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Transitions Revisited: Implementing the Vision

by

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Introduction

In 1986 Ontario, welfare was a major issue for the new coalition government lead by the new Liberal Premier David Peterson. Years of increases and tinkering seemed to have satisfied no one. In July 1986, the government launched a comprehensive process that produced a landmark report that created, however briefly, a broad political consensus on what to do about poverty in Canada's largest province.

Released in 1988, *Transitions: Report of the Social Assistance Review Committee* called for the creation of a national child income program. The program's purpose would be to provide adequate income security to children and replace the child benefit component of welfare:

> We envisage a rationalization of most, if not all, existing child benefits, including … social assistance benefits paid for children … The new benefit would be income tested and delivered through the income tax system as a refundable tax credit … it could equal a maximum of $3,300 per child per year [in 1988 dollars] ... Our proposal would rationalize several existing federal and provincial programs. This would entail a new cost sharing agreement between the two senior levels of government [Social Assistance Review Committee 1988: 115-116].

The Social Assistance Review Committee wanted to see children and working people decoupled from the welfare system:

> In future, no one in the labour force should need to turn to social assistance for help in making ends meet … Nor will children be part of the social assistance system, because their income needs will be met by the children's benefit. In other words, only adults will be recipients of social assistance in the future, and there will be far fewer than is now the case [Social Assistance Review Committee 1988:121].

The mission of this paper is to look back to the original *Transitions* vision and suggest ways to create the same kind of consensus that occurred in early 1989, when an unprecedented coalition of sectors supported the Ontario government's intent to implement the main tenets of *Transitions.*

The *Transitions* vision, as it relates to non-disabled people on welfare and their children, is much closer to reality than it was 16 years ago.[1] The national, child-based income program called for in *Transitions* is now in place, in the form of the Canada Child Tax Benefit (CCTB), through which low-income families on social assistance (as well as the working poor) today receive a significant portion of income for their children. Seen through this narrow lens, a case could be made that a significant portion of the *Transitions* vision is now closer to fruition.

Transitions called for a smaller, more residual welfare system – which we now have in Ontario. *Transitions* called for a program that was more directly tied to paid work in the labour force. That also has been achieved, although likely more through compulsion (workfare) than through the offer of opportunity. *Transitions* called for larger earnings exemptions – the amount of money recipients can earn without reducing their social assistance – to encourage labour market participation. We have those exemptions now too, although they came about in 1995 as an opportunity for recipients to 'earn back' some or all of the 21.6 percent of their benefits that had been cut.

In fact, although the system has retracted, the external elements that the Social Assistance Review Committee called for have now been

built and are awaiting large-scale, structural integration with the social assistance system.

Perhaps the fairest thing to say is that, even though Ontario is in reality much closer to the *Transitions* vision for social assistance, the way we got there was profoundly different from the way the Review Committee either suggested or expected would happen.

Social assistance in Ontario now has lower rates for able-bodied recipients than called for in the 1988 report. The Review Committee proposed a single rate maximum of $572 per month in 1988, at a time when the actual rate was $467. Adjusted for inflation, the $467 rate in 1988 was equal to $588 in today's dollars – $68 higher than the current $520 per month. Welfare now has tougher rules and a clawback model for the National Child Benefit Supplement that is much reviled by advocates. These aspects of the present system obscure the *Transitions* vision, since there is no plan to achieve the end state that the Review Committee had called for in its final stage of reform. Instead of a system of clear and separate child benefits for all children and employment benefits for low-income adults, we have a welfare system that still appears to the public to pay too much to poor parents.

So what is it that now obscures the vision? The answer lies in the social assistance benefit structure. The term 'benefit structure' essentially means 'who gets what.' While benefit levels have not changed in the past decade, and tough rules and mandatory work requirements have been put in place, the social assistance benefit structure in Ontario has remained largely unchanged.

In 1966, when social assistance was designed largely for people outside the labour market, the Canada Assistance Plan established a method of calculating welfare payments called the "budget deficit needs test." This test establishes entitlements that vary according to a number of elements including family size, shelter costs and basic requirements for living. Any outside income that is not otherwise exempted is subtracted from the entitlement. The rule was "make a dollar – lose a dollar."

Ontario still pays basic benefits according to the size and composition of the family unit. With this 'vintage of 1966' approach, social assistance continues to be unpopular with the public.

Social assistance in Ontario is complicated by a number of add-on programs that keep recipients out of the labour force. These programs are also unfair to the working poor outside the welfare system, and to people who both work and receive welfare. Here are three examples.

- Social assistance recipients have a better prescription drug program than the working poor. Social assistance recipients continue to obtain cost-free prescription drugs through the Ontario Drug Benefit Plan, while the working poor pay a sliding deductible payment through the Trillium Drug program. Both plans are administered by the Ministry of Health and Long Term Care (MOHLTC).

- Social assistance recipients (and their children) in receipt of Ontario Disability Support Plan benefits receive coverage through a basic dental program that also extends to children whose parents receive Ontario Works benefits. Adults registered with Ontario Works receive discretionary benefits that range from emergency to basic care. By contrast, the working poor have no government-sponsored dental plan, and only children in grade school are offered emergency services

through the Children in Need of Treatment program, administered by MOHLTC.

- A receipt-based shelter allowance program pays 100 percent of shelter costs up to a maximum that varies by family size. Since 1993, inflation has eroded this maximum by more than 14 percent for recipients with a disability. Meanwhile, able-bodied recipients have seen the maximum amount shrink, through the combination of inflation and reductions, by more than 35 percent.

The authors of *Transitions* realized 16 years ago that a program built for 1966 no longer worked in 1988 because marginalized people needed to be brought from the "margins of society into the mainstream of community life." And the mainstream meant then – as it means even more now – the world of paid employment, mainly outside of the home.

If a 'built for 1966' benefit structure obscures the potential for reform through a complex aggregation of separate programs and complex interplays with other incomes and benefits, then a disaggregation or deconstruction exercise should make transparent how programs and policies could be restructured and modernized in a way that would realize the *Transitions* vision. These benefits include: basic allowances, shelter allowances, drugs, dental care and numerous add-ons like 'back to school,' 'winter clothing' and special assistance for a variety of everyday needs.

Before making the arguments for change, we will examine the 16 years since *Transitions* was published in light of today's realities. We will look at the common context that begins in 1966-67, just at the end of a period of epochal changes in Canadian and Ontario income security. For example, during 1966 and 1967, the following programs or changes were implemented at the federal level: the Canada Assistance Plan and the abolition of the previous categorical programs, the Guaranteed Income Supplement, and the Canada and Quebec Pension Plans. At the provincial level in Ontario, the Family Benefits program was implemented.

In Part II, this paper will set out a blueprint for the restructuring of welfare programs in Ontario, replacing the traditional welfare rate structure with:

- an adult benefit with a labour force benefit plan
- benefits for children, located completely outside the welfare system.

Throughout the discussion, we will point out:

- why traditional welfare approaches no longer work
- the crucial questions that have to be answered to put a restructured welfare plan in place
- the pitfalls and unintended consequences Ontario can expect to face on the way
- the new directions that will open up – directions that are now closed off because of the lack of reform to the social assistance benefits structure.

Ontarians need not be fearful of losing traditional welfare as the principal and readily available income security program for the poor. The reality is that, in the minds of anti-poverty advocates and the public alike, the social assistance system has failed us. Even if it were possible to keep the existing rates up to date – and it

is not – there is not enough public support to sustain them. In Ontario, certain components of social assistance have been reduced by more than 35 percent over the last decade through the combined effects of inflation and rate reductions.

Accordingly, rather than argue for publicly unpopular rate increases to social assistance, we argue for structural change. With lower rates and the Canada Child Tax Benefit in place, it is not true to say that it would take years to re-engineer and reform the welfare system. Many of its components can be fixed quickly. Interim increases to welfare would only forestall eventual reform as higher benefits become entrenched and prove harder to replace.

Setting the Context: The Original Transitions Vision of Making Welfare Smaller

As a case of curious symmetry, in 1967 (Canada's 100th birthday), Ontario's base welfare rate for a single individual crossed the $100 per month mark.

By September 6, 1988, a little more than 21 years later, the single welfare rate (including shelter) in Ontario had risen in nominal terms by 367 percent. Although rates had risen by 12 percent in real terms since 1967, they nevertheless were considered to be inadequate and the system in dire need of repair. On this date, the Social Assistance Review Committee, appointed by the Liberal/NDP coalition government and chaired by Judge George Thomson, released *Transitions: Report of the Social Assistance Review Committee*. This report presented a reform agenda for Ontario's social assistance system.

One of the major drivers for reform at that time was a widely held view that poor Ontarians were not taking part in the province's economic boom of the mid- to late 1980s. There were real and perceived labour shortages, yet social assistance caseloads were increasing. Built-in disincentives prevented people from taking work: Recipients who earned a dollar frequently lost a dollar or more in benefits. Welfare rates increased throughout the 1970s and 1980s, but neither the general public nor a broad spectrum of interest groups believed that more money was the answer.

