

# Income Security for Working-Age Adults in Canada: Let's consider the model under our nose.

John Stapleton

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## John Stapleton

John Stapleton worked for the Ministry of Community and Social Services in the areas of social assistance policy and operations in senior positions for 28 years. After leaving government, John became a Fellow at St. Christopher House in association with Massey College at the University of Toronto. John works as a social policy consultant with governments, think tanks, and community groups.

In 2006, John became a Metcalf Fellow looking at issues of income security for working-age adults. In 2007 as part of his Fellowship, he published, *Why is it so tough to get ahead? How our tangled social programs pathologize the transition to self-reliance.*

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## Summary

When old-age allowances were first introduced in Canada early in the last century, it was emotionally wrenching to qualify. Adult children had to prove they could not afford to support their aging parents. When a senior who had qualified for benefits died, the state recovered the benefits from the estate. While seniors lived on old-age benefits, the state tested their means relentlessly. Decision-making boards, comprised of local people, closely reviewed the applications of their neighbours, posing intrusive questions about savings that applicants might have been hiding from view. This type of program has long been unacceptable to Canadians.

Our income support programs evolve to match the attitudes of our people. There is a pattern in the way these changes occur – the DNA sequencing of income support programs, if you will. And if we can look at this pattern of development objectively, it may give us important clues about how income security will evolve in Canada into the future – for all Canadians, not just seniors and children.

In particular, it may tell those of us who are interested in addressing poverty among working-age adults, if not how “best” to address this issue, then at least how to address it in a way that fits most comfortably with our national character.

In September 2007, Angus-Reid polled Canadians on their attitudes to poverty and found the following.<sup>1</sup>

- Most Canadians think poverty is a serious problem.
- Most Canadians believe governments are not providing the right solutions.
- Many Canadians think poverty is a *structural problem* resulting from the fact that not all people get to the same starting line in life. On the other hand, a significant minority of Canadians think poverty is a *personal deficit* – something poor people should overcome on their own.

Because there is such an important split in Canada between those who perceive poverty as “structural” and those who see it as “personal,” we tend to build income security programs, over time, that speak to both perceptions. Benefit-based programs like the Old Age Security (OAS) system and the Canada Child Tax Benefit (CCTB) help to overcome the structural problems. Incentive-

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<sup>1</sup> [http://www.angus-reid.com/polls/view/28112/americans\\_canadians\\_concerned\\_about\\_poverty](http://www.angus-reid.com/polls/view/28112/americans_canadians_concerned_about_poverty)

based programs like registered tax instruments and matching government contributions help people to do it on their own.

The attitudes in the Angus-Reid poll also explain why welfare approaches are dying out and “in-work” benefits are gaining ground. Canadians want something done about poverty. They don’t want to keep on tinkering with the welfare programs that perpetuate poverty by making it so hard to escape. The income security programs Canada has put in place for seniors and children may prove to be the model Canadians are looking for.

In this paper, I will trace the evolution of income security programs for seniors and children in Canada, looking at patterns to see what we can learn about reforming income security for working-age adults.

Income security programs for seniors and children started as simple welfare programs. As they evolved, they developed four features:

1. a base benefit – widely available federal benefits;
2. an income-tested benefit (extra help for people with low incomes);
3. registered, tax-saving instruments; and
4. matching or separate contributions to reward individual savings.

The common program features are supportable in the long-term. They work. And they are acceptable to Canadians. People believe the programs are fair because there is something for everyone, but more for those who work and save, less for those who can’t or don’t. People believe they are progressive because they support people who are in need, so that they may become more able to support themselves. At the same time, people appreciate how these programs provide greater rewards to those who take steps to save money and take care of themselves.

If that is the basic “DNA” for successful income security programs in Canada, should we not think twice before we attempt to create something entirely new and untested, such as a Guaranteed Annual Income program for all Canadians?

The fact is that we do seem to be in the process of creating an income support system for working-age adults that echoes the features of Old Age Security and Child Benefits. The Harper government introduced three new programs in the last three years for working-age adults that follow this model. They are:

- the Working Income Tax Benefit (WITB),
- the Registered Disability Savings Plan (RDSP), and
- the Tax Free Savings Account (TFSA).

