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

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SEDI

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Introduction

> *"The goals of our public welfare program must be positive and constructive. […] It must contribute to the attack on dependency, juvenile delinquency, family breakdown, illegitimacy, ill health, and disability. It must reduce the incidence of these problems, prevent their occurrence and recurrence, and strengthen and protect the vulnerable in a highly competitive world."*
>
> - *President John Kennedy*

> *"Every man holds his property subject to the general right of the community to regulate its use to whatever degree the public welfare may require it."*
>
> - *President Theodore Roosevelt*

These two quotes from two American presidents, roughly half a century apart, in many ways offer a synopsis of many decades of still ongoing debate regarding welfare and ownership. There are two, not quite dichotomous, perspectives to the issue of reconciling welfare and self-sufficiency. One perspective, in its extreme, focuses on the need to preserve welfare as a program of last resort. Entry is limited only to those who are able or willing to demonstrate that they are no longer able to support themselves (because of low or no financial resources) and that they have exhausted all other avenues of assistance. This perspective carefully monitors beneficiaries to ensure that assistance stops when they have financial resources to become self-sufficient. This approach is characterized by a 'policing' function – ensuring that stringent rules target the program to individuals without any other recourse. Philosophical underpinnings of this approach are that scarce public resources shouldn't be misspent or wasted and that self-sufficiency and individual responsibility are always preferable to dependency. It could also be argued that this perspective reflects an underlying suspicion that a significant portion of the citizenry might, without these strict guidelines, turn to welfare programs when they are not truly needed.

Another, more institutional perspective, is focussed on minimizing the amount of time and depth of welfare dependency. Active measures require all but certain exempt beneficiaries to engage in activities such as career counselling and job training and placement, with the expectation of re-establishing labour force participation and precipitating program exit. In an increasing number of jurisdictions, this policy direction now includes more aggressive measures to promote program exit such as wage supplements for recent welfare leavers. This second perspective is characterized by a 'motivating' function – ensuring that all welfare recipients are at all times motivated to leave the program. Its philosophical underpinnings are that work is always preferable to welfare and that dependency should be minimized and avoided. It could be argued that this perspective reflects an underlying suspicion that, without intervention, a significant portion of individuals receiving welfare benefits would stay on the program indefinitely.

These two perspectives and their philosophical underpinnings are, on the surface, not contradictory and in fact appear to even be complementary, each picking up where the other leaves off – limiting program entry and encouraging program exit. They find themselves between the text of welfare policy handbooks and statements across Canada, and internationally, where the central pre-occupations are ensuring adequate social minimums while reducing dependency through limits to program entry and promoting program exits. However, particularly when it comes to the treatment of financial and non-financial assets, it is difficult to craft policy rooted in one without concerns for negative consequences in the other.

The imperative to ensure a basic social minimum suggests that households should not be expected to deplete all of their assets in order to gain access to the income support and services that make up welfare programs. The presence of some financial assets ensures that a household has more resources at its disposal to meet its needs, increasing the likelihood of well-being and security. Non-financial assets too, such as home or vehicle ownership, can increase well-being by ensuring adequate housing and access to transportation. Greater stability, mobility and well-being are key to promoting and maintaining welfare exit. However, the imperative to reduce dependency by limiting entry suggests that households should be expected to deplete assets before gaining access to income and services. Additionally, it is suggested that while receiving welfare income and services, households shouldn't be permitted to acquire or accumulate assets. Rules to ensure the absence of assets ensures that the benefits are targeted to households who are most in need of scarce public resources. In other words, welfare policy is caught in a trap of its own making that strips applicants of the same productive assets they will need to leave and stay off of welfare.

Since 1996, SEDI has led the development of the asset-building field in Canada. Asset-building is an emerging area of social policy and practice. Its core idea is that opportunities to save and invest in a better future are as critical as income in overcoming poverty. Savings and assets can leverage new income, open new opportunities for education and development, enable productive risk-taking and build social capital by enhancing inclusion and participation. Savings can also provide a safety net to cushion the climb out of poverty or to prevent deprivation in case of income losses. When individuals have access to assets and to supportive services, they are better equipped to manage life transitions and to build and maintain self-sufficiency. A growing body of evidence from Canada, the United States and the United Kingdom suggests that when provided the right supports, low-income individuals can and do save.

However, the 1.7 million Canadians (National Council on Welfare, 2006) receiving or applying for social assistance annually face significant disincentives to saving. Access to assets among low-income families is known to be low. The poorest 20% of Canadian families had an average after-tax income[1] of $18,698 and average financial assets of only $1,974 (Kerstetter, 2002). Research in the US suggests that needs-tests in welfare programs do actively dissuade households from saving when they believe those assets will jeopardize their eligibility for welfare benefits upon which they are, or expect to become, dependent (Orzsag, 2001; Powers, 1998; Gruber & Yelowitz, 1999). Furthermore, there is some evidence to suggest that even in cases of occasional windfalls, such as small inheritances or court-ordered settlements, social assistance recipients will dispose of any liquid financial assets rather than save or invest them toward attainment of long-term self-sufficiency (Stapleton, 2003).

[1] After-tax income takes into account any redistributive effects of income tax such as refundable tax credits and is therefore a better measure than pre-tax income.

From a theoretical asset building perspective, the dependency reduction imperative has become misdirected and is working at cross-purposes. The policy approach that keeps people out at the front-end of the system is also making it harder for welfare recipients to leave the system at the other end. The starting point for this line of reasoning is that, more than just acting as forms of storage for future income, assets exert different psychological, behavioural and economic impacts than income (Sherraden, 1991).

Savings and assets, however modest, can be an important economic and social resource. Assets can cushion against sudden losses of income or financial risks such as starting a new business. Assets can enhance social capital, participation and inclusion. For example, in comparison to non-owners, homeowners appear to have higher levels of civic engagement and enjoy better marital stability, family health and well being among children. Assets can build capacity that can be sustained beyond current consumption needs while complementing existing income supports. Most importantly, savings and assets can increase hope and a sense of ownership and mastery over one's life and future. All of these – participation, enhanced capacity, opportunity – are necessary for self-sufficiency and are recognized as goals of provincial welfare policies.

This paper argues that in Canada, serious attention is needed towards the unintended consequences of asset limits. More than limiting entry, these rules may be inadvertently increasing dependency by increasing risks for entry and re-entry into welfare systems and by closing off some of the paths to sustainable welfare exit for many social assistance recipients. We start with a brief discussion of the historical origins of needs-tested welfare in Canada and then provide a comprehensive review of the current shape of rules for treatment of assets across jurisdictions in Canada. We argue these form a largely incoherent and fractured system, an ad hoc patchwork, where there is little equity, and where changes have been piecemeal at best and regressive at worst. We then review the literature on the potential impacts of asset rules on household behaviour – both in terms of decreased savings and lower rates of welfare exit. We acknowledge that this literature is scant and largely un-tested. As a result we propose a series of measures to address the most pressing of problems that current rules on savings and assets face, as well as future questions for discussion and applied research.

Social Assistance In Canada And Needs-tests – Historical Foundations

While the definitions and terms used to describe welfare vary widely across Canada and across countries, this paper adopts the definition used by the OECD in its comparative analysis: "income-related or means-tested benefits, available to people whose resources are officially held to be insufficient to maintain a standard of living without such additional help" (Evans & Séguin, 1994). For the purpose of this study, we limit the discussion to those income support and related benefit programs administered and delivered by provincial/ territorial and/or local governments. While the federal government does make income assistance available to members of First Nations communities living on reserve, the legal and social context for these measures precludes meaningful comparative analysis.

Like so many modern social welfare states, the origins of Canada's earliest welfare programs are found in the British Poor Law of 1601 which recognized the responsibility of local authorities to provide assistance to the "deserving poor" (those who were deemed unable to work due to age, disability or infirmity) and the right of the same authorities to withhold assistance from or impose sanctions on the "undeserving poor" (all those considered to be employable as well as their dependents).[2] Although Canada was alone as a British Colony in not formally adopting this law, it nevertheless informed the development of its largely privatized and disjointed approach to supporting the poor through private charity and institutions such as workhouses. However, Canada did adopt the UK 1834 Poor Law Amendment and its preoccupation with ensuring that work remained more attractive than relief. That same law introduced the principle that welfare should never pay benefits greater than the lowest-wage work to able-bodied recipients, a principle normally referred to as "less eligibility". The effects in Canada were that the delineation between "deserving" and "undeserving" poor became even more rigid; a firmer institution of the principle of less eligibility; and the beginnings of a shift in the responsibility for poor relief to public bodies, through a legislated network of municipal workhouses.

Following Confederation, Canada entered a 'grey zone' period for delivery of support to its poor. Cash assistance was not the norm and instead in-kind benefits of shelter, food and clothing were offered in exchange for labour. Local governments were responsible for ensuring there were work opportunities through workhouses, or increasingly, through outdoor labour such as clearing land or logging trees. Private charities, within a developing governance and regulatory structure, were responsible for the provision of in-kind benefits to deserving clients who earned their relief through infirmity or work. Another notable feature was the degree of discretion available to officers in charitable agencies who would determine eligibility based largely on their confidence in or empathy for the plea made by an applicant. The main proof required of applicants was their willingness to work in exchange for benefits. The assumption of course was that the work was sufficiently onerous and the in-kind support sufficiently meagre that no one with any other recourse would turn to this system. Income and needs tests were therefore largely un-necessary. It is worth asking how much of Canada's early public works and corporate wealth creation were financed through this arrangement.

From this very early foundation, several ideas of welfare emerged that echo to this day in Canada:

Distinctions must be made between "deserving" and "undeserving" poor. Unless longer-term entitlement can be established through disability or infirmity (a condition that is unlikely to improve and where dependency can be expected to persist), willingness to work is the only other route to assistance and only as a short-term measure until work itself leads to self-sufficiency.

Work must always pay more than non-work for employable welfare applicants. As a result, income benefits should ultimately be geared not to an idea of an adequate minimum standard of living but to fall below the lowest wages in the paid workforce.

Front-line social workers should be empowered to exercise significant discretion to make

[2] Much of the following review of the history of Canadian welfare programs is informed by the historical discussion in *Transitions: Report of the Social Assistance Review Committee*, prepared for the Ontario Ministry of Community and Social Services, 1988, Toronto, pp 70-75.

decisions on a case-by-case basis, largely informed by their own relationship with the applicant or beneficiary.

By the turn of the century, administrators began noting at least one un-intended effect of this system: increasing numbers of children were being turned over as wards of the state when their mothers were forced to work outside the home to earn relief to support the household. Administrators also noted that many of these same households were left dependent on poor relief when a male income-earner was incapacitated or even killed in the course of employment. The programmatic response was to begin to assume a direct role in providing income support benefits to certain target groups. The introduction of both Workmen's Compensation in 1914, and later Mother's Allowances between 1916 and 1920 in Manitoba, Saskatchewan, Alberta, BC and Ontario. Given that the country immediately moved into a wartime period where families of servicemen required support during the male income-earner's absence or his inability to work upon his return due to wartime injuries, it is perhaps less surprising that these targeted programs became and remained the first institutionalized forms of public income support in Canada.

These programs were soon followed, in rapid succession, between the late 1920's and 1950's by a new national old age pension, family allowances, disability benefits, unemployment benefits and eventually general welfare assistance. Some of these new institutionalized programs were universal (such as old age pensions), granted on the basis of residency in Canada, while others were quasi-universal and targeted to specific sub-groups such as families with dependent children, persons experiencing temporary unemployment and persons with disabilities. All were almost exclusively guided by the 1943 report of Leonard Marsh, and by extension the earlier report in the UK by Lord Beveridge. Beveridge's approach to social policy rested firmly on the buy-in of the middle and upper income classes who had previously never benefited from welfare systems conceived under Poor Laws.[3] This meant that a critical level of social programs needed to be universal and designed to offer financial benefits to these classes who were more likely to have means to be self-sufficient. In these cases, means-tests are counter to the intended aim. Other social programs were then targeted to lower-income classes and, nearly by definition, required some sort of test, outside residency or citizenship, to ensure they were effectively flowing to the intended "deserving" poor. Whereas onerous work, charitable discretion or obvious disability had been used in 19th century programs to achieve targeting of the recipient population, 20th century welfare systems would need to establish new mechanisms to continue to meet the welfare principles inherited by the Marsh and Beveridge approaches to social policy.

