



BARACK OBAMA'S PLAN TO RECLAIM THE AMERICAN DREAM

The American dream is increasingly out of reach for many people. Americans with incomes below \$100,000 have experienced stagnating wages, declining health care coverage, erosion of pension protections, rising personal debt, jobs disappearing as a result of global competition and rising housing costs. Further, the gap between America's richest and poorest is at its widest points in at least 25 years. At a time when costs are rising and Americans are working harder just to keep up, Barack Obama will provide relief for the middle class and support for working people. In addition to his health care and tax relief plans, Obama will make college affordable, reform our bankruptcy and credit card laws, protect the balance between work and family, and put a secure and dignified retirement within the reach of all Americans. Obama has been a strong advocate for working people throughout his public life, and he will stand up to special interests and bring America together to reclaim the American dream.

Barack Obama's Agenda to Reclaim the American Dream

- Provide middle class tax cuts of up to \$1,000 for working families.
- Address the challenge of balancing work and family by guaranteeing workers paid sick days, expanding Family and Medical Leave Act (FMLA), supporting paid FMLA, and doubling after-school programs.
- Help Americans buy and keep their homes.
- Protect American families by reforming bankruptcy laws, predatory credit card policies, and abusive payday lending practices.
- Reduce health care costs by \$2,500 for a typical family.
- Strengthen retirement security by automatically enrolling workers in portable retirement accounts and providing additional incentives for Americans to save.
- Put the cost of college in reach for by providing a \$4,000 refundable tax credit available at the time of enrollment.

I. TAX FAIRNESS

For decades, gaps in wealth have grown, while the costs to working people have increased. The Bush Administration's tax policies have made the problem worse: this year alone, the average person in the wealthiest 1 percent of Americans will receive more than \$55,000 from the Bush tax cuts, while the average person in the bottom 20 percent of Americans will get about \$70. And while corporations can hire expensive lobbyists to change something they don't like in the tax code, working Americans don't have that same luxury. Barack Obama's tax fairness proposal puts the interests of the middle class first.

Making Work Pay for Working Families

The Obama plan will give working families immediate and direct relief – every middle class working American, including 1.7 million Iowans, will receive a \$500 “Making Work Pay” tax credit that will fully offset the first \$500 of payroll tax they pay, or \$1,000 per working family. This refundable tax credit will benefit 150 million working Americans and their families. Ten million working Americans, including 175,000 Iowans, will no longer have to pay any income taxes as a result of this plan. Millions of small business owners, including 200,000 self-employed small business owners in Iowa, who have to pay both the employer and employee portions of the payroll tax, will benefit from this reduction of the self-employment tax. For those low and middle-income seniors who are retired and are not eligible for this workers' credit, the Obama plan will provide direct tax relief by eliminating all income taxes for seniors who make under \$50,000 per year, including 100,000 seniors in Iowa.

Simplify Tax Filings for Middle Class Americans

The Obama tax fairness plan will also reduce taxpayers' headaches and payments during tax season by simplifying tax filings so middle class Americans can complete their taxes on their own in 5 minutes or less. Experts estimate that this innovative proposal will save middle class Americans up to 200 million total hours of work and aggravation and up to \$2 billion in tax preparer fees.

II. WORK-FAMILY BALANCE

American workers expect that achieving the American Dream will take hard work. But they do not expect that it will require them to abandon their children and aging parents in times of need. As larger percentages of women have entered the workforce, working hours have grown longer, and workers find themselves caring for their aging and infirm parents, family caregiving has been stressed and stretched. Most American workers cannot adjust their work schedules to handle a family emergency without the risk of losing their jobs or take a day off to care for a sick or newborn child without the risk of losing pay or vacation days. As president, Barack Obama will ensure that our government's policies match the reality of our working lives.

