IMPROVING THE ADEQUACY OF SOCIAL ASSISTANCE BUDGETS:

A Methodology for Pricing Budgets and a Rationale for Making Current Rates More Adequate

Harvey Stevens

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By: Harvey Stevens

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The Social Planning Council of Winnipeg
300-207 Donald Street
Winnipeg, Manitoba R3C 1M5

Tel: 204-943-2561
Website: www.spcw.mb.ca

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EXECUTIVE SUMMARY

This report addresses two serious deficiencies in the delivery of Social Assistance (SA) programs by provincial governments in Canada; namely, the absence of clearly defined standard budgets based on realistic needs of SA recipients and the failure to set SA rates at levels adequate to purchase items that meet those needs.

Based on the methodology used in constructing the Market Basket Measure (MBM) of low income, the report calculates the cost of all of the *basic* needs included in provincial SA budgets – food, clothing and footwear, shelter, personal needs and household supplies and transportation. The suggested methodologies for calculating the cost of items in the budget have been used by governments and non-profit organizations and reflect minimum levels of funding needed to meet basic needs. Thus, the prices of the budget items are very modest and in keeping with the standard of living of a 'last resort' type of income support program.

This study shows that SA budgets across Canada are substantially below the cost of purchasing the basic needs SA is intended to meet. Depending on the category of family, the shortfall between SA budgets and actual cost ranges from 40 percent for a single person deemed employable to 15 per cent for a single person with a disability. When other transfer payments and tax credits from federal and provincial governments are added to the SA budget, the picture improves substantially for all family types except the single employable person, whose income remains 36 per cent below cost.

In particular, this study shows that SA rent allowance guidelines are substantially below the median market rents being paid by SA recipients in the provinces of Ontario, Manitoba and Saskatchewan, by between 17 and 30 per cent. As a result, recipients in these provinces are making up the shortfall by using money from their other budget items.

For those on SA for extended periods of time, there are needs not included in SA basic needs budgets such as recreation and education costs for children and replacement of furniture and appliances. The costs of meeting such needs should be part of a SA budget for long-term recipients. This report presents such a budget, based on cost information from the MBM, and compares it with the total income available to households on SA.

SA is no longer a program of temporary financial assistance as a substantial proportion of those on SA are long-term recipients. In Manitoba in 2008, when all periods of receiving SA are counted over the previous six years, the proportions who have received SA for more than two years is 46 per cent of single persons without a disability, 60 per cent of two parent families, 70 per cent of lone parents and 85 per cent of those with a disability.[1]

Most of the policy tools and expenditures for reducing dependency on SA in Canada have focused on people with reasonable employment prospects. The introduction of the National Child Benefit Supplement with its claw back for families on assistance, the introduction of the Working Income Tax Benefit, the funding of a plethora of employment training programs by both federal and provincial governments and the raising of minimum wage rates all have been designed to make paid work more financially attractive than welfare. Together, the programs have been to a large extent effective in assisting the most employable people to achieve independence from SA. The secondary result however is a SA caseload comprised of a large proportion of individuals with either multiple barriers to employment or long-term physical and mental disabilities, who remain on SA for long periods of time.

Current SA caseloads, with more people facing long-term dependency and limited responsiveness to low SA benefits, indicates the need for screening methods for identifying multiple and persistent barriers to employment and more adequate benefits. To make screening more effective, this report recommends a standard set of questions for applicants which have proven to be reliable and valid indicators of long-term dependency on SA.

Based on the analysis and findings presented in this report, provincial governments are urged to undertake the following actions to address the deficiencies of their SA budget development and rate setting practices:

1. Develop a deliberate and transparent process for creating two standard budgets for SA households that reflect minimum but adequate levels of consumption (done annually to reflect changes in the cost of living). The first budget is for all those entering SA and covers the cost of meeting basic needs covered by legislation and regulation. The second budget is for long-term recipients and includes support for replacement of household furnishings, recreation and educational materials.

2. For shelter costs, SA budgets should use private market rents to set a consistent threshold for rent allowances for all family sizes. This report shows that the 25^{th} percentile rent is a reasonable benchmark for SA shelter rates.

3. Particularly for a single person without a disability, increase the SA basic needs rates to bring them up to an adequate level. Newfoundland/Labrador has done this. Other provinces should follow suit.

4. When setting the SA rate for the basic and extended needs budgets, take into consideration the amount of income received by the family from other federal and provincial income transfer programs so that the SA budget, in combination with these other benefits, is adequate to purchase items in the budget. In effect, set each SA budget as the difference between the total cost of the budget and the amount of other government transfers received by the unit.

5. Undertake an analysis of the length of time recipients have been on SA, using a measure of dependency based on the amount of time spent on SA over the previous 6+ years. Use this analysis to identify the extent of long-term and persistent dependency on SA and the characteristics that are predictive of it.

6. Implement a three-tiered system of SA benefits and services for (a) short-term clients with minimal barriers to employment; (b) longer-term clients with multiple barriers to employment; and, (c) long-term clients with permanent disabilities. Short-term clients would receive benefits to cover their basic needs while those with multiple barriers and disabilities would receive benefits adequate to cover their short and long-term needs. Ensure that the implementation of a three tier system is comprehensive, consistent and easy to implement by building the assessment of barriers into the application form and tabulated by the computer system with reports to caseworkers within the first 12 months of being on SA.

7. Use this assessment of multiple barriers to independence to identify the range of services required by SA clients to assist them in overcoming those barriers.

8. Create and adequately fund access to best practice approaches that enable those with multiple barriers to gain employment.

INTRODUCTION

This paper arises out of the author's experience working for The Department of Family Services and Housing in Manitoba from 1990-2000 as a senior policy analyst and the key events that occurred with respect to the setting of welfare rates during those 20 years.

In the 1970's the government of Manitoba created a Social Assistance (SA) budget for the basic necessities of food, clothing and footwear, shelter, personal needs and household supplies. The budget was based on prices in local stores. Since that time, the items in the budget were never revised or re-priced. A variety of methods had been proposed to update the budget, usually with reference to the change in the Consumer Price Index, but not necessarily with full indexing. By the early 1990's the rates for the provincial Social Assistance program did not reflect the actual cost of purchasing items to meet basic needs.

In January 1993, in the face of rising caseloads and government budget deficits resulting from the recession of the early 1990's, the Department of Family Services and Housing stopped indexing SA benefits to increases in the cost of living. Arbitrary cuts to benefits were made in May 1996, an action taken by other provinces like Ontario and Alberta around the same time. These actions further compromised the likelihood that the resulting SA rates bore any relationship to the actual cost of purchasing the basic needs items.

The Department's rationale for cutting rates was based on the belief that rates were too high and were encouraging people to enter and remain on the program. All provincial governments had seen rates remain fairly constant during the 1980s in spite of a strong recovery from the recession of 1981 and 1982. SA budgets also had risen in real terms during the 1980s. Governments drew the conclusion that 'high' rates were to blame for the lack of decline in caseloads. When the recession of the early 1990's hit, caseloads rose dramatically and stayed high well into 1994 and 1995, even as the economy was beginning to improve. In April 1996, the federal government ended the Canada Assistance Plan (CAP) with its 50/50 cost sharing of SA benefits and its prohibition against workfare. With the reduction in provincial government revenues, the search for cost savings to reduce the deficit began. Assumptions that 'generous' SA rates were partly to blame for the sticky caseloads led the government to cut benefits while simultaneously tightening eligibility conditions and imposing stronger work requirements for the 'able bodied.'[2] Thus, the cutting of SA rates was not based on an exercise of establishing the cost of basic necessities and comparing the prevailing rates to the cost. Rather, rate reductions were carried out to reduce caseloads and government expenditures. Concerns for cost containment trumped any desire for adequacy and fairness.

With the election of a new government in Manitoba in 1999, there was a series of ad hoc improvements to SA benefits through such measures as allowing families with children to retain the value of the federal National Child Benefit Supplement, small increases to the basic needs budgets for disabled persons and single people considered employable, introduction of a shelter supplement, etc. These had the effect of substantially improving the total income available to families on SA. The failure to adjust budgets annually for increases in the cost of living, however, meant that the *real* (inflation adjusted) value of incomes continued to fall for single employable people and single disabled persons, and increased only slightly for families with children between 1999 and 2009.[3] This was much the same picture for the other provinces. As with the previous government, no effort was undertaken to determine the actual cost of the SA budgets.

With the creation of the Market Basket Measure of Poverty (MBM) in 2000, an opportunity arose for easily pricing budgets on the real cost of certain items. The MBM was created by the federal government, in consultation with the provinces, to track the impact of the National Child Benefit (NCB) on child poverty rates in Canada. Unlike the existing measures of low income produced by Statistics Canada, the MBM was based on a budget for a reference family of four persons (two parents, a boy aged 13 and a girl aged 9) that included food, clothing and footwear, shelter, transportation and 'other' items such as personal and household needs, recreation and education expenses. This basket was then priced by Statistics Canada in 49 regions across Canada on an annual basis to obtain the cost of living for that reference family. The cost of living for other families was obtained by applying an equivalence scale that reflected the economies of scale for smaller and larger families.

With some adjustments, the MBM could be used to price SA budgets in a very affordable and consistent manner for all provinces. The shelter threshold of median market rents would have to be lowered to reflect a standard more appropriate for a program of last resort and the list of items in the 'other' category would have to be shortened considerably to reflect just those items covered by the basic needs budgets of provincial welfare programs.

The final impetus for writing this report came with growing realization that the nature of the SA caseload in Manitoba was changing. Caseloads had fallen since their peak in the mid-1990s due to a number of factors including improved economic conditions, an aging and more educated population, lower welfare rates and tougher eligibility rules and the overabundance of employment training programs and work incentives created by the welfare program.[4] The result was a caseload comprised of more people with multiple barriers to self sufficiency and longer stays on welfare. By 2008, analysis of longitudinal monthly SA data files revealed that 85 per cent of those with a disability had been on assistance for more than 2 of the previous 6 years. As well, 70 per cent of lone parents and 46 per cent of single employable had experienced persistent dependency on SA. These analyses also revealed that an increasing share of the caseload was comprised of people with disabilities (57%) and experiencing multiple barriers to employment. Clearly, people in these categories of assistance were not responding to the lower SA rates nor the employment training programs and work incentive measures to get off assistance. Rather they were subsisting for years on budgets that had long quit reflecting any reasonable relationship with the cost of purchasing basic necessities. They were part of the persistent poor of Manitoba.

This report then is the fulfillment of the author's desire to demonstrate to the Manitoba and other provincial governments[5] how SA budgets can be priced using data produced by Statistics Canada, to urge provincial governments to revise their SA rates to reflect the actual cost of their budgets and to provide evidence of why such improvements are needed for the type of SA caseload that now exists. In particular, this report:

(1) presents a methodology for pricing SA Basic Needs budgets;

(2) Uses that methodology to establish the cost of living for four family types;

(3) Compares those costs with actual provincial budgets and determines the shortfalls in the budgets.

(4) Describes an expanded SA budget for the long-term recipient and compares its cost with the total income available to those on SA.

In addition, it:

(5) Examines the empirical literature on the costs and benefits, to provincial governments, of ensuring that SA budgets are adequate;

(6) Examines the range of policy instruments available to provincial governments to promote independence from SA, other than keeping rates low; and,

(7) Offers recommendations for transforming provincial SA programs into more adequate and effective programs.

METHODOLOGY FOR PRICING SA BUDGETS

The Nature of Provincial SA Budgets

The provincial SA acts and regulations set out a list of basic needs items are covered by their programs. Typically, the legislation includes the following items: food, clothing and footwear, shelter, personal needs and household supplies. Four jurisdictions also include local transportation and two include basic telephone service. Table 1 provides a list of the items covered by each province, as of 2008.

