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**COMMENTARY**

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# Lifting Lives: The Problems with Ontario's Social Assistance Programs and How to Reform Them

*Ontario has the worst "dependency rate" on social assistance programs among provinces.  
It should reform the system drawing on success stories from international experience  
that get rid of disincentives to rejoin the workforce.*

Parisa Mahboubi and Mariam Ragab

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A handwritten signature in black ink that reads 'Daniel Schwanen'.

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## THE STUDY IN BRIEF

Social assistance systems, and how they interact with individuals' participation in the labour force, are an integral component of healthy and financially stable communities. In Canada, nearly 50 percent of all social assistance recipients reside in Ontario – the most populated province and home to about 39 percent of Canadians. Consequently, Ontario has the highest social assistance rate – the number of beneficiaries relative to the total population.

The core Ontario social assistance programs – Ontario Works (OW) and the Ontario Disability Support Program (ODSP) – have been characterized by high costs and poor recipient outcomes. With about one million Ontarians receiving social assistance benefits, the cost of the program was about \$9 billion in 2018. Despite the strong labour market performance in 2018 and mandatory work participation requirements, only 10 percent of Ontario Works cases exited the program to employment, down from 13 percent in 2014. Furthermore, the average dependency duration on OW has substantially increased from 19 months in 2009 to 35 months in 2018.

The Ontario government has committed to reform its social assistance system and announced a number of changes in 2018, which it has since rolled back. What is the best way forward? This study evaluates the Ontario social assistance programs and summarizes international best practices for reforming social assistance, especially with a view to improving labour-market attachment. Furthermore, it offers policy options that can help improve Ontario's social assistance programs to ensure their efficiency and effectiveness in providing appropriate support to meet recipients' needs and increasing labour-market attachment.

These include:

- (i) Reducing the cost of working through less punitive benefit claw-back rates; and
- (ii) Higher exemptions for earned employment income while on the program. In particular, more generous claw-back rates and higher earnings exemptions generate more incentives to exit to employment, and can generate long-term cost savings as recipients leave the program, or rely less on it.
- (iii) Ensuring appropriate work requirements and support. An important way to improve social assistance is to increase the desire and ability of people to bounce out of the net and into the labour market by providing them the right tools. The types of job preparation activities assigned to beneficiaries based on their needs and program goals matter.
- (iv) Placing supplemental benefits outside social assistance. The loss of supplemental benefits as employment income grows beyond the eligibility threshold for social assistance raises the costs of leaving welfare and going to work, creating financial disincentives to labour participation.
- (v) Shifting the focus in disability support programs from the inability to work to the ability to work. Here, it is important to recognize that disability exists on a spectrum, and that employment requirements and supports should be based on an individual's assessed capacity to work.

Policy Area: Education, Skills and Labour Market.

Related Topics: Incentives to Work; Poverty and Inequality; Social Assistance.

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## Effective social assistance systems provide support for those in need while discouraging long-term dependency and easing transition to stable paid employment.

Their importance has grown with the changing nature of work due to automation, globalization, and industrial shifts (Kapoor 2020).

Policymakers should regularly evaluate the effectiveness of these systems, especially given other fiscal pressures facing governments. Getting them right is vital. Persistent unemployment is associated with strong, negative effects on health. As a result, social assistance systems, and how they interact with individuals' participation in the labour force, are an integral component of healthy and financially stable communities. The impact of the COVID-19 pandemic on the labour market, including a surge of unemployment among Canadians, particularly low-income earners, magnifies the role social assistance systems can play in getting recipients off welfare after the crisis.<sup>1</sup>

In Canada, social assistance programs vary across provinces, reflecting the fact they are funded and administered at the provincial level. Nearly 50 percent of all social assistance recipients reside in Ontario – the most populated province and home to about 39 percent of Canadians. Consequently, Ontario has the highest social assistance rate –

the number of beneficiaries relative to the total population (or second relative to the working age population).<sup>2</sup> One contributing factor to the higher social assistance rate in Ontario could be coverage gaps in the Employment Insurance (EI) program and the Variable Entrance Requirement, which is based on the regional unemployment rate. This puts Ontario at a disadvantage: Ontario has the highest share of part-timers who are less likely to meet EI requirements for hours of work if they lose their jobs. The introduction of the CERB in the beginning of the COVID-19 crisis was, in part, an attempt to fill coverage gaps in EI.

The Ontario government has committed to reform its social assistance system and announced a number of changes in 2018.<sup>3</sup> The core Ontario social assistance programs – Ontario Works (OW) and the Ontario Disability Support Program (ODSP) – have been characterized by high costs and poor recipient outcomes.

Social assistance is the third-largest Ontario government program, in terms of spending. With about one million Ontarians receiving social assistance benefits, the cost of the program was

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- 1 During the crisis, the federal government is providing financial support through the Canada Emergency Response Benefit to Canadians affected by the pandemic and shutdown for four months. There will likely be a surge in the number of social assistance applications from unemployed Canadians without alternative financial support (e.g., Employment Insurance benefits) when they exhaust their benefits.
- 2 Looking at the number of cases relative to the working age population, Ontario takes the second place after Newfoundland and Labrador but its rate has increased since 2008, unlike Newfoundland and Labrador.
- 3 The government has since cancelled many of the changes announced.

about \$9 billion in 2018. Despite the strong labour market performance in 2018 and mandatory work participation requirements, only 10 percent of Ontario Works cases exited the program to employment, down from 13 percent in 2014, and the share of caseloads with employment income was 12 percent. Furthermore, the average dependency duration on OW has substantially increased from 19 months in 2009 to 35 months in 2018. These statistics highlight the need for improving employment and skills training supports, as well as for better assigning OW beneficiaries to suitable active labour-market programs<sup>4</sup> to reduce their dependency (Adams, Chow and Rose 2018).<sup>5</sup>

