

# **Urban Child Poverty**

**Senate Committee on Social Affairs, Science and Technology**

Submitted by  
Michael Goldberg  
Chair

First Call: BC Child and Youth Advocacy Coalition

January 2008

## Introduction

I am honoured to appear before the Senate Committee on Social Affairs, Science and Technology to discuss urban child poverty. This submission provides details of the topics related to my verbal presentation. The topics include:

- Measuring poverty
- Child poverty rates 1989 – 2005
- Child poverty rates for female lone-parent and two-parent families
- The interaction between market income, social security benefits, taxation and statutory deductions, and income tested social programs
- Moving Forward: Suggested measures to reduce child poverty in Canada
- Making a Difference: Comparisons

## Measuring Poverty

Canada, like most countries, does not have an official poverty line (Senate 2006 page 8). There are, however, three poverty measures that are frequently used in Canada.

**Low-Income Cut Off lines (LICO)** – is a mixed consumption-to-income ratio measure that is unique to Canada. The LICO is based on a low-income family spending a disproportionate amount of its income on food, clothing and shelter compare to what an average household spends on those three items. Statistics Canada produces 35 annual before and after tax LICO thresholds for families of 1-7 persons in 5 different size communities. The LICO is the most common measure used by Canadian social policy groups measuring poverty in Canada.

**Market Basket Measure (MBM)** – is an example of a consumption measure estimating the cost of goods and services that a household needs to get by. The contents in the basket can be either restrictive or inclusive. The Fraser Institute produces a very restrictive basket to measure poverty arguing that the income threshold should be set at what it costs to maintain physical well-being. The Market Basket Measure was developed by HRSDC at the request of the Federal/Provincial/Territorial Ministers responsible for income security. The MBM consists of 45 thresholds based on the cost of a prescribed basket of goods and services for 18 Census Metropolitan Areas/Census Areas and for 27 other geographic communities (based on size). The MBM determines whether a given family is poor by comparing a family's income, **after** deductions claimed on income tax forms (federal and provincial income taxes, CPP and EI contributions, child care expenses, disability related expenses, and non-insured health expenditures) to the MBM threshold for that city.

**Low Income Measure (LIM)** – is an indicator of relative income deficiency. The LIM identifies the number of families with incomes less than half the median income. This is the most common measure used in international comparisons of poverty rates. Statistics Canada produces annual before and after tax LIMs thresholds based on household size and composition. There are no geographic variations.

Table 1 provides a comparison of the 2005 before- and after-tax income thresholds for a family of four for the four measures mentioned.

**Table 1 – Income thresholds 2005 - family of four (two adults, two children)**

<b>Measure</b>	<b>Before Tax</b>	<b>After Tax</b>
Low Income Cut-Off ( <b>LICO</b> )	38,610	32,556
Low Income Measure ( <b>LIM</b> )	33,468	29,908
Market Basket Measure ( <b>MBM</b> )	-	30,767
Fraser Institute	-	22,435

**Sources and Explanatory Notes:**

**LICO and LIM** – Statistics Canada Catalogue No. 75F002MEI – No 4 *Low Income Cut-offs for 2006 and Low Income Measures for 2005*. The LICO threshold is for large metropolitan areas with populations of 500,000 or more.

**MBM** – *Low Income in Canada 2000-2002 Using the Market Basket Measure* Page 76. The MBM is for the Vancouver CMA. The 2002 MBM thresholds have been increased by 6.3% based on the all-item CPI for BC between 2002 and 2005.

Fraser Institute – “Fraser Alert: Poverty in Canada: 2006 Update”. The 2006 Fraser Institute threshold was reduced by 1.8% to produce a comparable threshold for 2005.

