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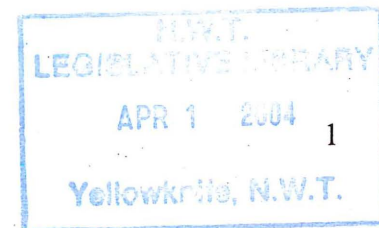


## A Primer on the National Child Benefit Supplement (NCBS) Clawback For Advocates

*The purpose of this slide package is provide some of the basic facts surrounding the introduction of the NCB initiatives, offer alternative views, and recommend a new course for the NCB in the future.*

**July 2003**

A Primer on the National Child Benefit Supplement "Clawback"  
St. Christopher House



## **Introduction to the NCBS**

- Despite Canada's economic recovery in the 1990's, child poverty persisted causing an increased interest in solutions and ways to use work and labour market policy as a way to decrease child poverty.
- At the First Ministers meeting in 1996, there was a joint agreement to address child poverty through a new partnership, in line with SUFA. (Social Union Framework Agreement).

## What the Provinces, Territories and the Federal Government Agreed to Do

- Before July 1998, provinces and territories agreed with the federal government to launch a National Child Benefit through a “*Recovery Reinvestment*” model defined by a Reinvestment Framework. The federal contribution to the NCB initiative was to be the National Child Benefit Supplement.<sup>1</sup>
- The federal government originally had a program called the Working Income Supplement (WIS – 1993 to 1997) that was replaced by the NCBS. The only families with children receiving WIS were families where one or both of the parents realized a certain **threshold of earnings**.
- In the design of the NCBS, the federal government **did not want to stipulate** in its income test that **a threshold of earnings** must be realized.

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<sup>1</sup> Progress Report to Premiers #2: Provincial Territorial Council on Social Policy Renewal; July 1997, Page 7: “F/P/T governments have agreed on a joint NCB approach that involves.....provinces and territories will make corresponding decreases in their social assistance payments for families with children while ensuring that families receive at least the same amount of income support from governments.”

- Their reasons were as follows:
  - The WIS was undersubscribed and small;
  - An income test on “*earnings only*” meant that there were inequities where:
    - Some families with low amounts of other forms of income got no WIS while those with the same amount in earnings received it;
    - Other families with no income at all were ineligible for WIS
    - The earnings test was cumbersome and difficult to administer.<sup>2</sup>

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<sup>2</sup> For example, CPP income was considered to be earnings for the purposes of the WIS.

- Accordingly, when the NCBS was put into place, there was a test of income only (not earnings) so that parents of similar income received similar benefits. This approach corresponded more closely with anti-poverty as well as equity objectives.
- Nevertheless, it is likely that the federal government and some provincial jurisdictions remained concerned that the WIS program that largely did not go to welfare recipients would be replaced by a program that would go to welfare recipients.<sup>3</sup>

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<sup>3</sup> It is clear that the federal, provincial, and territorial governments all agreed to the recovery reinvestment model as the best way to initiate the NCB initiative. In this regard, the federal government enacted budget measures in June 1998 to make it easier for provinces and territories to offset the NCBS against social assistance and other child based income security programs. Nevertheless, the controversy over benefit clawbacks coupled with the notion that the clawback would be temporary in any event, has accelerated debate over the best way to provide ongoing funding of reinvestments.

There is no argument that the key elements of the NCB initiative continue to be the NCBS (itself) and reinvestment programs for children. However, from the perspective of a number of provinces, the recovery part of the recovery reinvestment model continues to be crucial as it is the principal funding vehicle for reinvestments. On the other hand, the federal government is not wedded to a clawback or recovery model to ensure reinvestments are funded. For example reinvestments could be funded directly.

Accordingly the federal government has not seen NCBS recovery as an essential element of the NCB and in some quarters, the federal government has urged provinces to end their practice of NCBS clawback in favour of a different funding model.

- It is also possible that the federal government did not want the NCBS to be seen as a federally funded welfare rate increase for families with children.
- The federal government as well as provincial and territorial jurisdictions also wanted the new benefit to support independence through increasing attachment to the paid labour force. Attachment to the labour force became a cornerstone of the NCB initiative.