The challenge is greater for the Ontario Disability Support Program. The unemployment rate for job seekers with disabilities is nearly twice the rate for Canadians without disabilities. People with disabilities may require additional supports in order to meet the challenges of daily living through a higher assistance rate, supplementary assistance, and specialized employment supports. However, participation in activities that help lead to employment is voluntary under the ODSP. Consequently, fewer than 2 percent of beneficiaries with disabilities received such employment support, and there is no information on the effectiveness of employment supports (Office of the Auditor General of Ontario 2018a). Furthermore, the ODSP has witnessed an increase in beneficiaries of almost 45 percent since 2009, compared to an increase of less than 20 percent in OW beneficiaries.

This study evaluates the Ontario social assistance programs and summarizes international best practices for reforming social assistance, especially with a view to improving labour-market

attachment. Furthermore, it offers policy options that can help improve Ontario's social assistance programs to ensure their efficiency and effectiveness in providing appropriate support to meet recipients' needs and increasing labour-market attachment. While this study focuses on Ontario, all Canadian provinces have relatively similar social assistance programs for people in need of support, but not all have a separate social assistance program for people with disabilities.

Eligibility for social assistance has rested on meeting asset and income cut-offs, as well as (i) an agreement to participate in activities that help lead to employment in the case of OW, and (ii) proof of substantial mental or physical impairment in the case of ODSP. While the social assistance system recognizes that disabled people face greater challenges in their life as well as in the labour market, it fails to take into account the potential of people with disabilities to contribute to the economy. Rather than improving the program through stricter eligibility criteria for access to benefits, both programs should focus on increasing work incentives and enhancing outcomes and performance. In this regard, the social assistance programs need to gather sufficient performance indicators and set meaningful targets on the duration of assistance for recipients, either with or without disabilities, who are able to participate in pre-employment activities. The province should also continue to monitor the effectiveness of programs in assigning suitable employment preparation activities, and incentivising individuals to follow the requirements. Furthermore, reforms to the programs need to take into consideration other supports from both the federal and provincial governments (e.g., refundable tax credits).

4 The Ontario Works social assistance program requires beneficiaries to participate in one or more employment assistance activities that are designed to prepare them for finding and maintaining employment.

5 Social assistance beneficiaries may face barriers beyond the efficacy of skills training – like access to stable and affordable housing and mental health supports – that can prevent them from finding employment.

A review of international experience shows that a number of policy options exist to improve the social assistance system, with a focus on increasing work incentives and labour-force attachment. These include: (i) reducing the cost of working through less punitive benefit claw-back rates; (ii) higher exemptions for earned employment income while on the program; (iii) ensuring appropriate work requirements and support; (iv) placing supplemental benefits outside social assistance; and (v) shifting the focus in disability support programs from the inability to work to the ability to work. Meanwhile, the program should address barriers to employment beyond employment training, such as mental health, addiction and homelessness.<sup>6</sup>

These policies will better integrate existing services to benefit existing recipients, improve access for those who need the program and better identify those who don't, and break barriers to work within the program.

## ONTARIO SOCIAL ASSISTANCE: AN OVERVIEW

Ontario's social assistance is a social welfare program of last resort. It is intended for those who are in need and have already exhausted all other sources of financial support.

As noted above, residents who qualify can receive financial support through two programs: Ontario Works (OW) and the Ontario Disability Support Program (ODSP). Additional avenues of support are available through the tax and transfer system in various forms such as child benefits, sales tax benefits and other government benefits and credits. In addition to the type of program, the maximum amount of social assistance per recipient depends

on family type: single adults, single parents and couples.

### Ontario Works

As well as providing financial assistance, Ontario Works offers a variety of employment assistance programs to eligible beneficiaries with the goal of preparing them for finding and maintaining employment – and requires participation in these activities.

Financial assistance includes income support for basic needs and shelter. It comes with workshops on resume writing and interviewing; job counselling; training programs (e.g., basic education training, language training, and job-specific skills training); and placement services. Those eligible for Ontario Works are also eligible for a variety of supplemental benefits, including housing related benefits,<sup>7</sup> and supplemental health insurance such as drug coverage.

### Ontario Disability Support Program

ODSP provides both financial and employment support to Ontarians with disabilities. However, participation in employment assistance programs is voluntary.

Other than meeting income and asset thresholds, eligibility under this program greatly depends on the definition of disability. Under the *ODSP Act*, an eligible recipient must have:

- a substantial mental or physical impairment that is continuous or recurrent, and is expected to last for a minimum of one year;
- a substantial restriction in their ability to work, care for themselves, or take part in community life directly due to their impairment; and

6 Some of these recommendations are in line with recommendations in the 2012 Social Assistance Review Commission report (Lankin and Munir 2012).

7 Housing-related benefits are discretionary and a caseworker determines them in terms of type and amount on a case-by-case basis (Government of Ontario 2020).

- their impairment, its duration and restrictions verified by an approved healthcare professional.

A person with any disability who does not meet the disability qualifications needs to rely on OW. Other than the disability requirement, the major difference between Ontario's social assistance programs is the maximum amount of benefit a recipient receives: the ODSP pays more since it takes into consideration additional disability-related costs. For example, a single person on OW can currently receive up to \$733 per month, while the maximum monthly benefit is \$1,169 for a single, one-person household, on ODSP – a 59.5 percent increase in benefits. Therefore, the exact definition of disability can have a substantial impact on the financial situation of a person with disabilities and conversely on the government's social assistance spending.

