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Caledon Response to Liberal Poverty Strategy

by

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The Caledon Institute of Social Policy applauds the poverty reduction commitment outlined in Liberal leader Stéphane Dion's November 9, 2007 speech to the Learning Enrichment Foundation in Toronto. The Liberal strategy is to be praised for its recognition of poverty as a serious national problem that needs political leadership and an explicit focus to achieve clear results. While the speech puts forward some important ideas in a number of key policy areas, several of the proposals will not help reach the intended goal of a dramatic reduction in poverty. We suggest some alternative reforms.

poverty reduction targets

Far and away the most important commitment is to set official poverty reduction targets and monitor progress against poverty. This major advance in Canadian social policy would make government more accountable and would improve our understanding of the complex factors that cause poverty.

A difficult but crucial task in setting and monitoring poverty reduction targets will be to devise better ways to measure poverty. Canada is alone among advanced nations in not having official poverty lines. Our 'unofficial official' poverty lines, Statistics Canada's low income cut-offs (LICOs), have served for decades as *de facto* poverty lines, and will have to continue to serve in the absence of a better measure. But they never were intended to function as poverty lines, and they have some serious deficiencies.

For example, when housing costs in Vancouver and Toronto go up, this rise causes an increase in the LICOs for all cities in the 500,000-plus category. Consequently, poverty as measured by the LICOs goes up in Winnipeg, for example, even if housing costs in that city may not have changed. Moreover, the LICOs do not distinguish among various structures of families. Thus a single parent with one child falls under the same LICO as a childless couple. There are other deficiencies in the LICOs, explored in depth in the February 2005 Caledon paper *Measuring child benefits: Measuring child poverty* [Mendelson 2005].

Any government proposing to adopt poverty reduction targets must pay serious attention to developing a good poverty indicator. The Ontario government has recently announced that it plans to undertake just such an initiative, which is most welcome. But a national poverty indicator is needed in order to compare progress (or otherwise) across the country. We hope that the Liberal strategy will include the development of a better poverty indicator than the current LICOs.

child benefits

The Liberal poverty strategy rightly emphasizes income security programs as a proven and powerful instrument to reduce poverty, one that the federal government has used to good effect to

reduce poverty among seniors and families with children. But the Liberal strategy retains (though in altered form) the Conservatives' new child tax credit, when it would be better to do away with that flawed program altogether.

In the past two federal Budgets, the Harper government made major and ill-considered changes to federal child benefits. Their 'new' programs – actually retreads from the past – have re-introduced inequities and complexities that it took earlier governments (Conservative and Liberal alike) many years to expunge. Today's federal child benefits system is both virtually incomprehensible and unfair.

In 2006 the new federal government removed from the Canada Child Tax Benefit the supplement for young children under age 7, which assisted mainly lower-income families. The subsequent savings helped pay for the Universal Child Care Benefit (UCCB). Similar to the old Family Allowances program, the Universal Child Care Benefit has several drawbacks.

Because the Universal Child Care Benefit is subject to both federal and provincial/territorial income taxes, most families do not end up with the full \$1,200 per child under 6. In several provinces, even some low-income families do not keep the full \$1,200. Families of different types (i.e., single parents, one-earner and two-earner couples with children) but with the same income get different after-tax benefits from the UCCB. Moreover, these differences extend across the country, so that families with the same income end up with different after-tax UCCB benefits depending upon the province or territory in which they live. Despite its title, the Universal Child Care Benefit is not tied to use of child care (families can spend it however they wish) and, even if it is used for this purpose, its \$1,200 per year (less after taxes) buys little in the way of child care, decent or otherwise. The Universal Child Care Benefit is nothing more than a poorly designed child benefit.

Mr. Dion's speech is strangely silent on the subject of the Universal Child Care Benefit. But he does mention the Conservative government's second child benefit initiative announced in the 2007 federal Budget, the 'new' non-refundable child tax credit – actually a program resurrected from the 1980s. The non-refundable child tax credit provides its benefit – \$300 per child annually in federal income tax savings – to families which owe federal income tax, thus excluding poor families below the taxpaying threshold. To correct this inequity, the Liberal strategy proposes to make the child tax credit refundable, so that it extends to families with incomes so low that they do not owe income tax.

