



**Wealth, Low-Wage Work and Welfare:
The Unintended Costs of
Provincial Needs-tests**

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Introduction

The imperative to ensure a basic living standard suggests that households should not be expected to deplete all of their financial assets to gain access to income support and services that make up welfare programs. The presence of some financial assets ensures that a household has more resources at its disposal to meet its needs, increasing the likelihood of well-being and security. Non-liquid assets too, such as home or vehicle ownership, can increase well-being by ensuring adequate housing and access to transportation. Greater stability, mobility and well-being are key to promoting and sustaining welfare exit. However, the imperative to reduce dependency by limiting entry, suggests that households should be expected to deplete assets before gaining access to income and services and, once receiving these benefits, shouldn't be permitted to acquire or accumu-

late assets. These rules imply that the benefits are being adequately targeted to households who are most in need of scarce public resources. 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.

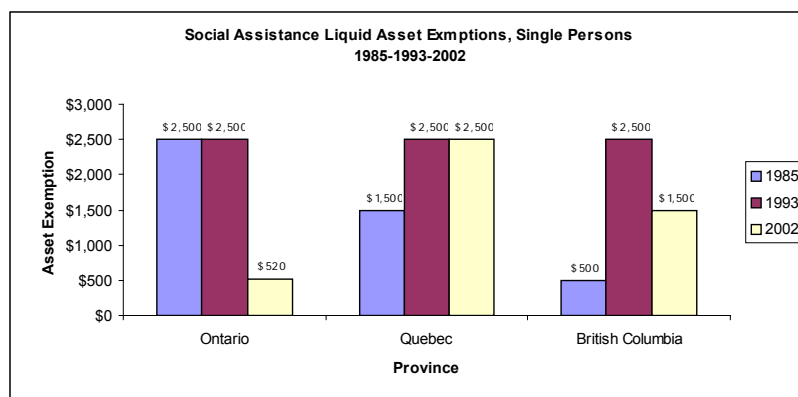
Since 1996, SEDI has led the development of the asset-building field in Canada. Asset-building is an emerging area of social policy and practice. Its core idea is that opportunities to save and invest in a better future are as critical as income in overcoming poverty. Savings and assets can leverage new income, open new opportunities for education and development, enable productive risk-taking and build social capital by enhancing inclusion and participation. Savings can also provide a safety net to cushion the climb out of poverty or to prevent

deprivation in case of income losses. When individuals have access to assets and to supportive services, they are better equipped to manage life transitions and to build and maintain self-sufficiency. A growing body of evidence from Canada, the United States and the United Kingdom suggests that when provided the right supports, low-income accountholders CAN and DO save.

This summary argues that serious review of the unintended consequences of asset limits within provincial income support policy is needed. More than limiting entry, these rules may be inadvertently increasing dependency by adding to the risks for entry and re-entry into welfare systems and by closing off some of the paths to sustainable welfare exit for many social assistance recipients. The full paper is available at SEDI's website – www.sedi.org.

Social Assistance In Canada And Needs-tests – Historical Foundations

The 1990s saw a period of significant spending reviews and transfer changes as the federal government moved to a block Canada Health and Social Transfer (CHST) and removed most of the previous conditions for cost-shared funding under the former Canada Assistance Plan (CAP). The changes to welfare in that time are well-known and too lengthy to detail in this review. One area of significant change that has gone largely un-examined in Canada is the change in the levels of asset-tests used to establish or maintain eligibility for income support under general social assistance programs.



The above figure shows the change in the liquid assets that a single employable person could hold while still being eligible to receive income support under social assistance in three jurisdictions during the period 1985 to 2002. In all three cases, the asset-test remained the same or fell after a period of increase.

The CHST and now the Canada Social Transfer (CST) coupled with the Social Union Framework Agreement (SUFA) do offer provinces significantly more flexibility and options to innovate in all areas of social policy, including social assistance. The key question is, when it comes to the treatment of assets, are provinces moving towards greater progressivity?

The Current Regime – Social Assistance Regulations Across Canada

We defined assets as stored financial resources or physical resources with a financial value that contribute to an individual or household's total wealth. For this study, the assets of interest are:

- Real property – including an owner occupied housing, vacation or rental real estate.
- Other physical assets – including vehicles and household goods.
- Tax-preferred individual savings – including trust-funds, Registered Retirement Savings Plans and Registered Education Savings Plans.

