

Establishing a 'Goldilocks Standard' for people earning money while receiving social assistance:

What should we make of the Ontario Budget measure to exempt the first \$200 in earnings?

With the tabling of the Ontario Budget on May 2, 2013, the Wynne government would accept the recommendations of Munir Sheikh and Frances Lankin on how the earnings of social assistance recipients should be handled in Ontario.

Under the changes, social assistance recipients would be able to keep the first \$200 per month of their earnings without any downward adjustment in their social assistance payments. Currently there is no amount that recipients can earn without a 50% reduction in their benefits. Subsequent earnings (above \$200 a month) would reduce social assistance payments by fifty cents (50%) on the dollar. As earnings continue to rise, social assistance is gradually phased out until social assistance is reduced to zero and at this point, recipients go off the system.

So what are we to make of this move? Is it sufficient? Does it really help or would it make it harder for recipients to eventually leave social assistance - as some will inevitably argue? Will it help get people into the work force who are not working now? Have earnings exemptions ever been higher? Were exemptions actually higher under Mike Harris?

All these questions and answers are important within the thinking that informs the welfare paradigm. So it is equally important to get behind the questions and start with the crucial public policy matter of the role of social assistance (welfare) as it relates to work within that paradigm.

The Welfare Paradigm

Consider a thought experiment. You are attending a gala evening where a number of people who have collected various sort of benefits talk about their struggles living in poverty. They recount their stories. A senior citizen talks about becoming smarter about her savings and lowering her expenses, finally writing to the federal government to remove herself from the Old Age Security rolls.

A 15 year old child talks about working at a fast food outlet and applying for loans. Triumphant, he shouts that he has asked his mother to remove him from child benefits.

But the crowd does not roar.

The crowd wonders why anyone would aspire to remove themselves from old age or child benefits.

Yet the same crowd would applaud with approval if a working age adult 'transformed' his or her life by leaving the social assistance system.

The reason for this difference in reaction to the three stories is that the social assistance or welfare system is conceived as illegitimate income security. According to the welfare paradigm, you should not be on it and you should leave it as possible for a life of self-sufficiency.

There is much wrong with the welfare paradigm and its support of values that ordinary Canadian do not support. It calls for destitution and historically has impeded work and savings, stopped families from providing support and promoted stigma.

The system should be reframed and reformed as many have recommended before. My own proposal may be found here in an article I wrote for the Metcalf Foundation in 2008¹.

But as much as anyone might dream that the welfare paradigm would be abandoned, it remains with us and the immediate solutions that are available to us only exist within the long standing walls of the welfare construct.

The promise of Brighter Prospects is a world where social assistance assumes a diminished emergency role. But for the time being, social assistance is society's principal response to the income security needs of the poorest of working age adults. For this reason, the commentary that follows stays within the confines of the construct of the welfare paradigm and assesses Budget 2013 from that perspective.

Going back to welfare basics

Social assistance basics go something like this: Social assistance is meant to be a program that provides a minimum level of income, supports and services to anyone in Ontario who suffers economic hardship and cannot make ends meet through other sources of income and support. Social assistance provides a level of benefits below which no one in society should be permitted to fall. Recipients (in theory) are supposed to receive benefits on a temporary basis. The program goal is for recipients to get off assistance.

Earnings exemptions are only intelligible in the context of these program goals.

But the rationale behind social assistance is the easy part. The hard parts come next.

The first hard part is to find a way to reduce social assistance when recipients begin to provide some of those resources for themselves. If government did not make such reductions, then theoretically everyone could receive a social assistance payment because one's own resources would not matter.

Earnings exemptions are the way in which governments provide the right incentives to social assistance recipients to work.

¹ <http://metcalfoundation.com/publications-resources/view/income-security-for-working-age-adults-in-canada-let%E2%80%99s-consider-the-model-under-our-nose/>

It stands to reason that if social assistance was reduced dollar for dollar for each dollar earned, there would be no benefit to working until the person had earned enough to leave social assistance entirely. Since it is a strong program and societal goal for people to be always better off working, governments exempt some of the earnings made by social assistance recipients going to work so that they will be:

- Encouraged to work in the first instance
- Provided a reward for staying in work; and
- Given increased rewards for continuing to earn more.

