New Asset and Income policies to assist low-income adults under Ontario's Poverty Reduction Strategy

Towards a comprehensive approach to accommodate new (2008) federal programs and encourage self-reliance under Ontario's asset and income tested benefit programs

TD Economics
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Executive Summary

The purpose of this paper is to make recommendations for how Ontario should respond to a near-term opportunity to harmonize Ontario social assistance policies in anticipation of the roll out of federal Tax Free Savings Accounts (TFSAs) in 2009. With the introduction of the TFSA, the provinces and territories will now have an earmarked registered tax account where low income Canadians could build savings to support themselves in times of economic disruption.

While policy action could be confined to the TFSA response, it is argued that asset tests must also be modified to provide the proper incentives toward self-reliance. While the focus is on Ontario, much of the analysis and the recommendations are applicable to other provinces.
Ontario has five needs-tested programs affecting working age adults in 2008:

- Ontario Works (OW) or 'welfare'
- Ontario Disability Support Plan (ODSP) – 'disability'
- Legal Aid
- Subsidized or public housing
- Child care subsidy

The overarching recommendation is to use the opportunity of the implementation of the federal TFSA to increase asset limits in needs tested programs and to allow savings and windfalls to accrue to a set limit within these programs without tax back or recovery.

These parallel moves would:

- Allow asset retention and savings without asset stripping of new applicants;
- Reduce marginal effective tax rates to lower the welfare wall and promote transition, and
- Encourage savings and savings behaviour in support of improved self-reliance.

Recommendations for Recipients of Needs Tested Programs in Ontario:

- **Assets Limits:**
    - **It is recommended that Ontario increase asset limits to all needs tested recipients to $5,500 single, $9,000 couples**
    - **It is recommended that Ontario increase asset limits to applicants and recipients of these programs to retain savings and windfalls where acceptable plans are in place**

- **Marginal Effective Tax Rates**

  - **It is recommended that Ontario look to the TFSA as one way to lower METRs for needs tested program recipients by exempting monies paid into the TFSA, subject to provincial rules surrounding contributions and withdrawals.**

- **TFSAs**

  - **It is recommended that Ontario initially implement a $5,000 lifetime ceiling for TFSA contributions for persons in receipt of needs tested programs such as social assistance. More generous options could be considered in multiples of $5,000 which is the same amount at the yearly maximum TFSA contribution, up to a maximum of $25,000.**

  - **It is recommended that Ontario allow TFSA redemptions to be spent on items that would promote self-reliance for needs tested recipients. Existing protocols exist for this approach in current legislation.**

  - **It is recommended that TFSAs should be held in a separate account**

  - **It is recommended that Canada, the Provinces and Territories devise and implement a matching savings program for low income TFSA holders with rules that parallel the experience with the Canada Learning Bond (CLB) and Canada Education Savings Grants (CESG) and Individual Development Account (IDA) programs.**

  - **Failing that, it is recommended that Ontario devise and implement a made-in-Ontario program**

- **Other Opportunities**

  - **It is recommended that Ontario pursue other low cost poverty reduction opportunities in the areas of:**

    - **Improved governance of social assistance programs**
    - **Targeted 'bridge' programs to encourage attachment to the workforce**
    - **Leveraging of current asset building programs**

Introduction

> *"At the heart of the TD Bank's approach, there is an assumption: work is better than welfare. Welfare systems should make it easier for disadvantaged individuals to get back into the work force. In fact, after an analysis of provincial and federal tax systems and the carrots and sticks of Ontario's social assistance, the bank concludes that welfare recipients will eventually lose roughly $1,500 in disposable income if they join the province's workfare scheme, in community placement or training programs, in transition to a job. In other words, many families simply cannot afford the luxury of earned income.*
>
> *What should the system's overseers do? The report notes that Ontario welfare recipients still face marginal effective tax rates of well over 50 per cent: that is, for each $1 in additional income that they earn they lose at least 50 cents in welfare payments and tax credits. As well, workfare clients are allowed to accumulate only the equivalent of one to two months of their monthly cash allowance. Such assets help cushion families through temporary disruptions in income.*
>
> **The Globe and Mail on: Welfare to Work: Still the Road Less Travelled September 2005**

In recent years, a firm consensus has emerged from economists and others interested in policy matters that disincentives built into needs tested social programs compromise prospects of people transiting from dependence on government transfers to self-reliance. Particular focus has been placed on the extremely high marginal effective tax rates (METRs) applicable at low incomes and the stringent limit on assets permitted for income transfer recipients.

The argument is that these conditions work against individuals seeking earned income or building savings. Without earnings or savings, the likelihood of permanent dependency is increased. There have been some encouraging policy developments recently. In some provinces such as Ontario, the "clawback" rate against earned income under social assistance has been reduced, although it remains very high.

The federal government has introduced a Working Income Tax Benefit (WITB) which effectively increases the after-tax gain from modest amounts of earned income. And most recently, in the 2008 Budget, the federal government introduced Tax Free Savings Accounts (TFSAs). These accounts offer the potential for the first real incentive for lower-income people to save, particularly as the federal government exempted withdrawals from the income test for Guaranteed Income Supplement payments. However, the program will not be a success unless similar exemptions are provided from various provincial income-tested programs.

The purpose of this paper is to make recommendations for how Ontario should respond to a near-term opportunity to harmonize Ontario social assistance policies in anticipation of the roll out of federal Tax Free Savings Accounts (TFSAs) in 2009.
With the introduction of the TFSA, the provinces and territories will now have an earmarked registered tax account where low income Canadians could build savings to support themselves in times of economic disruption.

While policy action could be confined to the TFSA response, it is argued that asset tests must also be modified to provide the proper incentives toward self-reliance. While the focus is on Ontario, much of the analysis and the recommendations are applicable to other provinces as well.

In 2005, TD Economics produced a report entitled From Welfare to Work in Ontario: Still the Road Less Travelled[1], which illustrated how removal of a number of key disincentives could improve the effectiveness of the social assistance system in Ontario and move recipients into the workforce. The report was conducted to support TD Bank Financial Group's goal for Canadians of raising the country's standard of living and to assist the work of the Task Force on Modernizing Income Security for Working Age Adults (MISWAA).

The report also considered the impact of the Ontario government's 1995-2000 welfare reforms recognizing the large decline in welfare caseloads from 450,000 to 198,000 between 1995 and 2000. A decline in welfare caseloads is recognized as an important achievement – assuming that those exiting the system are moving on to greater self reliance.

However, since 2000, caseloads have stabilized at around 200,000 bringing into question whether Ontario Works (OW) has been able to effectively transition high risk groups, including working age adults with long attachment to the welfare system, to the labour force[2]. This conclusion is confirmed by the Frenette and Picot study that showed that 91% of welfare recipients were still dependent on social assistance one year later[3].

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[1] 'From Welfare to Work in Ontario: Still the Road Less Travelled' TD Economics Special Report, September 8 2005
[2] As of December 2007, only 14% of OW recipients had any attachment to the workforce
[3] Frenette, Marc and Garnet Picot (2003) "Life After Welfare: The economic well-being of welfare leavers in Canada in the 1990s", Statistics Canada, Ottawa

The TD Economics report advocated a number of changes to ease the transition from welfare to work, including:

- The introduction of **income tested supplements** for low-income Canadians[4]
- Reforms to make work pay by **reducing marginal effective tax rates**[5],
- An **increase in asset limits** to allow welfare recipients to accumulate savings, and
- Access by unemployed individuals to assistance with **skills development and training**[6].

In addition to the TD report, there have been a number of recent reports by economists, social policy experts and journalists that explore the dilemma presented by high METRs and work disincentives faced by working age adults on social assistance.

Much work has also been completed by government, think tanks, academics and community groups since the release of that report to better position Ontarians to weather slowdowns in the economy. At this critical juncture, however, there is still much to do to ensure all individuals have adequate opportunities to work and become self-reliant.

Accordingly, the paper also provides a broader scan of opportunities to address poverty in Ontario with a bias to low cost ideas grouped under the themes of:

- Improved governance,
- Targeted 'bridge' programs to increase attachment to the workforce, and
- Leveraging of existing asset-building programs.

[4] Introduction of a working income supplement, Completion of the National Child Benefit (NCB) initiative
[5] Marginal effective tax rate – the share of each additional dollar of earned income that is lost to higher taxes and forgone transfer payments and services
[6] In view of declining coverage of EI

Part 1: Overview of needs-tested programs, changes in government philosophy and recent reports calling for reform

> *"The key public policy challenge is to create incentives for low skilled single mothers that make it economically advantageous for them to find and keep employment. As we have shown in previous work, low income Canadians face very high effective marginal tax rates as they move up the income ladder, to around the $20,000 mark."*
>
> **from Prosperity, Inequality, and Poverty, the Institute for Competitiveness and Prosperity noted (p42)**

1.0 Ontario Needs-Tested Programs

Ontario has five needs-tested programs affecting working age adults in 2008:

- Ontario Works (OW) or 'welfare'
- Ontario Disability Support Plan (ODSP) – 'disability'
- Legal Aid
- Subsidized or public housing
- Child care subsidy

In essence, needs testing involves a test of assets (net worth), a test of income and a benefit schedule used to provide money, ancillary benefits, a rent schedule, or legal services. The purpose is generally to ensure that the applicant for a subsidy or benefit is a person in need as described in legislation. (See Appendix 5 for details)

1.1 Issues in Ontario's Needs tested Programs – a change in philosophy and approach

In Ontario, welfare programs under previous governments used a harsh battery of needs tests and clawback rules to ensure that only the neediest of Ontario's residents received assistance. This resulted in a system characterized by:

- Low and eroding levels of benefits
- Strenuous needs tests
- Community participation, through workfare, rather than paths to meaningful employment

- Large scale terminations of recipients with only 60% going to employment and related activities[7], and
- Lower caseloads as the first criteria for success.

