



## STAFF REPORT ACTION REQUIRED

### Improving the Economic Standards of Torontonians in Receipt of Social Assistance and Rent-Geared-to Income Housing

<b>Date:</b>	November 20, 2012
<b>To:</b>	City Council
<b>From:</b>	City Manager
<b>Wards:</b>	All
<b>Reference Number:</b>	

#### SUMMARY

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Over recent years, the City of Toronto, through Toronto Employment and Social Services, has transformed the way it plans, manages and delivers social assistance and employment services. In doing so, it has taken a lead role in shifting the focus of Ontario Works from a welfare program to an employment service. Nevertheless, social assistance remains complex, with a large amount of rules and policies that can be both onerous and counterproductive to the program's purpose of moving people back into the labour market. There is widespread agreement that social assistance requires further changes to better support people prepare for work and to reduce barriers to work created by program policies and rules.

This report responds to direction from Council to examine changes to earned income deductions from social assistance benefits and rent-geared-to-income that could support City of Toronto residents to achieve improved economic standards. It begins by highlighting the inadequacy of current rates, especially in the Toronto context, and the counterproductive rules that act as disincentives to employment. Together, low rates and complex rules not only impoverish people, they also create barriers to employment. This is shown with specific reference to the challenges that exist with regard to earned income and rent-geared-to-income. Finally, the report describes a number of existing City positions, as well as relevant recommendations emerging from the recent work of the Commission for the Review of Social Assistance in Ontario (the 'Commission') and the Province's Long Term Affordable Housing Strategy, which seek to improve incomes, reduce barriers and disincentives and enable successful transitions into employment.

## Financial Impact

There are no financial implications arising from this report.

## RECOMMENDATIONS

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### The City Manager recommends that:

1. City Council receive this report for information.

## DECISION HISTORY

At its meeting on October 30<sup>th</sup> 2012, Council directed the City Manager to report directly to City Council on November 27 and 28, 2012 on changes to earned income deductions from social assistance benefits and rent-geared-to-income that could support City of Toronto residents to achieve improved economic standards.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX23.15>

## ISSUE BACKGROUND

### *Inadequacy of Social Assistance Rates*

It is well established that social assistance rates no longer reflect even the most basic costs of living. Ontario Works rates have lost more than half of their value since the mid-1990s, when rates were cut by 21%. Following this dramatic cut, rates were frozen until 2005. Despite a series of subsequent small increases, as well as the addition of new programs such as the Ontario Child Benefit which have provided an important source of additional income for some recipients, social assistance rates remain far below any measure of adequacy. In an expensive City like Toronto, this is especially true. As housing, food, energy and other costs have risen steadily over the past decade, it has become even more difficult for low income residents to make ends meet. Attachment 1 provides a graphic illustration of the gap between rising costs and stagnating benefit levels.

Although there is no official measure of poverty in Canada, there are three<sup>1</sup> established low income thresholds:

- The Low Income Cut-Off (LICO) identifies the income level below which a family is likely to devote a larger share of its income to food, shelter and clothing than the average family. A family spending 20% more than the average (43%) of their income on necessities is defined as being in “straitened” financial circumstances.

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<sup>1</sup> The most basic difference between the measures is that LICO and LIM represent relative approaches to poverty and the MBM represents an absolute approach. LICO and LIM measure disparity of income, while the MBM measures ability to meet a set list of needs.

- The Low Income Measure (LIM) is a relative measure of low-income calculated annually. The LIM threshold is set at 50% of median income<sup>2</sup> for the Canadian population in a given year.
- The Market Basket Measure (MBM) is based on the cost of a basket of goods and services (for example, a nutritious diet, clothing and footwear, shelter, transportation) representing a basic standard of living. Individuals or families are considered to be “low-income” if their disposable incomes fall below the total cost of the goods and services in the MBM in their community.

In 2010, the Social Assistance Review Advisory Council compared the maximum total incomes for various households against these three measures and found that for single individuals and couples, in particular, the incomes are so low, “it is barely if at all possible to live on the amount available through Ontario Works and the few available tax credits (SARAC, 2010: 5). Most recently, the Commission conducted a similar exercise and confirmed the huge gulf between social assistance incomes and existing adequacy measures (Table 1, below). For example, they noted that a single person receiving OW could have a maximum income equivalent to less than half (48%) of the MBM threshold.