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Provinces and territories counter that they have reinvested in children's programs with federal agreement that the NCBS recovery would provide the necessary funding until such time as provinces restructured their benefits to allow the NCBS to provide a base income for all low income families with children. They see federal calls to end the clawback as leaving them in the lurch with:

- Insufficient funds to restructure their benefits and
- Unfunded programs for which they would be forced to pick up the tab.

This matter has been a matter of ongoing controversy in a number of provincial and territorial jurisdictions. Recommendations made later in this paper would break both the rhetorical and substantive aspects of this funding logjam."

- To resolve this concern, the federal government proposed the *recovery-reinvestment* model that would offset the new NCBS from social assistance payments and pay the offset amount into new reinvestments for children.
- In addition, by paying the NCBS “outside” of welfare, it would provide new incentives for families with children to leave welfare for work, in order to ensure that parents would “keep” the money. This is sometimes called “lowering the welfare wall”.
- All provinces and territories agreed to this approach except New Brunswick where the NCBS was not offset in any way.
- In addition, with the introduction of the NCB initiative, provinces and territories agreed with the federal government that families receiving social assistance would not “lose” as a result of the implementation of the NCBS.<sup>4</sup>

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<sup>4</sup> See the section below on “advocacy voices”. At the time, it was clear to those close to the implementation of the NCB that the “no loss” provision of the NCB simply meant that social assistance recipients would receive the same overall nominal amount of income from the combination of child benefits, social assistance and NCBS. For advocates, the “no loss” provision also included assumptions about inflation protection as well as protection against any forms of welfare cutbacks affecting parents. These two understandings of the “no loss” provision have proven to be an important source of misunderstanding over the NCB.

- In June 1998, the federal government passed into law, most of the important elements of the February 1998 Federal Budget.
- One of these elements was a change to the Income Tax Act creating a new income security program the federal government called its **“contribution to the National Child Benefit (NCB) initiative”**. This contribution was called the **National Child Benefit Supplement** or **NCBS**.<sup>5</sup>
- The NCBS is a tax benefit that combines with the CTB to form the Canada Child Tax Benefit (CCTB).

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<sup>5</sup> Provincial and territorial contributions to the NCB initiative consist of their investments in programs for children over and above reinvested NCBS offset from social assistance and related child income programs.



- The NCBS is an addition to the CTB that is paid out according to different rules from the CTB, to low income families with children.
  - The NCBS is paid out to all low income families whose income is below the (2003) threshold of **\$21,529** regardless of number of children; and
  - The eligibility for NCBS (in 2003) phases out completely when a family's net income reaches **\$33,487**.

## What Happens “*On the Ground*”: Some Technical Concerns

- **The federal government did not have to identify the NCBS separately from the CTB as a special supplement in order to put the program in place.**
- For example one overall Child Tax benefit could have been paid with different reduction rates over different bands of income.
- In fact, the **NCBS was identified separately** in the Income Tax Legislation so that it may be offset (or reduced) against provincial social assistance payments for children.
- Accordingly, the NCBS was passed into law in 1998 as part of the Budget, by the federal government, for the purposes of offset.<sup>6</sup>

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<sup>6</sup> The Budget vote was a vote of “confidence” in the government. Had it not passed, the House would have been dissolved.

- Starting in July 2003, the NCBS and other amounts are as follows:

Children	Child Tax Benefit	NCBS	Total
1 <sup>st</sup> child	\$1,169	<b>\$1,463</b>	\$2,632
2 <sup>nd</sup> child	\$1,169	<b>\$1,254</b>	\$2,423
Each Additional	\$1,169	<b>\$1,176</b>	\$2,345
3 <sup>rd</sup> and following	\$82		
Children under age seven	\$232.		

- The bolded NCBS amounts are the yearly amounts that may be offset from provincial social assistance or child benefit programs starting in July 2003. Monthly amounts are derived by dividing by 12.

- There is **no federal legislative requirement** for provinces and territories to offset or “clawback” the NCBS amounts as this is based on an **accord** that does not have the **force of law**. However, technically speaking, the **full NCBS amount is the only amount available from the federal government for the purposes of offset.**<sup>7</sup> In other words, a province or territory using the interface with the federal government (CCRA) is faced with the **choice of offsetting the full amount of the NCBS or nothing.**
- This latter point is important as provinces and territories are now being formally asked to “pass on” increases in the NCBS to social assistance recipients but have no federal information to do so (as provincial and territorial jurisdictions are only provided with the current NCBS by CCRA<sup>8</sup>).

