

JOINT FEDERAL-PROVINCIAL STUDY
OF A COMPREHENSIVE DISABILITY PROGRAM

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EXECUTIVE SUMMARY

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REPORT OF THE JOINT FEDERAL-PROVINCIAL
STUDY OF A COMPREHENSIVE DISABILITY
PROTECTION SCHEME

I. INTRODUCTION

At their meeting of February 23, 1982, Ministers of Social Services established a joint federal-provincial study of a comprehensive disability protection program with a mandate to determine the feasibility of establishing and operating a national disability benefit program and equivalent alternatives. This is the Report of the Task Force.

In keeping with its mandate, the Task Force does not make recommendations, but rather has determined the possible objectives and scope of a comprehensive protection scheme and the feasibility of alternative approaches towards its establishment in whole or in part.

II. PROFILE OF DISABLED PERSONS IN CANADA

While data sources on the disabled are limited, the following facts emerge:

- ° About 1.9 million working-age Canadians have some degree of long-term disability.
- ° About twelve percent of the total population are disabled to some extent. Of the disabled between the ages of 15 and 64, 18 percent are severely disabled.
- ° A significant proportion of the disabled population is unable to work; of those employable, a high percentage are unemployed. On average, former wage earners suffer a drastic drop in income in the event of severe disability.
- ° The incidence of disability varies with age.

III. THE CURRENT SYSTEM OF DISABILITY BENEFITS

Historical Development

Broadly speaking, the early development of disability programs in Canada came through categorical programs for special circumstances, such as Workers'

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Compensation (WC) and Veterans' disability pensions. Only years later did general programs (such as the Canada/Quebec Pension Plans (C/QPP)), arise to provide benefits regardless of the cause of disability. Recent years have seen the creation of special provincial programs for the disabled, rapid growth of private Long-Term Disability (LTD) insurance plans, and categorical programs such as compulsory automobile insurance and criminal injuries compensation.

Present System

The present system is a shared federal-provincial jurisdiction and can be divided into three classes of programs:

1. The general disability programs, are those which provide benefits without regard to the cause of disability. They include the C/QPP, private LTD disability insurance and social assistance, including provincially-sponsored programs for disabled persons.
2. The categorical programs are those which provide benefits to those with specific conditions and/or in limited circumstances. These include the system of provincial WC programs, benefits for disabled war veterans, the automobile accident insurance system and criminal injuries compensation.
3. There are other benefits and provisions which are of direct importance in assisting disabled persons but which are not directed toward long-term income assistance. These include such programs as Vocational Rehabilitation of Disabled Persons, special income tax deductions and welfare services.

IV. STRENGTHS OF THE SYSTEM

The programs described above do have many strengths which allow them to give good protection to some disabled persons and which provide a potential base upon which improvements to the system could be structured. These include:

- ° basic protection for almost all earners against total disability through the C/QPP; much higher protection for individuals covered by LTD;

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- ° good protection against on-the-job injury and automobile accidents;
- ° provincial assistance programs assuring a minimum level of income;
- ° a comprehensive program of vocational rehabilitation services for disabled persons;
- ° an effective medical care system;
- ° protection against short-term disability.

V. PROBLEMS OF THE CURRENT SYSTEM

Despite the existence of the many programs listed above, there are limitations in individual programs and broad gaps and inconsistencies in the protection afforded by the system of disability programs as a whole. Major problem areas include:

1. Determination of Disability

Because of their very different objectives, programs define "disability" very differently. C/QPP and LTD (in the long-term) provide benefits only for total disability. WC provides benefits for work-related injury and illness, but it is often difficult to decide whether or not (and to what extent) an individual's illness is work related.

Partial disability benefits pose difficult problems in determining the degree of disability. Originally, all WC programs used a rating schedule to establish benefits, but this leads to over- and under-compensation. Other WC programs use an estimate of earnings loss, but this requires more active "hands-on" administration.

2. The Population Protected

The existing system has both gaps and overlaps in coverage. The major gaps are:

- ° there is little protection for non-earners with the exception of provincial assistance, the legal system and private insurance;
- ° benefits provided by C/QPP are extremely low and payable only in the event of total disability;

(iv)

- ° WC is restricted to job-related disabilities;
- ° LTD plans cover only about 43 percent of the employed labour force, and, in the long term, only for total disability.

Overlapping coverage occurs when a disabled person could be eligible for benefits from more than one program. In most cases, this does not result in excessive benefits because one program offsets the benefits of the other. Thus, LTD programs offset any C/QPP benefits and in some provinces, WC programs also integrate or offset C/QPP benefits. However, in most provinces, C/QPP and WC benefits are "stacked" together thus raising the percentage of lost earnings replaced.

Overlapping coverage raises the administrative costs of the system, and duplication of medical forms and examinations is a recurring irritant which frustrates claimants and their physicians. A more integrated, comprehensive system could alleviate these problems.

3. Adequacy of Benefits

- (i) While initial benefit levels are high for totally disabled earners receiving WC (for on-the-job injury), or private LTD, the C/QPP benefit is much smaller and is insufficient on its own to prevent a serious drop in living standards in most cases. Also, WC and the C/QPP are both subject to earnings ceilings which tend to limit protection for workers with above-average earnings. Provincial assistance programs are directed at providing for minimum income needs.
- (ii) Inflation provisions are strongest under the C/QPP (full indexation) and poorest in LTD plans. Some WC and provincial assistance programs are tied to increases in the Consumer Price Index while others make ad hoc increases.
- (iii) Special needs associated with disability are provided for by WC and provincial assistance programs; however, they are ignored under CPP and only partly taken into account under LTD plans.

VI. INTERNATIONAL EXPERIENCE

All major industrialized nations provide comprehensive disability insurance programs. Most have public plans replacing a high level of prior income for total disability; some protect against partial disability as well. The broadening of disability definitions, high unemployment, aging populations and urbanization have combined to increase the costs of disability programs in many countries. European nations are now discussing such measures as: stricter medical procedures, elimination of labour market conditions in assessing disability, more intensive rehabilitation efforts and more flexible retirement policies. So far, however, responses to problems with the system have been limited to increases in premiums and/or covered earnings.

VII. GENERAL DESIGN CONSIDERATIONS

The basic issues dictating the design of a disability program or system fall along three dimensions:

1. The Determination of Benefit Level for the Totally Disabled

It is unlikely that one program can be designed to adequately protect all individuals in all circumstances. For example, earners and non-earners have very different needs. Depending on the group to be protected and the contingencies to be covered, one standard may be more appropriate than the other.

Programs can be based on an absolute standard, that is, unrelated to any past earnings. The benefit level may be chosen using such criteria as basic needs, comparability to pensions for the elderly or average wage levels. Although the choice to some extent is arbitrary, good arguments can be made that such benefits for the disabled should be higher than the social assistance benefits for the general population.

Protection could also be provided through a relative standard based on past earnings levels. The percentage of past earnings replaced may vary depending on such criteria as program objectives,

costs, and the relative concern given to work incentives and rehabilitation. The decision on how high a percentage of earnings should be replaced is really a decision as to how much of the cost of disability should be borne by the individual and how much should be shared by society (or the program's contributory population) as a whole.

Benefits for total disability may or may not take into account other (non-earnings) income of the individual. Relative benefit programs normally do not take these sources into account since this would not be compatible with the basic objective of such programs to replace lost earnings of the individual. However, some absolute benefits, particularly government-funded assistance programs, do take assets and/or incomes into account.

2. Degree and Circumstances of Disability

Once benefit levels for total disability are set, it must still be decided how to determine that a person is totally disabled, and how benefits (if any) should be set for partial disability.

The CPP for example, uses a very strict definition of disability (virtually permanent loss of all earning capacity) while some European countries take into account such non-medical factors as age, education and job availability. A narrow definition tends to minimize costs; however, it excludes many disabled people and thus creates pressure for partial benefits.

On the other hand, a program such as WC, which attempts to compensate for partially-lost earning ability, must address the very difficult problem of how to measure with a fair degree of accuracy the decrease in a disabled person's earning potential. Use of a rating schedule or medical judgement, without considering subsequent earnings, can maximize rehabilitation or employment incentives, but can lead to over-compensation or under-compensation of claimants.

Alternatively, individual estimates of earning potential can be used. If the individual then earned more than expected, the benefit could be

"taxed back". Unfortunately, particularly if the tax-back rate is high, this will lower the incentive for successful rehabilitation and return to work. On the other hand, if the individual cannot realize his estimated earning potential, his income will be inadequate; however, if special additional benefits were then provided, these would in effect be early retirement or unemployment benefits, rather than disability benefits.

Different approaches to determining disability might well be needed for different parts of a system; for example, an absolute benefit program using a strict medical determination of disability might well operate alongside a relative benefit program replacing earnings for both full and partial disability using an "earnings-loss" approach.