**Table 1: Social Assistance Incomes Compared with Low Income Measures, 2012**

	<b>Social Assistance (A)</b>	<b>Tax Credits (B)</b>	<b>Income (A + B)</b>	<b>LICO</b>	<b>%</b>	<b>LIM</b>	<b>%</b>	<b>MBM</b>	<b>%</b>
Single Adult	\$7,104	\$848	\$7,952	\$18,759	42%	\$18,973	42%	\$16,550	48%
Sole Parent 1 Child	\$11,064	\$7,276	\$18,340	\$22,832	80%	\$26,832	68%	\$23,405	78%
Sole Parent, 2 Children	\$11,652	\$11,974	\$23,626	\$28,430	83%	\$32,862	72%	\$28,665	82%
Couple, No Children	\$12,252	\$1,409	\$13,661	\$22,832	60%	\$26,832	51%	\$23,405	58%

Source: Commission for the Review of Social Assistance in Ontario, 2012

Comparison with Ontario’s minimum wage further underlines the inadequacy of current rates. In 1995, Ontario’s general minimum wage was frozen at \$6.85 an hour, where it stayed for the next eight years. Beginning in 2003, a number of increases were introduced. The current minimum wage is \$10.25 which based on a full-time, full-year job of 37.5 hours per week provides a pre-tax income of \$19,200. As the minimum wage has risen at a higher rate than social assistance since 2005, the difference between the two

<sup>2</sup> Median income is the middle income if all incomes are lined up in order from lowest to highest.

has grown. Indeed, the gap now mirrors that at the time of the Depression<sup>3</sup>, with social assistance rates for singles at approximately 36% of the minimum wage.

### ***Complex and Counterproductive Rules***

Over many years, numerous commentators have expressed concerns about the complexity of the social assistance system and the vast number of unnecessary and often punitive rules. At best, this can create disincentives and penalties that run counter to the goals and objectives of social assistance. At worst, it can punish people for trying to make progress in their lives, secure employment and become financially independent.

In 2004, for example, Deb Matthews, M.P.P, Parliamentary Assistant to the Minister of Community and Social Services, released a wide-ranging review containing numerous recommendations to reform social assistance. At the heart of the review was a vision to move from a system mired in labyrinthine eligibility rules, to one focused on helping people improve their circumstances. As Matthews (2004: 25) explained:

The current system is very heavily burdened with rules that are enormously time-consuming to administer...There are now approximately 800 rules and regulations within the system that must be applied before a clients eligibility and the amount of their monthly cheque can be determined. Many of those rules are punitive and designed not to support people, but rather to keep them out of the system. Because there are so many rules, they are expensive to administer and often applied inconsistently from one caseworker to another, even within the same office. Further, the rules are so complicated that they are virtually impossible to communicate to clients, and it takes years to train a caseworker.

This complexity leads to unavoidable errors on the part of both recipients and bureaucrats. For example, an individual's employment income may fluctuate on a monthly basis, the amount of rent or utility costs can change several times within a year, and income from other sources such as child support are not always consistent. Program and technology requirements are such that all changes must be reported and recorded within a specific time frame. All of these factors affect entitlement and overpayments can result whenever any of these things change.

Recently, the complexity of the system was graphically highlighted by the Commission (2012: 64) which noted that attempts to address a wide range of circumstances have resulted in "over 240 different rates and combinations of rates meant to cover basic needs and the cost of housing". In addition to administrative challenges, ultimately, such complexity creates significant barriers for individuals seeking employment.

Together, low rates and complex rules not only impoverish people, they also create barriers to employment. This is shown with specific reference to the challenges that exist with regard to earned income and rent-geared-to-income.

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<sup>3</sup> <http://www.themarknews.com/articles/1240-back-to-scratch>

## ***Barriers to Employment***

Although the primary objective of Ontario Works is to help people become employed, too frequently when people exit social assistance they are little or no better off. In 2010, social policy expert John Stapleton recounted the story of Linda, a woman who, in trying to get ahead, found that the barriers to employment were insurmountable.