Yes, making the non-refundable child tax credit refundable means that all poor families now would get \$300 per child, like all non-poor families. But rich families would continue to receive the same \$300 per child as middle-income and low-income families. A \$300 refundable child tax credit is worth 2 percent of income to a \$15,000 family and a fraction of one percent (0.2 percent) to a \$150,000 family. While this \$300 tax cut is trivial and all but meaningless to wealthy families, it comes at significant cost to taxpayers. A flat-rate child benefit program paying the same amount to every family, from the poor to the privileged, has no place in contemporary social policy.

Surely there is a better way to design and operate a child benefits system. Indeed there is, and Mr. Dion's speech mentions an effective and practicable way to do so: "Expand and improve the Canada Child Tax Benefit." Unfortunately, it doesn't say how. Here is a suggestion.

By all means, strengthen the tried and true Canada Child Tax Benefit. But don't leave the Universal Child Care Benefit in place and don't just make the child tax credit refundable. Instead, get rid of the UCCB and child tax credit, and use the money saved from these anachronistic schemes to build a stronger Canada Child Tax Benefit. To do otherwise is to continue wasting taxpayers' money on expensive and inefficient programs that direct substantial payments to high-income families.

The Caledon Institute of Social Policy has designed a bigger and better Canada Child Tax Benefit. Our proposal will be released soon.

support for the working poor

We welcome Mr. Dion's commitment to improve the Working Income Tax Benefit, an earnings supplementation program created in the 2007 federal Budget.

We have made some concrete suggestions as to how to provide badly needed assistance to more low-income working Canadians [Battle, Torjman and Mendelson 2007]. The Working Income Tax Benefit's maximum payment for single workers could double from \$500 to \$1,000, and for single parents and couples from \$1,000 to \$2,000. The disability supplement to WITB also could double, from \$250 to \$500. The income level where eligibility for benefits ends thus would rise from \$12,833 to \$16,167 for single recipients and from \$21,167 to \$27,833 for single parents and couples.

However, there is scope for broader reform than boosting the program's punch and reach. The Working Income Tax Benefit is an important federal initiative to help Canada's many working poor, but in future it should be expanded from a federal-only to a joint federal-provincial/territorial undertaking. WITB should be made more flexible to allow each province and territory to adapt the program to its needs and circumstances, and to integrate it with its welfare system.

Every province and territory now has a mechanism to help lower the 'welfare wall' for welfare recipients. For example, Ontario welfare recipients may keep 50 percent of their welfare benefits as their earnings increase, so that \$10,000 of earnings results in only \$5,000 of reduced welfare benefits. The trouble is that a person earning \$10,000 and retaining welfare benefits could be working side-by-side with someone also earning \$10,000 but getting nothing at all from government. Saskatchewan and Quebec have solved this obvious inequity by devising a 'stand alone' earnings supplementation program so that anyone with low earnings can get the same work incentives as a person on welfare. These provincial programs are real working income benefits, integrated with each welfare system.

Moreover, because the federal government's Working Income Tax Benefit is administered through the tax system, its benefits do not arrive until about a year later. An effective Working Income Tax Benefit cannot be a tax-delivered federal program: It needs to be delivered by the provinces and territories.

Without integration with each provincial/territorial welfare program, the Working Income Tax Benefit just adds one more layer of complexity to Canada's already complicated income security system, and could create unanticipated consequences for people who are trying to get off welfare. We could unwittingly be setting up new welfare traps by the uncoordinated interaction of provincial/territorial and federal programs.

benefits for seniors

The Caledon Institute welcomes Mr. Dion's call for increasing benefits to low-income seniors. His speech makes three proposals. The first is to increase "the Guaranteed Income Supplement payments for the lowest income seniors."

But how much of an increase, and at what total cost? The Liberal proposals, unfortunately, do not address these key questions.

There are some immediate changes to the Old Age Security (OAS) program, of which the Guaranteed Income Supplement (GIS) forms part, that would make the program more equitable and that would free money which could be redirected to low-income seniors. These measures are described in detail in a forthcoming Caledon Institute paper, *Strengthening the Foundations of Canada's Pension System: A Review of the Old Age Security Program* [Tamagno 2007].

