Addressing the Impact of Climate Change Legislation on Low-Income Households

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Overview

Proper design of legislation necessary to avoid adding to financial burdens of low-income households

- Policies most effective at reducing greenhouse gas emissions impose disproportionate costs on low-income households

- Bad news: Careless design of legislation could increase extent and depth of poverty

- Good news: Sound design can protect low-income households while achieving other goals of climate-change policy

Overview

Two Distinct Components to Net Financial Impact on Households

- Gross cost of complying with emissions reduction requirements (cost of allowances for emissions plus cost of reducing emissions to capped amount)
- Gross benefits from allocation and use of allowances
- Cost of reducing emissions largely determines average net impact; decisions about allocation and use of allowances largely determines distribution of net impacts

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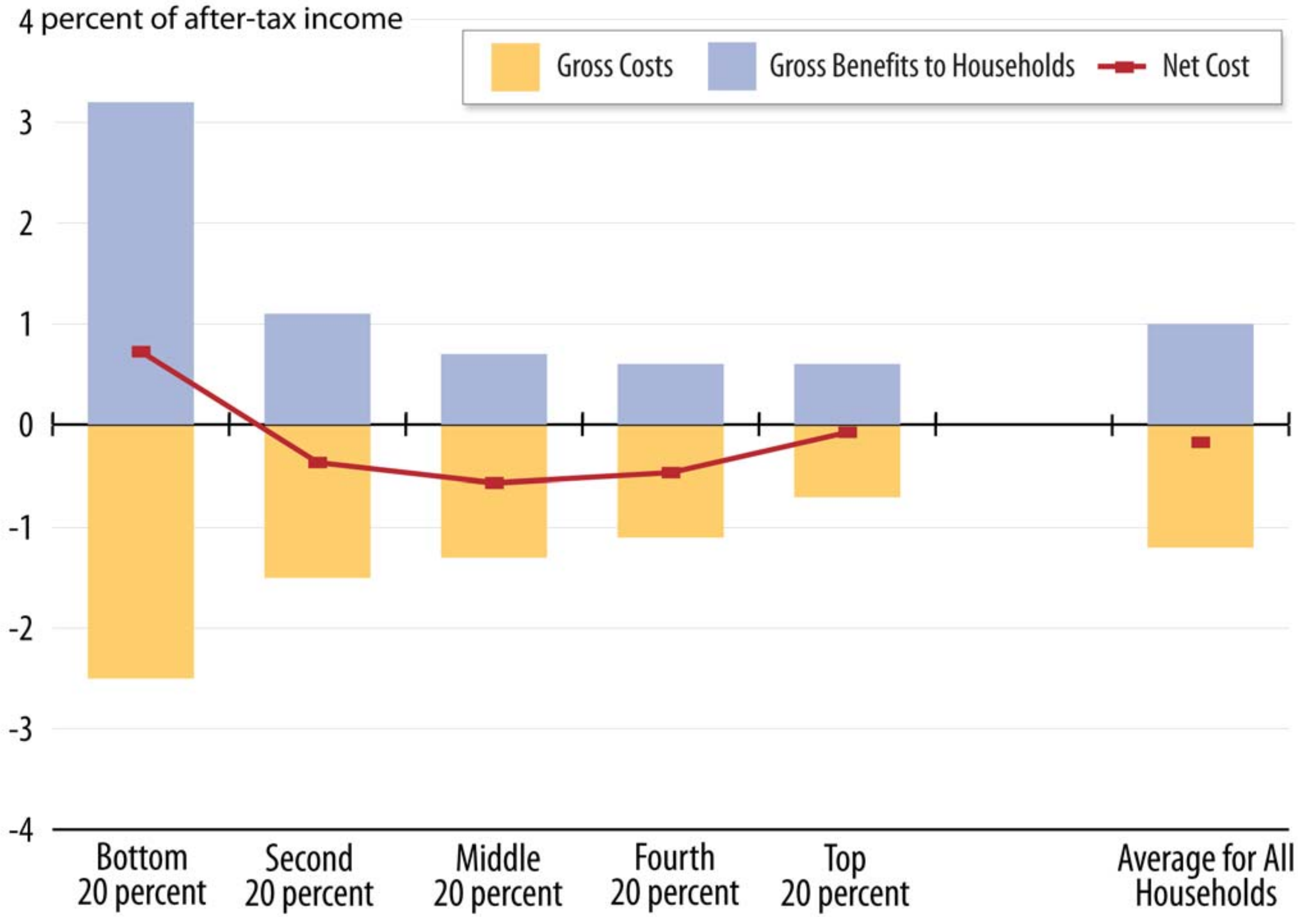
Distribution of Net Financial Impact of House Climate Bill



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Program Design

Six principles for designing concrete low-income provisions in climate-change legislation

1. Protect the most vulnerable households
2. Use delivery mechanisms that reach all or nearly all eligible households
3. Minimize red tape (use proven delivery mechanisms to the greatest extent possible to keep administrative costs low)
4. Adjust appropriately for family size
5. Don’t focus solely on utility bills
6. Preserve economic incentives to use energy efficiently

Program Design

A Program That Satisfies These Principles

- Direct refunds to low-income households with the amount varying by household size
- Size of the refund sufficient to ensure that the typical low-income household does not incur a net financial loss
- Delivered monthly to most households that don't pay income taxes through the Electronic Benefit Transfer (EBT) system that states already use to deliver food stamp benefits and other cash assistance.
- Delivered to low-income working households through a refundable tax credit.
- Supplement LIHEAP to help households with very high costs

Program Design

Key policy choices

- Size of the benefit
- Income eligibility for the benefit

Thorny Issues

- Regional Variation
- Coordination to avoid double benefits

Implementation

Low-Income Protection in Waxman-Markey

- 15 percent of allowance value set aside for low-income consumer protection delivered via EBT (and EITC relief for childless workers)
- Low-income energy refund delivered monthly through EBT set to restore the average loss of purchasing power of households of different sizes at 150 percent of the federal poverty level, after taking into account any relief provided through the free allocation of allowances to utilities
- Full refund for households with income of150 percent of poverty or less; partial refund phasing out at about 160 percent of poverty
- State agencies directed to automatically enroll food stamp households and low-income seniors and people with disabilities in SSI or who receive the low-income subsidy for the Medicare prescription drug program

Implementation

Other Issues

- House bill provides robust relief for bottom quintile but phases out quickly
- More allowance value needed to go farther up the income scale to reach moderate- or middle-income households without diluting low-income relief (Senate EPW bill provides *less*)
- House bill fails to provide additional LIHEAP funding or funding to help states with administrative costs
- Amount of utility-based relief will depend on how state regulators deal with the free allocations to utilities
- Role of energy efficiency investments directed at low-income households
- Comparison with low-income relief under cap-and-dividend