Linda's work hours fluctuated, and because of a delay in administrative processing, Linda received several overpayments. Next, Linda experienced a dramatic rent increase from her public housing landlord, based on the fact that she was earning income. This combined with the allowance reductions, her ongoing bills, and the money she had to pay back for the overpayments, was in excess of what she earned. She reduced her hours of work and noticed she was better off. She reasoned that her only way out of the mess was to quit her job<sup>4</sup>.

Such barriers and disincentives are all too common for individuals trying to exit social assistance. Under current policies, as an incentive to encourage employment, individuals on social assistance are allowed to keep 50 cents of every dollar in earned income. However, in addition to having their social assistance income reduced, people also face the prospect of losing benefits coverage for expensive items like prescription drugs or dental, as well as incurring new work-related expenses such as transport, childcare and clothing, and payroll deductions like Employment Insurance and Canada Pension Plan. As a result, they are often no better off. And when, as in the case of Linda, they live in rent-geared-to-income housing or are otherwise in receipt of more than one social service or income-tested program, they face a 'double or triple whammy', as each reduces their benefit based on different incentives and criteria.

In the case of rent-geared-to-income housing, the method for calculating the level of assistance is complex. Those in receipt of social assistance pay rent based on rent scales established by the Province, which result in a lower level of rent. All changes in income must be reported and once income from employment (or other sources) increases above a certain threshold, the rent-geared-to-income amount is changed to equal 30% of earned income. Those whose earnings exceed the thresholds experience significant increases in rent while the amount paid through the social assistance shelter allowance is capped. In addition, rental amounts are based on gross earnings and, for social assistance recipients, do not take into account the 50% earnings exemption.

In practice, this reduces the ability of individuals on social assistance to get ahead. While this makes little sense at any time, it is particularly unhelpful when high levels of unemployment make it difficult to exit assistance and the abundance of part-time and contract jobs mean that available jobs are often insecure, with changing levels of income.

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<sup>4</sup> Stapleton, J. (2010). "Zero Dollar Linda": A medication on Malcolm Gladwell's "Million Dollar Murray", the Linda Chamberlain Rule, and the Auditor General of Ontario, Metcalf Foundation.

## COMMENTS

### *Existing City Positions*

Over recent years, the City of Toronto, through Toronto Employment and Social Services, has transformed the way it plans, manages and delivers social assistance and employment services. In doing so, it has taken a lead role in Ontario in shifting the focus of Ontario Works from a welfare program to an employment service. Nevertheless, social assistance remains complex, with a large amount of rules and policies that can be both onerous and counterproductive to the program's purpose of moving people back into the labour market.

The City's approach to social assistance reform has been detailed in a number of key policy reports<sup>5</sup>. Many of the recommended changes focus on three broad areas:

- 1) Eliminating rules that can penalize people for reasons that do not either strengthen program integrity or support their efforts to prepare for or find work;
- 2) Simplifying the rules and administration of the program, which requires time to be spent on non value added activities unrelated to supporting people find work; and
- 3) Re-examining benefit rates which no longer reflect even the most basic costs of living and which act as an additional barrier to employment.

Subsequently, in its submission to the Commission, the City set out a number of clear directions, including the need to:

- streamline the benefits structure, with additional benefits delivered outside social assistance to all low income Ontarians;
- improve income adequacy;
- increase asset limits;
- simplify rules; and
- improve supports for employment

Specifically, the City's submission made the case for reducing the amounts of other income deducted from those on social assistance (for example increasing the amount of earned income that can be retained, permitting single parents to keep child support payments) could both supplement benefit rates that have steadily lost ground against inflation and increase the ability of people to move off assistance and into employment.

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<sup>5</sup> *Systems of Survival, Systems of Support: An Action Plan for Social Assistance in Toronto (2006); Starting in the Right Place: A New Approach to Employment and Social Services in Toronto (2008); Working as One: A Workforce Development Strategy for Toronto (2012).*

### ***Consistency with Commission Recommendations***

In October 2012, the Commission for the Review of Social Assistance in Ontario released its final report: *Brighter Prospects: Transforming Social Assistance in Ontario*, which set out more than 100 recommendations to transform social assistance into a simpler, more effective and more accountable system that removes barriers to employment and increases opportunities to work. With regard to the issues described in this report, the Commission made a number of recommendations to address adequacy, simplify rules and reduce structural barriers to employment, as well as changing the rent scales for rent-geared-to-income housing.