Table 1: Items Included in the SA Basic Needs Budgets

Jurisdiction and Program	Basic Needs Items
Newfoundland & Labrador	- Food, clothing and utilities for adults only - Maximum shelter rates based on number of persons in household and type of accommodation
Prince Edward Island (Long-term, short-term and disabled)	- Food, clothing, utilities, personal & household needs, local transportation, basic phone service - Maximum shelter rates based on number of persons in household and type of accommodation
Nova Scotia	- Food, clothing and miscellaneous essentials for adults - Maximum shelter rates include utilities and based on number of persons in household and type of accommodation
New Brunswick (Transitional Assistance, Extended Benefits and Interim Assistance)	- Food, clothing, shelter, routine transportation, fuel and utilities and personal and household needs
Quebec	- Food, clothing, shelter, personal and household needs
Ontario Works	- Food, clothing, personal needs - Maximum shelter rates based on number of persons in benefit unit
Ontario Disability Support	- Food, clothing, transportation, personal and non-shelter needs - Maximum shelter rates based on number of persons in benefit unit
Manitoba	- Food, clothing, personal and household needs - Maximum shelter rates based on number of persons in household
Saskatchewan	- Food, clothing, personal and household needs and travel - Maximum shelter rates are based on number of persons in household and location. When not included in rent, utilities are paid separately by program.
Alberta Works	- Food, clothing, personal and household needs, phone installation and use, laundry and transportation - Shelter includes utilities
Alberta Assured Income for the Severely Handicapped	- Monthly living allowance, health-related benefits, child and personal needs. Health includes prescription drugs, optical and dental, emergency ambulance and essential diabetic supplies
British Columbia	- Food, clothing, personal and household needs - Maximum shelter rates based on number of persons in household.

Sources: Federal, Provincial, Territorial Directors of Income Support. 2011. *SA Statistical Report: 2008.* Human Resources and Skill Development Canada. June 2011; and, Provincial SA Regulations[6]

A number of jurisdictions provide a table in their regulations which sets out a total budget for all of the basic need items combined, according to the number of persons in the family unit and sometimes also by the ages and number of children and case category. In addition, most jurisdictions provide a separate schedule for the maximum rents allowed by the number of persons in the family.

In addition to these basic needs budget items, each province allows for a range of 'special needs' items, such as transportation for work, telephones, school supplies for children, special diets, or purchase of household goods that are granted on a per request basis only. As such, special needs do not constitute a part of the regular monthly budget.

None of the provincial SA basic needs budgets provide for the range of 'other' goods and services normally consumed by Canadians, such as the regular purchase, maintenance and repairs of household furnishings and equipment, children's toys, recreational goods and services, entertainment, or reading materials.. Only some of these items are provided for on a special request basis.

Approaches to Setting Standard Budgets

The provincial SA budgets offer one example of what is called a 'standard budget' which Fisher (2007:1) defines as,

> "a list of goods and services that a family of a specified size and composition would need to live at a designated level of well-being, together with the estimated monthly or annual costs of those goods and services."

In his review of the range of approaches adopted by different countries to setting standard budgets, Fisher notes that although standard budgets are traditionally associated with minimum living standards, they have been developed to represent any standard of living, from poverty or subsistence to comfort. He also notes that the range of approaches to developing standard budgets can be described and differentiated according to three features:

- how budgets are constructed (detailed vs. categorical);
- the standard of living represented by the budget (subsistence to modest-but-adequate);
- who constructs the budgets (experts vs. experts & public input vs. general or low income population).

As the name denotes, *detailed* budgets feature a detailed, comprehensive list of budget items showing the quantity of specific items that comprise each category of the budget, such as food or clothing, and the cost of each item. The cost of each item is added up to obtain the total cost of the budget item. With the categorical approach only the global category is given and a cost attached to that category.[7]

The generosity of a budget is largely a function of the number of items included in it. Actual SA budgets and the one developed by Christopher Sarlo (2001) provide a subsistence standard of living because they cover only the most basic needs and allow nothing for social inclusion kinds of goods and services such as recreation and entertainment. By comparison, the Market Basket Measure of low income includes a budget for some social inclusion, at a low level of consumption.

Most budgets have been developed by experts; however there are examples of including other perspectives. The ALL budget was developed with low income persons in Winnipeg and several of the budgets developed in Britain feature consultation with either the general or low-income populations.

A common criticism levied at standard budgets is their lack of 'objectivity' and reliance on arbitrary judgements. Yet, as Saunders et al. (1998) note, all poverty lines embody judgements that reflect the conditions of the society for which they are made. The key is making the criteria explicit so that the judgements are transparent. This transparency is a strength of the standard budget approach to setting standard of living thresholds: All can see the style of life that families on the budget would be leading, as compared to not knowing the style of life implied by a threshold which is, for example, one-half of median family income.

In his summary table at the end of the review, Fisher (2007:18-19) offers an analysis of approaches to standard budgets as developed in Canada, the United States and Great Britain. The approach adopted by provincial and territorial governments in Canada is more of the detailed approach featuring a subsistence standard of living and constructed by 'experts'. Unlike Fisher's standard budget approaches, a number of provinces and territories, such as Ontario and Manitoba, have either never or not recently priced the basic necessities in the market place and most jurisdictions have made ad hoc adjustments to the cost of basic necessities over time. As a result, the budgets bear little or no relationship to the actual cost of purchasing the basic needs items they contain. It is for this reason that a standard basic necessities budget needs to be created and priced.

Table 2: Selected Approaches to Developing Standard Budgets

Budget	Detailed vs. Categorical	Standard of Living	Experts vs. Non-Experts
Canada – local social service agencies	Detailed	Different for different agencies	Experts
Canada – Sarlo	Detailed	Basic physical necessities	Experts
Canada – Market Basket Measure	Detailed and Categorical	Basic social inclusion (above subsistence/below full social inclusion)	Experts
Canada – Acceptable Living Level – Winnipeg	Detailed	"A fair, modest and acceptable living level"	Low-income persons (as consultants)
United States – various including Self-Sufficiency Standard	Categorical	Generally a "no-frills" standard of living	Experts
Britain – Family Budget Unit	Detailed	"Low cost but acceptable" and "Modest but adequate"	Experts with input from general population
Britain – Consensual Budget Standards	Detailed	"Essential minimum" (including social needs)	General population

<u>A 'Modified' Market Basket Measure Approach to Setting SA Basic Needs Budgets</u>

The Market Basket Measure (MBM) of low income was developed by a working group of Federal, Provincial and Territorial officials between 1997 and 1999 to complement the existing Statistics Canada measures of low income in monitoring the impact of the National Child Benefit and associated programs on the incidence, depth and persistence of low income among children. It was developed as a low income measure for all age groups. As noted in Table 2 above, it was intended to provide a standard of living that was more than subsistence by including items needed for some, but not full, social inclusion. Thus, it was intended to provide for a higher standard of living than SA budgets.

Nonetheless, it provides a solid basis for building and pricing SA basic needs budgets for several reasons. First, it provides a detailed budget approach to building a food, clothing and footwear and transportation basket, as seen in pages 35 to 39 and Appendices A.3 and A.5 of the June 2010 document, *First Comprehensive Review of the Market Basket Measure of Low Income: Final Report*.

Appendix A.3 lists 81 food items covering the major food groups of milk products, eggs, meat, poultry and fish, meat alternatives, grain products, citrus fruits and tomatoes, other fruit, vegetables, fats and oils and sugar and other sweets. For each item, a weekly amount is designated for the MBM reference family of four persons (man and woman aged 25-49, a boy aged 13 and a girl aged 9). This food basket is the National Nutritious Food Basket developed by Health Canada.

In similar fashion, Appendix A.5 presents a detailed list of clothing and footwear items for the family of four persons showing the quantity of each item and the replacement schedule (frequency of purchase). It reflects a modified version of the clothing and footwear basket developed by the Winnipeg Social Planning Council's Acceptable Level of Living (A.L.L.) basket that corresponds to the level of consumption of families in the third income decile.

The MBM transportation budget reflects both the cost of public transportation in areas served by it and private transportation in remaining parts of the country. The public transportation component features 2 monthly adult and 1 child bus pass, and monthly taxi fares of $16. The private transportation component allows for the purchase of a five year old Ford Focus every five years and the cost of operating it, including 1,500 litres of gasoline per year.

These baskets are priced in a consistent and annual fashion by Statistics Canada in each province in Canada and at the sub-provincial level, thus providing for comparable and consistent prices for each province and sub-provincial regions.

For the purposes of pricing SA basic needs budgets in this report, the cost of the MBM food, clothing and footwear baskets for 2008 were used as the price of those basic needs for a family of four on SA. Given that SA programs do not provide for the purchase of a vehicle, only the public transportation budget was used as a guideline for those jurisdictions that include it in their basic needs budgets.

With respect to pricing shelter, the MBM costs were not adopted because the 2008 MBM shelter costs included homeowners without mortgages and the threshold for the reference family of four was set as the *median* (50th percentile) shelter costs. The vast majority of families on income assistance do not own their homes; therefore the MBM shelter budget was not appropriate. Instead, using information from the 2006 Census, the 25th percentile rent threshold was priced for the cost of rent plus utilities for all rental units, including those in need of major repairs, in each of the 49 MBM regions.[8]

In keeping with the National Occupancy Standard[9] used by Canada Mortgage and Housing, the weighted average rent at the 25th percentile for two and three bedroom units was taken as the cost of the shelter component of the SA budget for the reference family of four persons, where the weights were the number of two and three bedroom units in each region. This rent threshold was chosen because it seemed sufficiently modest for a program of last resort. A lower threshold was not adopted out of concern there was an insufficient number of units that would be available for the number of families on income assistance. It is worth noting that Saskatchewan's rent guidelines are quite close to this threshold: For a single person, the threshold is one half the average rents for a bachelor unit, which approximates the 25th percentile threshold. For all other family units, the threshold is 70 per cent of average market rents for the appropriate sized rental unit, which approximates the 33rd percentile threshold. Appendix 1 presents the number of dwelling units and weighted rent thresholds for each bedroom size unit and province.

Finally, for obtaining a price for the personal and household needs and basic telephone service components of the SA budget, the MBM approach to pricing the 'other' components of its budget was adopted but the list of items in the 'other' component was confined to just these items. The MBM approach to pricing the 'other' component of its budget reflects what Fisher calls the 'categorical' approach to establishing the cost of a budget item. It relies on the detailed results from Statistics Canada's Survey of Household Spending (SHS) and calculates a "multiplier" which is the ratio of average expenditures on all other goods and services, considered to be necessities according to current social norms, to average expenditures on food and clothing. The multiplier is the average for the current and previous two years for all of Canada based on the consumption patterns of the reference family in the second income (before tax) decile of the SHS.

Table A.8 of the *First Comprehensive Review of the Market Basket Measure of Low Income: Final Report* provides the detailed listing of the other goods and services comprising the multiplier. For 2008, the value of this multiplier was 0.749. To obtain the cost of the 'other' items component of the MBM, the combined food, clothing and footwear costs for each MBM region is then multiplied by the multiplier.

Two adjustments were made to this method of calculating the cost of 'other' goods and services. First, only the following items were included in the numerator of the multiplier to reflect the limited list of items covered under the 'personal and household needs' and 'basic phone service' components of the SA basic needs budget:

- household cleaning supplies;
- paper, plastic and foil household supplies;
- other household supplies;
- other medicines and pharmaceutical products;
- personal care;
- purchase of telephones and equipment.

Second, the level of consumption of the reference family at both the first and second income decile, before tax, was used to calculate the multiplier.

Appendix 2 presents the description of the detailed special tabulation request and the resulting multipliers for both the first and second decile families, including and excluding the purchase of telephones and equipment. The differences are quite small. For all items in the above list, the multiplier for the lowest income decile is 0.211 and for the second decile it's 0.217. Similarly, for the list which excludes the purchase of telephones and equipment, the multipliers are 0.205 for the first income decile and 0.209 for the second decile. For the purposes of pricing the personal and household needs and basic phone service component of the provincial SA budgets, the average of the multipliers for the first two deciles was used. Thus, for just personal and household needs, the multiplier of 0.207 was used and for the personal and household needs and basic phone service, the multiplier of 0.214 was used. As noted above, by comparison, the multiplier for all of the items in the 'other expenses' category of the MBM was 0.749 in 2008.