### Issues with the System

The Ontario social assistance system is the third-largest provincial expenditure, after health and education spending. In 2018, Ontario provided income support to about 949,000 beneficiaries (over 6.6 percent of the population). This places Ontario as the province with the highest social assistance rate in Canada. Table 1 shows that the increase in beneficiaries since 2009 is largely driven by substantial growth in the number of beneficiaries who received assistance from ODSP (44.5 percent).

The higher increase in beneficiaries on ODSP compared to those on OW can relate, in part, to a very low rate of cases exiting to employment or other financial support programs (e.g., federal seniors' benefits past age 64). The reason: ODSP recipients face greater barriers to employment and are not required to participate in activities to get prepared for potential jobs.

Unlike OW, ODSP does not require mandatory job search or training participation, although such employment supports are available. Certain factors, however, discourage the search for work. Supplemental benefits, like drug prescriptions, are covered for those on social assistance but not off it. As a result, beneficiaries, particularly those with disabilities or complex medical needs, face a disincentive to work when social assistance benefits exceed potential employment income. Overall, fewer than 2 percent of beneficiaries with disabilities received employment support in the form of training or job search assistance. Furthermore, despite an increased focus on employment for people with disabilities and the growing number of recipients on ODSP, there is little to no evidence gathered on who leaves ODSP for paid employment and their employment outcomes (Vick and Lightman 2010).

The significant growth in the number of ODSP cases also relates to the failure of the Ministry of Children, Community and Social Services' system to effectively assess the eligibility of applicants, and the lack of processes to periodically reassess cases to ensure continuing eligibility (Office of the Auditor General of Ontario 2018a). Among individuals who meet social assistance financial requirements, the incentive for being on ODSP is higher since it is more generous in terms of income support and lenient in terms of requirements to participate in labour-market activities, compared to the OW program. Therefore, addressing caseload growth in the ODSP requires both improvements in the case assessment process as well as the eligibility criteria.

Other contributing factors to the growth of the ODSP cases include greater barriers to employment among people with disabilities,<sup>8</sup> a growing number

8 In 2017, the unemployment rate for people aged 25 to 64 with disabilities in Ontario was 7.3 percent, which was 2.5 percentage points higher than the rate for those without disabilities.

**Figure 1: Trends in Average Number of Consecutive Months on Ontario Works and Unemployment Rate in Ontario**



Source: Ministry of Children, Community and Social Services and Statistics Canada, Table 14-10-0018-01.

of persons with disabilities living in poverty, and broader recognition and inclusion of mental disorders (Stapleton 2013).

The number of beneficiaries on OW has also risen in recent years. Obviously, an increase in beneficiaries occurs when the number of cases added to the program exceeds the number of those exiting the program. In a social assistance program with a goal of increasing labour-market attachments like the OW, one can expect the increase in beneficiaries to be related to poor economic conditions. However, the data reveal some signs of OW’s inability to help recipients exit the program during a period of declining unemployment rates. Despite strong labour-market performance in recent years and mandatory requirements to participate in employment assistance programs,

only 10 percent of OW cases exited to employment in 2017 and 2018, down from 13 percent in 2014. Furthermore, the average length of dependency time on OW has almost doubled in nine years (Figure 1). Although many socio-economic factors<sup>9</sup> can influence the number of beneficiaries and the length of time spent on social assistance, recent trends suggest that improvements in the labour-market outcomes in Ontario did not translate into more jobs for OW recipients. These trends suggest a decline in the effectiveness of the program in getting people off social assistance.

While benefit reductions triggered by employment income can reduce the gains from work and discourage job seeking among beneficiaries in general, a C.D. Howe Institute study by Adams, Chow and Rose (2018) offers

9 OW officers reported that 36 percent of recipients in 2017/2018 had multiple barriers influencing their employment such as mental health issues, addictions, literacy concerns, and homelessness that need to be addressed (Office of the Auditor General of Ontario 2018b).

Table 1: Social Assistance Beneficiaries and Costs by Program

Year	Ontario Works		ODSP		Total	
	Beneficiaries ( <i>thousand</i> )	Costs (\$ <i>billion</i> )	Beneficiaries ( <i>thousand</i> )	Costs (\$ <i>billion</i> )	Beneficiaries ( <i>thousand</i> )	Costs (\$ <i>billion</i> )
2009	380	1.90	342	3.31	723	5.20
2010	436	2.20	363	3.57	798	5.77
2011	458	2.43	383	3.83	841	6.26
2012	471	2.50	402	4.10	873	6.60
2013	468	2.54	420	4.32	888	6.85
2014	455	2.43	435	4.47	890	6.91
2015	443	2.57	452	4.70	895	7.27
2016	445	2.72	464	4.95	909	7.68
2017	447	2.86	476	5.13	923	7.99
2018	454	2.98	494	5.41	949	8.38

Note: The numbers of beneficiaries and the costs of programs, particularly under the ODSP, grew faster annually than population growth and the inflation rate.

Sources: Ministry of Children, Community and Social Services and Tweddle and Aldridge (2019).

more specifics. They show that the impacts of an employment assistance program on both the duration on social assistance and return rates vary significantly across programs and greatly depend on the type of employment assistance provided. There is also a trade-off between outcomes in terms of spell duration and rates of return across programs. For example, participation in job-search workshops or training programs significantly reduces the number of months on assistance, while direct job placements are effective in reducing the one- and two-year return rates. Interestingly, a combination of resume workshops and training or direct job placements increases the length of time on social assistance. However, it is not possible to evaluate the quality of programs provided to beneficiaries or understand whether they have been appropriately assigned.