3. Population to be Protected

The design of a disability income program depends to a great extent on who it is that program aims to protect. It is likely that a comprehensive system would, in practice, be comprised of several programs to meet the different protection needs of different groups (such as earners and non-earners), and decisions will be required as to who will be protected by which programs. In "gray areas" such as low-income workers, unemployed persons and short-term workers, the distinction between "earner" and "non-earner" may be more or less arbitrary.

A related question is that of who pays for the protection provided. Relative benefit programs for earners are usually paid for by employers and/or employees through premiums. Absolute benefits could also be provided to non-earners on this basis, if they have personal income or are dependents of wage-earners, or if the government is willing to pay the premiums. Alternatively, absolute benefits for some or all persons might be provided directly by governments from general revenues.

VIII. DIRECTIONS FOR CHANGE

Using the general design framework for disability schemes, it is possible to analyse the key features and impacts of various changes to the current system of programs. These may be grouped into two broad categories:

Modifications to Existing Programs

This category includes possible changes to the major programs for long-term disability protection (the C/QPP, WC, private LTD plans and provincial assistance programs). Many of the changes discussed have already been formally proposed by governments; all are intended to enhance the effectiveness of individual programs in meeting the needs of their client populations. However, none would overcome the basic structural problems in the current system of programs.

Restructuring the System

This category consists of changes which would fundamentally alter the protections provided by the system as a whole. Of necessity they involve alterations in the basic design features of the programs concerned, and several could imply the possible elimination of existing programs. All would constitute major steps towards a more comprehensive overall system of disability protection.

MODIFICATIONS TO EXISTING PROGRAMS

Canada/Quebec Pension Plans:

Three proposals to amend the C/QPP are discussed.

- (i) The proposal put forward by the Minister of National Health and Welfare which would insure that a disabled contributor would have the same minimum guaranteed pension amount as that provided the elderly through the combined CPP and basic Old Age Security pension and would relax contributory requirements so that protection against disability would be available if contributions were made in one of the last two years.

(ix)

- (ii) The proposal presented in the Federal Green Paper on pension reform which would provide personal pensions to spouses working at home through the mechanism of credit-splitting.
- (iii) A change to the CPP in line with the recent amendment to the QPP (effective January 1, 1984) which provides for a disability benefit in the event that a contributor aged 60-64 is no longer capable of performing his or her previous work.

These proposals would (i) increase the minimum income guaranteed to severely disabled earners, and slightly increase the number of persons protected against disability, (ii) protect non-earning spouses of CPP contributors against disability, and (iii) extend disability benefits to near-elderly contributors to CPP on a slightly less strict basis. There would be some cost reductions for other programs which offset C/QPP benefits such as WC, LTD and provincial assistance. There would also be an increase in C/QPP fund expenditures and a relatively slight rise in the long-term C/QPP contribution rate (the increase would be less for the QPP which already has a much larger flat-rate benefit).

Workers' Compensation:

The proposals discussed parallel the suggestions in the Ontario White Paper on the Workers' Compensation Act.

- (i) Raise the ceiling on earnings to $2\frac{1}{2}$ times average wages which would protect the full earnings of all but the highest paid employees.
- (ii) Calculate partial disability on an earnings-loss basis which would allow a more accurate assessment of actual earnings loss.
- (iii) Expand the population protected to provide wider coverage for workers now excluded.

These proposals would provide better WC protection for middle and upper-income employees, improve the accuracy of partial disability

(x)

benefit awards and assist agricultural, clerical and domestic workers. The major cost impacts would be the increased employer contributions required on behalf of employees with higher wages, and new employer contributions on behalf of those additional workers brought into the WC system.

Long-Term Disability Protection Plans:

Although the proposal has not been formally made, it would be possible to increase the benefit level from the current 60 to 75 percent replacement to 80 percent, thereby providing more adequate benefits to those with LTD coverage. It would also be possible to provide improved inflation protection, perhaps through the "excess earnings" approach broadly advocated in proposals for pension reform.

The first proposal would ensure a very high degree of initial adequacy for those receiving LTD pensions, but would not change the number of people belonging to LTD plans or eligible for benefits. The second proposal would tend to maintain the value of benefits in the face of inflation and would thus be of particular value to those receiving disability pensions for extended periods. The costs would depend on the initial benefits currently provided and the extent to which the plans already protect against inflation.

Provincial Assistance:

If all provinces were to establish programs for the disabled similar to those in Ontario, Alberta and British Columbia, disabled Canadians would be protected by a safety-net of income guarantees more comparable to those available to senior citizens under the Old Age Security/Guaranteed Income Supplement program.

It would be expected that there would be some increase in the number of persons eligible for benefits, and increases in costs to the provincial governments (and possibly to the federal government through the Canada Assistance Plan).

Overall, these proposals would tend to raise minimum benefit standards, slightly increase the numbers of persons protected by programs and receiving benefits and significantly increase benefit adequacy in individual cases.

Nonetheless, the system would still provide less than adequate protection for many persons and in a wide range of circumstances. More specifically, the majority of earners (that is, those not belonging to LTD plans) could sustain a very large drop in living standards in the event of an off-the-job total disability. Moreover, most earners would have no protection against partial disability from off-the-job injury or sickness. Furthermore, the practical problems of determining whether disability resulting from illness and disease was "on-the-job" or "off-the-job" would remain. A large proportion of totally and partially disabled earners and non-earners and their families would continue to be forced onto provincial social assistance if they were in need. Finally, duplication of administrative procedures would remain, and would likely marginally increase.

RESTRUCTURING THE SYSTEM

Even though the modifications to the existing system of programs represent a significant improvement at a substantial cost, the most critical problems of the system in terms of income protection would not be resolved. The overall performance of the system of income programs for disabled persons can only be fundamentally improved if there is a significant restructuring of the system.

Benefits for Earners: Three mechanisms were identified for providing comprehensive protection for earners.

1. Mandatory LTD Plans: These would extend the private sector LTD protection, now available to about 43% of earners, to include the large majority of the employed labour force. The result would be a guaranteed high level of income replacement, at least in the event of total disability, and for some partial disabilities at least during an initial rehabilitation period. Extension of

protection to dependents, and to long-term partially disabled persons, could be possible at extra costs.

This type of benefit would largely remove the need for C/QPP disability benefit protection, particularly if a very high percentage of paid workers were to be covered. There would be some reduction in provincial assistance program expenditures as well. The major premium cost of the new LTD programs would be borne by those employers and employees who do not already have LTD plans.

2. A C/QPP-type approach: This could be used to provide greatly improved guaranteed protection for earners, provided that the benefit level was much higher than the current C/QPP benefits. A higher ceiling on earnings to protect above-average earners would also be implied. The current C/QPP definition of disability would protect against only the most severe disabling conditions and might have to be relaxed. There would not necessarily be protection for partial disability, although some provision could be made. Unlike the LTD plan described above, the plan would be publicly administered.

This type of program would assure a significant degree of income replacement for virtually all earners, at least for severe disability. If benefits were set at a high level, the program would largely eliminate private LTD plans; however, if benefits were set at a more moderate level, LTD plans might continue to provide a "top up" to the national scheme. WC benefits for total disability could also be largely offset, and the provincial assistance now received by some C/QPP beneficiaries would not be required.

3. A WC-type program for long-term disabilities: This would give comprehensive protection for earners against both total and partial disability. The program would differ from current WC programs in that this protection would not be limited to on-the-job injury and illness. As with current WC programs, provision might also be made for

rehabilitation and disability-related expenses. As with a C/QPP-type program, this system would be publicly administered.

This type of program would completely eliminate the need for LTD plans and likely for C/QPP as well. The high level of benefits and protection for all degrees of disability would imply a high caseload and administrative burden, both of which would affect the costs to be borne by employer/employee premiums. Overall, such a program could be seen as providing maximum comprehensive disability protection for most earners; however, this would not improve protection for non-earners.

Protection for Non-Earners: The impact and cost of improvements for non-earners would depend on the option(s) chosen. It is estimated, for example, that a flat-rate benefit for severely disabled persons similar to the basic Old Age Security pension might cost in the order of \$640 million in 1983. Such a benefit could eliminate the need for the C/QPP flat-rate benefit component. Furthermore, a significant percentage of the cost of such a benefit might be offset by direct savings to provincial assistance programs. The result would be that all persons would be assured of a minimum income in the event of total disability; it would be difficult, however, to extend this protection to partially disabled persons. Any such system could be accommodated to the system for earners described previously.

IX. CONCLUSIONS

The findings of the Task Force confirm the serious shortcomings of the current system of disability protection. Some improvement in this situation could be achieved through modifications to existing programs. Various proposals could be considered which would increase the C/QPP income guarantees for totally disabled earners, increase benefit levels and inflation protection of LTD plans, improve WC protection for higher income earners for job-related disabilities and raise the minimum protection available through provincial assistance to levels comparable to those now available to senior citizens.

