

The Key to Tackling Child Poverty: Income Support for Immediate Needs and Assets for Their Future

Depending on the measure used, as many as 15.6 percent of Canadian children were living in poverty at last count (2001).¹ Worse still, the gap between Canada's rich and poor appears to be growing: Between 1990 and 2000, incomes for the richest 10 percent of Canada's families grew slightly while the incomes of the poorest 10 percent of families remained stagnant [Statistics Canada 2003a]. This, 15 years after the House of Commons unanimously agreed to work towards the goal of ending child poverty in Canada by the turn of the century.

Poverty carries with it a long list of risk factors for children including worse health, educational and social outcomes. But perhaps the most threatening of these is the risk that poor children may grow up to be poor adults, perhaps eventually struggling themselves to raise children without adequate resources. Poverty in Canada includes an intergenerational aspect and it cannot be broken by income assistance alone. Children and their families also need opportunities to save and invest in their own futures.

Canada's social welfare system has long recognized the value of providing a basic level of support to meet day-to-day needs. While debate about the adequacy of such programs is ongoing, income supports account for a growing proportion of the incomes of Canada's poor families. Programs such as provincial child benefits and social assistance and the federal Canada Child Tax Benefit are helping to meet at least some of the basic needs of Canada's poorest families.

But what about assets? Families know intuitively that savings and assets are as important to their overall financial and economic security as income. Savings and assets, however modest, can be an important economic resource. Assets can cushion against sudden losses of income or financial risks such as starting a new business.

Assets can enhance social capital, participation and inclusion. For example, homeowners appear to have higher levels of civic

engagement and enjoy better marital stability, family health and well-being among children, in comparison to non-owners. Assets can build capacity that can be sustained beyond current consumption needs while complementing existing income supports.

Most importantly for children, savings and assets can increase hope and a sense of ownership and mastery over one's life and future. We know that young adults from low-income backgrounds have some of the highest rates of financial dependency of any group in Canada. Imagine how different their experience might be, how better prepared they might be, if they entered adulthood with a savings account and some resources at their disposal.

Currently, middle- and upper-income parents have important opportunities to save for their children's future, for example through private trusts and publicly subsidized education savings plans such as Registered Education Savings Plans (RESPs). Since 1998, the federal government has provided a cash incentive through the Canada Education Savings Grant (CESG) to help families save towards their children's postsecondary education. Ottawa pays families 20 cents for every dollar they deposit in eligible Registered Education Savings Plans up to a maximum \$400 per year or \$7,200 over the child's lifetime. For parents with some after-tax income to spare and who plan to send their children to college or university anyway, the RESP and CESG provide a nice tax-sheltered incentive to do so. A recent evaluation of the CESG found that the majority of beneficiaries come from families with incomes of \$80,000 and over.

Yet low-income families are discouraged from saving through asset tests that restrict eligibility for provincial welfare programs, since applicants must run down most of their savings

before they can qualify for benefits. Meanwhile, well-off Canadians enjoy large income tax breaks for contributions to RRSPs and Registered Pension Plans. So compared to the income gap, the gap between Canada's asset-rich and asset-poor may appear to be an insurmountable chasm: The lower 50 percent of Canadian households own only 6 percent of all net worth (i.e., personal assets minus debt) [Statistics Canada 2001: 9]. And the gap is growing: Between 1984 and 1999, the median net worth of the wealthiest 20 percent of Canadians increased by 39 percent while the net wealth of the poorest 20 percent actually fell.

What's to be done? A more inclusive and comprehensive approach to addressing poverty and child poverty in particular would ensure not only adequate income support and social services but also adequate access to savings and assets. This approach is about asset-building as well as income security.

In the United Kingdom, the Blair government's 2003 budget announced an ambitious new Child Trust Fund, a universal endowment paid to all British newborns available for use only after age 18. The Trust includes an initial payment at birth, top-ups throughout childhood and adolescence, and increased benefit rates for children of lower-income families. With modest regular contributions from families, the government expects that an individual Trust Fund could grow to as much as £27,000 by age 18. The initiative is part of a broad government plan to promote savings and asset development over the life span to ensure personal economic security, opportunity and long-term independence.

In the United States, the Corporation for Enterprise Development is leading a demonstration of children's savings accounts called Savings for Education, Entrepreneurship and

Downpayment (SEED). SEED accounts will be provided to a sample of American children. Account holders may receive as much as \$2,000 in initial deposits and incentives, but the accounts could grow to much higher levels once family deposits and compound interest are taken into account. The SEED account funds will become available once the child reaches age 18 and can only be used for education, small-business development, home purchase or retirement savings.

In Canada, the asset-building field is gaining momentum through initiatives such as the federally-funded *learn\$ave* demonstration of Individual Development Accounts (IDAs) for adult learning and a new multi-year asset-building policy research agenda launched by Social and Enterprise Development Innovations (SEDI). Provincial governments in BC, Alberta, Manitoba, Quebec, Nova Scotia and New Brunswick have variously supported demonstrations of asset-building for low-income Canadians through regulatory changes, waivers of asset tests in social assistance, and even funding for local IDA projects.

Research from IDA projects in the US and the *learn\$ave* project in Canada has already established that, when provided the right institutional and social supports, low-income account holders can and do save. In the *learn\$ave* project, for example, more than 3,600 low-income account holders are saving an impressive average of \$55 per month.² To date, *learn\$ave* participants have saved \$2 million and earned \$6 million in matching savings credits.

