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Budget Savings on the Backs of the Poor

Who Paid the Price for Welfare Benefit Cuts in BC

By Seth Klein and Andrea Smith

In January 2002, in the wake of tax cuts that induced the largest deficit in the history of British Columbia, the provincial government announced a massive budget cut at the Ministry of Human Resources (the ministry responsible for welfare). MHR's operating budget was to be reduced by \$581 million, or 30 per cent, over the course of three years.

MHR (now the Ministry of Employment and Income Assistance, or MEIA) is responsible for providing income assistance and employment support for unemployed and disabled British Columbians. Budget cuts were not a new phenomenon at this Ministry. The previous government cut some benefits in 1995, and the number of people receiving welfare (the "caseload") has been in decline since that time. Even before the 2002 cuts, welfare benefit rates were already grossly inadequate.¹ Nevertheless, in 2002, further budget reductions were announced.

The Ministry sought to meet its three-year budget reduction target in three ways:

- First and foremost, by further reducing the number of people receiving welfare. Part of this caseload decline was the result of an improved labour market (i.e. more jobs have been available, so fewer people have needed assistance). But many people in need have also been discouraged from applying or denied welfare as a result of onerous new eligibility rules and a very complicated application process.²
- Second, by closing Ministry offices and cutting staff.
- Third, by taking money directly from those who continued to receive income assistance.³

In June 2003, the CCPA and SPARC BC co-published *A Bad Time to be Poor*, a report itemizing and criticizing many of these cuts.⁴ However, at the time, it was not known how many people were affected by each of these policy changes. Now, based on data obtained through

Freedom of Information requests made by the CCPA, it is possible to estimate approximately how much money the government "saved" by cutting already meagre monthly welfare payments.⁵ The government's own statistics reveal that millions of dollars have been clawed back from the monthly incomes of single parents (almost 90 per cent of whom are mothers⁶), the children of single parents, and older people.

Cumulatively, during the two fiscal years after the benefit cuts and clawbacks were announced (April 2002 to March 2004), the government "saved" at least \$92 million on the backs of welfare recipients. This savings accounts for about 11.5 per cent of the Ministry's overall budget cut during this time.⁷

In Brief

- In January 2002, the provincial government announced it would cut the budget of the Ministry of Human Resources (since renamed the Ministry of Employment and Income Assistance) by 30 per cent, or nearly \$600 million.
- Based on data obtained by the CCPA through Freedom of Information requests, it is now possible to estimate how much of this budget cut came directly out of the already meagre monthly incomes of welfare recipients.
- The government's own statistics reveal that, over the two years after the cuts were introduced (April 2002 to March 2004), at least \$92 million was cut or clawed back from monthly support to single parents, the children of single parents, poor families, older people nearing retirement age, and the working poor.
- In total, between rate cuts and income clawbacks, many single parent families on welfare saw their incomes fall by \$395 or more per month.

Picking the Pockets of the Poor: Who Lost, and How Much

Earned Income Clawed Back

In the past, anyone on welfare in BC could work and keep a small portion of their earned income—\$100 per month for single adults and \$200 for families (income earned above these amounts was clawed back at a rate of 75 per cent). This policy, known as an “earnings exemption,” was cancelled in 2002 for all “employable” welfare recipients (people with disabilities or categorized as having “persistent multiple barriers” to employment were spared, and indeed, have since seen an increase in their earnings exemptions). The loss of earnings exemptions has been felt most by single parents, since in 2002 “single parents were the greatest users of this exemption.”⁸

The impact of this cut is summarized in the table. On average, 8,864 individuals or families per month declared income and had it clawed back (10,612 in 2002/03 and 7,115 in 2003/04). In the year before the cuts, the average monthly exemption was \$168.14. Based on this figure, we can estimate that with this new policy, the government clawed back over \$35.8 million directly from working welfare recipients over two years.

Earnings exemptions cost governments relatively little, and are widely viewed as an important way for people on social assistance to keep or get a foot in the door of the paid labour market. But most importantly, they represent a vital income top-up for social assistance recipients, given that it is virtually impossible to live on what basic welfare rates provide.⁹ BC is now the only province in Canada with no form of earnings exemption for “employable” welfare recipients.