Nevertheless, major gaps in protection would remain. These would only be addressed through major restructuring of the system. Possible mechanisms examined by the Task Force for comprehensive protection for earners include:

- (i) mandatory LTD Insurance
- (ii) a C/QPP-type approach
- (iii) a WC-type program for long-term disabilities

The Task Force concluded that programs using any of these mechanisms could feasibly be designed and administered. Thus, the decision as to which mechanism would be most appropriate for the protection of earners will depend on choices made on such issues as:

- (i) whether the administration and financing should be public or private;
- (ii) who should be protected and under what circumstances;
- (iii) the extent to which protection against partial disability should be provided;
- (iv) how high a level of income should be protected;
- (v) how high a level of income replacement should be provided for;
- (vi) the degree of inflation protection which should be provided;
- (vii) whether premiums should be varied by industry (e.g., experience-rated as with current WC programs) or whether they should be uniform for all contributors.

Ministers may therefore wish to direct that the Task Force proceed to a further stage of detailed program development for all three mechanisms which would specify:

- (i) the population protected;
- (ii) the specific contingencies covered by the protection;
- (iii) the expected caseload;
- (iv) the level of benefits to be provided;

- (v) premium costs;
- (vi) funding and administrative structure.

Non-Earners

None of the above mechanisms would necessarily give improved protection to non-earners. Improved protection for this group could either be provided as a part of, or complementary to, a new program for earners. For example, as part of a new program for earners, a premium-financed flat-rate benefit could provide protection against the disability of a contributor's dependent. Alternatively, governments could provide a flat-rate benefit, or an income-tested benefit similar to that assured to the aged. Ministers may wish to direct that the design and development of these mechanisms be undertaken in concert with the next stage of program development for earners.

Two final observations should be made. First, with anything less than the most comprehensive of national schemes, it is clear that categorical programs such as WC will continue to play an important role. These programs exist for reasons other than simply the general objective of disability protection, and can be integrated into any future comprehensive scheme with relative ease. Reform initiatives in these programs need not await the implementation of any comprehensive proposal. Second, the needs of the current disabled can only be met through modifications to existing provincial support programs and/or the C/QPP. Such initiatives in either of these areas need not await the implementation of a comprehensive system.

MAIN REPORT

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I. INTRODUCTION

At their meeting of February 23, 1982, the federal and provincial Ministers of Social Services agreed to establish a joint federal-provincial study of a comprehensive disability protection program with a mandate to determine the feasibility of establishing and operating a national disability benefit program and equivalent alternatives. The Task Force was to examine both insurance and non-insurance based alternatives. Briefly, the major tasks were to:

1. Identify the major strengths and weaknesses of the current system;
2. Determine the feasibility of a national disability insurance scheme and other benefit programs for the disabled;
3. Examine the implications and impacts of alternative approaches;
4. Describe relevant programs, studies and experience in other countries.

(Details of the terms of reference are attached as Appendix A.)

This study was established as a direct response to increasing concerns about the needs of Canadians for disability income protection. These concerns had been brought into sharp focus during 1981, the International Year of Disabled Persons. Particular mention should be made of the report of the Special Parliamentary Committee on the Disabled and Handicapped - "Obstacles" - prepared during the International Year of the Disabled. One of the recommendations of the report was the gradual establishment of a comprehensive disability insurance program and, as an interim measure, the expansion of Canada Pension Plan disability protection.

In recent years both federal and provincial governments had initiated studies and put forward proposals for improvements in programs under their jurisdictions, but a more co-ordinated approach was seen to be necessary. Accordingly, interest was expressed by federal and provincial Ministers of Social Services in exploring together ways to improve the income protection for disabled persons, and the joint study was initiated.

In keeping with its mandate, the Task Force did not seek to make final recommendations as to whether a comprehensive national disability insurance scheme should be undertaken, or as to which alternative mechanism(s) would be preferable. Rather, the Task Force has concentrated its efforts on determining the objectives and scope of a comprehensive scheme, and the feasibility of various steps which could be taken toward its establishment in whole or in part.

From the outset, the Task Force has recognized that to be considered comprehensive, the overall system must satisfy two fundamental principles:

- (i) Universal Coverage - that is, the overall system of disability benefit programs would provide at least some degree of income protection to each and every disabled person.
- (ii) The "no-distinction" principle - that is, the very existence of disability would be sufficient to ensure protection through at least some part of the overall system, with no distinction as to where, when, how or why the disability occurred.

The Task Force has recognized that no one program or mechanism would be able to meet all the income needs of all disabled Canadians. For example, there are distinct differences between the income protection needs of earners (whose potential income loss can be clearly defined and whose income can be used as a source of premiums) and non-earners (who may have no definable income loss and who may not be able to pay premiums). There are also differences in the appropriate treatment of a long-term or permanent disability as opposed to temporary disability. This study was primarily concerned with the long-term or permanently disabled persons.

As well, the study has not specifically examined design mechanisms which would address the income needs of disabled persons who reach retirement age. However, in general, where disability income replaces earned income, equivalent pension credits could be built up while the individual is in receipt of disability benefits.

It is clear that the needs of disabled persons go well beyond income. Problems of rehabilitation, medical needs, services and disability-related expenses also exist. The Task Force has endeavoured, to the extent possible, to point out the areas in which these related issues, particularly that of rehabilitation, would interact with an income program. The subjects of rehabilitation and disability-related expenses are also discussed in Appendix D.

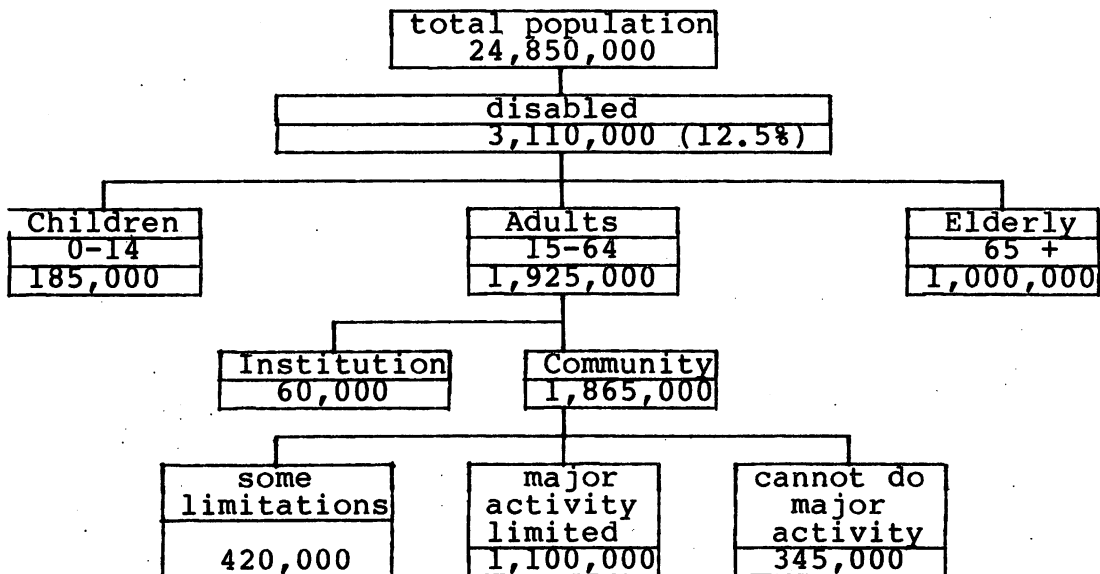
II. PROFILE OF DISABLED PERSONS IN CANADA

It is very difficult to draw an accurate profile of disabled persons in Canada. To begin with, it must be understood that there is no single definition of the term "disability". In general, all definitions of disability relate to physical or mental impairments which disrupt to some extent the individual's ability to perform normal functions. However, the nature of the impairment as well as the degree and duration of impairment necessary to be considered disabled varies widely depending on the objectives to be achieved. Even programs with similar purposes may have very different definitions. Furthermore, statistical data on the disabled population as a whole is limited.

Despite these limitations, the following facts emerge:

- ° **ABOUT 1.9 MILLION WORKING-AGE CANADIANS HAVE SOME DEGREE OF LONG-TERM DISABILITY.**

II.1 ESTIMATED DISTRIBUTION OF LONG-TERM DISABILITY IN CANADA 1983



Sources: Estimates based on recent population projections from Statistics Canada and a) Canada Health Survey 1978-79, Statistics Canada 1981; b) a Composite Picture of the Disabled in Canada, Health and Welfare Canada, 1980; and c) Special Care Facility Statistics, Statistics Canada 1978-79

It is to be noted that in the chart above, long-term disability is defined as lasting or expected to last more than twelve months. This does not imply that persons with a long-term disability are necessarily incapable of working, as many are full-time earners supporting themselves and their dependents.

- ° **ABOUT 12.5 PERCENT OF THE TOTAL POPULATION ARE DISABLED TO SOME EXTENT. OF THE DISABLED BETWEEN THE AGES OF 15 AND 64, 18 PERCENT ARE SEVERELY DISABLED.**

About 67 percent of the disabled population (about 9 percent of all Canadians) are between 15 and 64. The Canada Health Survey estimated that 18 percent of these are severely disabled, a further 60 percent are limited in their "major activity" and 22 percent have some limitation.

