

## Summary

The following submission has been prepared by SEDI (Social and Enterprise Development Innovations) for the Committee on Social Affairs of the National Assembly of Quebec as part of the General Consultation on Bill 57, the *Individual and Family Assistance Act*.

SEDI is a national charitable organization dedicated to enabling poor, unemployed and under-employed people to become self-sufficient. SEDI is also the leading Canadian organization in the international asset-building field. The focus of SEDI's submission is on the Bill's amendments to asset-limits under social assistance and the ability of low-income Quebecers to save, build or preserve personal assets.

The submission briefly presents the organization's position on saving and asset-building among low-income citizens, including those on social assistance. This position is informed by research, community experience, and policy and programmatic precedent in Canada and abroad. Specific recommendations related to asset limits and to measures to build productive assets and enhance self-sufficiency are provided for consideration.

## Introduction

SEDI (Social and Enterprise Development Innovations) is a national charitable organization dedicated to enabling poor, unemployed and under-employed people to become self-sufficient. We take a variety of leading-edge social and economic approaches to this goal in areas such as policy development, project management, information exchange, capacity building, public education and research. SEDI works with community partners to develop and test new policy ideas designed to alleviate poverty in Canada. We contribute to more effective public policy through research and by providing a vital link between community experience and government and as such are a uniquely placed organization, bridging the worlds of social services delivery and public policy.

SEDI was formed in 1986 as a small provider of self-employment training for low-income people. Today SEDI works with a network of 100 partners in more than 40 communities in every region in Canada to increase self-sufficiency for disadvantaged Canadians through self-employment, asset-building and initiatives for youth with barriers and persons with disabilities. We envision a society where there are no barriers to prevent Canadians from realizing their full economic and human potential. We want to see social, cultural and economic supports that enable people to learn, take risks, invest wisely and participate in the economic mainstream. Our partners include leading private sector corporations, foundations, community-based organizations and policy research organizations in Canada and abroad. SEDI's expertise has been recognized by the Organization for Economic Cooperation and Development and by the World Economic Forum.

SEDI has prepared this submission to the Committee on Social Affairs of the National Assembly of Quebec in advance of the Committee's public hearings on Bill 57, the *Individual and Family Assistance Act*. The focus of SEDI's submission is on the Bill's amendments to asset-limits under social assistance and the ability of low-income Quebecers to save, build or preserve personal assets.

## Asset-Building

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 to overcome poverty, opportunities to save and invest in a better future are as critical as income. Savings and assets can leverage new income, open new opportunities for education and development, enable productive risk-taking and can build social capital by enhancing inclusion and participation.

Savings can also provide a safety net, for example 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.

International governments and bodies have acknowledged the value of asset-building. Representatives from the OECD have participated in an international conference, co-hosted by SEDI and have published reports to encourage further dialogue among OECD members on savings and asset-building. The World Economic Forum held sessions on asset-building during its Fall 2003 meeting in Geneva and its 2004 annual meeting in Davos. They are now planning a further session for the 2005 annual meeting. Federal and state legislation in the US now supports hundreds of local asset-building projects and asset-based programs are now the fastest growing domestic social expenditure in the US. The UK government has moved quickly and decisively to establish asset-building as the “third pillar” of the social welfare system in Britain. Asset-building initiatives are also underway or planned in Australia, Taiwan, Singapore, Ireland and South Africa. SEDI believes that asset-building offers a new and much-needed avenue toward increased social inclusion and shared economic security in Canada.

Canada has a gross and persistent gap dating as far back as 1970 between those with savings and assets and those without. The poorer 50% of Canadian households own less than 6% of all personal financial assets (Statistics Canada, 2001). Between 1984 and 1999, the median net worth of the wealthiest 20 percent of Canadians increased 39% while the net wealth of the poorest 20% of Canadians actually fell.