One change involves the income test used for the high-income 'clawback' of the basic OAS pension, which reduces or removes benefits from upper-income seniors. For senior couples, the income test should be based on the couple's combined income rather than on each spouse or partner's individual income, as is the case today. This change would eliminate the absurdity of the current situation in which the spouse or partner of a millionaire can continue to receive the basic OAS pension, in spite of the couple's high income, if his or her individual income is below the clawback's threshold. We need to stop paying the basic OAS pension to some seniors who don't need it and to invest the savings in those who really do, among whom women constitute the great majority.

The need to change the income test for the clawback to a couple's combined income was made all the more urgent by the splitting of pension income that was introduced a year ago into the federal income tax system and subsequently replicated by some provinces in their own income tax systems. As shown in Caledon's November 2006 paper *Tax Fairness According to Canada's New Government* [Tamagno and Battle 2006], pension-income splitting results in large windfall gains (in the form of reduced income taxes) to the wealthiest senior couples, meagre tax savings for the vast

majority of middle-income senior couples, and nothing at all to single seniors and to senior couples with incomes too low to put them in the tax-paying range.

But for some of the wealthiest senior couples, in addition to their gains in the form of reduced taxes, there has been another windfall from pension-income splitting: avoiding the OAS clawback to which the higher-income spouse or partner was previously subject. Changing the clawback's individual income test to one based on a couple's total income would eliminate this windfall.

The second of the Liberal proposals for strengthening the income security of seniors is to “ensure that the loss of a partner does not drive the surviving spouse below the low income threshold.” This is unquestionably a worthy goal with which it would be difficult to imagine anyone taking exception. But what does it really mean?

The Old Age Security program is the principal line of defence against poverty among seniors, including widows and widowers. The first of Mr. Dion's proposals calls for an increase to the GIS, which is specifically targeted to seniors most in need. What else, in addition, might be done?

One measure might be to increase survivors pensions under the Canada Pension Plan (CPP). However, this would be costly – depending on the amount of the increase, *very* costly – and an increase that would bring CPP survivors pension above the low income cut-offs would need to be large.¹

The third of Mr. Dion's proposals for seniors states that “seniors who can still offer so much to our workforce will be encouraged and rewarded for working if they chose to do so.”

It is almost universally agreed in Canada that seniors who *want* to work and who *can* work should be encouraged to do so. For this reason, the federal government and most provinces have outlawed mandatory retirement.

With the ageing of Canada's population, it will become even more urgent in coming years to encourage seniors to remain in the workforce – especially ‘knowledge workers’ for whom physical exertion is not a consideration for continued employment and whose skills and experience will be increasingly critical for maintaining Canada's competitive edge in a global economy. But how, specifically, do the Liberals propose to do this? High-minded principles are good, but they are not sufficient.

There are measures that can and should be taken to encourage seniors and near-seniors who can and want to continue working to do so. For example, the half-hearted ‘employment test’ for receipt of a CPP retirement pension before age 65 should be eliminated. Also, CPP beneficiaries receiving a retirement pension but still working should be allowed to continue to contribute to the plan, with the additional earnings taken into account each year in re-calculating their pensions. The Quebec Pension Plan (QPP) has been doing this for years. It's time for the CPP to catch up.

conclusion

The renewed focus on poverty is long overdue. Strong and explicit federal leadership, along with cooperation with the provinces and territories in several key areas, are essential to attain significant reductions in poverty. But real progress will not be possible unless sound policy measures are employed to achieve this crucial goal.

Endnotes

1. Under provisions of the law governing the Canada Pension Plan dating back to its start in 1966, a change of this type would require the agreement of at least two-thirds of the provinces with at least two-thirds of the population of Canada (in addition to approval by the federal Parliament). Moreover, under changes to the CPP legislated in 1997 and just recently brought into force as a result of Bill C-36, which received royal assent in May 2007, the change would have to be fully funded in advance, through an increase in the CPP contribution rate. So it seems highly unlikely that a significant increase to CPP survivors benefits would be feasible.

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