- ° **ALTHOUGH THERE ARE DISABLED PERSONS OF ALL AGES, THE INCIDENCE OF DISABILITY RISES WITH AGE AND IS FAR HIGHER AMONG THE ELDERLY AND NEAR-ELDERLY THAN AMONG THE YOUNG.**

The incidence and severity of disability increases with age. The Canada Health Survey indicated that only 5 percent of disabled persons are younger than age 15, but about 30 percent are over 65. Further, Canada Pension Plan statistics indicate that almost 50 percent of those in receipt of a disability pension are aged 60-64 and 45 percent of the remaining beneficiaries are between 55 and 59. These beneficiaries are all suffering a severe and prolonged disability.

- ° **WHILE A NUMBER OF PROGRAMS ARE AVAILABLE, THE MAJORITY OF DISABLED PERSONS OF WORKING AGE (15-64) RECEIVE NO PUBLIC BENEFITS.**

A large percentage of working-age disabled persons receive no benefits from public income support programs. The relative impact of these programs can be seen from the following chart.

II.2

DISABLED PERSONS OF WORKING AGE (15-64) UNDER
PUBLIC INCOME SUPPORT PROGRAMS

Estimated for December 1982

Canada and Quebec Pension Plans (Disability Beneficiaries)	130,000
Provincial Social Assistance Programs (unemployable Disabled persons)	194,000
Workers' Compensation* - Persons receiving permanent disability benefits awarded prior to 1982	180,500
New Claims for permanent disability accepted in 1982	37,500
Total Number of Benefits	542,000

It should be noted that the number of persons receiving benefits would be less than the number of benefits paid because the same individual often receives benefits from more than one program. Further, while this tabulation gives some idea of the relative numbers of benefits provided by such programs as the Canada/Quebec Pension Plans (C/QPP) and Workers' Compensation (WC), it does not take into consideration the relative size of those benefits, nor does it take account of private sources of income such as long-term disability insurance.

* In the Workers' Compensation Board caseload, the majority of permanent disability claims are rated at below 30 percent. (In Ontario, for example, among the active permanently disabled claims in 1982, 84 percent were for disabilities of 30 percent or less.)

- **A SIGNIFICANT PROPORTION OF THE DISABLED POPULATION IS UNABLE TO WORK; OF THOSE EMPLOYABLE, A HIGH PERCENTAGE IS UNEMPLOYED.**

Between 50 and 90 percent of the disabled population is either unable to work or unemployed*. Even among employable disabled persons, the rate of unemployment is much higher than for the population as a whole.

- **ON AVERAGE, FORMER EARNERS SUFFER A DRASTIC DROP IN INCOME.**

Statistics on the income status of former earners no longer able to work are available from a CPP Disability Survey conducted in 1981**. This survey revealed that almost half of the CPP disability population reported total personal incomes of less than \$6,000 in 1979. Moreover, 67 percent of the female disability beneficiaries had total personal incomes below \$6,000. The CPP Survey also indicated that only a limited proportion of the beneficiary population received incomes from other sources. About 36 percent reported receiving income from investments while 25 percent received income from disability insurance and only 10 percent from WC programs. As well, 14 percent reported that CPP benefits were supplemented by social assistance.

While these statistics (and the report as a whole) concentrate on the income situation, it must be recognized that the needs of disabled persons extend beyond income replacement. These needs are met to some extent by the medicare system and other public programs, by voluntary agencies and by private insurance. An inventory of selected public programs providing benefits to the disabled is attached in Appendix C.

* "Obstacles" - Report of the Special Committee on the Disabled and the Handicapped, 1981

** The complete CPP Disability Survey is attached as Appendix B

III. THE CURRENT SYSTEM OF DISABILITY BENEFITS

Historical Development

Broadly speaking, the early development of programs providing disability income to Canadians came through categorical programs designed for specific circumstances or conditions. Thus, for example, the Workers' Compensation system (first introduced by Ontario in 1914) arose to deal with the problems faced by employees, employers and the legal system in cases of on-the-job injury. Veterans benefits were instituted in order to provide compensation for disability or death resulting from war service and were later extended to give more general support for war veterans and their families. Pensions for blind persons were introduced in the 1930's through amendments to the Old Age Pension Act. (This provision was succeeded by the Blind Persons Act in 1951 and later absorbed into the Canada Assistance Plan.) More recent programs providing categorized benefits include criminal injuries compensation and compulsory auto insurance.

While these categorical programs have played an important role in the development of income protection for disabled persons, by their nature they were never designed to meet the needs of the disabled population as a whole. Since the early part of this century, church groups, labour organizations and political parties have pressed for more general disability and sickness insurance programs. It was recognized that there was a need to protect a family's income should a sickness or injury occur which was not the result of work-related accident or military service. Despite this recognized need, during the first half of this century the only general public assistance available to disabled persons came through municipal welfare programs. The earliest general disability insurance protection came through the development of a few private sector pension plans and long-term disability (LTD) insurance plans. The first general governmental program directed toward the disabled persons was the Disabled Persons Act of 1954, under which the federal government shared the cost of the provincial disability assistance programs. In 1966, the Canada Assistance Plan was enacted. This Plan provided federal cost-sharing of provincial benefits for those in need. Both the Disabled Persons Act and the Blind Persons Act were gradually phased out.

Federal involvement was further expanded through a constitutional amendment in 1964. This provision, giving the federal government authority to provide (in addition to old age pensions) supplementary survivor and disability benefits, where this does not conflict with a provincial law, made possible the disability benefit provisions of the Canada Pension Plan. The Plan was designed as a compulsory income protection program, extended to virtually all earners in nine of the ten provinces. The Province of Quebec introduced at the same time a parallel program, the Quebec Pension Plan, providing similar disability benefits. However, the C/QPP disability benefit was linked to the low-level retirement benefit which was designed to be supplemented by other sources of retirement income and savings; consequently, the actual level of benefit provided in the event of disability was kept very low. The QPP was amended in the 1970's to increase the flat-rate component of its disability benefit. No similar change was made to the CPP.

The late 1960's and 1970's saw significant growth in the general disability programs. Coverage under private group LTD plans grew from a few major companies to a system of plans covering nearly as many workers as does the private pension system. Also, provincial governments began to improve and expand the level of general assistance provided to low-income disabled persons, through the introduction of special income-tested or needs-tested programs. In British Columbia, the Guaranteed Available Income for Need (GAIN) for the Handicapped, a needs-tested program, was introduced, as was a similar program, the Guaranteed Annual Income System for the Disabled (GAINS-D) in Ontario. An income-tested program, the Assured Income for the Severely Handicapped (AISH) was introduced in Alberta.

More changes to disability benefit programs, both categorical and general, have been proposed for the 1980's. Changes have been proposed to increase benefit levels under the CPP. The Quebec Pension Plan has been amended, effective January 1, 1984 to give 60-64 year olds somewhat easier access to disability pensions.* Finally, changes to

* These older contributors will no longer have to have contributed in 5 of the last 10 years, and will be considered disabled if incapable of doing their regular job, rather than having to be incapable of any work.

Workers' Compensation programs are under serious review in some provinces. However, the types of program adjustments and changes, and their timing, may well be influenced by economic conditions.

Present System

The present system, then, is one over which the federal and provincial governments share jurisdiction. The system can be divided into three broad classes of programs:

1. The general disability programs are those which provide benefits without regard to the cause of disability. These include the Canada and Quebec Pension Plans, private long-term disability insurance (LTD), and the "safety-net" of social assistance administered by the provinces and cost-shared through the Canada Assistance Plan, as well as the provincially-sponsored programs such as GAIN for the Handicapped, GAINS-D and AISH. The disability income provisions of private pension plans can also be included in this category.
2. The categorical programs are those which provide benefits to those with specific conditions and/or in limited circumstances. These programs provide significant income protection for some eligible persons but fail to address the income needs of all disabled persons. These include the system of provincial workers' compensation programs, benefits for disabled war veterans, the automobile accident insurance system, the legal system and criminal injuries compensation.
3. There are other benefits and provisions which are of direct importance in assisting disabled persons but which are not directed toward long-term income assistance. These include such programs as Vocational Rehabilitation of Disabled Persons, Welfare Services and special income tax deductions.

A description of each of these three classes of programs is given below; a more comprehensive description of each program is presented in Appendix C.