The other feature of the MBM that was adopted to establish the cost of the SA basic needs budget was its 'equivalence' scale for prorating the cost for the four person reference family for families of other sizes and compositions. The equivalence scale now used for the MBM is the square root of family size. Thus, the weights for one to four person family units are: 1.0, 1.41, 1.73 and 2.0, respectively. In order to prorate the cost of the budget for the four person family, one simply multiplies the cost by the ratio of the weight for the other family size to the weight of 2.0. Thus, a single person's SA budget is one half the budget of the reference family; i.e., (1.0/2.0) x reference family budget. Similarly, a single parent with one child's SA budget is 0.705 times the budget of the reference family (1.41/2.0) and a single parent with two children's SA budget is 0.866 times the budget of the reference family (1.73/2.0).

This short-hand way of establishing the budgets for different family sizes and ages of family members is at odds with many of the standard budget approaches which work out detailed budgets for each family size and age of children. In support of the use of its equivalence scale, however, the authors of the MBM note that it is almost identical to that used to calculate the relative measure of disposable income poverty used by the United Nations and the Luxembourg Income Study (LIS). It is also the equivalence scale used by the Organization for Economic Co-operation and Development in its studies of income inequality and poverty.[10] Furthermore, it offers an inexpensive way of establishing standard budgets for a range of family types, based on the careful pricing of a budget for a reference family.

The final step in constructing SA budgets for each province was that of calculating a province-wide rate, based on the cost of the budget in each region of the province. The components of the MBM are priced in 49 different regions in Canada. Newfoundland/Labrador and PEI each have 3 regions; Ontario has 7 and the remaining provinces between 4 and 6 regions. Because the provincial SA programs typically establish one budget for the entire province (with the exceptions of add-ons for northern regions in some provinces and of Saskatchewan which has four shelter rates), it was necessary to construct a provincial average of the regional budgets. To do so, each region's budget was weighted by the total population aged 0 to 64 years living in economic families in that region, as of the 2006 Census. Thus, the resulting provincial SA budgets reflect a population-weighted average of the budgets in each region. Ideally, the weights should have been the total number of people in private households on income assistance living in each region in 2008; however, those data were not available.

In conclusion, the methodology adopted by this study for pricing SA basic needs budgets is based on an approach developed and implemented by Canadian federal, provincial and territorial governments and by Statistics Canada which reflects both the detailed and categorical approaches to setting standard budgets based on expert opinion. Its assumptions for arriving at the prices of the component items are clearly stated, thus allowing the reader to understand the standard of living being provided. For provincial governments interested in using it to revise their own rates, it offers a low cost approach to doing so. For social advocacy groups, it provides a clear basis for arguing for more adequate rates.

THE COST OF PROVINCIAL SA BASIC NEEDS BUDGETS IN 2008

Based on the methodology described above, an average SA budget was constructed for each province, according to the items included in its list of basic needs. Table 3 presents the costs of the budgets for the reference family of four persons by component and province.

Table 3: Cost of Provincial SA Basic Needs Budgets by Component, Two Parent, Two Child Family – 2008

Province	Food[1]	Clothing & Footwear[1]	Personal & Hhld Needs[2]	Trans-portation[1]	Rent[3]	Total Budget (Provincial Rank)
NFLD/L	$9,567	$2,461	$1,618	--	$6,076	$19,722 (8)
PEI	$9,064	$2,381	$1,443[4]	--	$7,312	$20,200 (7)
NS	$9,198	$2,586	$1,798	--	$7,474	$21,056 (6)
NB	$9,118	$2,527	$1,649	$2,215[5]	$6,560	$22,069 (3)
QUE	$8,667	$1,875	$1,897	--	$6,685	$19,124 (9)
ONT	$8,140	$1,934	$1,941	--	$9,539	$21,554 (4)
MB	$8,483	$2,088	$1,786	--	$6,729	$19,086 (10)
SK	$8,526	$2,082	$1,627	$2,198[5]	$7,103	$21,536 (5)
AB	$8,765	$2,076	$2,058[4]	$2,614[5]	$9,799	$25,312 (1)
BC	$9,056	$2,239	$2,189	--	$9,000	$22,484 (2)

Sources: [1] Statistics Canada, CANSIM Table 202-0809; [2] Statistics Canada, special tabulations, Survey of Household Spending 2006 to 2008. [3] Statistics Canada, special tabulations, 2006 Census.
Notes: [4] the cost of basic telephone service is also included. [5] The average for cities with public transportation.

The table shows that food is the largest cost of the budget, except for Alberta and Ontario, where rent is the largest cost item. Clothing and footwear costs are lowest in Quebec and Ontario with the Maritime Provinces having the highest cost for these items. By comparison, personal and household needs costs are the lowest in the Maritime Provinces. Where transportation is included, it is close to the budget for clothing and footwear. Newfoundland/Labrador, New Brunswick, Quebec and Manitoba enjoy the lowest shelter costs, while British Columbia, Alberta and Ontario have the highest shelter costs.

There is some variation in the cost of the SA basic needs budget across provinces. Manitoba and Quebec have the lowest overall costs, at just over $19,000 per year, and Alberta experiences the highest cost ($25,312) with BC second at $22,484. Were the transportation budget item removed from Alberta's SA budget, its budget would still be the highest in Canada. However, were the transportation budget item removed from New Brunswick's SA basic needs budget, it would move from the third to seventh highest.

When the MBM equivalence scale is applied to the total budgets, the following cost profile emerges for the SA budgets for families of one to four persons:

Table 4: The Cost of Provincial SA Basic Needs Budgets by Family Size– 2008

Province	Single Person	Lone Parent, 1 Child 0-15	Lone Parent, 2 children 0-15	Two Parent, 2 children 0-15
NFLD/L	$9,861	$13,904	$17,079	$19,722
PEI	$10,100	$14,241	$17,493	$20,200
NS	$10,528	$14,844	$18,234	$21,056
NB	$11,034	$15,559	$19,111	$22,069
QUE	$9,562	$13,482	$16,561	$19,124
ONT	$10,777	$14,490	$18,666	$21,554
MB	$9,543	$13,455	$16,528	$19,086
SK	$10,768	$15,183	$18,650	$21,536
AB	$12,656	$17,845	$21,920	$25,312
BC	$11,242	$15,851	$19,471	$22,484

THE ADEQUACY OF PROVINCIAL SA BASIC NEEDS BUDGETS IN 2008

Adequacy of the Total SA Budget

Following the example of the National Council of Welfare's annual *Welfare Incomes* reports, this report compares the cost of SA budgets with both the Basic SA budget prescribed by provincial regulations and the Total Income available to families on SA from SA and provincial and federal tax credits. The figures for the Basic SA and Total Income are found in the Bulletins No. 1 to No. 4 of the National Council of Welfare, *Welfare Incomes 2008* report.

The federal tax credits include the Canada Child Tax Benefit for families with children and the GST tax credit. Provincial tax credits include child benefits, income supplements and tax credits and shelter allowances or housing supplements. Table 5 presents the comparison of the cost of the Basic Needs Budget with SA Basic and Total Income.

Table 5: Adequacy of SA Budgets and Total Income to Meet Basic Needs

Single Person Considered Employable

PROVINCE	Cost of the Basic Needs Budget	Basic SA	Dollar Gap Between BSA and Cost	Total Income (BSA + F/P Tax Credits)	Gap Between Cost and Total Income	
					Dollar	Per cent
Newfoundland & Labrador	$9,861	$7,947	-$1,914	$9,448	-$413	-4.2
Prince Edward Island	$10,100	$6,432	-$3,668	$6,672	-$3,428	-33.9
Nova Scotia	$10,528	$6,060	-$4,468	$6,300	-$4,228	-40.2
New Brunswick	$11,034	$3,447	-$7,587	$3,687	-$7,347	-66.6
Quebec	$9,562	$6,904	-$2,658	$7,143	-$2,419	-25.3
Ontario	$10,777	$6,732	-$4,045	$7,352	-$3,425	-31.8
Manitoba	$9,543	$6,186	-$3,357	$6,426	-$3,117	-32.7
Saskatchewan	$10,768	$7,768	-$3,000	$8,120	-$2,648	-24.6
Alberta	$12,656	$5,186	-$7,470	$5,426	-$7,230	-57.1
British Columbia	$11,242	$7,320	-$3,922	$7,770	-$3,472	-30.9

Single Person with a Disability

PROVINCE	Cost of the Basic Needs Budget	Basic SA	Dollar Gap Between BSA and Cost	Total Income (BSA + F/P Tax Credits)	Gap Between Cost and Total Income	
					Dollar	Per cent
Newfoundland & Labrador	$9,861	$7,947	-$1,914	$10,977	+$1,116	+11.3
Prince Edward Island	$10,100	$8,517	-$1,583	$8,765	-$1,335	-13.2
Nova Scotia	$10,528	$8,880	-$1,648	$9,140	-$1,388	-13.2
New Brunswick	$11,034	$7,254	-$3,780	$8,496	-$2,538	-23.0
Quebec	$9,562	$10,348	+$786	$10,630	+$1,068	+11.2
Ontario	$10,777	$12,030	$1,253	$12,647	+$1,870	+17.4
Manitoba	$9,543	$7,397	-$2,146	$9,332	-$211	-2.2
Saskatchewan	$10,768	$9,266	-$1,502	$10,477	-$291	-2.7
Alberta- IS	$12,656	$7,594	-$5,062	$8,773	-$3,883	-30.7
Alberta- AISH	$12,656	$13,056	+$400	$13,377	+$721	+5.7
British Columbia	$11,242	$10,877	-$365	$11,382	$140	+1.2

Lone Parent with a Child Aged Two

PROVINCE	Cost of the Basic Needs Budget	Basic SA	Dollar Gap Between BSA and Cost	Total Income (BSA + F/P Tax Credits)	Gap Between Cost and Total Income	
					Dollar	Per cent
Newfoundland & Labrador	$13,904	$12,285	-$1,619	$19,015	+$5,111	+36.7
Prince Edward Island	$14,241	$10,927	-$3,314	$16,033	+$1,792	+12.6
Nova Scotia	$14,844	$9,300	-$5,544	$14,851	+$7	0.0
New Brunswick	$15,559	$9,492	-$6,067	$15,868	+$309	+2.0
Quebec	$13,482	$8,308	-$5,174	$17,231	+$3,749	+27.8
Ontario	$14,490	$10,883	-$3,607	$16,683	+$2,193	+15.1
Manitoba	$13,455	$9,636	-$3,819	$14,742	+$1,287	+9.6
Saskatchewan	$15,183	$11,093	-$4,090	$16,413	+$1,230	+8.1
Alberta	$17,845	$9,098	-$8,747	$14,094	-$3,751	-21.0
British Columbia	$15,851	$11,347	-$4,504	$16,808	+$957	+6.0

Couple with 2 children aged 10 and 15

PROVINCE	Cost of the Basic Needs Budget	Basic SA	Dollar Gap Between BSA and Cost	Total Income (BSA + F/P Tax Credits)	Gap Between Cost and Total Income	
					Dollar	Per cent
Newfoundland & Labrador	$19,722	$12,798	-$6,924	$21,968	+$2,246	+11.4
Prince Edward Island	$20,200	$15,815	-$4,385	$23,267	+$3,067	+15.2
Nova Scotia	$21,056	$12,360	-$8,696	$20,703	-$353	-1.7
New Brunswick	$22,069	$10,653	-$11,416	$19,376	-$2,693	-12.2
Quebec	$19,124	$10,699	-$8,425	$22,134	+$3,010	+15.7
Ontario	$21,554	$12,992	-$8,562	$21,215	-$339	-1.6
Manitoba	$19,086	$14,057	-$5,029	$21,319	+$2,233	+11.7
Saskatchewan	$21,536	$14,933	-$6,603	$22,626	+$1,090	+5.1
Alberta	$25,312	$13,242	-$12,070	$20,710	-$4,602	-18.2
British Columbia	$22,484	$13,213	-$9,271	$21,016	-$1,468	-6.5

There are a number of summary observations which can be made of the comparisons presented in table 5:

1. The dollar and percentage gap between the Basic SA budgets and the cost of those budgets is quite substantial for all four family types. The (unweighted) average gap is -40 per cent for the Single Employable category, -38 per cent for a Two Parent family, -31 per cent for Lone Parent families, and -15 per cent for a Single Person with a Disability.

2. For a Single Employable person, there is only the GST Tax Credit available to them as additional income. Hence, their total income is only slightly higher than their income; and, as a result, the resulting gap between their total transfer income and the cost of their basic needs remains quite high (-$3,773 or -36% of the cost of their basic needs budget).