The Ontario public of 1988 saw participation in the labour force as the answer to economic insecurity for all adults. The prevailing view was that poverty was an individual deficit, as opposed to a set of societal or labour market faults. Those Ontarians who subscribed to this viewpoint became dissatisfied with programs designed specifically for situations in which people either did not work or had extremely marginal workforce attachments. The public was calling on government to redesign social assistance so that it would give people outside of the mainstream the tools to achieve economic self-sufficiency.

As a response, *Transitions* developed a vision of an entirely redesigned welfare system, in order to make it the "residual program that it was always intended to be." To this end, *Transitions* recommended that both children and people with disabilities be 'taken out' of the welfare system. Like seniors a generation earlier, the idea was to provide for children and people with disabilities through other income security programs and measures, ensuring that they would not have to resort to social assistance if they were without alternative resources. Welfare would become a smaller program for adults only and would resemble a labour market adjustment program much more than a needs-based

program meant to support families that had fallen on hard times.

The Review Committee basically had concluded that Ontario's welfare benefit structure of 1988 was 'unreformable.' Adding money to benefits designed for working age, able-bodied persons was an unsustainable model for the future. It is just as unsustainable now. The dilemma facing the Review Committee in 1988 was that the necessary building blocks and the national consensus needed to mount a major new disability and child benefit program were simply not in place in Canada. For this and other reasons, *Transitions* called for:

- achievement of its vision as the fifth of five stages of reform

- enhancements to the existing system in the form of rate increases as a stopgap, so that the "poor would not have to wait" a decade or more for new programs.

Awaiting the Vision: The Final Welfare Expansion

From 1989 to 1991, both the Liberal and NDP governments set an agenda of welfare reform that concentrated on the interim steps proposed by *Transitions.* These changes, recommended in the implementation documents *Back on Track* and *Time for Action*, worked – as requested by the government – mostly within the boundaries of the current system.

There were three major reasons for this limited approach. The early 1990s saw the onset of an extremely severe recession which, in hindsight, changed fundamentally the nature of the labour market. In this environment, there was little opportunity to secure the necessary funding and marshal the broad national support needed for fundamental income security reform. Furthermore, the failure to achieve constitutional reform (through the Meech Lake and Charlottetown accords) meant that cooperative federalism would have to be reinvented in ways yet to be devised. In spite of this discouraging environment, there was a countervailing need to respond quickly in some way to the very popular *Transitions* report.

The Liberal and NDP governments implemented a number of recommendations from both *Transitions* and the subsequent reports of the Minister's Advisory Group chaired by Carleton University professor Allan Moscovitch. Notable among these were $415 million in improvements announced in May 1989. This package enriched the shelter subsidy to pay 100 percent of shelter costs up to a maximum amount which was determined by family size.

In 1991, the NDP government made changes that removed a number of anomalies in the program. Prominent among these was the removal of distinctions previously made between payments going to boarders living in for-profit situations and those living in nonprofit housing, and the difference in rates paid to single parents on short-term as opposed to long-term assistance. In each case, payments were equalized upwards and a large rate increase was approved – 7 percent to basic payments and 10 percent to shelter maximums.

Making Welfare Smaller by Cutting Welfare: A Decade of Reductions

In August 1992, in the face of heated criticism over both the management and cost of government programs and financial losses resulting from Ottawa's capping of the Canada Assistance Plan, the Ontario government made it more difficult to obtain eligibility for the three-year-old Supports to Employment Program (STEP). This change disallowed new social assistance recipients from benefiting from earnings exemptions under the program, resulting in effective ineligibility for those who applied for welfare while earning modest wages.

Although few people realized it at that time, the implementation of the so-called 'STEP notch' was to be the first of many cuts to social assistance implemented over the next decade. Reductions, tighter rules and increased controls were introduced into welfare by both New Democratic Party and Progressive Conservative governments. Modest changes under the NDP foreshadowed drastic cuts by the Conservatives:

- The NDP's Expenditure Control Program (1993) and Case File Investigation (1994): Administrative tightening and a higher level of scrutiny of recipients' eligibility and income.

- Rate reductions and new eligibility rules (1995): Reduced welfare rates by 21.6 percent for all except people with disabilities and their families; reimposed the 'spouse in the house' rule that originally was rescinded in 1987; added tough new penalties for recipients who quit work or who were fired with cause; and restricted eligibility for 16- to 18-year olds.

- Ontario Works (1996): Mandatory community participation for all employable recipients.

- New Legislation (1998): Ontario Works and the Ontario Disability Support Program were proclaimed in 1998, drawing a sharp distinction between programs for people with disabilities and the able-bodied. The replacement of the federal Canada Assistance Plan (CAP) by the Canada Health and Social Transfer (CHST) in 1996 allowed mandatory workfare to be funded by the federal government for the first time, as the restrictions on workfare within CAP were not carried forward into the CHST.

- Further STEP restrictions (2000): Increased reduction rates or taxback rates to 100 percent for Ontario Works recipients who had earnings each month, while retaining eligibility for social assistance for a prolonged period.

Time for a New Direction

The old joke runs something like this: Two people have ordered lunch, and after trying the food, one says to the other: "This food is terrible." The other replies: "Yes – and such small portions!"

After a decade of decline and relentless program reductions, social assistance still remains enormously unpopular with the public. Benefit reductions and inflation have combined to produce a real reduction in benefits of more than 35 percent, yet not one of the three political parties in Ontario has called for full restoration

of benefits to 1995 levels. Measures announced in the May 18, 2004, Liberal Budget will see a 3.5 percent increase in benefits (including the the pass-on of the NCBS). While advocates continue to call for fixing fundamental flaws and to press for increases in benefit levels, they are not seriously expecting an increase of 35 percent. It is therefore possible to come to the same conclusion as the Review Committee did in 1988: *Welfare in its present form remains unreformable*.

The important difference between 1988 and today is that the National Child Benefit (NCB) is in place. This initiative creates an opportunity to re-engineer welfare programs and their benefit structures. The welfare reform component of the NCB initiative is crucial to both present realities and to implementing the *Transitions* vision.

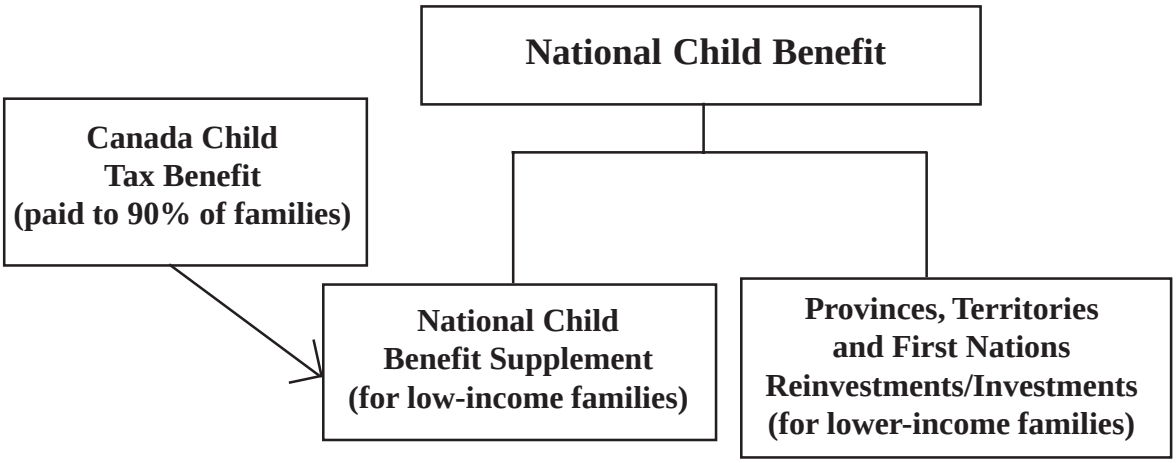
Still, the National Child Benefit is an emerging model: It will not achieve full implementation for some years. It is impossible to set out a plan for restructuring benefits in Ontario without having a firm idea of the endgame for the NCB initiative. The next section of this paper examines what that endgame might look like.

Completing the National Child Benefit Initiative

Background

In 1998, the provinces and territories agreed with the federal government that a benchmark of $2,500 maximum payment per child would allow for the restructuring for child benefits across Canada (i.e., an integrated income-tested benefit replacing welfare-provided child benefits). By the year 2000, with two years of implementation and delivery under its belt, the National Child Benefit initiative was a Canadian social policy success story. It had all the right ingredients:

- a new benefit with secure and generous funding[2]
- an enduring federal, provincial and territorial agreement
- international acclaim
- widespread support from Canadians for its broad principles.



The federal government's Canada Child Tax Benefit (CCTB) portion of the NCB initiative is paid to about 90 percent of Canadian families. The National Child Benefit Supplement (NCBS) provides low-income families with additional child benefits on top of the CCTB base benefit. The National Child Benefit initiative has three objectives:

- reduce the depth of child poverty
- promote employment
- reduce administrative and program overlap.

By most accounts, the NCB is meeting all three objectives. One of its greatest advantages is that the child benefit is not a welfare benefit and is therefore untouched by the 'dollar for dollar' phasing out of benefits under the welfare system which occurs when a parent enters the workforce. The child benefit is not reduced until the family realizes $22,615 in net income.