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<sup>7</sup> Provinces and territories send the SIN numbers of families with children on provincial welfare or benefit programs to CCRA. CCRA sends payment records for the NCBS back to provinces and territories for purposes of offset. No other amount can be given for any other purpose according to the Income Tax Act.

<sup>8</sup> For example, a province or territory is not provided with data on prior years’ NCBS amounts so that it may pick and choose amongst amounts to offset. In effect, a “pass-on” of an NCBS increase means that a province or territory would offset or claw back the previous years NCBS amounts.

- For a province or territory wishing to “pass on” an NCBS increase, it would have to work outside the interface with the Canada Customs and Revenue Agency and either:
  - Increase payments to children through social assistance or through another child benefit program by an amount equal to the NCBS increase; or
  - Develop a computer program to reduce the amounts (provided by CCRA) by the amount of the increase.
- This latter “computer program” would have many technical challenges and would be difficult to introduce.
- Consequently, a number of provinces have chosen to provide rate increases to (in effect) “offset the offset” (e.g. PEI)

## **Advocacy Voices on the Clawback**

- Along with the issue of the level of government responsible for the recovery-reinvestment model, the issue of social assistance recipients not “losing out as a result of the implementation of the NCBS” is a matter of equal controversy.
- Advocates have noted that if social assistance recipients were not to lose out as a result of the NCBS, then all provinces and territories would have been obliged since 1998 to refrain from any social assistance benefits cutbacks to families with children and were equally obliged to ensure that social assistance rates kept up with inflation.
- In provinces and territories that have clawed back or offset social assistance dollar for dollar and have continued to increase the clawback in link-step with the NCBS increases since 1998, it is argued that these social assistance recipients have in fact lost out to inflation as a result of the NCB implementation.

- They see this is as especially egregious when all NCBS recipients not on social assistance receive full indexation of the CCTB (CTB and NCBS) but those on assistance only receive indexation on the lower CTB amount.<sup>9</sup>
- The other concern (expressed most vocally by social policy advocate Richard Shillington) is that National Council of Welfare figures reveal that 85% of all poor families receive social assistance income.<sup>10</sup> In turn, Shillington points out that the vast majority of poor families are subject to the clawback.
- The federal and provincial, and territorial governments counter this allegation<sup>11</sup> by showing that less than 30% of all NCBS dollar are actually clawed back leaving 70% or more of all NCBS dollars in the hands of NCBS recipients<sup>12</sup>.

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<sup>9</sup> Since there is no offset of the base Child Tax Benefit, it follows that any increases to the CTB are also not offset.

<sup>10</sup> Richard Shillington, "Gumby" Presentation, University of Ottawa Conference It's Time to Act, June 17, 2003

<sup>11</sup> Provincial, Territorial, and Federal Social Services Ministers, NCB Progress Report 2001, Her Majesty in right of Canada, Ottawa, 2002

<sup>12</sup> The numbers are not irreconcilable. On the one hand, the NCBS also goes to the non-poor as well as the poor expanding the group that is not clawed back. In addition, most social assistance recipient parents with children do not receive assistance for a full year.

## **Advocacy Voices on Reinvestment:**

In regard to the reinvestment side of the recovery reinvestment model, advocates have generally made the following ten arguments against the NCB reinvestment model:

1. The Poorest of poor have deductions made on their allowances to fund reinvestment – it comes from the “wrong source”.
2. Dollars deducted sit unused in Government coffers or worse, spent on other programs that do not benefit children.
3. The reinvestments do not go back to welfare recipients
4. Reinvestment dollars do go to less deserving projects
5. Administration costs consume reinvestment dollars.



6. Money not going to help welfare recipients increases dependency
7. The reinvestment model is a patriarchal approach; a charity model
8. Agencies would not need dollars if social assistance was adequate
9. Social assistance recipients have no say in the direction of reinvestments.
10. The Social assistance clawback is a violation of human rights.