The 1956 Unemployment Assistance Act is particularly noteworthy in the post-war development of welfare systems in Canada. First, it set in place cost-sharing arrangements to encourage all provinces to create general income assistance programs of last resort for individuals who, for various reasons, fell through the cracks of other income support programs. Secondly it introduced the first needs test to Canada. In this instance, rather than agreeing to work or pleading a compelling case for charity, employable assistance applicants were expected to show a deficit in their monthly budgets, that their current resources could not cover essentials. An expected result would have been an increase in income support levels to

[3] See for example: Robert E. Goodin and Julian LeGrand, eds., *Not Only the Poor: The Middle Classes and the Welfare State*, (London: Allen & Unwin, 1987).

employable recipients to enable them to cover essentials to attain an adequate standard of living. Instead, spending levels did not show any real increase as the now century-old principle of "less eligibility" remained an omni-present feature.

After a decade of dissatisfaction with the disjointed programs launched by the Unemployment Assistance Act, the federal government introduced the Canada Assistance Plan (CAP) in 1966. Since then, provincial welfare schemes have been consolidated into relatively unified social assistance programs, delivering both short and long-term benefits to different categories of eligible recipients, including persons with disabilities, persons unable to work and those able to work but unemployed. Under the new CAP system provinces were given broad decision-making powers about the levels of benefits and eligibility rules without fear of penalty in federal cost-sharing arrangements. However, provinces were not permitted to impose residency requirements for eligibility, and were required both to use needs-tests to establish eligibility and to offer mechanisms for applicants or beneficiaries to appeal decisions made by program administrators.

It is worth pausing here to briefly discuss the difference between means- and needs-tests. Means-tests are more widely understood conceptually and perhaps misunderstood in the context of social welfare. Program eligibility is based on falling below an established threshold of financial resources (usually income, though not exclusively and may include assets as well). In contrast, needs-tests involve an evaluation of household financial resources relative to household needs in accordance with guidelines established by statutory regulation. A social assistance payment is granted under a needs-test when the household's non-exempted financial resources are less than the government approved cost to the household for food, shelter and other acceptable recurring needs. This follows the model of the1956 Unemployment Assistance Act in which households needed to show a "budget deficit" for essential monthly costs. When they were first introduced, these needs-tests were thought to be more progressive than income-tests alone, although historically Ontario and Quebec have both voiced a strong preference for income-testing as a less demeaning and more efficient mechanism (Osborne, 1985). Whereas income-tests were primarily concerned with weeding out deserving from undeserving applicants and ensuring that benefits met the condition of "less eligibility", needs-tests were thought to be a way to move toward ensuring a minimum standard of living or social minimum so that all households might be able to meet their basic needs (Hick, 2000).

As discussed in much greater detail in the next section, general social assistance actually includes both a needs-test as well as a means-test. At application, most jurisdictions do continue to require households to demonstrate a budget deficit, measured against a set of acceptable basic expenses described in legislation and/or regulations. At the same time, applicants must demonstrate that they have exhausted all other resources at their disposal and now have (among non-excluded financial assets) means below a certain cut-off according to their household and benefit type. Once households receive social assistance, they continue to be subjected to a means-test that generally treats as income any financial resources received during the month. In most jurisdictions, the claw-back on non-exempt resources is 100% in the month it is received and until it is spent to below the regulated level. So, while it is correct to describe the primary test for social assistance as a needs test, it is also key to acknowledge that means-tests play an important function, with perhaps an under-estimated impact.

Much has been written about the Canada Assistance Plan and, for many progressives in social policy, it remains a touchstone for the heydays of Canadian social policy. It was an instrument from an era in which federal governments placed significantly more conditions on the transfer of funds to support social programs, even when those programs (such as education, health care and welfare) were clearly in the constitutional arena of provincial governments. Critics and fans of the CAP model of federalism have filled volumes arguing over its strengths in ensuring national minimums and equity for citizens and its weaknesses in hamstringing provincial governments, impeding innovation and intruding into provincial areas of authority.

With regards to the treatment of assets under social assistance, the CAP legislation and regulations did two things. First, as mentioned earlier, it required provinces to adopt needs-tests to establish eligibility for assistance and set out the definitions of need in bilateral federal-provincial funding agreements. In addition to the needs-test, provinces were given flexibility to consider the "income and resources" available to a person in need while verifying an applicant's inability to meet their budgetary requirements. Provinces were further able to extend benefits to persons not eligible under the needs-tests through means tests and again set the acceptable income and asset levels in the federal-provincial bilateral agreements.[4] Because the programs were cost-shared, the federal government was able to heavily influence provincial asset tests by establishing their own guidelines for the purposes of cost-sharing in bilateral agreements. Where asset limits were set lower than the federal guidelines, provinces risked loosing federal cost-sharing.

[4] *Canada Assistance Plan*, R.S.C. 1985, C-1; Act and Regulations C.R.C., c 382.

Additionally, provinces didn't have any incentive to unilaterally raise asset-limits since benefits were only cost-shared for recipients who fit the parameters of the federal guidelines. The second way in which CAP impacted the treatment of assets in provincial welfare was in setting the types of eligible expenses. For example, CAP regulations allowed cost-shared funds to be used by provinces to cover certain asset-related expenses to social assistance recipients. These included certain amounts for mortgage payments, the purchase of tools or equipment related to employment or certain repairs or additions to a recipient's property. CAP also permitted cost-shared funds to flow to participants where their assets exceeded federal guidelines so long as the funds were used for expenses deemed "socially important" by provincial administration. As a result, in Ontario for example, many social assistance recipients could accumulate up to 10% more in liquid assets without being cut-off from their income support. With special permission from a provincial administrator, other Ontario social assistance recipients were able, and encouraged, to save to purchase articles considered important to their well-being such as a modified van for persons with disabilities.[5] In both these ways, CAP heavily shaped provincial treatment of savings and assets in social assistance programs using the "carrot and stick" of federal cost-sharing.

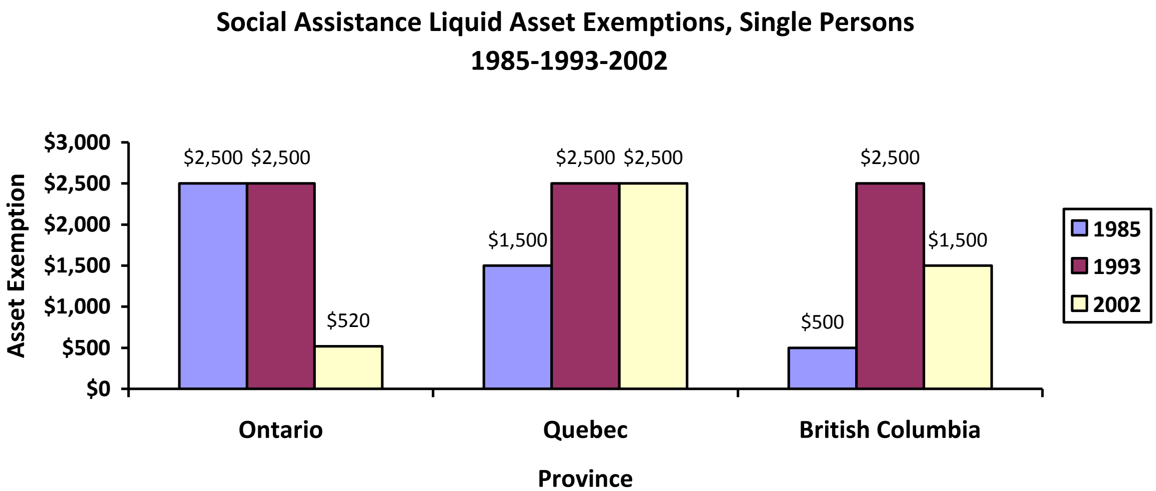
The CAP era saw asset limits guaranteed at least at a certain floor and with some modest incentives to treat savings and assets in more progressive ways. But the CAP era also saw significant growth in welfare spending in Canada. However, in the two decades before legislation was repealed and provincial agreements were renegotiated, concerns were raised about the sustainability of that level of spending. Between

[5] See again *Transitions: Report of the Social Assistance Review Committee*, prepared for the Ontario Ministry of Community and Social Services, 1988, Toronto, p 167.

the late 1960's and the early 1980's, provincial expenditures on social assistance programs increased, on average, nearly ten-fold (Osborne, 1985). The tensions between targeting assistance and ensuring acceptable minimums were now more heavily influenced by a need to keep a handle on what appeared to be a rapidly ballooning line item in provincial budgets.

Particularly after the recessions of the 1970's, governments across Canada moved to restrain spending and largely shifted towards more targeted, and less costly, social programs. However, the welfare state had been firmly established as a relatively comprehensive (if highly complex) network of programs, rather than as a "residual" system of last support. The 1990's again saw a period of even more significant spending reviews and transfer changes as the federal government moved to the Canada Health and Social Transfer (CHST) and removed most of the previous conditions for cost-shared funding under the former CAP. Gone now was the national requirement to use needs tests to ensure social assistance wasn't denied to anyone in clear need. At the same time provincial governments across Canada, as in many western welfare states, significantly altered their social assistance programs. In many respects programs returned (without necessarily addressing the larger comprehensive network of welfare programs) to a more "residual" model. The changes to welfare in that time period are too lengthy to detail in this review. Briefly, they included increased active measures to promote labour market attachment, time and re-entry limits to discourage long-term or repeat dependency, work participation requirements (normally intended as a form of active measure to promote labour market opportunity, rather than as a return to the 19th century notions of work requirements under Poor Laws) and tightening of eligibility rules. But one area of significant change that has gone largely un-examined in Canada is the change in the levels of asset-tests used to establish or maintain eligibility for income support under general social assistance programs. The literature review for this study found no previous historical analyses in Canada or in sufficient detail on other comparable jurisdictions (such as the United States, New Zealand, Australia among others) that pursued similar welfare reforms in roughly the same time period. This is certainly a gap in the knowledge and one worth future investment by researchers and policy-makers.

Figure 1: Change in Social Assistance Asset Limits



The above figure shows the change in the liquid assets that a single employable person could hold while still being eligible to receive income support under social assistance, in three jurisdictions during the period 1985 to 2002. This time frame captures both the period during which the national CAP needs-test rule was in place and the period following its elimination with the introduction of the CHST in 1995. The provinces included above are among the largest in Canada and enjoy very different political cultures and orientations towards social policy and social spending. Yet, in all three cases, the asset-test remained the same or fell after a period of increase. In other words, this meant that welfare became harder to get on and stay on for more employable Canadians and those on welfare were allowed fewer financial means. Ontario is perhaps the most dramatic case where asset limits for this category of beneficiary fell – by nearly 80%. In British Columbia, asset limits for single employable persons fell by 40%. These comparisons also don't account for the effects of inflation during the same time period. Just to have kept pace with inflation between 1993 and 2002, asset limits for single employable persons would have had to rise 15% from $2,500 to $2,879 in all three provinces.