Nevertheless, there are several reasons that the NCB has not reached completion:

- Most provinces and territories continue to offset or 'claw back' the National Child Benefit Supplement and to reinvest the pooled savings in a variety of programs aimed at one or more of the NCB's three objectives. With child-based benefits still being administered by social assistance directorates, the initiative cannot reach completion.
- The achievement of $2,500 per low-income child in 2004 is increasingly seen as an interim benchmark.
- The federal government continues to promise increased investment in the CCTB through 2007. The resulting reinvestment at the provincial or territorial level is difficult to anticipate. As long as this state of flux continues, it is hard to envisage what 'completion' will look like.
- A formal evaluation of the NCB, which is required in order to tell Canadians whether the reform is meeting objectives, has not yet been released.

In August 2000, at the annual meeting of provincial and territorial leaders, Premiers asked their social services ministers a reasonable but deceptively simple question:

> *What are the steps and the financing required to complete the National Child Benefit (NCB) initiative?* [author's emphasis.]

The question is simple in that any well-defined project should have a finished product. But it is *deceptively* simple in that there are many different, competing visions of what is meant by the completion of the NCB initiative. The NCB initiative is not simply an income security model. It is also a model for investment and reinvestment in a variety of programs for low-income families with children, and a model for broader welfare reform.

While this paper focuses on the welfare reform aspect of the NCB initiative in Ontario, it is necessary to review what all of these aspects of "completion" mean.

Income Security for Children: Completion of National Child Benefit Levels

Completion of the NCB initiative means arriving at an adequate child benefit that provides

all low-income Canadian families with help to raise their children.

For the current payment year (July 2004 - July 2005) the Canada Child Tax Benefit pays as follows:

Children	basic CCTB	NCBS	Total
1st child	$1,208	$1,511	$2,719
2nd child	$1,208	$1,295	$2,503
3+ child	$1,208	$1,215	$2,413
3+ child supplement	$84		
children under age seven	$239		

The federal government has promised a series of increases that will take the combined Canada Child Tax Benefit (CCTB) and the NCBS to a maximum $3,243 per child by 2007 [Finance Canada 2003, 2004]. The Caledon Institute of Social Policy has suggested a target of a maximum $4,400 per child by 2010, subject to further research [Battle and Torjman 2002]. These goals are not contradictory because amounts could be added in federal budgets after 2007 to meet the 2010 objective.

The Caledon Institute has noted that the $4,400 target is a conservative estimate of the cost of raising a child in a low-income family, which the Institute views as the target for an adequate child benefit. Establishing this benchmark would be important, should the federal government accept it. For the first time, the benchmark would link the child benefit to the cost of raising children.

Debates will continue about how much money it takes:

- to raise a child in a low-income family
- to reach benefit adequacy
- to reduce the depth of child poverty.

Similarly, Canadian social policy-makers will debate what proportion of the costs of raising children ought to be made up from the CCTB and other child benefits. For the purposes and assumptions in this paper, $3,243 and $4,400, for 2007 and 2010 respectively, are the amounts that are likely to be achieved.

Reinvestment Programs

The second aspect of completing the National Child Benefit initiative relates to reinvestment. Most provinces and territories continue to recover or offset the National Child Benefit Supplement. They reinvest the pooled savings in a variety of programs aimed at one or more of the NCB's three objectives – reducing the depth of child poverty, promoting employment and reducing overlap.

An instructive place to begin the discussion of reinvestment completion is to look at what has happened in those provinces that have completed the NCB model of welfare reform – Newfoundland and Nova Scotia. Arguably, Quebec is also at this stage in welfare restructuring and advocates the same philosophy of child benefit reform as the NCB. However, Quebec considers itself 'opted out' of the NCB political

initiative, using different terminology to describe its welfare and children's social security processes. The new direction that Quebec is taking under Charest's Liberal government continues to support NCB paying child benefits outside of social assistance [Noel 2004]. Each of these provinces has restructured welfare – i.e., they have largely removed children from basic social assistance and have a system of social assistance for adults only.

In Newfoundland and Nova Scotia, reinvestment neither increases nor decreases automatically; it is fixed or crystallized at the level it had attained at the time of restructuring. Because the National Child Benefit is not offset or recovered against social assistance, the amounts available for reinvestment do not change from the point in time that children's benefits within welfare were removed.

In other provinces and territories, which continue to offset or recover the NCBS, the amount of money available for reinvestment changes, sometimes fluctuating in unpredictable ways. For example, the reinvestment increases or decreases with the number of children receiving social assistance, and it increases as the NCBS increases each year in July.

Consequently, the endgame or completion of the National Child Benefit initiative for reinvestment is the fixing or crystallization of reinvestment funds at the precise moment of restructuring. They do not disappear, but they will erode over time unless they are supported with provincial and territorial funds earmarked specifically for this purpose. Like any other program for children, mechanisms will have to be found to support regular increases to reinvestment programs to keep them up to date or they will erode due to inflation.

For the purposes of this paper, it will be assumed these reinvested funds would be available for the costly task of restructuring social assistance benefits.

The Theory of NCB and Welfare Reform

The National Child Benefit is funded according to a *reinvestment recovery* model. This means the NCBS is 'offset' against provincial and territorial child benefits paid in social assistance or similar programs. In this way, welfare recipients experience benefit reductions equal to the amount of their National Child Benefit Supplement.

Suppose the provincial or territorial child benefit for 'Child A,' who lives in a poor household, was set at $211 a month. If the NCBS were $111 a month (the 2002 rate for one child), the family would continue to receive $211 toward the child's upkeep. However the province or territory would recover the NCBS portion by reducing its own contribution to $100 (the NCB *clawback*).

Anti-poverty advocates criticize the NCB initiative on the grounds that this recovery mechanism takes money out of the hands of the very poor [National Council of Welfare 2002]. Although it is more correct to say that the NCB does not give more child benefits to people on welfare than under the old system (as opposed to working poor families, which receive increases to bring them up to the child benefits level of welfare families), serious welfare reform is nevertheless bound up in this recovery mechanism, and inextricably woven into the design of the NCB initiative.

Let us say that the NCBS benchmark increased Child A's allocation to $211. The province or territory has in effect nothing to recover, for it has reduced its own contribution to $0. In theory, the province or territory no longer has a say in what constitutes a minimum or benchmark amount to sustain a child above the poverty line. If the NCBS were to increase its benchmark to an amount over $211 for the child, no further provincial or territorial money would be involved.

Reform of welfare benefits theoretically can be triggered at the point where the NCBS grows as large as the child benefit component of welfare benefits or similar programs. This point, at which the NCB supplement eclipses the value of provincial and territorial benefits subject to offset, is referred to as the *washout point*.

The expectation and working hypothesis of those close to the implementation of the NCB initiative was that, once this 'maturing' point of child benefit equality was reached, provinces and territories would:

- cancel the child portion of their welfare and other child benefit programs
- stop the National Child Benefit offset (the *clawback*)
- allow future increases in child benefits to flow through to families on social assistance
- begin to plan the architecture of a new income program, for adults only.

Work incentives would increase, as welfare child benefits (now abolished) no longer would be a factor in the welfare-to-work equation. Parents on welfare would keep their NCBS as they moved into the labour market and would not begin to lose their child benefits until they reached the NCBS turning point of $22,615 in net yearly income terms. At this juncture, the welfare reform aspect of completing the NCB initiative would be accomplished and an important aspect of the *Transitions* vision realized.

From NCB Reform to Provincial Restructuring

It is important to note that reform of social assistance does not occur automatically, once a province or territory reaches the washout point. In fact, a complex exercise must take place, with the jurisdiction taking costly actions to change its welfare and related child benefits and create a social assistance system for adults only. It is this complex exercise that is referred to as 'restructuring.'

The restructuring process involves six key tasks.

Task #1: Match the welfare rate for each child to its NCBS parallel, resulting in new adult welfare rates.

To set the stage for restructuring, welfare and other benefits for children that are offset must be identified separately from the family welfare income and 'matched' to the dollar values of the NCBS, so that the NCBS fully offsets the value of welfare and other child benefits. It is then possible to determine the dollar value of residual adult benefits and the prospective value of provincial and territorial standalone child benefits. Matching is a complicated exercise. Later in this paper we will discuss Ken Battle and Michael Mendelson's difficulties with comparing child benefit rates in four countries. They make a key distinction between the 'difference' and 'designated' approaches to restructuring [Battle and Mendelson 2001].

Matching is easier to do in jurisdictions that have low children's welfare rates, as the NCBS more easily 'washes out' these rates. That is, the dollar value of the NCBS is either higher or equal to the children's welfare rate that it would replace. Failure to match results in 'losers,' which would go against the signature commitment of governments that families with children on assistance will not lose out as a result of the NCB initiative. Where the NCBS does not fully offset welfare benefits for children, it is important that provinces and territories continue to assume responsibility for the additional costs.

Task #2: Set a new, harmonized provincial child benefit.

A harmonized child benefit is one whose design largely mirrors the National Child Benefit Supplement. Several provinces, including Newfoundland and Labrador, Nova Scotia, British Columbia, Saskatchewan and (arguably) Quebec, already have this type of child benefit in place.

Task #3: Devise a responsiveness scheme.