While *Understanding Freefall: The Challenge of the Rural Poor: Interim Report of the Standing Senate Committee on Agriculture and Forestry* reports that the three different types of poverty measures paint a somewhat different picture, the three major after tax measures have fairly similar income thresholds. The low Fraser Institute threshold results in a lower child poverty rate when compared to the LICO after tax and the MBM. Comparative figures for 2002<sup>1</sup> show a child poverty rate of 5.8% using the Fraser Institute measure; 12.2% using the after-tax LICO; and 16.9% using the MBM. The MBM has a higher child poverty rate even with a lower income threshold because it deducts child care and health expenses from net income reported by tax filers and then determines the number below the MBM threshold. The poverty rate for seniors, however, is lower using the MBM (5.8%) compared to the after tax LICO (7.6%)<sup>2</sup>.

**Poverty Rates Over Time**

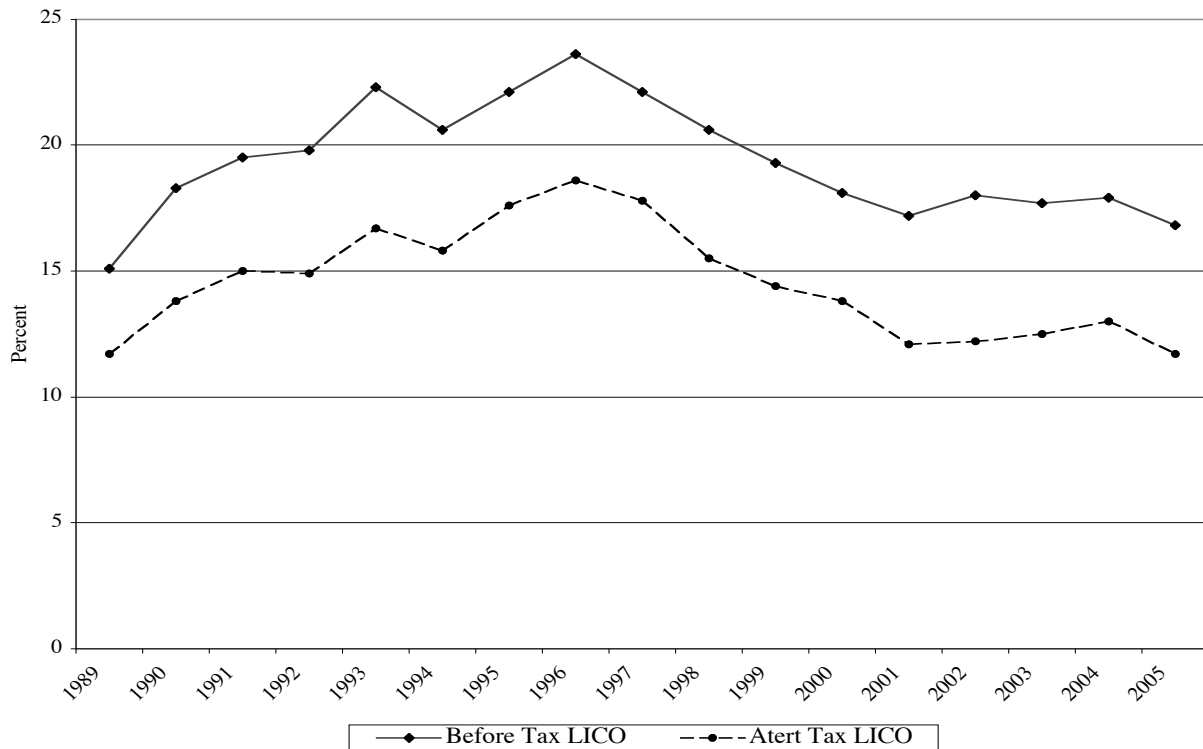
Another issue concerns before tax or after tax measures. Governments tend to prefer using the after tax LICO, while most social policy groups prefer the before tax LICO. While the child poverty rate is lower after tax compared to before tax measures, the trends over time are similar as shown in Figure 1.

---

<sup>1</sup> The latest published MBM figures at the time of preparing this submission are for 2002.