3. For a Single Person with a disability, the gap is substantially less, partly because their budget is higher and partly because they receive more provincial benefits. As a result, the (unweighted) average gap between their total transfer income and the cost of their basic needs is only -$473 or -4%. Furthermore, in five of the ten provinces (Nfld/L, Quebec, Ontario, Alberta (AISH), BC), there is a positive gap and in another two (Manitoba and Saskatchewan), the deficit is minimal (-2%).

4. With both the Lone Parent and Couple with 2 children families, a very different picture emerges. While the gap between their basic budgets is high, both types of families receive substantial federal and provincial transfers from the Canada Child Tax Benefit and provincial child benefits.

For a lone parent family, the average (unweighted) total transfer payment is $5,936. For a couple with two children, the average (unweighted) total transfer payment is $8,357. As a result, for lone parent families, there is a positive gap of +$2,039 (+14%) between their total income and the cost of their basic needs budget. For couples with two children, the gap is much less (+$219 or +1%).

5. These overall average gaps mask considerable variation among the provinces. Across all four family types, Alberta and New Brunswick consistently have either the highest or second highest negative gap between total income and the cost of the basic needs budget. By comparison, Quebec has the lowest or second lowest gap for three of the four family types and Newfoundland/Labrador has the second lowest gap for two of the family types. Alberta and New Brunswick have the largest negative gap due to the combination of having high costs of living and low SA budgets. Conversely, Quebec and Newfoundland have the most adequate benefits because of low costs of living and more generous budgets and provincial transfer payments. Manitoba has the lowest cost of living but less generous SA and provincial benefits than Quebec and Newfoundland, leaving its single SA recipients with a larger negative gap between total income and the cost of its basic needs budget.

Adequacy of the SA Rent Budgets

Most provinces establish a separate rent schedule for private market housing for their SA programs which represent the rent levels allowable for each family size. As well, a number of provinces have separate budgets for utilities and different shelter rate schedules for other housing arrangements like public housing, institutions and room and board. In practice, the rent schedules for private market housing are used as maximums. Individual caseworkers, however, can set the rent allowed in the SA budget at an amount lower or higher than the guideline, depending on their judgment of what type of housing is available in the local area.[11] Where the actual rent is lower than the established rent schedule, the rent allowed for the budget will be the actual rent being paid by the recipient. Where the rent exceeds the rent schedule, caseworkers will set the 'rent allowed' amount at the actual rent only when they are convinced there are no rental arrangements available at the guideline rates or where special needs of the client dictate the rent being paid for the unit. As a result, for many recipients renting at prices above the established rent schedules, they will pay, out of other budget items, any difference between what their SA budget allows for rent and the amount they are paying.

Because shelter rate schedules are infrequently adjusted by many provinces to reflect the rising cost of rent in the marketplace, over time these rent schedules become less and less adequate and an increasing number of recipients pay the difference between their allowed rent and the actual rent out of other budget items. For this reason, it becomes important to set rent guidelines at levels that cover a majority of the rents actually being paid by SA recipients and to keep them updated.

To get a sense of how actual rents paid by recipients correspond to the established rent guidelines, the provinces were asked to provide both their rent guidelines as well as the actual median market rents paid by recipients in 2008, by family type. Table 6 presents those comparisons, along with the 25th rent percentile, as obtained from Statistics Canada tabulations, for those provinces who responded to the request for this information.

The results presented in Table 6, reveal several key points. First, the rent guidelines for these four provinces are typically between 11 and 45 per cent less than the median level of market rents actually being paid by recipients. Given that half of recipients are paying more than the median rents reported in Table 6, existing rent guidelines are very low. Second, for single persons, the median market rents paid by recipients are considerably below the 25th rent percentiles. However, for single and two parent families with two children, their median market rents are either quite close to, at or above the 25th rent percentile threshold.

Single persons are accessing a much lower range of the private rental market than families with children. As a result, were provinces to adopt the 25th rent percentile as the shelter guideline for private market rents, single persons and lone parent families with one child would have equal access to the rental market.

Table 6: Comparison of SA Rent Guidelines with Actual Median Market Rents Paid by Recipients and the 25th Rent Percentile, for Selected Provinces and Family Types, 2008

Family Type by Province	Rent Guideline	SA Median Market Rents (Percent Above Guideline)	25th Rent Percentile
Ontario			
Single Employable[1]	$4,195	$4,728 (+13%)	$7,251
Single with a Disabilty[1]	$5,358	$5,724 (+ 7%)	$7,251
Lone Parent, 1 child[2]	$6,599	$7,368 (+12%)	$9,300
Lone Parent, 2 children[3]	$6,612	$8,508 (+29%)	$9,539
Two Parent, 2 children[3]	$7,777	$9,960 (+28%)	$9,539
Manitoba			
Single Employable[1]	$3,546	$4,200 (+18%)	$5,055
Single with a Disabilty[1]	$3,840	$4,266 (+11%)	$5,055
Lone Parent, 1 child[2]	$4,644	$6,000 (+29%)	$6,892
Lone Parent, 2 children[3]	$5,160	$6,204 (+20%)	$6,729
Two Parent, 2 children[3]	$5,652	$6,984 (+23%)	$6,729
Saskatchewan			
Single Employable[1]	$3,060[4]	$3,595 (+17%)	$5,180
Single with a Disabilty[1]	$4,164[4]	$5,400 (+30%)	$5,180
Lone Parent, 1 child[2]	$5,340[4]	$6,732 (+26%)	$6,916
Lone Parent, 2 children[3]	$5,328[4]	$7,210 (+35%)	$7,103
Two Parent, 2 children[3]	$5,256[4]	$7,644 (+45%)	$7,103

Sources: Special Tabulations provided by reporting provinces and Statistics Canada Special Tabulations

Notes: [1] for these two family types, the weighted average of bachelor and one bedroom units was used in calculating the 25th rent percentiles. [2] A two bedroom unit was used as the bedroom size for this family type.

[3] The weighted average of two and three bedroom units was used for this family type.

[4] These are maximum shelter allowances for 4 geographical areas weighted by the number of households of each Type receiving shelter allowances in each area. They exclude the cost of utilities, where not included in the rent.

THE RATIONALE, COST AND ADEQUACY OF AN EXPANDED SA BUDGET FOR LONG-TERM RECIPIENTS

As noted above, the basic needs budget covers the cost of food, clothing and footwear, shelter, personal needs and household supplies. For three provinces, it also covers the cost of transportation; and, for two provinces, it includes the cost of basic phone service. Thus, excluded from this budget are a range of consumption items that Canadian families normally purchase. The full list of those items can be found in Table A.8 of the *First Comprehensive Review of the Market Basket Measure of Low Income: Final Report.* By major category, they include purchase of telephones and telephone services; the purchase, maintenance and repair of furniture, appliances, home entertainment, sports and recreation equipment, reading materials; and other expenses such as postal and communication services, home security equipment, and photographic goods and services. Some of these items such as purchase of furniture and furnishings may be granted on a per request basis by the SA program but the others are never provided.

In the short term, families can get by with a level of income support that covers their basic needs. Over the longer term, not having an income sufficient to purchase the other goods and services normally consumed by even low income families means that individuals and families on SA will dip into their basic needs budget to purchase them or do without. In the case of sports and recreation equipment and reading materials for children, the absence of income increases children's risk of social exclusion. A key rationale for including these items in the Market Basket Measure of low income was to ensure a standard of living that allowed for participation in broader community activities and social inclusion. For those on SA for a long period of time, the same rationale should apply.

If the majority of those on SA were dependent on the program for a short period of time, then the basic needs budget would suffice to cover their basic needs. By 2008, however, the nature of the SA caseload in Canada had shifted to featuring a large proportion of long-term recipients. As of March 2008, for the six provinces in Canada that reported the duration of time spent on the *current* spell on SA, 24 per cent of those without a disability and 76 per cent of those with a disability were long-term recipients. Furthermore, 60 per cent of all recipients were classified as having either a disability or multiple barriers to employment. By comparison, when the total amount of time spent on SA over the last 6 years is used as a measure of dependency on SA, the per cent of those on for more than 2 of the last 6 years rises to 85 per cent of single persons with a disability, 70 per cent of lone parent families, 60 per cent of two parent families and 46 per cent of single non-disabled in Manitoba as of September 2008. Appendix 3 provides a profile of the duration of time on SA at both the national and Manitoba level.

Cost of a Long-term Budget

If all of the items in the 'other expenses' category of the MBM of low income are included in a budget suitable for those on SA for a longer period of time, then the cost of a long-term SA budget for the reference family of two adults and two children is presented in Table 7, below. Note that, as with the costs presented in the SA Basic Needs Budget in Table 3, these costs are the weighted average of costs for each MBM region within each province.

Table 7: Cost of Long-term Budgets by Component and Province, Two Parent/Two Child Family – 2008

Province	Food[1]	Clothing & Footwear[1]	Personal & Hhld Needs[2]	Trans-portation[1]	Rent	Other MBM Items[5]	Total Budget (Provincial Rank)
Newfoundland & Labrador	$9,567	$2,461	$1,618	--	$6,076	$7,316	$27,118 (8)
Prince Edward Island	$9,064	$2,381	$1,443[3]	--	$7,312	$7,135	$27,335 (6)
Nova Scotia	$9,198	$2,586	$1,798	--	$7,474	$7,034	$28,090 (4)
New Brunswick	$9,118	$2,527	$1,649	$2,215[4]	$6,560	$7,078	$29,147 (2)
Quebec	$8,667	$1,875	$1,897	--	$6,685	$6,004	$25,128 (10)
Ontario	$8,140	$1,934	$1,941	--	$9,539	$5,609	$27,163 (7)
Manitoba	$8,483	$2,088	$1,786	--	$6,729	$6,137	$25,223 (9)
Saskatchewan	$8,526	$2,082	$1,627	$2,198[4]	$7,103	$6,323	$27,859 (5)
Alberta	$8,765	$2,076	$2,058[3]	$2,614[4]	$9,799	$6,067	$31,379 (1)
British Columbia	$9,056	$2,239	$2,189	--	$9,000	$6,276	$28,760 (3)

Sources: [1] Statistics Canada, CANSIM Table 202-0809; [2] Statistics Canada, Special Tabulations.

Notes: [3] the cost of basic phone service is also included. [4] The average for cities with public transportation.

[5] These include such items as phones, furnishings, recreation & entertainment, reading materials & supplies, postal services, home security at the levels consumed by families whose income is in the second income decile. The cost was obtained by subtracting the personal & hhld needs costs from the total cost of the MBM 'Other Expenses' item.

The cost of the long-term SA budget is highest in Alberta at $31,379, second highest in New Brunswick at $29,147 and third highest in British Columbia at $28,760. A number of provinces have budgets in the $27,000 range, with Manitoba and Quebec having the lowest costs at just over $25,000.

Table 8 provides the long-term budgets for the four family types presented above in Table 7.

Table 8: The Cost of SA Long-term Budgets by Family Size and Province – 2008

Province	Single Person	Lone Parent, 1 Child 0-15	Lone Parent, 2 children 0-15	Two Parent, 2 children 0-15
Newfoundland & Labrador	$13,559	$19,118	$23,484	$27,118
Prince Edward Island	$13,667	$19,271	$23,672	$27,335
Nova Scotia	$14,045	$19,803	$24,326	$28,090
New Brunswick	$14,573	$20,548	$25,241	$29,147
Quebec	$12,546	$17,715	$21,761	$25,128
Ontario	$13,581	$19,149	$23,523	$27,163
Manitoba	$12,611	$17,782	$21,843	$25,223
Saskatchewan	$13,929	$19,640	$24,125	$27,859
Alberta	$15,689	$22,122	$27,174	$31,379
British Columbia	$14,380	$20,276	$24,906	$28,760

<u>The Adequacy of SA Total Income to Meet the Cost of the Long-term SA Budget</u>

As was done with the cost of the SA basic needs budget in Table 5 above, Table 9 compares the cost of the long-term SA budget with the total income available to the household on SA and shows the dollar and percentage gap between the cost and total income for four household types.