Responsiveness schemes are required to assist a parent who had a high income in the previous year, but is now in need of social assistance (e.g., because of job loss). In a restructured system, the parent could apply immediately for adult welfare. Child benefits, however, no longer would be part of the welfare system; they would be calculated through the Canada Child Tax Benefit mechanism, which is based on income reported for the previous tax year. Because this parent's income was high in the previous year, there would be a time gap before benefits could flow to the children. Responsiveness schemes fill this gap.

Task #4: Permit a flow-through of the NCBS to low-income parents receiving social assistance.

A flow-through means that welfare recipients with children would receive their social assistance and the NCBS without the NCBS being subtracted from their welfare cheques.

Task #5: Develop in-kind benefit changes.

As welfare begins to cover fewer people, thought must be given to the availability of prescription drugs, dental and other programs outside of welfare [Battle and Torjman 2002: 3].

Task #6: Arrange for reinvestment crystallization (fixing) and reallocation.

Completion of the National Child Benefit initiative results in the fixing or crystallization of reinvestment funds at the precise moment of restructuring.

Restructuring is a major and costly undertaking for a province or territory, that demands:

- a significant political commitment at the Cabinet level
- wide-ranging changes to programs and creation of new programs
- key communications challenges
- large-scale staff training
- important changes to automated systems
- complex statutory and regulatory reform
- crucial guideline and directive changes
- appropriate scheduling.

Eliminating the Offset and Creating a One-Tier System

The National Child Benefit initiative does not complete its welfare reform agenda at the point where children are taken out of welfare. The initiative is completed only when there is *no longer an NCBS offset*. For once there is no offset, there is no longer a need for child benefits to be housed in the two separate programs known as the Canada Child Tax Benefit (CCTB) and the National Child Benefit Supplement (NCBS). The federal government would be in the position once again to unite the two benefits as one transparent income security program for Canada's families with children.

The chart illustrates the offset activity, at a high level, in each of the 13 provincial and territorial jurisdictions.

By 2004, only Newfoundland and Labrador, Nova Scotia and, arguably, Quebec had restructured their social assistance systems in line with the requirements of completion of the NCB initiative. The mature systems in Nova Scotia and Newfoundland represent the endgame of the NCB initiative:

- Welfare has become an adults-only system with no payments to children. This means that parents who work no longer lose their child benefits as their income rises.

Model	Description	Provinces and territories
Offset of social assistance (the clawback)	The jurisdiction reduces welfare income to families by the amount of the supplement and pools the funds for other uses as reinvestment.	Ontario Prince Edward Island Northwest Territories Nunavut Yukon
Rate reduction	Yearly review of the welfare rate for children, generally resulting in an annual rate reduction enacted by law.	Alberta [The NCB Progress Report includes Alberta in the clawback model. However, rate reductions differ from income charges in that rate reductions lower the budgetary requirements of recipients].
Offset against a provincial child benefit	Province pays child benefit but offsets the NCBS against that benefit.	Saskatchewan (Saskatchewan Child Benefit) British Columbia (BC Family Bonus) Quebec (Quebec Family Allowance)
Mature system	Province pays a child benefit that is issued separately from the NCBS payment. Province reduces child benefits in welfare, working toward an adults-only system.	Nova Scotia Newfoundland
No offset	The NCBS flows directly to the family and welfare payments to children and families are not reduced or offset.	New Brunswick Manitoba[3]

- The NCBS and provincial child benefits provide equal payments to all low-income parents.

- The NCBS and provincial benefits are harmonized. They have similar or identical rules and benefit design.

- There is no longer a need for a separate NCBS in these jurisdictions. This reality opens the way to a federal one-tier child benefit. The completion of the NCB initiative is often represented as the move back to a one-tier child benefit.

- The NCBS fully flows through to NCBS recipients with no recovery or offset against either welfare or a child benefit.

- Reinvestment dollars continue to flow (but do not grow) because they have 'crystallized' at the level of dollars spent at the time that the offset ended.

The other jurisdictions in Canada have gone in several different directions that will not allow the NCB initiative to complete as it was conceived – as a one-tier benefit originating with the federal government. For example, as long as jurisdictions rely on the legal distinction between the National Child Benefit Supplement and the Canada Child Tax Benefit, it remains difficult for the federal government to simply dissolve that distinction.

New Federal Barriers to Restructuring

In his Budget Plan of February 18, 2003, former Finance Minister John Manley suggested that provinces and territories refrain from clawing back the new increases announced to the NCBS starting in July 2003. While this restriction remains popular with anti-poverty advocates, it has the unintended effect of inhibiting welfare restructuring.

To illustrate this effect, let's go back to Child A, whose provincial welfare allocation was set at $211 a month. Before Manley's Budget Plan announcement, the NCBS contributed $111 (in 2002 rates). The family continued to receive $211 toward the child's upkeep. However, the province recovered or 'clawed back' the NCBS portion by reducing its own contribution to $100. Welfare was shrinking and the National Child Benefit was growing. With Minister Manley's announced increases in the NCBS for July 2003, the child's NCBS supplement increases to $122. If Ontario had followed Manley's restriction, the province would not have offset more of this amount than the $111 it had previously. The remaining $11 per month would have flowed through to the child's family. Child A's family would have received $222 a month. The family would have seen their welfare rate increase by $11 a month.

The effect of Manley's restriction basically was to raise welfare rates, because from a technical point of view, this increase was the easiest way for provinces and territories to pass on the 'offset to the offset.' The only other option would have been for the province or territory to undertake a restructuring exercise within the five months between February and June 2003. This was an impossibly short period of time for any jurisdiction to undertake a restructuring exercise of this complexity. More recently, the provincial government in Ontario has chosen to pass through the much smaller NCBS increases of up to $4 a month beginning in July 2004.

The Problem with the 2003 Federal Announcement

Where a province or territory raises welfare rates for children, it will be harder and more costly to reform welfare. The province is farther away from the washout point – the point at which the province is no longer contributing to the child benefits and the child can be 'taken out of welfare.' The amount the province will need to wash out with NCBS funds has risen by the amount of the welfare increase. Moreover, the offset or reinvestment funds that the province could use for the restructuring exercise are not growing any more. By discouraging offsets, the federal government has, in effect, promoted the freezing of the funds a province needs for restructuring at the pre-July 2003 levels.

Even provinces like BC and Saskatchewan, which maintain separate child benefit programs offset by the NCBS, and do not claw back increases, are not helped by this pass-through in the sense of being brought closer to restructuring. They can keep their own contributions static, and lose their visibility on the joint cheque issued for the child benefit, or they can increase their own contribution. Neither course of action takes the NCB to its completion. The former takes pressure off provinces to increase their own child benefits with provincial funds, and the latter reverses progress on taking children out of welfare. For jurisdictions like Ontario, which has neither partially nor fully restructured, it will clearly be to the advantage of all parties to agree on an appropriate funding model to complete the NCB initiative.

The federal government's suggested restriction also has consequences for the longer-term goal of a reunited, one-tier, Canada Child Tax Benefit encompassing both the basic benefit and the supplement. For now there is, in effect, yet another tier. The National Child Benefit Supplement has been split into two parts: the portion which can be used for offset purposes, and the portion that provinces have been asked not to touch, as of July 2003. We have moved farther and farther away from transparency.

Another practical consequence of the federal government's Budget statement is that the $2,500 CCTB maximum level agreed on in 1999 as a benchmark looks more and more like the limit Ottawa will place on its contribution to welfare restructuring. In effect, the federal government is asking provinces that have not yet undertaken restructuring to contribute much of the money needed to bring the NCB initiative to completion. This practice is clearly not the answer, as funding for restructuring will become hopelessly tied to the issue of NCBS pass-through versus clawback.

Providing adequate child benefits through the NCB initiative is essentially a different issue from restructuring social assistance and provincial child benefits. The need for higher welfare rates is not necessarily best met through the NCB in any event. Tying the two issues together slows the progress that could be made on both.

The federal government would have been better off encouraging provinces to restructure earlier and asking them clearly to make a contribution to that restructuring. That way, the ultimate design and adequacy of child benefits would not hinge on what provinces and territories do or do not do with their social assistance programs. If provinces that continue to offset the child benefit take the federal government at its word, they simply would accept all scheduled NCBS increases through 2007 and add them to their welfare payments for children. In order to take

children out of welfare in the future, each of these jurisdictions would have to find the funds from sources other than the NCBS to complete the restructuring exercise.

Ontario did not accept the federal challenge in 2003 but did so in 2004 under the new Liberal government. The province therefore has suspended NCBS-funded increases to its reinvestment pool until 2005, at which time the province may restructure. With the 2004 reinvestment pool, the province of Ontario may decide to make available its reinvested offset funds for restructuring social assistance benefits.

In successfully challenging provinces and territories to pass through NCBS increases to social assistance recipients, Ottawa needs to come to the realization that it may have placed its signature income security initiative of the millennium period in a state of suspended animation. On the one hand, the federal government is in favour of a lower welfare wall, better work incentives and a diminished role for welfare. On the other, it asked provinces to raise the welfare wall, reduce incentives and increase the role of welfare. Ottawa continues the NCBS as a separate entity for the purpose of welfare offset; at the same time, it asked provinces to stop using it for that purpose. Having realized the consequences and contradictions of Minister Manley's Budget announcement, a new government in Ottawa should return to the job of completing the National Child Benefit initiative.