- Self-employment assets – including equipment, tools and real property related to a small business.
- Other financial assets – such as investments or cash on hand.

Given the complexity of various categorical social assistance programs, we have opted instead to select two illustrative categories of social assistance recipients and to try to develop some generalizable findings from these. The examples selected are:

- single non-disabled adults receiving general social assistance ben-

efits (longer term assistance, rather than one-time relief as is available in many jurisdictions), and

- sole-support parents with one dependent child where neither beneficiary has a disability and where the household unit (or case) is again receiving general social assistance benefits.

Based on the most recent caseload data it appears that single adults without a disability and sole support parents make up roughly two-thirds of all non-disabled social assistance recipients in Canada.

Real Estate Assets

The largest asset owned by most Canadian households and the greatest single source of household wealth in Canada comes in the form of real estate property. Half of all household assets in Canada are physical assets, and of these more than a third are principal residences¹. Regardless of how a household came to be in ownership of their residence, it seems clear that the imperative to reduce dependency suggests it should be exempt from consideration in social

assistance means tests. This is not uniformly the case across Canada. Only six out of ten jurisdictions fully exempt a principle residence from the means test (BC, Saskatchewan, Manitoba, New Brunswick, PEI, Newfoundland and Labrador and the Yukon). In the remaining five jurisdictions, a principle residence is only conditionally exempt.

What this means is that there is no certain guarantee for low-income

households in Canada who turn to their local social assistance program for income support that they can subsequently keep their home, business or other real estate property. Once real estate is sold, the likelihood of a social assistance recipient being able to accumulate sufficient capital to purchase the asset back or replace it with one of comparable value is low.

¹ Statistics Canada (2006) "The Wealth of Canadians: An overview of the results of the Survey of Financial Security", Ottawa.

Tax-preferred Individual Savings

For the purposes of this study, we limited the review to three forms of tax-preferred instruments for saving and asset accumulation: Registered Education Savings Plans; Registered Retirement Savings Plans; and trust-funds.

In looking at these tax-preferred financial assets across social assistance programs in Canada, two initial conclusions emerge. The first is the degree to which "who owns what" within a household receiving social assistance can have a very large impact on the well-being of the household. An RESP or trust fund in

the hands of one family member can be treated very differently, with very different impacts on the household as a whole, in the hands of a different family member. In this way, social assistance rules can put the immediate needs of an entire household in conflict with the medium or longer-term interests of one or more of its members.

Second, in regards to the impact of the Canada Learning Bond, federal hands are not necessarily tied when it comes to exerting a progressive influence on areas of clear provincial jurisdiction. While not a savings or

asset-related measure, even the Universal Child Care Benefit provides another example where provinces have all responded to exempt this new federal measure from income-tests in social assistance. Similarly all federal increases to the Child Tax Benefit (though not the National Child Benefit Supplement) have been exempt from income-tests. Together these examples suggest a pattern of willingness on the part of provinces to respond cooperatively to federal measures and to decrease, rather than increase, the resources they consider in means-tests.

Self-employment And Business Assets

For those social assistance participants who receive adequate business planning and training supports, as well as continued income support during the start-up period, self-employment can, for many, be an effective and sustainable route to self-sufficiency². In fact, all provinces

in Canada now include at least some degree of self-employment programming as part of their active measures available to social assistance recipients. It is perhaps less surprising then that business and self-employment assets receive more favourable treatment under social assistance across

all jurisdictions. All provinces exempt at least basic tools and equipment needed to pursue self-employment (for example in skilled trades, fishing, etc). In addition, several provinces offer exemptions for business capital within certain dollar or time limits.

² SEDI , internal data.

Other Assets

In reviewing social assistance regulations, legislation and administrative manuals, it quickly becomes clear that welfare administrators are among those who have given the greatest and most detailed thought to all the various places, forms and ways that money can be stored. While there are certain obvious

forms of wealth that non-experts would likely expect social assistance programs to deal with – such as housing assets, vehicle and RRSP savings – the degree and detail to which regulations deal with the treatment of other various assets which are perhaps less common or less obvious is striking. For example, lump sum

compensation payments made by governments to victims of Hepatitis-C and HIV infection through tainted blood, as well as life insurance and pre-paid funeral plans, lottery winnings, certain tax credits, certain loans and insurance settlements, are all variously listed and discussed as “assets” under social assistance regulations across jurisdictions.

