

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

**METCALF  
FOUNDATION**

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May 2009**

## **Inception of Income Security**

- ▶ Old-age allowances were first introduced 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.
- ▶ Seniors who qualified for support had their means tested relentlessly.
- ▶ Decision-making boards, were comprised of local people who closely reviewed the applications of their neighbour.
- ▶ This type of program has long been unacceptable to Canadians.



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## Evolving Attitudes

- ▶ Our income support programs evolve to match the attitudes of our people with a clearly distinguishable pattern.
- ▶ This pattern of development may give us clues about how income security will evolve in the future.
- ▶ In particular, it may answer, not how “best” to address this issue, but how to address it in a way that fits most comfortably with our national character.

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## Attitudes toward Poverty

Angus-Reid (2007) polled Canadians on their attitudes to poverty and found the following:

- ▶ 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 caused by where in life we each got our start.
- ▶ A minority of Canadians think poverty is a personal deficit.



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## Structural vs. Personal

Programs have evolved to speak to perceptions of both “structural” and “personal.”

- ▶ Benefit-based programs: Old Age Security (OAS) system and the Canada Child Tax Benefit (CCTB) address the structural problems.
- ▶ Incentive-based programs: registered tax instruments and matching government contributions help people to do it on their own.

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## Structural vs. Personal

- ▶ Public attitudes explain why welfare approaches are dying out and “in-work” benefits are gaining ground.
- ▶ The income security programs for seniors and children may be the model Canadians are looking for.



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## The Evolution of Income Security Programs for Seniors and Children

Income security programs for seniors and children started as welfare programs and then evolved to develop four features:

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

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## Common Features of These Programs:

- ▶ They are supportable in the long-term.
- ▶ They work.
- ▶ They are acceptable to Canadians.
- ▶ People believe the programs are fair: something for everyone -- more for those who work and save, less for those who can't or don't.
- ▶ People believe they are progressive.
- ▶ People appreciate how these programs provide rewards to those who take steps to take care of themselves.

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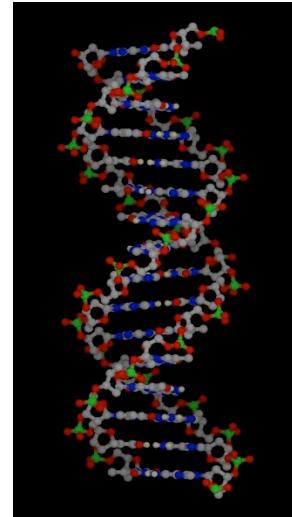
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## Common Features = Program “DNA”

- ▶ We should refer to this DNA before creating something entirely new and untested, such as a Guaranteed Annual Income.
- ▶ We seem to be in the process of creating an income support system for working-age adults that resembles Old Age Security and Child Benefits.



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## The Evolution of Income Security for Seniors

- ▶ In 1929, any Canadian over 70 could get a means tested \$20 a month and earn an additional \$125 a year.
- ▶ In three years, applicants doubled government expectations.
- ▶ In 1932, Ontario began filing claims against estates of deceased recipients.
- ▶ Old Age Assistance was changed to the Old Age Pension program in the post-war period
- ▶ In 1951, Premier Frost declared the supplements were “a huge mistake.”

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## The Evolution of Income Security for Seniors

"With our experience, 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."

-- Premier Leslie Frost

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"I'd like to make a deposit."

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## The Evolution of Income Security for Seniors

- ▶ 20 years later, Old Age Security, The Guaranteed Income Supplement, The Canada Pension Plan evolved as a solution to seniors' poverty.
- ▶ RRSPs, became popular in the 1970s.
- ▶ Seniors were taken off of welfare and, out of poverty.
- ▶ This approach has been working for 40 years.



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## The Evolution of Child Benefits

- ▶ Child benefits began as a family allowance with tax exemptions and were first paid under welfare-based Mother's Allowances.
- ▶ This program was replaced by the Child Tax Benefits in 1979 and again in 1993.
- ▶ In 1972, RESPs were introduced.
- ▶ In 1998, governments introduced the Canada Child Tax Benefit (CCTB) and the Ontario Child Benefit (OCB).
- ▶ Matching saving incentives were introduced with the Canada Learning Bond (CLB) and Canada Education Savings Grants (CESG).



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## The Evolution of Child Benefits

- ▶ These changes show how we're taking children off of welfare and striving toward ending child poverty.
- ▶ The next logical step is a stronger, more adequate set of benefits for all low-income children, supported by all Canadians.



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## EI and CPP

- ▶ CPP and EI, were set up through constitutional amendments, funded through payroll taxes and employer contributions indicated on pay statements.
- ▶ Both EI and CPP have not been improved over time as they are constitutionally protected programs.
- ▶ There is a larger role for them to play: Disability groups want both programs overhauled.
- ▶ CPP and EI so large that if they can't be changed they have to be worked around.

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## Harper's 3 New Programs

1. Working Income Tax Benefit
2. Registered Disability Savings Plan
3. Tax Free Savings Account



Each program fits neatly into the DNA described.

- ▶ Let's be explicit: start talking out loud about the fundamental structure of our income security programs, so it's easier for Canadians to understand and to take advantage of them.