<sup>2</sup> “Low Income in Canada 2000-2002 Using the Market Basket Measure” Page 28.

**Figure 1**  
**Child Poverty Rates in Canada Before and After Tax 1989-2005**



Source: Statistics Canada: Income Trends in Canada

The child poverty rate goes up and down in relation to what is occurring in the economy. Child poverty rates generally fall when the economy is improving and increase when the economy is not doing well. One would anticipate that the child poverty rates will continue to fall in 2006 and perhaps level off in 2007 given the economic situation but will likely remain level or increase in 2008 given the current concerns about a slowdown in the Canadian economy. The difference between the before and after tax rates has been between four and five percentage points most years, averaging 4.8 percentage points over the past 17 years.

Perhaps the most important finding from this data is that economic policy alone cannot eradicate child poverty. Child poverty rates have only returned to where they were in 1989, even after a decade of sustained and healthy economic growth. We also know that 41% of the children in poverty in 2005 lived in families where at least one parent had full-time, full-year employment. While a job helps, it is not a guarantee out of poverty.

### **Vulnerability**

While Figure 1 shows the overall rate, the risks of children experiencing poverty is not evenly distributed. According to 2001 census data, new immigrants, off-reserve Aboriginal children and children with a disability experience higher risks of poverty. It is anticipated that the results from the 2006 census will paint a similar picture. Figure 2 shows that children living in female lone-parent families are significantly more vulnerable than children in two-parent families.

**Figure 2**  
**2005 Child Poverty Rates by Family Type – LICO After Tax**



Source: Statistics Canada: Income Trends in Canada

While there has been a remarkable reduction in the rate of child poverty for female lone-parent families, more than one in three children in female lone-parent families were experiencing poverty in 2005. On the other hand, children in two-parent families have seen only modest improvements since 1996 and the child poverty rate is actually slightly higher for children in two-parent families in 2005 than it was in 1989.

It is also important to note that while the risks are higher when children live in female lone-parent families, the majority of children in poverty (53.3%) live in two-parent families. There were approximately 580,000 parents who were raising 788,000 children in 2005 who lived in poverty.<sup>3</sup>

While a buoyant economy and the introduction and improvements of the National Child Benefits Supplement (NCBS) have contributed to the reduction in the rate of child poverty, there has been only a marginal improvement in the depth of poverty over the past decade. On average, in 2005 female lone-parent families had incomes that were \$6,700 below the after tax poverty line and two-parent families had incomes that were \$9,100 below the poverty line.<sup>4</sup>

<sup>3</sup> Statistics Canada: Income Trends in Canada. Based on after-tax LICOs.

<sup>4</sup> Ibid.

## **Fragmented System**

The lack of integration between labour market policies, taxation and statutory deductions, income transfer benefits, and income tested social benefits is perhaps best understood by examining a family type under different levels of earnings from employment and income from welfare.

Table 2 provides four scenarios for a two-parent household with two children aged 7 and 4 living in Vancouver.<sup>5</sup> The first scenario shows what the family's gross and disposable incomes are where one parent is employed 40 hours per week at \$11/hour. The second shows the same situation but at \$13/hour and the third shows what happens at \$16/hour. It is assumed that there are no child care costs in the first three scenarios as one parent is not employed. The fourth scenario has one parent working 40 hours at \$11/hour and the second parent working for 35 hours at \$10/hour. The cost of child care in this scenario is based on the average 2006 costs in Vancouver for 3-5 year old licensed group care and after school care for the seven year old. The child care subsidy is close to the maximum allowed in BC based on the current formula in the BC Child Care Subsidy regulations.

---

<sup>5</sup> This analysis is based on work completed for the BC Provincial Health Services Authority. See Kerstetter, Steve and Michael Goldberg 2007. *A Review of Policy Options for Increasing Food Security and Income Security in British Columbia*. Available at [www.phsa.ca/HealthPro/PreventionPromoProtect/default.htm](http://www.phsa.ca/HealthPro/PreventionPromoProtect/default.htm).

