden announced a \$1.8 trillion proposal, the American Families Plan (the Plan), to invest in childcare, education, and healthcare. President Biden will highlight the proposal in his formal address to a joint session of Congress this evening. The American Families Plan outlines massive investments in pre-school, child nutrition, community colleges, Pell Grants, and healthcare spending. This Plan builds upon the President's American Jobs Plan announced in late March, which focused on infrastructure, climate action, workforce development, and global competitiveness. Key highlights of note for academic and healthcare communities in the American Families Plan include:

- \$109 billion to make two years of community college education free
- \$80 billion to increase the maximum Pell Grant by \$1,400
- \$62 billion for retention and completion programs at colleges that serve large numbers of low-income students
- \$39 billion to subsidize tuition at Historically Black Colleges and Universities and other minority-serving institutions
- \$200 billion to expand the Affordable Care Act's premium tax credits
- Significant tax changes for high-earners to generate \$1.5 trillion to partially offset the Plan costs

The likelihood of passing this proposal, as well as the earlier infrastructure proposal remains uncertain. Similar to the American Jobs Plan, Congress will now have to translate the American Families Plan into legislation, filling in specific details on how to implement the broad outline. While some Democrats have long pushed for universal pre-K and free college, the American Families Plan is already incurring strong Republican pushback with questions being raised on the trillions already spent through the various COVID aid packages this past year. With a bipartisan deal unlikely, congressional Democratic leadership will need to decide whether to use the policy-limited, budget reconciliation process, requiring only a simple majority, to move proposals under the Plan.

The following analysis offers further details on the American Families Plan's proposals of interest to the education and healthcare communities.

Higher Education

The American Families Plan proposes historic investments in higher education via support for free community college, investments in Historically Black Colleges and Universities (HBCUs), Tribal Colleges and Universities (TCUs), and institutions such as Hispanic-serving institutions (HSIs), Asian American and Native American Pacific Islander-serving institutions (AANAPISIs), and other minority-serving institutions (MSIs), and investments in teacher training, among other proposed funding increases.

Highlights of the Plan include:

- **\$109 billion for two years of free community college**

- This would support first-time students, DREAMers, and workers looking to reskill. The proposal notes that students would be able to use the benefit over three years and, if needed, up to four years.
- **\$80 billion investment in Pell Grants**
 - This proposal would support a \$1,400 increase to the maximum Pell Grant award. The Plan notes that this is “a down payment on President Biden’s commitment to double the maximum award.” DREAMers would also be eligible for Pell Grants.
- **\$62 billion to invest in community colleges and institutions that serve students from disadvantaged communities**
 - Funding via grants would be provided to States, territories, and Tribes to provide funding to colleges that serve high numbers of low-income students and adopt “innovative, proven solutions for student success, including wraparound services ranging from childcare and mental health services to faculty and peer mentoring; emergency basic needs grants; practices that recruit and retain diverse faculty; transfer agreements between colleges; and evidence-based remediation programs.”
- **\$46 billion to support investment in HBCUs, TCUs, and MSIs**
 - Within this proposal, \$39 billion is proposed to create a program that provides two years of subsidized tuition for students from families earning less than \$125,000 enrolled in a four-year HBCU, TCU, or MSI. \$5 billion is proposed to expand existing institutional aid grants to HBCUs, TCUs, and MSIs, which could be used to create or expand educational programs in high-demand fields. \$2 billion is proposed to support building a pipeline of skilled health care workers with graduate degrees.
- **\$9 billion to train, equip, and diversify American teachers**
 - This would support increasing scholarships for future teachers from \$4,000 to \$8,000 per year. \$2.8 billion would also be provided for “Grow Your Own programs” and year-long, paid teacher residency programs. Within that proposal, \$400 million would be for teacher preparation at HBCUs, TCUs, and MSIs and \$900 million for the development of special education teachers. The Plan also calls for \$1.6 billion to provide educators at schools with a significant portion of low-income students or significant teacher shortages with opportunities to obtain additional certifications in high-demand areas. This funding would go through the states, and would be available until expended. \$2 billion is proposed to support programs that leverage teachers as leaders, such as high-quality mentorship programs for new teachers and teachers of color.

Early Childhood Education and Childcare

The Plan calls for a \$225 billion investment in free universal preschool for all three and four year-olds, support for early childhood educator training, professional development, and increases in minimum pay. The Plan also proposes to make the Child and Dependent Care Tax Credit permanent and extend for five years the increase to the Child Tax Credit allowed under the American Rescue Plan.