The implementation of a poverty reduction strategy in Ontario, in combination with a renewed focus on welfare's role as a transitional income and employment training program, has led to a series of policy changes that support changes advocated by the experts listed above. The following chart details recent changes:

Recommendation	Ontario Government Response
Reduce role of needs tested programs	• Introduction of income supplements to reduce pressure on welfare – Support for the federal expansion of the Working Income Tax Benefit(WITB) – Introduction of the Ontario Child Benefit (OCB) program • Increased assistance to working poor – Provincial dental program for the working poor
Increase benefits & minimum wage	• Maintenance of programs roughly in line with prevailing inflation • Increase of minimum wages over a three year period
Reduce METRs	• Policy changes that decrease METRs – New provincial earnings rules to permit ODSP and Ontario Works recipient to keep half of their new earnings as they move off assistance – Harmonization of the federal WITB with provincial social assistance programs • Governance mechanisms to improve delivery of benefits – Expansion of 211 service delivery program
Increase asset threshold	• Exemption of RESP programs as a liquid asset under needs tested programs and extension to youth in state care.
Increase access to relevant skills development & training	• Increased onus on programs to deliver skills for self-reliance • Program exits based on true self-reliance • Piloting of asset building program • Implementation of the LMDA and LMPA

[7] MCSS sponsored exit survey showing 60% return to employment and related activity were conducted by Levy Coughlin and Ekos in the 1990s

Macro-level changes at the federal level have supported more comprehensive reform, including the introduction of the:

- Working Income Tax Benefit (WITB) in 2007,
- Registered Disability Savings Program (RDSP) in 2007, and
- Tax Free Savings Accounts (TFSA) in 2008.

Municipal governments continue to struggle to fund and administer comprehensive needs-based programs. In recognition of that difficulty, and to ensure adequate funding for disability benefits, the ODSP costs were uploaded to the Ontario government in 2007 and a major report recommending realignment in funding is due for release at the AMO Convention in August.

1.2 Recent Reports have called for complementary reforms

"Effective marginal tax rates are remarkably high at very low levels of income. In fact, due to the interaction of various transfer programs, the effective tax rates are well in excess of 100% for certain annual income levels between $10,000 and $20,000. At income levels around$30,000, the effective marginal tax rate is about 80%. For any low-income Canadians facing marginal tax rates like this, what is the incentive to work harder and earn more?"

Jeremy Leonard, Christopher Ragan and France St-Hilaire, co-editors of A Canadian Priorities Agenda: Policy Choices to Improve Economic and Social Well-Being, October 2007, Institute for Research on Public Policy

Recent reports have identified that federal support for programs like EI and child benefits for low income families has eroded (MISWAA) while some needs tested programs interact in ways that make self-reliance needlessly more difficult. Most reports advocate complementary reforms reflecting the relative consensus of experts that specific policy interventions will address the main problems with the current system.

The following is a brief summary:

Problem	Recommendation	Relevant Reports
Poverty among low income earners on and off welfare	**Reduce role of needs tested programs**	'New Social Architecture', CPRN, 2004 'Welfare to Work', TD Economics, 2005 'Time for a Fair Deal'. MISWAA, 2006 'Caledon Comment', Caledon Institute, 2005 'Who's Hungry', Daily Bread Food Bank, 2008 'Guaranteed Annual Income', IRPP, 2008
	Increase benefits &minimum wage	'Raise the Rates', OCAP, 2005 'Targeting the Most Vulnerable, CCPA, 2003 'Time for a Fair Deal', MISWAA, 2006 Health Providers Against Poverty, 2007 'A Poverty Reduction Strategy',2007, Campaign 2000,
High METRs that create disincentives to get off social assistance	**Reduce METRs**	'Welfare to Work', TD Economics, 2005 'Response to Matthews Report', ISAC, 2005 'Prosperity, Inequality and Poverty', ICP, 2006 Centre for Competitiveness, CD Howe, 'Policy Choices to Improve Economic and Social Well-Being', IRPP, 2007 'Time for a Fair Deal', MISWAA, 2006 'Why is it so tough to get ahead', Metcalf, 2007 Globe and Mail editorial, 2005 National Post editorial, 2007 (J. Kay) Toronto Star editorial, 2007 (E. Carey)
Low assets thresholds that discourage savings	**Increase asset limits**	'Welfare to Work', TD Economics, 2005 'Response to Matthews Report', ISAC, 2005 'Time for a Fair Deal', MISWAA, 2006 'Effect of Asset Tests on Savings', CBPP, 2006 'Wealth, Low Wage Work &Welfare', SEDI, 2008 'Towards a New Architecture for Canada's Adult Benefits', Caledon, 2004
Lack of skills and attachment to the workforce	**Increase access to relevant skills development and training**	'Towards a New Architecture for Canada's Adult Benefits', Caledon, 2004 'Welfare to Work', TD Economics, 2005 'Time for a Fair Deal', MISWAA, 2006 'A Poverty Reduction Strategy', Campaign 2000, 2007 'Prosperity, Inequality and Poverty', ICP, 2007

1.3 Recommended Reforms still not addressed

> *"You would think that taxpayers who foot the bill for welfare would want the government to do everything in its power to help people on welfare to break free from the system and become self-sufficient.*
>
> *Yet in many ways, the government puts a massive wall in the way of those trying to get off welfare. What that wall consists of is a tangle of rules and regulations that can leave welfare recipients worse off if they try to make the transition from welfare to work or if they try to better themselves by getting an education.*
>
> *For example, if social assistance recipients' work part-time to supplement their meagre incomes, welfare deducts 50 cents of every dollar they earn. If they live in public housing, their subsidized rent goes up 30 cents for every dollar earned. The remaining 20 cents is not even enough to cover work expenses such as public transit, child care, and clothing and payroll deductions like the Canada Pension Plan.*
>
> *When added up, these deductions and extra work-related costs can be more than 100 per cent of what a person earned."*
>
> **Elaine Carey: Toronto Star Editorial , December 8, 2007**

Outside of benefit improvements and changes that require federal implementation or cooperation, there are common outstanding areas of concern in all of these reports (and others) that have yet to be addressed. These are:

- Low asset limits (and income from asset policies) to allow program recipients to have a better chance to become self reliant,
- Continued challenges with higher METRs that act as a disincentive to making more income, and
- How the provincial governments will treat TFSA savings within the context of needs based programs.

The third issue relates to how governments will use the opportunity presented by TFSAs to resolve issues associated with high METRs and low asset limits in needs tested programs.

The three issues can be seen as coming together as a real resolution could be sought through:

- Raising asset limits to allow purchase of TFSAs while
- Exempting contributions to a TFSA from income charges that would normally apply (e.g. earnings at 50% of net) in order to lower marginal effective tax rates.

The result would be a savings account that could be used to support transition to self-reliance for those receiving assistance while providing a cushion to those currently not receiving assistance who are potential candidates for a return to receipt of assistance.

Part 2: The immediate opportunity of TFSAs

> *"It is inescapable… that high METRs will cause some share of the population to forego incremental work opportunities. The higher the rate, the more people within a given income range will respond to the marginal incentive. This is especially likely to be the case when the replacement income (available through public benefits) is competitive with the after-tax income available from work: It is socially preferable to make work pay. As things stand, Ontario has a marginal rate profile that sees the METR rise quickly at very low incomes and, more or less, stays there through to high incomes."*
>
> **Finn Poschmann for the Centre for Competitiveness, Director of Research for the C.D. Howe Institute,**

2.0 Overview of TFSAs and the opportunities they provide

The Tax Free Savings Account (TFSA) was introduced by the federal government as part of the 2008 Federal Budget. Starting in 2009, anyone aged 18 or over will be able to contribute up to $5000 per year to a TFSA. The contributions are not tax deductible but the balances can grow and be withdrawn tax-free.

The policy objective for the introduction of TFSAs is to encourage household savings by introducing a tax deferral on interest income. This tax deferral is very attractive to individuals with higher income, but similar to tax deferrals for RRSPs, is less of an incentive for lower income Canadians. In fact, unless policy changes are introduced, any TFSA savings could penalize individuals on social assistance by making them ineligible for asset-tested benefit programs.

Federally, the government has announced that neither withdrawals nor income earned and held in a TFSA will affect eligibility for their own (federal) income-tested benefits and credits. However, provincial and territorial governments, including Ontario, have not yet taken a position on how the TFSA will affect eligibility for provincial needs-tested benefits and credits but will need to do so by 2009[8].

Currently, jurisdictions differ in their treatment of registered assets (and income from assets). Most province and territories now exempt liquid assets of up to $50,000 in RESPs as assets and income[9] and several have higher asset limits:

- Quebec has a blanket exemption for RRSPs and RESPs up to $60,000 that includes a $5000 designated use individual savings account
- Alberta allows $5000 in RRSP savings per adult in addition to RESP and other savings that are registered to a child
- Ohio (1998), Virginia and Illinois (recent) have rescinded assets limits to allow recipients to save windfalls and accumulate assets; and
- South Carolina has higher than average asset exemption levels at $10,000 for non-vehicle savings

2.1 An opportunity to increase asset limits

With the right accommodative policy changes to provincial and territorial needs test programs; the TFSA can shift from being of little or no benefit to persons who depend on these programs to being an opportunity to encourage much needed savings.

Ontario has five needs-tested programs that use assets and income to determine eligibility for benefits. These five are good candidates for increased asset limits or asset exemptions: Ontario Works (OW), Ontario Disability Support Plan (ODSP), subsidized housing and child care subsidies. The fifth, Legal Aid, makes it a policy to consider all assets and would likely not be considered for the exemption of TFSAs[10].

[8] Toronto Star, February 28, 2008 Budget: 2008 coverage.
[9] Up to $50,000 per family. Note that the provincial and territorial exemptions were not made until the government matching programs (CLB and CESG) were put into place.
[10] Legal Aid is supported by a repayment plan

2.2 An opportunity to reduce marginal effective tax rates by exempting contributions

In addition to the opportunity to raise asset limits to take advantage of the registered TFSA savings instrument, investing in TFSAs could be an additional tool for the government to reduce METRs to encourage transition back to the workforce.

It is widely recognized, by experts on both the right and left, that high METRs are an undesirable outcome of the reduction rates on needs based programs. Unfortunately, it is difficult to reduce METRs in isolation and without the unintended consequences of higher program costs incurred on behalf of recipients who are least in need of the program.

In view of possible increases to asset levels to accommodate investments in TFSAs, there is a parallel opportunity to reduce METRs by exempting TFSA related income from needs testing.

Two categories of exemptions would need to be considered: TFSA contributions and TFSA withdrawals/earned interest.

