CALEDON INSTITUTE OF SOCIAL POLICY

caledon commentary

July 1994 ISBN # 1-895796-19-9

Seniors Beware: This Review's For You Too

On January 31, 1994, the Minister of Human Resources Development Canada, Lloyd Axworthy, announced that the Government of Canada was embarking upon a comprehensive Social Security Review.

The Review was to be far-reaching, including such areas as Unemployment Insurance, welfare, and post-secondary education. It would not reach so far, however, as to touch seniors' issues which will be the subject of a separate federal exercise. Finance Minister Martin announced in the February Budget that Ottawa will release a paper exploring the impact of an aging society on the need for social services and the affordability of the public pension system. [1]

Last year, Caledon urged the federal government to put seniors' issues on the same reform table as other social programs. We believe that it is artificial and inappropriate to separate seniors' concerns from those of the rest of Canadians. The current Social Security Review is examining the areas of upgrading and retraining, the distribution of work, the growth of nonstandard employment and adjustment programs for older workers. These issues have important implications for workers' ability to save for their retirement.

There are other problems that arise from leaving seniors' issues 'off the table' right now. Certain significant government expenditures will not be included in the Social Security Review because they are deemed to be part of the seniors' agenda. The most notable example is the income tax deduction for Registered Retirement Savings Plan (RRSP) contributions. Finance Minister Martin stated in the February Budget speech that this matter would be considered as part of the seniors' review. [2]

Caledon does not oppose the existence of RRSPs. To the contrary, we acknowledge that RRSPs are an increasingly important form of retirement savings. The majority of the labour force has no company pension plan. Old age pensions and the Canada/Quebec Pension Plans cannot fully meet the retirement income needs of most Canadians.

While we recognize the importance of RRSPs as a retirement savings vehicle, their associated tax deduction is an increasingly expensive and very regressive tax break. Upper-income taxpayers are much more able than low- and middle-income Canadians to put money toward RRSPs and enjoy larger income tax savings from the tax deduction for their contributions. The RRSP deduction cost an estimated $5.1 billion in combined federal and provincial income tax revenue losses for the 1991 taxation year, and the price tag is inflating steadily because the previous government substantially boosted the maximum tax deduction limit. [3]

While Caledon does not oppose tax assistance for contributions to RRSPs, we advocate a leaner and fairer mechanism. The current 'Mercedes-Benz' RRSP tax deduction should be converted to a 'Ford' tax credit that would stem the flow of scarce public funds to well-off taxpayers. The resulting savings to the federal and provincial governments could be better spent on programs geared to lower-income families, such as an enhanced child benefit.

We also are concerned that much of the current debate – which tends to put seniors' matters against those of other members of society – has been unhelpful and, in fact, destructive. The federal government's decision to separate seniors' issues from those of the mainstream threatens to encourage this kind of divisive thinking.

The Social Security Review should look to the success that Canada has made in improving economic security for seniors to see how the lessons learned can be applied to other populations. Poverty among elderly Canadians has declined dramatically over the past two decades. The poverty rate for elderly families was cut from 41.4 percent in 1969 to 8.5 percent in 1992, and among elderly single people from 69.1 percent to 48.4 percent during the same period. [4]

The main reason for the progress against elderly poverty is a series of improvements over the years to public pensions – Old Age Security, the Guaranteed Income Supplement, the Spouse's Allowance and the Canada/Quebec Pension Plans. In effect, if not by name, Canada has managed to create a guaranteed income for seniors.

We can apply our experience in the war against poverty to the war against child poverty. While there is no single magic weapon to find child poverty, both the extent and depth of poverty could be reduced by creating a form of guaranteed income for children.

This new income security program could build on the current federal child tax benefit. For an additional $1.5 billion – a fraction of the cost of the RRSP deduction – Ottawa could bring in a guaranteed income program for children that paid low-income families as much as three times their present child tax benefit and also increased benefits for modest-income families. Once it was up and running, an enhanced child benefit could set the stage for an integrated federal-provincial child benefit that removed children from the welfare system.