Getting Past the Problem

The real answer lies in removing the issue of pass-through of NCBS from the funding debate altogether. This removal could be achieved if the federal government introduced new funds for restructuring, as part of the new Canada Social Transfer, consistent with the rules set out in the original reinvestment framework. There are good reasons to do this:

- Child poverty and child benefit adequacy are issues too important to be mired in funding debates about welfare.

- Funding welfare reform is a separate issue from providing adequate benefits for children, especially as welfare is not the answer.

- Welfare standards and the restructuring of welfare are important issues in their own right – for the sake of work incentives for all employable adults.

The NCBS clawback debate is an issue of mechanics as opposed to these fundamental social policy concerns. It should not be allowed to obscure them.

Part II: A Restructuring Toolkit for Ontario

Why is Welfare Reform Still Relevant?

In Ontario, as in many North American jurisdictions, welfare reform is still relevant because we have a 1966-style benefit structure which does not support 2004 work requirements. The structure creates a 'welfare wall' – a disincentive to work. Welfare recipients are asked to give up almost all their welfare income, and most if not all their in-kind benefits, in order to make sometimes tenuous attachments to a paid labour force where those benefits are often absent.

Society and the labour market, in general, pay dearly for an economic equation that does not work. Welfare caseloads stay stubbornly high, while want ads grow old in storefront windows. This happens because social assistance programs are constructed in a manner that makes taking a job unaffordable. Meanwhile, supports to low-wage workers outside of the welfare system are so meagre that all the welfare cuts in the world cannot seem to make the low end of the labour market sufficiently attractive to make the jump to it from welfare.

In the 26 years between 1967 and 1993, largely spurred by inflation, Ontario increased social assistance rates 23 times, establishing a substantive income security safety net. The social assistance rate for a single person rose from about $100 per month to $663 per month, an increase of 563 percent in nominal terms and 34 percent in real terms.

In the ten years since 1993, Ontario froze welfare income for people with disabilities and lowered the rates for the able-bodied by 21.6 percent (effective October 1995), resulting in an inflation-adjusted reduction of more than 35 percent, losing all (and more) of its real gain since 1967. This drastic reduction was enabled by a major shift in public perception. For the last decade, poverty has been seen as a personal deficit, rather than a social problem. Even inflation protection, previously a society-wide expectation for social programs, is no longer present in welfare design. It is almost as if even inflation has become a part of the personal deficit that people living in poverty are expected to overcome.

Welfare – at least in the form it had taken on by 1993 – had become completely unsustainable in the public view. Ten years later, after a series of reductions and restrictions, welfare programs of any kind remain enormously unpopular in Ontario. In addition, paid work outside the home continued its ascendancy in the mind of the public as the best alternative to welfare for all working-age people without disabilities.

Continually eroding benefit rates are accompanied by high levels of scrutiny into the lifestyles of recipients through webs of restrictive rules and relentless public preoccupation with fraud. Social assistance probably has not carried such stigma since its beginnings several decades ago. Precisely because of their distaste for welfare, most Ontarians likely would agree that children and people with disabilities have been unfairly trapped in that stigma. That is why it is time to look again at *Transitions* and its proposal to deconstruct Ontario's welfare system.

Are Welfare Reform and Restructuring Still Possible?

Welfare reform and restructuring are probably more possible now than they were when the original *Transitions* vision was released in 1988. Changes in the intervening years, notably the National Child Benefit initiative, discussed earlier in this paper, have opened some of the necessary doors to reform. In terms of public mood, *Transitions* certainly had more in common with the anti-poverty initiatives of the 1930s and 1960s, when poverty was seen as a societal or macroeconomic issue more than a personal deficit. But *Transitions* also was deeply interested in practical, personal solutions for employable adults – solutions that resulted in lasting labour force attachment, a view that is much in line with the today's public mood.

Essentially, the *Transitions* vision said:

- take programs for people with disabilities and all benefits for children *out of welfare* and provide them with legitimate, publicly popular, income security programs.

- transform welfare into a labour market program for able-bodied, working-age adults.

Reforming and Restructuring Social Assistance in Ontario: A How-to Manual for Welfare Design Technicians

This section works through the mechanics of reforming and restructuring the Ontario system over the next ten years, operating on the assumption that Ottawa will continue to complete the National Child Benefit initiative, and the Ontario system will continue to mature to the point where children can be removed from basic social assistance.

Much will have to change. As noted earlier, Ontario still pays welfare benefits according to the size and composition of the family unit and operates a number of other programs that have the effect of isolating social assistance recipients from the labour force. At the same time, these add-on programs are unfair to the working poor outside the welfare system as well as to people who both work and receive welfare.

This portion of the paper has been written with the welfare design technician in mind, although it attempts to make the arguments accessible to a general audience.

Stop the 'Clawback'

Ontario could stop 'clawing back' NCBS benefits from welfare families. There are several considerations around the timing of this move. Ontario should consider its *timing* for stopping the clawback, so that this occurs at a time when there is greater advantage to the restructuring exercise and ultimately to those affected:

- Time will be needed to make all the appropriate changes to automated systems.

- It would be best to stop the clawback just in advance of a federal increase to the Canada Child Tax Benefit, so that all low-income parents are able to obtain the full amount.

- Lead time is needed to change legislation.

- Social assistance administrative bodies will need time to make needed adjustments, train staff and appropriately inform the public and recipients.

Accordingly, June 2006 would be a good target date for accommodating these timing needs.

Restructure the Ontario Child Care Supplement (OCCS) for Working Families to Create a New Benefit for Children in Ontario

The OCCS is similar to the federal Working Income Supplement that was eliminated from federal child benefits in 1997. It is payable only to families with children under age 7. The

OCCS could be redesigned for children up to the age of 18, harmonized with the NCBS rules and re-branded as a Child Benefit for low-income children in Ontario.

A number of rules would have to be synchronized, including:

- residency and other eligibility rules
- income rules, so that the Ontario benefit would have a true income test as opposed to an earned income test (this change would be profound as it means that persons without work would be eligible for the benefit)
- income thresholds, taxback rates and breakeven points.

There certainly will be some valid criticism of this approach, as the idea of two identical benefits seems to stand directly in opposition to the NCB principle of removing overlap and duplication. Nevertheless, the experience of other provinces at various stages in the restructuring exercise suggests that 'what works' is either an integrated or dual federal and provincial presence in income security for low-income children.

Provincial and territorial governments want and need to be publicly associated with such a program. Of course, Ontario and the federal government could harmonize delivery of the benefit and have joint visibility on a cheque or statement to recipients. Regardless of whether it is one cheque or two, the important thing is to move away from the current situation, in which these related benefits have real, complex differences in design, delivery, eligibility and appearance.

Two large problems face the redesign of the OCCS. To keep costs realistic, the value of benefits for children under age 7 would have to be reduced in order to pay for the extension of the program to children up to 18 years of age. At the same time, conversion from an earnings-tested model to a true income-tested program would have to take place. To minimize the impact of this benefit reduction, Ontario could phase out the current design over seven years and 'grandfather' parents who already receive the OCCS at current levels. All others would receive the new lower benefit. The new design would be completely phased in by 2013.

If harmonization in child benefit design can be achieved, further work can begin in earnest on other issues, such as the real effect of combining recovery rates on the combined benefit. Harmonization has been largely unexamined up to this point, simply due to the sheer complexity of the interface between the two program designs. Moving to a common design will reveal further issues that can be tackled at a later date.

A longer-range but desirable goal for provincial and territorial tax credits would be the pan-Canadian harmonization of provincial benefits, so that they become integrated and portable.

Redesign Social Assistance Rates

Redesigning social assistance rates is the most complicated aspect of restructuring, especially in Ontario. In this province, welfare rates are designed as a set of 'building blocks.' For example, the rate for a couple is equal to an amount added on to the single rate plus the single rate. The rate for a mother with two children is the single rate plus an amount for the first child plus an amount for the second child. This building block design makes redesign more

complex, as the rates for adults and children in various combinations are so intertwined.

A second problem emanates from what is known as the single-parent supplement, meaning that the first child in a sole-support family is paid a rate equivalent to what a second adult is paid in a two-parent family. The significance of the single-parent supplement is that it will take a much higher child benefit to wash out the value of the current welfare benefit.

Finally, Ontario pays basic needs benefits in addition to shelter rates such that each part of the rate (basic plus shelter) makes up the overall maximum benefit. Both basic and shelter benefits are paid on behalf of children in both two-parent and lone-parent families.

The Technicalities: Fixing the Building Block Problem and the Single-Parent Supplement

Before February 2003, welfare technicians believed that the NCBS would continue to be offset in Ontario and ultimately would grow to the point that welfare rates would be washed out by the NCBS. At that point, clawbacks would stop and the NCBS (along with the basic CCTB) would become the child income program for all Canadian children. Although Ontario is not required to follow Ottawa's directions, the 2003 federal Budget request may have had some bearing on the decision to pass through the more modest 2004 increases in the NCBS.

Should Ontario nevertheless decide to restructure, the province can avoid some of the particularly high costs it would occur in the rate matching exercise by changing its methodology. This restructuring involves moving from what is known as the *difference* methodology to the *designated* methodology.

