The Big Picture: Trends in Inequality and Poverty in Canada

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Trends in poverty and inequality in Canada have been changing over time and are different for Indigenous and non-Indigenous persons. The disparity is amplified for First Nations living on reserve. This presentation begins by seeking to understand how poverty and inequality have changed in the past thirty years. The intersection between poverty and social assistance is discussed in the second part of the presentation.

Between 1976 and 2017 there has been an overall positive story for poverty and inequality for mainstream Canadians. Poverty has been reduced and inequality has not increased since 2000.

Inequality Trends

After-tax income has risen for economic families in every quintile. As illustrated in Slide 3, since the late 1990s, the fifth or top quintile has risen the fastest, followed by the first or bottom quintile. Interestingly, average after-tax incomes have been growing slowest for the fourth quintile. This change is remarkable as it shows that average after-tax incomes are growing at similar rates at both ends of the income distribution. This growth at both ends of the distribution can partially explain why inequality has been stable since 2000.

Inequality, measured by the Gini coefficient, has been near-constant in Canada since 2000 (Slide 4). The Gini coefficient is the most common inequality measure, where a score of 0 is indicative of a perfectly equal income distribution, and 1 indicates complete inequality where a single individual holds all the wealth. The current Gini coefficient for after-tax income is 0.31. However, the post-2000 stability in income inequality comes after significant increases in inequality between 1980 and 2000. As a result, while inequality has not increased since 2000, it remains at the highest levels since data becomes available in 1976.

Comparing market income and after-tax income illustrates that to some extent, income is successfully being redistributed through the tax-and-transfer system. Slide 5 illustrates the impact of taxes and transfers on inequality reduction through income redistribution. Transfers play a much larger role in reducing inequality than taxes. Social assistance, which will be explored in detail later in the presentation, is just one aspect of the transfer system. The gap between tax and transfer impacts is growing with transfers increasing in importance.

Trends in Poverty

The national poverty reduction target based on the Market Basket Measure for 2020 have been set at 9.7 per cent. This target has actually achieved in 2017. In 2011, the poverty rate in Canada was 12.7 percent and only started to fall significantly in 2015. The poverty reduction target for 2030 is set at 6.1% of the Canadian population (Slide 6), at 50 per cent of 2015 levels.

The primary reason for the decrease in the poverty rate can be attributed to the new Federal Child Benefit, which has led to very large decreases in poverty incidence among families with children. The rate of seniors living in poverty has also fallen due to improved Old Age Security benefits. The Canada Child Benefit (CCB) was introduced in 2016, and replaced the Universal Child Care Benefit (UCCB). If receiving the highest rate, the CCB provides $6,400 per child for children under six, and $5,400 for children between the ages of six and seventeen. Phase-out rates begin for adjusted family net income above $30,000 and increases rapidly for incomes above $65,000. The benefit is received per child, and indexed annually. For a family with two children, their total annual federal child benefit would have increased by nearly $2,000 in the first year the CCB was implemented. This resulted in the increases in after-tax incomes at the lowest quintile, and contributes to the constancy in inequality despite income growing at the very top of the distribution.

In 2016, the Working Income Tax Benefit was replaced by the Canada Workers Benefit (CWB). The CWB supplements the earnings of low income earners with a refundable tax credit. It is largely considered to improve work incentives for low income Canadians.

Unfortunately, with the exception of the CWB, single adults without children have been largely left out of the poverty reduction strategy – which has been reflected in the shifting demographics of persons receiving social assistance. However, the CWB is a work-triggered benefit and therefore only targets the working-poor. Single adults who are not currently employed cannot access this benefit. Maximum benefit levels for families have risen from $1,000 in 2007 to $2,355 in 2019, a 135.5 per cent increase. Maximum benefit levels for single individuals have risen relatively more, a 170 per cent increase. However, singles' levels are still much lower than for parents, as maximum benefit levels were $1,355 in 2019, up from $500 in 2007 (Slide 8).

Between 2015 and 2017, poverty rates for single parents fell 7 percentage points, the largest poverty reduction amongst at-risk demographics (Slide 9). All other at-risk groups, single adults between the ages of 45 and 64, recent immigrants, indigenous persons living off-reserve and persons with disabilities, the incidence of poverty fell by between 4 and 5 percentage points.

Trends in Social Assistance

Social assistance is meant as a program of last-resort, for individuals who have exhausted all other avenues and are in need of immediate financial assistance. This section on mainstream

Canadians continues by focusing on social assistance trends and dependency rates in the provinces.