Each program fits neatly into the second, third, and fourth categories above.

If this is the pattern our income security programs follow, maybe we should start being explicit about it. It is just possible that, if we do so, change will happen more quickly and easily. And if we start talking out loud about the fundamental structure of our income security programs, it just may become easier for Canadians to understand these programs and to take better advantage of them.

# A Short History of Income Security Programs in Canada

## The Evolution of Income Security for Seniors

In 1929, any person aged 70 or older who had been a Canadian citizen for twenty years and an Ontario resident for five could apply for an allowance of \$20 a month. To qualify, they had to pass a strict means test. Recipients were allowed to earn an additional \$125 a year. Since the two amounts added up to \$365 a year, the program was called the “dollar a day” program. It was an old-age security program in name only, however. In reality, it was a grossly inadequate welfare program for seniors.

In *Decades of Service*,<sup>2</sup> Dr. Cliff Williams chronicles the beginnings of Ontario’s old-age income system. He notes that within three years, the number of eligible applicants had grown to twice the number the government had expected. Rising costs led the Minister of Public Welfare to limit the powers of the local boards that oversaw the scheme. “The local people, he said, were ‘*too easy*,’ allowing the families of applicants to escape the legal obligations to support aged and indigent parents.”<sup>3</sup>

By 1932, Ontario began filing claims against estates of deceased recipients. All three Ontario political parties argued in the Legislature for tighter rules, citing numerous instances of fraud.<sup>4</sup>

Old Age Assistance was changed to the Old Age Pension<sup>5</sup> program in the post-war period but kept a means-tested supplement. In 1951, Progressive Conservative Premier Leslie Frost faced the Ontario legislature to say that the supplements were “a huge mistake.”

“With our experience,” Frost said, “we will not do that again. There is nothing but tears and distress. ... Never again would I want to get into the recriminations and misunderstandings which arose from that type of program.”<sup>6</sup>

It took another 20 years to find a real answer to seniors’ poverty. The solution was an integrated approach to income security through:

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<sup>2</sup> Dr. Clifford Williams, *Decades of Service: A History of the Ministry of Community and Social Services*, Ministry of Community and Social Services, Queen’s Printer for Ontario, 1984.

<sup>3</sup> *Ibid*, p. 8-9.

<sup>4</sup> *Ibid*, p. 9.

<sup>5</sup> True pensions require contributions from program participants. A payroll tax that required contributions from participants in the Old Age Pension was implemented in the 1950s but was subsequently cancelled.

<sup>6</sup> *Ibid*, p. 51.

- Old Age Security,
- the Guaranteed Income Supplement (GIS) for low-income seniors, and
- the Canada Pension Plan (CPP).

RRSPs, which were first introduced in the 1950s, became popular in the 1970s. This gave people a real incentive to save for retirement.

What did these changes mean? They meant that we took seniors off of welfare and, for the most part, took them out of poverty. This approach has been working for 40 years.

### The Evolution of Child Benefits

Child benefits were first paid under welfare-based Mothers' Allowances that began in the second and third decades of the last century. The first universal program in the post-war period began as family allowances plus personal income tax exemptions and deductions. Low-income families who depended on basic welfare benefits were eligible for Family Allowances. This program was replaced by Child Tax Benefits in 1979 and again in 1993.

In 1972, the federal government introduced registered savings instruments to support children's education (RESPs). In 1998, governments began the process of removing children's benefits from welfare programs with the federal introduction of the income-tested Canada Child Tax Benefit (CCTB). This process is being completed in Ontario through the introduction of the Ontario Child Benefit (OCB).

The federal government, in the new millennium, added matching saving incentives when it introduced the Canada Learning Bond (CLB) and Canada Education Savings Grants (CESG). By 2007, most provinces had introduced child benefits to replace, and augment, the child's portion of welfare payments.

These changes mean that we are taking children off of welfare and placing Canada on a hopeful course to ending child poverty. The next logical step is a stronger, more adequate set of benefits for all low-income children, supported by all Canadians.