Expand High-Quality Afterschool Opportunities

Expanding access to high-quality afterschool programs will help children learn and strengthen a broad range of skills and provide relief to working parents who have to juggle child care and work responsibilities. Barack Obama will double funding for the main federal support for afterschool programs, the 21st Century Learning Centers program, to serve one million more children. Obama will include measures to maximize performance and effectiveness across grantees nationwide.

Expand the Child and Dependent Care Tax Credit

The Child and Development Care Tax Credit provides too little relief to families that struggle to afford child care expenses. Currently the credit only covers up to 35 percent of the first \$3,000 of child care expenses a family incurs for one child and the first \$6,000 for a family with two or more children. And the credit is not refundable, which means that upper-income families disproportionately benefit while

families who make under \$50,000 a year receive less than a third of the tax credit. Barack Obama will reform the Child and Dependent Care Tax Credit by making it refundable and allowing low-income families to receive up to a 50 percent credit for their child care expenses. Coupled with Obama's "Making Work Pay" tax credit, this proposal will help put more money directly in the pockets of hardworking low and middle-income parents.

Expand the Family and Medical Leave Act (FMLA)

The FMLA covers only certain employees of employers with 50 or more employees. As a result, only about half of American workers are eligible for leave under the FMLA. Barack Obama will expand the FMLA to cover businesses with 25 or more employees.

Barack Obama will expand the FMLA to cover more purposes as well. He will:

- Allow workers to take leave for elder care needs.
- Allow parents up to 24 hours of leave each year to participate in their children's academic activities at school. Many states, including California, Illinois, Massachusetts, Minnesota, Nevada, North Carolina, Rhode Island, Vermont, and the District of Columbia, have enacted laws that allow parents to take time off to participate in designated school-related functions.
- Allow leave to be taken for purposes of caring for individuals who reside in their home for 6 months or more.
- Expand FMLA to cover leave for employees to address domestic violence and sexual assault against themselves, their children, or their parents.

Encourage States to Adopt Paid Leave

According to the National Partnership for Women and Families, 78 percent of employees covered by the FMLA who have needed leave but have not taken it report that it is because they could not afford to take unpaid leave. Of those employees who could not afford leave, nearly 88 percent report that they would have taken leave if they had been able to receive some pay while away from work. Furthermore, access to paid leave is correlated with income and education, with low-income families least likely to have the resources or savings to compensate for time off. The states have begun to respond. California, for example, has recently initiated paid leave through its disability insurance fund, thereby making sure that the costs aren't borne by employers alone. As president, Barack Obama will initiate a 50 state strategy to encourage all of the states to adopt paid-leave systems. Obama will provide a \$1.5 billion fund to assist states with start-up costs and to help states offset the costs for employees and employers. Obama's Department of Labor will also provide technical information to the states on how to craft paid-leave programs consistent with their local needs.

Paid Sick Days

Half of all private sector workers have no paid sick days and the problem is worse for employees in low-paying jobs, where less than a quarter receive any paid sick days. Barack Obama will require that employers provide seven paid sick days per year.

Protect Against Caregiver Discrimination

Workers with family obligations often are discriminated against in the workplace. This is a growing problem, as evidenced by the skyrocketing number of discrimination suits being filed: there has been a 400 percent increase in the number of family responsibility discrimination lawsuits in the last decade. Obama will prevent parents from being discriminated against because of caregiving responsibilities. Barack Obama will commit the government to enforcing recently-enacted Equal Employment Opportunity Commission guidelines on caregiver discrimination.

Expand Flexible Work Arrangements

Working parents often have to juggle not only child care responsibilities, but also care responsibilities for elderly relatives. Barack Obama will address this concern by creating a program to inform businesses about the benefits of flexible work schedules for productivity and establishing positive workplaces; helping businesses create flexible work opportunities; and increasing federal incentives for telecommuting. Obama will also make the federal government a model employer in terms of adopting flexible work schedules and permitting employees to petition to request flexible arrangements. This program has achieved great success in Great Britain, and Obama will replicate it throughout the federal government.

