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INSTITUTE OF
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Repairing Canada's Social Safety Net

by

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In April 2007, Human Resources and Social Development Canada invited departmental representatives and four outside panelists to a roundtable on Canada's social safety net. The Caledon Institute was asked to participate in this session. Here's a summary of what we said.

We explained that the social safety net is a term typically used to refer to social assistance, better known as 'welfare.' Social assistance originally was intended as Canada's income program of last resort. Its purpose was to provide income when all else fails – when a household has few or no earnings or other sources of income and limited assets.

But social assistance has moved far from its original intent. It has grown into a major front-line program – larger than Employment Insurance in some provinces. An unpopular and stigmatizing program, it nonetheless has proved stubbornly resistant to reform, despite many attempts over the years.

For some Canadians in need, the myriad welfare rules make it difficult to qualify for benefits even though they face dire economic straits. Those who actually get on the program often encounter problems when they try to move off. They face a veritable 'welfare wall' – the components of which are described below.

Still other Canadians remain on the social safety net for much of their life. Their circumstances give new meaning to the concept of life support. Typically, these are persons with severe and prolonged disabilities who live in a society and workforce that simply makes no place for them. The last resort is their first – and sometimes only – option.

In fact, welfare is a program so laden with problems that it has been called a "tangled safety net" [National Council of Welfare 1987]. There have been many commissions and reports over the years that have called for the fundamental reform of welfare in terms of both adequacy and attitude. Yet other studies of the safety net have concluded that the desperately needed repairs to the program are so wide-ranging that even modest reforms would be inadequate [Battle, Torjman and Mendelson 2000].

Reform should seek not to improve welfare but rather to dismantle it. The program should be taken apart bit by bit and its individual components replaced by measures that respond more adequately to current social, economic and political pressures. But reform of the social safety net must go much farther than welfare alone, extending to other key social programs including Employment Insurance, skills and learning services, and earnings supplements. Welfare would remain in place as a last-resort, short-term emergency safety net – staying true to its original intent.

Basic Assumptions

In putting forward recommendations for reforming the social safety net, we made several assumptions. Canada must modernize its social security system to meet the demands of a changing economic, social and political context. The current anchor programs that comprise the foundation of that system, Employment Insurance and welfare, have been in place since the 1940s and 1960s, respectively

– though Employment Insurance underwent major expansion in 1971 and then substantial contraction in the 1990s.

We assume that a sound social safety net is neither an unnecessary cost nor a drain on the economy. Rather, it is a vital dimension of a robust economy and an essential component of social justice.

We also assume that while Canada’s social safety net must be reformed, the changes cannot be carried out in a vacuum. They must be introduced in association with improvements to other major programs and services for working-age adults. Essential reforms must be made to policies in three areas related to: income replacement, earnings and income supplementation, and employment supports.

The two major *income replacement* programs in need of reform are social assistance for employable recipients and Employment Insurance. Other income replacement programs for working-age adults include Canada/Quebec Pension Plan disability benefits, workers compensation, paid parental leave and social assistance for those not expected to work.

Earnings supplementation measures are intended to help ‘make work pay.’ They include minimum wages, wage supplements in some provinces and the new federal Working Income Tax Benefit. Together, these measures are intended to ensure that workers are always better off financially when they are employed rather than when they are receiving some form of income support.

Families with children require income supplementation through child benefits, which are paid in the form of cash payments and income tax reductions. Before the National Child Benefit of 1998, families on welfare received double the amount of child benefits as the working poor (both provincial/territorial welfare payments for children and the federal Child Tax Benefit); families moving from welfare to work would forfeit thousands of dollars in child benefits. The National Child Benefit reform aimed at removing child benefits from provincial and territorial welfare and replacing them with stronger income-tested programs that serve all low-income families with children, whether on welfare or in the workforce.

Employment supports include child care, employment services and training, disability supports and supplementary health care. These supports help break down the welfare wall, which beneficiaries face when they try to move off social assistance and into the workforce [Battle and Torjman 1993]. Employment supports also help marginal workers maintain their attachment to the paid labour market.