Given the broad scope and sheer number of recommendations, it will take considerable time and analysis to fully determine the impacts of proposed changes. However, in general terms, the Commission's recommendations are consistent with both the actions the City has taken in recent years and the next steps that it has recommended. While implementation will be critical, the actions suggested to address adequacy and simplify benefits and rules would help to improve economic outcomes, reduce barriers and disincentives and enable successful transitions into employment for Torontonians in receipt of social assistance, while also building a more supportive and employment-focused system.

### ***Possible Changes to Rent-Geared-to-Income Calculations***

In the provincial Long Term Affordable Housing Strategy, released in December 2010, the Province has committed to simplifying rent-geared-to-income calculations and reducing disincentives to work. For example, the Strategy proposes changing the rules to allow tenants in most circumstances to declare their income only once a year, rather than every time it changes, allowing them to use the extra money to improve their standard of living rather than have it clawed back on their rent. The Long Term Affordable Housing Strategy also proposes to pilot an asset building program, to further help tenants living in social housing to plan for the future, build personal assets and become more self-sufficient.

These changes have not yet been implemented, and SSHA staff will be participating in consultations with MMAH to determine how to best support tenants to become more self-sufficient and improve their economic situation. It will also be important to ensure that any changes to these provincial regulations do not inadvertently increase RGI subsidy costs to the City.

## **CONTACT**

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## **SIGNATURE**

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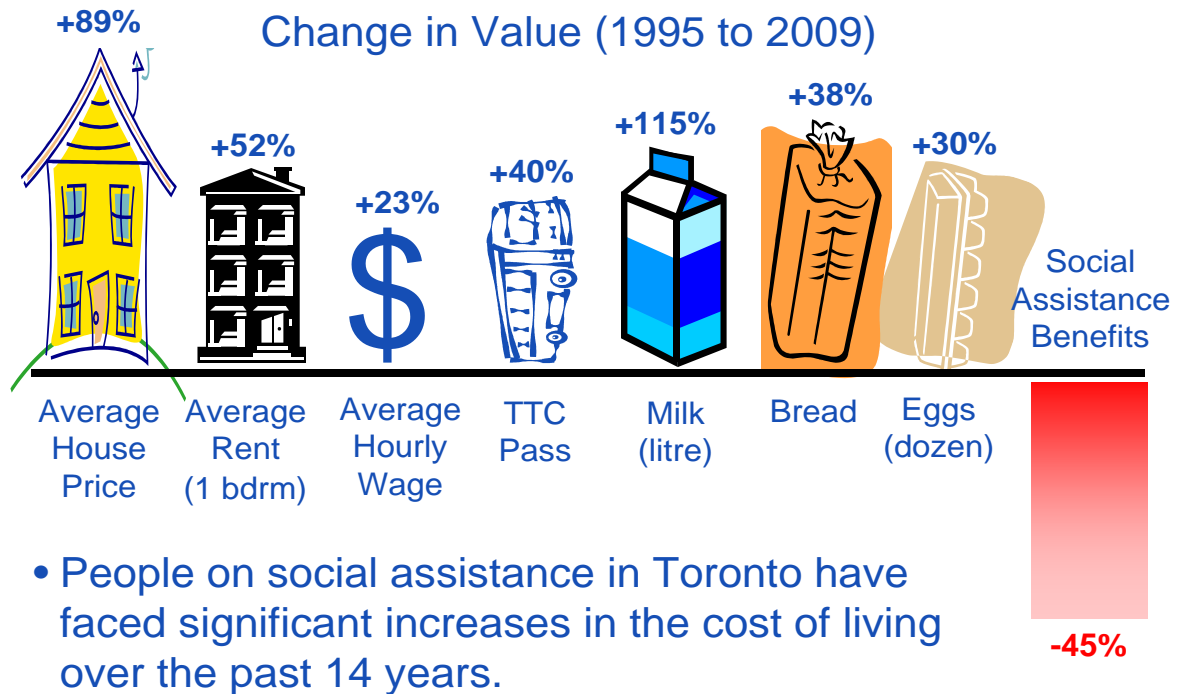
Joseph P. Pennachetti  
City Manager

## **ATTACHMENTS**

Attachment 1: Rising Costs and Stagnant Benefits



## Being Left Behind



Restoring the Balance