III. HOUSING

Owning a home is the cornerstone of the American Dream, yet today, too many working families are finding it just out of reach. The implosion of the subprime lending industry threatens to bring foreclosure to over two million households, including many families with children. As a result of this crisis and slowdown in the housing market, Iowa's foreclosure rate has risen 21 percent in the last year, giving the state the ninth-highest rate of home foreclosures in the country. And the total economic cost of the subprime crisis in Iowa is projected to be over \$260 million dollars.

Mandate Accurate Loan Disclosure

Today's subprime mortgage problem stems in large part from the lack of easy-to-understand information that borrowers receive from mortgage brokers. Iowa Citizens for Community Improvement estimates that 70 percent of subprime customers with loan difficulties had a biased or fraudulent appraisal. As president, Barack Obama will enact laws to ensure that all prospective homebuyers have access to accurate and complete information about their mortgage options. Obama will create a Homeowner Obligation Made Explicit (HOME) score, which will provide potential borrowers with a simplified, standardized borrower metric (similar to the Annual Percentage Rate (APR) the effective interest rate that the borrower will pay on a loan) for home mortgages. The HOME score will allow individuals to easily compare various mortgage products and understand the full cost of the loan. The HOME score would also help borrowers understand their long-term obligations and would be required to include mandatory taxes and insurance.

Create Fund to Help Homeowners Avoid Foreclosures

In addition to taking important steps to prevent mortgage fraud from occurring in the future, Barack Obama will establish policies to help Americans currently facing foreclosure through no fault of their own. For instance, in communities where there are many foreclosures, the property values of other homeowners are often also negatively impacted, destroying equity and wealth even for the homeowners who are managing to make their mortgage payments. Iowa is expected to have over 8,000 home foreclosures over the next two years. Obama will create a fund to help people refinance their mortgages and provide comprehensive supports to innocent homeowners. The fund will also assist individuals who purchased homes that are simply too expensive for their income levels by helping to sell their homes. The fund will help offset costs of selling a home, including helping low-income borrowers get additional time and support to pay back any losses from the sale of their home and waiving certain federal, state and local income taxes that result from an individual selling their home to avoid foreclosure. The fund will be partially paid for by Obama's increased penalties on lenders who act irresponsibly and commit fraud.

Combat Mortgage Fraud and Subprime Loans

Barack Obama introduced comprehensive legislation over a year ago to fight mortgage fraud and protect consumers against abusive lending practices. Obama's STOP FRAUD Act:

- Provides the first federal definition of mortgage fraud.

- Increases funding for federal and state law enforcement programs.
- Creates new criminal penalties for mortgage professionals found guilty of fraud.
- Requires industry insiders to report suspicious activity.
- Provides counseling to homeowners and tenants to avoid foreclosures.
- Gives borrowers additional rights to protect themselves during foreclosure proceedings.
- Requires the Government Accountability Office to evaluate and report to Congress on various state lending practices so that state regulations that undermine consumer's rights can be identified and hopefully eliminated.

Provide a New Mortgage Interest Tax Credit

The Obama plan will also provide more Americans with the financial assistance they need to invest in purchasing their own home. Currently, many middle class Americans do not get the existing mortgage interest tax deduction because they do not itemize their taxes. As a result, primarily wealthy Americans benefit from this homeownership tax incentive. Obama will ensure that middle class Americans finally get the financial assistance they need to purchase their own home by creating a 10 percent universal mortgage credit that give tax relief to Americans who have a home mortgage. The Obama proposal will provide 10 million homeowners, most of whom earn under \$50,000 per year, including 110,000 Iowans, with an average of \$500 in savings.

IV. PROTECT FAMILIES BY REFORMING BANKRUPTCY & CREDIT CARD LAWS

Reform Corporate Bankruptcy Laws to Protect Workers

Workers risk losing everything when their company goes bankrupt. Too many employees have worked hard, played by the rules and contributed to private pensions only to find themselves left in the lurch when their companies went bankrupt.