The total number of beneficiaries in Canada, excluding First Nations living on reserve (except in Ontario), fell considerably from 1998 to 2009. Since 2009, it has been rising slowly, potentially as a result of slower economic growth after 2008. However, the long-term overall trend is still downward, as the number of beneficiaries and their relative importance has fallen considerably since 1998 (Slide 10).

Welfare dependency rates are measured by dividing the number of persons receiving social assistance by the total population. Dependency rates in at the national level in recent years have been constant, and have remained just above 5 per cent since 2014. In 1998, dependency rates were above 8 per cent, showing a significant decrease in the past 20 years (Slide 11).

Slide 12 illustrates how dependency rates vary tremendously between provinces, as have rates of change in dependency between 2006 and 2018. In 2018, dependency rates were highest in Nunavut at 37.5 per cent, despite an 18.6 percentage point decrease since 2006. The Northwest Territories and Ontario both had dependency rates above the Canadian average at 6.8 and 6.6 per cent respectively, and both provincial rates have been increasing since 2006. Alberta had the lowest dependency rate at 2.2 per cent in 2018; However, this comes after a 47.5 per cent increase from the 2006 dependency rate of 1.5 per cent.

Welfare incomes vary by province and by household type (Slide 13). In every province, welfare incomes are highest for households with children and significantly lower for single adults deemed employable. Benefits for adults with disabilities are limited, except for in Alberta and Saskatchewan if the person's disability is deemed to be permanent and severe.

Welfare adequacy is measured by comparing maximum welfare benefits to the Market Basket Measure (MBM), Canada's official poverty line. Welfare incomes for single employable adults are highest in Newfoundland and Labrador, reaching just below 60 per cent of the MBM (Slide 14). In New Brunswick, Alberta and Nova Scotia, welfare incomes are below 40 per cent of the MBM. The inadequacy of welfare incomes for single adults is shocking, especially when compared to other household types. The least adequate welfare income for a single parent with a child is in Nova Scotia, and yet is still higher than the highest income for a single adult in any province. Quebec has the highest welfare income for single parents, reaching nearly 85 per cent of the MBM. Incomes for couples with children are comparable, ranging between 82 and 62 per cent of the MBM. The adequacy of welfare incomes for households with children is largely due to increases in the Canada Child Benefit.

Welfare income is far less adequate for adults with a disability. Alberta and Saskatchewan have both developed programs for persons with permanent, severe disabilities that prevent the individual from working. In those programs, incomes are quite close to the MBM. However, in all other provinces welfare disability incomes range from 50 per cent to 70 per cent of the MBM (Slide 15).

Despite having the highest welfare incomes for adults with a disability, single parents with a child and couples with children, Quebec's dependency rate is lower than the national average. In contrast, Alberta has an extremely low dependency rate and offers very stringent benefits. However, most of the reduction in number of beneficiaries in the past three decades in Alberta has come from a tightening of eligibility criteria and work requirements.

The number of social assistance beneficiaries with a disability has risen steadily in the past decade. This trend is known as the "medicalization" of welfare, where tighter eligibility requirements make it more difficult for able-bodied and employable persons to receive financial assistance. Mandatory work requirements may result in employable welfare recipients transitioning back to the labour force (often into-low wage and precarious labour) or losing their benefits. For this reason, only persons with an exemption from work requirements (usually due to disability) remain on social assistance for long periods of time.

The welfare program as it is currently structured requires destitution in order for a person to be eligible to begin receiving social assistance. The first criteria that an applicant has to meet is their province's asset exemption levels (Slide 18). Asset exemption levels only consider a person's liquid assets, so owning a home or car would not immediately prevent a person from applying for social assistance. If the person were unable to transition back to the labour force or find an alternative form of support, they would eventually be expected to sell their physical assets. However, a temporary period of roughly six months is allowed in most provinces to give the individual an opportunity to recover quickly.

Asset levels in Alberta and the territories are all below $1,000. Such a level of poverty would make it nearly impossible for an individual to leave poverty even if they were to find employment. Furthermore, a low asset limit prevents the individual from saving any of their income in order to consumption smooth over a given period of time, or invest their income in any meaningful way. Saving to move to a better paid job or return to school becomes impossible. Asset exception limits are highest in Ontario, where a single individual can have up to $10,000 of liquid assets.