## What Do Seniors' and Children's Programs Have in Common?

Income security programs for children and seniors in Canada have four common features. These programs consist of accounts<sup>7</sup> for seniors and children.

1. A Base Benefit – widely available federal benefits
  - Old Age Security and CPP for seniors
  - Child Tax Benefits for children
2. An Income-Tested Benefit (extra help for people with low incomes)
  - Guaranteed Income Supplement (GIS) for seniors, plus a variety of provincial supplements and add-ons
  - National Child Benefit Supplement and provincial supplements for low-income families with children
3. Registered Tax-Saving Instruments
  - RRSPs for seniors
  - RESPs for children and youth
4. Matching or separate contributions to reward individual savings
  - Tax exemption on RRSP contributions
  - Canada Learning Bond, Canada Education Savings Grants, Millennium Scholarships, Canada Student Loans, and an array of provincial contributions

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<sup>7</sup> An account is a formal contractual arrangement where people both contribute and withdraw income or benefits. A bank account is one example, while a tax account between the government and a taxpayer is another. Accounts are often accompanied by regular statements of deposits, withdrawals, and changes.

## Do We Have Similar Programs for Working-Age Adults?

In short, no. However, there do exist programs, benefits, and policies (three of which are new) with elements of the “DNA” needed to replicate an income security program for working-age adults. It is not impossible that the program features noted here could assemble themselves into a framework very much like what we’ve described above.

1. A Base Benefit – widely available federal benefits
  - The federal tax account and Employment Insurance (EI) may not be true accounts since participation does not lead necessarily to benefits during one’s lifetime. However, they could be pressed into service to create a new and meaningful federal account along with the Canada Pension Plan (CPP).
  - Most unemployed, working-age Canadians pay into an EI account, yet receive no benefits. This has been particularly true in the past two decades. When Unemployment Insurance was renamed Employment Insurance in the 1990s, the federal government effectively created a cash cow for the Canadian treasury. They now collect mandatory EI premiums from employers and employees, yet fund fewer programs for unemployed adults. This will change in 2009, when the EI program surplus will be handled by a new Employment Insurance Commission and no longer be transferred out of the program into general revenue. The creation of the new Commission in Budget 2008 could mark the beginning of a new role for EI, one that might benefit all wage-earners.
  - The tax account is an account into which most adults pay tax, but many receive little or no net benefit. For example, when income falls to poverty levels, tax filers do not receive the tax refunds wealthier people get when they contribute to an RRSP. Tax benefits only exceed tax liability for the very poor. We can do better than this. Most OECD countries do.
  - Working adults pay into CPP. This is perhaps the only federal program that has not been subjected to widespread cutbacks since its inception in 1966. That is because it was set up through a constitutional amendment, and it is now protected

by an amending formula which requires a two-thirds majority among the provinces to implement major changes.

2. Income-Tested Benefits (extra help for people with low incomes)
  - Fewer than 40% of unemployed people qualify for EI benefits. In some places, the proportion is much lower. In Toronto, for example, only 22% qualify.
  - Welfare benefits comprise only 4% of all income security expenditures in Canada. Their importance continues to decline as does their popularity with Canadians.
  - GST credits provide modest refunds to low-income people.
  - The federal Working Income Tax Benefit (WITB) was introduced in 2007 as an incentive to help people receiving public assistance to rejoin the workforce. It is small but significant in that it is the first federal income-tested benefit payable to all low-income families with earnings intended to supplement their earnings.
  
3. Registered Tax-Saving Instruments
  - Until the Tax Free Savings Account (TFSA) was introduced in the 2008 federal Budget, there was no registered instrument to support adults trying to save money for use during their working lifetime. This program is also the first registered instrument widely available to working-age Canadians allowing them to withdraw contributions for purposes other than retirement or education.
  - Until the Registered Disability Savings Plan (RDSP) was introduced in the 2008 federal Budget, there was no registered instrument for adult persons with disabilities.
  
4. Matching or separate contributions to reward individual savings
  - For the most part, there are no matching contribution programs for working-age adults. The RDSP is the only true exception.