When compared with its provincial counterparts, Quebec has a somewhat larger gap between the very wealthiest and the very poorest of its citizens – the poorer 50% of Quebecers own only 5.4% of all wealth whereas the wealthier 50% of Quebecers own nearly 95% of all wealth in the province (Kerstetter, 2002). The gap is larger only in BC. At the same time, after the Atlantic provinces, Quebecers have lower average savings and assets than Canadians living in other regions of the country. Compared to other regions, Quebec has enjoyed the largest increase in wealth in the past 30 years, however as in other regions, the data also suggest that little of this increase has gone to the poorest of Quebec’s families.

But what does this mean in terms of real financial security for Canadian families. In cases of unexpected hardship like losing employment, marital break-up or disability, savings and assets can maintain a family at their current standard of living by replacing income. However the poorest 20% of Canadian families have only enough assets to replace about 5 weeks of lost income at their current level. Not surprisingly, one third of these families report falling 2 months or more behind on a bill, mortgage, rent or loan payment. By comparison, the wealthiest 20% of Canadian families have sufficient financial assets to replace 218 weeks of income at their current level. Considering that the average after-tax income of this group is only \$62,518, this concentration of wealth and the financial security that goes with it is astounding.

While at least some portion of this maldistribution of wealth must be attributed to federal income tax and program expenditures, provincial income support programs that impose restrictions on assets also play a role. Quebec is one of only three provinces in Canada that has made nominal increases to asset limits for welfare recipients with dependants between 1985 and 2002 (SEDI, 2004). However, when adjusted for inflation, the result is an effective decline of \$723. Research does suggest that welfare asset limits reduce personal savings (Orzag, 2001) and that access to savings and assets both leads to better life outcomes (Bynner & Despotidou 2001) but also facilitates the transition off welfare and may protect against a return to welfare dependency (Stapleton, 2003).

## Asset-Building and Social Assistance

Current asset limits restrict the amount and type of assets that an individual or family may hold to become eligible or to maintain eligibility for social assistance income benefits and related benefits such as drug benefits. Both liquid financial and personal fixed assets (including vehicles and property) are included in the assessment. Although the

purpose of asset limits is legitimately to ensure that need for income assistance is real and the course of last resort, they have the perverse effect of first encouraging the rapid and perhaps unproductive spending of liquid assets and, second of maintaining welfare dependency.

Among our network of front-line community agencies, SEDI has frequently heard that low-income families are facing a welfare wall, not only in terms of the transition out of welfare, but also in terms of the eligibility for welfare. In many cases, families and individuals have been forced to sell, spend or otherwise liquidate some of the very same savings and assets that may otherwise have enabled them to become self-sufficient or have protected their dependent children from repeating the cycle of poverty and welfare dependence. Restrictive guidelines governing asset holding among social assistance recipients appear to be based on the assumption that low-income families and individuals do not and cannot acquire assets. However this is a seriously flawed assumption for two reasons. First, even among the poorest citizens, many receive certain lump sums or minor windfalls, for example from small inheritances or legal settlements. Whereas these assets could be protected and put to uses to enhance self-sufficiency, social assistance recipients are usually forced to quickly liquidate these sums or risk losing their income assistance entitlements. Second, research on Individual Development Accounts (IDAs) and similar programs in the US, the UK and Canada has demonstrated that individuals with even very low income can and do save when provided with the right incentives and supports.

The largest demonstration of IDAs for adult learning is *learn\$ave*, a national project developed and managed by SEDI in partnership with the Social Research and Demonstration Corporation, RBC Royal Bank, the Caisse d'économie Desjardins, a network of community-based organizations and with funding from the federal department of Human Resources and Skills Development Canada. *Learn\$ave* offers eligible low-income adult Canadians in selected project sites, the opportunity to save and invest in their own education and learning. Participants open a *learn\$ave* savings account and are eligible to receive a matching savings credit worth \$2 to \$5 for each \$1 they save and invest in education, skills training or microenterprise development. In addition, program participants may receive supportive services including financial education and case management to enable them to develop a savings plan.

