



POLICY BACKGROUNDER

How do earnings exemptions affect social assistance recipients in Ontario?

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INTRODUCTION

On Thursday November 22, Minister MacLeod announced the outcome of Ontario's 100-day review of social assistance. It included details of how earnings exemptions for social assistance recipients will change. This short backgrounder explains what earnings exemptions are and what the changes mean.

WHAT ARE EARNINGS EXEMPTIONS?

Most social assistance programs withdraw benefits gradually when a recipient takes on paid work. It ensures recipients have an incentive to take on work even when earnings are low. In Ontario, two mechanisms are used to create a work incentive:

1. Earnings exemption – the amount someone can earn before their social assistance benefits are affected
2. Withdrawal rate – the amount of social assistance benefits that is lost for every dollar earned above the exemption

WHAT IS THE CURRENT SYSTEM?

Under the current system, recipients of Ontario Works (OW) and Ontario Disability Support Program (ODSP) can earn up to \$200 per month without affecting their benefit payments (this amounts to less than 4 hours of work per week at the minimum wage). After this point a withdrawal rate of 50 per cent is applied, so for every \$1 of earnings over \$200, recipients lose 50 cents of their benefit income.

WHAT HAS BEEN PROPOSED?

Following its social assistance review, the Ontario government announced it was planning to increase the amount that social assistance recipients can

earn before benefit payments are withdrawn. But after that level is reached, benefits will be withdrawn at a faster rate. Earnings exemptions will now work differently for people receiving OW and ODSP.

For OW:

- Recipients will be able to earn up to \$300 per month without affecting their benefit payments, up from the current \$200. (The Liberals' 2018 Budget planned to increase it to \$400.)
- With earnings above the exemption level, benefits will be withdrawn at a rate of 75 per cent, instead of the current 50 per cent. So for every extra \$1, individuals lose 75 cents of their OW amount.

Taken together, the new system would give OW recipients a stronger incentive to earn \$300 a month, but a weaker incentive to earn anything above that.

For ODSP the government is planning to change to a system of annual, rather than monthly, income assessments. The new earnings rules will be:

- Recipients will be able to earn up to \$6,000 a year without affecting their benefits, up from the \$200 per month currently. (This was also proposed in the Liberals' 2018 Budget.)
- As with OW, with earnings above the exemption level, benefits will be withdrawn at a rate of 75 per cent instead of the current 50 per cent. So for every extra \$1, individuals lose 75 cents of their ODSP amount.

Taken together, the proposed system gives ODSP claimants a stronger incentive to earn on average \$6,000 a year, but a weaker incentive to earn anything above that.

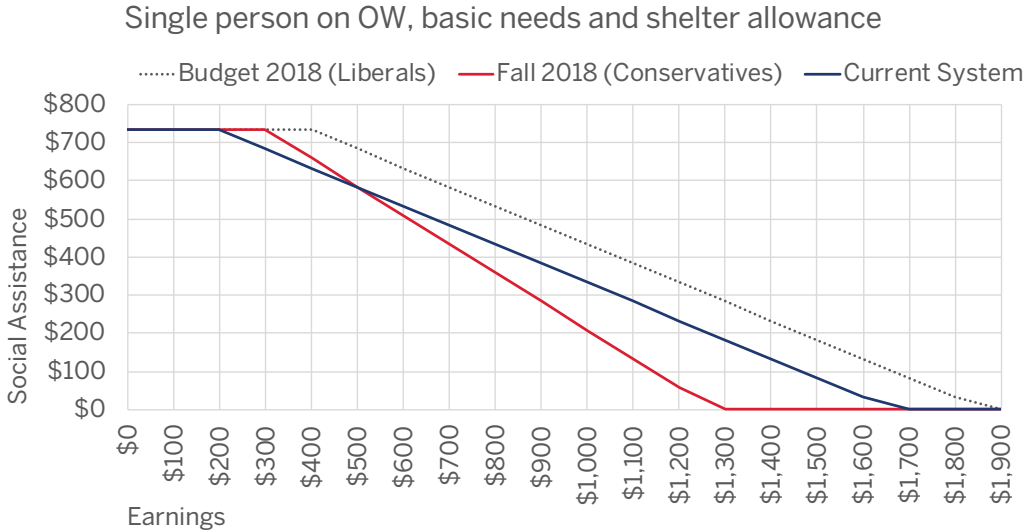
The table below summarizes the earnings allowances for social assistance in Ontario under the current system, the proposed system following the social assistance review, and the system proposed by the previous government in its 2018 Budget.