The era of CAP is gone, and with good reason, replaced by the CHST and now the Canada Social Transfer (CST). These block transfer systems, coupled with the Social Union Framework Agreement (SUFA), offer provinces significantly more flexibility and options to innovate in all areas of social policy, including social assistance. Ostensibly, they create conditions to enable a "race to the top" where provinces are propelled ever-forward in response to social innovation and progress achieved by other jurisdictions. The key question is, when it comes to the treatment of assets, are provinces moving towards greater progressivity now that federal guidelines are gone and the threat of lost cost-shared dollars no longer figures prominently? The data above on patterns of dramatic reductions in asset limits suggest perhaps not, although it would be unreasonable to presume this is entirely a reflection of purposeful policy preferences among provinces. Rather, it is likely that provinces in Canada are only now emerging from a period when their primary welfare focus was containing, and even cutting, program costs within their own jurisdiction. It is a period that left, until recently, little time or appetite for cross-border learning or racing to any particular end of the scale.

The next section reviews the current regime of rules across jurisdictions and assesses the current state of affairs – one that can best be characterised as un-even, anachronistic and yet with pockets of progress and innovation.

The Current Regime – Social Assistance Regulations Across Canada

The data discussed in this study were collected through a detailed review of the published legislation, regulations and other relevant public documents such as brochures, guides and policy manuals. Where necessary, this published information was supplemented through key informant interviews with provincial officials to clarify details and confirm facts. The full data are included in Appendix 1.

For the purposes of this survey, the jurisdictions included all provinces but only one of the three territories, the Yukon. The latter was included because it is most comparable to Canadian provinces in the shape and size of its social assistance program and has more devolved powers over that program than do the other two territories. In addition, the populations in both the North West Territories and Nunavut are overwhelmingly Aboriginal, making it impossible to discuss social assistance without entering into a discussion about Aboriginal self-government and the relationship with the federal Department of Indian and Northern Affairs. This is not to suggest that in other jurisdictions, including BC, Saskatchewan, and Manitoba in particular, that social assistance programs don't need to be considered in terms of their impacts on Aboriginal Canadians living off-reserve and on-reserve where dependency rates on social assistance are frequently very high (Royal Commission on Aboriginal Peoples, 1996). That said, the objective of the current study is to uncover findings that will be as generalizeable as possible. Other studies have discussed social assistance policy and programming in terms of the particular impacts on Aboriginal Canadians, although none that we have found so far have given particular consideration to the treatment of savings and assets. This again may be an important area for future research, particularly as the current federal government continues to pursue avenues to support private ownership of on-reserve housing. Please note that where references are made to jurisdictions as provincial, it is intended to include all jurisdictions in our sample and therefore the Yukon.

Assets are defined as stored financial resources or physical resources with a financial value that contribute to an individual or household's total wealth. Of particular interest in this study were certain forms of assets, although data was collected and entered on all assets referenced in provincial sources. Those assets of key interest were:

- Real property – including an owner occupied housing, vacation or rental real estate;
- Other physical assets – including vehicles and household goods;
- Tax-preferred individual savings – including trust-funds, Registered Retirement Savings Plans (RRSPs) and Registered Education Savings Plans (RESPs);
- Other financial assets – such as investments

or cash on hand; and

- Self-employment assets – including equipment, tools and real property related to a small business.

Once the data collection began, it was clearly necessary to include a broad category of "other" assets to capture both those frequently mentioned in provincial sources (such as life insurance policies) and other less frequently referenced but still noteworthy types of assets (such as student loans).

These assets were selected as the main focus because they are arguably assets that are either favoured elsewhere in public policy (such as tax-sheltered savings instruments) and that might be reasonably expected to open or preserve avenues to self-sufficiency and well-being (such as self-employment assets, housing assets and education savings) or that might fit both these criteria.

In addition to recording how each jurisdiction treats these forms of assets for both applicants and current recipients of social assistance benefits, our study looked at differences in the limits applied to assets. In all jurisdictions, assets are divided into included and excluded categories and then one or more asset-tests are applied to those in the included category. Finally, data was collected on any exceptional provisions included in social assistance legislation or regulations to promote, or at least protect, assets accumulated through asset-building programs such as matched savings accounts (discussed in greater detail later in this paper).

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

- single non-disabled adults receiving general social assistance benefits (longer term assistance, rather than one-time relief as is available in many jurisdictions); and
- sole-support parents with one dependent child where neither beneficiary has a disability and where the household unit (or case) is again receiving general social assistance benefits.

Based on the most recent caseload data[6] we have been able to obtain (see Table 1), it appears that single adults and sole support parents make up roughly two-thirds of all non-disabled social assistance recipients in Canada (the balance would include couples with and without children). We note that, in many provinces, single parents with more than one child are subject to different asset limits than are parents of only one child but we use the example of a one-parent-and-one-child household for simplicity and to illustrate the floor for asset limits given that the ceiling is harder to predict because exemptions are cumulative and case specific.

[6] Data were collected or verified during the period December 2006

Table 1: Social Assistance Caseloads by Household Type (non-disabled recipients)

Jurisdiction	All case load	All beneficiaries	Singles	Sole support parent caseload	Sole support parent beneficiaries	Period
BC	35,868	57,187	23,749	10,048	27,192	Nov. 2006
Alberta	25,164	49,172	14,297	9,015	17,459	Dec. 2006
Saskatchewan	26,541	44,801	17,920	6,730	2,044	Dec. 2006
Manitoba	14,853	37,933		9,024	27,496	05/06 average
Ontario	197,959	383,983	104,022	72,433	200,533	Sept. 2006
Quebec	335,444	491,716	250,738	46,146	120,491	Nov. 2006
New Brunswick	18,468	35,324	8,778	6,370	16,510	Jan. 2007
Nova Scotia	29,103	46,802	18,862	6,772	19,478	Dec. 2006
PEI	NA	NA	NA	NA	NA	-
NFLD	25,753	43,070				Dec. 2006
Yukon	NA	NA	NA	NA	NA	-
Total	709,153	1,140,816	424,069	157,523	413,744	
%Total Case Load	100%	NA	60%	22%	NA	
%Total Beneficiaries	NA	100%	37%	NA	36%	

Source: Provincial data from social assistance administrations.

Overview of Asset-tests

Before discussing the key findings from our review, it may be helpful to describe in more detail the general patterns that all jurisdictions follow in administering their respective asset-tests. As mentioned above, all jurisdictions start by describing which liquid and illiquid assets are included and/or excluded from the test. In regulations and policy manuals, most jurisdictions give a very general description of the assets to include and pay more attention to the assets to be excluded by program staff when calculating household means. Generally the rule of thumb is that if the asset is not specifically excluded then it should be included in the calculation. Exclusions may be full or partial and are based on the type of asset, the category of recipient, the value of the asset or a time-limit to the exclusion. All included assets, both financial and physical, are then added up to determine the stored resources available to the household. When an asset is physical, a household will be required to sell it for a price deemed to be fair by the administrator. When an asset is financial, a household will be required to divest of it even if it requires a financial penalty or loss for doing so (for example paying income taxes on RRSP funds when they are withdrawn before retirement).

All jurisdictions retain the right to review the sale of assets and to penalize clients if the administrator judges that the sale didn't result in a reasonable market value or was done to conceal assets. The right to review the sale extends from before an application was made to potentially several years after the sale.

If an applicant, already receiving social assistance, becomes the new owner of an included asset, that asset may be treated as income in the month it is received or a recipient may have a limited time to divest of the asset. The proceeds are again treated as income.

The assessed liquid value of all included assets is compared against an asset limit that varies depending on household size and composition. If the value is greater than the limit, assistance is normally not paid.

Consistent with the age-old principle of "less eligibility", the policy behind this approach is that to be eligible for assistance, households should be expected to pursue and have exhausted all available resources. Perhaps the most striking statement in this regard is found in PEI where regulations governing the social assistance program require that all social assistance applicants demonstrate that they have not only exhausted their own resources but that they have also sought support from immediate and extended family members (Government of PEI, 2007). Furthermore, administrators in PEI are permitted to deny eligibility for assistance, even if all eligibility criteria are met, if in their opinion the demonstrated need arose out of poor budgeting on the part of the applicant. While these examples are more extreme than in other jurisdictions, the underlying principle behind the policy is more widely shared. This approach harkens back to a view of social assistance as purely residual in nature, often blind to institutional and market factors that may play a role in poverty and placing certain categories of citizens at greater risk.

In the next section, we describe patterns across jurisdictions in the treatment of various forms of assets under applicable asset-tests.

Real Estate Assets

The largest asset owned by most Canadian households and the greatest single source of household wealth in Canada comes in the form of real estate property. Half of all household assets in Canada are physical assets and of these, more than a third are principal residences (Statistics Canada, 2006). While a principal residence is the typical form of physical asset in a household, others may include ownership of properties such as vacation homes and rental homes. The ownership of real property seems to have several important and positive effects in supporting well-being and security. For example, housing assets are associated with ownership of financial assets and overall patterns of higher household wealth when compared to families in rental tenancy, even when adjusting for household incomes (Engeland, Lewis & Shillington, 2006). Other reviews have found that housing ownership is associated with better education outcomes for children and greater civic engagement among owners.[7]

Homeownership may reflect the outcome of several years of careful saving and investment or, particularly in rural communities, an intergenerational transfer of ownership of a family property. Regardless of how a household

[7] See for example Rachel Weber and Janet Smith (2001) "Assets and Neighbourhoods: The role of individual assets in neighbour revitalization", Fannie Mae Foundation.

came to be in ownership of their residence, it seems clear that the imperative to reduce dependency suggests it should be exempt from consideration in social assistance means tests. This is not uniformly the case across Canada. Only six out of ten jurisdictions fully exempt a principle residence from the means test (BC, Saskatchewan, Manitoba, New Brunswick, PEI, Newfoundland and Labrador and the Yukon).

In the remaining five jurisdictions, a principle residence is only conditionally exempt. In Alberta for instance, the market value of the home must be below the average selling price of other local homes, or the equity not considered substantial, to be considered exempt. Where a household doesn't meet this condition but is otherwise eligible for social assistance, their principle residence can be exempt from the means test for up to six months, at the discretion of the appropriate administrator. Ontario requires that a principle residence be occupied continuously for 12 months of the year to be exempt otherwise it is treated like all other physical property under the asset test. Quebec only considers the equity in and not the market value of a residence and only excludes equity within a total of $90,000 limit on fixed assets. In Nova Scotia, residences are excluded only if the assessed value is less than twice the local average.

Generally other real estate assets are not exempt from asset tests and owners are required to sell and use up any proceeds before receiving assistance. There are however a few interesting exceptions. Most commonly, provinces will exempt a second property for a short period (normally 90 days, but up to 4 months in Manitoba) during which time benefits can be paid. The expectation is that on or before the time limit, an owner will sell the property at which time the proceeds would be treated as income and almost certainly interrupt their eligibility for support. Several jurisdictions do also have exemptions for property owned for business purposes, in particular farming. To qualify for this exemption in New Brunswick, the land must be shown to be productive within the year following an application for social assistance. In PEI, owners of farm lands can have their land exempt only if they can demonstrate it is intended to be passed on to sustain an heir. In Quebec, the equity is considered alongside all other fixed assets within the global $90,000 limit. The two extremes are to be found on either coast: only in Newfoundland is all other real estate property fully exempt and only in BC is all other real estate considered to be an included asset.

Another way that social assistance programs impact the ownership of housing and other real estate is related to mortgage payments. While mortgage payments are eligible expenses in a household needs-test, jurisdictions will not generally ensure that the income benefits are sufficient to cover payments. Rather, most programs offer a set shelter allowance that varies depending on household size and instead encourages recipients to seek subsidized rental housing through associated programs.

What this means, in concrete terms, is that there is no guarantee for low-income households in Canada who turn to their local social assistance program that they will keep their home, business or other real estate property. Once the real estate is sold, the likelihood of a social assistance recipient being able to accumulate sufficient capital to purchase the asset back or replace it with one of comparable value is small. Given the role that real estate (and housing in particular) plays as a 'gateway' to other forms of financial security, social assistance recipients who do lose their property are almost certain to be at greater long-term risk for dependency even if they do exit the program. This hypothesis, however, would require longitudinal research to evaluate.

