Why don't we want the poor to own anything?

Our relentless social policy journey toward destitution for the 900,000 poorest people in Ontario

METCALF FOUNDATION

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Presentation

- Introduction…A story
- Recommendations
- Social Policy Context
- Current Practice in Ontario
- History
- Federal Role
- Closing Comments

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Asset Stripping in a Culture that Promotes Saving

In a society that promotes saving
and cherishes self-reliance,
what is the rationale for public policy
that almost guarantees people
will grow old in poverty?

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A Story…

Dave and Alana

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Dave and Alana

- Dave and Alana married after high school.
- They had two children, now ages 6 and 8.
- They both worked in upholstery plants in the Cambridge area (Dave full time as a supervisor and Alana part-time in quality control).
- Both were laid off in March 2008 with severance packages of 4% for each year worked.

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Dave and Alana

- At the time of the layoffs they had two cars (2003 Chevy Cobalt, 2001 Taurus).
- They had saved $20,000 in RRSPs, (planned for a house down payment).
- Dave went into a serious depression.
- March 2009, the marriage had dissolved.
- Dave moved in with his parents.
- Dave received treatment for clinical depression and anger management.

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Dave and Alana

- Alana has been struggling to pay off credit card debt and the higher-than-expected income taxes caused by the severance payment.
- She is pursuing support from Dave, who has not secured a job.
- Both have exhausted their EI and severance money.
- Alana sold the family piano for $3,000.

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Dave and Alana

- Alana applied for Ontario Works.
- She had too much money to qualify for social assistance -- the $3,000 from the piano, and the RRSPs.
- The caseworker advised her to come back when she has exhausted the RRSP money and when her bank balance was below $2,050.

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Dave and Alana

- Dave agreed to cash out the RRSPs, which were in mutual funds.
- Because of the stock market crash in 2008, their value was only $12,000.
- After Alana had exhausted this money she qualified for welfare.

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Dave and Alana

- In February 2010, Alana will find out that she owes tax on the RRSPs she cashed in.
- Since she can't pay the taxes, Canada Revenue Agency will suggest that she accept a reduction in her Canada Child Tax Benefits.
- Alana will agree.
- The tax problems will affect Alana's credit rating, which has been deteriorating for two years.

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Dave and Alana

- In May of 2010, Alana will receive a letter from her credit card company, cancelling her last remaining card.
- In June of 2010, Alana's landlord will increase the rent by 2% (social assistance does not cover this).
- In July of 2010, Alana's Child Benefit entitlements will go down.
- Alana has no life savings to draw from, nothing in the bank, no credit, no money for gas or clothes to look for work.
- Alana may be on welfare a lot longer than she planned.

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Asset Stripping in a Culture that Promotes Saving

- Canadians need up to one million dollars in savings to retire in comfort.
- A steady regimen of saving until retirement is required.
- Most Canadians will live through three recessions during their adult years.
- If a rough patch is hit in one recession and application to an asset-tested program is necessitated, our savings will be depleted and we must start again.

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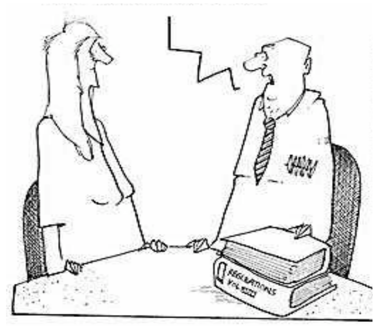
Asset Stripping in a Culture that Promotes Saving

- When recessions happen, the number of welfare recipients grows even after the economy starts to recover.
- The cost of moving into accommodation from a shelter – just the basics, like Hydro, phone, pots and pans, a little furniture, a first food shopping, a TTC transit pass – amounts to more than $2,000.



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Asset Stripping in a Culture that Promotes Saving

- 495,000 families (up from 475,000 noted in the report) receive social assistance in Ontario.
- They have stripped themselves of their liquid assets.
- They must wait until they go off public assistance, no longer require legal aid, and (in some instances) leave public housing, before they can resume saving for anything -- let alone for retirement.