1. General Disability Programs

Canada and Quebec Pension Plans (C/QPP)

The Canada and Quebec Pension Plans (C/QPP) are compulsory, contributory social insurance schemes which provide protection against the contingencies of death, disability or retirement. Contributors include all employed and self-employed persons who earn above the Year's Basic Exemption (\$1,800 in 1983). Earnings are only protected up to a ceiling (\$18,500 in 1983). To qualify for a C/QPP disability benefit, the disability must be judged severe and prolonged, and contributions must have been made in one-third of the contributory period or in 10 years (whichever is less) and in at least 5 of the last 10 years. All benefits except for the QPP Child's Benefit are indexed annually in accordance with increases in the Consumer Price Index. All benefits are taxable. The 1983 maximum monthly disability benefit is \$337.46 under the CPP and \$460.33 under the QPP (the difference results from a larger flat-rate benefit component under the QPP). In 1982, \$324.9 million in disability benefits and a further \$40.1 million in dependents benefits was paid out under the CPP. Under the QPP, \$134.3 million was paid out in disability benefits and a further \$4.5 million was paid out in dependents benefits. CPP disability expenditures represent about 11% of total CPP expenditures.

Private Long-Term Disability Insurance (LTD)

While there is no federal or provincial legislation requiring compulsory coverage, many employer/employee groups do provide LTD coverage. The Canadian Life and Health Insurance Association (CLHIA) estimates that 3.3 million earners, or 43.3 percent of the employed labour force, are covered by various types of private disability programs. Generally, these plans are designed to provide a level of income replacement in the order of 60 to 75 percent of pre-disability earnings no matter how high the pre-disability income. The majority of plans provide full benefits for the first two years after the occurrence of disability to those persons who cannot perform their previous job. After two years, full benefits are provided to those who cannot perform any occupation. These plans usually operate on an integration formula under which the benefit is reduced by any

entitlement to C/QPP and WC. Few LTD programs provide regular indexation increases. Commencing in 1972, benefits became taxable if any portion of the premium is paid by the employer. Out of the 83,096 persons receiving a CPP disability benefit in September 1980, about 24 percent reported having private disability insurance income in 1979. Within that group, about 28 percent reported receiving benefits between \$3,000 and \$4,999 and a further 37 percent reported an income of over \$5,000.

Social Assistance

Under the Canada Assistance Plan (CAP), provincially-administered social assistance programs are cost-shared equally between the federal and each provincial government. These programs provide income assistance to those in need for whatever reason, including disability. Needs are determined on the basis of the individual's family income, assets and budgetary requirements.

Benefits are indexed regularly in some provinces while in others increases are made on an ad hoc basis. Some social assistance type programs provide a higher level of income for the disabled than is generally available from social assistance. In British Columbia, the Guaranteed Available Income for Need (GAIN) program provides an asset- and income-tested benefit to all low-income persons between the ages of 18 and 65 who have severe mental or physical disabilities of a permanent nature. Similarly, in Alberta, under the income-tested Assured Income for the Severely Handicapped program (AISH), eligibility is limited to those with a disability of a permanent nature with no medical therapy available which would substantially lessen the impairment. Unlike the GAIN program, there is no asset test under the AISH program for determining eligibility, except in cases where there is a combination of AISH benefits and Social Assistance benefits. The Guaranteed Annual Income System for the Disabled (GAINS-D) program in Ontario, provides benefits to low-income people who are disabled for a long period of time.

In 1982, the total federal expenditure for the cost-sharing of benefits under social assistance programs was over \$2.5 billion and therefore the total

expenditure, both federal and provincial, would be at least twice that. It has been estimated that between 20 and 30 percent of these expenditures are directed to assisting disabled persons.

Private Pension Plans

Some private pension plans do provide early retirement benefits in cases of disability.* According to the Department of Insurance, of the 600 plans under federal jurisdiction (banks, communications and transportation) about 10 percent provide some such early retirement provision. However, the age and service requirements are usually quite stringent. Benefits are taxable. According to the CPP Disability Survey, 74 percent of CPP beneficiaries received no income in 1979 from private pension plans.

2. Categorical Programs

Workers' Compensation

Provincial Workers' Compensation programs are designed to provide compensation to workers who suffer a temporary or permanent disability as a direct result of a work-related injury or illness. Benefits are awarded for both full and partial disability and are non-taxable. Lump-sum payments are made for minor injuries. Earnings are usually insured up to a ceiling of 1 to 2½ times the provincial average wage, with premiums paid entirely by the employer. Premiums vary according to the degree of risk associated with different industries and different jobs. The average maximum monthly temporary total disability benefit in 1983 is \$1783 per month, and the minimum monthly benefit is \$595. The average of each province's maximum total permanent disability pension in 1983 is \$1673 per month and the average minimum monthly benefit is \$563. In 1982, a total of approximately \$4 billion was paid out in WC benefits in Canada. Indexation provisions vary by province.

* As well, in some plans, disabled younger workers continue to build up pension credits while receiving LTD benefits. Then at age 65, the LTD benefit is replaced by a retirement pension.

Veterans' and Civilian War Disability Pensions

These pensions are payable by the Canadian Pension Commission under the Pension Act and the Civilian War Pensions and Allowances Act. Benefits are limited to qualified war veterans, members of peacetime forces and civilians who have suffered permanent injury or disease attributable to or incurred during military or war-related service.

Twenty classes of disability have been established on the basis of extent of functional impairment ranging from 5 percent to 100 percent. Benefits are tax-free and payable for life.

Income-tested allowances under the War Veterans Allowances Act and the Civilian War Pensions and Allowances Act are provided on the basis of financial need, rather than disability. The benefit is restricted to veterans who meet specific requirements as well as ex-military personnel who are eligible for, or are in receipt of, a veterans disability pension.

As of March 31, 1982, there were a total of 131,890 disability and dependents pensions paid out at a cost of \$560.9 million. A further \$347.2 million was paid out to 90,804 beneficiaries under the War Veterans and Civilian Allowances programs. Benefits under these Acts are non-taxable and are indexed to the cost of living.

Provincial Automobile Accident Insurance

Four provinces - Saskatchewan, Manitoba, Quebec and British Columbia - provide compulsory, no-fault government-administered automobile accident insurance, including benefits for incapacity resulting from such accidents. All other provinces have, in addition to compulsory private insurance, some form of unsatisfied judgement fund or judgement recovery system to provide for damages to people injured in motor vehicle accidents in cases where no damages are collectable from the responsible party. Claimants usually receive their awards in a lump-sum amount (except in provinces with government-administered programs where pensions may be awarded). Only a small portion of accident claims are settled through the court system. In 1982, combined insurance payments for bodily injury and property damage in Canada, (excluding British Columbia, Manitoba and Saskatchewan), relating to private

passenger vehicles, farm, commercial, snow vehicles and motorcycles, were \$1.2 billion. Medical payments for this same group totalled about \$3 million while a further \$96 million was paid out for other accident benefits such as disability income, dismemberment and death benefits. The average cost per claim, excluding Quebec, in 1982, was \$12,189.

Criminal Injuries Compensation

Criminal injuries compensation laws exist in all provinces except Prince Edward Island. Compensation is awarded for injury or death resulting from specified criminal offenses. The award depends on the nature of the injury and takes into account expenses incurred, income losses and pain and suffering. The award may be a lump sum or periodic payments, and will take into account other benefits such as WC or CPP. In all provinces with programs, the cost of the program is shared with the federal government. In 1981-82, there were 3,041 criminal injuries compensation awards paid out in Canada at a cost of \$14.5 million.

3. Other Disability Programs and Provisions

Vocational Rehabilitation of Disabled Persons (VRDP)

The Vocational Rehabilitation of Disabled Persons Act is a federal statute which allows the federal government to cost-share vocational rehabilitation programs for the physically or mentally disabled. The program is administered by the provincial authorities. Quebec has not entered into a VRDP agreement but cost-shares such services through the Canada Assistance Plan. The program does not have income replacement as its objective but provides a living allowance for the rehabilitation period as well as covering the costs of training, technical aids, attendant services, transportation, etc. In 1982, total expenditures under the VRDP program were \$63.4 million.

Welfare Services

Welfare services, including rehabilitation services, are provided to those in need or likely to be in need if the services are not provided. The cost of such services is shared by the provincial and federal governments under the Canada Assistance Plan. Rehabilitation services include assessment and counselling, life skills training, referral and placement services, and

activity and achievement centres to meet the special needs of persons at risk of being socially isolated. Included as well are support services facilitating independent living in the community. In 1982, federal expenditures under the Canada Assistance Plan for all Welfare Services, including those directed toward disabled persons, were \$655 million.

Private Sickness and Accident Insurance

In addition to group LTD plans (usually purchased through the employer), there are a number of other general personal accident and sickness plans which can be purchased either through an employment-related plan or privately. Provisions include:

- a) accidental death and dismemberment plans, which pay a principal sum or portion thereof and are usually provided as group term insurance on a non-occupational basis (i.e., outside of work) to avoid duplication with WC;
- b) personal accident insurance, which can be privately purchased as an individual or family, or as a member of a group, either to cover specific contingencies (e.g., a flight) or to provide continuing coverage;
- c) weekly indemnity insurance plans, which are financed by both employees and employers, generally provide less than full salary when formally established, and are often integrated with Unemployment Insurance and sickness benefits.