Key Problems

The social safety net was designed in the 1940s and 1950s and built largely in the 1950s through 1970s. It needs to be modernized to respond more effectively to current economic, social and political changes and pressures. Many Canadians work but remain below the poverty line. One in four workers in Canada are low paid, earning less than two-thirds of the national median hourly wage of less than \$11 an hour. The incidence of low pay is higher among women (one in three) than men (one in five).

Aboriginal Canadians are at particular disadvantage in the knowledge and skills economy. The 2001 Census found that 16 percent of all Canadians aged 20-24 had not completed high school; among Aboriginal young adults in that age group, the non-completion rate was a staggering 43 percent [Mendelson 2006].

Even though the national unemployment rate has dropped steadily in recent years after its peak in the early and mid-1990s, the real unemployment rate (counting those who work part-time because they cannot find full-time work, as well as those who have given up looking for work) remains high – in fact, far higher than the official rate. Nonstandard work, including part-time work, self-employment and multiple job holders typically with low earnings, has grown to about one-third of the labour force. The mass movement of women into the labour market has had profound implications for families, the labour market and social programs.

These various factors, taken together, have an additive effect. Marriage breakdown and single motherhood are key causes of poverty and inequality, and increase demands on welfare and social services. Low birthrate and an aging society mean reliance on immigrants to replace labour supply – though far too many have trouble gaining recognition of their credentials acquired offshore.

Marriage breakdown, unemployment and low earnings threaten to condemn a growing number of Canadians to poverty in old age. Child poverty brings higher risk of a range of health problems and poor school performance that can limit opportunities in adulthood. Most low-income Canadians experience poverty only once, but a persistent minority is at risk of long-term poverty.

The social safety net must be modernized not only to ensure that the programs keep pace with labour market and social changes. We must also fix the myriad problems embedded in the programs themselves.

With respect to Employment Insurance (EI), coverage has dropped dramatically since the introduction in 1996 of new eligibility rules that sharply tightened entry to the program. The proportion of unemployed Canadians eligible for EI fell from 82.9 percent in 1989 to 43.4 percent in 1997 and remained at 43.5 percent in 2004.

The tighter Employment Insurance eligibility criteria tend to exclude certain populations – notably, recent immigrants, new entrants to the labour market, nonstandard workers and youth. The EI gender gap between male and female beneficiaries has widened substantially, actually tripling between 1996 and 2004 [Battle, Mendelson and Torjman 2006].

Welfare has its own set of problems. The program is secretive, rule bound and stigmatizing. Benefits are low in both absolute and relative terms. ‘Absolute terms’ refer to the fact that benefits are pegged at low levels – usually well below Statistics Canada’s low-income cutoffs, the most widely employed poverty benchmarks in the country. ‘Relative terms’ mean that social assistance rates are not adjusted regularly in most jurisdictions to keep pace with increases in the cost of living.

Welfare's relationship to the labour market is problematic. The so-called welfare wall, which is composed of multiple barriers, impedes movement off the system. Efforts to move off welfare into the paid labour market are generally penalized through a steep tax back on earnings, which cuts as much as one dollar from welfare payments for every dollar of outside earnings.

Welfare recipients may give up cash benefits for children (though the National Child Benefit reform was designed to tackle that problem), and supplementary health care and disability benefits. Their typically low earnings are reduced by income and payroll taxes. Prospective workers also face expenses related to work clothing, transportation and child care.

Many persons with disabilities must rely on welfare for income security and disability supports. Canadians with severe and prolonged disabilities comprise, on a national basis, 45 percent of the welfare caseload throughout the country – an entirely inappropriate source of support.

Both Employment Insurance and welfare must be reformed in concert in order to build a new system of income security for working-age adults. We refer to the proposed system collectively as an 'architecture' because it comprises several components, which are intended to work together. The new architecture must be redesigned not only internally as a set of new programs but also externally in association with reforms to the labour market [Battle, Mendelson and Torjman 2006; Battle and Torjman 1999].