**Table 2 – Two-Parent Family Children 4 and 7 years Old**

	Scenario 1 \$11/hr 40 hrs	Scenario 2 \$13/hr 40 hrs	Scenario 3 \$16/hr 40 hrs	Scenario 4 \$11/hr 40 hrs \$10/hr 35 hrs
Hours / Week	40	40	40	75
Wage per hour	\$ 11.00	\$ 13.00	\$ 16.00	
Pre Tax Income	22,880	27,040	33,280	41,080
UCCB	1,200	1,200	1,200	1,200
Net Income	24,080	28,240	34,480	42,280
EI Premiums	412	487	599	739
CPP Premiums	959	1,165	1,474	1,687
Federal Income Tax	-	358	1,231	1,662
Provincial Income Tax	217	560	895	548
After Tax Income	22,492	25,670	30,281	36,444
CCTB	6,030	4,896	3,461	2,548
GST Credit	724	724	607	395
PST Credit	13	-	-	-
Child Care Subsidy <sup>6</sup>	-	-	-	7,908
BC Rental Assistance	1,839	907	-	-
Total Credits	8,606	6,527	4,068	10,851
Less child care expenses	-	-	-	11,480
Total Disposable Income	31,098	32,197	34,349	35,815
LICO After Tax 2007	33,885	33,885	33,885	33,885
Shortfall	(2,787)	(1,688)	464	1,930
Increase in Gross Income		4,160	10,400	18,200
Increase in Disposable Income		1,099	2,152	4,717
Percent Family keeps		26%	21%	26%

As Table 2 shows, a family of four cannot reach the urban after tax poverty line with only one full-time worker until that person earns almost \$16 per hour. Scenarios two, three and four show that gross income increases significantly from scenario 1 as wages increase or the second parent becomes employed. Unfortunately, the family's bottom line, or disposable income increases at a much slower rate after changes in taxes, statutory contributions, and reductions in benefits linked to income. For every dollar of additional earnings, the families in these scenarios get to keep less than 30% of their increased earnings.

<sup>6</sup> The difference between the subsidy and the cost (\$3,572) of child care is the amount used to determine tax and child benefits. This family receives \$67 less than the maximum allowable subsidy of \$7,975. Every additional dollar in earned income by the family in this example would result in a 50 cent reduction in the child care subsidy.

The situation is somewhat different for a lone mother with two children of the same age.

**Table 3 – Lone Mother Children 4 and 7 Years Old**

	Scenario 5 Welfare	Scenario 6 \$10/hr 30 hrs
Hours / Week	NA	30
Wage per hour	NA	\$ 10.00
Pre Tax Income	(Welfare) 12,427	15,600
UCCB	1,200	1,200
Net Income	13,627	16,800
EI Premiums	-	281
CPP Premiums	-	599
Federal Income Tax	-	-
Provincial Income Tax	-	-
After Tax Income	13,627	15,920
CCTB	6,708	6,685
GST Credit	724	724
PST Credit	75	75
Child Care Subsidy	-	7,975
BC Rental Assistance	-	3,805
Total Credits	7,507	19,264
Less child care expenses	-	11,480
Total Disposable Income	21,134	23,704
LICO After Tax 2007	27,161	27,161
Shortfall	(6,027)	(3,457)
Increase in Gross Income		3,173
Increase in Disposable Income		2,570
Percent Family keeps		81%

While BC recently increased its welfare rates, the maximum rates, along with the maximum child benefits still leave this family over \$500 per month below the poverty line. Obtaining a \$10/hour job that averages 30 hours of paid work a week leaves the family only slightly better off even though they keep most of the increased income from employment once all subsidies and child care costs are taken into account.