Children's savings accounts for low-income families are the next step for asset-building in Canada. The need is clear: Low-income families require support to create a better future for their children. These parents cannot,

nor would they want to, bequeath income assistance entitlement to their children. Rather, low-income parents need the right mix of supports so they can save and pass on opportunity for better economic security and social inclusion.

In Alberta, the provincial government has announced that its first legislative priority in the new session will be to introduce a bill to create the *Alberta Centennial Education Savings Plan*. Through a contribution from the province, parents of all children born in Alberta from 2005 onward will be encouraged to open an RESP and begin planning for their child's post-secondary studies.

The 2005 federal Budget announced the government's intention to introduce a new Canada Learning Bond for children born after 2003 to low-income families. Proposed as a measure to "kick-start education saving for low-income families" [Department of Finance Canada 2004: 117], the Canada Learning Bond will deliver a \$500 endowment to all children receiving the National Child Benefit (NCB) supplement. In each year that a child is eligible to receive the NCB supplement and until age 15, the Canada Learning Bond program will pay a further \$100 annually. As an endowment at birth, the Canada Learning Bond can take advantage of years of compound interest to generate far greater returns relative to the initial expenditure. In fact, the federal government's own estimates place the value of the total government contribution at up to \$2,000 per child, which would amount to \$3,000 (in 2004 dollars) through compound interest.

The act of saving itself can have powerful psychological and behavioural effects. Children who receive the learning bond will have a greater incentive to stay in school and to strive for, and plan toward, higher education. In addition, Ottawa also announced its intention to

provide greater help to lower-income families. Families with net incomes under \$35,000 will see the first \$500 they save annually in an RESP matched by the CESG at the rate of 40 percent (double the previous 20 percent), while families with net incomes between \$35,000 and \$70,000 will have their first \$500 of RESP savings matched by a CESG at the rate of 30 percent (up from 20 percent). Paired with this more substantial and progressive annual grant, the Canada Learning Bond will lever additional deposits from family and friends.

But perhaps most significantly, the federal Canada Learning Bond announcement recognizes that savings and assets are as important to low-income families as they are to other Canadians. This is truly groundbreaking in Canadian social policy.

The devil, as always, may be in the details of the learning bond. As the federal government considers options for the implementation of the learning bond, it must ensure that the initiative is consistent with a well-conceived asset-building policy for low-income families.

The fundamentals are clear:

Targeting: The best way to help the poor is not through universal but rather income-tested programs. That's been established time and again. Children's savings accounts for low-income families should be tailored to their needs, not the needs of middle- and upper-income families. Existing mechanisms that have already proved their worth in assisting these families should be used to target a children's savings account program. Tying eligibility for the Canada Learning Bond to the National Child Benefit supplement is a good way to reach the most disadvantaged children and eliminates the need for parents to complete separate applications. The commitment to make the Bond system flexible to changes in family

income over time and allow children who are not eligible to receive the \$500 initial endowment in the year of their birth to receive it in the year they become eligible for the NCB supplement is also laudable.

Supports: The Canada Learning Bond and enhanced CESG will require that low-income parents open an RESP for a child and deal with mainstream financial services providers who have so far shown little interest in this target market. These families will need adequate support to meet their information, confidence and decision-making needs if the Bond and enhanced CESG are going to be successful. Trusted community organizations are best placed to improve financial capability. A national commitment to financial capability on the scale of current national literacy commitments is needed so that low-income parents can make informed choices and decisions about saving for their children.

Community: Community-based agencies have a role to play in delivering asset-building programs to low-income families and particularly difficult-to-reach groups like the working poor. Financial incentives can be delivered through a number of mechanisms, but supports to address non-financial barriers are best delivered by the organizations with the greatest capacity – community-based non-profit agencies.

Flexibility: Saving towards a postsecondary education may be among the wisest investments a parent can make in their child's future, particularly as the cost of higher education increases and the demand for a skilled workforce is increasing. But other productive asset uses may be more meaningful to young people as they make the transition into adulthood. Savings for skills training, starting a small business or to access affordable housing are other alternatives worth considering.

Coordination: Governments at the federal and provincial levels will need to coordinate their various asset-building programs for low-income families to ensure that needs-tested social assistance benefits are not reduced by contributions to a child's saving account. Precedent for this already exists, such as in BC and Nova Scotia where provincial income assistance regulations specifically exempt contributions to an asset development account from needs tests. The federal government should act immediately to gain provincial agreement to exempt RESP savings where they are currently included in social assistance needs tests.

Income: Adequate income support is still required to meet families' immediate consumption needs. An asset-building policy for low-income families with children is no justification for reducing income support from federal, provincial or local sources. Low-income parents should not be asked to compromise their child's well-being today to save for their child's future. They've already been asked for too long to compromise savings and productive assets for income support.

The asset-building policy field is gaining momentum in Canada and abroad, and the Canadian social policy community has much to contribute. Low-income and asset-poor Canadian families can only benefit from better opportunities to save and accumulate the productive assets that build and sustain futures.

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The views expressed in this commentary are those of the author.

Endnotes

1. From Statistics Canada's *Income Trends in Canada, 1980-2001*. In 2001, the most recent year for which estimates are available, 15.6 percent of children under age 18 lived in low-income families, based on Statistics Canada's before-tax low income cutoffs. The after-tax low income cutoffs yield an estimate of 11.4 percent of children in low-income families.
2. Social and Enterprise Development Innovations, internal data from *learn\$ave* Management Information Software as of January 2004.

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