- Contributions: The exemption of TFSA contributions from income testing increases the incentive for individuals on social assistance to deposit additional earned income or small windfalls into savings.
    - Research shows that even modest savings stabilize lives and decrease economic disruption[11] and in fact this program could be complementary to the Ontario asset-building pilot project that was announced in the 2008 Budget.
    - An exemption on TFSA contributions provides a welcome opportunity to promote two possibly contradictory policy objectives at the same time by promoting self-reliance of social assistance recipients while providing them with the transitional support that they need to re-attach to the workforce.
- Withdrawals and earned interest: The federal government has indicated that it will exempt withdrawals and earned interest from income tests on federal needs based program. Provinces and territories will therefore be forced to follow suit in some way.

[11] Michael Sherraden, Deborah Page-Adams, Asset-Based Alternatives In Social Policy Washington University, St. Louis

2.3 Design principles

The best possible of use of TFSA relates to minimizing usage of government needs tested programs and promoting labour market participation and self-reliance through:

- Increasing incentives to earn and save income or windfalls,
- Stabilizing lives and decreasing economic disruption by allowing low income individuals to accumulate some savings, and
- Promoting equitable access to the benefits of tax free savings programs.

Part 3: The Problems in detail

3.0 Problem #1: Unacceptably low asset limits on needs tested programs

Low asset limits in Ontario's needs-tested programs

> *"…suggests insufficient attention to enhancing opportunities to save – surely an important corollary to promoting incentives to work. In the financial community, we're always urging Canadians to save more, because we know how important even a small pool of savings can be in cushioning families through a financial shock."*
>
> –TD Economics

The Dilemma

"Social assistance asset limits should be raised to $5,500 for a single person and $9,000[12] *for a family, along with other improvements in asset treatment.*
There are some other improvements that should be made along with the increase in asset limits, including:

- *A blanket asset exemption should be set on Registered Plans for social assistance recipients, with the level to increase with age to $60,000 maximum. This is a modest increase over and above the new $50,000 lifetime exemption already in place for Registered Education Savings Plans.*

- *Short-term recipients of social assistance waiting to go on EI should be excluded from asset tests. These recipients cost the system no money because they have to repay their social assistance benefits out of their initial EI payments. It makes no sense to needlessly strip them of their assets.*

Time for a Fair Deal, Report of the Task Force on Modernizing Income Security for Working Age Adults - 2006

The purpose of exemptions on assets has been in part to ensure that people who are in valid need also have the resources to move towards self-sufficiency. Program integrity is therefore defined by work incentives and supports to employment. Work incentives have been put in place through new earnings exemptions but work requirements continue.

Liquid assets are needed to make the transition to self reliance but assets limits were lowered in the mid 1990's in order to support the principle that only the neediest should have access to social assistance in the first place.

[12] This recommendation is taken from Time for a Fair Deal, report of the Task Force on Modernizing Income Security (MISWAA).

However, when a recipient leaves social assistance, they require liquid assets to meet the costs of work expenses, to meet contingencies, and to pay the costs of prescription drugs and dental care, moving expenses and other costs.

Stringent rules prevent recipients from saving sufficient amounts to sustain them when they move off welfare while unplanned windfalls must be liquidated or eligibility is jeopardized. Unplanned windfalls cannot be kept for a later planned attempt to achieve self-reliance.

What are the concerns?

> *"Basically, welfare policy is caught in a trap of its own making that strips applicants of the same productive assets they will need to leave and stay off welfare later on."*
>
> -Wealth, Low-Wage Work and Welfare: The Unintended Costs of Provincial Needs tests (SEDI) - 2008[13]

The problem in some quarters is that some welfare recipients with assets would not be destitute while receiving welfare. The fear is that some members of the public may perceive welfare as an 'easier' lifestyle or a lifestyle choice to remain on welfare.

A second fear is that welfare caseloads could grow as persons now kept off assistance would be granted eligibility.

Are the concerns valid?

If the purpose of welfare is to support transition, destitution while on welfare is not essential.

An easier lifestyle with higher assets is not supported – work requirements and community participation are still in place.

What is the evidence?

Nearby jurisdictions with high assets exemptions or no limits have not experienced caseload rise.

- Alberta and Quebec have implemented exemptions while experiencing caseload declines or little change;
- Ohio (1998) , Virginia, and Illinois (recent) have rescinded assets limits- they allow recipients to save and/or keep windfalls;

[13] Social Enterprise Development and Innovations, Wealth, Low-Wage Work and Welfare: The Unintended Costs of Provincial Needs Tests, April 2008, page 1

- All recipients are still required to take work and meet workfare requirements or lose eligibility;
- Caseload increases in Ohio and Virginia are lower than most states;
- In 2005, seven states were placed on a federal watch list due to growing caseloads;
- Ohio experienced caseload declines after it rescinded its asset limits; and
- South Carolina has higher than average asset exemption levels at $10,000 for non-vehicle savings

Policy Options

- **Increase asset limits to all recipients to $5,500 single, $9,000 couples (MISWAA)**

- **Increase asset limits to recipients with acceptable plan in place – allow savings and windfall retention**

Need tested programs have recognized for the last sixty years that a reasonable liquid asset exemption is a necessary element of these programs. A reasonable exemption ensures that people receiving a minor windfall do not lose all their benefits while promoting savings behaviour and the capacity to meet contingencies and retain a small amount to meet the inevitable costs of taking on a job and moving to self reliance. For decades, social assistance programs allowed families receiving benefits to retain the equivalent of a few thousand dollars. For example, Ontario adopted the Canada Assistance Plan (CAP) maximum limits that called for assets limits up to $2,500 and $5,000 for a single person or family with $500 added for each child (exception: the first child in a one adult family received $2,500 limit). [14]

Adjusted for inflation since 1981, the $2,500 figure is now **$5,874** for a single person.

In 1948, Ontario brought in the first formal dollar denominated asset limits (in regulations) for lone parents at $1,000 (see Appendix 4). Using this benchmark as a base, an inflation adjusted asset limit of $9,869 for 2008 would be now in place had the $1,000 been indexed over the last 60 years. Again, for the purposes of discussion, the $9,000 MISWAA benchmark has been retained in this paper.

The current asset limit of $1,607 for a lone parent in receipt of social assistance is many orders of magnitude lower than what it would have been had the assets limit simply grown with inflation since its inception. At this low level, a small windfall can result in benefit disentitlement, leave very little for normal day to day contingencies while leaving little or nothing to pursue a job.

[14] The sole exception was the single employable person whose assets were restricted to 3 months assistance without a valid medical exemption. Less than half of Ontario Works singles would now have an employable designation using previous criteria.

Problem # 2: Unacceptably High Marginal Effective Tax Rates

> *"When a person receiving social assistance starts to work, each of the benefit programs they participate in begins to take money back. One program might take 50¢, another 30¢ and another 25¢ on each new dollar earned. Then, there are payroll deductions in the form of EI and CPP premiums. Combined with the welfare and subsidy reductions, they can drive the total effective "tax" on a working poor person to more than 100% of their earned dollar.*
>
> *No single government department is accountable for this morass of unintended social policy consequences.*
>
> *Economists call these reductions, taxes and premiums on the next dollar of earned income a person's "Marginal Effective Tax Rate," or METR. METRs represent the combined impact of imposing payroll taxes, reducing benefits and phasing out social security income, based on the money people make from outside sources, such as a job.*
>
> *Experts often note that these rates are highest among poor people who participate in more than one social service or income-tested program, while trying to improve their circumstances by earning a modest income. In fact, poor working people return relatively more money to the state than more affluent workers, because they have to give up their benefits to work."*
>
> **John Stapleton, op-ed, January 4, 2008; National Post**

Over the last two years, many economists, social policy experts, and journalists have written about the dilemma presented by high METRs and work disincentives faced by low and moderate income earners in Canada.

The issue of METRs is one of the few economic and policy issues where experts on the left and right are in almost complete agreement on the framing of a problem and the solutions to deal with it. The problem is that governments do little or nothing about it. The reason they do not resolve the issue is the somewhat intractable dilemma that lowering of tax or reduction rates extends eligibility for programs. For example,

- A 100% tax rate on a $10,000 benefit results in eligibility for some part of the benefit for up to $10,000 in outside income.

- A 50% tax rate on a $10,000 benefit results in eligibility for some part of the benefit for up to $20,000 in outside income; and
- A 25% tax rate on a $10,000 benefit results in eligibility for some part of the benefit for up to $40,000 in outside income.

In other words, lowering METRs has the unintended (but well-known) consequences of incurring much higher costs on behalf of persons who are demonstrably not in need of the programs. Although reduced clawbacks could be implemented for persons at lower levels of income (between $10,000 and $20,000), clawbacks would be raised automatically for those at higher levels. However, the argument can be made that it is even more damaging to have higher clawbacks at higher levels of income as persons at these higher levels have greater prospects of being in the work force.

Typically governments and experts have offered an array of partial solutions to this dilemma in the form of:

- Marginally lower taxation rates and higher tax thresholds
- Temporary suspensions of onerous effective tax rates for a desired social or economic purpose
- Extension of associated benefits for a time period after principal benefits are lost to ineligibility
- The implementation of rules that allow escape from government benefits that are not similarly extended to applicants (common in provincial welfare programs); and
- A variety of earnings exemptions to ease the effect of high METRs on new entrants to the labour force.

Each of these solutions deals with a small part of the overall dilemma but do not solve it. They also cause other problems in design, fairness and equity which are a perennial concern to policymakers.

Policy Options

Dilemma

"Poverty eradication is often cast as a "left-wing" issue. But when it comes to getting people off welfare and into jobs, there should be a left-right united front. The left is appalled by income inequality and the plight of the impoverished. The right hates welfare dependence, and seeks to re-instill society with a sound work ethic. Both camps have a strong interest in dismantling a perverse system of government entitlements that discourages people from climbing the first few rungs of the jobs ladder.

Politicians must get serious about lowering the effective tax rate on the working poor. Yes, this would mean letting many poor people "have their cake and eat it, too" -- i.e., permitting them to earn an income even as they keep most of their public benefits according to a gradually tapering scale. But in the long run, it would benefit everyone by increasing the number of adults who become productive members of our society."

