Congress of the United States
Washington, DC 20515

May 31, 2012

The President
The White House
1600 Pennsylvania Avenue, Northwest
Washington, DC 20500

Dear Mr. President:

Earlier this year you asked Congress to extend for another year the reduced interest rate for subsidized Stafford student loans. Last month the House of Representatives passed a bill to do just that and to pay for the cost with a repeal of the Prevention and Public Health Fund created as part of the Patient Protection and Affordable Care Act. Despite the fact that you have previously signed into law legislation reducing this fund by $5 billion to offset the cost of preventing a reduction in Medicare physician payments, your Administration indicated that you would veto a bill that would use additional savings from the fund to offset the cost of extending lower student loan interest rates.

More recently, Senate Majority Leader Reid and his conference have put forward a proposal to pay for extending the reduced interest rate by raising taxes on small businesses. As you know, this proposal cannot pass the Senate and is unacceptable to the House of Representatives.

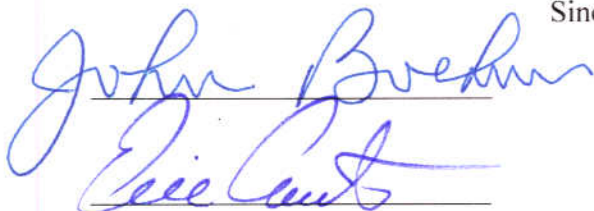
We believe our alternative is reasonable and responsible, but in the interest of finding common ground on a way to pay for a one year extension of the current student loan interest rate we are open to other solutions that we have all supported in the past.

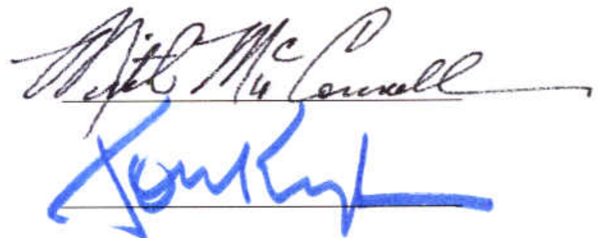
The non-partisan Congressional Budget Office has estimated that a one-year extension will increase the deficit by $5.985 billion over the 2012 to 2017 budget window. We have reviewed your Fiscal Year 2013 budget request, and based on areas of common agreement we believe it is possible to fully offset this cost by 2018 with additional savings in the ten year window and beyond dedicated to much-needed deficit reduction.

We have attached two options for fully offsetting the cost of extending the student interest rate reduction. The policies in both options are either policies that you recommended in their entirety or a subset of a policy you recommended. We are prepared to support either option.

There is no reason we cannot quickly and in a bipartisan manner enact fiscally responsible legislation.

Sincerely,





PRINTED ON RECYCLED PAPER

Attachment – May 31, 2012 Letter to President Obama, Re: Student Loan Interest Rates

Option 1:

Student Loan Interest Rate: Extend for one year (July 1, 2012 to June 30, 2013) the 3.40 percent interest rate for new subsidized Stafford student loans. *(CBO estimates this proposal will increase the deficit by $5.985 billion over the 2012 to 2017 period and $5.985 billion over the 2012 to 2022 period.)*

Increase Federal Employee Retirement Contributions: As part of the Fiscal Year 2013 Budget, the Administration proposes to increase current employee contributions to the Civil Service Retirement System (CSRS) and the Federal Employee Retirement System (FERS) by 0.4% in each of the next three calendar years—2013, 2014, and 2015—for a cumulative increase of 1.2% of pay over current contributions. The House of Representatives has passed a substantially larger increase in contributions (5% over current law levels phased-in over five years for regular CSRS and FERS employees) as part of the Sequester Replacement Reconciliation Act. *(CBO estimates that the Administration's proposal would reduce the deficit by $8 billion over the 2012 to 2017 period and $18 billion over the 2012 to 2022 period. Note: This estimate reflects that contribution levels have already been increased for new hires as part of the Middle Class Tax Relief and Job Creation Act, Public Law 112-96.)*

Option 2:

Student Loan Interest Rate: Extend for one year (July 1, 2012 to June 30, 2013) the 3.40 percent interest rate for new subsidized Stafford student loans. *(CBO estimates this proposal will increase the deficit by $5.985 billion over the 2012 to 2017 period and $5.985 billion over the 2012 to 2022 period.)*

Limit Length of In-School Interest Subsidy: As part of the Fiscal Year 2013 Budget, the Administration proposes to limit the duration of borrowers' in-school interest subsidy for subsidized Stafford loans to 150 percent of the normal time required to complete their educational programs. According to the Department of Education, "The Budget request eliminates the in-school interest subsidy for borrowers who do not complete their program within 150 percent of their program length. Beyond that point, these borrowers no longer receive the interest subsidy for the Subsidized Stafford loans they have taken out, and interest will immediately begin to accrue on these loans. As with the 12 semester Pell limitation enacted this fall, students who attend school half-time would have their benefits adjusted accordingly." *(CBO estimates that the Administration's proposal would reduce the deficit by $475 million over the 2012 to 2017 period and $1.055 billion over the 2012 to 2022 period.)*

Revise Medicaid Provider Tax Threshold: Under current law, states may not tax health care providers and return the tax revenues to those same providers through higher Medicaid payment rates or through other offsets and guarantees (known as a "hold harmless" arrangement). An exception to this provision is that the federal government will not deem a hold harmless arrangement to exist if the provider taxes collected from given providers are less than 6 percent of the providers' revenues. As part of the Fiscal Year 2013 Budget, the Administration proposes to phase down the Medicaid provider tax threshold to 3.5% from Fiscal Year 2015 to Fiscal Year 2017. The House-passed Sequester Replacement Reconciliation Act would lower the allowable

percentage threshold to 5.5 percent starting in 2013. (*CBO estimates that the House-passed proposal would reduce the deficit by $4.65 billion over the 2012 to 2017 period and $11.3 billion over the 2012 to 2022 period.)*

Improve Collection of Pension Information from States and Localities: Both the Administration's Budget Proposal for Fiscal Year 2013 and the House-passed Middle Class Tax Relief and Job Creation Act (December 2011) include a proposal to prevent Social Security overpayments by improving coordination with States and local governments. By requiring State and local government pension payers to identify whether a worker's pension is based on government employment, the Social Security Administration (SSA) can improve enforcement of two benefit offset provisions affecting certain government workers. *(CBO estimates that the Administration's proposal would reduce the deficit by $358 million over the 2012 to 2017 period and $2 billion over the 2012 to 2022 period.)*