Current bankruptcy laws are designed to protect banks before workers by helping companies get capital to get back on their feet, but in so doing it has made it easier for bankrupt companies to shed pension and health care obligations to retired workers.

Barack Obama has supported efforts to force firms to put more money into their pension funds and make them solvent so workers aren't left with a bunch of worthless IOU's after thirty years of service. As president, Obama will:

- Put promises to workers higher on the list of debts that companies cannot shed.
- Ensure that the bankruptcy courts do not allow companies to demand more sacrifice from workers than from executives when companies fall on hard times.
- Protect the jobs and benefits of workers and retirees when corporations file for bankruptcy by telling companies that they cannot issue bonuses for executives during bankruptcy while their workers watch their pensions disappear.
- Increase the amount of unpaid wages and benefits workers can claim in bankruptcy court against their employer.
- Limit the circumstances under which retiree benefits can be reduced.

Reform Bankruptcy Laws to Protect Families Facing a Medical Crisis

More than half of all personal bankruptcies today are caused by medical bills. Barack Obama will protect workers who fall into personal bankruptcy as a result of a medical crisis. Current law, which Obama opposed in the 2005 bankruptcy bill, provides too many families with inadequate relief when faced by an unforeseen medical crisis. Obama will create an exemption from the new law's requirement that middle class families extend their debts rather than have them forgiven. If a person

can demonstrate to the satisfaction of the bankruptcy court that the reason they filed for bankruptcy was a result of debts incurred through medical expenses, then Obama believes they should be relieved of that debt through a process that lets them get back on their feet.

Close Bankruptcy Loophole for Mortgage Companies

The 2005 bankruptcy bill, which Barack Obama opposed, is expected to have serious effects on low and middle-income borrowers of subprime mortgages. While investors who own multiple homes and people with vacation homes can renegotiate those mortgages in bankruptcy, current Chapter 13 law requires ordinary families to stick with the original terms of their home loans—regardless of whether the loan was predatory or unfair. Obama will repeal this provision so that ordinary families do not suffer this unfair treatment.

Cap Outlandish Interest Rates on Payday Loans and Improve Disclosure

In the wake of reports that some service members were paying 800 percent interest on payday loans, the U.S. Congress took bipartisan action to limit interest rates charged to service members to 36 percent. Barack Obama believes that we must extend this protection to all Americans, because predatory lending continues to be a major problem for low and middle income families alike. Obama also believes that we need to ensure that all Americans have access to clear and simplified information about loan fees, payments and penalties, which is why he'll require lenders to provide this information during the loan application process. Furthermore, Obama will work to empower more Americans in the fight against predatory lending by supporting initiatives to improve financial literacy and financial planning.

Encourage Responsible Lending Institutions to Make Small Consumer Loans

Some mainstream, responsible lending institutions are beginning to enter the short-term lending market to provide many Americans with fair alternatives to predatory lending institutions. These loans provide a reasonable period of time to be repaid, charge fair interest rates, and often ensure that the borrower has the ability to repay the loan on time. Some of these lending efforts are coupled with enhanced financial literacy training, which can ensure that Americans do not become caught in a never-ending cycle of debt. Barack Obama will work with his Secretary of Treasury and the Federal Deposit Insurance Corporation to encourage banks, credit unions and Community Development Financial Institutions to provide affordable short-term and small dollar loans – and to drive the sharks out of business.