Other Physical Assets

In addition to real estate and housing assets, most social assistance programs have a great deal to say about other forms of physical assets for personal use, including household goods and vehicles. Typical household items tend to be excluded from asset tests. However the rules generally do not grant a carte-blanche exemption. In most jurisdictions, assets must be within a certain value range or for a certain purpose. For example, the regulations in Saskatchewan exempt all items worth $1,000/each or less in a household or those more valuable items that have a significant personal value such as wedding rings or heirlooms. In Ontario, any collections of value (for example stamp or comic book collections) are subject to the asset test, despite the exemption for household goods. In Alberta, items for personal use are exempt but other household items must be considered to be of reasonable value by the program administrator to also be exempt from the asset test. Normally provinces exempt household goods required for employment (such as boots and tools that may be required to work as a skilled tradesperson).

Research in the US (discussed later in this paper) suggests that access to a vehicle can promote exit from and entry to welfare, by facilitating access to employment. Where public transit systems are both less developed or accessible, a vehicle can be the only way to get to and from work. As social assistance programs strongly encourage, or even require, employable participants to enhance their labour-market attachment, it seems sensible that vehicles should be exempt from asset tests. Across provinces, the most common treatment of vehicles is to exempt one vehicle per household, sometimes (as in BC, Alberta and Quebec) limiting the value of the equity in the vehicle at $5,000. In both Manitoba and Newfoundland, all vehicles are exempt from the asset test, while in Ontario the equity ceiling is $10,000, and equity in other vehicles is exempt for up to 6 months.

Tax-preferred Individual Savings

For the purposes of this study, we limited the review to three forms of tax-preferred instruments for saving and asset accumulation[8]:

Registered Education Savings Plans: These are tax-pre-paid instruments that shelter deposits and accumulated interest in a tax free account. Contributions are made to a beneficiaries account (usually a dependent child) to be used for future educational purposes. The funds are taxable on payment to plan beneficiaries but normally at a significantly lower tax rate for students. Contributions (but not interest or savings grants added to the plan) can be returned to the subscriber tax-free if they are not used by the beneficiary. To promote RESP use federal, and certain provincial, governments have introduced savings incentives such as one-time bonds and annual savings grants.

Registered Retirement Savings Plans: These are

[8] This study was conducted prior to the 2008 federal budget and therefore does not contain any discussion of the newly announced Tax-Free Savings Accounts. It remains to be seen, as of the time of publication, how the new TFSAs will be treated by provincial and territorial social assistance regimes.

tax-preferred vehicles designed to promote long-term private savings for retirement income purposes. Deposits made into accounts are deductible from income tax up to an annual and lifetime maximum. In addition, annual interest earned on investments is exempt from taxation in that year. Withdrawals from the plan are taxable at the owner's regular income tax rate but it is expected most withdrawals will take place during retirement years when tax liabilities are lower. Pre-retirement withdrawals are encouraged for uses such as homeownership and education or training. There are exceptions to the taxation rule provided that repayments into the RRSP account are made within a set time limit.

Trust-funds: Tax rules regarding trust funds are too detailed and lengthy to offer a meaningful discussion here but they do include various forms of trusts created by families for dependents through inheritances or estate bequests, as well as certain trusts established by employers to pay pension or other benefits to employees. Generally, the assets receive a tax preferred treatment, depending on the nature of the trust, allowing the investment capital to be sustained, grow or spent-down according to the purpose of the trust, while any income paid out to beneficiaries is taxed at the appropriate rate.

Little data is available on the household ownership of RESPs and trusts in Canada. In the latest data from Statistics Canada, these are grouped together under the category of "other financial assets" and in 2005 accounted for just 1.3% of all household assets. By contrast, RRSPs are a large wealth component in Canada, making up 10.5% of all household assets in 2005. What little we do know about the household impacts of these forms of assets suggests that they can and likely do have important and positive effects. For example, children with access to savings for education held in their name (normally in an RESP or trust-fund) are significantly more likely to attend post-secondary education even when other factors like parental income and education are considered (Barr-Telford, Cartwright, Prasil & Shimmons, 2003). Research in the United Kingdom has found that the presence of even modest financial assets at age 21 has strong and positive effects on well-being at age 33 (Bynner, 2001). This is perhaps because of any one or a combination of hypothesized ways in which financial assets appear to exert an influence. For example, financial assets may provide a foundation for taking productive risks such as education or small-business start-up that, if successful, will significantly improve long-term well-being. Financial assets may also generate even small amounts of income that contribute to resources available for day-to-day expenses. The presence of financial assets may also be psychologically powerful in buffering the impacts of stressful life events such as job loss or marital breakdown, giving owners a greater sense of efficacy and hope for the future, attitudes that may in turn help to shape behaviours towards more proactive, sustainable and productive paths.

RRSPs are almost always at least partially included in asset-tests as liquid assets, even though many owners do incur a not-insignificant penalty for cashing-in these funds to comply with social assistance rules. The most frequent pattern among provinces is that all RRSPs are included in the total liquid assets unless they are held in a Locked-In Retirement Account or Locked-in Retirement Savings Plan. These locked-in plans, under federal and provincial pension rules, cannot under any circumstances be accessed until the beneficiary is at retirement age (often 55). If an applicant for social assistance is able to convert all or part of any RRSP savings they have accumulated into a locked-in account (and this is not always the case), they are committing to a very long-term and inflexible shelter that cannot generally be converted back to an open RRSP even after they exit the social assistance program. Furthermore, the locked-in plans are not eligible for sheltered withdrawals for learning and homeownership.

In Alberta, Nova Scotia and Newfoundland, the rules for RRSPs are slightly different. In Alberta, the first $5,000 of RRSPs are excluded from the asset-test, enabling more recipients with small private retirement savings to preserve their asset. The government of Nova Scotia has acknowledged that an increasing number of employers are offering annual RRSP contributions as part of an overall trend toward defined contribution pensions and away from defined benefit pension plans. In that province, an employer-sponsored RRSP is exempt from the asset-test but only if the beneficiary reasonably expects to return to work at some future date. In Newfoundland, applicants for social assistance are permitted up to $10,000 in RRSPs without penalty but only during the first 90 days of the benefits. After that time, they are required to cash in the RRSP and use the income before benefits will be paid again. The intent of the policy is to avoid stripping persons in short-term need of their long-term savings.

Trust funds across all jurisdictions are normally exempt to a specified limit for persons with disabilities who apply for social assistance. Persons without disabilities in several jurisdictions can have trust funds exempt from asset-limits so long as the capital in the trust fund is locked-in or otherwise not available to the social assistance beneficiary. In BC and Manitoba, however, there is no exemption available to single employable adults and in Alberta trust funds for single employable adults are only exempt when they are held by a bankruptcy trustee as part of the insolvency process. For single parents on social assistance, no exemption is available in BC but a full exemption for locked-in trusts (where a parent is unable to access the capital) is available in 8 provinces. In Manitoba a trust-fund of up to $25,000 for a dependent child is exempt from the asset-test but all withdrawal must be approved by the administrator of the social assistance program. Finally in Alberta, a trust fund for a dependent child is exempt unless the parent is able to use the funds for the maintenance of the child – costs that would normally be eligible for support according to the household budget deficit formula.

RESPs are one key asset that receives very different treatment depending on household composition. RESP tax rules do not limit (except by residency and valid social insurance number) who can be a subscriber and further place few rules (except in family plans) on who can be its beneficiary. For single adults who may be subscribers or beneficiaries, RESPs are fully exempt in 7 out of the 11 jurisdictions included in this study. In the Yukon, PEI, Nova Scotia and New Brunswick no exemption is available to adults with RESPs. When applying for social assistance, adults are expected to liquidate the savings and use them as income. In Newfoundland RESPs belonging to single adults are not included in the asset-test. However, funds are treated as income if they are withdrawn while an owner is receiving welfare benefits. As a result, social assistance benefits will be temporarily reduced.

The introduction of the federal Canada Learning Bond, an incentive to increase the number of low-income families that use RESPs, significantly improved the treatment of these savings during application to social assistance and associated asset-tests. Prior to its introduction, RESP savings, of which a dependent child was the beneficiary, could be subject to asset-tests in at least 8 jurisdictions. Now virtually all[9] RESPs for dependent children of parents who receive social assistance are protected from asset-tests. An important result here is that children see that their savings for education don't get in the way of the immediate needs of their family. What is perhaps most important for future consideration is how, even in the post-CAP period, a federal measure influenced the details of provincial social assistance programs.

In looking at these tax-preferred financial assets across social assistance programs in Canada, two initial conclusions emerge. The first is ownership in a household receiving social assistance. For example, an RESP or trust fund in the hands of one family member can be treated very differently, and with very different impacts on the household as a whole, than in the hands of a different family member. In this way, social assistance rules can put the immediate needs of an entire household in conflict with the medium or longer-term interests of one or more of its members.

Second, federal hands, in the post-CAP era, are not necessarily tied when it comes to exerting a progressive influence on areas of clear provincial jurisdiction, as with the Canada Learning Bond discussed previously. The Universal Child Care Benefit, while not a savings or asset-related measure, provides another example where provinces have all responded to exempt this new federal measure from income-tests in social assistance. Similarly all federal increases to the Child Tax Benefit (though not the National Child Benefit Supplement) have been exempt from income-tests. Together these examples suggest a pattern of willingness on the part of provinces to respond cooperatively to federal measures and to decrease, rather than increase, the resources they consider in means-tests.

[9] We do emphasize this is "virtually all" because the wording of the exemptions in BC and Saskatchewan each refer to RESPs where a social assistance recipient is the beneficiary or subscriber to the plan. It is unclear if this would necessarily protect RESPs that, for example, had been opened by a grandparent for the dependent child of a parent receiving social assistance. However, given the general trend towards exemptions for dependent children, we expect this may be more a function of the wording than the policy intent.

Self-employment And Business Assets

Since the mid 1980's, several stakeholders have advocated for self-employment as one (albeit under-developed) pathway out of poverty and off welfare. For those social assistance participants who receive adequate business planning and training supports, as well as continued income support during the start-up period, self-employment can, for many, be an effective and sustainable route to self-sufficiency.[10] In fact all provinces in Canada now include at least some degree of self-employment programming as part of their active measures available to social assistance recipients. At the federal level, the Self Employment Benefit is included as an active measure under Employment Insurance and is available to all eligible EI recipients across Canada.

It is perhaps less surprising then that business and self-employment assets receive more favourable treatment under social assistance across all jurisdictions. In all provinces, at least basic tools and equipment needed to pursue self-employment (for example in skilled trades, fishing, etc.) are exempt. In addition, several provinces offer exemptions for business capital within certain dollar or time limits. BC allows social assistance recipients who take part in self-employment programming to save and maintain up to $5,000 in business assets. In Quebec, real property related to a business is exempt to within the $90,000 global limit on physical assets and financial capital (such as a grant or start-up loan) is exempt to within the $60,000 global financial assets limit. In Ontario, business assets are exempt to up to $10,000 but the limit can be extended to $15,000 at the discretion of program administrators. Business assets are fully exempt in each Alberta and New Brunswick (for own-account self-employed persons only) but only for 3 and 6 months respectively. Newfoundland also fully exempts assets related to self-employment and business development but where the business generates revenues, these are treated as income and social assistance benefits are reduced accordingly. In Nova Scotia, business assets can be fully exempt but only with a business plan approved by social assistance administrators.

One other factor worth noting is that provincial regulations and policies are, and should be, heavily influenced by the regional economies with which they interact. For example, regulations in the Prairie Provinces make specific and lengthy provisions for farmers related to farming land and equipment. The agricultural sector is also acknowledged in Ontario and New Brunswick, while Newfoundland, Nova Scotia and the Yukon emphasize resource industries such as fishing and forestry.