Income Tax Deductions

A flat-rate Disability Deduction equal to \$2,220 in 1982, is provided under the Income Tax Act for blind persons or persons confined to a bed or wheelchair. As well, a Medical Expense Deduction is provided to those persons whose medical expenses equal 3% or more of income. In 1981, there were about 41,500 persons who claimed the Disability Deduction; the tax expenditure for the Disability Deduction was \$12 million with a further \$47 million for the Medical Expense Deduction. Because the Disability Deduction and the Medical Expense Deduction reduce taxable income, those recipients facing higher marginal income tax rates receive a greater net benefit per dollar of deduction.

OVERVIEW OF THE PRESENT SYSTEM

Program	Population Covered	Types and Degrees of Disability	Benefit Levels For Total Disability	Program costs 1982	Indexation	Rehabilitation/Extra Expenses	Offsets
C/QPP	virtually 100% of employed or self-employed labour force	loss of total earning capacity for the foreseeable future	18.75% of earnings up to AWS + flat-rate amount ⁽¹⁾	CPP = \$324.9 M QPP = \$134.3 M	automatic indexation for full rise in CPI	NONE	NO
LTD	43.3% of employed labour force	loss of total earning capacity for the long term	60-75% of earnings, no ceiling	\$650 M ⁽²⁾	very few plans provide regular indexation	vocational rehabilitation	C/QPP, WC private pensions
Provincial Assistance Programs	Individuals with little or no other income	eligibility based on need or income	subsistence level	\$1.2 - \$1.8 B	regular in some provinces, ad hoc in others	YES	all other benefits
Workers' Compensation	80% paid labour force (including agricultural and domestic workers)	covers all degrees of disablement	100% of earnings up to 1 - 2½ X AWS	\$4 B	regular indexation in 4 provinces, ad hoc in others	YES	NO
War Veterans and Civilians Allowances	those whose permanent injuries are direct result of military service	covers a range of disabilities from 5 - 100%	\$1,015/mo. single rate \$1,268/mo. married	\$908 M	YES	YES	NO
Provincial Auto Accident Insurance	car accident victims in all provinces	all forms of disablement	usually lump-sum awards	N/A ⁽³⁾	N/A	YES	N/A
Criminal Injuries Compensation	victims of crime in all provinces except P.E.I.	all forms of disablement	lump-sum awards or periodic payments	\$7.3 M	N/A	YES	C/QPP, WC
Vocational Rehabilitation of Disabled Persons	those in need of vocational rehabilitation	all forms of disablement	living allowances for rehabilitation period	\$63 M	N/A	YES	N/A
Income Tax Deduction	blind, or confined to bed or wheelchair	blindness and lack of mobility	flat-rate deduction = \$2,220	\$12 M	YES	N/A	N/A

Private Sickness and Accident has been excluded due to lack of current information

(1) AWS average wages and salary

(2) Refers to Direct Premiums earned under Insured group LTD and individual income protection plans - does not include self-insured plans (Source-CLHIA, 1982)

(3) N/A - not applicable

IV. STRENGTHS OF THE CURRENT SYSTEM

As evident from the previous section, the present system has many strengths which allow it to give good protection to some disabled persons and which provides a potential base upon which improvements to the system could be structured.

These include:

- ° **BASIC PROTECTION FOR NEARLY ALL EARNERS THROUGH THE CANADA AND QUEBEC PENSION PLANS**

The disability component of the C/QPP was designed to provide protection for earners and their dependents in the event of severe and prolonged disability. Currently, 137,047 disabled Canadians receive disability benefits and 51,542 children of disabled persons receive benefits as dependents. The C/QPP are based on the no-distinction principle, are funded through premiums and administered on a national basis. The fact that these programs exist is evidence that some form of national disability protection program for earners and their dependents is feasible.

- ° **A HIGH DEGREE OF PROTECTION THROUGH LONG-TERM DISABILITY INSURANCE**

LTD insurance provides income protection in the range of 60 to 75 percent of pre-disability earnings regardless of the cause of disability. Although such plans are not mandatory, they already cover about 43 percent of the employed labour force. Thus, it is clear that they are widely perceived as a desirable component of the employee benefits package.

- ° **A HIGHER PERCENTAGE OF EARNINGS REPLACEMENT THROUGH WORKERS' COMPENSATION FOR THOSE WHO BECAME DISABLED AS A RESULT OF AN ON-THE-JOB INJURY OR ILLNESS**

WC provides protection to 80 percent of the employed labour force against work-related illness or injury. This program can provide high earnings replacement and effective rehabilitation efforts for those who have suffered either a temporary or permanent total or partial disability.

- **A HIGH LEVEL OF PROTECTION AGAINST INJURY PROVIDED THROUGH MANDATORY AUTOMOBILE ACCIDENT INSURANCE**

Automobile accident insurance can provide full compensation for accidental injury. Because such insurance is mandatory, almost all Canadians are protected against disability incurred in an automobile accident.

- **PROVINCIAL SOCIAL ASSISTANCE WHICH ASSURES A MINIMUM LEVEL OF INCOME**

Provincial social assistance assures that all individuals, including disabled persons, will be able to at least meet their basic living needs. These programs are linked with programs providing a variety of services including those to meet the special needs of disabled persons.

- **A COMPREHENSIVE PROGRAM OF VOCATIONAL REHABILITATION FOR PHYSICALLY AND MENTALLY DISABLED PERSONS**

These services and benefits are administered by the provinces and cost-shared by the federal government in order to enable disabled persons to become capable of pursuing regularly a substantially gainful occupation.

- **AN EFFECTIVE MEDICAL CARE SYSTEM**

The availability of high-quality medical care, whose costs are borne by the general population rather than the individual, is clearly of great importance to those disabled persons who need active treatment. In some provinces special needs, such as prosthesis, are also provided through the medical care system.

- **PROTECTION FOR SHORT-TERM DISABILITY**

Protection for short-term disability is provided in various ways, including:

- 1) Unemployment Insurance sickness benefits payable to all eligible earners regardless of the cause of illness.

- 2) Sickness benefits, as insured weekly indemnity benefits, provided by many employers (often under the terms of a collective agreement).
- 3) Workers' Compensation provisions which compensate temporarily injured workers for lost income until they can return to work.

These forms of short-term protection should continue to play an important role in the event of the establishment of a comprehensive scheme for the longer-term disabled.

V. PROBLEMS OF THE CURRENT SYSTEM

Despite the many programs described above, the income protection system for disabled persons does not provide enough income for many disabled Canadians. This is demonstrated by the great number who find themselves dependent on the safety net of welfare programs. Many non-earners who become disabled are eligible for only these benefits, and many others are ineligible for assistance from any program because of the incomes of other family members. Among earners, many disabled persons suffer a severe drop in their previous living standards despite benefits from one or more programs. Both earners and non-earners find family savings and disposable income also severely depleted because of disability-related expenses.

One of the major sources of difficulty is the fact that the various programs and plans for disability protection have been developed more or less independently. Because there is little coordination among them, they form a "system" only in the most general sense. In addition to the limitations of individual programs, there are broad gaps, duplications and inconsistencies in the protection afforded by this "system". The major problem areas include:

1. Determination of degree of disability.
2. The population protected.
3. The adequacy of benefit levels.

The shortcomings of the major existing programs in these areas are considered in detail below.

1. Determination of Disability

Because of their widely differing origins and objectives, the various programs have adopted distinctly different methods of determining the existence and the level of disability. The general earnings-related programs, such as CPP and LTD, are usually restricted to benefits for the most severe of disabling conditions and provide no benefit to those who are only partially disabled. (For the first two to five years of disability, the LTD eligibility definition is less strict than that of CPP.) Similar restrictions apply to special provincial programs such as Alberta's AISH program. (Of course, access to the general social assistance programs is not limited in this way since these programs assist any persons in need whether or not they suffer a disability.)

The categorical programs (such as WC and Automobile Insurance) provide benefits to both totally and partially disabled persons; however, these programs only provide benefits if the disability results from a specific cause (such as job-related injury and illness, or motor vehicle accident). These limitations mean that decisions on eligibility for benefits often must be made on an "all or nothing" basis. The difficulty of such determinations is of particular concern in the case of claims under WC programs for job-related illnesses. It may be impossible to establish for certain in an individual case whether an illness, such as cancer, has been caused in whole or in part by work conditions.*

The method of setting partial disability benefit entitlements (basically available only under WC) has also raised concerns. Until recently, all WC programs awarded partial disability pension benefits on the basis of a rating schedule, whereby a given disabling condition would give rise to a specific percentage of the maximum benefit regardless of the impact on the earning capacity of the individual. This could result in benefits which were too high in some cases and too low in others. Four provinces now award benefits for partial disability on the basis of individual assessments of the loss in earning capacity. This approach is potentially more accurate, but also more difficult and costly to administer.