Two main forces are at work to keep the families described in these scenarios from getting further ahead, even with a sizeable increase in earnings. The first is a substantial decline in social security benefits that are geared to income. The National Child Benefit Supplement is targeted to very low-income earners with children and it declines as earnings increase beyond a very low

threshold. The maximum current benefit goes to families with net incomes no greater than \$20,883. The reduction rate for two children is 23%. Thus, families with two children earning over \$20,883 lose 23 cents in benefits for every additional dollar earned.<sup>7</sup> The \$10,400 increase in earnings between scenario 1 and 3 led to a loss of \$2,569 in child benefits. The other major reduction was losing all of the benefits from the BC rental assistance program, which provides benefits to families that have gross earned income of less than \$28,000.

There are even some scenarios where earning a few extra dollars actually leaves a household further behind. Take the case of a family which relies mainly on earned income, lives in subsidized rent-geared-to-income housing and also receives a variety of child benefits, tax credits, subsidies for child care, and assistance with medical expenses. All these benefits have thresholds for maximum benefits, and all provide for reductions in benefits as income grows past the thresholds. Add in increases in taxes and other payroll deductions, and the total losses could actually outweigh the total gains at certain income levels. It is important to find ways of reducing the “stacking effects” when benefits have overlapping income thresholds and reduction rates.

The other setback occurs because of increases in federal and provincial income taxes and increased contributions to the Canada Pension Plan and Employment Insurance. While there are increases, the results show that the increases in taxes are quite modest. Total tax and statutory contributions grow from 5.6% of pre-tax income for the lone mother with just statutory deductions for EI and CPP in scenario 6, to 6.5% of pre-tax income in scenario 1, increasing to 11.3% of pre-tax income in scenarios 3 and 4.

Even though the family in scenario 4 has disposable income that is almost \$2,000 above the LICOs, they, like all the other families are subject to several areas of financial stress. The most worrisome is losing hours of paid work, either because of a reduction in hours or because of short-term illness. For example, in scenario 3, missing only four days of paid work because of illness will take that family below the poverty line. In scenario 4, a combination of sick days for two weeks sick time covered by employment standards would result in a loss of over \$1,500 in pre-tax income. While provincial employment standards provide up to 10 days off due to illness, they do not require that these days off are with pay, something that better paid salary positions most often include. Losing the number of hours per week, or partial layoff, is also a constant source of worry. Losing 5 hours per week at \$10/hour would result in a loss of \$2,600 in pre-tax income.

A second stressor is housing. It is most likely that all the families in these scenarios are renters, especially in the current Vancouver market. Recent rental housing data from CMHC shows that the median cost of renting a three-bedroom apartment or row house plus utilities would be approximately \$16,000 per year (\$1,333/month). Quick checks of listing services like Craig’s List also show that there is very little rental housing available in Metro Vancouver under this amount unless one can live in the suburbs further away from Vancouver. The cost of transportation, however, may not make such housing much less expensive.

---

<sup>7</sup> See appendix 1 for a graphic description of the reduction in the CCTB/NCBS benefits.

A third stressor is access to child care. As scenario 4 shows, families are financially better off if the second adult can obtain full-time employment. But finding accessible, quality, and affordable child care is a major stressor for families. There are long waitlists for spaces and a recent survey by First Call<sup>8</sup> shows that child care providers are having a great deal of difficulty recruiting and retaining staff needed to operate existing spaces. Low wages and benefits were cited in the report as the major reasons that it was difficult to recruit and retain staff. The median wage for a BC caregiver in 2006 was \$12.58 per hour.<sup>9</sup>

The fourth stressor is unexpected expenses. Families that live this close to the financial edge are constantly worried about paying the bills and any unexpected expense (e.g., the need for dental care or the need to replace a broken down appliance or other household furnishing). Such unexpected expenses add to the family's precarious financial position.

Of course, these stressors play an even greater role in negatively impacting on the well-being of families who are well below the poverty line.<sup>10</sup>

### **Moving Forward**

There is no silver bullet for reducing and eventually eradicating child poverty. There is no one policy that can address all the changes that are required.