### An Evaluation of Recent Proposed Reforms

In November 2018, the government of Ontario announced a number of changes to its social assistance programs to reduce their costs, but it walked back or paused the majority of planned changes a year later. The government reforms to social assistance were expected to reduce the programs cost by an estimated \$720 million a year by 2021-22.

The announcement included changes to earnings exemptions, withdrawal rates, and the definition of disability, among others. In this section, we review the proposed changes that could influence incentives to seek employment.<sup>10</sup> In particular, we compare the effective marginal tax rates under the current system relative to the proposed one.

10 Although many of the proposed changes got cancelled (e.g., changes to earnings exemptions, and withdrawal rates) or have not been implemented yet (e.g., a change in the definition of disability), it is still useful to evaluate the potential impact of the proposed changes on work incentives to provide insight into the direction of any potential reform in the future.

The earnings exemption is the amount that an employed recipient can earn without having any impact on their social assistance benefits; the withdrawal rate is the amount of social assistance benefits that is deducted for income earned above the exemption. These mechanisms are in place to create work incentives for recipients.

Under the current social assistance programs, the earnings exemption is \$200 and withdrawal rate is 50 percent. This means recipients can earn up to \$200 per month,<sup>11</sup> without any deduction from their benefit payments. For every \$1 of earnings above the earnings exemption, recipients receive 50 cents less in benefits.

The proposed changes would have increased the withdrawal rate from 50 percent to 75 percent and introduced higher earnings exemptions for social assistance beneficiaries in both programs. With regard to OW, the monthly earnings exemption would have increased from \$200 to \$300 while it would have increased to \$500 for ODSP recipients earning employment income (up to \$6,000 annually).

While an increase in the amount people can earn without any benefit deductions can encourage recipients to look for employment, a higher claw-back rate can defeat the purpose. Table 2 shows that with the proposed rules, a single person on OW would become worse off if he earned employment income over \$6,000 annually (\$500 per month), while the negative effect kicks in for an employment income above \$13,200 annually (\$1,100 per month) for ODSP beneficiaries.

Meanwhile, in 2017/2018, the average annual employment income for beneficiaries on OW was \$9,780. Depending on the success rate of the

service manager delivering the program, the average employment income was \$8,376 or \$11,592 (Office of the Auditor General of Ontario 2018a).<sup>12</sup> This shows that OW single-household beneficiaries with employment earnings who already live in poverty were, on average, worse off under the proposed scenario.<sup>13</sup> Furthermore, these figures fail to account for the additional costs associated with working, such as transportation.

To evaluate the impact of proposed changes the withdrawal rate and earnings exemptions on incentives to work, however, the most important question is what the marginal effective tax rates (METRs) are under each system. Since benefit reductions triggered by employment income act as a hidden tax (Laurin 2019), social assistance beneficiaries who return to work can face a higher effective tax rate on each extra dollar of income – clearly, a disincentive to go back to work.

Figures 2 and 3 compare the marginal effective tax rates under the current rules with those under the proposed rules for a single person and a single person with disability, respectively. The results show that, although the higher earnings exemptions under the proposed rules make working more attractive, at least initially, a higher claw-back rate soon exerts a strong negative effect on work incentives. Earnings lost to taxes and withdrawn benefits exceed the income gain from working (with a METR of more than 100 percent).

It is also important to note that this does not include the loss of supplementary benefits, like health insurance or housing assistance, if an individual is no longer eligible for social assistance. Furthermore, the figures also show that even under

11 Less than 4 hours of work per week at the minimum wage (\$14.00 per hour) generates \$200 per month.

12 The poverty line in 2016 for a single household was \$22,133 according to the Statistics Canada low-income measure threshold after tax.

13 Living in poverty itself increases barriers to employment for social assistance recipients. Although an evaluation of sufficiency of financial support is beyond the scope of this study, the government should reassess the amount of benefits by household types, including other federal and provincial supports available to them.

**Table 2: Impact of Potential Rule Changes on Total Annual Income – Single Person on Social Assistance with Income from Work**

Amount Single Person Eligible for (basic needs and maximum shelter)	Income from Work (net income)	Amount Deducted from Benefit	Amount Person Gets from Social Assistance	Total Income (Income from work + Amount from Social Assistance)	Amount Deducted from Benefit	Amount Person Gets from Social Assistance	Total Income (Income from work + Amount from Social Assistance)	Change in Total Income
<b>OW</b>		<b>Current Rules: First \$200 in Net Income Exempt, then 50% Deducted</b>			<b>Proposed Rules: First \$300 in Net Income Exempt, then 75% Deducted</b>			
\$8,796	\$2,400	\$0	\$8,796	\$11,196	\$0	\$8,796	\$11,196	\$0
\$8,796	\$3,600	\$600	\$8,196	\$11,796	\$0	\$8,796	\$12,396	\$600
\$8,796	\$6,000	\$1,800	\$6,996	\$12,996	\$1,800	\$6,996	\$12,996	\$0
\$8,796	<b>\$8,376</b>	\$2,988	\$5,808	\$14,184	\$3,582	\$5,214	\$13,590	<b>-\$594</b>
\$8,796	<b>\$9,780</b>	\$3,690	\$5,106	\$14,886	\$4,635	\$4,161	\$13,941	<b>-\$945</b>
\$8,796	<b>\$11,592</b>	\$4,596	\$4,200	\$15,792	\$5,994	\$2,802	\$14,394	<b>-\$1,398</b>
<b>ODSP</b>		<b>Current Rules: First \$200 in Net Income Exempt, then 50% Deducted</b>			<b>Proposed Rules: First \$500 in Net Income Exempt, then 75% Deducted</b>			
\$14,028	\$1,200	\$0	\$14,028	\$15,228	\$0	\$14,028	\$15,228	\$0
\$14,028	\$2,400	\$0	\$14,028	\$16,428	\$0	\$14,028	\$16,428	\$0
\$14,028	\$3,600	\$600	\$13,428	\$17,028	\$0	\$14,028	\$17,628	\$600
\$14,028	\$6,000	\$1,800	\$12,228	\$18,228	\$0	\$14,028	\$20,028	\$1,800
\$14,028	<b>\$8,376</b>	\$2,988	\$11,040	\$19,416	\$1,782	\$12,246	\$20,622	\$1,206
\$14,028	<b>\$9,780</b>	\$3,690	\$10,338	\$20,118	\$2,835	\$11,193	\$20,973	\$855
\$14,028	<b>\$11,592</b>	\$4,596	\$9,432	\$21,024	\$4,194	\$9,834	\$21,426	\$402
\$14,028	\$13,200	\$5,400	\$8,628	\$21,828	\$5,400	\$8,628	\$21,828	\$0
\$14,028	\$14,400	\$6,000	\$8,028	\$22,428	\$6,300	\$7,728	\$22,128	<b>-\$300</b>