But perhaps the most serious problem arising from the separation of seniors' issues relates to the area of services. Many of the services that seniors require to live independently in the community are being examined as part of the Social Security Review. The proposed changes to the financing of these services could have a significant impact upon seniors. Yet their concerns are not part of the current debate. Moreover, few people realize that fundamental changes which may affect them down the road are being considered right now.

A critical area is a group of services often referred to as 'personal supports.' These supports include (but are not limited to): attendant services that provide assistance with personal care needs such as bathing, dressing, grooming and eating; homemaker services for household tasks such as cooking, shopping and cleaning; technical aids and equipment such as wheelchairs, walkers, hearing aids and optical devices; and communication assistance such as readers and interpreters. [5]

Personal supports are being examined as part of the Social Security Review because they are used by persons with disabilities. Yet seniors also make extensive use of personal supports – especially if they live independently in the community. We should look seriously at how to make personal supports more readily available to seniors in order to meet the growing demand for these services and to reduce the need to institutionalize elderly people.

Currently, personal supports are funded in a variety of ways depending upon how and where they are delivered. Supports provided primarily at home are financed by the provinces with a federal contribution under the Canada Assistance Plan (CAP). CAP allows the federal government to share with the provinces the cost of welfare and social services. Personal supports that involve home health care are funded primarily under the Established Programs Financing (EPF) arrangement, not CAP; the financing of health care is not part of the Social Security Review. Personal supports delivered in residential institutions, such as nursing homes or group homes, are funded through a complex arrangement known as the 'CAP/EPF interface.'

While the future of CAP is uncertain at this point, there is no question that fundamental modifications to the legislation are being considered. This should not come as a surprise. It is n o secret that the Department of Finance is less than keen about a cost-sharing arrangement which requires the federal government to match provincial expenditures. Moreover, the fact that Ottawa must share the costs after the funds are spent means that it cannot predict or control its own financing with respect to welfare and social services.

The 'cap on CAP' was an attempt to put to an end to 'open pot' federalism. In 1989, the Tories announced that increases to federal contributions to the 'have' provinces of Ontario, Alberta and British Columbia would be limited to five percent a year through 1991-92. In 1991, the federal government extended the freeze through 1994-95. [6] The Liberals prolonged the cap yet again; the February Budget kept the lid on federal contributions to these three provinces through 1995-96. [7]

If the Canada Assistance Plan remains in place after the Social Security Review ('if' is the operative word), limits to cost-sharing no doubt will continue. It is highly unlikely that we will see limited 50-50 cost-sharing in this country ever again. Some other financial arrangement will be put in place for the support of welfare and social services, including personal supports.

One possible option is to change from a cost-sharing arrangement, in which the federal government matches provincial expenditure, to some form of block funding. Under a block-funded arrangement, Ottawa would transfer money to provinces based on a negotiated formula that takes into account key factors such as population, changes in Gross Domestic Product (GDP) and the cost of living. The federal government actually did consider the possibility of block funding social services when it tabled the Social Services Financing Act in 1978 (which followed on the heels of the rejected 1977 Social Services Act). Health care services and post-secondary education already are supported under block funding, through Established Programs Financing (EPF).

There is nothing inherently negative about a shift in financing. The potential problems arise in the specifics of the arrangement – i.e., the precise level of financing and the conditions attached to the receipt of federal dollars.

If there is a shift from cost-sharing to block funding, the new agreement will not exceed current expenditures. That scenario is not in the cards. It then will be important to determine the amount of funds that provinces actually would receive under a new deal – and more specifically, the financial losses that various provinces might incur as a result of different options.

The second question relates to the conditions attached to the federal funds. Certain transfers have very few conditions. For example, the federal money paid to the provinces in respect of post-secondary education under Established Programs Financing has no conditions. It is impossible to know the extent to which these funds are directed toward colleges and universities. The funds conceivable could be used instead on the 'paths to higher learning' – i.e., the roads leading to these institutions.