Jonathan Kay, December 8, 2007 editorial, National Post

In many ways, METRs are intractable as all income tested programs must be phased out or else they become generally available but unacceptably expensive programs.

TD Economics cautioned against social assistance or welfare solutions to METR issues:

> "Welfare can and should be reformed to improve work incentives for social assistance recipients, but it is not a substitute for a well-defined set of social policies, and when it's called upon to play that role, no one is well served.
>
> It's essential to have realistic expectations about what welfare can and cannot be expected to do. In recent years, welfare systems have been pressed into service to paper over too many cracks in the rest of the income security system – a prime example being poverty among working adults."[15]

[15] Welfare to Work, Still the Road Less Travelled

In the Road Still less Travelled, it is noted again that high marginal effective tax rates cannot be resolved entirely within the context of needs tested programs as other programs like the Working Income Tax Benefit (WITB), the Ontario Child Benefit, and possible implementation of further refundable credits will have a large role in reducing marginal effective tax rates.

In this regard, Ontario has already moved to:

- Harmonize the federal WITB with social assistance programs[16];
- Call for increases to the WITB by the federal government in Budget 2008; and
- Implement the OCB as a full program in 2008.

Ontario has also expressed an interest in the particular METR solutions in 'Why is it so tough to get ahead?' as they relate to young low income adults living in public housing and others with multiple barriers to self-sufficiency.

It will be important for officials and experts to look carefully at:

- the array of income tested programs that government makes available and particularly how these programs interact one with the other
- ways of smoothing out areas of interaction where abnormally high recovery rates are present (sometimes known as 'spikes')
- 'time outs' or exemptions from recovery of program benefits for young adults attempting to break the cycle of poverty
- employing other programs and supports in a way that help program recipients over rough spots on the road to self-reliance; and
- Reducing taxation at the low end in the form of either reduced confiscation (e.g. through reduced EI, CPP, and Taxation or through refundable and non-refundable credits.

It is recommended that Ontario look to the TFSA as one way to lower METRs by exempting monies paid into the TFSA subject to provincial rules surrounding contributions and withdrawals.

By allowing minor windfalls (now recovered at 100%) and earnings (now recovered at 50%) to be deposited on a recovery free basis into a TFSA to be used at a later date for beneficial purposes, the province would allow needs tested recipients to participate in the TFSA while building a nest egg that could be put beside other funding, programs and initiatives to increase the odds that an attempt to become self-reliant is ultimately successful.
(See options below)

[16] Ontario's Budget 2007 indicated that social assistance programs would not deduct WITB benefits while Budget 2008 called on the federal government to increase the WITB. Presumably any increment to the WITB would be similarly exempted.

Problem # 3:
How to incorporate the new federal Tax Free Savings Accounts (TFSAs) in Ontario Needs Tested Programs

Throughout Canada's needs tested programs prior to 2003, all registered instruments (RPP, RESP, and RRSPs were considered to be liquid assets and a possible source of income to social assistance recipients. As such, persons holding registered instruments in excess of prevailing assets limits were considered ineligible for social assistance and other need tested programs.

In 2004 with the advent of the Canada Learning Bond and Canada Education Savings Grants, most provinces and territories exempted RESPs as assets and income allowing social assistance recipients with children to keep up to $50,000 while remaining as recipients of social assistance or other needs tested programs. (See Appendix 3)

RRSPs however (except in the Province of Quebec) are treated as an available asset for liquidation and income in the hands of recipients (making them generally ineligible to receive assistance).

Given the difference in treatment of registered instruments, a new dilemma is unfolding with the TFSA as there is no intention at this time that matching payments by provinces or the federal government will be made available. It is worthy of note that the country wide exemption of RESPs in needs tested programs in all provinces did not take place until the matching programs (CLB and CESG) were put in place. That is, provinces and territories were reluctant to impose restrictions that disallowed social assistance recipients from receiving matching payments clearly aimed at breaking the cycle of poverty among low income children.

The Dilemma

TFSA announced with no plan for Provincial programs

On February 26, 2008, Finance Minister Flaherty announced a new Tax Free Savings Account (TFSA) as the Centerpiece of Budget 2008. He did not issue a statement on the issue of how Provinces and Territories should react with respect to complementary changes to social services programs such as welfare benefits. Provinces (including Ontario) have publicly noted that they require time to study the TFSA as it relates to Provincial programs[17].

[17] Toronto Star, February 28, 2008, Budget 2008 coverage.

TFSA savings will result in ineligibility for Provincial programs

Under current rules, recipients of provincial and territorial needs tested programs would not remain eligible for these programs if they registered for the TFSA. Under assets retention rules, the TFSA would lead to ineligibility for benefits. However, it is worth noting that the federal government exempts TFSAs from the income test for the federal guaranteed income supplement (GIS) for low income senior citizens. For needs tested programs in provinces however, TFSA savings would also be deducted from benefit entitlements where asset limits were not breached.

The Finance Minister claimed in Budget 2008 that "Canadians from all income levels and all walks of life can benefit" from the TFSA. [18] Although it remains the case that they may benefit from the TFSA in isolation, (as things stand now) ineligibility for basic income support would nullify any benefits of the TFSA.

Provincial Changes required to Accommodate the TFSA

Without accommodative changes to provincial and territorial needs tested programs like social assistance, the TFSA will be of little or no benefit to persons who depend on these programs. The provincial programs in question include:

- Welfare: In Ontario[19], the program is called Ontario Works (OW):
    - An asset limit of $560 applies; and
    - Income rules apply to available income above $560 (other amounts apply to other family configurations).
    - Ontario Works recipients may have RESPs without negative consequences on their benefits.

- Disability Benefits: In Ontario , the Ontario Disability Support Plan (ODSP):
    - A $100,000 asset rule applies; and
    - A $5,000 on gifts applies.
    - Income paid out of a TFSA account would presumably be allowable if paid for a disability item.
    - The federal RDSP may turn out to be a more preferable registered savings instrument.

[18] Tax Free Savings Account, Government of Canada, Budget 2008
[19] Note that in Quebec, a blanket exemption of $60,000 is allowed for Registered tax instruments including RRSPs and RESPs

- Legal Aid: All assets are considered available for Legal Aid. This would include a TFSA.

- Rent Geared to Income (RGI) Housing:
    - assets rules may apply that could disqualify a housing applicant
    - income available from a TFSA would be available for rental charges @ 30%
- OSAP: Available Income rules apply – it is unclear how a TFSA would affect OSAP

- Childcare: Available Income rules apply and the TFSA may well be seen as income available for childcare under varying municipal tests.

Failure to Change Provincial Programs to accommodate the TFSA a missed opportunity

Failure to implement accommodative change would stand as a major missed opportunity as one of the outstanding benefits of the new Tax Free Savings Plan is that it provides, for the first time, a credible savings and financial planning vehicle for Canada's lowest income residents. This claim is not possible for either RESPs (due to their design and limited usage among low income families) or RRSPs (due to their design)[20].

In essence, although registered savings vehicles aimed at retirement and higher education dominate Canada's tax-assisted savings landscape, the TFSA truly opens up the playing field to working age adults to save to augment opportunities within their own working lifetime. While the federal TFSA guide points to savings for recreational pursuits, the real value of the TFSA for low income adults lies in its capacity to support them to save for real opportunities while 'smoothing out' periods of income loss that could otherwise result in another spell on public assistance.

In the TFSA, provinces and territories will now have an earmarked registered tax account where low income Canadians in receipt of needs tested benefits could deposit an unexpected minor windfall or any regular savings for later use.

It is clear that:

- low income Canadians in general have modest savings (Statistics Canada reported that 150,000 Canadians with incomes below $10,000 a year have saved $160M in RRSP accounts)[21]: and

[20] See Appendix 1: RRSPs – No the the Best Choice for Poor Adults

21 See Canada's Retirement Income Programs: A Statistical Overview (1990-2000); Statistics Canada, Cat. # 74-507-XIE; p.90, where it is noted that 152,000 Canadian tax filers with less than $10,000 in yearly income have contributed $160,000,000 to RRSPs.

- it makes little sense to save money while receiving social assistance (as having anything but very modest savings results in ineligibility)

However, there are a number of potential public policy advantages of exempting TFSA funds up to a set ceiling. For example, in respect of social assistance:

- Applicants who apply for emergency stop-gap benefits may be in the position of retaining a portion of their assets in a TFSA to place towards long term self-reliance

- Recipients would have a place to 'park' a pre-determined amount of TFSA funds coming from savings or a minor windfall to assist in their future self-reliance (e.g. to pay for a training course)

- Recipients would not be induced into a spending spree[22] when receiving minor windfalls in order to retain their welfare benefits if they had TFSA accounts where they could park minor windfalls until appropriate opportunities for planned expenditures arose.

Policy Options

The best possible use of the TFSA relates to minimizing usage of government needs tested programs and promoting labour market participation and self reliance through:

- Increasing incentives,
- Stabilizing lives,
- Decreasing economic disruption,
- Decreasing marginal effective tax rates through lower taxation on one form of income (savings); and

22 See: John Stapleton, From Pleasure to Terror, Why unexpected money is a problem for the poor, January 2004, www.openpolicyontario.com "It is hard to imagine a policy and a set of outcomes more at odds with public sentiment than the welfare-induced spending spree. The spending spree that is induced by welfare rules is an example of a negative outcome that has no support in any quarter."

- Promoting inclusion.

Over the course of the next year, provincial and territorial governments face five sets of **decisions** relating to the Tax Free Savings Account. These five sets of decisions are:

1. Decide whether to set an upper limit or ceiling on the amount of TFSA savings they will exempt under asset and income rules under needs tested programs
2. Decide to whom the ceiling will apply (applicants and recipients or current recipients only).
3. Decide the circumstances under which they will allow withdrawals from TFSAs without affecting eligibility for needs tested programs
4. Decide how to implement a TFSA policy quickly and easily; and
5. Decide the circumstances under which they may choose to augment or match the savings of program recipients.

Decision #1: What is a reasonable ceiling for TFSA asset limits?

The TFSA is a generous program that allows a nominal contribution of $235,000 between the ages of 18 and 65 – or nearly $1.0 million at a relatively conservative compound annual growth rate of 5% per year[23].