Note: Rules are based on net monthly employment income. Net Income exemptions are multiplied by 12 to obtain annual figures in the table.

Source: Authors' calculations.

the current rules, the marginal tax rate on an extra dollar of earnings is quite high. For example, a single with income of about \$8,300 a year could lose at least 57 percent of earnings for taking on a job or working extra hours.

Another proposed reform to ODSP was changing the definition of disability to ensure its alignment with federal guidelines, in which definitions of disability are much more restrictive

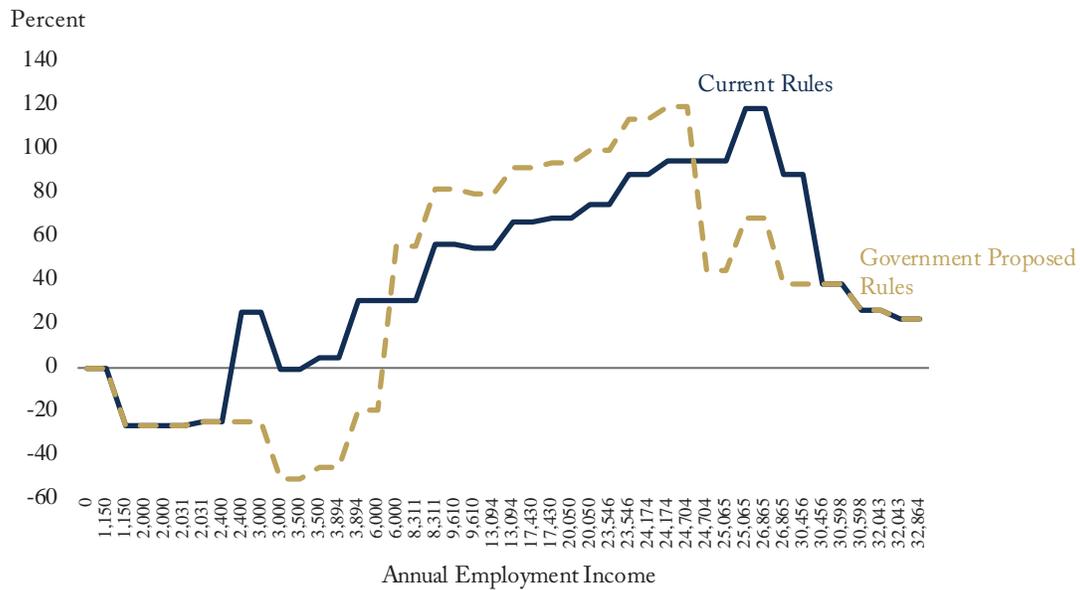
in terms of the severity of disability and its duration (e.g., the disability rules under the Canada Pension Plan and the Disability Tax Credit). The ODSP currently uses a more inclusive definition of disability that takes into consideration that people with less severe disabilities may still face serious obstacles to employment and require special financial and employment supports. Under the proposed reform, many people with disabilities who

Figure 2: Marginal Effective Tax Rates for a Single Person (OW)



Source: Authors' calculations using Statistics Canada's SPSD/M, v.28.0.

Figure 3: Marginal Effective Tax Rates for a Single Person with Disability (ODSP)



Source: Authors' calculations using Statistics Canada's SPSD/M, v.28.0.

meet the current ODSP definition of disability would no longer do so and, therefore, have to apply for OW, where their special needs in tackling employment barriers are not met. They would also have less money to deal with the basic cost of living with a disability.

Instead of limiting access to people with disabilities, the ODSP program should consider changes that require participation in employment activities based on the capability of disabled persons to work, while making sure the staff assign employment activities appropriately. Placing people under the right social assistance program and providing them with appropriate supports are important, especially when evidence shows that 36 percent of OW recipients face barriers related to mental health conditions, addictions and homelessness that affect their ability to participate in employment activities or find employment (Office of the Auditor General of Ontario 2018b). This highlights the important role of caseworkers and their abilities in identifying barriers faced by social assistance recipients and effectively providing supports tailored to the needs of their clients beyond immediate employment and training (Kim, Carrasco and Herd 2018).