Asset-building Exemptions

Since 2001, several provinces have moved to add certain exemptions for asset-building or “asset development” accounts as part of their welfare regulations. These have all been introduced following the launch in 2000 of the federally-funded *learn\$ave* project, a national demonstration of matched savings accounts to promote adult learning among low-income Canadians, including a sub-sample of Canadians receiving social assistance. The project includes some financial education and offers participants a matched savings account where every dollar they deposit earns \$3 towards an eligible learning activity such as education, training or small business development. The matching portion never goes directly into the accounts so isn’t accessible to accountholders, instead it is sent directly to the education provider when the account holder makes an eligible application to withdraw their funds.

cies in 10 communities sought and received provincial ministerial exemptions in BC, Alberta, Manitoba and Nova Scotia to give certainty to participating social assistance recipients that their income benefits would not be penalized because of the assets they would acquire through *learn\$ave*. In Ontario, Quebec and New Brunswick, the project moved ahead with provisions to ensure that at least the matching portion of the savings would not be subject to provincial asset tests.

Since that time, and as other Individual Development Account projects have followed *learn\$ave*, several provinces have now added specific exemptions for asset-building to their social assistance regulations, ensuring that exemptions for individual projects are normally available. Currently BC, Alberta, Manitoba, Quebec, Nova Scotia and Saskatchewan all have an exemption for asset-building matched savings accounts integrated into their social assistance rules. A clause in the

Yukon’s regulations seems to suggest room for an asset-building approach but it has not yet been tested in practice³.

Asset-building exemptions are an important if very recent development in social assistance policy. While other exemptions primarily aim to protect certain forms of assets from been stripped away, asset-building exemptions enable new options for interested households who want to develop new assets as a means to become more self-sufficient. They may not, on their own, create the conditions to make asset creation possible for social assistance recipients who struggle to make ends meet on very low incomes, but without these exemptions, the creation of new assets is very difficult if not impossible while receiving social assistance in Canada.

³ As of publication, the Ontario government has announced its intention to fund a matched savings IDA program for low-income Ontario households. While the details are still to be determined, it is expected this program will be available in some form to Ontario Works and Ontario Disability Support recipients.

SEDI along with its partnering agen-

Liquid Asset Limits

After determining which and how much of each type of asset are to be included in the asset test, all provinces finally compare the balance of a household's assets (their cash value) to a limit based on household size and type. In the side table, we summarize the current liquid asset limits for single adults and single parents with one dependent child, again who make up roughly two thirds of all social assistance beneficiaries in Canada. In several jurisdictions the asset limit changes, even for the same household type, from the time that they apply for social assistance to the time they begin receiving income benefits.

Jurisdiction	Adult single	Single parent with one child
BC	\$660 at application of which \$150 in cash; \$1,500 while on benefits of which \$150 in cash	\$1096 at application of which \$250 in cash; \$2,500 while on benefits of which \$250 in cash
Alberta	the equivalent of one month's payable benefits up to \$402	the equivalent of one month's payable benefits up to \$876
Saskatchewan	\$1,500	\$3,000
Manitoba	\$0 at application \$400 while on benefits	\$2,000
Ontario	\$520	\$1,457
Quebec	\$836 at application \$1,500 while on benefits \$60,000 limit for all liquid assets including RRSPs, some loans, etc.	\$1195 at application \$2,850 while on benefits \$60,000 limit for all liquid assets including RRSPs, some loans, etc.
New Brunswick	\$1,000	\$2,000
Nova Scotia	\$500	\$1,000
PEI	\$200	\$1,200
Newfoundland	\$500	\$1,500
Yukon	\$500	\$1,000
Mean at application	\$602	\$1,484
Mean while on benefits	\$775	\$1,762

Comparing The Jurisdictions

The table above is descriptive and gives a picture of the variation in liquid asset tests. To get a very simple comparative analysis, we then examined the limits for all jurisdictions for households already receiving social assistance benefits and compared them to the mean. The side table presents these results.

When compared to the mean, there are three groups of social assistance systems that emerge. First is a small group of provinces who have, relative to their neighbours, generous asset limits that are above the national average. Next is a fairly large group of provinces who have asset limits better than half the national average. Finally there is a small group of province where asset limits are half or lower than the national average.