Finally, we assume that the income security programs which comprise a revamped social security system for working-age adults should not pay benefits adjusted to family size. The purpose of the National Child Benefit reform was to compensate for differences in family size through an adequate national program for families with children that is separate from and delivered outside of welfare. Moreover, the benefits delivered by any given income security program should be lower than employment wages in order to maintain an incentive to work.

Reform Architecture

Objectives

The proposed social security reform seeks to achieve four major objectives:

- Replace earnings on a temporary basis for all unemployed Canadians.
- Provide long-term income support for persons with severe disabilities.
- Enhance access to essential services, such as training and supplementary benefits.
- Introduce policies and measures to ensure that work pays.

Components of reform

The proposed reform of Canada's social safety net would consist of three main components and related functions: Unemployment Assistance, Employment Preparation and Basic Income.

The purpose of the Unemployment Assistance function would be to provide a form of temporary income replacement for workers who are unemployed on a short-term basis. One possible option would consist of two programs. There could be a new Temporary Income (TI) program, paying income-tested benefits to temporarily unemployed Canadians who are not eligible for Employment Insurance and are actively seeking work. Employment Insurance would remain, but in modified form.

The new Temporary Income program would be a non-intrusive benefit funded through general revenues rather than premiums. It would serve unemployed Canadians who do not meet the work requirements for Employment Insurance. Temporary Income would be paid for a time-limited period, such as six months every three or four years. The regional component of the current EI program, whereby work requirements and maximum duration of benefits vary by the regional unemployment rate, could be incorporated in Temporary Income.

Employment Insurance would continue to provide social insurance financed through premiums. It would deliver only basic unemployment benefits; the regional component would go to the Temporary Income program. Employment Insurance under our scheme would be a stronger program, increasing its earnings replacement rate from the current 55 percent to 70 or 75 percent of average weekly earnings.

Employment Preparation would replace welfare (though a last-resort safety net would always be required) and would serve working-age adults likely to be unemployed for a longer time and are in financial need. Employment Preparation would ensure financial support while beneficiaries pursue an individually tailored employment plan providing access to training, upgrading and other necessary employment services. Flat-rate payments could be made on a bi-weekly basis and, ideally, would include Canada/Quebec Pension Plan contributions to allow public pension eligibility. Employment Preparation could continue for several years but would not provide permanent income support.

Basic Income would be an income-tested safety net for persons who cannot reasonably be expected to earn adequate income from employment. It is intended primarily for those with severe and prolonged disabilities. Basic Income could be designed as a federal income-tested benefit delivered through the tax system and equivalent in value to the maximum Old Age Security/Guaranteed Income Supplement currently paid to low-income seniors. Basic Income would not impose time limits.

Allied Services and Supports

The three income security tiers would be supported by measures that break down the welfare wall and help make work pay. These measures include *improved minimum wages* and federal and provincial/territorial *earnings supplements*.

Another essential component is an *adequate child benefit* equal to the cost of raising a child in a low-income family – \$5,000 is the target amount. *Affordable high-quality child care* is also important to ensure that working parents can participate in the labour market while their children receive high-quality care. *Disability supports* enable participation not only in training and employment but in all domains of society, including cultural events, sports and recreation, and voluntary activities. *Supplementary health and dental care, and prescription drugs* would be made available to lower- and modest-income households outside of welfare so that beneficiaries need not remain on that program of support simply because they incur high costs in these areas.

Under Caledon’s proposed architecture, the federal government would assume responsibility for Temporary Income and maintain responsibility for Employment Insurance. Provincial/territorial governments would deliver Employment Assistance in order to integrate the program with their education and training systems. The federal government would provide Basic Income, which could be tax-delivered. Provinces and territories would reinvest the resulting savings in disability supports.