It is clear from the literature<sup>11</sup> that a multifaceted approach will be required if Canada is to reduce and eventually eliminate child poverty. It is also clear that both the Federal and Provincial/Territorial Governments will need to be involved if we are to see any significant reductions in child poverty in Canada.

Perhaps most important is committing to a poverty reduction strategy. Such a commitment would include clearly articulated targets along with measurable outcomes within a publicly stated timeline. Building on the experience in the United Kingdom, Campaign 2000 has urged governments to commit to a poverty reduction strategy that would see child poverty rates reduced by 25% from their current levels by 2012, and by 50% from their current levels by 2017. In an ideal situation, there would be all party agreement in the House of Commons on the targets and timelines. Having commitments from the provincial and territorial governments would also be needed as several of the policy options such as improvements to minimum wages and employment standards, or increases in welfare rates are primarily their responsibility.

Change in the various policy areas, if and when it occurs, is often done in isolation of potential impacts on related policy. Policy change, when it occurs, often appears to be random and idiosyncratic, not based on principle or guidelines. Another important feature is having clear

---

<sup>8</sup> *Results of Early Childhood Education (ECE) Staffing Survey: October/November 2007* available at [www.firstcallbc.org](http://www.firstcallbc.org)

<sup>9</sup> Childcare Resource and Research Unit. *Early Childhood Education and Care in Canada 2006*.

<sup>10</sup> See Steve Kerstetter and Michael Goldberg op cit for other household scenarios.

<sup>11</sup> See *Summoned to Stewardship* and *Pathways to Progress* available at the Campaign 2000 web site [www.campaign2000.ca](http://www.campaign2000.ca).

principles and guidelines – a rationale for setting policy. Federal and provincial/territorial governments should state what measures or criteria would be used in setting policy.

The following are the critical areas that need to be addressed.

### Wages

We know that countries that have a small proportion of their full-time workers in low waged jobs also tend to have much lower child poverty rates.<sup>12</sup> Federal and provincial/territorial minimum wages should be based on the principle that no one working full-time, full-year lives in poverty. The urban before-tax LICO for a single person in 2005 was \$20,788. A person working 40 hours per week would need to earn \$10 per hour to ensure they were not living in poverty in 2005. Minimum wages, like other benefits, need to be linked to increases in the cost of living if such assurances are to be met. The minimum wage would need to be approximately \$10.60 for 2008 if it were to retain its purchasing power.

### Employment Standards

Both the Federal Labour Code and provincial/territorial employment standards should include paid time for meal breaks and sick leave. Employment standards provide for unpaid meal breaks and sick leave.

### Enhanced Employment Insurance

While EI currently covers some people who are laid off or have had their employment interrupted, the insurance program needs to be enhanced. This enhancement would cover both more of the people who have their employment interrupted because of a lay off, as well as people who lose hours of work because of reductions in the amount of work available. Working tax credits have also been suggested as a policy option to address fluctuations in number of hours worked.<sup>13</sup>

### Child Benefits

Wages are not differentiated based on the size of the household. The CCTB/NCBS would need to be increased from the current maximum of \$3,271 per child to \$5,194 based on the principle that the benefit should be set so that a single parent with one child working full-time full-year is not below the poverty line.<sup>14</sup>

### Welfare / Income Assistance Rates

A poverty reduction strategy must recognize that there are people who, for a various reasons are limited in how much they can participate in the labour market. Income assistance rates should be

---

<sup>12</sup> See *Pathways to Progress*, op.cit. P 25-27

<sup>13</sup> *Summoned to Stewardship*, op.cit. P 33-34.

<sup>14</sup> The before tax LICO in 2006 for a single parent with one child was \$26,396 compare to \$21,202 for a single person.

set at, or near, the after-tax poverty line less the amount provided through the child benefit. This would mean that the welfare rate for a single parent with one child would need to be approximately \$16,190 (plus the \$5,194 child benefit) compared to the current \$11,352 provided in BC.