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"Basically, welfare policy is caught in a trap of its own making that strips applicants of the same productive assets they will need to leave and stay off welfare later on."

Social and Enterprise Development Innovations,
Wealth, Low-Wage Work and Welfare: The Unintended Costs of Provincial Needs Tests, 2008

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Recommendations

5 Recommendations

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The following reforms are recommended:

1. Raise asset limits in Ontario for social assistance, subsidized housing, and legal aid to $5,000 for single people and $10,000 for families and people with disabilities.
2. Exempt a further $5,000 per adult in Tax-free Savings Accounts and RRSPs. Consider a blanket exemption in registered instruments of $60,000.
3. Exempt liquid assets for a designated period (e.g. 6 months of receipt of assistance.
4. All provinces and territories should exempt modest RRSP and TFSA amounts from their welfare asset and income rules.
5. Federal government should extend leadership role to request provinces and territories to exempt RRSPs/TFSA.

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The Social Policy Context

- We have a range of Income Security & Service Programs to support Ontarians that include:
  - Old Age Security
  - Guaranteed Income Supplement
  - Canada Pension Plan
  - Canada Child Tax Benefit
  - Universal Child Care Benefit
  - Employment Insurance
  - Ontario Child Benefit
  - Workers' Safety and Insurance Board (workers' compensation)
  - Child care.

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The Social Policy Context

- Governments employ income tests, needs tests and asset tests to ensure that benefits from these programs only go to people who need them.
- The extent to which assets should be taken into consideration in social assistance and related programs is the topic of discussion.

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What about Assets?

- An asset limit must be set and defined in terms of ready convertibility to cash.
- Liquid assets over the limit either result in ineligibility or are considered to be available to offset the cost of assistance.
- A reasonable asset "cushion" is important to ensure that people who receive a minor windfall do not lose benefits; to promote savings behaviour; to build the capacity to meet contingencies; to pay the costs associated with taking on a job and moving toward self-reliance.

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Asset Testing in Ontario

How are the rules applied?

- For each program, a complex set of rules govern what counts as a liquid asset.
- Applicants and recipients are allowed to own a principal residence and a modest automobile.
- Monies paid out for pain and suffering are exempt (for example, criminal injuries compensation or residential school awards).

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Asset Testing in Ontario

Current Programs that asset test:

- Ontario Disability Support Program
- Ontario Works
- Legal Aid
- Housing

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How many people are subject to asset testing in Ontario?

- August 2009, 798,000 people or 6+% of Ontario's population were receiving OW or ODSP.
- 125,000 families used Legal Aid in 2004/2005.
- 6,000 tenants who do not receiving social assistance will be tested for subsidized housing in 2009.
- Some people in Ontario are asset tested in more than one program.
- Approx. 600,000 families, representing 900,000 Ontarians (adults and children), comprising 7% of Ontario's population are subject to often stringent asset testing in order to receive program benefits.

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Asset Testing in Ontario's Needs-tested and Income-tested Programs

Program	Asset Limit for Single person	Asset Limit for Lone Parent	Permissive or Mandatory	Administrative Discretion
Ontario Works	$572	$1,550	Applies without exception to all applicants and recipients.	Applicants are tested differently in different parts of the province.
Ontario Disability Support Program	$6,000	$6,500		Staff apply the rules consistently to both applicants and recipients.
Subsidized Housing	$20,000 under the Social Housing Reform Act (SHRA).		At the discretion of municipalities.	SHRA rules apply if a municipality chooses to apply an asset test.
	Residents must sell their homes.		Applies without exception.	Applies without exception.
Legal Aid	The allowable asset level varies from case to case. After Legal Aid does a needs test, all resources that applicants have in excess of their needs-tested requirements are available to service legal fees.		Legal clinics and duty counsel at court do not apply the asset test. Legal aid offices test the assets of people who apply for a certificate.	Legal Aid waives both the needs test and the asset test for some applicants.