Create a Credit Card Rating System to Improve Disclosure

Barack Obama will create a credit card rating system, modeled on five-star systems used for other consumer products, to provide consumers an easily identifiable ranking of credit cards. Under the Obama plan, the Federal Trade Commission (FTC) will assess the degree to which credit cards meet consumer-friendly standards. The FTC will test for a set of credit card features that are deemed the most dangerous for consumers, including the underwriting standards used to issue the card, the card's interest rate spread between the introductory rate and the maximum rate allowed, and transaction fees. The FTC will assign ratings so that consumers can easily understand if a credit card agreement meets or exceeds standards of safety. Credit card companies will be required to display the rating on all application and contract materials, enabling consumers to quickly understand all of the major provisions of a credit card without having to rely exclusively on fine print in lengthy documents. Credit card companies will also be required to disclose in simplified, clear language all of the major features of the card in addition to their FTC rating to provide consumers with additional information to compare credit card products.

Establish a Credit Card Bill of Rights to Protect Consumers

Credit cards could turn into the next subprime market crisis. In addition to being able to easily understand how risky a given credit card is, every American should have a uniform set of rights while dealing with credit card companies, no matter their financial status or credit history. To protect those rights, Barack Obama will require the Federal Trade Commission to analyze credit card company compliance with these basic rights, and provide the Department of Justice with the full authority to investigate and penalize non-compliant companies. The Obama credit card bill of rights will:

- **Ban Unilateral Changes:** Currently, credit card companies can unilaterally change the terms of a credit card agreement at any time for any reason with only a 15-day notice to the consumer. Barack Obama will ban these unilateral changes in credit card agreements unless companies have obtained written consent from consumers and have followed the rules and terms of the agreement.
- **Apply Interest Rate Increases Only to Future Debt:** Credit card companies often apply increased interest rates to both new debt incurred by the cardholder, as well as previously incurred debt. Barack Obama will require increased interest rates to apply only to future credit card debt, and not to debt incurred prior to the increase.
- **Prohibit Interest on Fees:** Credit card companies often charge interest on transaction fees, such as late fees or paying a bill by telephone. Barack Obama will prohibit credit card issuers from charging interest on transaction fees.
- **Prohibit “Universal Defaults”:** “Universal defaults” are a practice in which a credit card company raises an individual’s interest rate based on failure to pay a different creditor on time. Barack Obama will prohibit this practice.
- **Require Prompt and Fair Crediting of Cardholder Payments:** Barack Obama will require credit card issuers to apply payments first to the credit card balance with the highest rate of interest and to minimize finance charges.

V. HEALTH CARE

Although the U.S. offers the best medical technology and scientific research in the world, too many middle class Americans are either underinsured or struggling to pay their monthly premiums because of the skyrocketing price of health care. Health insurance premiums have risen four times faster than wages over the past six years, resulting in many small businesses and individuals shedding their health insurance simply because they can’t afford to keep up with these increases. And the price of prescription drugs continues to rise unimpeded as well, meaning that too many low and middle-income seniors and working families cannot afford the medicines they need.

Provide Universal Health Care Access and Lower Costs

There are 250,000 Iowans, including five percent of Iowa’s children, who lack health insurance, and the vast majority of the uninsured are part of members working families. Barack Obama is committed to signing a universal health care reform plan into law by the end of his first term as president. The Obama plan provides every American with affordable, quality and portable health insurance coverage. By making strategic investments in health information technology, prevention, chronic disease management and streamlining administrative costs, this proposal will also cut health insurance costs by \$2,500 per year for middle class families. The Obama proposal will also take on the big drug and insurance companies to ensure that Americans have access to safe and cheap prescription drugs, and that bureaucratic obstacles do not get in the way of effective medical treatment.

Obama will create a new national health plan that allows Americans to purchase affordable health coverage similar to that given to Members of Congress, and Obama will also create a National Health

Insurance Exchange for individuals to purchase affordable and quality private insurance. The Obama reform plan will feature guaranteed eligibility so no American will be turned away from any insurance plan because of illness or pre-existing conditions. Today only 37 percent of Iowa small businesses can afford to offer their employees health insurance. The new public program will also be available to self-employed business owners and other small businesses that want to offer insurance to their employees, but cannot because of the prohibitive costs of insurance. Obama will ensure that low and middle-income Americans can afford health insurance coverage by providing an income-based sliding scale subsidy to people and families who need it.