## **SOCIAL ASSISTANCE: LESSONS FROM AROUND THE WORLD**

The need for social assistance reform is reflected in Canadians' high ratio of dependence on social assistance relative to the working-age population (ages 15 to 64). With over 5.3 Canadians reliant on social assistance per 100 members of the working-age population, Canada has the 3<sup>rd</sup> highest dependence ratio, after only the United States and Mexico. Table 3 demonstrates Canada's dependence ratio relative to other OECD countries. The figure demonstrates a clear need for social assistance reforms in Canada that encourage and reward work, and for Canadian policymakers to learn from nations that have achieved more effective outcomes. Since each province in Canada uniquely

administers its own social assistance program(s) and nearly 50 percent of social assistance beneficiaries reside in Ontario, the need for social assistance reforms in Ontario is imperative.

However, these figures do not tell the full story; when social assistance is combined with Employment Insurance, Canada ranks 11<sup>th</sup> among the OECD, with the percentage of recipients still higher than the OECD average (Table 4). A higher number of beneficiaries on unemployment assistance programs can be a result of weak economic conditions, a stronger employment insurance system with a broader coverage range, or a combination of both factors. There is a negative relation between the number of beneficiaries on social assistance and that on unemployment assistance. This shows, to some extent, that a stronger employment insurance system can keep people off other income-support programs.

As identified by the OECD, many other countries have faced the challenges posed by rising financial obligations related to social assistance. Attempts at addressing the issues have led to fluctuating benefit generosity and participation. Social assistance reform, in short, is not uniquely a Canadian issue. It is a well-studied international issue, encompassing numerous systems around the world of varying benefit generosity, work requirements, and disability eligibility criteria. These systems have faced varying degrees of success in increasing labour-market attachment, and have evolved significantly in the last 20 years.

While no program is perfect, these experiences provide a rich set of successes and failures that Canada can learn from, in multiple key categories: supplementary benefits; work requirements and incentives to work; and disability benefits.

### **Supplementary Benefits**

Around the world, social assistance benefits have extended beyond basic financial assistance and now include additional benefits for low-income individuals; these benefits can include a wide

**Table 3: Core Social Assistance Beneficiaries Relative to the Working-age Population (ages 15-64)**

	2012	2013	2014	2015	2016	5-Year Average
	<i>Percent</i>					
United States	13.08	13.23	12.86	12.55	11.95	12.73
Mexico	7.67	7.69	7.88	7.81	8.43	7.89
Canada	5.35	5.31	5.30	5.35	5.45	5.35
France	3.61	3.90	4.09	4.19	4.72	4.10
Lithuania	5.73	5.10	3.79	3.06	2.49	4.03
Netherlands	3.30	3.71	3.85	4.46	4.60	3.98
Slovakia	4.72	4.78	4.23	3.34	2.77	3.97
Sweden	3.68	3.73	3.69	3.67	3.54	3.66
Finland	3.34	3.52	3.66	3.78	3.84	3.63
Slovenia	3.14	3.30	3.62	3.87	3.84	3.55
OECD Average	3.28	3.23	3.13	3.03	2.93	3.12

Note: Working age population are based on LFS figures. Social assistance figures exclude disability programs for seniors (e.g. CPP/QPP disability pension in Canada).  
Source: OECD.

**Table 4: Unemployment Rate and Core Social Assistance and Employment Insurance Beneficiaries Relative to the Working-age Population (ages 15-64) in 2016**

	Unemployment Rate	Social Assistance Per Working Age Population	Unemployment Assistance Per Working Age Population	Core Social Assistance and Employment Insurance rate combined
	<i>Percent</i>			
Finland	9.0	3.84	11.86	15.70
United States	4.9	11.95	1.10	13.05
France	10.1	4.72	7.60	12.32
Ireland	8.6	2.12	8.24	10.36
Austria	6.1	3.15	5.41	8.55
Mexico	4.0	8.43	0.00	8.43
Germany	4.2	0.69	7.64	8.34
Canada	7.1	5.45	2.41	7.86
Spain	19.7	1.05	6.69	7.73
Sweden	7.2	3.54	3.53	7.07
Iceland	3.1	2.19	4.58	6.77
OECD Average	6.5	2.93	3.29	6.22

Note: Working age population are based on LFS figures. Social assistance figures exclude disability programs for seniors (e.g. CPP/QPP disability pension in Canada).  
Source: OECD.

variety of additional assistance, including childcare subsidies, housing benefits, medical benefits, and other special benefits. However, there is international variation in whether these benefits are provided exclusively to social assistance recipients, or whether they are income-tested but not dependent on eligibility for other benefits (OECD 2003; Podger and Whiteford 2014).

The past decade has seen a significant shift to separating eligibility for supplementary benefits from eligibility for social assistance, in order to reduce disincentives to finding work.<sup>14</sup> Indeed, this trend recognizes the efforts and needs of working low-income individuals, including single parents, those facing career transformations, and other vulnerable groups. Overall, offering these benefits outside the social assistance program provides continuity of benefits for those who need it, and offers a sense of security for individuals as they transition back into the workforce.

A chief example is Australia's social welfare system, where individuals are eligible for a combination of more than 14 available benefits. Those benefits encompass everything from social assistance allowance to housing and health insurance. Most importantly, the benefits are all income-tested, but not dependent on other benefit status. This allows for versatility and fairness in supporting both benefit recipients and low-income earners and enables for an easy transition from social assistance to the labour market.

Further, the benefit drop-off is gradual, allowing for a smooth transition based on financial circumstances. Similarly, disability-cost benefits and housing benefits in Sweden, and housing, health

and family benefits in Germany (OECD 2003; Swedish Social Insurance Agency) all exist outside the social assistance system, with income-tested eligibility criteria. Child benefits are also treated outside the social assistance system in much of the OECD, including in Canada.