* Due to the difficulty of determining industrial disease, only a small percentage of WC claims are awarded on the basis of industrial-related disease. Paul Weiler, in his second report on WC in Ontario, refers to industrial disease as the "soft underbelly" of contemporary workers' compensation. Weiler indicates that 1.84% of WC claims in 1980 were allowed for industrial disease. Moreover, what people would think of as a disease in the true sense of the term - a cardiovascular, cancer or respiratory condition - amounts to a total of 200 allowed claims per year or 0.05% of the claims granted by the Board for accidental injuries. This is in contrast to CPP statistics which indicate that 43% of claims are due to cardiovascular, cancer and respiratory conditions.

2. The Population Protected

Apart from the safety net of provincial social assistance, there is no single program which protects all Canadians against disability in all circumstances. The existing patchwork quilt of programs causes both gaps and overlaps in populations covered.

With regard to gaps in coverage:

- (i) there is no protection for non-earners in their own right with the exception of provincial assistance, the legal system, categorical insurance such as automobile insurance and private insurance;
- (ii) the Canada and Quebec Pension Plans cover virtually 100 percent of the paid labour force regardless of the cause of disability except for a very limited number of casual agricultural workers and for very low income earners. However, coverage is only for total disability (and, as discussed later, benefits are quite low);
- (iii) Workers' Compensation covers about 80 percent of the paid labour force excluding self-employed persons and some domestic and agricultural workers. However, protection is restricted to job-related disabilities and even here there are severe problems in determining whether and to what extent a disability is indeed job-related;
- (iv) private LTD plans are mostly offered by larger private and public employers, and usually provide protection for both job-related and job-unrelated disabilities. However, they cover only about 43 percent of the paid labour force and in the long term only for total disability.

Thus, there is a major gap in disability coverage for non-earners (of whom a large number are congenitally disabled). Furthermore, while almost all earners receive some coverage, it is severely limited protection for the majority.

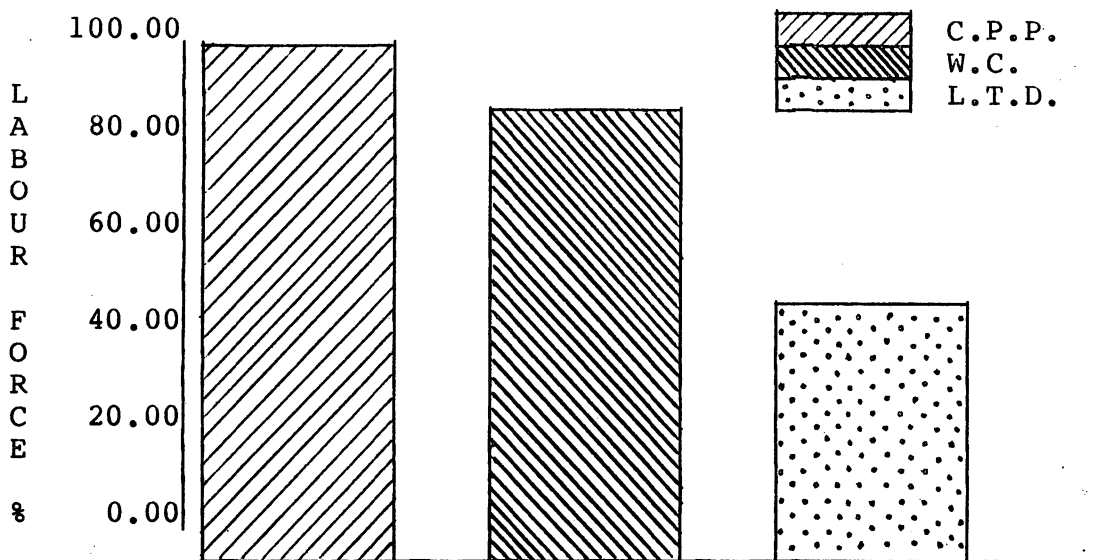
Overlapping coverage usually occurs when a disabled person is eligible for, or at least must apply for, benefits from more than one program. The most significant overlaps are as follows:

- (i) LTD programs usually require beneficiaries to apply for C/QPP benefits, and reduce their LTD benefits by the amount received from C/QPP. This offset reduces LTD premiums and avoids the duplication of benefits that would otherwise result from duplicate coverage. It is estimated that 25 percent of C/QPP beneficiaries receive other insurance benefits;
- (ii) overlapping coverage is less likely to occur between WC and C/QPP. Only about 10 percent of C/QPP beneficiaries also receive WC. In some provinces, CPP benefits are offset, which keeps the percentage earnings replacement from exceeding WC rates but means that part of the cost of a job-related injury program is paid for by C/QPP contributors. In most provinces however, CPP benefits are not offset against WC, but the two are "stacked" together, thus raising the percentage of lost earnings replaced.

This type of overlapping coverage raises the administrative costs of the system, and duplication of medical forms and examinations - frequently by the same doctors - is a recurring irritant which frustrates both claimants and their physicians. It has been suggested that a more integrated, comprehensive system could alleviate these problems.

V.1

PERCENTAGE OF LABOUR FORCE COVERED
BY DISABILITY EARNINGS REPLACEMENT PROGRAMS



3. The Adequacy of Benefit Levels

There is no single standard of "adequacy" which can apply in all cases. For earners, adequacy can be measured against the proportion of lost earnings replaced and the allowances for special needs. For non-earners, adequacy must be assessed against some other standard. Furthermore, adequacy must be considered not only in terms of the benefits forthcoming upon initial eligibility but also in terms of the extent to which the purchasing power of these initial benefits is protected over time.

(i) Initial Benefit Levels for Total Disability

Since benefits for the partially disabled are normally set as a percentage of those for the totally disabled, the adequacy of total disability benefit levels is a critical concern for both groups.

The adequacy of these initial benefits varies widely between programs, ranging from very low to very high. Unfortunately, those programs providing the broadest protection to the most persons frequently have the least adequate benefits.

Provincial assistance programs are aimed at providing a minimum income level to meet basic needs. Therefore, savings and the income of the other family members are also taken into account. Previous earnings and the hardship caused by the drop in living standards are not considered. In most provinces, while provision is made for the special needs of disabled recipients, the basic benefits are those of general social assistance. Consequently, benefits tend to be influenced by such factors as work incentives for the non-disabled population and a desire to control the overall cost to general revenues. Benefit levels are usually considerably less generous than the guarantees provided under federal and provincial programs for the elderly.

In British Columbia, Alberta and Ontario, however, special disability programs provide higher safety-net benefits and may be seen as a move in the direction of a more adequate minimum standard for the totally disabled.

The Canada and Quebec Pension Plans provide total disability benefits with both a flat-rate and an earnings-related component. Benefit levels are, however, extremely low in comparison to the previous earnings of most beneficiaries. The earnings-related component represents only 18.75 percent of insured earnings, up to a ceiling which is tied to the average wage. Even with the flat-rate component (\$78.60 per month under CPP and \$201.47 per month under QPP in 1983), a person whose sole source of income was C/QPP disability benefits would normally suffer a dramatic fall in living standards. 14 percent of CPP disability pensioners depend on provincial social assistance to make ends meet.

Workers' Compensation replaces between 75 percent and 90 percent* of lost insured earnings, up to a maximum insurable earnings

* The variation in replacement is smaller than these numbers would suggest since the programs with 75 percent replacement base the benefit on gross income while the 90 percent benefits are based on net income.

ceiling of between 1 and 2½ times average wages. Benefits are tax free. Thus, persons below the ceiling - that is, in the low-to-average earnings range - can get virtually complete replacement of lost earnings for on-the-job injury. However, when pre-disability earnings exceed the ceiling, the percentage of lost earnings replaced becomes progressively smaller. It has been argued that this not only makes benefits less adequate, but also is inequitable on two counts. First, persons covered by the no-fault WC programs cannot seek an award through the legal system even in cases of clear negligence on the part of the employer. Second, even where employer negligence is not involved, on-the-job injury is frequently an unavoidable cost of production. It is argued that this cost, like other costs of production, should be spread over the beneficiaries of the production process rather than an unduly large proportion being carried by the disabled worker alone.

Long Term Disability Insurance plans generally do not have this ceiling on insured earnings, but the percentage replacement of previous earnings is normally lower than for WC, usually in the 60 percent to 75 percent range. On the other hand, coverage usually extends to off-the-job disabilities with employers effectively paying the premiums.

(ii) Inflation Protection

Once initial benefits are determined, how their purchasing power is protected over time against inflation must also be considered. The C/QPP and some provincial WC and social assistance programs are fully or partly tied to increases in the Consumer Price Index. However, most WC and provincial assistance programs increase benefits only on an ad hoc basis, and private LTD plans generally provide little or no protection against inflation.