Estimated Impact of Cuts and Clawbacks (April 2002 to March 2004)

Target population and type of cut	Amount of cut/clawback	Fiscal year 2002/03		Fiscal year 2003/04		Estimated total savings
		# of cases (monthly average)	Estimated annual savings	# of cases (monthly average)	Estimated annual savings	
Earned income exemption cancelled	\$100 for singles, \$200 for families	10,612	\$21,410,779 ^a	7,115	\$14,355,96 ^a	\$35,766,740
Families of three or more, shelter allowance reduced	\$55 to \$75	10,369 ^b	\$4,562,360 ^d	8,026 ^c	\$5,296,918 ^d	\$9,859,278
Single parent families, benefits reduced	\$43 to \$90	24,370	\$12,574,662 ^d	17,828	\$9,199,033 ^d	\$21,773,695
Single parent families, spousal support exemption cancelled	\$100	7,057	\$8,468,200	5,150	\$6,179,500	\$14,647,700
Single adults 55 to 59, benefits reduced	\$47	3,197	\$1,802,920	2,089	\$1,178,666	\$2,981,586
Couples 55 to 59, benefits reduced	\$94	124	\$139,496	67	\$77,268	\$216,764
Single adults 60 to 64, benefits reduced	\$98	3,191 ^e	\$3,677,352	2,045 ^e	\$2,404,920	\$6,082,272
Couples 60 to 64, benefits reduced	\$145	162 ^e	\$281,880	90 ^e	\$156,600	\$438,480
Minimum estimated total “savings” from cuts			\$52,917,649		\$38,848,866	\$91,766,515

Source: Authors’ calculations based on data obtained through Freedom of Information requests.

^aBased on the average monthly income exemption per claimant for 2001, which was \$168.14. ^bThis cut took effect in August 2002; the annual average is for the remaining eight months of that year. ^cThis average is an estimate based on the number of cases affected in August 2002, assuming a similar rate of decline in the caseload as for single parent families. ^dMinimum, assumes smallest possible rate cut for people affected. ^eThis average is an estimate based on a snapshot for mid-2003, and assuming the same rate of decline in the caseload as for 55 to 59 year olds.

Shelter Allowance Cut

In August 2002, monthly shelter allowances for families of three or more were cut by between \$55 and \$75. The table shows that this cut affected an estimated 10,369 families per month in the first year, and 8,026 families per month in the second year. Conservatively, this cut amounts to \$9.9 million over the course of two years (assuming all affected families saw their shelter allowance reduced by \$55 per month, the lowest amount).

Shelter allowances provided by welfare were *already* unrealistically low. Parents on welfare have long had to supplement their shelter allowance with their support allowance (money for food and everything else). This cut has deepened the catch-22 for poor families, who must choose between paying the rent and feeding their children.

Cuts to Single Parents' Benefit Rates

Under the new regulations, each single parent with one child lost \$43 in monthly welfare benefits—a reduction in their monthly rate from \$1,004 to \$961. Single parents with two children lost \$90—per month—their benefit rate fell from \$1,201 to \$1,111.

The impact of this cut is summarized in the table. Province-wide, benefit rate reductions for single parents affected an average of 21,099 families each month between April 2002 and March 2004. Conservatively (assuming all these single parent households had only one child), the government cut a minimum of \$21.8 million in support from single parent families in the two years following the budget cuts.¹⁰

Elimination of Child Maintenance Exemption

The government also cancelled spousal support exemptions for single parents. The exemption had enabled single parents to keep \$100 of their child maintenance payments from a former spouse (the rest was clawed back by the government). As shown in the table, this policy change affected an average of 6,104 families each month. In total, over the two years, the government clawed back more than \$14.6 million in spousal support from single parents.

Thus, under the budget cuts at MHR, the government “saved” more than \$36.4 million on the backs of single parents and their children. Single parents also lost the earned income exemption, and single parents with two or more children additionally faced the shelter allowance reduction. In total, between rate cuts and income clawbacks, many single parent families on welfare saw their monthly income fall by \$395 or more.

Cuts to Benefits for Older Adults

Older unemployed British Columbians have also paid for MHR budget cuts. Single adults and couples aged 55 to 64 used to receive slightly higher benefits than their younger counterparts, to reflect that they face age-related challenges in both finding work and eking out a living on a low income. Under the new regulations these age-related benefits were abolished.

Single adults aged 55 to 59 lost \$47 monthly, while couples in this age group lost \$94. Single adults aged 60 to 64 lost \$98, while couples lost \$145. All of these people are now living on the standard monthly rate of \$510 for a single person or \$827 for a couple. These households are also subject to the loss of earnings exemptions, and have therefore potentially lost a further \$100 to \$200 per month.

The table shows the province-wide impact of these cuts. An average of 2,643 single welfare recipients aged 55 to 59 faced a benefit cut each month; 96 couples aged 55 to 59; 2,618 single people aged 60 to 64; and 126 couples aged 60 to 64. Thus, in total, by abolishing age-related benefits for welfare recipients on the cusp of senior citizenship, the government “saved” an estimated \$9.6 million between April 2002 and March 2004.