[10] Internal data from SEDI.

Other Assets

In reviewing social assistance regulations, legislation and administrative manuals, it quickly becomes clear that welfare administrators are among those who have given the greatest and most detailed thought to all the various places, forms and ways that money can be stored. While there are certain obvious forms of wealth that non-experts would likely expect social assistance programs to deal with -- such as housing assets, vehicle and RRSP savings – the degree and detail to which regulations deal with the treatment of other various assets which are perhaps less common or less obvious is striking. For example, lump sum compensation payments made by governments to victims of Hepatitis-C and HIV infection through tainted blood, as well as life insurance and pre-paid funeral plans, lottery winnings, certain tax credits, certain loans and insurance settlements, are all variously listed and discussed as "assets" under social assistance regulations across jurisdictions.

The variations are too great to offer a useful comparison and interested readers may wish to consult the data directly at Appendix 1. Instead we offer the following examples as illustrative cases:

In Ontario, a single parent with a dependent child who has employment earnings will no longer see their benefits penalized when the child saves their earnings. In PEI, the same parent would see their benefits reduced as the child's income would be expected to contribute towards the basic needs of the household.

In Manitoba, a single parent receiving the Canada Child Tax Benefit, the Universal Child Care Benefit and the GST credit would not see these income supplements subject to the asset test so long as they are expended within a reasonable time, normally considered to be 4 months but up to 12 months. If these credits are saved for longer than one year, they are considered liquid assets subject to the asset test. In Newfoundland these sources of income are exempt under means-tests and, if saved, are exempt from the asset test as well.

In Quebec and Newfoundland, all life insurance and pre-paid funeral plans are exempt from the asset test, but in PEI the same social assistance recipient has no similar exemption, while in Ontario only life insurance with no cash surrender value is exempt and administrators are left to decide pre-paid funeral plans on a case-by-case basis.

In all jurisdictions, compensation payments for Hepatitis-C infection, Indian Residential Schools and other extraordinary payments are generally exempt from asset tests. However, in several provinces, where the payments include amounts intended as income replacement, these are included in the asset test.

In Alberta, a lump sum tax refund is treated as an asset and is subject to the asset test. The same tax refund to the same social assistance recipient in BC or Nova Scotia would be treated as income and subject to the income test instead.

Asset-building Exemptions

Since 2001, several provinces have moved to add certain exemptions for asset-building or "asset development" accounts as part of their welfare regulations. These have all been introduced following the launch in 2000 of the federally-funded *learn*$ave project, a national demonstration of matched savings accounts to promote adult learning among low-income Canadians, including a sub-group of Canadians receiving social assistance. The project includes some financial education and offers participants a matched savings account where every dollar they deposit earns $3 towards an eligible learning activity such as education, training or small business development. The matching portion never goes directly into the accounts so isn't accessible to accountholders, instead it is sent directly to the education provider when the accountholder makes an eligible application to withdraw their funds. From the standpoint of current and potential social assistance recipients, the Individual Development Account (IDA) model is risky in that both their own savings as well as the matching credits they earn could be considered as assets and subject to asset-testing.

As part of the start-up for *learn*$ave, SEDI and its partnering agencies in 10 communities, sought and received provincial ministerial exemptions in BC, Alberta, Manitoba and Nova Scotia to give certainty to participating social assistance recipients that their income benefits would not be penalized as a result of participating in this program. In Ontario, Quebec and New Brunswick, the project moved ahead with provisions to ensure that at least the matching portion of the savings would not be subject to provincial asset tests.

Since that time, and as other IDA projects have followed *learn*$ave, several provinces have now added specific exemptions for asset-building to their social assistance regulations, ensuring that exemptions for individual projects are normally available. Currently BC, Alberta, Manitoba, Quebec, Nova Scotia and Saskatchewan all have an exemption for asset-building matched savings accounts integrated into their social assistance rules. A clause in the Yukon's regulations seems to suggest room for an asset-building approach but it has not yet been tested in practice.[11]

BC was the first province to introduce an amendment regarding asset-building. The section[12] in its regulations dealing with "asset development accounts" is quite lengthy, providing a detailed definition of the eligible accounts and other conditions attached to the exemption. The definition of the accounts themselves is noteworthy since it defines them in terms of:

> *"A saving program that is [..] designed to assist individuals to achieve savings for the purposes of future self-sufficiency or future enhanced self-sufficiency" (section 12.1.ii).*

This is, in our review, the first example of a formal and statutory recognition on the part of any provincial welfare administration that savings and assets can be a route out of poverty and dependence on social assistance. The BC regulations also require Ministerial approval for each account – something an asset-building program coordinator outside government and not an individual participant would normally be

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

[12] B.C. Reg. 263/2002, Part 2, sec. 12.

expected to obtain. The exemption only applies so long as an accountholder receiving social assistance continues to participate in the asset-building program and uses all the account funds for purposes included in the program and approved by the Minister.

Typically, IDA programs limit the use of the account funds (including the personal deposits and the matching portion) to certain eligible uses such as housing, education and small business development, however significant variations occur across programs. In this way the BC regulations can respond to individual asset-building program variations while preserving the prerogative of the government to target social assistance to those it deems in need and without other reasonable resources.

Shortly following the example of BC, Nova Scotia introduced an amendment to its regulations as part of a larger revision to its entire social assistance legislative framework. IDAs had already been acknowledged by the province to fit within a broad category of pilot initiatives designed to test new active measures to reduce social assistance dependency and promote exits. In that province the provincial regulations are similar to BC's in that they exempt savings made by

> *"an applicant or recipient who is, or whose spouse is, a participant in a savings program that is designed to promote self-sufficiency and is approved by the Minister."*[13]

The Nova Scotia provisions are far less detailed on the participation and use of the account funds. However, the province's policy manual does add a definition of IDAs as follows:

> *"An Individual Development Account (IDA) is a restrictive savings account held by a low-income person whose regular savings are matched by contributions from government or other sources. The matched contributions can only be put towards specific uses." (Chapter 5, sec. 15).*

Following BC and Nova Scotia, Manitoba and Alberta each moved to exempt these accounts. In Manitoba the wording is very similar to BC's in that the exemption applies to:

> *"(xiv) asset building accounts, such as Registered Education Savings Plans, individual development accounts and accounts under similar programs approved by the Minister,*
>
> *(xv) funds withdrawn from an asset building account referred to in subclause (xiv), if those funds are immediately applied towards the stated purpose of the asset building account" (Subclause 8.1.a)*

In some senses the Manitoba wording is so far the most flexible in that it makes clear that asset-building can take the form of more than just IDA programs. At the same time, they still preserve the role of the Minister in targeting assistance and requiring that the exemption apply only when the account funds are used for the stated purpose, which will have already received Ministerial approval.

In Alberta, the exemption applies to:

> *"money that has been accumulated by a member of the household unit under the learn$ave savings program or under another savings program approved by the Minister;" (Part 2, Sec. 5.2(o.1))*

For parents in Alberta, another very positive and progressive asset-building measure is in place

[13] Ibid.

that doesn't just exempt assets, it actually provides a financial incentive to build them. Alberta has a universal grant for the education savings of all Alberta children. The program piggy-backs onto the existing Canada Education Savings Grant and Canada Learning Bond by requiring that parents first open an eligible RESP. A fairly recent measure in the province's social assistance program offers eligible parents up to $200 towards the costs (such as opening deposits, fees for obtaining certain documents required by RESP providers, etc…) of opening an RESP, recognizing that on very low-incomes these are not insignificant barriers to participating in education savings programs. In this way the province is providing a lump sum to families so they can then receive additional lump sums from the federal and provincial government, and this is before parents are asked to contribute any of their own funds.

Quebec, like Nova Scotia, included a provision dealing with asset-building as part of a larger reform of social assistance legislation in the province. In that province, the reforms were intended to follow from a widely-supported provincial law to tackle poverty in Quebec. Quebec is the only jurisdiction to reference the ownership of assets as an avenue towards self-sufficiency in the text of its legislation and not just in associated regulations. Section 60 of the *Individual and Family Assistance Act* states:

> *"In the cases and under the conditions determined by regulation, an independent adult or a family may own certain property or liquid assets in order to facilitate actions enabling them to regain economic self-sufficiency. (2005, c. 15, s. 60.)"*

The regulations associated with the Act were published in May 2007 and include exemptions for "individual savings plans[s]" to be exempt from the provincial asset test provided that:

- the accountholder follows a savings plan approved by the Ministry and makes deposits into a savings account with a financial institution in Canada;
- the account funds are only to be used by the adult owner;
- the account funds are only to be used for eligible education and training, education savings for a dependent child, employment-related tools or equipment, small-business or self-employment start-up, home purchase or repair or to purchase a vehicle;
- the accountholder notifies the program administrator in writing no later than one month after making the first deposit; and
- the maximum IDA exemption is $5,000 and is within the $60,000 global limit on all liquid assets.

It does not appear then that in Quebec, social assistance recipients necessarily have to be enrolled in an IDA program operated by a third party. It appears as though they could open a savings account with a financial institution and present a savings plan directly to the Ministry while still meeting the criteria for the exemption, although almost certainly missing the matched contributions incentive of IDA programs.

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

Liquid Asset Limits

After determining which and how much of each type of asset are to be included in the asset test, all provinces finally compare the balance of a household's assets (their cash value) to a limit based on household size and type. There is a fair amount of variation across provinces in the asset limits and quite a bit within a province between household types. In the following table, we summarize the current liquid asset limits for single adults and single parents with one dependent child, again who make up roughly two thirds of all social assistance beneficiaries in Canada.

In several jurisdictions the asset limit changes, even for the same household type, from the time that they apply for social assistance to the time they begin receiving income benefits. We note again that households with another adult member, more dependent children or where household members (particularly the main income earner) have a disability will have higher asset levels. Therefore the numbers below are the lowest range of asset limits in all jurisdictions but nevertheless illustrate the real limits that apply to the large majority of social assistance recipients.

Table 2: Liquid Asset Limits

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

Because three jurisdictions (BC, Manitoba and Quebec) use different limits for welfare applicants and recipients of social assistance, we report means for the limits at application and also while on benefits in each of the jurisdictions. The mean while on benefits is roughly 20% higher although in those provinces where two separate tests are in place, the difference between the two is significantly larger. Given that none of these provinces have mechanisms in place that can assist all interested social assistance recipients to build new assets, it does seem strange to expect that households might generally see an increase in their liquid assets after entering into the social assistance system. Two separate asset levels are more likely a reflection of a compromise solution to offer more generous asset limits to recipients while at the same time keeping a limit on potential program costs by continuing to limit program entry.

Comparing The Jurisdictions

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

Table 4: Asset limits as a percentage of the mean

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

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

From that initial pattern on asset limits we can begin to build a comparison of social assistance programs along the following characteristics, from an asset-based policy perspective:

- Progressiveness: Are asset limits relatively low, moderate or high? Does the province have relatively more generous exemptions from its asset test?
- Innovation: Does the province facilitate innovation by removing barriers through exemptions to allow IDA and other asset-building programs?
- Transparency: Are the rules governing assets relatively simple and easy to understand? Where differences in the rules exist between household types, sizes and between asset types and levels, are there a clear and reasonable explanation?

The following table presents our comparative analysis, based on the current survey and using a starting point that favours asset-based policy. We acknowledge this is highly subjective and open to debate. In fact our purpose is to offer it as a starting point for future discussion and dialogue.