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Asset Limits in Ontario: A 60-Year Roller-Coaster Ride

- Roller coasters are expected to go up and down without warning. Public policy is expected to be anticipatory, planned, deliberate, and subject to reasonable public expectations.

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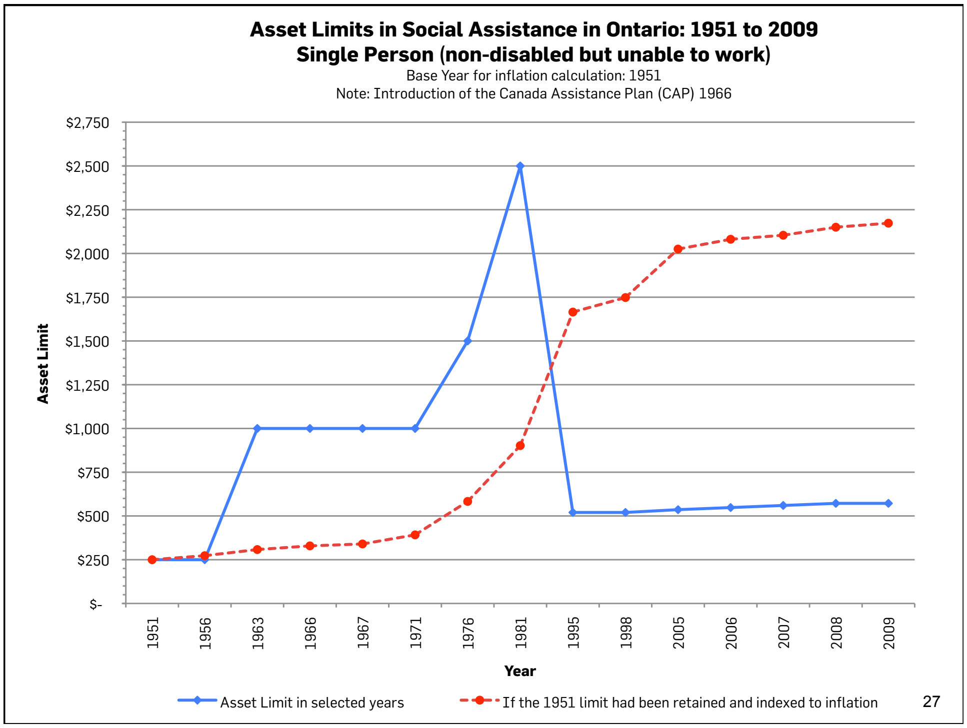
Asset Limits in Social Assistance in Ontario: 1951 to 2009
Single Person (non-disabled but unable to work)
Base Year for inflation calculation: 1951
Note: Introduction of the Canada Assistance Plan (CAP) 1966
Asset Limit
$2,750
$2,500
$2,250
$2,000
$1,750
$1,500
$1,250
$1,000
$750
$500
$250
$-
1951
1956
1963
1966
1967
1971
1976
1981
1995
1998
2005
2006
2007
2008
2009
Year
Asset Limit in selected years
If the 1951 limit had been retained and indexed to inflation
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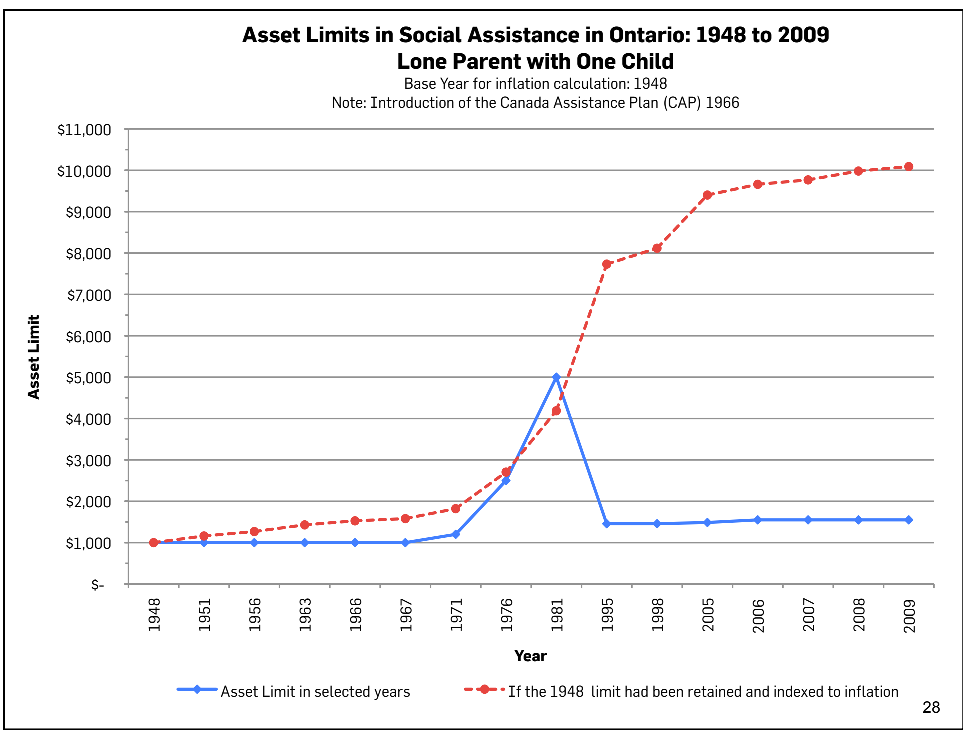
Asset Limits in Social Assistance in Ontario: 1948 to 2009
Lone Parent with One Child