## The Post 1998 World of “Recovery Reinvestment”

Given differences in social assistance and child benefit programs and a post CAP (Canada Assistance Plan) world of few restrictions on welfare rules:

- There were five different models that provinces and territories chose for their social assistance offset. The following chart oversimplifies these models but provides a useful sketch of the differences.
- The models **are not transparent or clear** and have led many to think both rightly and wrongly, that the NCBS is clawed back in a small minority of jurisdictions.
- **Right:** as this is technically true
- **Wrong:** as all jurisdictions except New Brunswick have an offset of some description.

<b>Model</b>	<b>Description</b>	<b>Provinces and Territories</b>
Clawback on social assistance	NCBS reduces assistance as an income charge	Ontario, PEI, three territories
Rate Reduction	Yearly reduction in statutory rate for children	Alberta <sup>13</sup>
Offset against a Provincial Child Benefit	Province pays a Child benefit but offsets the NCBS against that benefit	Saskatchewan, BC, (Saskatchewan Child Benefit, BC Family Bonus.)
Mature System	Province pays a child benefit standalone and NCBS pays out standalone. Province reduced child benefits in welfare	Nova Scotia, Newfoundland Quebec (Quebec Family Allowance)
No Offset	No interaction/change	New Brunswick, Manitoba <sup>14</sup>

<sup>13</sup> The NCB Progress Report includes Alberta in the clawback model. Rate reductions are different than income charges and this is the reason for the distinction made here.

<sup>14</sup> Manitoba has declared its intent to end the clawback but is in the process of phasing it out. Manitoba stopped recovering the NCBS for children age six or under in 2001-02. In 2003, recovery is stopping for children aged 7-11

- The *mature* system in Nova Scotia, Quebec<sup>15</sup> and Newfoundland represent the *end-game* of the NCB initiative as:

- Welfare has become an **adults only** system with no payments to children<sup>16</sup>
- The NCBS and provincial child benefits provide necessary income to all low-income parents;
- The NCBS and provincial benefits are harmonized.<sup>17</sup>
- The NCBS fully flows through to NCBS recipients with no recovery **or** offset against either welfare or a child benefit.
- There is no longer a need for a separate NCBS in these jurisdictions leading the way to a one-tier child benefit.<sup>18</sup>
- Reinvestment dollars continue to flow (but do not grow)<sup>19</sup>.

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<sup>15</sup> Quebec is placed in this category as NCBS and Quebec Family Allowances are paid without offset except for a responsiveness program that reimburses families up to a pre-determined provincial maximum. In order to remain in this category, NCBS increases would always have the effect of raising the Provincial maximum.

<sup>16</sup> This means that parents who begin work are no longer in a position to lose their welfare child benefits as their income rises.

<sup>17</sup> They have similar or identical rules and benefit design.

<sup>18</sup> The completion of the NCB initiative is often represented as the move back to a one-tier child benefit.

<sup>19</sup> As there is no further offset to the NCBS (i.e. it flows through to all), reinvestment dollars are *crystallized* or *fixed* at the dollar amount spent at the time that the offset ends.

## The 1999 Federal/Provincial Commitment to \$2,500 per Child

- In 1999, jurisdictions agreed to the amount of \$2,500 per child ( in combined CTB & NCBS) as a milestone for the NCB. The Finance Minister's Economic statement of 2000 made the commitment to reach \$2,500 by 2004.
- The milestone was characterized as a level of benefit where the NCBS would be sufficiently high for provinces and territories **to phase out recovery of the NCBS from welfare or child benefit payments and simply allow the NCBS to replace them.**
- **An Addendum:** The success of Newfoundland and Nova Scotia shows that provinces require their own presence in child benefits through the Newfoundland and Labrador Child Benefit and the Nova Scotia Child Benefit. It also allowed maturity to be reached before 2004.
- The \$2,500 milestone will be reached (or almost reached) in 2004. For some, this has meant that the clawback or offsets will end in 2004.