Placing supplemental benefits outside social assistance has a perceived disadvantage: the added costs associated with providing benefits to a larger population. However, this approach is an effective way to encourage labour-market re-integration (which can reduce the cost of both primary and supplemental benefits), and income-testing the benefits ensures that the funds are allocated to vulnerable people (Podger and Whiteford 2014). Canada is also one of the few OECD countries that do not provide a housing benefit for low-income earners, outside social assistance, but it is moving in that direction, for example, by recently introducing the Canada-Ontario Housing Benefit program to assist eligible households with housing costs.

### **Work Requirements and Incentives to Work**

The main indicator of a healthy social safety net is the ability of people to bounce out of the net and into the labour market – for both their financial and emotional well-being. It is a well-established fact that contribution to society in the form of work or volunteerism is a critical component in establishing a sense of belonging to the community, and a sense of personal value (Waenerlund et al. 2014; Van der Noordt et al. 2014). Executed correctly, social assistance programs can contribute not only to a healthier labour market, but also to a

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14 Various studies have identified a direct link between an increase in in-work benefits and labour supply. For example, the OECD Economic Outlook (2005) found that a 20 percent reduction of the METR for low-income earners (achieved through supplemental benefits) resulted in a 10 percent increase in the likelihood of transition from unemployment to employment. Similarly, Vandellannoote and Verbist (2017) found that in-work benefit programs were the most effective way to reduce poverty, while maintaining and even increasing labour supply. An OECD study of benefit reform in Estonia (2019) also found similar results.

happier, healthier, and more productive population. Keys to this are the incentives the system provides for benefit recipients to work, and the supports it provides to encourage their participation. In this regard, two key elements of social assistance programs around the world should be examined: claw-back rates and work requirements/support.

Claw-back rates constitute an area of collective international failure. In Australia for example, the claw-back rate is 50 percent after only a modest earning exemption (OECD 2012). However, a unique model exists in Sweden, where claw-back rates only apply on days where the claimant is expected to participate in a labour-market program. For example, if the labour-market program (which can consist of training or work experience) is required on Mondays, Wednesdays, and Fridays, participants would face no claw-back rate on employment earnings on Tuesday, Thursday, Saturday, and Sunday (Swedish Social Insurance Agency). This unique design allows the participant to benefit from support to improve her labour-market opportunities, have financial resources to maintain their standard of living, and access part-time work to build experience. These lower claw-back rates are the closest existing application of supply and demand economics, which holds that reducing the value of work by mandating a high claw-back rate disincentivizes work, reducing both hours worked and the number of individuals participating in the labour force (Christofides 2000).

Regarding labour-market entry support and work requirements, there is a trade-off between creating effective strategies to enter the labour market and placing burdensome or excessive restrictions that can hinder access to the labour market. For example, many work or job search requirements do not provide a link to better labour-market outcomes but can take up valuable time that could be used seeking employment or developing related skills. However, some requirements are essential to offsetting complacency and encouraging participation. An example of effective work requirements exists in Sweden, where claimants are required to participate in a structured activation

program, allowing them to gain necessary skills and experience for future labour-market success (Swedish Social Insurance Agency). A similar program structure can be found in Germany, where participants are required to follow a personalized plan that involves any combination of an activation program and additional job search and training (OECD 2003). These personalized plans are particularly successful because they provide the recipient with the training, experience, or job-seeking opportunities needed to enable their success, as opposed to forcing them to seek these opportunities themselves. An activation program is typically a combination of a job placement and skills training, with a focus on practical labour-market skills. In Spain, studies have found that subsidizing short stints of part-time work can improve access to full-time work for those unemployed for long-term periods (Kyyrä and García-Serrano 2019).

These examples demonstrate the benefits of positive incentives to access employment, in contrast to financial sanctions for non-compliance. For example, the Temporary Assistance for Needy Families program in the US showed a statistically significant reduction in employment earnings for participants who were sanctioned through loss of income one or more times throughout the year. Interestingly, this reduction is greater for claimants with higher educational levels, despite the fact they have the greatest incentive and ability to re-enter the labour market (Fording et al. 2013).

### **Disability Benefits**

Around the world, the disabled face barriers to accessing employment. This can lead to alienation from the workforce and a lack of sense of contribution to society. Social assistance programs for individuals with disabilities have the potential to improve their labour-market activities, improve their quality of life and contribute to society through work (OECD 2010). Although social assistance for persons with disabilities is a last

resort option in Canada – other programs include private/workplace insurance, CPP-disability, and workers compensation benefits – it is still important for Canada to learn from other OECD countries, where there is a clear shift toward properly assessing the individual’s direct capacity to work. This is crucial to supporting the most vulnerable people with disabilities in Canada, and providing them with greater opportunities to succeed in the labour market. It can also help address those with partial disabilities, who may not be covered by other programs and therefore fall back on social assistance. In this regard, three notable models have emerged as leaders, all underpinned by a strong focus on assessing residual capacity to work.