Table 5: Summary of comparative analysis of social assistance systems across Canada

Jurisdiction	**Progressiveness**		**Innovation**	**Transparency**
	Asset limit	*Exemptions*	*Asset-building*	
BC	High	Moderate	High	Low
Alberta	Low	Low	High	Low
Saskatchewan	High	Moderate	Moderate	Low
Manitoba	Low	Moderate	High	Low
Ontario	Moderate	Low	Low	Low
Quebec	High	High	High	High
New Brunswick	Moderate	Moderate	Low	Low
Nova Scotia	Moderate	Low	High	Low
PEI	Low	Low	Low	Low
NFLD	Moderate	High	Low	High
Yukon	Moderate	Moderate	Low	Low

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

Since the 1990's, the dynamics of poverty have changed such that it is more often a transitional experience, where households enter and exit, often because of a change in employment or household composition (normally moving from a two to single-earner household) (MacKernan & Ratcliffe, 2002). In fact, for 70% of those Canadians who leave poverty in any given year, the jump in income is dramatic, suggesting that most transitions are large when they happen, rather than shifts at the margin (Finnie, Irvine & Sceviour, 2004). But for those individuals and households who, during a spell of poverty, turn to welfare income support, the pattern of entry and exit from poverty can be fundamentally altered. Exit becomes less likely and risk of re-entry into poverty increases, particularly if one spell of welfare dependence strips away years' worth of accumulated resources.

By best estimates there are currently[14], in Canada, 1.7 million Canadians who depend on provincial social assistance for income (National Council of Welfare, 2006). Among these, nearly half a million are children. As a proportion of the overall Canadian population, welfare dependency in Canada is fairly small - less than 5% of the population. Further, the proportion has been steadily declining since 1995, when 3.1 million Canadians depended on social assistance. Today the number stands at almost half.

The decline should be understood in a context of significant welfare reform over the 1990's that saw both benefit and eligibility levels reduced (Frenette & Picot 2003). In other words, there are not necessarily fewer people in Canada receiving welfare today because welfare has been effective in promoting self-sufficiency. A study of BC welfare dynamics noted that most spells of dependence were short but returns into the program are very high and in fact most recipients will return to welfare even after leaving, suggesting it is not adequately meeting the policy objective of promoting sustainable self-sufficiency (Barrett & Cragg 1998). In fact, the only major study of welfare exit in Canada (Frenette & Picot, 2003) found that 91% of welfare recipients were still dependent on social assistance one year following the reference year. In other words, only 9% of welfare recipients could be considered as "welfare leavers". The same study found that economic outcomes among these leavers were varied: 6 in 10 families saw their after-tax incomes rise after leaving welfare but just under a third of families saw their after-tax incomes fall after leaving welfare. Fifty-eight percent of families who left welfare had incomes that rose above the low income cut-off but among the more than 40% of families who remained in low-income, the depth of their poverty increased substantially. While on welfare their incomes had been 38% below the low-income cut-off but after welfare their incomes were 52% below the cut-off. Looking at the distribution of disposable family income after exit, the top third saw their incomes double or even quadruple 2 years after leaving the welfare system. But in that same length of time, the bottom third lost 33% to 90% of their disposable income. In other words, outcomes for welfare leavers seem to be highly polarized – those who do well do quite well but those who do poorly do

[14] Data are current to March, 2005. Caseload statistics collected for this project and discussed elsewhere in this paper may differ slightly as provinces generally differentiate between a number of "cases" on welfare rolls and the number of "beneficiaries" or "recipients" where a single case may often include several beneficiaries who depend on the same income support.

worse than when on welfare.

It's also important to note that income support isn't the only resource made available to recipients of social assistance, resources they may lose when they exit the welfare system. In Ontario, for example, social assistance recipients are automatically eligible for the province's Ontario Drug Benefit. Low-income families with high drug costs may be eligible for some assistance through the Trillium Drug Plan, but coverage is not guaranteed and deductible amounts and fees are higher. Housing assistance, dental and eye care, funeral coverage, childcare, addictions counselling, employment and skills training, literacy programs and financial incentives for work or education are among the kinds of resources made available in most if not all social assistance regimes across Canada. For the working poor, access to these services, benefits and incentives can be severely more limited, contributing to what is widely-referred to as the "welfare wall" and creating an unintended barrier to welfare exit.

Studies that have so far examined the factors that best predict welfare exit have found, as in the US, that marriage plays a very important role. This is perhaps not surprising given the over-representation of single parent, usually single mother, households among those who rely on social assistance. In fact, the odds of relying on social assistance are 1 in 2 for female lone parents in Canada (Finnie et al., 2004). The addition of a second income, plus a co-parent who can share the time and workload of caring for dependent children, as well as increased odds of household access to the non-wage benefits of work (such as drug and dental insurance plans), may be enough for many of these families to become self-sufficient.

The introduction of the Canada Child Benefit system may also play an important role in understanding welfare exit trends. Launched in 1998, the national system provides income-tested benefits (paid monthly) to families with children. Interestingly welfare exit rates between 1996 and 1999 increased only for households with children (Finnie, Irvine & Sceviour, 2005).

Welfare exit also appears to be more likely when a recipient lives in a smaller community, when family size is smaller and when a household has been on social assistance for only a short time – after a few years of dependence, the likelihood of exit is very slim (Finnie et al., 2004). Interestingly, a stronger job market does not generally improve the odds of exit for welfare recipients – a falling unemployment rate was only very weakly associated with increases in welfare exits and only among single adults and couples with children. In fact other studies have found that employment is not necessarily a sure route to welfare exit (Mueser & King, 2001).

So what, when it comes to assets, is the relationship between ownership and welfare, if any? There are at least four possible, and all reasonable, hypotheses related to the relationship between welfare dynamics and adjustments to asset limits:

1. Increases in asset limits will increase program entry but not exit because the eligible population will have expanded while at the same time the capacity of welfare recipients to save and build new assets will not have increased.

2. Increases in asset limits will increase both program entry and exit because the eligible population will have expanded and welfare recipients will be better able to develop and retain greater resources to mobilize for program exit.

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

4. Increases in asset limits will decrease program entry and increase exit because those in working poverty will be less likely to “dis-save” to meet asset limits and welfare recipients will be better able to develop and retain greater resources to mobilize for program exit.

Hypotheses that predict increases in entry rest on an assumption that asset tests contribute to better program targeting and that more working poor might otherwise turn to welfare if eligibility restrictions were relaxed. When the government of Ontario recently changed its eligibility criteria for childcare subsidies from an asset test and income test to an income test alone, it predicted that some new households would now qualify but so too some households currently receiving the subsidy would no longer be eligible under the new rules.[15] Conversely, hypotheses that predict decreases in entry rest on an assumption that asset tests actually exert pressure on non-welfare receiving households to not build assets because they hover close to a threshold of dependency on welfare and expect to apply for means tested programs at some future point. Evidence on this “dis-saving” function is discussed later in this paper.

Hypotheses that predict increases in exit rest on a belief in the capacity and interest of welfare recipients to save and develop new assets and in the power of certain assets to promote well-being and security. Conversely, hypotheses that predict decreases in welfare exit rest on one or more assumptions that welfare recipients do not have sufficient disposable income or other resources to save and acquire new assets, or that the levels at which new assets can be developed are simply too low to be effective, or that assets do not in fact promote well-being or enhanced security. This evidence is discussed in a later section of this paper.

So far no studies in Canada have examined the relationship, if any, between welfare dynamics and asset rules or asset-holding among social assistance recipients. However, some information is available from evaluations of US welfare reforms over the past 15 years, changes which Canadian jurisdictions have frequently paralleled.

Overall, the findings are very mixed and there is no clear evidence that adjusting asset limits will directly or inversely impact welfare program entrance or exit. Mach (1999), for example, used statistical modeling to predict the impact on program exit rates after asset limits were made more liberal under the US Temporary Assistance for Needy Families. The study found that exit rates decrease, though modestly so, as asset test levels increase. Russo (2003), again using statistical models, estimated the resulting increase in uptake on the US food stamp program if the asset limit were not just increased but eliminated altogether. A 26% increase in program eligibility was predicted as well as a 25% uptake among newly eligible households. This would result in a predicted 16% increase in the caseload among non-elderly households and a larger increase among elderly households (because they are, according to life-cycle predictions of asset accumulation, more likely

[15] For a discussion, see for example “Impact of Income Testing”, staff report for information only, City of Toronto, January 2007, available online at http://www.toronto.ca/children/pdf/info_incometesting_revised_0107.pdf

than non-elderly households to have higher assets but lower incomes). Bansak and Raphael (2004) predict a similar increase of 17% in the US Medicaid caseload if the asset limit were eliminated. It is important to note that these two latter studies focused on the impact of eliminating asset tests, rather than impacts of increases. They also modeled programs that deliver benefits other than income-support where factors contributing to exit, in particular, may be very different than for income assistance welfare programs. Nevertheless, it is striking that the models predicted relatively low entrance increases even with a full elimination of the asset test.

An evaluation of North Carolina's Work First welfare program found that vehicle ownership (even of vehicles with low market value) was associated with program exit, largely because it helped participants overcome a barrier to employment – transportation to a place of work (Richardson, Shoenfeld & LaFever 2002). When compared to the standard Assistance for Families with Dependent Children, Work First had both more generous asset limits and significantly lower rates of re-entry for those participants who left the program, unfortunately no analysis was done to isolate the impact of the asset limits alone (Richardson & Jain, 2000).

Human capital assets matter too. A national study in the US of the role of post-secondary education on welfare re-entry, found that completing a degree significantly lowered the risk of returning to welfare or experiencing poverty after leaving welfare, compared with not attending post-secondary education or attending but not completing a post-secondary program (London, 2004).

For the purposes of stimulating further research and discussion, we present the following data table to compare our own analysis of asset limits and existing data on provincial rates of entry and exit. There are several limitations in this data. First, although the entry and exit data are from an article published in 2004, they actually reflect 2000 provincial data, the most recent that could be found for this study. The analysis of the comparative levels of progressiveness are based on current asset regulations and reflect several and significant changes in many provinces since 2000. Second, our own comparative analysis has not been replicated anywhere and we have no way to test its reliability or validity.

Despite the limitations, we find these data compelling enough to present here and strongly recommend future and more detailed research before meaningful conclusions can be reached.

Table 6: Relationship between progressiveness in asset tests, welfare entry and welfare exit in Canadian provinces (Finnie, Ross & Sceviour, 2004b).

Jurisdiction	Asset limit	Exemptions	Entry rate	Exit rate
BC	High	Moderate	1.7	13.7
Alberta	Moderate	Low	1.4	15
Saskatchewan	High	Moderate	1.9	12.2
Manitoba	Moderate	Moderate	1.5	15.3
Ontario	Moderate	Low	1.4	13.8
Quebec	High	High	2.4	9.9
New Brunswick	Moderate	Moderate	2.7	13
Nova Scotia	Moderate	Low	2	21.5
PEI	Extremely Low	Low	1.3	15.9
NFLD	Moderate	High	3.9	11.8
Yukon	Moderate	Moderate	NA	NA

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

To date, the only evaluations of the capacity of households on social assistance to accumulate savings and assets have come from IDA where welfare-poor participants make up at least part of the sample.

Evidence from the American Dream Demonstration (ADD) that shows those receiving social assistance are just as likely to become successful savers as those not on social assistance, if they are given access to matching funds (Sherraden, 2002). Further, the researchers find that social assistance recipients save a greater proportion of their income than low-income savers that do not receive social assistance. Another analysis of the same data finds that receiving social assistance is not related to the frequency of savings (Zhan, Sherraden & Schreiner, 2002). It would be reasonable to assume that social assistance recipients cannot save *as much* as those with higher incomes, but it is clear that they can save.

Here we briefly review the best available Canadian information from the *learn*$ave project.

As mentioned earlier, *learn*$ave is a national Canadian demonstration of IDAs for adult learning. The main evaluation is being conducted on a sample of 3,600 low-income working participants randomly assigned to one of three program groups. The evaluation includes implementation research and longitudinal impact research using rigorous qualitative and quantitative methods. In the present study, we use data from the project Management Information System (MIS) to isolate the data for the sub-population of participants who were receiving social assistance at the time they applied to the project. These include participants who are geographically located in the three random assignment sites, but are not included in the experimental study, as well as participants in seven other project sites where case study methods are being used for evaluation.