Monthly earning exemptions determine how much a recipient can earn in addition to receiving welfare benefits before their earnings are clawed back (Slide 19). Allowing recipients to keep a portion of their earnings represents an incentive to work rather than depend exclusively on their benefits. However, extremely low earning exemptions may not be able to outweigh the additional costs involved in finding employment, such as transportation, clothing and equipment, and childcare. After a recipients' earning surpass the exemption rate, earnings are reduced according to the provincially defined reduction rate. In addition to the reduction rate, the recipient will potentially have to pay into Employment Insurance, the Canada Pension Plan and provincial and federal income tax.

Ontario has the highest earning exemption, set at $300 per month, after which earnings are reduced by 75 cents on every dollar earned. While Saskatchewan is currently phasing out their social assistance program for a newly reformed one, the old program that most recipients still depend on allows for no exempt earnings at all. Most provinces allow recipients to earn about $200 monthly and clawback rates are 50 per cent or higher. Nova Scotia is the only exception, where clawback rates increase gradually with income.

While increasing asset limits and extending the earning exemptions are seen as quick fixes to some of the structural barriers that trap social assistance recipients in poverty, amendments to such narrow policies cannot reduce dependency rates alone. For example, asset limits and earning exemptions are highest in Ontario, yet it remains the province with the highest dependency rate.

Indigenous Poverty and Social Assistance Dependency

This section focuses on trends in poverty and social assistance dependency for Indigenous persons in Canada.

Median income have risen for both Indigenous and non-Indigenous persons between 2005 and 2015. Income levels were higher in both years for non-Indigenous persons, with Indigenous persons reaching non-Indigenous median income levels from 2005, in 2015.

Within Indigenous groups, median incomes were highest for Métis persons, and lowest for First Nations persons, specifically for persons living on reserve. For non-Indigenous persons median incomes in 2015 were close to $35,000, and just above $15,000 for First Nations living on reserve (Slide 21). Inuit persons and First Nations living off-reserve have comparable median income levels. The same positive news in terms of poverty reduction for mainstream Canadians over the last two decades is not present in Indigenous communities.

Social assistance is much more prevalent within Indigenous communities, especially for First Nations living on reserve. For First Nations living on reserve, the proportion of the population whose primary income source is government transfers increase marginally between 2005 and 2015, reaching just under 45 per cent of individuals (Slide 22). Dependence on government transfers as the primary income source was nearly equal for Metis persons and non-Indigenous persons. Despite this finding, median incomes remain higher for non-Indigenous persons than Metis persons, however that gap has been reduced since 2005.

When specifically considering child-poverty on reserve, the intensity varies drastically between provinces. Manitoba and Saskatchewan both have incredibly high child poverty rates, both at 65 per cent of children living below the poverty line in 2016 (Slide 24). Manitoba and

Saskatchewan also have the highest percentage of First Nation children in their respective foster care systems. National trends are also extremely high, with 53 per cent of First Nations children on reserve living in poverty. Poverty rates were only distinctly lower in Quebec, where 29 per cent of First Nations children are living in poverty on reserve.

Social assistance beneficiaries have fallen slightly for First Nations living on reserve since 1996, but are still six times higher than the national average. The number of beneficiaries fell between 1997 and 2001, stagnated and then began to rise again in 2003. There is limited reliable time series data available, but assuming linear trends between missing years, numbers would have risen until 2012, and then eventually fell to current levels (Slide 25). The age distribution of welfare beneficiaries on reserve is much younger than for mainstream Canadians. Youth dependency has been targeted through a variety of government employment initiatives, but the success of the programs has been insignificant.

The welfare dependency rate on-reserve has fallen from 41 per cent in 1996 to 29.5 per cent in 2017 (Slide 26). While this reduction is quite impressive, it varies greatly by region and individual reserve. Many reserves have much lower dependency rates, whereas some reserves have dependency rates as high as 80 per cent of the population.

Conclusion

In conclusion, poverty reduction advancements have not been uniformly distributed across Canada and Canadians. The progress made by the improved Canada Child Benefit and the Canada Workers Benefit has had a positive impact at the tail end of the distribution, keep inequality constant over the past 20 years but have not been able to reduce it. Levels of incomes for all quintiles of the population have risen. Within the Indigenous population, Metis populations tend to fare better than First Nations, especially First Nations living on reserve.

Welfare dependency rates are falling for both Canadian and First Nations persons, but dependency for First Nations remains six times higher than the national average. For mainstream Canadians, the growing number of single adults and adults with disabilities on social assistance is a pervasive issue as poverty reduction strategies have favored households with children. On reserve, concerns over the high youth dependency rates leaves room to question whether the objective of social assistance should be to reduce dependency on the program, or provide an adequate living standard for those in need.