The *difference* methodology is a 'building blocks' approach to benefit design, whereas the *designated* approach simply sets out or designates a benefit amount for a particular family. Individual rates for components of the benefit structure do not have to add up (single rate plus first child plus second child and so on). The distinction between difference and designated was first put forward by Battle and Mendelson for purposes of comparing child benefits among jurisdictions in *Benefits for Children: A Four Country Study*. Battle and Mendelson faced one of the less tractable problems in attempting to compare and contrast income security programs across national boundaries.

> To undertake this study, we first had to develop a workable and consistent definition of 'child benefits.' Despite the similarities of the four countries, this task has proved surprisingly difficult. We ended up using two definitions.
>
> One approach defines child benefits as income benefits *formally designated* to help pay for children's expenses. For example, a single childless individual in a Canadian province might get say ... $500 a month from social assistance, while a lone parent may get an adult benefit of $700 and a benefit intended for the child of $100 a month. Using the 'designated benefits' methodology, the children's benefit would be $100 a month in this hypothetical example.
>
> The other approach to defining child benefits is to look strictly at the *difference* between what a household gets when a child is added on. Using the difference method in the above example, the children's benefit would be the difference between what an adult gets with a child and what the same adult would get without a child and everything else being equal. Using this definition, the child benefit would be $300 a month (i.e., $700 for the parent + $100 for the child equals $800 for the lone parent family, minus $500 for the single adult) [Battle and Mendelson 2001: 4].

Restructuring welfare benefits also would involve a complex exercise in rate matching so that low-income families do not lose as a result of rate restructuring. It appears that British Columbia moved to a designated approach to benefit design when it created its innovative BC Family Bonus program in 1996.

In Ontario, the *difference* approach to child benefits is built into social assistance rates. For example, the maximum rate for a single adult (prior to increases to take place in 2005) is $520 a month. However, the rate for a mother with one child under age 13 is $957 a month. That is a difference of $437. Within that $437 are shelter benefits of $186. The remaining $251 is the basic child benefit within welfare. It is this $251 in welfare benefits to the child that must be washed out by our proposed new system of provincial and federal child benefits, in order to take this child out of welfare without losses to the family. In other words, $251 a month must be found elsewhere.

We now look at how this rate-restructuring deficit could be made up using both the *difference* and *designated* approaches to benefit calculation.

Using the Difference Approach to Benefit Design

Using the 2003 NCBS rate[4] for a first child, the supplement would support about $122 a month of the rate-restructuring deficit. This would still leave a shortfall of $129 a month ($251 - $122 = $129).

Earlier, I recommended that the Ontario Child Care Supplement be redesigned for children up to the age of 18, harmonized with the NCBS rules and re-branded as a benefit for low-income children in Ontario – at considerable cost to the province. However, even if Ontario were able to fully extend a new child benefit to all poor families equal to the value of the current OCCS rate of $92 a month, the rate-restructuring deficit in this household would still be $37 a month ($129 - $92 = $37).

Because Ontario currently uses the *difference* or building block methodology, the only option left at this point would be to raise the single welfare rate from $520 to $568 per month. This would make the costs of restructuring higher for the province, because the rate increase would affect all childless people on welfare as well as parents of children involved in the restructuring exercise.

Using the Designated Approach to Benefit Design

The purpose of using the *designated* approach is to ensure that families that lose their welfare benefits for children receive new amounts from all sources (both child benefits and welfare payments) that at least equal what they received before. The mechanics of this approach in the current example is explained in the next paragraph.

Instead of matching each building block, we would start with the $122 a month in NCBS and the $92 a month available through a new benefit for children in Ontario ($122 + $92) or $214 a month. Deducting this amount from the $957 in rates we need to match, we are left with a deficit of ($957 - $214) or $743 a month. Under the designated methodology of setting rates, we simply would *designate* an amount of $743 a month as the new rate for a lone parent in a family receiving social assistance. In this way, the for-

mer rate of $957 per month from all sources is preserved.

Under the designated approach, benefits do not have to conform to the building blocks that comprise them. Single people receiving assistance would not move from $520. Their rate would have to be reviewed independently of this exercise. The benefit matching required to restructure benefits for children, retaining equal or greater value, would be complete.

The designated approach is far less costly than the difference approach because:

- each rate is designed or *designated* on its own – one rate does not depend in the same way on the *difference* between itself and every other rate paid

- the dollar amounts paid in the form of welfare versus child benefits for a particular family configuration can be adjusted (or *designated*) up or down without causing the need for every other rate to be adjusted to account for the *difference* between itself and the other rate.

Calculating the Single-Parent Supplement Using the Designated Method

The amount of the single-parent supplement within welfare programs, using the *designated* method, is equal to the difference between the single welfare rate and the new *designated* single rate for a lone parent.

This exercise of rate matching using a *designated* benefit amount can now be repeated for each rate, as shown in the table below.

Simplify Shelter Benefits

Ontario and several other provinces divide their welfare benefits into two components – a basic benefit and a shelter benefit. For example, we saw earlier how Ontario's $457 monthly benefit for the first child in a lone-parent family is divided into a basic component of $251 and $186 a month for shelter. Ontario pays the $186 for shelter for any second person in a benefit unit. It does not distinguish, for instance, between the

Family type	NCBS	New provincial child benefit	Current welfare benefit (2004)	New 'no loss' designated welfare benefit
Single parent and 1 child	$122	$92	$957	$743
Single parent and 2 children	$105	$92	$1,086	$675
2 parents and 1 child	$122	$92	$1,030	$816
2 parents and 2 children	$105	$92	$1,178	$767

presence of a first child in a lone-parent unit and a second adult in a two-parent unit.

If Ontario used the designated approach to restructure benefits for families with children, the province would be faced with the option of dividing up the new designated benefit into a shelter amount and a basic benefit amount. In the example we have been using of a single parent and one child, $743 could be divided into a shelter benefit (currently $511 for a two-person unit) and a basic benefit of $232.

Unpopular as this may be, it is not recommended here that welfare rates be increased, especially in the form of shelter benefits. First, there is no evidence that, in the absence of rent controls, the new money would go to improving access to accommodation for people on social assistance. Indeed, there is plenty of anecdotal evidence to suggest that landlords would use the opportunity to raise rents.

Most income security programs do not specifically recognize shelter costs even when they take into account the income of the target group covered. The federal Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) are good examples. However, when monthly benefit rates are tied to monthly rental levels, markets have a tendency to levy charges that approximate the amounts that people receive from income programs. Accordingly, there is one way that restructuring could benefit people on social assistance – i.e., to take the opportunity to pay one overall rate that is not differentiated according to shelter and basic needs.

There are several persuasive reasons to move in this direction:

- Benefits already have eroded by more than 35 percent in real terms since 1993 due to the combination of rate reductions and inflation, which translates into very low monthly maximums.
- The majority of recipients in market rental accommodation receive the maximum benefit in any event, especially in urban areas.
- Landlords and tenants would make rental level decisions without being influenced by 'how much welfare will pay.'
- A significant and costly aspect of administration (collection of rent receipts) would be removed.
- Overall benefit design would be greatly simplified.

Accordingly, it is recommended that Ontario move to one overall set of designated social assistance rates that do not distinguish between basic and shelter benefits. Overall rates could be reduced where recipients reside in subsidized or other very low-cost shelter arrangements.

Extend Eligibility for Health and Other Benefits

One of the impacts of taking children out of Ontario's welfare system is that social assistance benefits will go down. This reduction has the effect of dramatically lowering *breakeven levels*. The breakeven level is the point at which outside-of-welfare monthly income reduces social assistance benefits to zero. It would take less outside income to reduce benefits to zero as the initial amount would be lower.

In the example of the lone parent of one child we have been using, taking the child out of social assistance results in a reduction of welfare

benefits from $957 a month to $743 a month. For income-tested programs that provide benefits only in the form of income, such as the federal Guaranteed Income Supplement, this does not create a problem for benefit designers, as the outside income has increased to the point that the income-tested amount is presumed to be no longer required. However, for welfare programs, this causes problems because many other in-kind benefits are linked to the receipt of welfare.

Currently, Ontario provides prescription drugs without charge to social assistance recipients. The working poor, on the other hand, receive their prescription drugs through the Trillium drug program, which has a variable deductible formula that imposes charges (albeit on a progressive geared-to-income basis). Social assistance recipients receive basic and emergency dental services, but the working poor typically have no subsidized dental care.

With lower breakevens, people moving from welfare to work at low-paying jobs would have to pay Trillium deductibles and lose subsidized dental care. They also would become ineligible for back-to-school and winter clothing benefits for their children. It is often the loss of these benefits that causes working poor families to go back on welfare. One alternative would be to retain or 'grandfather' breakevens for clients at the time of restructuring, so that these families would not lose their in-kind benefits. The more lasting solution is to make the in-kind programs available outside of welfare.

Two sets of solutions would be required. The first set relates to programs that exist in some form inside welfare now, such as prescription drug benefit programs and dental care. The second set relates to those programs that have no counterpart outside of welfare – e.g., back-to-school and winter clothing benefits.