When earnings exemptions are non-existent or very low, this is referred to as the *welfare wall*, a descriptive term coined by the Caledon Institute in the 1990's.

So the solution to the first hard part is to come up with what some would call a *Goldilocks* solution - to paraphrase: "*not too high; not too low; just right*'.

As a matter of public policy, governments want to provide just the right amount of encouragement to get people to work or to return to the work force. This is largely the role of what is called the flat rate exemption – in this case \$200 per month.

Then governments want to provide just the right phase out of benefits that will provide a meaningful reward for someone to stay in the work force and consistently earn more.

Now here comes the second hard part.

Governments do not want to provide such generous incentives that recipients will be encouraged to stay on social assistance or to provide such high incentives that they would have to earn very high amounts (in excess of full time minimum wages and accepted poverty lines) before they reduced their social assistance benefits to zero.

In *Brighter Prospects*, Lankin and Sheikh proposed that governments set social assistance rates and earnings exemptions in a manner that takes into account minimum wages and a fairness principle. In short, they proposed that a person receiving a fair rate of social assistance should have exempted earnings that would ensure the person would leave social assistance at the equivalent of the full time minimum wage.

The principle observed is that the person receiving social assistance should not receive more total income than someone who is working full time and not receiving social assistance.

Given major increases in minimum wages between 2005 and 2010 and modest (below inflation increases) in social assistance, governments are in a position to offer a \$200 a month earnings exemption with a 50% charge on the remaining earnings while continuing to meet the principle that someone receiving assistance not be better off than the minimum wage worker not receiving assistance.

The third hard part relates to mandatory work search and participation. With the 'carrot' of earnings exemption in place, the government also retains its 'stick' in the form of the eligibility rules that require job search and work. With only 10% of all adult social assistance recipients currently working, it is clear that the stick was working more as a deterrent to new applicants than as a successful method of getting recipients into the paid workforce. In this respect the \$200 a month incentive cannot help but encourage current recipients to obtain work.

Changes in Earning Exemptions: Touring the past

The Early Days: 1935²- 1958

In the early days of unemployment relief in the 1930's, governments didn't care that much if someone got relief and earned a bit of money. Relief rates were so low and hardship so pronounced that anyone who put a bit more food on the table through their own initiative was congratulated for doing so.

It was not until the late 1930's when cash relief rates started to rise with economic recovery that the Ontario government under Mitch Hepburn started to concern itself with the question of how relief would be scaled back when people started to work steadily and get back on their feet.

The Ontario Archives have a vast store of government documents that provide ample evidence that the provincial government was seized with the question of incentives and disincentives. But this matter was put on hold during World War II and the issue was not taken up seriously until the postwar reconstruction period.

During the postwar period, public attitudes and public relief eligibility rules largely took care of the question of incentives to work because lone parent mothers had no work expectation as most people believed that lone parents should stay home and take care of their children. Persons with disabilities were thought to be effectively removed from the work force and the cancellation of any welfare benefits to employable singles with the onset of the war largely took care of the rest.

It was not until 1958 with the cancellation of the Unemployment Relief Act and the implementation of the new General Welfare Assistance Act that governments once again started to wrestle with the question of incentives and disincentives. Men with families were offered the first set of earnings exemptions at the discretion of Ontario municipalities.

For single men and women, the answer was simple. If you refused work, you were cut off. The stick reigned and the carrot was largely unknown. To get a sense of the times, many local administrators sent out '*Spring has Sprung*' letters to all single employables noting that seasonal work would now be available and all singles were cut off and no applications would be taken until the approach of winter.

² 1935 marks the date that cash relief was paid in Ontario.

Progressive thinking Takes hold: 1959 to 1995³

The 1960's were ushered in with new ways of thinking and public attitudes started to change the framing of the relationship between social assistance and work. Progressive voices began to hold sway and the possibility of paid work for all began to take hold as an idea with merit.

Slowly, the idea of standardized earnings exemptions in social assistance began to gain currency.