		Current system	Proposed in Nov 2018 Social Assistance Review	Proposed in 2018 Spring Budget
OW	Earnings exemption	\$200 per month	\$300 per month	\$400 per month
	Withdrawal rate	50%	75%	50%
ODSP	Earnings exemption	\$200 per month	\$6,000 per year	\$6,000 per year
	Withdrawal rate	50%	75%	50%

WHAT DOES THIS MEAN FOR CURRENT RECIPIENTS?

The graphs below illustrate how social assistance benefits decrease as earnings increase under the three scenarios outlined in the table above. As a rule, the flatter the line, the stronger the work incentive. The steeper the slope, the weaker the work incentive.

Ontario Works



Work incentives

- When earnings are very low, all lines are flat due to the earnings exemption. In this case, a single adult continues to receive the maximum OW amount of \$733 a month. With the proposed earnings exemption of \$300, the line is flatter for longer showing the increased work incentive.

- But after the earnings exemption is reached, the withdrawal rate takes effect and the lines begin to slope. The steeper the slope, the weaker the work incentive. The red line has the steeper slope indicating the weaker work incentive.

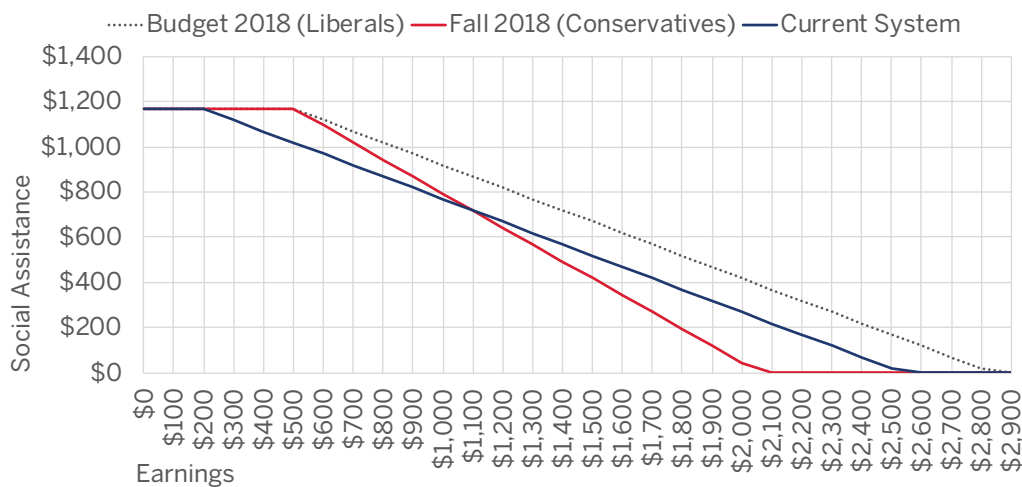
“Winners” and “losers”

- At \$500 the line for the current system and the line for the proposed system cross. This is the point which shows if existing claimants are made worse or better off by the change. Those earning less than \$200 a month are unaffected, those earnings between \$200 and \$500 will be better off as a result, but those earning \$500 to \$1,700 will be worse off.

Ontario Disability Support Program

The numbers are different but the same principles apply for ODSP where the maximum social assistance amount is \$1,169 per month.

Single person on ODSP, basic needs and shelter allowance



Work incentives

- With an increased earnings exemption to \$500 a month (averaged over a year), the line is flatter for longer. But after this, the red line has the steeper slope indicating a weaker work incentive.

“Winners” and “losers”

- The lines cross at \$1,100. Those earning between \$1,100 and \$2,500 will be worse off under the new system, those earning between \$200 and \$1,100 will be better off, and those earning less than \$200 will see no change.

HOW DO EARNINGS RULES WORK FOR SOCIAL ASSISTANCE IN OTHER JURISDICTIONS?

[Appendix 2](#) of the 2017 Welfare in Canada report details the earnings exemptions and withdrawal rates used in the 2017 tax year in every province and territory.

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