

REGIONAL MUNICIPALITY OF OTTAWA-CARLETON
MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT
RAPPORT

Our File/N/Réf.
Your File/V/Réf.

DATE 4 June 1998

TO/DEST. Coordinator, Community Services Committee

FROM/EXP. Commissioner Social Services

SUBJECT/OBJET **NATIONAL CHILD BENEFIT SYSTEM**

DEPARTMENTAL RECOMMENDATION

That the Social Services Department report back in September with a plan for reinvestment of net savings resulting from the National Child Benefit System (NCBS). The reinvestment plan will be consistent with the objectives of the NCBS.

PURPOSE

The purpose of this report is to provide information on the federal government's National Child Benefit System, recent changes to the program and the impact of the 1998 changes on the Department's clients and budget. In addition, the report provides information on the reinvestment of provincial funding and makes a recommendation on the reinvestment of municipal funding.

NATIONAL CHILD BENEFIT SYSTEM

There have been a number of changes between 1993 and 1998 to federal government programs assisting families with children.

In 1993, the federal government eliminated the family allowance and introduced a tax reduction targeted to families with children called the Child Tax Benefit (CTB), an annual benefit based on the previous year's tax return (see Table 1). Benefits are paid monthly (although calculated annually) and automatically adjusted every July on the basis of the net family income reported in the previous year's tax return. Low income families receive full benefits, modest and middle income families, up to net income ceilings, receive partial benefits.

In addition, in 1993 working poor families began to receive a Working Income Supplement (WIS) of \$500 per family. This supplement phased out once net family income reached \$25,921.

In 1997, the federal government introduced the National Child Benefit System. The new system consisted of the CTB and an increased WIS targeted to working low income families. The WIS

increased from the 1996 level of \$500 per family to \$605 for the first child, \$405 for the second child and \$330 for the third and each additional child.

TABLE 1.
CHILD TAX BENEFIT/WIS - 1993 -1997

Working Families	Poor	1993-1996 CTB+WIS \$	1997 (CTB+WIS) \$	All families	other	1993-1996 CTB only* \$	1997 CTB only* \$
1 child		1,520	1,625	1 child		1,020	1,020
2 children		2,540	3,050	2 children		2,040	2,040
3 children		3,635	4,475	3 children		3,135	3,135
4 children		4,730	5,900	4 children		4,230	4,230

*modest and middle income families up to net income ceilings receive partial benefits.

In 1998, the WIS is being eliminated. It is being replaced by the National Child Benefit Supplement (NCBS) for all low income families. The amount of the NCBS is the same as the WIS. NCBS phases out once net income reaches \$25,921.

TABLE 2.
CANADA CHILD TAX BENEFIT - 1998

# of children	Base Child Tax Benefit (CTB)	National Child Benefit Supplement (NCBS)	Canada Child Tax Benefit (CCTB) CTB+NCBS=CCTB
1 child	1,020	605	1,625
2 children	2,040	1,010	3,050
3 children	3,135	1,340	4,475
4 children	4,230	1,670	5,900

The National Child Benefit Supplement (NCBS) displaces some of the child-related portion of social assistance benefits. The NCBS will be deducted from social assistance payments. (The CTB is not deducted, nor was the WIS).

The federal government will provide \$850 million in July 1998 to cover the cost of the NCBS. In addition, it will provide \$425 million in July 1999 and \$425 million in July 2000.

DISCUSSION

The 1998 changes to the National Child Benefit System were analyzed based on the stated objectives of the National Child Benefit System to:

1. Help prevent and reduce child poverty;
2. Promote attachment to the workforce - resulting in fewer families having to rely on social assistance - by ensuring that families will always be better off as a result of finding work; and
3. Reduce overlap and duplication through closer harmonization of program objectives and benefits and through simplified administration.

1. Help prevent and reduce child poverty

Families who rely primarily on provincial social assistance as their source of income will not see any improvement in their benefits as a result of the increase in the CTB. This is because the NCBS will be deducted from their social assistance (See Table 3a).

TABLE 3a.

FAMILY OF 4 : 2 ADULTS, 1 CHILD UNDER 12, 1 CHILD OVER 12

Benefit	1996 \$	1997 \$	1998 \$
Earned Income	0	0	0
Social Assistance	14,568	14,568	13,558
WIS	0	0	0
CTB	2,040	2,040	0
CCTB	0	0	3,050
Total	16,608	16,608	16,608

Working poor families receiving a social assistance top-up are in the Support to Employment Program (STEP). STEP families (other than those temporarily grandfathered) will receive lower total benefits than in 1997. Only those STEP families on our caseload in June and July 1998 will be grandfathered for up to a year; this is referred to as the “WIS loss exemption”. This means the NCBS will not be deducted from their top-up. However, after one year, or if the family leaves the caseload and comes back on, the NCBS will be deducted from their top-up. All STEP families who come on our caseload after June 1998 will have the NCBS deducted from their top-up. Any family on social assistance which begins to have earnings after June 1998 (becomes a STEP family) will have the NCBS deducted from their top-up (See Table 3b).