It is recognized that there should be a differential between what people earn and what they receive on welfare. It would therefore be important to ensure that there is appropriate synchronization between wage policy, tax and statutory contribution policy, income benefit policies, and subsidies for social programs geared to income.

### Child care

If we expect or encourage both parents to enter the labour market, then it would be important to ensure that high quality child care is available to parents at costs that do not take them below the poverty line. Furthermore, a publicly funded system of child care would likely be more efficient economically compared to the current predominantly user-pay system in all the provinces except Quebec.

### Housing

The cost and quality of housing is a major worry for many low-income families. Given that housing costs do not change if there is an interruption in earnings, both rent-geared-to-income and rental assistance programs can be beneficial in ensuring that quality affordable housing is available to all families.

### **Making a Difference**

We know that government policies make a difference. We know, for example, that the Nordic countries have much lower rates of child poverty compared to Canada.<sup>15</sup> We know that these same Nordic countries also have a very small percentage of their workers employed at low wages compared to Canada. These same countries also spend significantly more in public expenditures on child care compared to Canada.<sup>16</sup>

Government intervention to reduce child poverty does not need to come at the expense of economic competitiveness. Denmark, Finland and Sweden have consistently been ranked in the top 10 countries in the World Economic Forum's annual reports on global competitiveness. Achieving the poverty levels of the Nordic countries will, however, require greater overall levels of taxation and public spending than currently occurs in Canada.<sup>17</sup>

Even within Canada there are notable differences between the provinces in the extent to which government make a difference. For example, the child poverty rate in Quebec was reduced by

---

<sup>15</sup> UNICEF Innocenti Research Centre, *Child Poverty in Rich Countries 2005*. Poverty rates are based on percent of children in families with less than half the median income in their respective country.

<sup>16</sup> Childcare Resource and Research Unit. *Briefing Notes - Early Learning and Child Care: How does Canada measure up*. Available at [www.childcarecanada.org](http://www.childcarecanada.org).

<sup>17</sup> See *Summoned to Stewardship*, op.cit. P 28

49% with government transfers compared to BC, where the child poverty rate was reduced by only 24%<sup>18</sup>. Similarly, Quebec, with a lower child poverty rate, has regulated child care spaces for almost 35% of children 0-12 years of age compared to BC where there are regulated child care spaces for less than 14% of children 0-12.<sup>19</sup>

## Conclusions

While many of the specific solutions fall under provincial jurisdiction, the Federal Government can play both a leadership role and can use its spending powers to encourage provincial action. For example, setting the federal minimum wage at the before tax poverty line and then indexing it to inflation would send an important signal to the provinces that have not yet announced bringing the minimum wage to at least \$10/hour.

The federal government could also use its spending powers under the Canada Social Transfer to provide additional funds to those provinces that agree to set welfare rates at the after-tax poverty line or agree to implement a more publicly funded child care program similar to that in Quebec.

The Federal government can, of course raise the Canada Child Tax Benefit / National Child Benefit Supplement so that the combined value per child would be the difference in the before-tax LICO between a one-person and a two-person household.

Most important, the federal government could commit to a poverty reduction strategy with firm targets and timelines and the proposed actions to achieve that strategy. The federal government could also take the lead on re-examining the tax and benefit systems to make sure that people with low incomes are not paying effective marginal tax rates that are significantly greater than the wealthiest people in Canada. Better co-ordination, both between departments and between the federal and provincial governments in the design of each individual benefit, may help reduce the worst effects of stacking, but it may take a complete overhaul of the tax and benefit system to get rid of the problem.