By 1975, municipalities were provided with the discretion to exempt up to \$50 a month for a single person and \$100 a month for a family. The reduction rate or clawback after these amounts was a daunting 80%. Similarly, any lone parent in receipt of Family Benefits (but not General Welfare) could earn \$140 a month without charge but faced the same 80% clawback on subsequent earnings. Clearly the idea was to allow a recipient to work just a bit but if you wanted to get off assistance, you had to *make the leap* into full time work.

Heading into the 1980's, policymakers became concerned that many recipients were working up to their exemption levels but not working more than that. Their reaction was to increase recovery rates to force the leap off welfare. They changed the exemptions to allow 50% recovery on the first \$100 past the base exemptions and then to up the recovery rates to 100% on subsequent earnings.

The philosophy was to get into work and then *make the leap*. The rejoinder from advocates was that the leap that government asked for was a leap too far. As noted earlier, Caledon called the steep climb to so-called self-sufficiency 'the welfare wall'.

The late 1980's saw the release of Transitions: Report of the Social Assistance Review, a landmark review of social assistance measuring over 600 pages and over 270 recommendations. The government's response was the Supports to Employment Program or STEP which standardized all earnings exemptions, raised social assistance rates, raised exemptions on earnings to 25% from 20% and allowed child care deductions on earnings for the first time.

Viewed in hindsight, STEP doesn't seem like much. The flat rate exemptions on earnings did not change appreciably but hindsight does not tell the story. For the first time, lone parent mothers could deduct child care costs and single employable persons could not be simply disqualified from receiving assistance because administrators believed they had found a job for them. The earnings exemptions that were largely in place 'in theory' for a 'family man' trying to make ends meet would actually be applied to the calculation of assistance for a single employable.

One of the huge parallel issues in the early 1990's surrounded blanket approval for Sunday shopping. OMSSA President Dick Stewart told a packed crowd at a standing room only OMSSA meeting that earnings exemptions allowed to single employables could become the "Sunday Shopping" of social assistance. A divided crowd roared alternately in support and derision. It seemed that big changes were just over the horizon.

³ The General Welfare Assistance Act came into force in 1959 and single employable men and women became eligible for assistance for the first time since 1939 while 1995 marks the fall of the Bob Rae government.

By 1994 under Bob Rae, flat rate earnings exemptions had settled from \$160 to \$185 a month for persons with disabilities and from \$50 to \$120 a month for employable singles, two parent and sole support families. The subsequent reduction rates on earnings also settled at 75%.

The Quiet Implementation of the STEP Notch that denied Exemptions to Applicants for social assistance:

But in October 1992, a little understood regulation was passed to prevent applicants for assistance to receive any earnings exemptions. This provision was overtly enacted to prevent social assistance from supplementing the earnings of the working poor. As caseloads skyrocketed to levels not seen since the Great Depression by early 1994, there was little controversy over the move to restrict exemptions to recipients only. The die was cast and to this day, only recipients who have received benefits for at least 3 months are eligible to receive the exemptions.

But little did anyone know that the whole purpose of earnings exemptions were to change under Mr. Harris.

Repurposing Earnings Exemptions to mask rate cuts: 1995-2003

With the reductions in social assistance rates, the Harris government repurposed the earnings exemptions provisions to an overtly political end. He declared that any welfare recipient could 'earn back the difference between the old rate and the new rate without penalty. He achieved this goal by greatly expanding the flat rate earnings exemptions.

The single exemption was raised to \$143 a month because the rate cut was \$143 a month. Similar exemption were repurposed to mirror the cuts. The exemptions rose to \$275 for a lone parent with one child and \$346 a month for a family of four; all to provide a smokescreen for the rate reductions of 1995.

But the government of Mr. Harris was not through with other aspects of the earnings exemptions. This government soon tired of the idea that social assistance recipients would be able to receive such large exemptions for an extended period. Accordingly, the government created the first time limits on earnings exemptions gradually increasing the recovery rates on earnings above the exemption levels for recipients who remained on assistance for extended periods.

Earnings were tracked and 100% recovery rates were applied to the earnings (over the flat rate exemptions) of all non-disabled recipients who worked steadily for over two years. Clearly, the message was not just to work but to leave the program entirely within a set time period established by the government.

The McGuinty Years: 2003 to 2013

A new dawn of sorts settled in with the election of the McGuinty government in 2003. Not only did he soon discover that the computer system designed to run social assistance was hard pressed to process a rate increase, it became clear that the Harris-Eves era earnings exemption regimen was at odds with Liberal values.