Programs inside welfare, such as Ontario Drug Benefit Plan, basic dental, back-to-school and winter clothing benefits, should be extended to all low-income Ontario residents who pass a financial test whereby their incomes are below the current social assistance breakeven levels. Breakevens vary according to variables too numerous to mention here. Consequently, the financial test based on current or higher breakevens should be designed to take into account the common variables that reduce or raise breakeven levels. This approach would achieve the following goals:

- It would prevent current recipients of social assistance from losing benefits as a result of restructuring.
- It would extend needed benefits to the working poor as a valuable incentive to remain in the workforce.
- It would decrease the unpopularity of welfare programs that are seen as rewarding non-work while punishing work effort.

If the Ontario government chooses to pursue child benefit reforms, then programs that now serve the working poor outside welfare – such as Trillium Drug and Children In Need Of (dental) Treatment (CINOT) – could be retained and continue to serve other Ontario residents.

Standardize Payments for Children of All Ages

Two amounts are paid for children in Ontario under welfare: one for children 13 and older and a lesser amount for children under 13.

The NCBS makes no distinctions based on the age of children in its benefit structure. In restructuring its benefits, Ontario has two choices:

- retain the current benefit distinction between 0-12 and 13+
- equalize upwards to the 13+ level.

There is evidence to show that older children have greater needs, but equally persuasive evidence that very young children also have unique requirements. While program complexity and sensitivity are important features of good benefit design, these factors must be balanced with the desirability of moving toward the transparency and simplicity of the mature child benefit model. This paper recommends the design of a uniform, portable child benefit – a national approach, paying benefits that are adequate to meet the needs of children at any age. Consequently, child benefits under the designated approach to social assistance design should be equalized at the higher rate for children. Using our earlier example of a lone parent with one child younger than 13, a decision to raise the amount of the benefit to equal the 13+ rate would require the designated benefit to increase from $743 to $786 per month.

Extend Reforms to the Ontario Disability Support Program (ODSP)

Child benefits under ODSP were not reduced in Ontario to the extent that they were for able-bodied recipients and remain 21.6 percent higher than the rates under Ontario Works. Children's benefits in ODSP could be restructured in the same way as for other parents receiving social assistance, although the fact that these benefits are higher makes them more difficult to reform through the washout process of the NCBS.

The methodology of the reform would nevertheless be similar, as benefits for people with disabilities are paid using the same building block or difference approach as is present in welfare benefits. In fact, the benefit structure

Family type	NCBS	New provincial child benefit	Current ODSP benefit (2004)	New 'no loss' designated welfare benefit
Parent and 1 child	$122	$92	$1,324	$1,110
Parent and 2 children	$105	$92	$1,589	$1,178
2 parents and 1 child	$122	$92	$1,582	$1,368
2 parents and 2 children	$105	$92	$1,770	$1,359

for ODSP is simply 21.6 percent higher overall with an additional amount to compensate for the extra needs associated with having a disability.

Moving from the difference approach to the designated approach would have the desired effect of creating a portable child benefit for recipients of ODSP. The rate-matching exercise, using a designated benefit amount for ODSP families, results shown in the table.

Related Reforms

I have argued in this paper that the unpopularity of welfare programs both in Ontario and across Canada can be traced directly to the fact that their design impedes rather than supports employment. Welfare benefit structures were designed for 1966, a time when people on social assistance were considered to be outside of the labour force. Welfare benefit structures were designed to meet need and only nominally to support any kind of sustained work effort. Since then, many things have changed. Welfare recipients with children no longer see themselves as 'employed' in the home. Wage-based work has become the desirable norm for both men and women in our society. At the same time, welfare programs have made work and training requirements much more stringent.

However, the benefit structures have remained the same. People who earn a dollar lose a dollar. Restructuring the social assistance system to create a portable child benefit (effectively removing the payment for children from welfare) means that a parent can re-enter the labour force safe in the knowledge that the benefits to her child will remain in place until she is earning $22,615 a year in net income – an amount subject to yearly indexation.

A federal and provincial child benefit, one that was adequate, truly portable and harmonized with the social assistance system, would mean that low-income parents could begin to compete in the labour market on the same basis as single people and couples who do not have children.

This reform raises important issues about re-orienting benefit programs in other ways to both meet need and support work effort. Welfare cannot be deconstructed without understanding the manner in which low-income people engage in the workforce.

Low-Income People and Work

Consider the monthly figure of $1,066. That is the gross amount of the hourly minimum wage of $8.00 that will be paid in Ontario as of February 2007, multiplied by the average number of hours (31) worked per week by full-time, minimum wage earners in Ontario.

Canadians and Ontarians have a more or less articulated expectation that working-age adults should work, if they are physically and mentally able. We feel strongly that people should be prepared to work if they can secure a job, rather than collect welfare. Viewed in the light of the amount of $1,066, however, this expectation translates into the notion that $1,066 is a viable alternative to welfare.

The amount of $1,066 a month works out to just short of $13,000 per year. Without too much imagination, it should be possible to understand that only a person in very special circumstances could afford to work *and* live on this much money two years from now, especially in the Greater Toronto Area or the City of Ottawa. For example, low-cost shelter benefits in the

context of an extended family with multiple formal and informal supports would comprise a 'special situation.' There is little point in going through the cost of rent, transportation, work-related expenses, food and personal necessities to demonstrate that this income would be insufficient to make paid work viable.

Canadians often formulate the problem this way: "Welfare recipients could work but they receive too much from welfare to make work viable." In a way, this conclusion is correct: Work is often not viable. But the reason is not because welfare is too high but because the cost to work and live in most communities (at minimum or low wages) is too high. That is why the want ads stay in the store windows while social assistance caseloads stay stubbornly fixed by historical standards. For much of the postwar period, caseloads (including persons with disabilities) stood at 5 percent of the population. Currently, caseloads in Ontario stand at approximately 5.6 percent (675,000 out of a population of 12.1 million). What can be done about this dilemma? Some of the recommendations in this paper will help, such as prescription drug and dental programs paid outside of welfare.

The federal government could be called upon to make changes in Employment Insurance (EI) to ensure that all Canadians who are labour market-bound receive the benefits available through this program. EI is a program whose coverage of working age Canadians has eroded over the years. Provincial governments like Ontario's that have not increased minimum wages regularly could be called upon to increase minimum wages to restore their purchasing power to 1993 standards. In Ontario, municipalities – the level of government that is most likely to hear about poverty first hand – can be called upon to increase stopgap programs, consistent with their capacity to fund income security within their borders.[5] But for Ontario, it is unlikely that the increases will be enough in light of 11 years of cutbacks.

The Case for Income Supplements

Transitions made an important recommendation on the role of income supplementation of the working poor:

> With only a few exceptions, the working poor derive no benefit from social assistance programs ... The problems facing the working poor are severe and fundamental. They will only be resolved by reorienting the income security system to help people who are poor, but in the labour force [Social Assistance Review Committee 1988: 118-119].
>
> The provincial government should begin negotiations immediately with the federal government to design and implement a comprehensive program of income supplementation to top up the wages of low-income workers [Social Assistance Review Committee 1988: 285].

In 1988, the Social Assistance Review Committee recognized the importance of cooperative federalism in stating that it would be impossible for Ontario to go it alone on welfare reform. Today, we are preparing for renewed discussions and debate on the Canada Social Transfer, which will focus on the completion of the National Child Benefit initiative and the restructuring of social assistance. Income supplementation should be a part of these discussions, for any income supplementation plan would have to be harmonized both with social assistance and the NCB.

In preparation for those discussions, there are two questions to ask:

- What is the amount above $1,066 a month required for people to meet the costs of working and living, so that they can stay in the labour force on a long-term basis?

- What is the level and mix of other services, such as non-cash benefits, housing and child care required to meet the same goal?

In 1988, *Transitions* recommended $150 a month in supplements for low-income adults who worked at levels where they no longer qualified for welfare but whose wages were insufficient to meet their needs. Adjusted for inflation, the amount would now approximate $200 a month. Granted, many other variables and assumptions have changed in the intervening period, but $200 a month is a good level to begin the discussion. The Social Research Development Corporation (SRDC) is continuing to evaluate its well-known self-sufficiency project (SSP). It has found that income supplementation can save welfare dollars. The proposal in this paper supports full-time as opposed to time-limited supplementation as evaluated by SRDC.

Finding a New NCB Investment Model

I have argued that the 2003 federal Budget announcement (discouraging the offset of new increases to the NCBS) would cause serious damage to the welfare restructuring mechanism built into the original design of the National Child Benefit initiative. Unpopular as the claw-back is, it is not possible to annul this funding mechanism for reinvestment and, at the same time, expect investment programs (under the NCB) for children to grow.

There has been a moral imperative for provinces to spend all money realized through NCBS offsets on programs related to its goals, and to pass on increases to those programs yearly, as the NCBS increased. The terms of this imperative have been largely met. The money has been spent. If the federal government has abandoned this investment model, where will the money for these programs, and for supporting further welfare restructuring, come from?

Even without this development, the NCB model has built-in limits to the growth potential of provincial reinvestment programs. In Newfoundland, at the point that the NCBS fully passed through to families with children, reinvestment amounts were crystallized at the value of the last offset. The same thing appears to have occurred in Nova Scotia. If Ontario restructured, the same thing would happen there – crystallized reinvestments losing value over time to inflation.