Table 9: Adequacy of SA Total Income to Meet the Cost of the Long-term SA Budget

Single Person Considered Employable

PROVINCE	Cost of the Expanded SA Budget	Total Income (BSA + F/P Tax Credits)	Gap Between Cost and Total Income	
			Dollar	Per cent
Newfoundland & Labrador	$13,559	$9,448	-$4,111	-30.3
Prince Edward Island	$13,667	$6,672	-$6,995	-51.2
Nova Scotia	$14,045	$6,300	-$7,745	-55.1
New Brunswick	$14,573	$3,687	-$10,886	-74.7
Quebec	$12,546	$7,143	-$5,403	-43.1
Ontario	$13,581	$7,352	-$6,229	-45.9
Manitoba	$12,611	$6,426	-$6,185	-49.0
Saskatchewan	$13,929	$8,120	-$5,809	-41.7
Alberta	$15,689	$5,426	-$10,263	-65.4
British Columbia	$14,380	$7,770	-$6,610	-46.0

Single Person with a Disability

PROVINCE	Cost of the Expanded SA Budget	Total Income (BSA + F/P Tax Credits)	Gap Between Cost and Total Income	
			Dollar	Per cent
Newfoundland & Labrador	$13,559	$10,977	-$2,582	-19.0
Prince Edward Island	$13,667	$8,765	-$4,902	-35.9
Nova Scotia	$14,045	$9,140	-$4,905	-34.9
New Brunswick	$14,573	$8,496	-$6,077	-41.7
Quebec	$12,546	$10,630	-$1,916	-15.3
Ontario	$13,581	$12,647	-$934	-6.9
Manitoba	$12,611	$9,332	-$3,279	-26.0
Saskatchewan	$13,929	$10,477	-$3,452	-24.8
Alberta- IS	$15,689	$8,773	-$6,916	-44.1
Alberta- AISH	$15,689	$13,377	-$2,312	-14.7
British Columbia	$14,380	$11,382	-$2,998	-20.8

Lone Parent with a Child Aged 2

PROVINCE	Cost of the Expanded SA Budget	Total Income (BSA + F/P Tax Credits)	Gap Between Cost and Total Income	
			Dollar	Per cent
Newfoundland & Labrador	$19,118	$19,015	-$103	-0.5
Prince Edward Island	$19,271	$16,033	-$3,238	-16.8
Nova Scotia	$19,803	$14,851	-$4,952	-25.0
New Brunswick	$20,548	$15,868	-$4,862	-23.7
Quebec	$17,715	$17,231	-$484	-2.7
Ontario	$19,149	$16,683	-$2,466	-12.9
Manitoba	$17,782	$14,742	-$3,040	-17.1
Saskatchewan	$19,640	$16,413	-$3,227	-16.4
Alberta	$22,122	$14,094	-$8,028	-36.3
British Columbia	$20,276	$16,808	-$3,468	-17.1

Couple with 2 children aged 10 and 15

PROVINCE	Cost of the Expanded SA Budget	Total Income (BSA + F/P Tax Credits)	Gap Between Cost and Total Income	
			Dollar	Per cent
Newfoundland & Labrador	$27,118	$21,968	-$5,150	-19.0
Prince Edward Island	$27,335	$23,267	-$4,068	-14.9
Nova Scotia	$28,090	$20,703	-$7,387	-26.3
New Brunswick	$29,147	$19,376	-$9,771	-33.5
Quebec	$25,128	$22,134	-$2,994	-11.9
Ontario	$27,163	$21,215	-$5,948	-21.9
Manitoba	$25,223	$21,319	-$3,904	-15.5
Saskatchewan	$27,859	$22,626	-$5,233	-18.8
Alberta	$31,379	$20,710	-$10,669	-34.0
British Columbia	$28,760	$21,016	-$7,744	-26.9

There are a number of summary observations which can be made of the comparisons presented in table 9:

1. The gap between the cost of the long-term SA budget and the total income available to meet the cost is the greatest for the category of single person and least for the lone parent with one child.

2. For a single person with a disability, the total income available to those living in Ontario almost meets the cost of the long-term budget, with a budget deficit of – 7 per cent.

3. For a lone parent with one child living in either Newfoundland or Quebec, their total income comes very close to meeting the cost of their long-term SA budget, with budget deficits of only -0.5 and -2.7 per cent, respectively.

4. For the other provinces and family types, the budget deficit is substantial. The magnitude of the deficit is partly due to the variation in the cost of the budget itself and in the generosity of the SA budget and other provincial benefits available to the family.

5. The fact that, for some family types and for some provinces, the gap can be closed shows that adequate incomes can be provided to long-term SA recipients.

COSTS AND BENEFITS TO PROVINCIAL GOVERNMENTS OF ADEQUATE SA BUDGETS

The findings presented in the previous section indicate that the total transfer income available to single persons without a disability is woefully inadequate to cover the cost of even the basic necessities guaranteed by provincial regulations. For single persons with a disability and for two parent families with two children their transfer income barely covers those costs; and, for the considerable number of long-term SA recipients, the basic needs budgets do not cover their needs for goods and services that promote integration with society. Thus, substantial improvements to SA budgets are needed.

Provincial governments have been reluctant to raise those rates partly because rate increases are costly when applied to the total caseload and also because they fear that increased rates will lead to increased caseloads. Little is known about the size of the impact of rate increases on SA caseloads. Thus, at least establishing the likely impact on caseloads of a rate increase will help to frame that concern. Furthermore, to balance the debate, it is important to identify the benefits that can flow from improved SA incomes, particularly for people requiring assistance for long periods of time.

<u>Cost to Governments</u>

There is a fairly extensive Canadian literature on the impacts of SA rates on the duration of spells on SA.[12] This literature only looks at those already on SA and it does not estimate the effect of rate changes on the caseload size. To understand the full impact one has to estimate the effect on both the SA entry and exit rates.

There is one study that estimates both the impact on entry and exit rates for all provinces and a second study which estimates the impact on exit rates for Manitoba. Both these studies can be used to estimate the effects of higher SA budgets on caseload size.

Finnie et al. (2004) used the Longitudinal Administrative Data base (LAD) to estimate the economic and policy determinants of SA entry and exit rates. The LAD is a family-level file built by Statistics Canada from a 20 per cent sample of taxation records, where the records of spouses are combined to create family level income. Beginning in 1992, all those receiving SA during the tax year were required to include a tax slip showing their total SA income during the year. Using this information, Finnie et al. constructed a set of five year data files spanning 1992 to 2000 which estimated the number entering and leaving SA, indicated by the presence/absence of any SA income above $100 in value in any year. They modeled the effect of a set of policy variables, including the unemployment rate, SA benefits and the rate of Employment Insurance benefits, and demographic variables such as age, family status, number of children, province and size of area of residence with entries and exits to obtain the unique impact of changes in each factor on the probability of entering and exiting SA.

More recently, Stevens et al. (2011) analyzed a monthly longitudinal SA data set of all adult recipients of Manitoba's Employment and Income Assistance program which tracked the same person over all spells on SA between April 1999 and September 2008. They too modeled the effect of a rich set of demographic and economic/policy variables on exits from SA.

Both studies provided estimates of the impact of a $1,200 per year increase in benefits (in 2008$) on the probability of entering and exiting SA. Those estimates were then applied to the March 2007 estimates of the population to obtain the change in the caseload. The sum of those two estimated caseload increases was then divided by the total SA caseload, for all provinces, to obtain a national estimate of the impact of this rate increase on the total caseload. Appendix 4 provides a detailed description of the methodology used to generate these estimates. Table 10 presents the results.

Table 10: The Impact of a $1,200 per Year Increase in SA Benefits on the Monthly SA Caseload for Selected Family Types – All Provinces – March 2007

Family Type	Total SA Recipients	Per cent Change due to Entries	Per cent Change Due Exits		Total Per cent Change in Caseload	
			National Estimates	Manitoba Estimates	National Estimates	Manitoba Estimates
Single Person	757,600	+1.74%	-0.90%	+2.26	+0.84%	+4.00%
Lone Parent	206,600	+2.19%	+1.35%	+0.32	+3.54%	+2.51%
Two Parent	128,700	+7.63%	+0.36	+0.57	+7.99%	+8.20%

The results indicate between a 1 and 4 per cent increase in the caseload for single persons, between a 2.5 and 3.5 per cent increase for lone parents and an 8 per cent increase for two parent families. Of the two results for the single person, the 4 per cent increase is the more likely impact because the Finnie study found a negative impact on the exit rate, which is counter to all of the other impacts he found for the other family types.

There are no estimates available for persons with disabilities because the Finnie study specifically excluded anyone receiving disability benefits. However, work done by Stevens et al. indicates that the impact of a $1,200 per year rate increase for a single person with a disability would be a 0.07 per cent increase in the caseload due to fewer exits – much smaller than the impact for single people considered employable.

Most of the caseload increase is due to the higher number of entries. However, whether the impact on entries would be the same in 2008 as during the 1990's is a moot point. By

2008, caseloads were much smaller, the population older and better educated, minimum wage rates were higher and the unemployment rate was lower, all of which would likely reduce the impact of higher SA budgets on entry rates, largely because the earnings capacity of those not on SA was higher. The Finnie study would have to be repeated on a more recent LAD panel, e.g. 2003 to 2008, to confirm whether the impact has changed.

In sum, these estimates indicate that the caseload would show a small increase with a $1,200 per year increase in benefits. The caseload increase may well be smaller than these estimates suggest, given the different economic and demographic conditions which prevailed in 2008.

Cost to SA Recipients

In addition to the cost to governments of higher SA caseloads and higher budgets, there is a cost to those entering and remaining on SA for a longer period of time. That cost is the loss of higher incomes available to them once they leave SA. Two studies in Canada have documented the gains (and losses) in income realized by those who leave SA. The national study (Frenette and Picot: 2003) used the LAD data set, described above, for the years 1992 to 1997, while the analysis by the Strategic Policy and Research Branch of the government of British Columbia used the tax data of a matched file of all those who left SA between 2000 and 2005.

The Frenette and Picot analysis revealed that of the individuals who left SA, 60 per cent of them showed an average gain in disposable income of 106 per cent, while the remaining 40 per cent saw their income decline by an average of 52 per cent. Unfortunately, Frenette and Picot were not able to determine what demographic and economic circumstances distinguished the winners from the losers. By comparison, the B.C. analysis also showed significant gains in total income but did not identify the percentage of individuals who were winners or losers, as did the national study.

Thus, getting off SA results in income gains for many, but not all, and these studies reinforce the reality, already described above, that those who remain on SA for extended periods of time experience low levels of income.

Benefits to Children of Increases in Family Incomes

There is an extensive literature on the effects of family incomes on a range of outcomes for children, including health, socio-emotional and academic.[13] Much of this literature is based on analyses that fail to control for all of the factors that jointly determine both family income and child outcomes. The results are estimates that overstate the role of income.

More recent investigations have used a variety of methods to more completely isolate the pure effect of income on child outcomes and these are reviewed here. Blau (1999) analyzes the effect of current and permanent income on a range of child outcomes (cognitive, social and emotional development) while controlling for unobserved factors affecting both income and child outcomes by using matched mother-child data from the U.S. National Longitudinal Survey of Youth (NLSY) and random and fixed-effects models. He finds that current income has a small positive effect on child outcomes and that the effect of ‘permanent’ income is much larger but not so large as to make income-transfer policies a feasible method of obtaining meaningful improvements in child outcomes.

Building on the work of Blau and others, Dooley and Stewart (2006) find the same results using data from the Canadian National Longitudinal Survey of Children and Youth (NLSCY). They too attempt to control for the effect of unmeasured variables through a variety of approaches, one of which uses the size of welfare incomes as an instrumental variable, given that it is established by government policy and not a function of parental characteristics also correlated with child outcomes. They find that higher welfare benefits are associated with better behavioural-emotional outcomes but not to a statistically significant degree.

Three recent studies, using better instrumental variables for testing the pure effect of increases in income on child outcomes, find larger and statistically significant impacts of higher incomes on a range of child outcomes including academic achievement, mental and emotional wellbeing and health and nutrition. Dahl and Lochner (2005) use changes in the U.S. earned income tax credit over several decades to estimate the pure effect of increases in income on children’s math and reading achievement. Using a panel of over 6,000 children matched to their mothers from the NLSY, they correlate the changes in income from the EITC with children’s math and reading scores and find that a $1,000 annual increase in income raises math test scores by 2.1 per cent and reading test scores by 3.6 per cent of a standard deviation. The results are even stronger for children from disadvantaged families.