VI. PROVIDE GREATER RETIREMENT SECURITY

Strengthen Social Security

Barack Obama recognizes that Social Security is indispensable to workers and seniors, and it is probably the most important and most successful programs that our country has ever made. Obama is committed to making sure Social Security is solvent and viable for the American people, now and in the future.

Although the underlying Social Security system remains strong, the projected long-term cash flow of the program needs to be addressed, particularly as the baby boom generation begins to retire. This is a real but manageable problem. Obama will be honest with the American people about the solvency of Social Security and the ways we can address the shortfall. Obama will make it a top priority of his administration to protect Social Security benefits for current and future beneficiaries alike. And he does not believe it is necessary or fair to hardworking seniors to raise the retirement age. He will also continue his long record of opposing the privatization of Social Security, which has dominated the debate in Washington for too long.

Barack Obama believes that the first place to look for ways to strengthen Social Security is the payroll tax system. Currently, the Social Security payroll tax applies to only the first \$97,500 a worker makes. Obama supports increasing the maximum amount of earnings covered by Social Security and he will work with Congress and the American people to choose a payroll tax reform package that will keep Social Security completely solvent for at least the next half century.

Create Automatic Workplace Pensions

Currently, 75 million working Americans – roughly half the workforce – lack employer-based retirement plans. In Iowa, only 46 percent of workers participate in employer-sponsored pension plans. Even when workers are given the option of joining employer-based plans, many do not take up the option because it requires considerable work to research plans and investment portfolios, and to enroll in the plan. However, test studies of automatic enrollment retirement plans have found that when employees, including low-income employees who are the least likely to save, are given easy options to save, they overwhelmingly choose to do so. Various automatic enrollment tests have resulted in enrollment rates between 75 and 90 percent.

Barack Obama's automatic workplace pension plan will dramatically increase both the number of Americans who save for retirement and the overall amount of personal savings for individuals. Under this plan, employers who do not currently offer a retirement plan, will be required to automatically enroll their employees in a direct-deposit IRA account. Employees may opt-out by signing a written waiver. Even after enrollment, employees will retain the right to change their savings levels, reallocate investment portfolios or end contributions to the account. Obama's plan will give options to the self-employed to access new easy-to-enroll savings plans and direct the IRS to deposit tax refunds into those savings plans for people who choose to save some of their refunds. Under the Obama plan when employees change jobs, their savings will be automatically rolled over into the new employer's

system to ensure continued savings.

To minimize administrative burdens on employers, Obama will set up a direct-deposit system that is compatible with the existing direct-deposit payroll system that most large employers already utilize. For most firms, offering payroll deduction IRAs will involve little cost since the employer will not be maintaining a plan; rather they would be acting as a forwarding agent for employee contributions. In addition, Obama will make temporary tax credits available to firms to defer the cost of establishing these plans. Firms with fewer than 10 employees or who have been in business for less than two years will be exempt from this requirement, but may take advantage of this low-cost opportunity to offer a saving plan for their employees if they so choose.

Obama will also require annual disclosures to plan participants that detail in clear and simple language the amount of fees incurred and investments made. This measure will help ensure that retirement plans actually help workers over time, rather than investment and consulting firms. Obama will also require that businesses choose a default investment plan that has an investment portfolio similar to that of the federal Thrift Savings Plan, low-management fees and does not include company stock.

This program is projected to dramatically increase savings by low- and middle-income workers who do not currently save. In fact, experts estimate that this program will increase the participation rate for them from its current 15 percent level to around 80 percent.