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## What's the same about programs 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), National Child Benefit Supplement
3. Registered Tax-Saving Instrument
  - ▶ 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 more

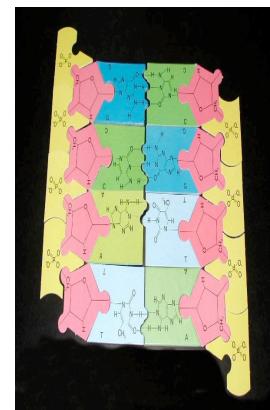
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An Accounts based Model for Income Security Benefits			
	Children	Seniors	Comparable Programs for Working Age Adults
base benefit	CCTB	CPP/OAS	EI
income tested benefits	NCBS, UCCB, OCB	GIS	EI/Welfare, GST refundable credit, other refundable credits WITB
registered tax savings instruments	RESP	RPP, RRSP	TFSA, RDSP
matching contributions	CLB, CESG, Millenium Scolarships	tax credits and/or exemptions	An EI account could pay for training based on contributions over time, RDSP matching credits

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## For Programs to work, the new model has to have the needed DNA:

- ▶ create support through a federal tax and EI account, where contributions would result in a minimum level of refundable credits;
- ▶ create low-income benefits to help alleviate working poverty(eg:WITB)
- ▶ use instruments to allow low-income adults to contribute money that is redeemable before retirement;
- ▶ create programs to match contributions



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## What's the Difference?

- ▶ This approach is a shift from the welfare model for working-age adults.
- ▶ Rather than limiting support to those in dire need, it stresses the transition to greater self-reliance as the most important goal.
- ▶ This shift could replace welfare, while providing Canadians with one account that shows all of their benefits in one place.



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" Your account was inactive for over  
30 days, sir, so we bought donuts with it. "

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## How Would the Account-Based Model Work?

- ▶ Create one base account that merges EI, CPP and tax accounts where credits are earned and used over a lifetime.
- ▶ Ensure payments into EI earn credit.
- ▶ Replace welfare supports for children with income security benefits.

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## How Would the Account-Based Model Work?

- ▶ Transform welfare into income supplements based on earnings.
- ▶ Provide pension-type benefits for those who can't work.
- ▶ Provide emergency benefits through a social fund.
- ▶ Provide housing and shelter benefits through the tax system.
- ▶ Provide affordable childcare to all families who need it.
- ▶ Remove asset rules.



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## How Would the Account-Based Model Work?

- ▶ Implement the TFSA so people can save tax-free for education or old age.
- ▶ Implement the WITB so as to rationalizing tax credits to support work.
- ▶ Provide Canadians with a single statement.
- ▶ Create federal refundable tax credits that provide a base benefit for all Canadian adults.



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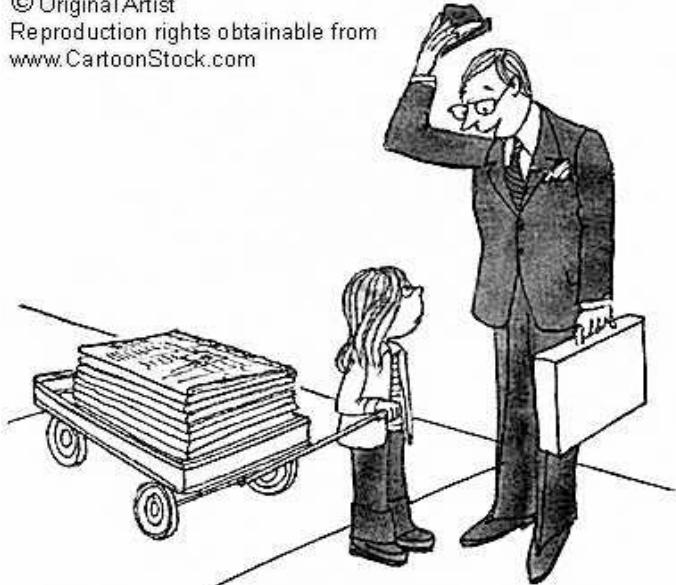
## How Would the Account-Based Model Work?

- ▶ Modernize both EI and CPP to reflect the Canadian workforce and its requirements.
- ▶ Create matching contributions to registered instruments.



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"May I have a moment of your time? I'd like to tell you about a plan my bank has for your IRA..."

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## Making the New System Transparent for Canadians

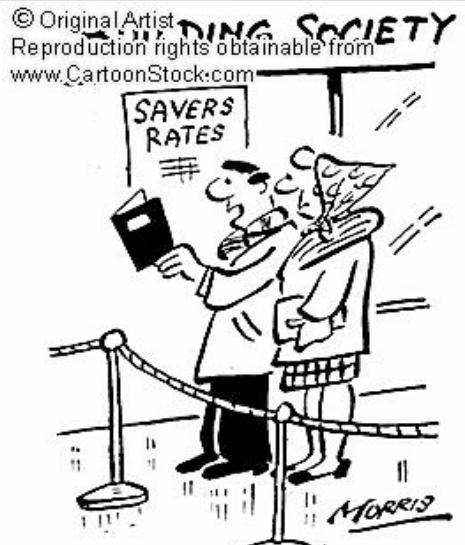
- ▶ Help people understand how working for cash disallows EI and CPP.
- ▶ Once the architecture for an account-based benefit model is established, it has to be communicated.
- ▶ Alert people to the benefits for which they qualify, how to read their accounts.
- ▶ Offer Canadians the advantage of a clearly defined relationship with the government.

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

- ▶ Welfare can address destitution, but not entrenched, intergenerational poverty.
- ▶ Governments can implement meaningful programs and tax incentives for low-income people – that Canadians will support.
- ▶ The solution to income poverty among working-age adults crept up on us while we weren't looking!

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"Well what shall we do with the interest, leave it in or withdraw it and buy a pot of tea for two?"

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

- ▶ It worked when we took seniors off welfare.
- ▶ It's what we are now doing for children.
- ▶ The formative structures for an account-based model have already been introduced.



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

The model for ending poverty in Canada is right under our noses.

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