Conclusion

Even before the 2002 cuts, welfare benefit rates in BC were too low. As SPARC BC has argued, welfare rates are well below the minimum costs of living. The Dieticians of Canada¹¹ have noted that rates are inadequate for eating a nutritious diet. Moreover, for too long rates have been set arbitrarily, or in order to meet political or budgetary goals.

The 2002 cuts have taken millions of dollars out of the pockets of individuals and families completely unable to cope with such income losses. Today's large provincial budget surpluses clearly show that the cuts were unnecessary. Furthermore, while the welfare ministry may “save” money from these cuts, it is very likely that government and society pays for them in a multitude of other ways. The cuts are inconsistent with the government's own “golden goals” for BC, which speak of building “the best system of support in Canada”¹² for vulnerable people. Surely we can afford to take better care of each other.

The following would be steps in the right direction:

- Reinstating earnings exemptions for all welfare recipients.
- Reinstating the spousal support exemption, and raising the clawback threshold so that non-custodial parents can contribute more to the economic well-being

of their children. Single parents should be allowed to keep child maintenance payments up to the Federal Child Support Guidelines without having it deducted from their income assistance (for example, a single mother with two children would be eligible to receive \$446 per month from a father who earns \$30,000 annually).

- Reinstate age-related benefits, particularly for the relatively small client base of those aged 60 to 64, who are very close to retirement age.
- Raise the rates, so that income assistance reflects the minimum real costs of living. Inflation has eaten away at the value of BC's meagre benefit levels for 23 years,¹³ and current rates for people without disabilities are lower in absolute dollars than they were 12 years ago. It's time to raise the rates, and to annually index benefit rates to inflation (see Steve Kerstetter's CCPA-BC paper *A Better Way to Set Welfare Rates*).

Notes

- ¹ Long, Andrea and Michael Goldberg. 2002. *Falling Further Behind: A Comparison of Living Costs and Employment and Assistance Rates in British Columbia*. Vancouver: Social Planning and Research Council of BC, December.
- ² For more on this subject, see Wallace, Bruce, Seth Klein, and Marge Reitsma-Street. 2006. *Denied Assistance: Closing the Front Door on Welfare in BC*. Vancouver: CCPA and Vancouver Island Public Interest Research Group.
- ³ The specific cuts discussed in this paper were contained in *Bill 26: Employment and Assistance Act* and *Bill 27: Employment and Assistance for Persons with Disabilities Act*, both tabled in the BC Legislature, April 15, 2002.
- ⁴ Klein, Seth and Andrea Long. 2003. *A Bad Time to Be Poor: An Analysis of BC's New Welfare Policies*. Vancouver: Canadian Centre for Policy Alternatives, and the Social Planning and Research Council of BC.
- ⁵ Freedom of Information request to the Ministry of Human Resources, codes 2004-0522 (requested May 2004, received January 2005) and 2005-00369 (requested May 2004, received July 2005).
- ⁶ Brodsky, Gwen, Melina Buckley, Shelagh Day, and Margot Young. 2005. *Human rights denied: Single mothers on social assistance in British Columbia*. April 29. Accessed online at www.povertyandhumanrights.org/docs/denied.pdf.
- ⁷ The budget for MHR was reduced by \$286 million during the first year of the government's three-year budget reduction plan, and by \$510 million in the second (for a total cut during these two years of \$796 million). Thus, the benefit cuts detailed in this paper (\$92 million over two years) account for at least 11.5 per cent of the Ministry's overall budget cut. Over time, however, the share of the budget reduction accounted for by the cuts detailed in this paper shrink, as the caseload declines.
- ⁸ Brodsky et al., p. 7.
- ⁹ Seth Klein and Andrea Long, 2003, p. 23.
- ¹⁰ As overall caseloads have declined, this benefit cut has affected fewer and fewer families. As of December 2005, for example, there were 10,882 single parent households on social assistance receiving the reduced benefit rate, for a total "savings" to government of \$467,926 per month, or approximately \$5.6 million per year.
- ¹¹ Dieticians of Canada. 2005. *The Cost of Eating in BC: Little Money for Food—the Reality for Some BC Families*. Vancouver: Dieticians of Canada, BC Region.
- ¹² BC Liberal Party. 2005. *2005 Campaign Platform: A Proven Plan for a Golden Decade*. Accessed online at www.bcliberals.com.
- ¹³ Long and Goldberg, 2002.

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