Expand Retirement Savings Incentives for Working Families

Barack Obama will ensure savings incentives are fair to all workers by creating a generous savings match for low and middle-income Americans. Obama will expand the existing Savers Credit to match 50 percent of the first \$1,000 of savings for families that earn under \$75,000, and he will make the tax credit refundable. To help ensure that this proposal actually strengthens retirement investments, the savings match will be automatically deposited into designated personal accounts by using the account information listed on IRS tax filings. Coupled with the automatic workplace pension plan, this proposal will stimulate tens of millions of new Americans to invest for retirement. Over 80 percent of the savings incentives will go to new savers, and 75 percent of people eligible for the incentives who are expected to participate in the new program do not currently save.

Require Full Disclosure of Company Pension Investments

Barack Obama believes we must ensure private companies properly fund their pension plans so taxpayers do not end up footing the bill. In Iowa 432,000 workers and retirees depend upon defined-benefit pension plans. However, even when companies fund their pensions, many do not disclose their investments with the employee's pension dollars. This lack of transparency can make it easier for fund managers to make imprudent or even fraudulent investment decisions. Obama will ensure that all employees who have company pensions receive annual disclosures about their pension fund's investments, including full details about which projects have been invested in, the performance of those investments and appropriate details about probable future investments strategies. This measure will provide employees and retirees important resources to make their pension fund more secure.

VII. MAKE COLLEGE AFFORDABLE FOR ALL

To be successful in the 21st Century economy, America's workforce must be more innovative and productive than our competitors. Giving every American the opportunity to attend and afford and be successful in college is critical to meeting that challenge. As tuition costs swell and grant-aid fails to keep pace, students and their families are having a harder time paying for college.

- College costs have grown nearly 40 percent in the past five years, and now take up to half of Iowa family income, even after financial aid is factored in
- 72 of percent of Iowa's graduates leave college with an average of \$22,025 in debt
- In Iowa, the average student loan is \$3,112 per year
- Between 2001 and 2010, 2 million academically qualified students will not go to college because they cannot afford it.
- Only 12 percent of Hispanics and 16 percent of African Americans eventually earn a bachelor's degree – compared with 33 percent of White students. The rising cost of college is a factor in this disparity.

These trends not only threaten our competitiveness in the global marketplace, but also our ability to maintain and improve our economy at home. Higher education is also the key to reversing the income disparities that are dividing our nation into haves and have-nots. The earnings of Americans who have only a high school degree have fallen steadily for three decades, while college graduate income has continued to rise during this same period.

In the 1990s, Congress crafted a system of tax credits to supplement the existing federal loan and grant programs to make college more affordable. While these credits have helped, college still remains out of reach for far too many students. The HOPE Scholarship and Lifetime Learning tax credits, in particular, have been inadequate in making college more affordable for low-income students for two reasons. First, these credits are not fully refundable. A family of four must earn above \$30,000 to claim the maximum credits, and studies have shown that up to half of eligible families cannot claim the credits because their income is too low. Second, our current system is a complicated maze of federal tax credits, grants, and student loan programs. As a result, far too many students are unaware of student financial aid that can help make college more affordable and fail to take advantage of existing federal aid programs. And those students receive the aid far too late – up to a year or more after they make the decision to attend college.

Simplify the Application Process for Financial Aid

The application process for financial aid is cumbersome and evidence shows it may be a reason why students never apply for college. Research has shown that the low take-up rate of the Pell Grant and HOPE and Lifetime Learning tax credit programs is likely due to the complexity of the application process. The current Free Application for Federal Student Aid (FAFSA) is 5 pages and 127 questions – making it longer and more involved than many federal tax returns. Not surprisingly, over 1.5 million high school students failed to apply for aid in 2004, despite being eligible for a Pell Grant. A recent study by Susan Dynarski and Judith Scott-Clayton found that the costs of complexity in our financial aid processes fall most heavily on low-income, non-white, and non-English speaking youth. Barack Obama will simplify the financial aid process by eliminating the FAFSA and its complicated calculations altogether. Instead, aid would be based on a much simpler yet equally accurate formula, so that students can predict their eligibility well in advance. The aid process will be streamlined by enabling families to apply simply by checking a box on their tax form, authorizing their tax information to be used and eliminating the need for a separate application.