The Goldilocks standard was raised again because incentives were thought to be too easy to get people into the work force while the welfare wall of 100% tax backs made it too hard to earn much more than the exemptions.

But for fiscal reasons, if the percentage was to be lowered from 100% to 50%, it would have to get funded out of the cancellation of the Harris era '*earnback*' provisions.

Voila! In 2005, earnings exemptions were radically changed again to allow all recipients to keep 50% of all the money they made without penalty but benefits were cut from the first dollar of earnings. The welfare wall argument won out over the pump priming argument that stresses the importance of introducing people to the world of work without penalty. A new Goldilocks standard was set in place until the proposals of Budget 2013.

The New Wynne Government: 2013 -?

Some will argue that the Wynne government's earnings exemption regimen is in some ways not as generous as what Mr. Harris put in place in late 1995 and which lasted for a decade. Clearly, some of the exemptions were higher for families both in Ontario Works and ODSP.

But it is important to look at the whole picture. Mr. Harris introduced taxbacks that grew to 100% on all earnings past these exemptions while Wynne proposes a 50% on all earnings over \$200 with not time limits or restrictions. Seen in this light, her overall package of exemptions are more generous than those of the Harris – Eves years except over a very narrow range of earnings.

This is important for two reasons. The first is that the new exemptions provide incentives to join the work force and continue to provide positive incentives above the exemptions. The second is that the exemptions were not put in place to mitigate the effect of rate cuts to social assistance. In fact, Wynne proposes to increase rates modestly and give more to single people receiving Ontario Works.

Conclusion: Why earnings exemptions change over time

The most cursory review of changes in earnings exemptions over the last 40 years reveals that governments retain a relentless appetite to fix the recipe of the porridge of exemptions. They are always trying to make them 'just right'.

But in their attempts to achieve the Goldilocks standard, successive governments have chosen to emphasize different aspects of the earnings exemptions recipe. Some governments have chosen to emphasize initial entry into the labour force (with flat rate exemptions like the \$200 in the Budget - and all governments up to 1995) while others have lowered the recovery rates (tax back) on earnings to recognize the detrimental effects of the welfare wall (McGuinty).

Still others have chosen to emphasize the need for job entry and equity between the so-called welfare poor and working poor utilizing modest benefits, flat exemptions and modest recovery rates (the main concerns in Brighter Prospects).

And in the case of Mr. Harris, his main purpose in setting higher flat exemptions was to support the claim that all recipients who experienced a rate cut could 'earn back' the difference between the old rates and new rates. Readers will recall that Harris cut rates by 21.6% in 1995 which had the effect of lowering the single welfare rate from \$663 a month to \$520 a month. His \$143 a month earning exemptions for single people (and others for different family sizes) allowed all recipients to earn the difference between the old rate and the new rate without penalty ($\$520 + \$143 = \$663$).

So there you have it. Depending what bothers governments most about the current system of incentives tends to guide how they deal with the earnings exemptions each will implement. But Kathleen Wynne has followed the case made in Brighter Prospects in a fairly sensible way and one that will make even more sense should minimum wages be raised. She is recognizing the need to get into work force, to stay in the work force and to pay attention to politically contentious 'surface' equity issues respecting the working poor.

All in all, she is making a reasonable start under the circumstances.

js/May 14/13

i

ⁱ Historic Earnings Exemptions can be found by canvassing the following links: The first six files in the list below are searchable:

<http://www.sixthestate.net/docs/welfare/welfareincomes2009.pdf>

<http://sixthestate.net/docs/welfare/welfareincomes2005.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes2004.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes2002.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes2001.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes1999.pdf>

The rest of the files are scanned PDFs and are not searchable using Ctrl=F, but one may scroll through the file to access earnings exemptions

<http://www.sixthestate.net/docs/welfare/welfareincomes1996.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes1995.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes1994.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes1993.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes1992.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes1991.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes1990.pdf>

<http://www.sixthestate.net/docs/welfare/welfareincomes1989.pdf>

http://www.canadiansocialresearch.net/1987_tangled_safety_net.pdf