TABLE 3b.

SAMPLE FAMILY OF FOUR:

2 adults, 1 child under 12, 1 child over 12, earnings=\$11,568

Income/Benefit	STEP family 1996 \$	STEP family 1997 \$	“Grandfathered” STEP family (WIS loss exempt) 1998 \$	STEP family (NCBS deducted from welfare benefit) 1998 \$
Earned Income	11,568	11,568	11,568	11,568
Social Assistance	9,006	9,006	9,006	7,996
WIS	500	1,010	0	0
CTB	2,040	2,040	0	0
CCTB	0	0	3,050	3,050
Total	23,114	23,624	23,624	22,614

2. Promote attachment to the workforce...by ensuring families are always better off finding work.

STEP families (other than those temporarily grandfathered) will receive the CTB but have the NCBS deducted. Therefore they receive equal CCTB benefits to those families relying primarily on social assistance, and they are not relatively better off working as a result of the NCBS. For working poor families with top-up the amount of earnings equal to the NCBS is subject to an effective marginal tax-back rate of 100%.

For a sample family of 4, the level of net earnings at which the family would no longer receive social assistance is \$23,580. The NCBS will be deducted from their top-up until they leave assistance. By the point at which the working family leaves assistance, at a net income of \$23,580, the NCBS is already declining (about half) and disappears altogether at \$25,921.

New STEP regulations (effective May 1, 1998) will reduce STEP earnings exemptions at a rate of 5% for each year on assistance up to 5 years. This will have the effect of lowering the level of net income yearly at which a working family ceases to be eligible for a top-up. While this will increase the range of earnings for which the NCBS will have an “incentive to work” effect, the overall effect is working poor families will be receiving lower total benefits over time than they currently receive.

3. Reduce overlap and duplication through closer harmonization...

The 1998 changes begin the process of moving toward a system in which welfare payments for children are replaced with a common system of income support extended to all low-income families with children.

FINANCIAL IMPLICATIONS

Financial implications were examined with respect to the GWA caseload and the FBA caseload.

GWA Caseload

The estimated impact for the Social Services Department is an offset of \$9,268,980 gross, \$1,853,796 net. This estimate is based on the total number of families with children receiving GWA as of October 1997. It assumes that, for all families, their GWA benefit will be offset by the full NCBS for each child.

FBA Caseload

In Ottawa-Carleton, an additional 5,521 families with children receive Family Benefits from the Province, based on October 1997 figures. This represents an offset of \$5,301,875 gross, \$1,060,375 net from the portion of the Social Services Department's budget allocated to changes created by the "mega-week" announcements.

SOCIAL REINVESTMENT

The federal and provincial governments have worked together to create the National Child Benefit System. The federal government will free up resources that the provinces/territories currently spend on welfare benefits for children. All provinces and territories, in turn, have agreed to reallocate these savings to help fund their own programs for low-income families with children, such as income-tested child benefits, wage supplements, in-kind assistance with pharmacare or dental care, and services such as early childhood education and child care. The Provincial government has extended to municipalities the expectation that their savings be reinvested in a similar fashion.

Ontario will have more than \$120 million dollars to reinvest in benefits and services for children. The province will be using a major portion of the money available for reinvestment to enhance the Ontario Child Care Tax Credit. The Ontario child care tax credit is proposed to be combined with \$100m in funds made available by the NCB initiative to create a \$140m Ontario Child Care Supplement for Working Families that would be delivered monthly to 210,000 families for 350,000 children under age 7. The maximum annual benefit would be \$1,020 for each child under age 7. This would represent more than a doubling of assistance provided under the former child care tax credit. Also, working families where one parent stays at home to care for their young children would be eligible.

The provincial and federal governments expect and require that municipal net savings be reinvested in a manner consistent with NCBS objectives. An accountability process is being developed which will include municipalities to ensure that, without exception, provincial and municipal savings stay in the envelope and are re-invested. Municipalities in Ontario may choose to follow the provincial lead by investing in child care or healthy babies programs or may choose other programs which benefit children.

The Department will explore the range of possibilities which fit with NCBS objectives and report back in September with recommendations for reinvestment.

*Approved by
Dick Stewart*

CP/