## What Will Really Happen In 2004 – Will Cross-Canada Restructuring Take Place?

- Ending recovery-reinvestment does not “just happen” because a milestone is reached. Explicit policy decisions and an implementation process called “restructuring” are required.
- Welfare benefits for children and child benefits that are offset must be “matched” to the dollar values of the NCBS so that the NCBS fully offsets the value of welfare or child benefits. Where the NCBS does not fully offset welfare benefits for children, provinces and territories assume responsibility for the additional costs.<sup>20</sup>

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<sup>20</sup> Matching is easier to do in jurisdictions that have low children’s welfare rates as the NCBS more easily “washes out” these rates. That is, the dollar value of the NCBS is either higher or equal to the children’s welfare rate that it would replace. Failure to do so results in losers, which would go against the signature commitment of jurisdictions that families with children on assistance will not lose out as a result of the NCB.

- The **six part process** called ***restructuring***:

- Starts with rate matching<sup>21</sup> that results in new adult welfare rates
- Sets a new provincial child benefit,<sup>22</sup>
- Devises a *responsiveness* scheme<sup>23</sup>,
- Permits a flow through of the NCBS to low-income parents<sup>24</sup>
- Develops in-kind benefit changes<sup>25</sup>; and
- Arranges for reinvestment *crystalization (fixing)* and reallocation<sup>26</sup>

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<sup>21</sup> Matching means that each child's welfare rate for each child (1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, etc.) must be matched to its NCBS parallel to determine the dollar value of residual adult benefits and the prospective value of provincial and territorial standalone child benefits. The latter two must equal the former to prevent losers. It is also not easy to do. See Battle and Mendelson's key distinction between the difference vs. designated approaches to restructuring in Ken Battle and Michael Mendelson (Editors) Benefits for Children: A Four Country Study; Caledon Institute for Social Policy; 2001, p.7

<sup>22</sup> This refers to a child benefit whose design largely mirrors the NCBS. Several provinces including Nfld., NS, BC, Sask., and (arguably) Quebec already have this type of child benefit in place. Different provinces are at different stages of restructuring.

<sup>23</sup> Responsiveness addresses (with cash), parents with high previous year's income who are ineligible for child benefits but are also faced with the (new) unavailability of children's welfare (or other child) benefits. In other words, a woman with no eligibility for child benefits and no eligibility for children's welfare benefits, would only receive an adult benefit for herself and nothing for her children, unless responsiveness measures are in place.

<sup>24</sup> Low income parents refers to either social assistance recipients or recipients of a child benefit outside of social assistance that is offset.

<sup>25</sup> As welfare begins to cover fewer people, thought must be given to the availability of prescription drugs, dental and other programs "outside" of welfare.

<sup>26</sup> When an offset is in place, funds available for reinvestment fluctuate with the number of children and the dollar value of the offset. Once the NCBS is no longer offset, the dollar value of funds available for reinvestment "freezes" or is "fixed" at the point the offset stops.

- Restructuring is a major and costly undertaking for a province or territory as it involves:
  - A significant political commitment by Cabinets
  - Major and wide ranging changes to programs and new programs
  - Key Communications challenges
  - Large scale Staff Training
  - Important Automated Systems changes
  - Complex Statutory and regulatory reform; and
  - Crucial Guideline and directive changes
  
- Accordingly, restructuring must be a signature commitment for a government and must be scheduled appropriately.
  
- However, with competing priorities (e.g. Health Care funding, education, labour market, environment etc.) all governments may not be in a position to respond in 2004.



- In addition:
  - Provinces were told that all post 2000 increases to child benefits would be in the form of the NCBS. This was not the case as increases were also made to the CTB, which is not offset, and therefore **unavailable for restructuring**.
  - The CTB and other tax-based benefits are not available to help with the costs of restructuring as they have always flowed through to families in the first instance. Put another way, they have always been paid in addition to welfare and have never been subject to government clawback schemes.
  - It was never clear how the \$2500 was divided between the *available* NCBS and *unavailable* CTB.

## **New Proposals for a Child Benefit: Budget 2003 & the Caledon Institute**

- The federal government proposes to raise the combined CCTB (CTB and NCBS) to \$3,243 by 2007 with all of the new money to go to the NCBS in a further attempt to address child poverty and provide adequate benefits for children.<sup>27</sup>
- The Caledon Institute has also proposed an adequate Child Benefit of \$4,000 later raised to \$4,400 with inflation. The Caledon proposal does not distinguish the exact amounts going to the NCBS and CTB but does address the issue of adequacy in a meaningful way.