## A Note About CPP and EI

It can be hard to see the four features of our income support programs, because two large programs, CPP and EI, were set up through constitutional amendments. Each of these is funded through special payroll taxes and employer contributions. Working Canadians see these taxes and contributions on their pay statements. Both required constitutional amendments because special payroll taxes are a matter of provincial jurisdiction.

Constitutional change for the purpose of income security reform is no longer considered politically possible, because our Constitution's amending formula requires provinces to agree. Thus, both EI and CPP tend to bear the earmarks of their vintage, while other programs and policies have been more open to moving with the times. The constitutionally protected programs (especially CPP) are effectively exempt from the policy and political forces that alternately reduce or improve our other income security programs.

However, both CPP and EI could play a larger role in a modern income security strategy for Canada. For example, the report prepared by the Task Force on Modernizing Income Security for Working-Age Adults, titled *Time for a Fair Deal*<sup>8</sup>, recommended significant changes to EI. Disability groups are calling for overhauls to both Canada Pension Plan – Disability (CPP-D) and EI sickness benefits. Despite the Constitution and its amending formulas, CPP and EI are such large programs that they must be included in any strategy to reform income security in Canada. And if we can't change them, we must work around them.

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<sup>8</sup> Task Force on Modernizing Income Security for Working-Age Adults, *Time for a Fair Deal*, May 15, 2006, [http://www.torontoalliance.ca/MISWAA\\_Report.pdf](http://www.torontoalliance.ca/MISWAA_Report.pdf)

## A New Model for Income Security for Working-Age Adults

When thinking about how to address poverty among working-age adults, we should consider the elements of income support that have worked so well to alleviate poverty among seniors and children. For these two groups, we have, in effect, created an “account-based” model. The table below shows how this model could be adapted for working-age adults, particularly those at risk of, or living in, poverty.

<b>An Account-Based Model for Income Security Benefits<sup>9</sup></b>			
	<b>Children</b>	<b>Seniors</b>	<b>Comparable programs for low-income working-age adults</b>
<b>Base Benefit</b>	CCTB	CPP/OAS	EI
<b>Income-Tested Benefits</b>	National Child Benefit Supplement (NCBS)/Universal Child Care Benefit (UCCB)/OCB in Ontario	GIS	Welfare the GST refundable credit other refundable credits and the WITB
<b>Registered Tax-Saving Instruments</b>	RESP	RPP RRSP	TFSA RDSP
<b>Matching contributions</b>	CLB/CESG Millennium Scholarships	tax credits and/or exemptions	an EI account could pay for training based on EI contributions over time RDSP matching credits

<sup>9</sup> The accounts that could work together include Canadians’ tax accounts, including all refundable credits, CPP, EI, and Old Age Security Accounts.

Such a model would:

- create widely available support through a federal tax and EI account, where contributions would result in some minimum level of refundable credits;
- create low-income benefits to help alleviate working poverty by, for example, further developing the Working Income Tax Benefit (WITB);
- use instruments such as the recently-introduced Tax Free Savings Account (TFSA) to allow low-income adults to contribute money that may be withdrawn before retirement; and
- create programs to match contributions to TFSA to help low-income adults save for goals that enhance their quality of life and that of civil society.

This approach is a shift from the current welfare model for working-age adults. Rather than limiting support to only those in dire need, this model stresses transition to greater self-reliance as the most important goal. Shifting to a model of this kind could be the start of a transition to new types of programs that entirely replace welfare, while providing all Canadians with one account that shows all of their benefits in one place.

## Building a Strategy to Reduce Poverty Among Working-Age Adults

The welfare system for seniors evolved from means-tested programs in the 1920s to the current mix of income supports. These supports have greatly reduced poverty among seniors. We should consider using the same approach to restructure welfare for working-age adults. The new model would be a set of programs that recognize the current realities of the workforce and the aspirations of working-age adults.

This approach could help move low-income families out of poverty and prevent second and subsequent generations from becoming an underclass. This model could be more effective than trying to restore tax and welfare benefits to earlier levels – a politically unpopular strategy. The account-based model may also be more politically realistic than the one-size-fits-all idea of a Guaranteed Annual Income.