In similar fashion, Milligan and Stabile (2008) use the substantial changes in the value of the Canada Child Tax Benefit and the National Child Benefit Supplement since were introduced in 1993 and 1998, respectively, to model the resulting increase in family income and then correlate those exogenously-determined increases with a range of child outcomes measured by the NLSCY. Using NLSCY data spanning the decade from 1994/95 to 2004/05, they find that a $1,000 annual increase in child benefits results in an increase in math scores of 7.4 per cent of a standard deviation, an increase of 6.8 per cent of a standard deviation in vocabulary test, a reduction of 5.2 per cent of a standard deviation in conduct disorder/physical aggression score and an 11.6 per cent of a standard deviation reduction in the mother’s depression score. The gains in math and vocabulary scores are substantially larger for boys (+19.6 and +16.6 per cent, respectively).

The third study by Morris, Duncan and Rodrigues (2004) use pooled microdata from eight welfare and anti-poverty programs in the U.S. and Canada whose clientele were families with children on SA. Using the presence of randomly assigned program and control group participants, they created instrumental variables for income, employment and welfare use that are uncorrelated with parental characteristics and child outcomes. Their estimates suggest that a $1,000 increase in annual income sustained for between two and five years boosts child achievement by 6 per cent of a standard deviation, which is equivalent to a one point increase in an IQ-type scale. However, they found no significant effects for school-aged children. By comparison, they noted that the Abecedarian Project in the U.S. increased IQ scores by 1.0 standard deviation at 3 years and by 0.75 at age 5. The Perry Preschool Project achieved a 0.6 standard deviation increase. These programs cost considerably than increasing a family's income - $40,000 per child for the Abecedarian and $15,000 for the Perry Preschool.

Thus, the more recent studies of the effects of income on child outcomes show substantial gains for children in both academic and social-emotional domains and for mothers' mental health. While these improvements do not immediately translate into reduced costs for SA programs, they do have a positive impact on government costs in the areas of education and health.

<u>Benefits for Adult Health Status</u>

There is an extensive international literature which shows a strong gradient between income and health status with health outcomes improving as income rises (see Adler et al., 1994; Case, 2001; van Doorslaer et al., 1997). As with the literature on child outcomes, few of these studies are able to demonstrate a causal effect of income on health status because they do not control for unobserved variables which jointly determine income and health status and establish a correct causal sequence between changes in income and subsequent changes in health status. For those studies which use panel surveys, many do not correctly control for sample attrition which likely is concentrated among those with poor health status.

There are, however, several studies based on panel data, which exploited changes in income due to unexpected events unrelated to health status, and which showed that either current or permanent income has a small effect on health status. Case (2001) used the increase in income associated with changes in the South African state old-age pension system to explore the effect of the increased benefits on self-reported health status. He found that the increase protected the health of household members by ensuring adequate nutrition for household members and improving general living conditions. Meer (2003) and Smith (2007) both used the US Panel Study of Income Dynamics and correlated increases in wealth resulting from improved inheritances and increases in investment income to determine the effect on self-reported general health status and the onset of poor health conditions. Like Case, they found that increases in income had a very small positive effect on subsequent health status. Finally, Fritjers et al., (2005) used the substantial improvement in the incomes of East Germans after re-unification to test the effects on satisfaction with health status and self-assessed general health. Like the others, they found a very small effect.

By comparison, Smith (2007) found that an adult's level of education had a larger and persistent effect on the onset of both minor and major problems, even when income and lifestyle (smoking) were controlled for.

In summary, this chapter has shown that improving SA benefits does lead to cost increases for the program due to both the higher benefits and likely increases in the caseload. For recipients induced to remain longer on assistance, some, but not all, incur the cost of lower incomes while on SA. However, for those who remain on SA for an extended period of time, the child development studies cited in this chapter indicate that higher benefits do lead to improved academic achievement, better social and emotional development among children and better mental health status of the parent. Similarly, the health studies indicate small improvements in adult health status.

Thus, raising SA benefits to make them more adequately cover the cost of a minimally adequate standard of living will lead to cost increases. But, for those who experience prolonged spells on assistance, those increases in benefits will result in gains for both children and adults, certainly a further justification for doing the right thing.

ALTERNATIVE POLICY TOOLS FOR PROMOTING INDEPENDENCE FROM WELFARE

This chapter describes the range of policy tools which governments have used to promote independence from SA and argues that these have largely been aimed at those with minimal barriers to employment. Accordingly, the key policy challenge now is how to promote the independence of those with significant barriers to employment while providing an adequate level of support while they are on SA.

As noted above, provincial governments have used low welfare rates as an explicit policy tool for encouraging people to leave SA since the mid-1990. While this tool has worked to get the more employable recipients off the rolls, the net result has been that of increasing the proportion of the SA caseloads comprised of those with multiple barriers to employment and much longer spells on SA. This group is much less responsive to low SA rates and the key result for them is the hardship imposed by inadequate levels of financial support to meet the costs of daily living. Providing higher benefits for these long-term recipients is clearly a matter of basic justice.

A recent study by Stevens et al. (2011) of the dramatic decline in the SA participation rate in Manitoba over the period from 1999 to 2008 shows that the only reason for the decline was the drop in the entry rate, due mainly to factors outside of the control of the SA administrators. The demographic factors of an aging population and improved levels of educational attainment were responsible for 38 per cent of the total decline in the entry rate between 1999 and 2008. The remaining decline was due to a mix of economic factors (lower unemployment rate and higher minimum wage rates) and social factors.

By comparison, that study found that the exit rates off SA also *declined* due mainly to a large number of conversions of recipients from a non-disability to a disability case status, thus confirming the dramatic change in the composition of the SA caseload which went from 26 per cent of adult recipients with a disability case status in 1999 to a 57 per cent share by 2008.

A key policy tool which all provinces have used since the late 1990's to promote independence from SA is the provision of benefits to the working poor, by way of reducing the 'welfare wall'. The welfare wall is the loss of income and/or in-kind benefits like dental and optical care, which occurs when a person moves off SA to low wage employment. Accordingly, when the National Child Benefit Supplement (NCBS) was introduced in 1998 for <u>all</u> low-income families with children, most provinces agreed to recover the value of the NCBS from families on SA. This policy left the SA families no worse off than before and provided an economic incentive for them to leave SA. An analysis of this policy (see, Milligan and Stabile, 2004) showed it had the intended effect.

Another policy tool which has proven effective in promoting independence from SA for those able to work is the earned income tax credit or working income tax benefit. It provides a supplement for every dollar earned up to maximum level of earnings, thus providing an incentive to both obtain employment and earn more over this initial level of earnings. Beyond the maximum level of earnings, the value of supplement is gradually reduced until it reaches $0. It was introduced in the 1980's in the United States as the Earned Income Tax Credit (EITC) for families with children and enriched substantially since then. In Britain, it was introduced as the Working Family Tax Credit (WFTC) in the late 1990s. The Canadian federal government introduced it in 2007 as the Working Income Tax Benefit (WITB). Hotz et al. (2005) analyzed the impact of the EITC on lone parents on welfare and found it accounted for between 21 and 29 per cent of the increase in the observed employment rates of lone parents. An evaluation of the WFTC in Britain (see, Cebulla et al. 2008) found it was responsible for between one third and one half of the total increase in employment rates of lone parents and an increase in the level of employment of those in the labour force.

The final set of policies which governments have used to promote independence from SA is a range of employment training programs and financial incentives for moving from SA to employment. These programs and policies have been studied extensively and intensively over the last 30 years both in Canada, the United States and Britain and several summary meta-analyses have been conducted of their impacts (see, Greenberg et al. 2005 and 2009). From these meta-analyses, several conclusions can be drawn (see, Greenberg et al. 2009: iii):

- Programs which provide financial incentives or earnings supplements to encourage work appear to best achieve the goal of increasing participants' income. They tend to result in a net cost for the government. However, participants often gained more than the government spent, making this type of program an efficient mechanism for transferring income to poor families;
- Workfare programs that require individuals to look for jobs immediately and that assign other activities if work is not found result in savings for governments but result in either small benefits or net costs for participants, typically in the order of a 10 per cent gain in earnings and employment;
- Programs which require individuals to participate initially either in an education or training activity or in a job search activity can meet the dual goals of reducing welfare expenditures and increasing participants' income;
- Mandatory programs that require individuals to participate in General Education Development (GED) completion and Adult Basic Education prior to job search do not lead either to increasing participants' income or saving governments money.

More generally, these analyses reveal that the earnings and employment gains accruing from low-cost employment preparation and training programs are very slight and remove few people from welfare; and, that higher cost programs have better returns than lower cost programs.

For the majority of those on SA today, these evaluations provide little guidance because the programs they examined were aimed largely at those without multiple barriers to employment. In one review of programs aimed at providing employment for low income people with multiple barriers to employment, Loprest and Martinson (2008) identify a number which show promise. They note that these programs are expensive to deliver ($10,000 to $20,000 per participant) and typically, those completing the program show low earnings levels, reflecting both low wages and few hours of work. For example, a recent meta analysis (Bond et al. 2008) of 11 randomized control trials of the Individual Placement and Support (IPS) model of supported employment for persons with severe mental illness showed a 38 percentage point gain in the employment rate (61% vs. 23%) for those receiving the program. On average, they worked only 24 weeks per year.

Thus, sole reliance on intensive and costly remediation and employment support programs for those with multiple barriers and disabilities will not solve the challenge of long-term dependency on SA. Most will remain on SA and, for those who do participate in such programs; they will realize employment gains but possibly not to a sufficient degree to gain complete independence from the program.

THE POLICY CHALLENGE AND A SOLUTION

Provincial governments in Canada today face a significant policy challenge with respect to their SA programs: Their practice over the last 15 years of keeping SA benefits low to reduce caseloads and of rewarding work outside of welfare does not work for those with multiple barriers and disabilities and is resulting in hardship for those who are stuck on SA for years. How best can they proceed to provide adequate benefits and improve recipients' chances for eventual independence?

One answer is to adopt the practice of both the Alberta and British Columbia governments – that of establishing the category of 'Persistent Multiple Barriers/Not Expected to Work' for their SA programs and of paying higher benefits to those who qualify. Unlike other provinces which have typically two designations – not disabled vs. disabled, these two provinces have added a third category which further classifies those without a disability into those with and without multiple barriers to employment. With the Alberta program, a recipient receives a Not Expected to Work (NETW) designation after an employability assessment (EA) has been completed and one or more of the following barriers have been documented – medical impairment, lack of formal education, lack of social skills, poor work history, age, history of unsuccessful interventions and other social factors such as a criminal record. The EA can be conducted at any stage of the SA recipient's involvement with the program and must be completed by a Career and Employment Consultant and not the person's SA caseworker. The NETW designation can be updated by new information provided by the recipient. Once classified as a NETW, the SA recipient receives a higher monthly 'core benefit' for their food, clothing, and personal and household supply items. [14]

With the B.C. program, the person must have been a recipient for at least 12 of the immediately preceding 15 calendar months, score at least 15 on the employability screen, and have a medical condition that has lasted for at least one year and is likely to continue for at least 2 more years that impedes the person's ability to search for and accept employment. The Employability screen features six criteria for assessing employability – age, number of previous times on SA anywhere in Canada in the last 3 years, total time on SA in the last 3 years, highest level of education completed, total time in paid employment in the last 3 years, ability to speak English or literacy level. Points are given for each criterion, with higher points allocated to older persons with more time on SA, lower levels of education, less time in employment and lower literacy levels. If the person scores 15 or higher on the Employability screen, they can be classified as a "Person with Persistent Multiple Barriers" (PPMB). With this designation, the individual receives higher SA benefits, is exempt from time limits for receipt of SA, is allowed earnings exemptions of a combined $500 per month and health supplements which include medical supplies and equipment, extended therapies, $1,000 dental services every two years and medical transportation.