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<sup>27</sup> Although the new money will go to the NCBS, indexation outside of the extraordinary increases will go to both the CTB and NCBS; Budget Plan 2003, page 93.

## **Affects of the New Proposals on Provincial and Territorial Restructuring**

- It is not clear that provinces and territories could all implement the six elements of **restructuring** with the \$2500 proposal without incurring additional costs.
  
- To recap, the initial reasons are:
  - The \$2,500 won't be realized until 2004 (not 1999)<sup>28</sup>
  - The increases to reach \$2,500 are not made up of the NCBS as originally believed by provinces and territories.<sup>29</sup>

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<sup>28</sup> That is, the \$2,500 of 1999 has been eroded by inflation and would have to be greater in 2004.

<sup>29</sup> Since part of the \$2,500 is made up of CTB, contrary to what provinces thought, the CTB portion of the increase is unavailable to assist with costs of restructuring.

- Additional areas of concern include the following questions of the matching process between the NCBS and provincial social assistance and child benefit programs:
  - Does restructuring to end the clawback (offset) include children's shelter benefits or basic social assistance only?<sup>30</sup>
  - Is there an expectation that provinces and territories are responsible for the administrative costs of restructuring along with responsiveness and in-kind benefits?
- It is not clear that the amount of \$2500 per child will be sufficient to meet these costs leaving provinces and territories reticent about proceeding.

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<sup>30</sup> The original reinvestment framework considered basic children's benefits only, not shelter. However, as clawbacks have increased, the NCBS is clearly larger than basic child rates in some jurisdictions resulting in a clawback of shelter benefits paid on behalf of children.

- However, it is clear that all provinces and territories could restructure their social assistance programs to remove children from welfare without additional costs when the CCTB rises from \$2,500 per child to \$3,243 per child in 2007. However, the federal government proposes to make the additional funds unavailable for restructuring as it is proposed that these funds be passed on (passed through) to social assistance recipients.
- The \$3,243 amount is easily sufficient for all provinces to restructure **basic children's benefits** without losses to the provinces, if restructuring is defined in the manner as it is defined in this paper;
- The Caledon proposal is much more than enough for all provinces and territories to restructure all children's benefits (**both basic and shelter**), as long as a significant portion is allocated to the NCBS and the NCBS continues to be offset.

## **Conclusion:**

**The new dilemma for provinces and territories relates to the Budget 2003 reference (p.95) to discussions to ensure that additional federal benefits flow through to all low-income families with children.**

The key question for the future of the NCB and its controversial recovery reinvestment model is:

***Who will pay for restructuring in those provinces that have not already undertaken the process?***

If provinces and territories pass through all new federal investments, the recovery reinvestment model will provide insufficient funds for restructuring but could also:

- Place the recovery reinvestment model in suspended animation;
- Reduce transparency by entrenching two models of reinvestment within an already complex initiative; and

- Freeze provincial and territorial restructuring initiatives.
- It will clearly be to the advantage of provinces, territories and the federal government to agree on an appropriate funding model to complete the NCB initiative.
- **Declaring the \$2,500 from 1999 as the de facto funding formula is clearly not the answer as:**
  - Funding for restructuring becomes hopelessly tied to the issue of NCBS pass-through (vs. clawback).
  - The provision of adequate child benefits through the NCB initiative is essentially a different issue than the restructuring of social assistance and provincial child benefits
  - Tying the two issues together (restructuring and adequacy) will slow the progress that could be made on both.

- **The clear answer lies in removing the issue of pass-through of NCBS from the funding debate altogether.**
- **This could be achieved by the federal government providing additional Canada Social Transfer (CST) funds for restructuring to provinces according to the rules set out in the reinvestment framework.**
- Advocates can participate in the debate by noting that:

- *Child poverty and child benefit adequacy are issues too important to be mired in funding debates about welfare;*
- *Funding welfare reform is a separate issue from providing adequate benefits for children especially as welfare is not the answer to adequate child benefits;*
- *Welfare standards and the restructuring of welfare are important issues in their own right – the NCBS clawback is a separate concern and only part of these issues at best.*