It is clear that governments will not be looking to exempt TFSAs in total under their programs. It may be the case, however, that they would be willing to exempt smaller amounts consistent with experience in other jurisdictions.

A survey of other jurisdictions suggests that $5000 is a reasonable introductory lifetime ceiling for applicants and recipients.

[23] Assumes $5000 is deposited at the beginning of each year from 18 to 64. At 5% growth per year, the balance grows to $935,000 by the end of the individual's 64th year.

Alberta

In Alberta, the government made the decision to exempt up to $5000 in RRSP assets per adult (applicant or recipient) as part of its Alberta Works social assistance program. Its rationale, as stated it the Alberta Works policy manual, is:

Certain assets are exempt to ensure:

- Applicants/recipients who are eligible for on-going benefits are not placed in total poverty by being deprived of everything valuable that they own
- People have some resources that they can use to purchase items that are not available through income support
- People are encouraged to save for their and their children's futures and manage their funds.

Despite the introduction of this exemption in 2004, Alberta caseloads have held constant at 30,000, down considerably from a high of 94,000 in March 1993[24].

Quebec

In Quebec, an overall asset exemption of $5000 (not $5000 per year) for a designated use[25] individual development account was introduced in January 2006. The asset exemption applies to both applicants and recipients of benefits and is included in the social assistance program's $60,000 global asset exemption.

Similar to the experience in Alberta, Quebec's social assistance caseload, as measured by the number of adult recipients, has remained stable at 250,000[26].

US States

Nearby jurisdictions with high asset exemptions or no limits have also not experienced caseload increases.

- Ohio, Virginia and Illinois (recent) have rescinded asset limits yet caseload limits are lower than most states.
- South Carolina's asset limit allows for $10,000 in non-vehicle savings (one of the highest in the US) and yet welfare participation has historically been, and continues to be, low[27]

[24] March 1993 case load: 94,087. 2004 case load: 30,000. 2005 case load: 28,500

[25] Savings must be used either for the purchase of: training (for the adult or their children), work tools or equipment, creation of self-employment, a home or home repairs, or a motor vehicle.

[26] March 2003 case load: 266,851. 2007 case load: 240,812.

Recent Reports

In May 2006, the Task Force on Modernizing Income Security for Working Age Adults (MISWAA) recommended that social assistance asset limits be increased to $5,500 for individuals and $9,000 for families.

Given the experience in other jurisdictions, this seems to be a reasonable threshold for a TFSA exemption. For simplicity (since TFSAs will be individual accounts), a one time $5000 per adult exemption would achieve the policy benefits of a more effective, equitable social assistance system while balancing government exposure to contingency costs or higher caseloads.

In 2004, William Robson and Finn Poschmann canvassed this issue in respect to TPSP's[28] in Savings Grace[29] where they speak to the first decision point:

> "An essential feature of provincial programs, however, and one that a simple federal TPSP will effectively promote, is that they must protect the savings of lower-income Canadians from the means-tested benefits that can otherwise render saving pointless."

One policy option is to implement a lifetime $5,000 ceiling on contributions. More generous options could be considered in multiples of $5,000.

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[27] Curtis and Simon, 'Welfare Reform in South Carolina, 1999

[28] Tax Prepaid Savings Plans is the name for a suggested plan that had now been announced in the form of the TFSA. The idea was originally constructed by Poschmann and Kesselmann in 2001 available at www.cdhowe.org

[29] Finn Poschmann and William B.P. Robson, Savings Grace: A Framework to Promote Financial Independence for Low-Income Canadians, 2004 also available at www.cdhowe.org

Decision #2: To whom should a TFSA ceiling apply?

Provinces and territories have often insisted that new applicants for program like welfare almost completely deplete their assets in order to qualify for public assistance.

Although consistent with the principle of need, policy makers have often thought it to be short-sighted and counterproductive to 'asset strip'[30] new program applicants who could reasonably use a small nest egg to help them leave welfare programs earlier once they received supports required to make a new attempt at self-reliance[31].

Recognizing the dilemma that the introduction of higher asset limits will make needs tested program more attractive, there is no evidence that an asset ceiling of $5000 for either applicants or recipients has resulted in meaningful increases in welfare caseloads elsewhere.

Ontario should extend the TFSA exemptions to all applicants and recipients.

Decision #3: For what purposes can withdrawals from TFSA be made?

The most important consideration may centre on concerns from Ontarians and Canadians that funds placed in the TFSA be spent wisely by low income Canadians.

Unlike the open policy for the federally announced TFSA program, under current law, recipients of needs tested benefits remain eligible for social assistance programs only when they spend savings or windfalls on items or services that relate to their health or welfare, broadly interpreted.

In other instances, including the introduction of individual development accounts in Quebec, spending must relate to goods or services that lead (generally) to employment.

It is likely that these regulations will be retained as a condition for income and asset exemption under needs based programs.

[30] From Pleasure to Terror

[31] See: proposal for a Registered Development Savings Plan, St. Christopher House 2003 available at www.stchrishouse.org

In Savings Grace, Robson and Poschmann noted:

> "Some community-based programs have focused on saving for a car purchase to help beneficiaries leave welfare for paid work when such work requires car travel. Starting a business is also an attractive objective; in any case, self-sufficiency must remain the overarching goal."

One option would be to allow TFSA redemptions to be spent on items that would promote self-reliance. Protocols exist for this approach in current legislation.

Decision #4: How can TFSA exemptions be implemented simply and quickly?

Changing asset and income limits in each of the programs, will be onerous. As well, experience suggests that even exempted windfalls, when not sequestered into separate accounts, become cumbersome to manage for both social service employees and recipients.

To avoid the high cost of implementation, it is important that legislation focus on the separate exemption of TFSA assets, contributions, withdrawals and earned interest.

TFSAs should be held in a separate account

Decision # 5: Will others be able to help low income adults with their TFSA accounts?

Poschmann and Robson noted the following reasons that governments may wish to provide funds or design programs to help low income Canadians:

> "Provinces could design programs that reflect their distinctive wants and needs and, in particular, mesh with their other social-assistance programs. Provinces that wanted to fund IDAs[32], say, by matching savings in registered plans, might make the exemption from provincial income and asset tests conditional on certain uses of the money, such as for education.
>
> Our view of the possibilities is that, despite the pitfalls in such provisions, trying different models in different provinces holds promise for Canada as a whole. Adapting pilot IDAs for broader populations is not easy. It will help if each province offers complementary programs with a scale, design, and price tag that match the tastes and budgets of its voters.

[32] *Individual Development Accounts – see www.sedi.org for an explanation of how IDA's work.*

American literature on IDAs shows that low income adults gain considerably more traction in money management when they have an account to manage. Modest accounts lead to a longer term perspective, a propensity to plan and a less passive outlook towards achievement and self-reliance. [33] In this regard, Charities and foundations may decide to provide or match savings in a low income person's TFSA.

One policy option is for Canada and Provinces and Territories to devise and implement a matching savings program for low income TFSA holders with rules that parallel the experience with the CLB and CESG and IDA programs.

A second option is for Ontario to devise and implement a made-in-Ontario program

[33] See: Michael Sherraden, Deborah Page-Adams, Asset-Based Alternatives In Social Policy, Washington University, St. Louis

Annex

Glossary of Terms

Tax Free Savings Account (TFSA) – encourages household savings and moves tax burdens from income to consumption

Social assistance – provides income and employment assistance for people who are in temporary financial need

Asset testing – takes into account an applicant's liquid assets when determining eligibility for a benefit or credit

Income testing – takes into account an applicant's income when determining eligibility for a benefit or credit

Needs testing – takes into account an applicant's assets, income and recurring needs when determining eligibility for a benefit or credit

Marginal effective tax rate – the share of each additional dollar of earned income that is lost to higher taxes and forgone transfer payments and services

Appendix 1: RRSPs – Not the Best Choice for Poor Adults

In February of each year, there is a considerable amount of advertising and media attention given to RRSP deadlines, noting both the urgency and importance of contributing to a plan before the deadline at the end of each February. Although this attention is valuable for middle and upper-income Canadians, many low-income people make the very inappropriate decision to contribute to an RRSP.[34]

The tax advantages of RRSPs are based in part on the assumption that working-age people with higher income in their years of earnings will have lower incomes later on as retirees. RRSPs also offer a postponement of tax liability on contributions, which are deductible when made and only taxable on later withdrawal. Further, the tax advantage gained from deducting a contribution now may well result in taxation at a lesser rate later on in life.

Poor working-age Canadians generally face low minimum wages and welfare rates that have fallen in the face of inflation while poor seniors receive higher benefits through indexed Old Age Security (OAS), Canada Pension (CPP), and the Guaranteed Income Supplement (GIS). From a tax and benefit perspective, Canada's low-income seniors are, on the whole, better off than working-age low-income persons.

However, when low-income Canadians redeem their RRSPs at the normal retirement age of 65, they inevitably pay tax at a high rate (combined income tax and Guaranteed Income Supplement benefit clawbacks). Old Age Security and the Canada Pension Plan are fully taxable and recipients of the Guaranteed Income Supplement face an additional 50% clawback on any additional income, such as income from RRSP redemption.

Accordingly, RRSPs may not be financially advantageous to the poor. Low-income and low wealth Canadians face a situation where the RRSP, as the only tax-deferred way they can save for later years, provides them with a contribution-based deduction that is of little or no value since it is based on largely non-taxed sources.

It may be argued that people simply need to educate themselves as to their own financial situation and set out to obtain appropriate financial advice as to their best financial planning and taxation options. However, the tax system is sufficiently complex that most Canadians have difficulty predicting their tax liability. For low-income people, this issue is made worse by a massive imbalance in the quantity and quality of financial planning and tax advice available in

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[34] See Canada's Retirement Income Programs: A Statistical Overview (1990-2000); Statistics Canada, Cat. # 74-507-XIE; p.90, where it is noted that 152,000 Canadian tax filers with less than $10,000 in yearly income have contributed $160,000,000 to RRSPs.

the marketplace. Financial advice from mainstream financial services is often unhelpful as there is no incentive to really understand the financial dynamics of low- income people as they are generally perceived as an unprofitable market segment.