American Opportunity Tax Credit

Barack Obama will make college affordable for all Americans by creating a new American Opportunity Tax Credit. This universal and fully refundable credit will ensure that the first \$4,000 of a college education is completely free for most Americans, and will cover two-thirds the cost of tuition at the average public college or university. And by making the tax credit fully refundable, Obama's credit will help low-income families that need it the most. Obama will also ensure that the tax credit is

available to families at the time of enrollment by using prior year's tax data to deliver the credit at the time that tuition is due, rather than a year or more later when tax returns are filed.

Help Students Become Aware of College Readiness

Another common reason that high school students decide not to attend college is that they discover they are unprepared for it in 12th grade. By that time, it is too late for many of them to do anything to address the problem before they graduate. Some states have developed an Early Assessment Program that enables 11th graders and their families to ascertain if they are on track to be college ready by the time they graduate. The voluntary test and the presentation of results are specifically designed to inform students what they need to do to prepare for college while they still have time to do it. This program will increase college readiness and is voluntary. Barack Obama will provide \$25 million annually in matching funds for states to develop Early Assessment Programs. These funds will also promote state efforts to raise awareness about the availability of federal and state financial aid programs.

Expanded Pell Grants for Low-Income Students

Two decades ago, the maximum Pell Grant covered 61 percent of costs at an Iowa public four-year college, compared with only 35 percent today. The first bill Barack Obama introduced in the U.S. Senate would have helped make college more affordable for many Americans by increasing the maximum Pell Grant from the limit of \$4,050 to a new maximum of \$5,100. Obama has worked in a bipartisan way on the Senate Health Education Labor and Pensions Committee to achieve an increase in the Pell Grant to \$5,400 over the next few years. As president, Obama will continue to work to ensure that the maximum Pell Grant award is increased for low-income students. Specifically, he will ensure that the award keeps pace with the rising cost of college inflation.

Community College Partnership Program

Community colleges are a vital component of our higher education system, serving 12 million people each year, almost half the undergraduate students in the U.S. Without community colleges, millions of people would not be able to access the education and skills they need to further education or succeed in the workplace. Barack Obama will create a Community College Partnership Program to strengthen community colleges by providing grants to (a) conduct more thorough analysis of the types of skills and technical education that are in high demand from students and local industry; (b) implement new associate of arts degree programs that cater to emerging industry and technical career demands; and (c) reward those institutions that graduate more students and also increase their numbers of transfer students to four-year institutions. These efforts will ensure that community college students are able to directly use their skills in the workforce following graduation, and be prepared to continue their higher education. And the grants will support programs, such as Iowa's 2 Plus 2 Guaranteed Graduation Plan that facilitate transfers from two-year institutions to four-year institutions.

Eliminate Costly Bank Subsidies

Currently, there are two basic college loan programs: the Direct Loan system, funded publicly, and the Federal Family Education Loan Program, funded privately by banks and lenders who receive subsidies and guarantees from the government. Privately funded loans cost more per loan than the Direct Loan program and provide no greater benefits. Obama will save taxpayer money billions by eliminating the more expensive private loan program, and directing that money into aid for students.

VII. A COMMITMENT TO FISCAL RESPONSIBILITY

Barack Obama will implement these proposals in a fiscally responsible manner that does not increase the federal deficit. Obama will use savings from his proposal to require that all federal contract orders over \$25,000 be competitively awarded; slash congressional earmark spending to no greater than year 2001 levels; and eliminate wasteful subsidies to private student lenders. Obama will also reform

Internal Revenue Service collection of capital gains taxes by ensuring that the basis and sale price of the investment are accurately reported to cut a significant portion of the capital gains tax gap.