As already discussed in this paper, full waivers were obtained in most provinces to exempt from social assistance needs tests both participants' funds and the $3:$1 matching savings. In Ontario, Quebec and New Brunswick, the matching portion was exempt; however the participants' own savings were subject to the local needs test. Participants who had saved the maximum for their applicable needs test, but not the project maximum, were required to break-up their savings pattern into phases of saving and cashing-out, to avoid penalties to their income benefits.

The following table summarizes the project parameters including the target population and key program elements:

Table 7: Summary of *learn*$ave project parameters

Parameter	Description	Notes
Target population	Adults aged 21 and older (or 18-20 and meeting the definition of mature student) living in households below 120% of the applicable Low-Income Cut-Off. Participants may not have more than CAD$3,000 in liquid financial assets or such assets greater than 10% of their annual income. Participants may not be registered in post-secondary education full-time and must have a valid social insurance number. Participants must live within the catchment areas of one of the 10 project sites.	*Many of the selection criteria were established before recruitment began with a primary focus on limiting potential windfall effects and maximizing the potential for the project to demonstrate impact. The result is perhaps a more selected and limited group of participants than might be representative of the whole population.*
Eligible uses	Microenterprise development Post-secondary education Skills training Supports to education or training such as childcare, the purchase of a computer, books and supplies	*Refers to the physical or human capital assets that may be purchased with the financial capital accrued in the project. Accountholders may use funds for more than one eligible use. The list of eligible uses is significantly more limited in the learn$ave project than in other IDA projects. This is a reflection of the funder's preference to use the project to test an approach to the co-financing of lifelong learning.*
Matching rate	Varies from site to site from $2:$1 to $5:$1, but the most frequent is $3:$1 in all experimental sites	*Refers to the rate at which eligible deposits into the IDA are credited with matching contributions towards eligible asset purchases.*
Maximum savings	Depends on the match rate. At $3:$1, maximum personal savings are CAD$1,500. At $5:$1, maximum personal savings are	*Refers to the total personal savings deposited into the IDA that will be eligible to be matched. Savings above*

	CAD$900	*this amount will not be matched. Variations are due to a fixed per capita funding formula of $4,500 for the matching contributions.*
Maximum savings period	2 -3 years, but generally 3 years	*Refers to the total amount of time during which deposits into the IDA account may accumulate matching credits.*
Account structure	Generally interest-bearing accounts at participating financial institutions. Account ownership rests with the individual participant. Individual deposits into the account can be withdrawn at any time but the matching credit on that portion will be forfeited.	*Accounts were established through agreements between SEDI and RBC Royal Bank or local delivery agencies and local participating financial institutions. Matching contributions are paid on the deposits only and not any interest earned. This is comparable to most IDA programs in the US.*
Other services	Made available for participants with the exception of certain groups in the experimental sites. Financial literacy training on general issues, such as banking and budgeting is strongly encouraged. Curricula vary slightly among sites. Duration of training is roughly 15 hours. Case management services are also made available but vary across sites.	*Financial literacy training on specific asset purchases is widely viewed as best practice in the IDA field in the US. As in other IDA programs, limited funding for the delivery costs may make the implementation more challenging.*

In total, *learn*$ave recruited 4,827 participants, slightly under its target of 4,875 (Kingwall, Dowie, Holler, & Vincent 2005). Among the final sample, 465 participants were in receipt of social assistance at the time they applied and were accepted into the project. These participants are spread across 10 project sites, however in the experimental sites results are being pooled by evaluators to form an independent case study. As compared to other eligible participants, those receiving social assistance proved significantly easier to recruit to the project. Many sites reported that were it not for the limits on recruitment of social assistance recipients, they may have met overall recruitment targets earlier and with less effort.

Table 8: *learn*$ave sample

	Total sample	**Experimental sites**	**Social assistance case study**	**Case study sites**	**Social assistance recipients within case study sites**
Target sample	4,875	3600	225	1,050	no more than 25% of local final sample
Actual sample	4,827	3601	225	1,001	240

Analysis of the 225 participants included in the case study on social assistance recipients suggest that, compared with the experimental (working poor) sample, they are more likely to be women (70% vs. 52%) and to live alone (53% vs. 46%). These participants are less likely to be foreign-born (12% vs. 50%) or to have post-secondary education (25% vs. 50%). Household incomes among the social assistance recipients were lower at $9,958 compared to the experimental group at $13,943. Unfortunately no comparisons are possible on the assets, debt and net worth of the two samples because of differences in the data collection and reporting methods.

The *learn*$ave project offered, but did not guarantee, savings accounts to participants accepted into the project. Accounts were only very slightly altered from regular market products at the three participating financial institutions: RBC Royal Bank, Caisse d'économie Desjardins (Montreal only) and Assinniboine Credit Union (Winnipeg only). Therefore, participants were expected to, on their own accord, open a new savings account and meet the standard requirements for ID and credit history used by financial institutions in Canada. This is where attrition begins to take effect in the project. Of the 465 participants on social assistance, 372 (80%) opened *learn*$ave accounts according to the current MIS data. In May 2004, the evaluation team published an early report on the project and noted that 72% of the 225 social assistance case study sample had opened accounts compared with 89% in the experimental sample (Kingwall, Dowie & Holler, 2004). The difference in account openings is small but not unimportant. Without an account, none of the financial benefits offered through the project can be accessed by participants. Given that participants were expected to use a mainstream market mechanism, it is perhaps less surprising that fewer social assistance recipients successfully opened their *learn*$ave savings account – most likely because they are at greater risk of having a poor credit history or some other impediment to a relationship with a mainstream financial institution.

Once an account is opened, *learn*$ave participants are asked to make deposits of $10 or more in at least 12 out of 36 months before withdrawing any funds for an eligible use and receiving matched funds. The early evaluation report (Kingwell et al., 2004) found that the social assistance case study sample were slightly less likely to be regular savers as their accounts grew by the minimum $10 in 53% of project months versus 69% among the experimental sample. The same study found that average monthly deposits among the social assistance case study sample was significantly lower at $31 per month compared with $66 per month among the experimental sample. However, the difference decreases when considering the average household incomes of the two groups:

Table 9: Comparisons of saving among *learn*$ave sample groups

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

Returning again to the MIS data, the following table presents the savings data for all of the 465 *learn*$ave participants who were receiving social assistance at the time they applied to the project.

Table 10: Summary of savings data for all social assistance participants in *learn*$ave

Total of personal savings to date (Spring 2007)	$258,436.59
Average personal savings	$694.72
Total matched credits earned to date (Spring 2007)	$683,132.88
Total matched credits withdrawn to date (Spring 2007)	$546,643.13
Average matched credits withdrawn to date (Spring 2007) among participants with matched withdrawal	$3,141.63

What seems clear from the IDA data is that social assistance recipients can and do save, when provided the incentives and supports to do so. Further research is needed to better understand the factors that underlie this finding. We do not yet know enough about how social assistance recipients are making the deposits into their *learn*$ave accounts and whether the source of funds comes from already very limited social assistance income benefits, occasional employment income, or certain sums received from other government benefits (such as quarterly GST refundable tax credits or monthly child benefits), gifts or even lottery and gaming winnings. It is noteworthy though that, although the dollar amounts of average monthly savings drops by more than half from the IDA participants off social assistance to those on social assistance, the proportion of monthly income saved shows a much smaller difference. It is also not clear what level of financial incentive is required to entice social assistance recipients to save and whether matched savings, kick-start grants or other instruments are more effective and efficient to build assets. Finally not enough is known about the factors behind the relatively lower proportion of social assistance participants who open accounts and the program supports or changes that might address this gap.

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

A Final Way To Think About Impact: Could Needs-tests Dissuade Vulnerable Workers From Saving?

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

An early paper by Danziger, Haverman and Plotnick (1981) notes that traditional economic theory provides no clear prediction of the impact on private savings of income transfers, including but not limited to means-tested benefits. Arguments are made in both directions and, even where savings might be expected to be reduced, the same analysts argue that these decreases are actually an appropriate correction due to market distortions. By their estimates (based on review of aggregate and micro-data studies), income transfer programs have reduced private savings by 0-20%, with the strongest estimate erring at the lower end of range.

Hubbard, Skinner and Zeldes (1995) propose that asset limits impact saving in two ways:

1. First, and most obviously, the assets of those who do access means tested benefits are spent down, and

2. Second, households may save less because they believe that public assistance will be adequate and accessible in cases of need, diminishing their self-interest in precautionary savings.

Hurst and Ziliak (2001) find that after the welfare reform in the United States in 1996 (which was often accompanied by less restrictive asset limits by state governments), low-income savers were only able to save small amounts (upwards of $140 over three years). The low-income savers they examined were not, however, part of any matching fund program, and did not have any access to the institutional supports needed for asset building.

In his review of Hurst and Ziliak's research, Orszag (2001) notes that similar research has found that needs tests do have a negative impact on saving among low-income earners. Orszag finds that needs tests of Assistance for Families with Dependent Children (AFDC), Medicaid and Social Security have all been linked to lower household savings rates by various researchers.

In her analysis of savings rates and AFDC needs tests, Powers (1998) finds that single mothers living in states that increased their AFDC asset limit also increased their assets. Her economic model finds that for every dollar increase in asset limits, there is a corresponding 25-cent increase in savings rates. This finding is not conclusive, however, because Powers did not directly test AFDC dependence against asset-building. She also assumed that single mothers with lower education were likely to include AFDC policies in their budgetary decision making.

In a study of needs tests and Medicaid, Gruber and Yelowitz (1999) hypothesized that the social safety net of Medicare had a negative effect on precautionary savings. They find that being eligible for Medicaid assistance decreases precautionary savings and that Medicaid limits reduced wealth by 16% among household lead by a working-age adult. But more importantly, they find this negative effect *more than doubles* if coupled with an asset limit. This suggests a pragmatic approach to low-income earners' savings decisions; if means tests prevent them from receiving benefits, households simply do not accumulate means.

Precautionary saving often seems to be in direct conflict with asset limits. In their study of the AFDC, Hubbard, Skinner and Zeldes found that asset limits did indeed have a negative impact on savings. They conclude that recipients of social assistance don't save in part because they have shorter budget timelines and also in part because the asset limits have a real impact on their immediate income.

In more recent research directly with social assistance participants (O'Brien, 2006), it appears that asset limits have important psychological and behavioural impacts even after they have been eliminated. Interviews with welfare recipients in Maryland and Virginia found that while Virginia has no asset test, respondents in that state shared a fear of having even modest savings discovered by welfare administrators. Respondents in both states included several who were concerned that even having a savings account could be grounds for welfare benefits to be penalized and felt compelled to lie to administrators about existing accounts or to use alternative financial institutions (such as payday lenders and cheque cashing retail outlets) for their financial transactions. That said, respondents shared an interest in saving and had fairly developed plans for savings and building productive assets such as a vehicle, homeownership that they hoped could assist them in climbing out of poverty and prevent the future of welfare dependency.

The literature discussed above isn't conclusive but it does suggest that asset limits can and do discourage households from saving. This seems to be the case among households both outside welfare and on welfare programs where the asset limit has been eliminated. If future research validates this trend, then we may find that increases in asset limits actually decrease program entry. More low-income households would have an incentive to build and hang-on to assets, in the longer term cushioning them from income shocks that might otherwise result in applying for social assistance. The longer-term impacts of decreasing assets also need to be considered. As Neuberger, Greenstein, and Sweeney (2005) remark, reducing assets during working life is ultimately inefficient from the perspective of governments because it results in greater dependence on public benefits during retirement years. Again, this is an area for future research and discussion.