Asset limits as a percentage of the mean

Jurisdiction	Single employable		Single parent with one child	
	Limit	% of mean	Limit	% of mean
BC	\$1,500	194%	\$2,500	142%
Alberta	\$402	52%	\$876	50%
Saskatchewan	\$1,500	194%	\$3,000	170%
Manitoba	\$400	52%	\$2,000	114%
Ontario	\$520	67%	\$1,457	83%
Quebec	\$1,500	194%	\$2,850	162%
New Brunswick	\$1,000	129%	\$2,000	114%
Nova Scotia	\$500	65%	\$1,000	57%
PEI	\$200	26%	\$1,200	68%
Newfoundland	\$500	65%	\$1,500	85%
Yukon	\$500	65%	\$1,000	57%
Mean	\$775	100%	\$1,762	100%

Beginning To Think About Impact: Welfare Entrance, Exit And Wealth

By best estimates there are currently, in Canada, 1.7 million Canadians who depend on provincial social assistance for income.⁴ Among these, nearly half a million are children. As a proportion of the overall Canadian population, welfare dependency in Canada is fairly small – less than 5% of the Canadian population – and it’s a proportion that has been steadily declining since 1995. In 1995, 3.1 million Canadians depended on social assistance. Today the number stands at almost half. The declining welfare population should be understood in a context of significant welfare reform over the 1990s that saw both benefit and eligibility levels reduced⁵. The only major study of welfare exit in Canada (Frenette and Picot) found that 91% of welfare recipients were still dependent on social assistance one year following the baseline. In other words, only 9% of welfare recipients could be considered as “welfare leavers.”

It’s also important to note that income support isn’t the only resource made available to recipients of social assistance. There are other resources that they may lose when they exit the welfare system. Housing assistance, dental and eye care, funeral coverage, childcare, addictions counselling, employment and

skills training, literacy programs and financial incentives for work or education are among the kinds of resources made available in most if not all social assistance regimes across Canada. For the working poor, access to these services, benefits and incentives can be severely more limited, contributing to what is widely-referred to as the “welfare wall” and creating unintended barriers to welfare exit.

Studies that have so far examined the factors that best predict welfare exit have so far largely overlooked the role of assets. There are at least four possible, and all reasonable, hypotheses related to the relationship between welfare dynamics and adjustments to asset limits:

1. Increases in asset limits will increase program entry but not exit because the eligible population will have expanded while at the same time the capacity of welfare recipients to save and build new assets will not have increased.
2. Increases in asset limits will increase both program entry and exit because the eligible population will have expanded and welfare recipients will be better able to develop and retain greater resources to mobilize for program exit.

3. Increases in asset limits will decrease program entry but not exit because those in working poverty will be less likely to “dis-save” (see discussion later in this report) to meet asset limits, however the capacity of welfare recipients to save and build new assets will not have increased.
4. Increases in asset limits will decrease program entry and exit because those in working poverty will be less likely to “dis-save” to meet asset limits and welfare recipients will be better able to develop and retain greater resources to mobilize for program exit.

Evidence from US welfare reforms suggests there is no clear evidence that adjusting asset limits will directly or inversely impact welfare program entrance or exit.

⁴ National Council of Welfare (2006) “Welfare Incomes: Fact Sheet#9 Number of People on Welfare”, Ottawa, October 2006. Data are current to March, 2005. Caseload statistics collected for this project and discussed elsewhere in this paper may differ slightly as provinces generally differentiate between a number of cases on welfare rolls and the number of beneficiaries or recipients where a single case may often include several beneficiaries who depend on the same income support.

⁵ Frenette, Marc and Garnet Picot (2003) “Life After Welfare: The economic well-being of welfare leavers in Canada in the 1990s”, Statistics Canada, Ottawa.

Another Way To Think About Impact: Can Welfare-poor Save At All?

Here we briefly review the best available Canadian information from the (still ongoing) *learn\$ave* project.

learn\$ave is a national Canadian demonstration of Individual Development Accounts, or IDAs, for adult learning. Among the final sample, 465 participants were in receipt of social assistance at the time they applied and were accepted into the

project.

Of the 465 participants on social assistance, 372 (80%) opened *learn\$ave* accounts according to the current MIS data. The early evaluation report⁶ found that the social assistance case study sample were slightly less likely to be regular savers as their accounts grew by the minimum \$10 in 53% of project months versus 69% among

the experimental sample. The same study found that average monthly deposits among the social assistance case study sample was significantly lower at \$31 per month compared with \$66 per month among the experimental sample. However, the difference decreases when considering the average household incomes of the two groups:

⁶ Ibid.