To continue increasing child-based investments, a new model for continuing the work of the NCB initiative is urgently needed. That new investment framework should look at all aspects of child-based programs. The vehicle for this new approach is the Canada Social Transfer.

NCB Redesign

The federal government, in consultation with the provinces, created a design for national child benefits with two components: the basic Canada Child Tax Benefit (CTB), now received by 90 percent of Canadian families, and the National Child Benefit Supplement (NCBS), paid to low-income families (both the working poor and those on welfare). The supplement portion was deliberately separated out to provide a

distinct vehicle, separate in reality and in law, to be recovered as the funding mechanism for reinvestment and welfare restructuring.

With Ottawa's announcements in February 2003, we are now very close to the limits of the NCB design. For if the CCTB and the NCBS are both passed on (i.e., not recovered in any way), there is no longer any requirement to separate them. Moreover, if most provinces and territories restructure their social assistance and child benefits, there is no further legal or programmatic need for the NCBS as a separate entity.

These circumstances mean that there is an opportunity to create a one-tier design for national child benefits. There are enormous advantages to this redesign, not the least of which is returning to the transparency of one overall child benefit for all children in Canada. The other advantage is renewed flexibility to reduce what some claim to be onerous taxback rates in the design of the NCBS.

The current disincentive relates to the difference in the taxback rates and thresholds for the two different components of national child benefits. The Canada Child Tax Benefit portion – the portion that is almost universally received by Canadian families – has a taxback rate that is 2 percent for one child and 4 percent for two or more children, which means that benefits above the net family income threshold are reduced at the rate of 2/4 percent for every dollar of income above the threshold. The benefit continues in reduced amounts to families up to a net income of $95,400. By contrast, the NCBS portion – that benefit which is received only by low-income families – reaches its turning point at $22,615 in net income. Thereafter, there is a drastic, steep reduction in the supplement, with a taxation rate that can be as high as 32.5 percent, reducing the supplement to zero by the time the family's net income reaches $35,000.

As long as the thresholds and break-evens are aligned with tax brackets and other federal indexation regimens, increases to the NCBS will cause ever-increasing taxback rates for low-income, working parents. We must be vigilant that we do not create an 'NCB wall,' not unlike the welfare wall we sought to take down.

A one-tier design would free child benefits from its current constraints. For example, the turning point could remain the same, but taxback rates would be made tolerable by decreasing NCBS tax back rates and increasing very slightly the rates on what is now the CTB portion of the benefit. Keen observers of the NCB have noted that the turning point for benefit reductions in 2003 was moved backwards for the first time since 1998.

Since the 2003 federal Budget, an additional complication has arisen in uniting national child benefits. The Budget's stipulation that future increases to the supplement may not be offset means that the Canada Child Tax Benefit now has *three* components:

- the basic Child Tax Benefit
- the part of the National Child Benefit Supplement that is offset or clawed back from social assistance or other child benefits
- the part of the National Child Benefit Supplement that is *not* offset or clawed back from social assistance or other child benefits.

This three-part policy does nothing for transparency, and should not survive in the medium to longer term.

The Cost of Restructuring in Ontario

Ontario now pays almost $4.6 billion (including municipal expenditures) in social assistance. It pays $460 million for prescription drugs for recipients and many million dollars more for dental services.[6]

Funding the restructuring of social assistance in Canada will require a new cost-sharing agreement between the two senior levels of government – one that jointly and fairly shares the costs of restructuring, as recommended in the *Transitions* vision. Restructuring is impossible without a new agreement because most provinces and territories have redirected their social assistance savings into reinvestment programs. They used the money to pay for programs that met the objectives of the NCB initiative.

If a province like Ontario now goes forward in good faith to restructure welfare, it begins to use that reinvestment money to pay for restructuring. The costs of maintaining the reinvestment programs could then be in question. Furthermore, the province would have to find additional funds to pay for the collateral costs of restructuring, such as:

- extending reinvestment programs such as the benefit for children in Ontario to all poor children up to age 18, not just those in welfare families ($300 million). A simple extension of benefits in the $200 million OCCS program would nominally cost $300 million
- extending in-kind benefits, such as drugs, health, and dental care, to the working poor
- merging shelter benefits into overall welfare rates, bringing some people up to a new standard rate for shelter
- developing a responsiveness program [7]
- financing the administrative, systems and human resource costs of restructuring.

All of the costs noted above are new, and they amount to about a half billion dollars.

There are certainly savings to be found in reducing welfare to an adults-only model. There will be real savings in removing welfare benefits for children through the designated approach, and there will be administrative savings achieved through simpler program designs. There are also soft, but nonetheless real, savings achieved by creating social programs that work, and that help people engage with the labour force in a sustained way.

These costs and the resulting benefits should be compared with the alternative: to attempt to restore welfare rates to something approaching 1993 levels, without reforms to the system and against all popular sentiment. The cost to restore social assistance benefits to the level they reached in 1993 (a 35 percent increase adjusted for inflation for Ontario Works and 14 percent for ODSP) would be more than one billion dollars, based on current caseloads. This cost projection is based on a 14 percent increase to ODSP levels and a 35 percent increase to Ontario Works based on current municipal and provincial costs of approximately $4.6 billion for 2003-04.

Even a more realistic costing, one that went half-way to restoring 1993 purchasing power for Ontario Works, while providing inflation protection for ODSP, would cost more than half a billion dollars. This paper has argued that the money is better spent on restructuring and supporting a system that meets the needs of a new century.

The federal government's recent suggestion that a child benefit increase should be passed on to children of welfare recipients may have at least one good side: It signals willingness to share in social assistance costs. Ottawa should agree to funding a very significant portion of the costs of restructuring through negotiations related to the Canada Social Transfer. A 50 percent contribution would not be out of line. That contribution would open the way for restructuring to take place in all provinces and territories, and permit the creation of a single child benefit for all Canadian children.

Conclusion: The Dividend Paid by Restructuring

Conclusions are as good a place as any for disclaimers. There are many elements that would make up an overall reform of the income security system in Ontario and Canada. *Transitions,* in a chapter on "Related Reforms," considered more than 30 areas – from housing to health and from emergency services to the voluntary sector. It looked at the Constitution and child care and public attitudes, all of which require change to support the *Transitions* vision. It was not possible to be as comprehensive in this paper, but it is important to acknowledge that change in all of these areas would strengthen and support welfare reform.

Although change cannot and should not occur in isolation from these complex factors, we must do what we can with the opportunities we have before us. There are certainly elements of social assistance reform that can be undertaken now, indeed much more readily than they could have been undertaken in 1988.

Ultimately, the restructuring of social assistance and child benefits in at least 11 jurisdictions will make it possible to have one overall, transparent and portable child tax benefit going to all Canadian families, but in different amounts based on their income. Manitoba and New Brunswick fully pass on the NCBS.

This is the dividend that comes from restructuring. It is an important dividend. Coupled with a new Canada Social Transfer, it will create a system of income security that values children and prepares Canada to meet the needs of the 21st century.

Endnotes

1. This paper does not address the recommendations for reform that *Transitions* made regarding programs for people with disabilities, which included disability insurance and an income plan.

2. It might be more accurate to include Quebec in the mature benefit model, although Quebec has not joined the NCB initiative and sets children's benefit levels independently from it. The common element (and the acid test for this category) across Nova Scotia, Newfoundland and Quebec is that the NCBS is passed on to all low-income parents, whether they receive social assistance or a provincial child credit. Quebec's future treatment of the NCBS will be taken in the context of a larger reform of benefits. *http://www.rrq.gouv.qc.ca/an/famille/10_01.htm*

3. Manitoba has ended the clawback. Manitoba stopped recovering the NCBS for children age six or under in 2001-02. In 2003, recovery stopped for children aged 7-12. *http://www.gov.mb.ca/finance/budget02/speech/03.html*

New Brunswick and Manitoba will not be in a position to take part in the completion of the NCB welfare reform agenda as originally envisioned, because neither take part in the recovery/reinvestment model. They are therefore not in a position to replace the welfare portion of children's benefits with the NCBS. The NCBS simply must float on top of existing benefits, leaving each of these provinces to pursue "in-province" welfare reform agendas. See Federal Provincial Territorial Ministers Responsible for Social Services. See also the CCRA website, where integrated (but not necessarily harmonized) benefits are inventoried. *http://www.ccra-adrc.gc.ca/benefits/related_programs/menu-e.html*

4. Minister Manley's Budget proposed that the provinces pass on the increase in the NCBS that took the latter to a maximum $122 a month in July 2003. With the pass-through of the 2004 NCBS, the $122 offset remains the same in Ontario. *http://www.fin.gc.ca/budtnoce/2003/budliste.htm#speech*

5. An interesting presentation noting the municipal position on restructuring social assistance was provided to the Association of Municipalities of Ontario in early 2003. *The AMO Community and Social Services Task Force, A Child Supplement Proposal* (February 28, 2003) delves into the detail of financing of restructuring changes and their impact on provincial and especially municipal finances.

6. Calculated based on the Ontario Budget 2003, plus the 20 percent share from municipalities.

7. See page 12 for a definition of "responsiveness."

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