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SECTION: ECONOMY

Bush's pocketbook proposals

By Jeanne Sahadi

NEW YORK (CNNMoney.com) - On the heels of the roughest year of his presidency, amid vicious partisan fighting and mid-term election fears and soon after a recent White House projection of an even larger deficit, President Bush will deliver his State of the Union address next Tuesday.

While the war in Iraq and issues related to it are expected to be central, the president will also tout various economic proposals, but none as radical as those in his 2005 agenda, said Thomas Mann, senior fellow in governance studies at the Brookings Institution, and Scott Hodge, president of The Tax Foundation.

In last year's speech, Social Security reform and tax reform were two of his biggest issues. But both were derailed politically, and serious action is not expected on either issue in 2006.

That doesn't mean they might not garner a passing mention. But the president is likely to concentrate on more concrete goals in his address to the nation, in particular focusing on reduced taxes and healthcare costs.

How viable any of his proposals will be remains a question given stiff Democratic opposition and cracks in the Republican base over the deficit and the several controversies buffeting the White House from the handling of Hurricane Katrina to, most

recently, allegations of illegal wiretapping.

Taxes

When it comes to reducing the deficit, the president has said again and again he wants to rein in spending while calling on Congress to make permanent his tax cuts.

Most are scheduled to expire between now and 2010.

Supporters of tax-cut permanency say that they have aided economic growth and will continue to do so.

President Bush has noted, too, that tax-cut permanency can aid small business owners, who create about 70 percent of all new jobs, since many of them pay taxes on their profits at individual income tax rates, all of which have been lowered by the President's tax-relief measures.

But deficit hawks on both sides of aisle have expressed opposition to across-the-board permanency of the tax cuts.

According to the Congressional Budget Office, if the tax cuts are allowed to expire, the projected cumulative deficit from 2006 through 2015 would be 1.3 percent of GDP and the debt held by the public would be 34.6 percent of GDP by 2015.

If the cuts are extended, the CBO

projects the deficit would rise to 2.4 percent of GDP, and the debt held by the public would jump to 44 percent of GDP.

Beyond the cost of the tax cuts - and the interest to pay off debt-financed spending -- the CBO has said that economic growth alone (whether spurred by tax cuts or other measures) won't alleviate the budgetary pressures that will be brought to bear in the coming decades by the growth in Social Security and Medicare spending.

Healthcare

President Bush has said he would like lawmakers to make healthcare savings accounts (HSA) more attractive.

HSAs, created in 2003 but not yet widely offered by employers, are accounts to which you and your employer may make tax-free contributions up to a cap.

Money in the account may be used to pay for eligible out-of-pocket medical expenses that you would incur to meet your health insurance plan deductible. Money invested in the account that you don't use may remain in the account and grow tax-free.

In order to have an HSA, you must sign on to a high-deductible health insurance plan that covers you in the event of a serious medical condition or catastrophe.

John Goodman, president of the National Center for Policy Analysis who has advised the White House about HSAs, said he expects the president will propose raising the caps on HSA contributions.

Currently, the federal cap is \$2,700 for individuals and \$5,450 for families, or the level of the deductible in your health insurance plan, whichever is lower.

Although Goodman doesn't know what new caps the president might propose, he said there has been a call among proponents of the accounts to raise the contribution levels to \$5,000 for individuals and \$10,000 for families.

President Bush may also propose making more out-of-pocket medical expenses deductible, said Hodge of the Tax Foundation. Currently, in order to deduct medical expenses you must itemize deductions on your federal tax return, which only a minority of taxpayers do. And you may only take the deduction if all of your medical expenses exceed 7.5 percent of your adjusted gross income, which is a high level for

most taxpayers to meet. The idea has its roots in a proposal made in the book *Healthy, Wealthy and Wise: Five Steps to a Better Health Care System*, published by the American Enterprise Institute.

The president also has said he will call on lawmakers to allow small businesses to pool together to buy health insurance plans so that they may get the same discounts given to big companies.

Retirement

Among the reforms the president touted in the past year, the push for pension reform has achieved some success in that the House and Senate have each passed their own bill and the next step is for lawmakers to negotiate a final bill for the president's signature.

If the issue is raised in the State of the Union address, President Bush is likely to note the need to shore up the funding for the Pension Benefit Guaranty Corp., which insures pensions for workers whose companies have terminated their plans.

Both the House and Senate bills address the funding issue,

although in different ways. And while there is no statutory requirement that companies must provide workers with pensions, critics of the bills contend that neither does enough to encourage a company to provide a pension, said Ann Mathias, research director for the Stanford Washington Research Group.

As it is, a number of large pension providers -- Alcoa, IBM and Verizon among them -- have already announced they are freezing their plans, meaning new hires will not be covered by the company pension plan, and in some cases, workers already in the plan will cease to accrue further benefits if they remain at the company.

Many expect more employers to freeze their plans and move workers more fully into defined contribution plans such as 401(k)s as the main engine for generating retirement income.

Meanwhile, 401(k)s and other retirement savings accounts may be another area the president will call on lawmakers to expand, said Greg Valliere, chief strategist of the Stanford Washington Research Group.