Interim Conclusions: Ideas For Consideration

Much of the current foundation of our welfare system is nearly two centuries old and likely outdated

Asset tests may have had a stronger rationale in a time and economy where the distribution of wealth, and the largest form of wealth in particular – land ownership – was highly concentrated among a very few very wealthy individuals when systems of financial reporting and verification relied as much on personal relationships and credibility as ink and paper. In those circumstances, to ensure very poorly (and privately) funded relief was truly targeted to the most needy, it likely made a good deal of sense to preclude land owners and to give a great deal of discretion to front-line workers to make decisions on a case-by-case basis.

However, the post-war period saw a significant redistribution of wealth, broadening access to ownership and building a broad middle-class based on both income and ownership. It also saw government, and not private bodies, assume responsibility for the funding and delivery of social assistance programs across Canada. Much has changed again since the post-war period and yet, social assistance systems continue to hold on to age-old elements that may or may not be best serving the needs of the population or even supporting the current policy objectives of governments.

Federal governments, although no longer directly involved, can and do have a progressive influence in provincial social assistance administration

The CAP very directly and intentionally shaped provincial social assistance programs and through federal-provincial cost sharing arrangements put in place a floor for asset limits. This floor quickly dropped when the program was cancelled. The era of federal spending power as a tool to interfere in provincial jurisdiction is over, and with good reason. However the federal government still has a demonstrable capacity to influence provincial decisions over social assistance. As discussed earlier, it was only after the federal government introduced the Canada Learning Bond that all jurisdictions moved to ensure that children's RESPs were protected from asset tests. The Universal Child Care Benefit is the first on-going federal benefit to be exempt from social assistance claw-backs since the National Child Benefit (NCB) reforms of the late 1990's, which required significant and lengthy federal-provincial negotiations and agreements. Federal increases in the NCB have also been exempt from claw-backs, suggesting a new but growing pattern of federal influence through an avenue of direct transfers to individuals. Provinces are reluctant to regressively penalize social assistance recipients for federal benefits. In other words, to borrow an oft-quoted line from Hollywood, if the federal government will build it, provincial social assistance programs will come.

From the perspective of citizens, asset-tests in Canada are an idiosyncratic patch-work

Long-term social assistance recipients would do well to shop around in Canada and move as their family circumstances and financial circumstances change. Expecting to start a family? Alberta may be attractive for its cash incentive for the post-secondary education of children born in the province. Expecting to inherit your uncle's stamp collection? It may be time to move out of Ontario if you want to hang onto it. Interested in putting some money aside for your education or to start a small business? Quebec may be your best bet. Are you a single adult without a disability about to apply for welfare? Better to try in Saskatchewan. The tongue-in-cheek description notwithstanding, it's clear that different welfare systems are benefiting and penalizing different groups of recipients across the country and without a particularly reasonable rationale for doing so.

Provincial governments can and should develop and maintain social assistance and other public programs that best suit the needs and realities of their communities. However, Canadian citizens also expect a certain degree of comparability in the way that households are treated within communities and across provinces. Individual provinces could also benefit from more and better opportunities to learn from each others experience and share best practices, more likely where there is a similar foundation between jurisdictions.

Within each province, much headway could be made to make asset limits far more simple and transparent. In fact, this principle likely applies across a range of social assistance program elements. While many of the policies – enabling case workers and administrators to exercise discretion on a case-by-case basis, varying rules by asset type or by household type – are intended to ensure greater flexibility and sensitivity within asset rules, they also decrease transparency. The effect is that citizens have a more difficult time assessing which rules apply to their specific circumstance and are more likely, as found in the interviews with Maryland and Virginia recipients noted above, to hold ill-informed beliefs that may shape their behaviour.

Asset tests appear to be having un-intended consequences on social assistance policy

The data is not conclusive but it is nonetheless compelling. In addition to targeting limited assistance funds and keeping caps on program expenditures, it appears as though asset tests are also having consequences not intended by, and actually at odds with, aims of policymakers: in limiting program exits where assets play a role; suppressing the wealth of the working poor; precluding productive savings and asset development among interested recipients; and, increasing risks for future dependence. Significantly more research is needed to test each of these proposed effects and to measure their size and scope. For example, it may be that the capacity of social assistance recipients to save is limited more by incomes that are insufficient and that occasional lump sums or additional sources of income are the best vehicles for new asset-development. This would suggest that monthly dollar-for-dollar matched savings may be less appropriate as an asset-building mechanism than kick-start grants and annual top-ups, unless incomes can be improved. However it may be that social assistance recipients are as able and interested in developing productive assets as a route towards self-sufficiency as other households in Canada. The government of Ontario has announced its intention to launch a province-wide matched savings demonstration project that is expected to include low income households on Ontario Works and low-wage workers. This is a promising development and offers an extremely important opportunity to evaluate impacts and test ideas about low-income households, the capacity to save and interactions with other policies and programs in the province. If the project is successful, it may create the knowledge platform to fundamentally rethink and reorient social assistance, income support and anti-poverty policy frameworks in Ontario and other interested provinces.

Policies that recognize the intersection of poverty and assets may be preferable

Our own analysis of asset-tests across Canada has found that on all three dimensions – progressiveness, innovation and transparency – only Quebec is ranked highly. It's notable that Quebec is also one of only two jurisdictions (Newfoundland being the other) with a provincial anti-poverty plan and only Quebec's makes specific reference to the role of assets in well-being. Quebec has acted to exempt a wide range of assets that cannot easily be liquefied and spent down, and in cases where there are compelling reasons to ask households not to do so. They have implemented a relatively simplified and transparent approach to testing assets with just three broad categories and exemption limits attached to each. While the adequacy of the dollar values of exemptions are perhaps open to debate, they are certainly an improvement over more ad hoc approaches. Although Newfoundland lacks an exemption enable saving for productive uses among welfare recipients, the province is also at the forefront in terms of progressive asset limits, exemptions and asset tests that are far more simple and transparent compared to other jurisdictions.

It may be that when social assistance reforms are rooted in a larger anti-poverty orientation, that the treatment of assets becomes more heavily influenced by a desire to promote well-being and sustainable welfare exits, rather than simply a desire to limit welfare entry. It is worth considering to what degree and in what ways other provinces could learn from the examples of Quebec and Newfoundland in re-orienting the debate over welfare programming from one of limiting or cutting social expenditures (as has been the case for at least the last 20 years) to one of addressing poverty and promoting self-sufficiency.

The options to improve asset tests are multiple but the evidence is lacking to support any one in particular

The degree to which a core of our citizenry is dependent over the long-term – either continuously or repetitively – on social assistance necessitates the fundamental rethinking of asset-tests. As at least one other author has noted, asset tests are most appropriate for programs that use a short accounting period for eligibility (such as monthly income instead of annual income). It is not unreasonable for public administrators and taxpayers who support public programs to expect a household to bridge a very temporary blip in income with savings when their overall annual income remains adequate (Chen & Lerman, 2005). This raises a larger and broader question, outside the scope of this paper, about whether social assistance, as it is currently structured, can offer both short-term relief and longer-term support.

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

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

In increasing the asset limits, there isn't at present a clear and objective set of benchmarks against which limits can be gauged. Some options that are immediately apparent include:

- Setting asset limits to at least the equivalent of 2 months of income benefits, consistent with the widely-quoted adage that households should have 2 months living expenses in stored income at all times. While some jurisdictions already exceed this, we estimate it would increase the national average for single adults without disabilities from $775 to $1,166.

- Setting asset limits to a level closer to the average wealth of other households at comparable income levels where the income source may come from sources such as employment, pension benefits, etc. The data from the 2005 Survey of Financial Security suggest that households with annual incomes of less than $10,000 (in which single employable adults on social assistance would be included) have an actual median net worth of $3,500 which would raise the national average asset limit by nearly $3000.

Excluding a wider range of assets from the asset test is another route worth exploring. Jurisdictions could consider, for example, which assets are most likely to promote program exits and prevent future dependence. Vehicles, business and self-employment assets, assets related to education and training and housing assets all appear to be good candidates for exemption on these grounds. At present however these assets receive some, but very uneven or limited, exemptions. Perhaps the best example is homeownership. In many provinces, there are certain conditions attached to an exemption – for example that market value or equity do not exceed certain limits and that residence is continuous. The last decade has seen an enormous growth in residential real estate values in several markets across Canada. In these communities even low-income owners may realize significant gains in the market value of their home and, by extension, their imputed equity in the property. Yet at the same time, liquidating their main asset, their home, to overcome a temporary gap in income would almost certainly leave them in a more precarious situation faced with trying to repurchase a home after exit from welfare in a more expensive market.

In addition to modelling what impact, if any, new exemptions may have on program entry, exit and expenditures, researchers should also consider what impact changes to asset limits might have on the real rates and values of ownership of assets receiving more or less favourable treatment. In other words, in addition to influencing who gets on and off welfare, are asset limits actually influencing the size and shape of the wealth of low-income Canadians, discouraging them from exceeding limits and encouraging them to invest more heavily in assets that receive more favourable treatment? This is clearly another area for future research but a worthwhile question to ask in considering the broader context within which social assistance programs operate.

Another option for addressing problems with asset tests in social assistance is to simply eliminate them altogether. In the U.S. two states have already eliminated asset tests in the main welfare program, Temporary Assistance for Need Families (TANF) (Parish, 2005). Virginia, as mentioned earlier, eliminated its asset test in 2003 after several years of increased asset limits and increased exemptions. The move was primarily aimed at decreasing administrative costs and, according to state officials, has not resulted in any significant increase in case load. This is largely attributed to the relatively low income benefits provided under the program and the work participation requirement which make it unattractive to households except as a last resort. Before Virginia, Ohio eliminated its asset limit in 1996 and has continued to see welfare dependency rates fall in the state since that time. Outside TANF, nearly half of all states have eliminated their asset test for Medicaid and in general are finding that administrative cost savings are significantly greater than any cost increases due to uptake.

Given the other requirements made of social assistance recipients in terms of work participation, income benefits well-below official low-income levels and, in at least one province, time limits on benefits, is it reasonable to expect that case loads would increase significantly if asset limits were eliminated but income and needs tests remained in place? Aren't we already doing enough to make welfare a very unattractive option for the vast majority of

Canadians? At the same time, what are the costs related to screening asset information on applications and keeping tabs on any changes among beneficiaries? Does it make sense to spend several thousands of public dollars to verify and keep tabs on a few hundred dollars worth of private money? Welfare case administrators have many other competing demands on their time, for example monitoring employment-seeking activities, providing referrals to community resources or complementary programs and developing more personalized plans with clients to help them leave welfare altogether. Are these same case workers giving up time and attention to these or other demands to enforce complicated asset rules?

These are questions that at present are not possible to answer but are worth examining in greater detail. In addition to models based on economic data, pilot projects to test different approaches to the treatment of assets might be helpful to Canadian social assistance administrators who are looking for ways to better reconcile competing age-old imperatives in welfare policy and programming. Again, pilots such as *learn*$ave, smaller asset-building initiatives across the country and the planned Ontario pilot offer promising avenues for future exploration.

Addressing asset tests is not enough to integrate asset building into welfare

Removing barriers will not be enough to enable more households to build and mobilize assets to enable exit from welfare. Neither will it be enough to promote greater ownership and financial security among working low-income households. Instead, financial incentives and access to financial advice, education and information should be included in the broader range of measures to enhance well-being and self-sufficiency for all low-income households – including those on and off welfare. Financial advice, education and information are important for all citizens, regardless of the resources at their disposal. For households with fewer resources and greater vulnerability, access to these services and supports can be critical. However these are the consumers least likely to access mainstream sources like financial institutions and financial service providers. In addition to life skills and employment training, social assistance administrators should consider making financial literacy supports available to all interested social assistance recipients.

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

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

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