In Montreal, 150 low-income residents are taking part in the project, among them 25 social assistance recipients. Most (85%) have a household income of less than \$20,000 and prior to enrolling in the program owned few if any assets; 82% had financial assets worth \$250 or less and only 2 participants of 150 owned their homes. Since enrolling in the project, participants in the Montreal site have saved a total of \$91,296, an average of \$634 per participant and \$26.68 per month. When combined with the matching credits, this equals a total of \$488,544 available to be invested in adult learning. Fifty-three participants have already withdrawn funds to be invested in eligible *learn\$ave* goals.

## Recommendations to the Committee

The goals of asset-building are, in SEDI's view, not only consistent with but also in fact supportive of the goals of progressive social assistance policy. We believe that alongside adequate income and social services, asset-building is a key component of any effective strategy to ensure social and economic inclusion. The government of Quebec's recent statement outlining its National Strategy to Combat Poverty and Social Exclusion, noted the government's commitment to take a comprehensive approach, to take preventative action, to invest in innovative approaches and to support the involvement of the community-based sector. Bill 57 further notes the government's intention to include in the new Social Assistance Program a provision allowing a person or a family to own certain property or liquid assets in order to facilitate actions enabling them to regain economic self-sufficiency. Similar changes to regulations governing asset limits have been made in British Columbia and provincial welfare regulations now specifically exempt "asset development" accounts.

SEDI supports the government of Quebec's stated intention in Bill 57 to provide greater flexibility in asset limits under the new Social Assistance Program. We believe this signals a very positive and progressive approach that

recognizes the critical role that savings and assets play in social and economic inclusion. In considering its options for developing regulations under the Bill and implementing the new programmatic changes, SEDI strongly encourages the government and this Committee to consider the following:

In setting the limits on assets that may be held by applicants to and recipients of social assistance, we encourage the government to take the most flexible position possible. This does not simply mean increasing the asset limits in the guidelines, but also giving careful consideration to the types and nature of the assets included in the test. We strongly encourage the government to create the broadest exemption possible for those financial and fixed assets that will encourage greater self-sufficiency among welfare recipients and their dependent children.

In addition, we encourage the government to carefully consider and take steps to address possible unintended interactions between social assistance asset limits and other programs and policies designed to increase personal savings and asset-holding, such as the newly proposed Canada Learning Bond.

We also believe that the government, recognizing the critical role of savings and assets, will want to take measures to encourage the development of new assets among low-income Quebecers, including social assistance recipients. While removing barriers to saving in social assistance regulations is a first step, building and preserving assets among low-income citizens requires at least three additional measures:

- Financial incentives that offer real value to low-income families and individuals. Most existing incentives to save are delivered through income tax credits that offer little or no benefit to those with little or no income tax liability. For this reason, SEDI favours measures that provide direct benefit to low-income families and individuals, including but not limited to IDAs and endowments such as the Canada Learning Bond.
- Measures to tackle financial services exclusion are needed to ensure that all citizens have access to and can participate in affordable and appropriate mainstream financial services. These services are increasingly complex but also increasingly crucial as governments move to direct deposit and account-based systems for delivering financial entitlements.
- Financial capability education is a necessary component of any effective strategy to increase savings and assets. Such education provides citizens with the knowledge and confidence required to effectively navigate and manage their financial lives, as well as equipping them to be responsible and informed members of society. Financially capable individuals are equipped to understand both the benefits they are entitled to as well as their role and responsibility in accessing them. Financially capable individuals also have the necessary information, skills and confidence to negotiate the often confusing or intimidating application processes and documents. Financial capability education also plays a direct role in asset-building by enabling citizens to interact with the financial services infrastructure underlying virtually all savings and asset-building programs, enabling them to address barriers to saving (such as personal debt) and to set and reach saving and asset goals. Middle and upper income earners who lack such capability can and do purchase it from an industry of financial advisors. Governments have a role to play in ensuring access to financial capability education for all citizens and particularly disadvantaged citizens such as those with low-income and on social assistance.

We encourage the government to include, among the innovations to be funded under this legislation, pilot projects to test various forms of financial supports for asset-building among low-income Quebecers and measures to enhance financial capability.

We look forward to an opportunity to discuss these recommendations with Members of the Committee and welcome any requests for additional information.

## References

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