Recent Changes

Working Income Tax Benefit

The Working Income Tax Benefit (WITB) introduced in the 2007 federal Budget is significant recognition of the problems facing Canada’s working poor. It is one of a package of measures required to lower the welfare wall to encourage recipients to join the paid labour market. It is also intended – at least in theory – to help the working poor, who include not just minimum wage workers, but also many individuals earning more than the minimum wage but less than the poverty line.

The maximum Working Income Tax Benefit will be \$500 for single workers and \$1,000 for single parents and couples. For single workers, benefits will phase in at a rate of 20 percent of annual earnings above \$3,000, reaching the maximum payment of \$500 once earnings reach \$5,550. The benefit will be reduced by 15 percent of net income above \$9,500, ending at \$12,833.

For single parents and couples, benefits will phase in at a rate of 20 percent of annual earnings above \$3,000, reaching the maximum payment of \$1,000 once earnings reach \$8,000. The benefit will be reduced by 15 percent of net income above \$14,500, ending at \$21,167.

While promising in theory, the design of the Working Income Tax Benefit is actually quite restrictive. Single workers employed full time at the minimum wage will not qualify for any assistance from this new measure. In Ontario, for example, the \$8.00 minimum wage amounts to about \$16,000 for full-time all-year work (assuming 40 hours a week for 50 weeks). Yet the WITB for single workers phases out at net income of just \$12,833 – \$3,167 below a full-time minimum wage income [Battle, Torjman, Mendelson and Tamagno 2007].

To qualify for the WITB, single workers would have to be employed part time. An individual working half time at Ontario's minimum wage (\$8,000) will receive the maximum \$500 benefit. Fortunately, single parents and couples will fare better. A single parent working full time at Ontario's \$8.00 minimum wage, or a couple earning that amount between them, still will earn too much to receive the \$1,000 maximum but will get \$775 [Battle, Torjman, Mendelson and Tamagno 2007].

Universal Child Care Benefit

Caledon has argued that the Universal Child Care Benefit, which was introduced in the 2006 federal Budget, has serious design flaws [Battle 2006; Battle, Mendelson and Torjman 2006]. It favours one-earner couples over two-earner couples and single parents. It delivers substantial assistance to families that least need financial help. As a taxable benefit, the UCCB pays considerably less than its face value of \$1,200. It offsets only a fraction of child care costs that range between \$6,000 and \$12,000 for infants and \$5,000 to \$8,000 for preschoolers (these figures exclude Quebec).

The dismantling of the Early Learning and Child Care Agreements is a serious blow for the cause of increasing the supply of high-quality child care in the country. The \$250 million a year in child care spaces announced in the 2007 Budget is paltry, given the need for substantial investment in this area – and relative to the amounts that had been promised in former federal Budgets. Moreover, the drastically reduced funds will be sent to provinces through the Canada Social Transfer block fund, which means there is no guarantee the dollars actually will be used for child care.

Nor will the recently introduced child tax credit tackle the lack of high-quality affordable child care, any more than the Universal Child Care Benefit. The child tax credit is a nonrefundable credit with a maximum real value of \$310 in federal income tax savings. All non-poor families, including the very rich, will receive the maximum \$310. Some low-income families with low tax liability will receive a lesser amount. The poorest households will get nothing because they do not owe income tax.

Registered Disability Savings Plan

The Registered Disability Savings Plan (RDSP) announced in the 2007 Budget is a positive development. Its purpose is to encourage private savings on behalf of persons with severe and prolonged disabilities in order to improve their quality of life.

The Registered Disability Savings Plan allows any person eligible for the disability tax credit or their parent or legal representative to establish an RDSP. While contributions to the RDSP will not be tax deductible, the investment on contributions and associated measures introduced as part of the RDSP will accrue tax-free. Contributions will be limited to a lifetime maximum of \$200,000 in respect of the beneficiary, with no annual limit.