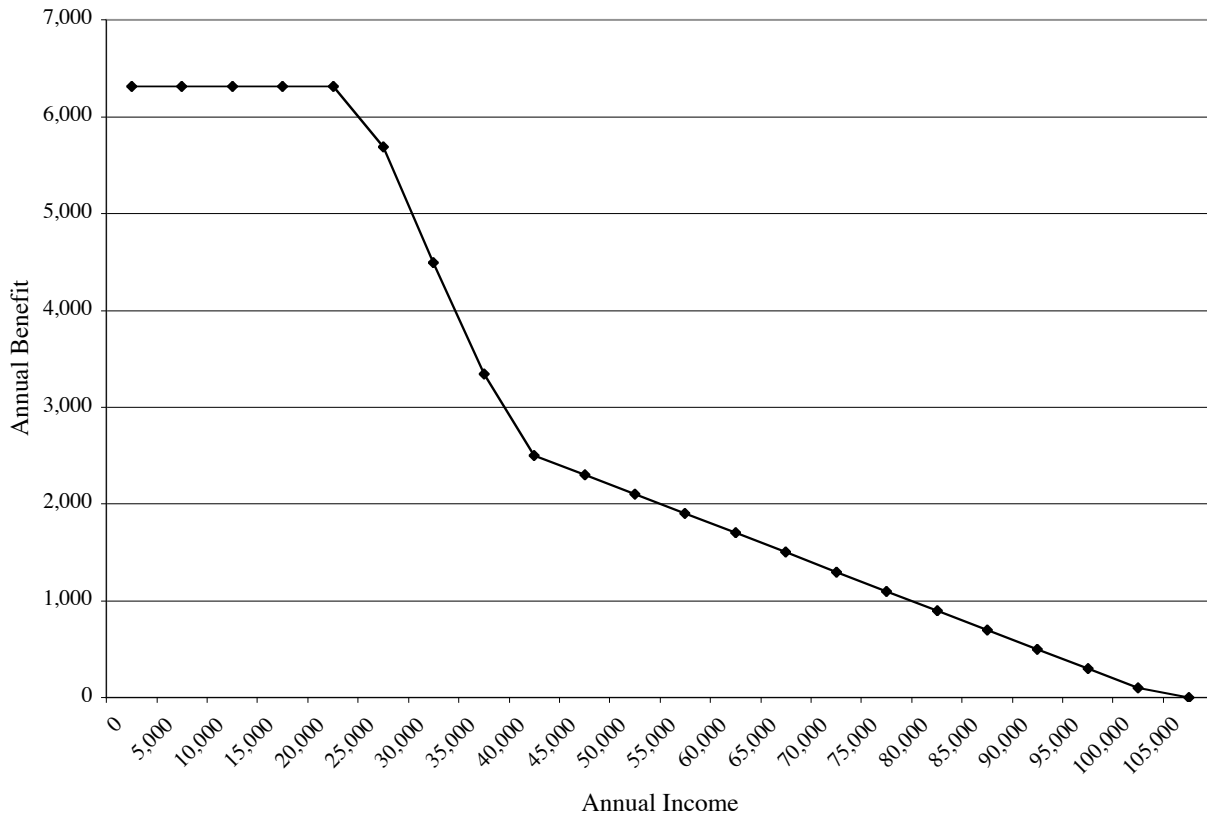
Canada has shown what it can do when it makes firm commitments with targets and timelines. Hopefully, the time has come when the rhetoric contained in the 1989 House of Commons unanimous resolution to eliminate child poverty will lead to the work that is required to make that pledge a reality.

---

<sup>18</sup> 2007 BC Child Poverty Report Card – Fact Sheet #9 Available at [www.firstcallbc.org](http://www.firstcallbc.org).

<sup>19</sup> Childcare Resource and Research Unit. *Early Childhood Education and Care in Canada 2006*. Available at [www.childcarecanada.org](http://www.childcarecanada.org).

**Appendix 1**  
**CCTB/NCBS Benefits – Two Children Aged 7 and 4**



Source: Authors calculations based on Canada Child Benefits available at <http://www.cra-arc.gc.ca/E/pub/tg/t4114/t4114-07e.pdf>