Approximately 30% of Canadian tax filers are exempt from paying income tax. Therefore, even though they may have RRSP 'room' to make a contribution[35], any deduction they receive through a contribution to an RRSP has no positive value in the present year. Having contributed the money to an RRSP, they receive refunds made up of various federal and provincial tax credits that they understand as including the value of their tax deduction for their RRSP contribution.

For example, a single parent who has no tax liability without an RRSP contribution will receive no benefit from the deduction. However, should she cash out her RRSP in a reasonable manner starting at age 65, her Old Age Security (OAS) is fully taxable while her Guaranteed Income Supplement (GIS) is reduced by 50% of the redeemed portion of the RRSP. When the tax on the RRSP itself is taken into account along with taxable Canada Pension Plan (CPP) and OAS contributions, she stands to lose much of the money she has in the plan.

In contrast, the income sources many single parents now have in the form of social assistance, the National Child Benefit, child support, GST credits, property and sales tax credits, are all non-taxable. These sources of income are also much lower than the benefits that seniors receive. It is also important to note that seniors do not have the deductions or credits available to younger adults with children living at home, often resulting in even greater tax exposure. Finally, the earnings of low-income persons are limited and although taxable, they are often insufficient to attract positive taxation at year-end.

Turning to the issue of credit, RRSPs are one of the few investment vehicles where it makes sense for the majority of tax filers with income tax liability to take out loans to realize tax deductions. The resulting refunds are then used to pay down the RRSP loans and registrants realize a short-term positive return.

For low-income individuals who receive no tax advantage from the deduction, there is no logical reason for taking out the loan. As there is no refund, there is no further short- term money available to reduce the principal on the loan itself, meaning that low-income people will likely pay more in interest than their better-off counterparts.

[35] A minimum wage worker making $10,000 in a year would gain $1,800 in RRSP 'room'.

What is worse is that low-income people, who cannot obtain retail credit in most instances, are able to take out RRSP loans since the RRSP itself remains with the lending institution. This is like getting a car loan and leaving the vehicle on the lot. Accordingly, an RRSP, which is a bad idea for the poor in the first place, is unfortunately more available than it otherwise would be.[36]

RRSPs: A Tally of Advantages and Disadvantages

Feature	Advantage for Well-off	Disadvantage for Poor
Tax deduction	Increases with income	Has little (or no) value
RRSP 'deadline'	Often relevant	Irrelevant
Investment advisors	Plentiful; most knowledgeable	Few; most ill-informed
Publicity	Relevant, timely	Irrelevant, often wrong
Prevalence of taxable income (amount & form)	Greater during working years	Greater during retirement years
Tax liability at retirement	Lower than pre-retirement years	Higher than pre-retirement years
Seniors' benefits clawbacks	OAS at high thresholds, low tax-back	GIS at low threshold, high (50%) tax-back
RRSP loans	Early payback through refund; well-off pay less	No refund, poor pay more for loan

[36] Even though deferral of a deduction to a later year when income may be higher would benefit a contributor with no tax liability, taking out a loan to obtain a fixed-income instrument is likely still not beneficial. In addition, most loans are specifically geared to contributing now in order to immediately access a refund.

Appendix 2

Option Matrix for Provincial/Municipal Treatment of Tax Free Savings Accounts

Option Matrix for Provincial/Municipal Treatment of Tax Free Savings Accounts (TFSA) under Ontario Government Benefit Programs			
Option Set	**Levers**	**Treatment as an Asset**	**Treatment as Income**
Option Set One: Ceilings on Allowable Amounts in Plans	TFSA Ceiling Exemption	e.g. $10,000. (liquidate excess)	e.g. $10,000 (liquidate excess)
	Pooled Registered Instrument Ceiling	RESP + $10,000?	RESP + $10,000
Option Set Two: Withdrawal Rules	Withdrawal Rules	1. Anything 2. Health and Welfare 3. Employment - betterment	1. Anything 2. Health and Welfare 3. Employment - betterment
Option Set Three: **To whom does it apply?**	Applicants and Recipients	Both	Both
Option Set Four: **Simplicity**	Sequester TFSA	Set simple blanket rules on benefit to family	Set simple blanket rules on benefit to family
Option Set Five: **Proactive Measures**	Government Matching	Allow savings and minor windfalls for government match programs	Allow savings and minor windfalls for government match programs
	Private Matching	Allow savings and minor windfalls for private match programs	Allow savings and minor windfalls for private match programs

Appendix 3: Treatment of RESPs and Social Assistance Eligibility, March 2008

Jurisdiction	Status	Details	Source
Nfld. & Labrador	Exempt	Not considered as a liquid asset.	Reg - Sec 8(b)(iv)
Prince Edward Island	Exempt	Not considered as income as long as the funds remain in the plan or, if cashed, that they are used towards educational purposes.	Reg - Sec. 13(5)(t)
Nova Scotia	Exempt	Not considered as a liquid asset.	Reg - Sec. 2(f)(5)
New Brunswick	Exempt	Not considered as a liquid asset.	Policy Manual, asset exemptions
Quebec	Exempt to $60K	RESPs up to an accumulated total of $60,000 are considered exempt liquid assets. Income withdrawn from an RESP being used for education is considered as exempt income.	Reg - Sec. 141(6) Reg - Sec. 111(4)
Ontario	Exempt	Not included as an asset for OW or ODSP.	OW Reg - Sec. 39(1)(21) ODSP Reg- Sec. 28(1)(26)
Manitoba	Exempt	Not considered an asset.	Reg – Sec. 8(1)(a)(xiv)
Saskatchewan	Exempt	Not considered an asset.	Reg - Sec. 28(2)(y.1)
Alberta	Exempt	Not considered an asset.	Reg – Sec. 5(2)(j)
British Columbia	Exempt	Not considered an asset for Employment and Income Asst. Not considered an asset for Employment and Income Asst. for Persons with Disabilities.	Reg - Sec. 11(1)(ff) Reg – Sec. 10(1)(ff)
Yukon	Exempt	Exempt provided any withdrawn funds are used for child's education.	Reg - Sec. 19(3)(b)
Northwest Territories	Exempt	Not considered as unearned income.	Reg - Sec. 20(6)(m)
Nunavut	Unknown	No references in regulations, policy manual	

Treatment of RRSPs and Social Assistance Eligibility, March 2008

Jurisdiction	Status	Details	Source
Nfld. & Labrador	Non exempt in most cases	If value is less than $10,000, it is considered exempt for the first 90 days, after which time it is considered a liquid asset, provided it can be liquidated.	Reg - Sec. 26(3)
Prince Edward Island	Not exempt	The realizable value of any RRSP is considered a liquid asset.	Reg - Sec. 13(4)(c)
Nova Scotia	Non exempt in most cases	Any part of an RRSP that is part of an employment pension program is exempt.	Reg - Sec. 2(f)(6)
New Brunswick	Not exempt	Considered a liquid asset.	Policy Manual, Liquid Assets
Quebec	Exempt in most cases	Sums withdrawn from an RRSP and used towards the Home Buyers Plan provided they are used prior to October 1 of the year following withdrawal. Exempt up to a maximum of $60,000.	Reg - Sec. 138(8) Reg - Sec. 146(4) and 141(1)
Ontario	Not exempt in most cases	Are considered an asset. Where the funds are in a "locked-in" RRSP, they are exempt. These funds are not accessible until retirement age (generally 55) is reached.	OW Policy Manual, Directive 15 – Assets ODSP Policy Manual, Directive 4.1
Manitoba	Not exempt	Not included in list of exempted assets.	Reg - Sec. 8(1)
Saskatchewan	Not exempt	Not included in list of exempted assets. Where funds are "locked in" they are exempt.	Reg - Sec. 29(B)(1)Policy Manual, Chapter 20
Alberta	Partially exempt	Up to $5,000 per adult household member	Reg - Sec. 5(2)(l)

Jurisdiction	Status	Details	Source
British Columbia	Not exempt	Not included in list of exempted assets for Employment and Income Assistance. Not included in list of exempted assets for Employment and Income Assistance for Persons with Disabilities. Online resource document indicates they are not exempt unless locked in. (http://www.gov.bc.ca/meia/online_resource/verification_and_eligibility/assets/policy.html)	Reg - Sec. 6 Reg – Sec. 10(1)
Yukon	Not exempt	Considered a liquid asset – not included in list of exemptions.	See Reg - Sec. 19
Northwest Territories	Not exempt	Considered an asset – not included in list of exemptions.	See Reg - Sec. 20
Nunavut	Not exempt	Considered a liquid asset.	Reg - Sec. 20(4)(m) Policy Manual, Assets section

Appendix 4
OVERVIEW OF ASSET PROVISIONS FOR FEDERAL AND ONTARIO "SOCIAL ASSISTANCE" PROGRAMS

A. PRE-CAP INITIATIVES

	Eligibility Criteria		Cost-sharing	Liquid Asset Provisions
	General	Residency		
Mothers' Allowance June 1920 (provincial)	▪ Original focus on widows ▪ Must have 2 children <14 years – this provision was amended in 1935 so that a one child family was eligible ▪ Must be British subject and Canadian citizen ▪ Means-tested ▪ Was enhanced in 1963 to include persons 60 years+ (Widows and Single Women's Allowance)	▪ 3 year resident of Canada/ 2 year resident of Ontario preceding application	▪ 50% provincial/50% municipal ▪ amended to full provincial funding in 1937	▪ Could not find any specific refs. ▪ Means test took into account income and personal property – may have considered any liquid assets as "income". ▪ Mothers Allowance asset limits were set at $1,000 per family from 1948 to 1966, lower before 1948
Old Age Pensions – blind persons added in 1937 (federal)	▪ 1937 amendment enabled blind persons 40 years plus to get pension	▪ 10 years	▪ was 75% federal/25% provincial when provisions for blind were introduced ▪ reduced to 50/50 in 1951	▪ As high as $50,000 in pre CAP era
Blind Persons Allowance 1951 (provincial)	▪ replaced coverage under Old Age Pensions Act ▪ blind persons 21-69 years (reduced to 18 years in 1955) ▪ means tested	▪ 10 years	▪ 75% federal/25% provincial	▪ As high as $50,000 in pre CAP era