Healthcare

The American Families Plan calls for a large expansion of the *Affordable Care Act’s* premium tax credits. The Plan calls for making permanent the temporary increase in the premium tax credits from the *American Rescue Plan*, for use in the healthcare marketplace. The Plan also calls for changes to Medicare’s prescription drug program, and assistance to states that have yet to expand Medicaid in order to do so. It also proposes the creation of a national comprehensive paid family and medical leave program.

Additional healthcare highlights include:

- **\$200 billion to expand the Affordable Care Act's premium tax credits**
 - The American Families Plan calls for making permanent the temporary increase in premium tax credits for the marketplace. Under the American Rescue Plan, individuals and families are eligible for a temporary increase in premium tax credits for the 2021 and 2022 plan years. Out of pocket costs towards premiums were capped at 8.5 percent of household income for a benchmark plan or a less expensive plan. Making this policy from the American Rescue Plan permanent is estimated to cost \$200 billion.
- **Medicare drug price savings**
 - According to the White House, President Biden would allow Medicare to negotiate prescription drug prices and provide an option for individuals to enroll in Medicare at age 60.
- **Address the Medicaid coverage gap;**
 - The American Families Plan calls for helping states close the Medicaid coverage gap. Currently there are 12 states that have yet to expand Medicaid.

Nutrition

The Plan includes \$45 billion to tackle nutrition insecurity, an issue which disproportionately affects low-income communities and families of color.

Highlights of the Plan include:

- **\$25 billion for the expansion of the summer Electronic Benefit Transfer (EBT) program**
 - The Summer Pandemic-EBT was created in March of 2020 to help provide food to children who missed meals due to school closures resulting from the COVID-19 pandemic. The Plan would make the summer EBT program permanent and would be available to over 29 million eligible children.
- **\$17 billion for the expansion of health school meals in high-poverty school districts**
 - The Plan proposes changing the reimbursement rates and lowering the eligibility thresholds for schools using the Community Eligibility Provision (CEP), a non-pricing meal service option for schools and school districts in low-income areas.
- **\$1 billion for a healthy food demonstration program**
 - The Plan proposes a demonstration program to support schools that are expanding healthy food offerings to children that exceed current school meal standards.
- **Facilitating re-entry into the Supplemental Nutrition Assistance Program (SNAP) for formerly incarcerated individuals**
 - Currently, SNAP eligibility for formerly incarcerated individuals is determined on a state-by-state basis.

Tax Policy

The *American Families Plan* includes approximately \$1.5 trillion in tax increases over ten years. According to the Plan, a number of tax advantages in the code favoring high-income earners would be closed, and high-income earners will be subject to greater scrutiny by the IRS. With the American Jobs Plan, which included corporate tax reform, the White House believes all spending would be fully paid for over the next 15 years.

Highlights of the Plan include:

- **Rollback of the 2017 tax cut for high-income earners**
 - The American Families Plan will roll back the 2017 tax cut and return the top income tax rate to 39.6 percent, from the current 37 percent.
- **Greater tax enforcement**
 - The Plan calls for an increased investment in the IRS, adding resources for the agency to ensure households with the highest incomes are not avoiding paying tax. The plan also calls for additional resources to enforce the code on large corporations, businesses, and estates. According to the White House, this plan would raise \$700 billion over 10 years.
- **Changes to capital gains tax and step-up basis**
 - The Plan calls for equalizing the payment of tax between investment income and wages by requiring households with earnings over \$1 million annually to pay 39.6 percent on all income.
 - The *American Families Plan* calls for closing this step-up basis loophole, for inherited assets, for gains in excess of \$1 million or \$2.5 million per couple when combined with existing real estate exemptions, and ensuring the increased gains are taxed if the asset is not donated to charity.
- **Close the carried interest loophole**
 - The Plan calls on Congress to close the carried interest loophole, which is primarily used by private equity partners. Under current law, individuals who take advantage of this loophole, by earning income from managing other people's money, are taxed at the lower capital gains rate rather than the ordinary income tax rate.
- **Changes to the Medicare tax for high-earners**
 - Under the *Affordable Care Act*, individuals with incomes above \$200,000 and couples with incomes above \$250,000 pay the 2.9 percent combined employee and employer Medicare payroll tax rate, plus a 0.9 percent high-earner Medicare tax rate, for a total of 3.8 percent. However, many high-income households have worked to modify their adjusted gross income to avoid the increased tax rate. The American Families Plan calls for applying the 3.8 percent rate to all individuals earning \$400,000 or more.

Sources and Additional Information:

- The American Families Plan fact sheet can be found at <https://www.whitehouse.gov/wp-content/uploads/2021/04/American-Families-Plan-Fact-Sheet-FINAL.pdf>.
- The White House statement on the American Families Plan can be found at <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/>.