Base Year for inflation calculation: 1948
Note: Introduction of the Canada Assistance Plan (CAP) 1966
Asset Limit
$11,000
$10,000
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$-
1948
1951
1956
1963
1966
1967
1971
1976
1981
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1998
2005
2006
2007
2008
2009
Year
Asset Limit in selected years
If the 1948 limit had been retained and indexed to inflation
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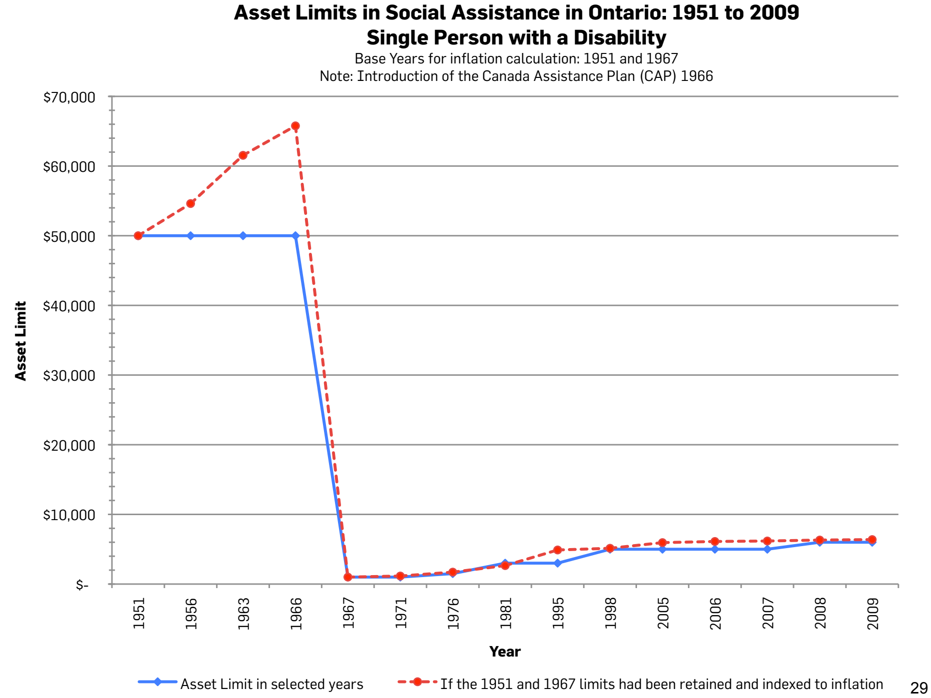

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The picture prior to the introduction of the Canada Assistance Plan in 1966

- In the 1930's, the thought was that if a family on relief actually came into some money, it should be used to help meet their needs.
- The asset limit for Mothers' Allowance was $1,000. Any assets in excess of the limit were allowable as long as they were spent on raising children.
- In 1951, the Blind and Disabled Persons Allowances asset limits were set at $50,000.