In the structural capacity approach, an individual’s “inventory” of skills is identified, shifting the focus from the inability to work to the ability to work. In the Netherlands, a similar system exists, with stronger direct reliance on labour-market data. The functional requirements of a collection of 7,000 existing jobs are analyzed, and the claimant’s functional profile is compared to them. The jobs are representative of 20 percent of the nation’s labour categories and weighted towards “lower-level” or more physical occupations. Then, a disability benefit is assessed based on the individual’s loss of income between their previous occupation and their earning potential, if a difference exists. This system has also been partially adopted in the US, where a claimant’s medical condition is compared to a list of accepted medical conditions, and if it is not on the list, then a functional capacity is assessed and compared to labour-market demands. A claimant’s application is then approved, or they are provided with a list of three occupations that might be suitable. The assessment is conducted by a review board, which is composed of both medical professionals and case workers. This approach is widely regarded as providing the closest possible approximation of the cost of disability as a function of the labour market but requires a large up-front investment to identify and assess the job profiles. While these systems

provide a very useful tool in assessing the labour-market outcomes of a person with a disability, they face criticism over lack of transparency, and over their ability to evolve as occupations change. These systems also predominantly focus on physical incapacity (Geiger et al. 2018).

Such shortcomings have led to the evolution of a second model of disability assessment: direct assessment. Unlike the structural capacity model, which relies on a profile to predict labour-market success and capacity to work, the direct assessment approach directly evaluates an individual’s capacity to work. Denmark previously used a structural assessment model – a person’s skills were assessed to identify whether they can support themselves in the labour market, or if not, in a government-subsidized job. Rather than identifying all the ways the applicant cannot work, the focus was on identifying areas where they have both the capacity and knowledge to do so. However, this model faced all the challenges of the structural model. Under Denmark’s new system, an individual’s residual capacity to work is identified, then if they are found to have any ability to work, they are expected to search for employment. They are then placed on a rehabilitation plan of one to five years in length unless they have no chance of integrating into the labour market. Other factors are also considered in this analysis, including how long the claimant has been out of work, and their prior employment history. This system is unique in that it focuses on rehabilitation as a predecessor to benefits, not as an afterthought or secondary goal of the system. Many countries use this system, with elements of the rehabilitation-before-benefits approach in place in Germany, Australia, and even Canada’s federal disability pension.

However, this rehabilitation approach is not without its criticisms; many have pointed out that many rehabilitation efforts are costly and fruitless, especially in cases where there is an almost complete loss of capacity to work (Geiger et al. 2018). Similarly, requiring claimants to prove they cannot work by attempting to work is often viewed

as contradictory, reducing claimant motivation to re-integrate and overall trust in the system (OECD 2010; Geiger et al. 2018).

The third noteworthy model of disability support reform has emerged in Sweden in the past decade. It is based on two key unique approaches: a focus on a personal incentive to work, and a timed, capacity-based benefit. By providing very high earnings exemptions and a generous claw-back rate (no amount is clawed back until the recipient has earned their full disability allowance in employment income), Sweden's system provides disability claimants with a high return on work. This means that unlike the annual exemption currently in place under ODSP, claimants continue to receive their full benefit until they have earned the equivalent of all of their disability income (in total, their income would have doubled), before any amount is clawed back. It also takes away any risk recipients might incur by guaranteeing a return to full benefits without re-assessment in the event of a change in employment status. Sweden's case is also unique in that it reserves permanent disability benefits for those with a permanent loss in capacity, and provides compensation based on the degree of incapacity. Temporary benefits are also assessed based on prior employment history, family earnings and assets, and how much of a claimant's earning capacity is lost – with the intention being to maintain the beneficiary's existing standard of living during the search for employment. A final advantage of the Swedish model is its strong ties to labour-market integration – much of disability assistance is tied to the added cost of disability, and is not contingent on employment status, thereby encouraging claimants to benefit from employment income in addition to a disability supplement (OECD 2010).

## CONCLUSION

Employment is a key element of socioeconomic inclusion and health. Similarly, the number of people on social assistance relative to the population can be

an indicative of the overall health of an economy.

Canada has a high social assistance rate compared to many other countries; across provinces, Ontario shows the strongest signs of a problematic social assistance system. The social assistance dependency rate ranks as the highest and has worsened significantly in recent years, despite the province's strong labour-market performance. The length of time on social assistance under the program that is supposed to ease transition to employment has increased substantially, putting further pressure on the costs of the system.

This study highlights a number of factors that contribute to the challenges facing Ontario's government and provides policy recommendations, gleaned from international experience.

With a focus on increasing employment incentives and labour-market attachments, the key factors in improving social assistance programs fall into three major categories: supplementary benefits; work requirements and incentives to work; and disability benefits.

In addition to basic social assistance, other financial supports such as the GST/HST credit, provincial tax credits or benefits and federal and provincial child benefits are available to households. Any reform to the current social assistance should consider its interaction with these programs.

More importantly, supplemental benefits (such as health and housing) should be offered separately from basic social assistance. The loss of supplemental benefits as employment income grows beyond the eligibility threshold for social assistance raises the costs of leaving welfare and going to work, creating financial disincentives to labour participation beyond the already high METRs reported in this study.

Second, an important way to improve social assistance is to increase the desire and ability of people to bounce out of the net and into the labour market by providing them the right tools. The types of activities assigned to beneficiaries based on their needs and program goals matter, but the extent to which the program reduces benefits for

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beneficiaries with employment income also plays a crucial role. In particular, more generous claw-back rates and higher earnings exemptions generate more incentives to exit to employment, and can generate long-term cost savings as recipients leave the program, or rely less on it. Subsidizing part-time work and/or providing work-experience placements can also help provide social assistance recipients with the skills needed to re-enter the labour market.

The third major component of social assistance reform is to shift to assessing disabled individuals' capability to work and encouraging participation in appropriate employment support. Here, it is important to recognize that disability exists on a spectrum, and that employment requirements and supports should be based on an individual's assessed capacity to work. In the case of recipients with disabilities, income reliability and supplemental benefits also increase in importance, so lower claw-back rates and more generous exemptions are a necessary, but not a sufficient condition for encouraging labour-market attachment.

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