This practice of creating a separate category for those with multiple barriers to employment accomplishes a number of objectives. First, it helps resolve the trade-off between higher benefits and higher entry rates/lower exit rates by limiting the higher benefits to those least likely to modify their behavior to remain on assistance. In effect, it minimizes the work disincentive effects of higher benefits by screening for those characteristics that predict limited employability and by limiting payment to those unable to work. Second, it provides higher benefits only to those who will remain for extended periods of time on assistance, thus addressing the injustice of paying inadequate benefits to those with barriers to employment. Third, it requires the SA program to carry out an employability assessment of participants, thus identifying the number and types of barriers. Without such an assessment, the SA program is not in a position to determine the kind of support and/or remedial services needed[15].

By way of improving on the practice of B.C. and Alberta, several additional measures should be instituted. One is that of requiring an assessment of participants who have been on SA for at least 9 to 12 months. The reason for the selection of the 9 to 12 month waiting period is based on the profile of the exit rates off assistance, as presented in Figure A3.1 below which shows that, after a period of between 9 and 12 months from the start of a spell on SA, the rate at which people leave the program slows down considerably. Thus, there is no point in assessing barriers to employment at the start of a spell on assistance, given that a large proportion will leave the program within the year. Only when that initial time has elapsed has the future prospect of leaving SA diminished considerably and the need increased for an assessment of barriers.

If, however, higher benefits are to be tied to the status of 'multiple barriers to employment', then that assessment should be carried out for <u>all</u> participants who are still on SA after the initial exemption period. To do it on a selective basis, as either the participant or the caseworker requests it, creates inequitable treatment between those who do and do not get the assessment. One way to minimize the worker time required to complete such an assessment is to require that the criteria comprising the assessment be measured at intake as part of the application form. Then, at the designated follow-up 9 or 12 month time period for the comprehensive review, the person's score is calculated by the computer system and a report generated for the person's caseworker. Those persons scoring more than the threshold limit and still on assistance are then interviewed by the caseworker and the higher benefits assigned if nothing has changed in their circumstances. For those scoring less than the threshold level, a worker should meet with them to determine measures required to assist them with employment.

There are several compelling reasons for automating the assessment of multiple barriers to employment. First, most SA workers carry large caseloads (150+) which prevents them from taking the time to do in-depth assessments.

Second, there can be tremendous variability between workers in their ability to do comprehensive assessments; and, with constant staff turnover and little time to train new workers in all the aspects of the job, the quality and consistency of assessments will suffer without some standardized form of completing them.

Third, there is a literature which demonstrates that the use of statistical treatment rules (STRs) outperforms case workers' judgements of which persons should be assigned to remedial employment programs (see, Lechner and Smith, 2005). The vast amount of information contained within provincial SA programs about the duration people are on assistance could be correlated with the characteristics of individuals such that predictive models of the duration of time people will spend on SA could be developed and used to create computer-based scoring systems for rating individuals' likelihood of long-term dependency on SA.

SUMMARY AND RECOMMENDATIONS

This report was written to address two deficiencies of the provincial SA programs in Canada; namely, the absence of clearly defined and priced standard budgets for basic and extended needs for short- and long-term SA recipients and the failure to set SA rates at levels adequate to meet those basic needs. By way of a response to these deficiencies, it presents a methodology for pricing two SA budgets and the cost of purchasing items in them in 2008, using a modified version of the MBM approach to setting low income lines.

This report then compares the cost of the two SA budgets to the existing rates and to the total income available to individuals and families on SA after transfers, by province. For the SA basic needs budget for short-term recipients, the comparison reveals that, except for Newfoundland/Labrador, the level of income available to single employable people is substantially below the cost of living. For a single person with a disability and families with children, total income from all government sources is either at or above the cost of the basic needs SA claims to cover for the majority of the provinces. By comparison, for the extended SA budget for long-term recipients which takes into account a more realistic list of basic needs, only a few provinces, for some family types, provide sufficient income to meet its cost.

The report separately considers the adequacy of the shelter guidelines and finds that shelter allowances are substantially below the actual market rents being paid by those on SA. It finds that single persons, both with and without a disability, have much less access to the private rent market than a family of four persons.

The report then documents both the estimated costs and benefits to provincial governments of raising SA rates and describes the range of policies and programs used by both the provincial and federal governments to reduce SA caseloads since the mid-1990s. It emphasizes that the costs are modest and that higher benefits will improve the academic, social and emotional behaviour of children and the health of adults.

The report concludes by reviewing the range of policies and programs implemented by the provincial and federal governments since the mid-1990s and emphasizes that they have all been aimed at those with reasonable employment prospects. Given the current caseload with its large proportion of persons with multiple barriers to employment and disabilities, such programs are of limited use. Accordingly, provinces need to acknowledge that many of the SA clients will be dependent on SA for an extended period of time and require more adequate levels of benefits to meet their range of needs for social inclusion items that all Canadian families purchase. In addition, provincial SA programs need to institute comprehensive, standardized assessments of barriers to independence for all those entering and currently on SA, review the status of those assessments after the client has been on the program for more than 9 to 12 months and put in place plans for addressing barriers to employment while, at the same time, providing more adequate benefits.

Recommendations

1. Develop a deliberate and transparent process for creating two standard budgets for SA households that reflect minimum but adequate levels of consumption (done annually to reflect changes in the cost of living). The first budget is for all those entering SA and covers the cost of meeting basic needs covered by legislation and regulation. The second budget is for long-term recipients and includes support for replacement of household furnishings, recreation and educational materials.

2. For shelter costs, SA budgets should use private market rents to set a consistent threshold for rent allowances for all family sizes. This report shows that the 25th percentile rent is a reasonable benchmark for SA shelter rates.

3. Particularly for a single person without a disability, increase the SA basic needs rates to bring them up to an adequate level. Newfoundland/Labrador has done this. Other provinces should follow suit.

4. When setting the SA rate for the basic and extended needs budgets, take into consideration the amount of income received by the family from other federal and provincial income transfer programs so that the SA budget, in combination with these other benefits, is adequate to purchase items in the budget. In effect, set each SA budget as the difference between the total cost of the budget and the amount of other government transfers received by the unit.

5. Undertake an analysis of the length of time recipients have been on SA, using a measure of dependency based on the amount of time spent on SA over the previous 6+ years. Use this analysis to identify the extent of long-term and persistent dependency on SA and the characteristics that are predictive of it.

6. Implement a three-tiered system of SA benefits and services for (a) short-term clients with minimal barriers to employment; (b) longer-term clients with multiple barriers to employment; and, (c) long-term clients with permanent disabilities. Short-term clients would receive benefits to cover their basic needs while those with multiple barriers and disabilities would receive benefits adequate to cover their short and long-term needs. Ensure that the implementation of a three tier system is comprehensive, consistent and easy to implement by building the assessment of barriers into the application form and tabulated by the computer system with reports to caseworkers within the first 12 months of being on SA.

7. Use this assessment of multiple barriers to independence to identify the range of services required by SA clients to assist them in overcoming those barriers.

8. Create and adequately fund access to best practice approaches that enable those with multiple barriers to gain employment.

Appendix 1

The 25th Rent Percentile by Province Showing the Number of Dwelling Units and Weighted Rent Thresholds[1] for 2008

Counts of Number of Dwellings by Bedroom Size

PROVINCE	O Bedrooms	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
Newfoundland & Labrador	265	2,060	3,755	3,205	645
Prince Edward Island	120	900	1,460	715	150
Nova Scotia	1,020	8,290	9,960	4,845	1,110
New Brunswick	790	4,440	7,630	3,520	740
Quebec	18,485	106,385	127,780	52,110	6,225
Ontario	24,960	116,465	113,760	54,115	11,475
Manitoba	2,550	12,005	10,535	4,370	1,030
Saskatchewan	1,305	7,395	8,485	4,915	1,170
Alberta	5,065	22,875	27,590	17,920	4,975
British Columbia	12,920	43,975	37,015	18,945	4,905

Weighted Rent Thresholds[2] by Bedroom Size

PROVINCE	O Bedrooms	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedrooms
Newfoundland & Labrador	$5,251	$5,272	$6,216	$5,913	$5,501
Prince Edward Island	$5,086	$5,312	$6,965	$8,020	$7,817
Nova Scotia	$5,716	$5,843	$7,448	$7,527	$7,794
New Brunswick	$4,566	$5,054	$6,597	$6,479	$6,228
Quebec	$4,725	$5,407	$6,522	$7,085	$6,992
Ontario	$6,099	$7,498	$9,300	$10,042	$10,481
Manitoba	$3,850	$5,311	$6,892	$6,336	$6,506
Saskatchewan	$4,846	$5,239	$6,916	$7,426	$8,088
Alberta	$6,596	$7,379	$9,240	$10,660	$11,866
British Columbia	$5,375	$7,292	$8,467	$10,041	$11,617

Source: Statistics Canada, Special Tabulations of the 2006 Census

Note: [1] the provincial rent thresholds are weighted average of the 25th percentile rents for each MBM Region times the number of dwelling units in each region.

Appendix 2

Average Annual Cost of Items in Numerator 1 of the Other Multiplier (2006 to 2008)

Description of Item	Average Expenditure for 2006 to 2008	
	Before Tax Decile 1	Before Tax Decile 2
Household cleaning supplies	254	297
Paper, plastic and foil household supplies	294	296
Other household supplies	74	106
Other medicines and pharmaceutical products	136	144
Personal care	939	1,204

Average Annual Cost of Items in Numerator 2 of the Other Multiplier (2006 to 2008)

Description of Item	Average Expenditure for 2006 to 2008	
	Before Tax Decile 1	Before Tax Decile 2
Household cleaning supplies	254	297
Paper, plastic and foil household supplies	294	296
Other household supplies	74	106
Other medicines and pharmaceutical products	136	144
Personal care	939	1,204
Purchase of Telephones and Equipment	41	63

Average Annual Cost of the Items in the Denominator of the Other Multiplier (2006 to 2008)

Description of Item	Average Expenditure for 2006 to 2008	
	Before Tax Decile 1	Before Tax Decile 2
Food purchased from stores	5,983	6,804
Women's and Girls' wear – Clothing	574	848
Women's and Girls' wear – Footwear	158	232
Women's and Girls' wear – Accessories	51	60
Men's and Boys' wear – Clothing	498	581
Men's and Boys' wear – Footwear	178	224
Men's and Boys' wear – Accessories	35	43
Children's wear – Clothing and cloth diapers	159	164
Children's wear – Footwear	27	30
Laundry and dry-cleaning service	F	F
Laundromats and self-service dry cleaning	F	F
Maintenance, repair and alteration	F	F

Notes: all dollar values are in current dollars; F indicates cell suppressed due to sample size

Other expenses multiplier as per the MBM specifications (but with alternate numerator contents, as specified by client), average of 2006 to 2008

	Lowest before tax income decile	Second before tax income decile
based on numerator #1	0.205	0.211
based on numerator #2	0.209	0.217

Source: Statistics Canada, special tabulations, Survey of Household Spending, 2006 to 2008

Appendix 3

Additional Information on the Duration of Time on SA

There are several ways of measuring the duration of spells on SA. One is to look at those *entering* SA, either for the first time or for a repeat spell, and determine the length of that spell. Another is to track these same people over a defined time period to see the total amount of time spent on SA over all the spells they have. A third is to look at just those *currently on* SA and measure the duration of their current spell. A fourth is track the total length of time those currently on assistance have spent in the program over a defined time period; e.g. 5 years.

For Manitoba, the duration of time on assistance, using these four approaches to measuring it, is presented below in Table 8:

Table A3.1: Duration of Time on SA for Those Aged 18 to 64 Not Living in Institutions by How Duration is Defined – Manitoba

Definition of Time on SA	Number of Months on SA				Total
	1-12	13-24	25-36	37 +	
A. Those Starting SA in mid- 2003					
- First Spell for New Clients	73%	9%	5%	13%	100%
- First Spell for Repeat Clients	76%	4%	5%	15%	100%
- All Spells Over Next 60 months – New Clients	62%	12%	7%	19%	100%
- All Spells Over Next 60 months – Repeaters	45%	17%	12%	26%	100%
B. Those On SA as of September 2008					
- Current Spell	29%	11%	9%	51%	100%
- All Spells Over the Previous 60 months	16%	11%	10%	63%	100%

Source: Employment and Income Assistance Longitudinal File. Calculations by the author.