	Eligibility Criteria		Cost-sharing	Liquid Asset Provisions
	General	Residency		
Old Age Assistance 1951 (provincial)	▪ persons 65-69	▪ 20 years residency	▪ 50% federal/50% provincial	▪ As high as $50,000 in pre CAP era
Disabled Persons Allowance (provincial) 1954	▪ disabled persons aged 18-65 years ▪ means tested	▪ 10 years	▪ 50% federal/50% provincial	▪ As high as $50,000 in pre CAP era
Unemployment Assistance Act 1956 (provincial) **No assistance for single employables from 1940-1958**	▪ needs-tested ▪	▪ Must reside in Ontario ▪ Repatriation and chargeback system in place for out of Province cases and non-residents	▪ 50% federal/50% provincial ▪ open-ended federal funding	▪ First program to have needs-test. Marked move from flat-rate allowance to variable rate structure. ▪ $250 limit for a single unemployable person set in 1950; $1,000 from 1963 to 1966
Dependent fathers	▪	▪ Must reside in Ontario Repatriation and chargeback system in place for out of Province cases and non-residents	▪ Not/known	▪ $250 limit for a single unemployable person set in 1950; $1,000 from 1963 to 1966
General Welfare Assistance 1958 (provincial)	▪ persons in need not covered through other categorical programs ▪ needs tested	▪ Must reside in Ontario Repatriation and chargeback system in place for out of Province cases and non-residents	50/25/25	▪ discretionary up to three months assistance – 2 weeks if emergency for employables

B. CAP ERA (1966-1996)

	Eligibility Criteria		Cost-sharing	Liquid Asset Provisions
	General	**Residency**		
Canada Assistance Plan 1966	Federal funding tool for cost-sharing a range of social assistance/service costs. Replaced former system of categorical, means – tested programs. Three conditions: ▪ Needs tested benefits ▪ No residency requirement ▪ Appeal system	▪ Not applicable	▪ 50% federal/50% provincial of defined eligible costs. ▪ Open-ended funding arrangement until the cap on CAP in 1990.	To be eligible for cost-sharing, liquid assets could not exceed specified levels. See table at end of CAP maximum allowable liquid asset levels.
	Eligibility Criteria		**Cost-sharing**	**Liquid Asset Provisions**
	General	**Residency**		
Family Benefits 1966	Replaced provincial BPA, DPA, UA and Mothers' Allowance programs	▪ not applicable, benefits based on need only	▪ 50% federal/50% provincial of defined eligible costs.	Liquid asset levels varied by client type. See examples below for various dates below (not exhaustive pre-1976)

MAXIMUM LIQUID ASSET LEVELS, ONTARIO				
	Effective Date	***Single Employable Person***	***Single Parent and One Child*****	***Single Disabled Person***
Family Benefits	*In effect in 1971*	*$1,000*	*$1,200 (plus $200 for 2nd and each subsequent dependent)*	*$1,000 (same as single person – no distinction for disabled in effect)*
	In effect in 1976	*$1,500*	*$2,500 (plus $500 for 2nd and each subsequent dependent)*	*$1,500 (same as single person – no distinction for disabled in effect)*
	January 1981	*$2,500*	*$5,000*	*$3,000 under GAINS-D*
	The above amounts remained in effect until the Ontario Works Program and Ontario Disability Support Program were formally implemented in the summer of 1998.			
*General Welfare Assistance**	*In effect in 1976*	*Equivalent to 2 weeks to one month's entitlement*	*Equivalent to FBA levels for cases awaiting transfer; otherwise equivalent to 1-3 month's entitlement*	*Equivalent to FBA/GAINS-D levels for cases awaiting transfer; otherwise equivalent to 2 weeks to one month's entitlement*

C. POST-CAP: CHST AND CST ERA

Eligibility Criteria General	**Dates**	**Liquid Asset Provisions**	
		Single Person	**Lone Parent with one Child**
Ontario Works	Effective October, 1995	$520	$1,457
	Effective Feb. 28, 2005	$536	$1,487
	Effective Dec. 2007	$560	$1,607
Ontario Disability Support Program	Effective June 1998	$5,000	

*Municipalities could set their own asset exemption levels up to the maximum FBA levels. Generally, they were set at the equivalent to 2 weeks to one month's entitlement for a single person and one to three month's entitlement for a family.

** Single parents were transferred from Family Benefits to OW.

LIQUID ASSET EXEMPTION LEVELS UNDER THE CANADA ASSISTANCE PLAN

	1975	***1980***
Single person	1,500	2,500
Single disabled person	1,500	3,000
Single Parent/1 child	2,500	5,000
Disabled single parent/1 child	2,500	5,500
Childless couple	2,500	5,000
Disabled childless couple	2,500	5,500
	Plus: An additional $300 for the second and each additional dependant.	Plus: An additional $500 for the second and each additional dependant.

1975 guidelines did not contain any provisions for persons with disabilities.

Source: National Health and Welfare CAP guidelines

Appendix 5 - Needs Testing '101'

Needs Testing 101

If an applicant is eligible to apply for any of the above needs-tested programs, a first look is undertaken respecting the category of assistance for which the applicant is applying (e.g. lone parent, person with disability etc.)

Next, a determination of the family status of the applicant is made. For example, an applicant for assistance could be a single person, a breadwinner in a family, a spouse, or a child. This determination rests upon a complex set of explicit and implicit rules that define the benefit unit on the basis of living arrangements, economic contribution, sex, age, and legal obligations.

Once the benefit unit is decided, it is clear 'who' the applicant is (individual or family as defined). The determination of financial eligibility largely rests on the treatment of assets and income that accrue to the applicant as well as upon the outcome of needs testing.

Historically, recipients of assistance have been permitted to retain some assets and income in accordance with narrow restrictions.

There are four distinct forms of financial testing generally referred to overall as 'needs testing':

- Means testing
- Asset testing
- Income testing ; and
- Formal Needs testing

Means testing has largely been abandoned in the determination of eligibility for all financially tested programs.

Many broader programs like the Canada Child Tax Credit use an income test alone to financially test applicants. This is also true of the Guaranteed Income Supplement (GIS) for seniors.

Needs-tested programs have always departed from these larger programs of general applicability so that the true financial requirement for assistance can be assessed. The philosophy is that only through a needs test that takes assets into account can the varying needs of families be properly assessed and met.

With a needs test, the needs of each assistance applicant are calculated separately. Because needs vary with individual circumstances, needs testing produces different results from applicant to applicant. Like an income test, a needs test calculates available income which is then subtracted from an established level of need and if there is a positive balance, then the applicant may be financially eligible. This is called the 'budget deficit' or formal needs testing.

Means Testing vs. Needs Testing

There is much confusion both in the literature and among the public as to the difference between a means test and a needs test. A needs test starts from a pre-set level of need for a particular family size and composition, which may then vary according to the family's situation. For example, fuel, shelter, or utility costs might be higher or lower for a particular family; in such a case, the pre-set levels for these items may also vary to a certain degree. The family's ability to meet these needs is not taken into consideration in a needs test.

A means test, on the other hand, looks very carefully at the circumstances or the 'means' of a family to provide for its needs. For example, in the past, the existence of a large vegetable garden might have reduced the food entitlement of a particular family. Similarly, the availability of wood may have reduced a fuel entitlement.

With both a needs test and a means test, available resources such as income are deducted in the determination of need to reach the final determination which will decide eligibility. However, strictly speaking, except for the imposition of workfare and liens on homes, means tests have become antiquated.

Assets Testing

A needs test normally assesses assets as well as income. An asset is a present stock of wealth from which a stream of future income may be expected to flow. The issue here is not whether assets limits must be set but the extent to which assets should be taken into consideration.

Imputing value to assets is administratively a tremendously complex and subjective task. Income is easily quantified but the task of identifying and then calculating assets is difficult.

To treat two applicants with identical incomes in the same way, when one has substantial fixed wealth and the other does not, can be seen as unfair. To give aid to an individual who has little income and large assets while denying aid to someone with greater income but no assets evokes a similar response.

That is why a needs test normally assesses assets as well as income. But an asset ceiling does allow a 'cushion' of assets to be available to an applicant so that the receipt of benefits does not further impoverish recipients to a degree that they become financially vulnerable or unable to meet the same sort of minor contingencies that most of us face in our daily lives.

Accordingly, an asset limit must be set and defined in terms of ready convertibility to cash. Liquid assets over the limit either result in ineligibility or are considered to be available to offset the cost of assistance.

Income Testing

In income testing, a benefit amount is normally predetermined, without reference to the assets of individual applicants. Any income within the benefit unit is subtracted from the benefit amount and the remainder, if any, qualifies the applicant for assistance. The purpose of income testing within the context of assistance is to ensure that people with ongoing or periodic income have their entitlement to assistance either cancelled or reduced as a result of the income they have.

Income received by recipients leads to a determination of eligibility or ineligibility. Income is divided into three types of income that is:

- Exempted in total as it is generally available or is designated for purposes unrelated to the program
- Exempted in part largely because it is a form of income that authorities are attempting to encourage (e.g. earnings); and
- Non-exempt as the income source is due and payable to the applicant regardless of circumstances related to receipt of assistance (e.g. EI, CPP etc.)

The major policy issues related to income testing are not whether outside income should figure into the determination of eligibility for assistance but rather how much to count and how to count it.

The single most important issue balancing economic, fiscal and social interests revolves earned income from work. On the one hand, it is important to encourage and sustain employment among applicants for assistance while, on the other, it is crucial that persons who earn enough money to pay for their needs are not subsidized.

The Formal Needs Test

The formal needs test establishes a family budget or maximum level of need for the family configuration that varies according to:

- family size
- composition of the family (1 adult - 2 adult) ; and
- age of children

This generally determines a pre-added amount for a family's basic needs and shelter that in turn varies by:

- type of shelter (board vs. rent vs. own) and
- special items recognized; and then

It then subtracts (countable or chargeable) income from the pre-determined level of need; and

- If the amount is positive, issues a positive decision of eligibility; and
- If the amount is negative (i.e. income that is chargeable exceeds the pre-determined need level), issues a negative decision regarding eligibility.