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Changes with the Canada Assistance Plan (CAP)

- In 1976, the Family Benefits Act was proclaimed with a $1,000 asset limit. It 'grandfathered' its asset limits for disabled recipients.
- From 1967 to 1981, asset limits increased.
- In 1981, Ontario adopted the CAP guidelines:
  - $2,500 for a single (unemployable) person,
  - $5,000 for a family with $500 added for each child,
  - $2,500 limit for the first child in a one-adult family.

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The demise of CAP

- Asset limits were scrutinized in the mid-1990's.
- CAP ended in 1995-96.
- Provinces and territories followed Ontario's lead to reduce asset limits.
- Activists, preoccupied in 1995 by the social assistance rate cuts of 21.6% did not make the asset limit cuts a matter of public protest.

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Lingering effects of the legislative changes of the 1990's

- In the 1990's, the legal aid and social housing benefit structures were tied to the Ontario Works model.
- Asset limits were set to match social assistance rates.
- By 2003, the logic of this association had hardened and asset limits were raised each time social assistance rates were increased.

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In the 1990's, the clampdown had ten aspects:

1. Workfare (community participation).
2. Social assistance rates were cut by 21.6%.
3. The 'man in the house' rule was reintroduced.
4. A lifetime welfare ban for fraud.
5. Payouts for shelter costs were removed.
6. Penalties for leaving a job were implemented.
7. Earnings exemptions were reduced to zero.
8. People with addictions were sanctioned.
9. Earnings were deducted from parents' payments if kids on welfare lived with them.
10. Asset limits were reduced to mirror monthly payments.

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2003: Aside from restoring Social Assistance rates, 9 out of 10 items on the clampdown list were removed or relaxed

- There was no policy change around asset limits.
- Limits were increased in line with the rate increases in social assistance, but the drop caused by linking asset accumulation to social assistance rates hasn't been addressed.
- The rules surrounding asset limits have been subject to relentless cuts and restrictions.

"Let's see if you qualify for a handout. How many nuts do you have currently, and where are they buried?"

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Asset Restrictions on Federal Savings Instruments: A Study in Inconsistency

- Registered Retirement Savings Plans (RRSPs) are not exempt from social assistance clawbacks. Registered Education Savings Plans (RESPs) are exempt.
- The Registered Disability Savings Plan (RDSP) is completely exempt from social assistance clawbacks. The Tax-Free Savings Account (TFSA) is not exempt.

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Treatment of Tax-assisted Registered Savings Instruments under Ontario Social Assistance				
Type of Registered Instrument	Treatment under Social Assistance Asset & Income Rules	Contribution Available from Federal Government	Date of Policy Decision	Public Federal Intervention to Exempt
RRSP	Non-exempt	No	1958	No
TFSA	Non-exempt	No	2009	No
RESP	Exempt	Yes	2004	Yes
RDSP	Exempt	Yes	2008	Yes

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Disabled recipients, and those with children, have an advantage

- Other people may contribute to savings plans for children or people with disabilities.
- With the exception of Alberta, Newfoundland and Labrador, and Quebec, all provinces and territories count RRSPs as disqualifying assets and income for welfare purposes.
- Unemployed workers with a few thousand dollars in RRSPs who apply for welfare are told that they have to liquidate.
- They are cashed out at a low point, spend the proceeds before getting assistance, then face a tax bill in the next year when they can least afford to pay it.

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"It says here that you're a contortionist and since your accident you've not been able to make ends meet."

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Conclusion

In a society that promotes saving
and cherishes self-reliance,
there is no good rationale for public policy
that almost guarantees people
will grow old in poverty.

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