In fact, the federal Budget went beyond introducing a Disability Savings Plan to recommend both a Disability Savings Grant and Disability Bond. These associated measures are important additions to the basic RDSP in that they are intended to enable low- and modest-income households with limited capacity to save to take advantage of tax-assisted savings.

While the Registered Disability Savings Plan and associated bond and grant components are crucial additions to the social safety net, they will not dramatically reduce poverty. Nor will they do much to redress the serious inadequacies in the provision of disability supports [Torjman 2000].

Making a real dent in poverty will require a major national commitment and focus. On the income security front, the Caledon Institute is working on a proposal to restructure fundamentally the current configuration of income security programs [Battle, Mendelson and Torjman 2006]. The proposal involves removing persons with disabilities from provincial and territorial welfare programs, serving them instead by a new federal income-tested program similar in design to the Guaranteed Income Supplement for seniors. The nonrefundable disability tax credit would be made refundable to help low-income persons with disabilities.

A second major action that the federal government can take is to invest, in conjunction with provinces and territories, in the supply of disability supports so that these are more readily available and accessible throughout the country. The investment-in-supply approach is particularly important to low-income individuals and Aboriginal Canadians with disabilities, most of whom do not benefit from current tax provisions. No investment in personal tax carrots is sufficient to create the required scope of disability supports.

Future Directions

Our analysis of current pressures and recent social policy changes has led us to propose a series of interrelated reforms. If Caledon were designing the social safety net in Canada, we would not proceed with the child tax credit. We would eliminate the Universal Child Care Benefit. In our view, both measures are an inappropriate use of public funds in that they direct substantial benefits to upper-income families. We would instead redirect the billions of dollars in respect of those measures to strengthen the Canada Child Tax Benefit, which gears payments to income and serves nine in ten families, excluding only those with high incomes.

Key labour market changes would include an increase to minimum wages. Training would be customized to be more responsive to labour market needs, especially in areas of skill shortage. We would promote access to education and training, particularly for Aboriginal Canadians who experience disproportionately high rates of non-completion of high school.

With respect to income security, it is essential to introduce reforms to Employment Introduction and welfare, starting with the creation of a new Temporary Income program serving those unemployed Canadians who do not qualify for Employment Insurance. This reform would enable us to create a

stronger Employment Insurance, focused solely upon earnings replacement for the unemployed who have a substantial attachment to the labour force.

The proposed reform could also free up funds to enhance the replacement rate of regular EI and parental leave benefits, currently only at 55 percent of average earnings. Quebec's approach bears consideration: Under the Quebec system for parental leave in particular, parents can choose to take benefits up to 70 percent replacement of former wages for a maximum 25 weeks and 55 percent for 25 weeks, or they can opt for 75 percent of benefits for 40 weeks.

Other proposed changes include enhancing the value of the Canada Child Tax Benefit up to maximum \$5,000 per child under age 6. The increase would be extended later to older children, first up to age 12 and then up to age 18. We would work to enhance the availability of high-quality affordable child care by reinstating the Early Learning and Child Care Agreements and their associated funding commitment.

In the area of disability, we would ensure that the new Registered Disability Savings Plan is not negated by provincial/territorial welfare regulations. We would also begin immediate reform of the disability income system. Two possible starting points are to make refundable the disability tax credit, which is not paid to Canadians too poor to pay tax, and to replace welfare benefits for persons with disabilities with a new federal Basic Income program. The latter reform would help the provinces and territories finance a significant investment in the supply of disability supports, which are essential to enable participation not only in the workplace but in society more generally.

Employment supports could be improved by extending supplementary health, dental and drug benefits to all low-income households, not merely those on social assistance. Finally, we would assist community initiatives that seek to reduce energy, transportation and recreation costs for low-income households.

Social security reform should involve changes not only to the anchor programs that comprise the social safety net but also to the myriad supports currently embedded within income security programs. The goal is to detach these supports from income programs so that beneficiaries do not face perverse incentives to stay out of the labour market. Equally important, low- and modest-income households would be able to participate in a labour market in which it actually does 'pay' to work.

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