Appendix 6

Recommendations of Recent Reports on Income Security in Ontario

The Task Force on Modernizing Income Security for Working Age Adults recommended the following in May 2006 for the government of Ontario:

MISWAA Recommendation	Implementation Status
Establish an independent body, with representation from labour and employers, to recommend increases to the minimum wage and monitor the employment and economic effects. It should be put in place before February 2007 when currently planned minimum wage increases will have been completed.	Not done (However, minimum wages will be raised to $10.25 an hour in 2010.)
Implement an integrated child benefit platform for all low-income parents with children that provides benefits outside the social assistance system.	done
Provide basic health (prescription drugs and vision care) and dental coverage to low-income workers	In part
Strengthen enforcement of employment standards to protect the rights of workers with a focus on employers that are high risk to offend. Update current employment standards to cover new forms of work. (In part) Raise social assistance asset limits to $5,500 for a single person and $9,000 for a family, along with other improvements in asset treatment.	Not done
Revamp the disability determination process for the ODSP to streamline decision-making and provide services to applicants earlier	In part
Reinstate earlier policies to set disability benefits at the levels received by senior citizens with no other source of income	Not done
Improve employment supports, training and upgrading for social assistance recipients, and low-income workers	Done
Provide OW recipients with multiple barriers to work with supports to encourage participation in community activities and capacity building	In part
Allow ODSP recipients who can work despite their disability to participate in the labour market without jeopardizing health and dental coverage	Done
Upload social assistance benefits costs for municipally delivered OW, and all social assistance costs (benefits and administration) for ODSP	In part: ODSP uploaded

The TD Economics report made recommendations in the following areas respecting Ontario's needs tested programs:

TD Recommendation	Implementation Status
Making Work Pay Marginal effective tax rates limit the gains that people realize from earning extra income. Better program design can mitigate some of its worst aspects. Welfare recipients in Ontario still face marginal effective tax rates of well over 50 per cent. That's higher than the top marginal rate faced by Canada's highest income earners and for OW clients, these high tax back rates go hand in hand with disposable incomes that are very low in absolute terms.	In Part – recovery rates moved to 50% from 100%
Asset limits One area that stands out in particular is the asset side of the equation. At present, OW clients are permitted to accumulate savings equivalent to only 1-2 months' worth of their monthly cash allowance.	Not Done
Working income supplement/refundable tax credit for low-income Canadians Raising welfare rates isn't the answer, because it reduces the relative attractiveness of work and substantially increasing the minimum wage risks labour market repercussions. If properly designed, a working income supplement and a refundable tax credit for low-income adults would take some of the pressure off welfare to shore up the financial security of low-income adults. They would have the virtue of doing so through anonymous, rules-based programs that are free of the stigma and intrusive administrative oversight that go along with discretionary programs like welfare.	Working Income Tax Benefit introduced in 2007
Access by unemployed individuals to assistance with skills development and training[1].	Currently being implemented through the LMDA and LMPA

[1] In view of declining coverage of EI

The Metcalf report noted five sets of short term problems, a long term problem and recommended solutions to the interactions of Ontario's needs tested programs. Many are similar to the TD report while adding commentary and recommendations respecting the sometimes problematic interaction of government programs:

Metcalf Report: Why is it so tough to get ahead?	Implementation Status
Unacceptably high marginal effective tax rates • Reduce METRs • Ensure that combined, METR's do not exceed 75% of net earned income	Not Done – may be part of Poverty Reduction Strategy
Unavailable or highly confusing and conflicting program information - 'Quick to cancel, slow to reinstate' government benefit regimens • Implement a "time out" at crucial times to allow young people to break the cycle of poverty. • Stabilize households in transition to greater self reliance. • Establish a transition planning system among Ministries. • Grant a 1 year renewable moratorium on rent increases, OW reductions, losses in child care subsidies and student assistance.	Not Done – may be part of Poverty Reduction Strategy
Low Asset Limits • Raise asset limits for all social assistance recipients with an approved employment plan for the purpose of financing sustained employment.	Not Done
Overly difficult mazes to navigate with poor advice available • Create transition-friendly programs that strive towards common definitions. • Improve the quality of advice on program interactions.	Not Done – may be part of Poverty Reduction Strategy
Needlessly difficult program interactions where young adults are trying to break the cycle of poverty • Support children in their transition to adulthood • Redefine adulthood: Don't take on adult status while in post-secondary education, up to age 24. • Suspend rental increases where student income is included in the calculation including: • Any non-government funded scholarship, award, or grant from a recognized educational institution; and • Any award, scholarship or grant received from a non-government group (such as a Children's Aid Society, charitable organization, or company). • Stop collecting information on student assistance from government sources. • Clear up misunderstandings about receiving OSAP resulting in rent penalties.	Recent announcements on RESP's and special funds for youth in state care have been implemented. Other initiatives being studied

Metcalf Report: Why is it so tough to get ahead?	Implementation Status
Highly stigmatized programs containing values that are not shared by Canadians as they relate to self-reliance and transition. • Set rules in place (within needs-tested programs similar to those favoured by the public in fostering self-reliance).	Government has changed rhetoric to reduce stigma through its poverty reduction strategy
Government Organization in policy silos • Implement a Government Responsibility Centre • Support think tanks to explore client centred models. • Share and pool data • Establish a policy, while devising a public education initiative to resolve misperceptions	Undertaken through implementation of Poverty Reduction Strategy

Appendix 7 --Case Example
Adaptation: From pleasure to terror

A 'before' scenario is canvassed along with current changes. An 'after' scenario is described based on changes recommended in New Asset and Income policies to assist low-income adults under Ontario's Poverty Reduction Strategy

Introduction

Consider a short 'thought experiment'. You are called to the phone from a busy meeting. Your attempts to inquire from staff as to the identity of the caller are unsuccessful. Somewhat annoyed, you testily repeat your name to the caller and ask how you can help her.

The caller identifies herself as a worker from a charity draw you entered and had forgotten. She informs you that you have won the second prize of $5,000 tax-free. She would like to know how you would like to arrange to be paid. You begin to smile despite your best efforts to remain irritated by the interruption. You involuntarily begin speculating how you will spend the funds. This is definitively going to be a good day.

Most people would have much the same reaction. Winning a nice bit of cash or getting a windfall from an unexpected source is a pleasurable event.

Before

But this is not the case for a significant portion of the poor. Benefits from a variety of government sources that go to the poor are almost always income tested and often tested for assets and need. The staff who run these programs closely monitor them. A minor[1] windfall, instead of being a happy event, often strikes terror into the heart of the poor.

Money seems to come in about four different forms:

- A small unexpected inheritance
- A lottery or gaming win
- A lump sum back payment from another benefit program; or
- A payout from a compensation scheme

Depending on the source, the benefit programs that are designed to take income, need, and assets into account are mandated to either stop or curtail their payments. They often stop payment at the moment that the poor person receives the money.

For example, a single lump sum windfall of $5,000 reported to benefit program administrators can have the following cumulative effect on a low-income adult:

- All social services payments paid on behalf of all family members including children come to a halt sometimes days before their delivery

[1] 'minor' means any amount that will be insufficient to meet an average person's income requirements in Canada for a year.

- Eligibility for required prescription drugs for all family members including children are cancelled within weeks of reporting the windfall, regardless of how much of the prescription remains at the time of cancellation

- Eligibility for dental benefits are cancelled for all family members including children within a month, regardless of the course of any treatment

- Rent-geared-to-income rents rise

- Child care fees increase; and

- Legal fees covered through legal aid cost more.

Later on, over the course of the year, depending on the source of the income, income taxes could rise while GST credits, Property and Sales Tax Credits, and National Child Benefit Supplements may be reduced. Since few of these programs coordinate the way in which they treat income, it is possible within a very short time, to lose more (in the form of benefit loss) than the original value of the windfall.

Proof that the money has been spent (or otherwise disposed of) is required and different programs require different levels of proof.

In addition, varying treatment of different forms of income can result in a level of complexity that would only be understandable by a small group of experts.

Current Situation in Ontario

Needs tested programs exempt various forms of income and assets. Most exempt one-time compensation programs such as the Hepatitis C program as well as payments made to individuals for pain and suffering. Many programs do not reduce their own benefits when someone receives a lump sum payment from another program.

Most welfare-based programs (i.e. income needs, and assets tested programs) have a clause that allows windfalls from certain sources to go towards items that benefit the person. These programs usually have rules that require the funds to be spent quickly. Most poor people oblige, leading to what most of us know as the ‘welfare-induced spending spree’.

After

The first is to allow people to keep the money in a TFSA to be used wisely later on in life or to provide for retirement income. Social Enterprise Development Innovations (SEDI) has advocated for the adoption of Individual Development Accounts (IDA’s) and is now testing (along with the federal government), the Learn$ave project, an IDA specifically aimed at savings for future education. Minor windfalls often help participants stay the course in terms of monthly savings requirements.

A second approach would be to allow a much longer time frame to dispose of windfalls in a way that avoids a spending spree induced by the sudden and catastrophic loss of a variety of benefits.

Retention of a minor windfall with no recovery or disqualification on the part of a needs tested program like social assistance would mean:

- All social services payments paid on behalf of all family members including children are retained
- Eligibility for required prescription drugs for all family members including children are retained
- Eligibility for dental benefits are retained for all family members including children
- Rent-geared-to-income rents would remain as they are
- Child care fees would remain the same; and
- Legal fees covered through legal aid would cost the same as before.

Later on, over the course of the year, depending on the source of the income, income taxes could remain the same along with GST credits, Property and Sales Tax Credits, and National Child Benefit Supplements.

A nest egg of $5,000 would be in place for the recipients to use in a planned way for an approved plan.

Conclusion

It is hard to imagine a policy and a set of outcomes more at odds with public sentiment than the welfare-induced spending spree. So how did we get there? The simple answer is that there are inherent unresolved conflicts between meeting need, spending government resources wisely, and supporting immediate vs. long-term self-sufficiency.

On the one hand, any members of the public tend to see poverty as an individual deficit that the poor ought to overcome, hopefully with a minimum of help. They also support the goal of self-sufficiency at the same time that it believes that programs for the poor should only be available as long as they are required.

Policy outcomes should always be positive when worthy goals conflict. The spending spree that is induced by a mix of welfare and other rules is an example of a negative outcome that has no support in any quarter but is regarded by some as the regrettable but necessary outcome of inevitable social policy tradeoffs.