Comparisons of saving among learn\$ave sample groups

	Experimental sample	Social assistance case study sample
Average household annual income	\$13,943	\$9,958
Average net monthly savings	\$66	\$31
Proportion of monthly income saved	5.6%	3.7%

It does seem there is a growing body of evidence to suggest that we can call into question hypotheses on the role of asset tests where they rest on assumptions that social assistance recipients have no capacity or interest in saving and building new assets.

A Final Way To Think About Impact: Could Needs-tests Dissuade Vulnerable Workers From Saving Before They Even Get To Social Assistance?

In addition to thinking about the way that asset-tests can either open or close the flood gates to get in or get out from social assistance programs, and to questioning whether social assistance recipients can even build assets given their meagre incomes, it's important to recall the dynamic patterns of poverty and consider the impact of asset tests on working low-income persons as well. The key question here is whether low-wage employed Canadians might be less inclined to save or build assets because they anticipate having to apply for means-tested benefits where they

would lose the assets they had developed. Thus far the only evidence and analysis comes from US sources.

The literature isn't conclusive but it does suggest that asset limits can and do discourage households from saving even among household outside welfare and even among households on welfare programs where the asset limit has been eliminated. If this proves to be true with future research, then increases in asset limits may actually decrease program entry as more low-income households would have fewer disincentives to

build and hang-on to the assets they have, cushioning them from shocks in income that might otherwise send them to apply for social assistance. The longer-term impacts of decreasing assets also need to be considered. As Neuberger, Greenstein, and Sweeney⁷ remark, reducing assets during working life is ultimately inefficient from the perspective of governments because it just results in greater dependence on public benefits during retirement years. Again, this is an area for future research and discussion.

⁷ Neuberger, Greenstein, and Sweeney (2005)

Interim Conclusions

Ideas for Consideration
<ul style="list-style-type: none"> • Much of the current foundation of our welfare system is nearly two centuries old and likely outdated.
<ul style="list-style-type: none"> • Federal governments, while no longer directly involved in provincial social assistance administration, can and have had a progressive influence .
<ul style="list-style-type: none"> • From the perspective of citizens, asset-tests in Canada are an idiosyncratic patch-work.
<ul style="list-style-type: none"> • Asset tests appear to be having unintended consequences in social assistance policy.
<ul style="list-style-type: none"> • Policies that recognize the intersection of poverty and assets may be preferable .
<ul style="list-style-type: none"> • The options to improve asset tests are multiple but the evidence is lacking to support any in particular.

Based on our review, there appear to be at least three avenues, with multiple variants, for making asset tests more progressive, more innovative and more transparent:

- 1. Increase the dollar limits among included assets.**
- 2. Increase the number of assets that are exempt.**
- 3. Eliminate asset tests altogether.**

Addressing Asset Tests Is Not Enough To Integrate Asset Building Into Welfare

Removing barriers will not be enough to enable more households to build and mobilize assets to exit welfare. Neither will it be enough to promote greater ownership and financial security among working low-income households. Instead financial incentives and access to financial advice, education and information should be included in the broader range of measures to enhance well-being and self-sufficiency for all low-income households – including those on and off welfare.

Financial advice, education and information are important for all citizens, regardless of the resources at their disposal. For households with fewer resources and greater vulnerability, access to these services and supports can be critical. However these are the consumers least likely to access mainstream sources

like financial institutions and financial service providers. In addition to life skills and employment training, social assistance administrators should consider making financial literacy supports available to all interested social assistance recipients.

In terms of promoting greater asset development, various options, as alluded to earlier, should be examined including kick-start grants, annual top-ups (for example through income-tested refundable tax credits) as well as matched savings should be examined. At the same time, the interest and capacity of households on social assistance to save and build productive assets should not be discounted. Savings may be small and eked out of already scarce resources. They may be unpredictable and drawn from occasional sources of “extra” income such as tax refunds or small lump

sums paid from awards or winnings. However, the power of exercising ownership can't be ignored.

Assets do matter as an important, but so far largely under-valued, factor in well-being. Assets are more than stored-up income, they are stored-up hope, agency and aspiration. To the degree that welfare policy is ultimately concerned with well-being – and we believe it is – far greater attention should be paid to assets.

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