Similarly, the federal government pays money to seven 'have-not' provinces under an arrangement known as 'equalized payments.' [8] The purpose of these transfers is to improve the financial capacity of the poorer provinces and to enable all provinces to provide public services at the level of the national average without having to resort to unusually high taxes of their own. The amount of funds intended for each province is calculated on the basis of a set formula which is different from the one used to transfer funds under EPF. Yet the two financing arrangements are similar; there are no conditions associated with equalization funds.

The federal transfers for health care by contrast, are a different matter. While the money flows under the same financing arrangement as post-secondary education, the funds for insured health care services come with enforceable conditions attached.

These conditions are set out in the Canada Health Act. They take the form of five principles – comprehensiveness, universality, portability, public administration and accessibility – to which provinces must adhere in order to receive federal funds. In mid-May, the federal Health Minister announced that Ottawa would deduct $1.7 million from its transfer payments to penalize British Columbia for extra-billing by physicians. This practice contravenes the accessibility criterion of the Act.

Most social policy groups prefer that federal funding to the provinces for welfare and social services come with some conditions. The presence of conditions sets national standards which promote a common level of service throughout the country. At the very least these requirements ensure that the money is used for the purposes for which it is intended.

Regardless of whether CAP is modified or replaced, any new arrangements must address current problems regarding both access to and the responsiveness of personal supports. [9] Many Canadians have difficulty gaining access to personal supports simply because these do not exist in their communities or there are insufficient resources to meet the demand. Even when supports are available and people can 'get in the door,' they often experience problems due to lack of responsiveness. Most consumers have little say in how services are delivered or managed.

A common problem is that services are not available at the time or place they are required. For example, attendant services may be delivered at home but are not provided at a workplace or school though the same assistant could carry out precisely the same task. Part of the problem can be attributed to the underlying fiscal arrangements which limit the type of service that will be supported and the place in which it will be provided. Under the Canada Assistance Plan (CAP), it is difficult for provincial governments to get cost-sharing for personal supports in settings other than the home. CAP will not support educational or health-related activities.

Some say that a shift from CAP to other forms of funding will free provinces from the restrictions imposed by the current legislation. Others worry that a shift might result in a substantial erosion of these services – especially if the federal dollars are not tied to specific conditions or principles.

It is important to ensure that personal supports are not hurt by changes initiated by the Social Security Review. These supports are essential not only to persons with disabilities but also to the elderly who comprise a rapidly growing proportion of Canada's population. Despite the fact that seniors may be affected substantially, most are not aware of – let alone involved in the debate about – possible changes to services. Seniors must be informed that the Social Security Review concerns them too.

Sherri Torjman and Ken Battle

Endnotes

1. The Honourable Paul Martin, Minister of Finance. *The Budget Speech*. Ottawa: Department of Finance Canada February 1994, p. 10.

2. The Honourable Paul Martin, Minister of Finance. *The Budget Speech*. Ottawa: Department of Finance Canada February 1994, p. 10.

3. Caledon Institute of Social Policy. *Fast Facts*: *RRSP Series.* Ottawa: February 1994.

4. Statistics Canada. *Income Distributions by Size in Canada*. Ottawa: Minister of Science, Industry and Technology, various years.

5. Roeher Institute. *Nothing Personal: The Need for Personal Supports in Canada*. Toronto: North York, 1993.

6. Battle, Ken and Sherri Torjman. *Federal Social Programs: Setting the Record Straight.* Ottawa: Caledon Institute of Social Policy, Spring 1993, p. 15.

7. The Honourable Paul Martin, Minister of Finance. *The Budget Speech*, p. 12.

8. For a more complete description, see Peter M. Leslie. "The Fiscal Crisis in Canadian Federalism." In Peter M. Leslie, Kenneth Norrie and Irene K. Ip. *A Partnership in Trouble: Renegotiating Fiscal Federalism*. Toronto: C.D. Howe Institute, 1993, pp 31-35.

9. Roeher Institute. *Nothing Personal: The Need for Personal Supports in Canada,* pp. 63-94.

1600 Scott Street, Suite 620
Ottawa, Ontario, Canada K1Y 4N7
phone: (613) 729-3340 fax: (613) 729-3896
e-mail: caledon@caledoninst.org
website: www.caledoninst.org