### How Would the Account-Based Model Work?

Each of the elements in the new model could be part of a government account. Credits could be earned and used over a lifetime. To accomplish this, governments would have to take these steps.

- Consider merging the EI and CPP with tax accounts as the base account for working-age Canadians for the purposes of reporting to Canadians.
- Ensure that adults who pay into EI earn some form of training credit.
- Replace welfare supports for children in low-income families with highly developed income security benefits.
- Transform welfare for working-age adults into income supplements based on earnings.
- Provide pension-type benefits for those who have no reasonable chance to join the competitive labour force.
- Provide emergency benefits through a social fund created expressly for emergency situations, such as an eviction.
- Provide housing benefits and shelter benefits directly through the tax system, rather than through welfare payments for rent.
- Provide affordable childcare to all families who need it.
- Allow adults to move from social assistance to self-sufficiency by removing asset limitations.

- Allow the TFSA to support low-income people to save tax-free for education or old-age, as higher income people are allowed to do.
- Implement the WITB in a way that supports work by rationalizing tax credits into a system that aligns with other programs.
- Provide Canadians with a single statement which lists all elements of their individual account, such as EI training credits, RRSP and TFSA deduction limits, CPP contributions, eligibility for programs such as the WITB, and provincial and territorial credits.

There are other, complementary steps, government needs to take to make this possible.

- Create meaningful federal refundable tax credits that provide a base benefit for all Canadian adults. Modernizing Income Security for Working-Age Adults (MISWAA) suggested a yearly base amount of \$2,500. The GST Credit as it is now is too low to be a meaningful part of the income security system. If we can marshal all the single-purpose, refundable credits in one place and then add to them, we would have the nucleus of the required federal support.
- Modernize both EI and CPP to reflect the Canadian workforce and its requirements. EI's current eligibility requirements are too onerous. The CPP definition of disability does not sufficiently support workforce re-entry.
- Create matching contributions to registered instruments, building on the RDSP model, that will help all low-income working-age adults save for goals that enhance quality of life.

### Making the New System Transparent for Canadians

A significant minority of low-income Canadians work “under the table” for cash. They do this because they assume that they will be less well off if they report their income to the government. That means they have no tax account, no EI or CPP account, and no retirement pension. Many of these people come to community clinics at age 60 to ask how to apply for Canada Pension. They are shocked when they discover they are not eligible.

So, once we have the architecture settled for an account-based benefit model, we need to rethink:

- how government alerts Canadians to the benefits for which they qualify, and
- how it reports to them on the status of their accounts.

In the financial world, a customer who has an account with a financial institution gets regular, comprehensive, detailed statements. What Canadians get from the government at the moment are unpredictably-timed CPP



statements and separately mailed income tax assessments. Many tax filers understand neither.

Better-off people often hire accountants and financial planners to gather all the relevant aspects of their financial relationship with government and give them a coherent picture. We should learn from that and offer other Canadians the same advantage.

With the advent of reliable databases, governments now have the capacity to report to Canadians in a comprehensive way, explaining the income security benefits that they receive and alerting them to those for which they may be eligible.

### What If We Took Poor Working-Age Adults Off Welfare?

The history of income security programs for seniors and children teaches us that Canadians prefer the model suggested here over welfare approaches. Welfare can sometimes address destitution, but it is no answer to entrenched, intergenerational poverty. Income security programs, however, show us that governments **can** implement meaningful programs and tax incentives for low-income people – and that Canadians will support them.

Could the solution to income poverty among working-age adults have crept up on us while we weren't looking? What would happen if we took adults off of welfare? It worked when we did it for seniors. It's what we are now doing for children. The formative structures for an account-based model have already been introduced.

Could the model for ending poverty in Canada be right under our noses? It's a question that deserves some thought.

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George Cedric Metcalf Charitable Foundation  
174 Avenue Road  
Toronto, Ontario M5R 2J1

Phone: (416) 926-0366

Fax: (416) 926-0370

E-mail: [info@metcalffoundation.com](mailto:info@metcalffoundation.com)

Website: [www.metcalffoundation.com](http://www.metcalffoundation.com)



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