A comparison of the duration of time on SA by how duration is defined reveals the following:

- The large majority (76%) of those starting a spell on SA leave within the first year;
- A number of people who leave later return to SA so that, over a five year time frame, the total duration of their time on assistance increases, with between a fifth and a quarter of them spending at least three of the five years on assistance;
- For those currently on SA, the majority of them have been on assistance for more than three years.

- When looking at the total time spent on assistance over the previous five years, close to two thirds (63%) have spent at least three years on assistance.

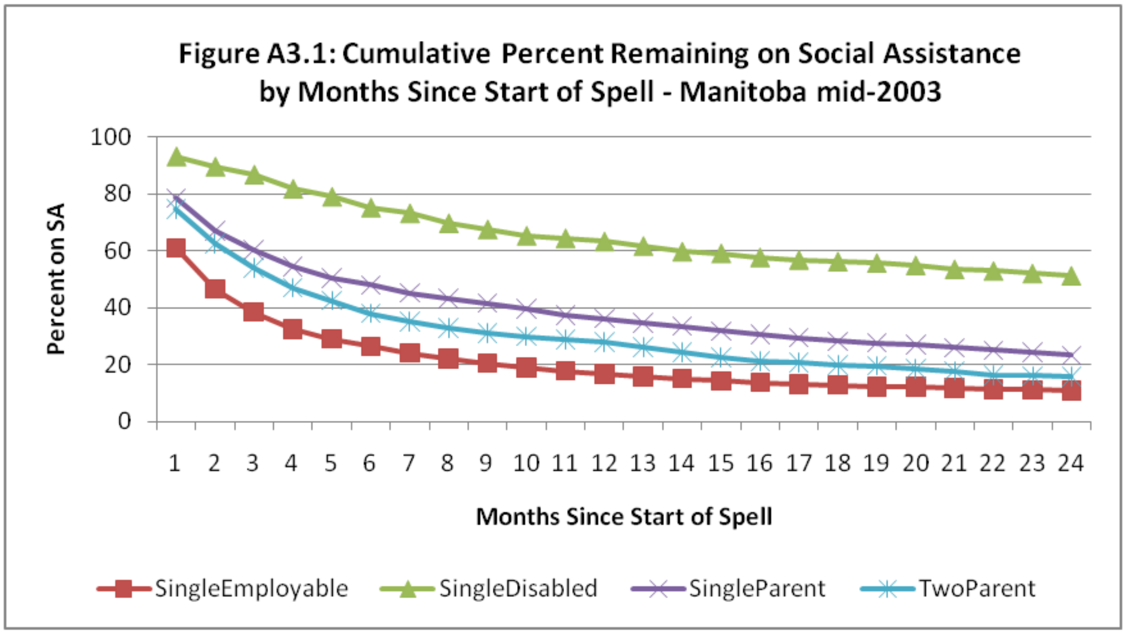
The June 2011 report issued by the Federal Provincial and Territorial Directors of Income Support, *SA Statistical Report: 2008* presents the following description of the duration of time on SA, by type of client, for selected provinces. Note that it measures duration for those currently on assistance by the length of their *current* spell. Accordingly, as shown above, it understates the total time recipients spend on assistance during all spells over a given time period:

Table A3.2: Duration of Time on SA during Current Spell by Type of Client and Province, March 2008

Type of Client by Province	Per Cent of Total Caseload	Number of Months on SA				Total
		1-12	13-24	25-36	37 and more	
Prince Edward Island	100%					
- No Disability	35%	50%	8%	9%	33%	100%
- With a Disability	65%	23%	14%	13%	50%	100%
Ontario	100%					
- No Disability	46%	58%	17%	9%	16%	100%
- With a Disability	54%	8%	9%	9%	73%	100%
Manitoba	100%					
- No Disability	42%	38%	15%	11%	36%	100%
- With a Disability	58%	11%	9%	8%	72%	100%
Saskatchewan	100%					
- No Disability	27%	59%	12%	4%	25%	100%
- Health Conditions	73%	31%	11%	5%	53%	100%
Alberta	100%					
- No Disability	36%	78%	13%	4%	5%	100%
- With a Disability – Income Support	64%	43%	15%	10%	32%	100%
British Columbia	100%					
- No Disability	19%	67%	16%	6%	11%	100%
- Multiple Barriers	21%	39%	16%	9%	36%	100%
- With a Disability	60%	15%	10%	9%	66%	100%
All Six Provinces – Total	100%					
- No Disability	40%	59%	17%	8%	16%	100%
- With a Disability & Multiple Barriers	60%	14%	10%	9%	67%	100%

Manitoba – Those Starting a Spell

For those entering a spell on SA in Manitoba in mid-2003, as either a first time or repeat user of the program, the following chart shows the rate at which the per cent of those entering assistance leave the program.



Except for single persons with a disability, the rate at which those entering SA leave the program is quite rapid over the first three to four months and then becomes more gradual after that. By the end of nine months since the start of the spell on SA, only 20 per cent of single employables, 42 per cent of single parents and 31 per cent of two parents remain on assistance. By 12 months, the per cent remaining drops to 17, 36 and 28 per cent, respectively. The rate of decline, after the first 12 months is very gradual with a further 7, 13 and 12 per cent decline over the next 12 months for the single employable, single and two parent family adult, respectivel

Table A3.3: Total Time on SA over the last 6 years for those on SA as of Sept. 2008 by Family Type

Number of Months on SA	Single Person with a Disability	Single Employable	Lone Parent	Two Parent
1 to 12	7.6%	40.3%	16.2%	25.8%
13 to 24	7.9%	13.2%	13.3%	14.1%
25 to 36	7.9%	10.4%	12.3%	11.9%
37 to 72	76.6%	36.1%	58.2%	48.2%
Total	100.0%	100.0%	100.0%	100.0%

Source: Employment and Income Assistance Longitudinal File. Calculations by the author.

Appendix 4

Methodology for Calculating the Impact of Higher SA Benefits on Caseload Size

A number of data sources were used to calculate the impact on SA caseloads of the estimated changes in the entry and exit rates as reported by Finnie et al. (2004) and Stevens et al. (2011).

In order to use the Finnie estimates for changes in the entry rate caused by an increase in benefits, it was necessary to estimate the total population not on SA as of March 2007. To do so, the Public Use Microdata file of the monthly Labour Force Survey was used. From the variables on that file for - economic family type, relationship to respondent and marital status - a variable was constructed for the family types listed in Table 3 of the Finnie et al. study. The weighted average count of adults, by family type, for all Canada was then produced to give the total population 18 to 64 living off-reserve in private households.

Then, the total population on SA for each family type was obtained from the *SA Statistical Report: 2007* and these counts were subtracted from the total population counts obtained from the Labour Force Survey to provide the estimate of the population not on SA.

A blended change in the entry rate was then calculated for the gender-specific estimates provided by Finnie et al. by weighting each estimate by the number of adults of each gender, as provided by the Labour Force Survey for March 2007.

This blended change in the entry rate was then multiplied by the total population not on SA, as of March 2007, to obtain the estimate of the additional number of adults who would enter SA due to a $1,200[1] increase in the benefit.

The estimates for determining the impact of a $1,200 per year increase in benefits on the **exit** rates off of SA were obtained by simply multiplying the marginal probability estimates in Table 4 of the Finnie et al. study by the population on SA. From the Finnie et al. study the blended exit rate changes were calculated as the weighted average of women and men on SA, as obtained from the Manitoba SA caseload, given that the *SA Statistical Report: 2007* did not given a gender breakdown by family type. The Manitoba estimates of the change in the marginal probability of exiting SA were taken from the work done by Stevens et al.

[1] The Finnie et al. study estimates were based on a $1,000 increase in benefits in year 2000 dollars. The change in the CPI between 2000 and 2007 was +17 per cent, giving close to a $1,200 amount in 2007 dollars.

The following table provides the detailed data used to produce the estimates contained in Table 10, above:

Table A.4: Data Used to Calculate the Per cent Change in SA Caseloads Due to a $1,200 Increase in SA Benefits

Family Type	Total Pop. 18 to 64	Total Pop. on SA	Total Pop. Not on SA	Blended Change in Entry Rate	Change in Exit Rate	
					Blended National Estimate	Manitoba Estimate
Single Person	6,551,400	757,600	5,793,800	+0.00228	+0.0090	-0.0226
Lone Parent	820,930	206,600	614,330	+0.00738	-0.0135	-0.0032
Two Parent	5,909,450	128,700	5,780,760	+0.00170	-0.0036	-0.0057
Single Disabled	--	--	--	--	--	-0.00067

Sources: Public Use Microdata File of the Labour Force Survey, Statistics Canada; *Social Assistance Statistical Report: 2007*; Tables 3 and 4 of *Welfare Dynamics in Canada: The Role of Individual Attributes and Economic Policy Variables;* Unpublished logistic regression analyses of the Manitoba EIA Longitudinal Data File.

ENDNOTES

[1] A very different picture emerges when one looks at those entering SA. As Figure A3.1 shows, very few remain on SA after two years. For most entrants, SA is a temporary measure of income support. However, for those who remain on SA, it is a long-term source of income.

[2] For a summary description of these trends, see, Marc Frenette and Garnett Picot, "Life after Welfare: The Economic Well Being of Welfare Leavers in Canada during the 1990's", pages 3-6. Also, the paper by Ross Finnie et al. 2004. "Welfare Dynamics in Canada: The Role of Individual Attributes and Economic-Policy Variables" contains a good description of the economic and policy environment of the 1990's that led to the cuts in SA benefits and the tightening of eligibility rules. See, pages 9 to 11.

[3] See, Table 8 of the National Council of Welfare's *Welfare Incomes 2009* report. It shows the change in total welfare incomes, in constant 2009 dollars, since 1986 for all provinces and territories.

[4] See, Ross Finnie et al. 2004. *Welfare Dynamics in Canada: The Role of Individual Attributes and Economic Policy Variables*, for an analysis of the determinants of entry and exit rates. A more recent analysis for Manitoba is found in H. Stevens et al. 2011. "Explaining Declining SA Participation Rates: A Longitudinal Analysis of Manitoba Administrative and Population Data."

[5] The Territories have been excluded from this pricing exercise because the Market Basket Measure of Poverty does not cover them. Hence, there are no consistent prices for the food, clothing, shelter, personal and household need items for these regions.

[6] These documents are found at: www.canadiansocialresearch.net.

[7] Many provincial regulations show global amounts for family types. However, underlying these global amounts are detailed tables for food, clothing and footwear and personal and household needs used by the SA programs for calculating these totals.

[8] The 2006 Census costs of rental units was updated to 2008 prices by Statistics Canada by using the increase in rental costs between 2006 and 2008 as shown by the Consumer Price Index for each region.

[9] According to the **National Occupancy Standard** enough bedrooms means one bedroom for each cohabitating adult couple; unattached household member 18 years of age and over; same-sex pair of children under age 18; and additional boy or girl in the family, unless there are two opposite sex siblings under 5 years of age, in which case they are expected to share a bedroom. A household of one individual can occupy a bachelor unit (i.e. a unit with no bedroom).

[10] See, Human Resources Development Canada. 2008. *Low Income in Canada: 2000-2006 Using the Market Basket Measure: Final Report.* October 2008. Pages 54 and 55.

[11] In Saskatchewan, the conditions under which rent above maximum can be paid are described in policy.

[12] See, Barrett, 2000; Fortin et al. 2003; Lacroix, 1999; and, Stewart and Dooley, 1999.

[13] See, Robert Haveman and Barbara Wolfe. 1995. "The Determinants of Children's Attainments: A Review of Methods and Findings" *Journal of Economic Literature* Vol. 33, No.4, pp.1829-1878.

[14] Saskatchewan has a similar designation called 'not fully employable'. Recipients separately are classified according to their employability and presence of a disability. One can be classified as having a disability and not fully employable and as not having a disability and not fully employable. The not fully employable designation has no bearing on benefits except for shelter allowances for single persons which are set at a higher amount than shelter allowances for the fully employable.

[15] On a cautionary note, the SA reforms in B.C. and Alberta have been critiqued for creating more requirements for people to access disability assistance, taking away supports for people who are expected to work, and focusing on making people with multiple barriers employable without addressing their needs in a holistic manner

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