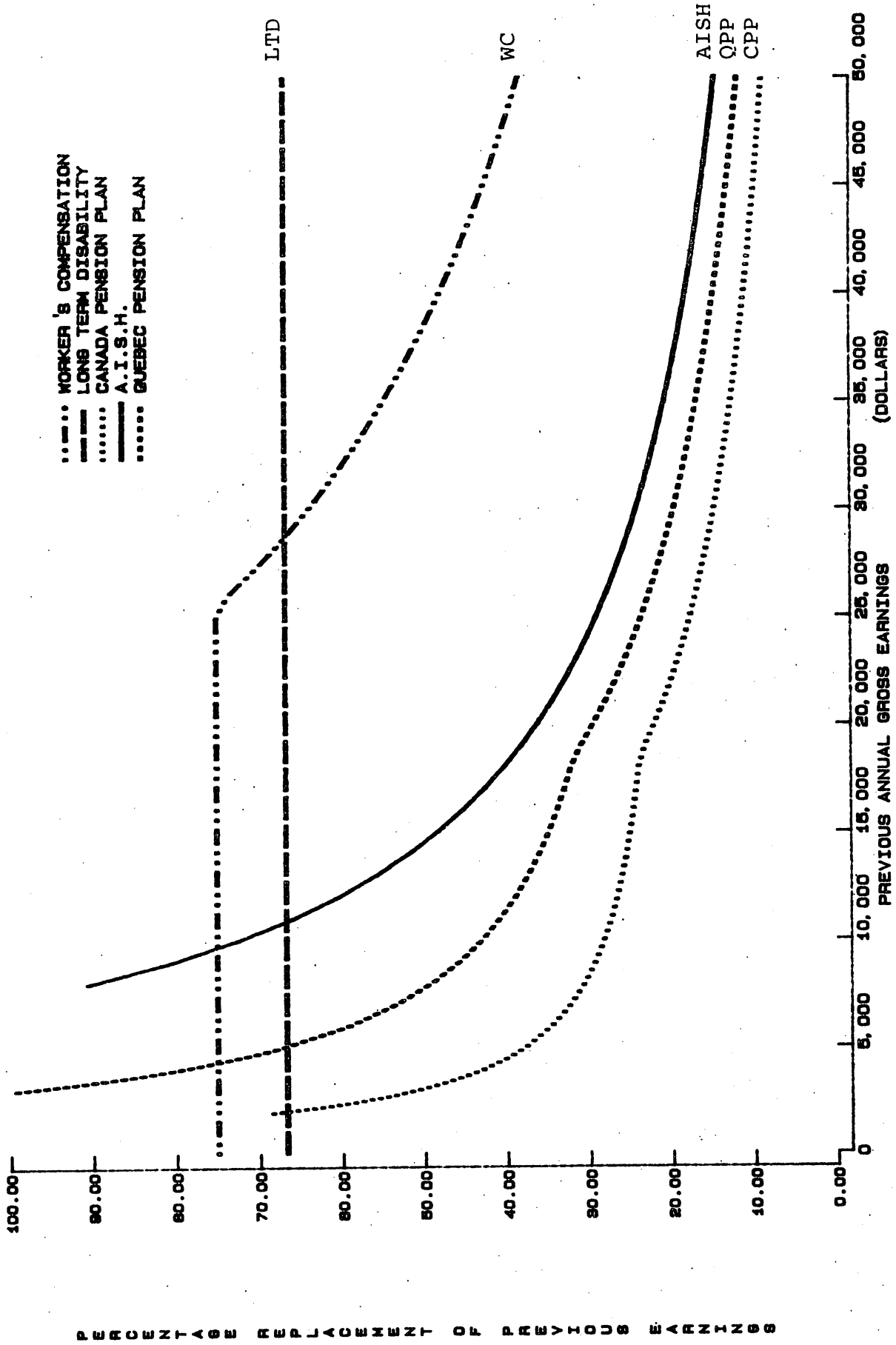
(iii) Special Needs

As well as lost earnings, disabled persons may have other costs associated with their particular condition. "Pain and suffering" costs are frequently awarded by the legal

system. Further, special needs such as prostheses, transportation costs and attendant care may be provided for under social assistance and WC programs; these needs may not be provided for under LTD plans unless vocationally related, and are not provided for at all by CPP. The resulting potential for hardship is particularly serious in low-income families.

The following chart illustrates the level of income replacement for totally disabled persons provided by various programs. For illustrative purposes, the WC program in Ontario and the AISH program in Alberta have been used.

INCOME REPLACEMENT FOR
TOTALLY DISABLED PERSONS *



* Benefit offsets have not been incorporated into replacement rates.

V.3

PROBLEMS OF THE CURRENT SYSTEM

Programs	Determination of Degree of Disability	Population Protected	Adequacy of Benefit Levels
Workers' Compensation	only job-related disabilities	All earners except the self-employed, some agricultural, domestic and clerical workers	Protects earnings only to a ceiling (1 to 2½ AWS)*
Canada/Quebec Pension Plans	very strict definition; total disability only	(only non-earners are excluded)	very low earnings replacement, earnings ceiling tied to AWS
Long-Term Disability Insurance	total disability (based initially on loss of ability for last job)	57% of paid earners not protected	replaces 60-75% of past earnings; poor inflation protection (no earnings ceiling)
Provincial Assistance Programs	special programs for severely disabled only (general programs based on need)	only persons with no other means of support	subsistence level based on need (some programs give higher benefits)

* AWS - Average Wages and Salaries

VI. INTERNATIONAL EXPERIENCE

(i) Overview

Social security systems of major industrialized nations provide income maintenance programs to cover contingencies such as unemployment, disability and retirement. All such countries have disability insurance programs provided through the public or private sector, or both, which interact in various ways to protect the disabled population. In most of these countries, public programs are designed to replace a relatively high percentage of earned income for those who have contributed (or on whose behalf employers have contributed) to the program for a specified time period.

Young workers, those who have never participated in the paid labour force and the congenitally disabled are usually not covered by these disability programs. Such persons must rely on the state welfare system. One exception is universal residence-based public schemes which provide flat-rate benefits and/or supplements for disability as well as retirement (e.g., Sweden*, the United Kingdom, Finland and Australia).

Several countries provide two income maintenance programs within the framework of the general social security system to protect workers in the event that their earnings capacity is reduced as a result of disability - a short-term cash sickness benefit program and a long-term disability pension program. The two programs are generally based on different legislation and entitlement criteria, including different definitions of work incapacity. Various supplements for such special needs as constant attendance and special devices are also provided under a number of social security systems.

Within the past decade, a number of invalidity insurance systems have introduced program distinctions recognizing degrees of incapacity. Programs usually distinguish between those who are severely disabled (permanent total) or partially disabled (permanent partial) with a limitation in earnings capacity.

* The Swedish legislation is worded in such a way that domestic work performed in the home can be equated with employment income to a reasonable extent.

General expansion of social security programs, particularly in the area of disability, coupled with economic difficulties, have placed some social security systems in financial difficulty. Possible causes of this problem as related to disability programs are discussed in subsection (e) below.

(ii) Defining disability

There is a variety of ways in which disability is defined depending upon the factors taken into consideration by the administration. Some programs assess eligibility for benefits not only on the medical prognosis but also on such criteria as the general employment situation and the applicant's age, education level and nature of employment (i.e., arduous labour). Under public programs in countries such as the United States, United Kingdom and Canada, a very strict definition is applied requiring that the claimant be incapable regularly of pursuing any substantially gainful activity. At the other end of the spectrum, the Netherlands and the Federal Republic of Germany have broadened their definitions of disability to take into consideration the availability of suitable employment (e.g., in the Netherlands, such employment must exist near to where the person lives).

Disability can also be defined in terms of the percentage loss of earning capacity resulting from disablement. Many countries differentiate according to the severity of the disabling condition, awarding a reduced pension to applicants whose disability does not entitle them to a full pension. However, in those countries (such as West Germany, Finland and the Netherlands) which provide partial disability pensions, most awards have been granted on the basis of total disability. Broadening definitions of disability to consider economic and social factors in addition to medical factors has led to a diminished number of partial disability pension awards as compared with total disability awards.

(iii) Assessment problems

In countries which provide for partial disability pensions, physical impairments such as lower back ailments and mental impairments are often difficult to diagnose through objective medical procedures and the worker's subjective feelings are often considered in

the assessment process. Doctors may be insufficiently trained to diagnose work incapacity for purposes of benefit entitlement. This often results in higher awards than would be warranted by the medical condition.

(iv) Rehabilitation

Measures to maintain, improve or restore the disabled person's capacity to earn may include medical treatment, vocational retraining and educational programs as well as cash support payments to cover out-of-pocket expenses. Legislative provisions usually call for benefit reduction or supervision if the disability pensioner does not cooperate.

In the United States, which has a very restrictive definition of disability, precluding all but the most severely disabled from qualifying for benefits, and no partial disability provisions, it is relatively difficult for rehabilitation to achieve a substantial success rate. One measure which has been introduced to encourage self-rehabilitation is to permit disabled beneficiaries to retain full benefits for twelve months while they test their ability to work under the so-called "trial work period" provision. Trial work is considered to take place in any month in which earnings represent substantially gainful activity. If substantially gainful activity is expected to continue, benefits are suspended. The work effort is monitored for an ensuing 12-month period and if it fails, benefits are reinstated automatically. If the work effort succeeds, benefits are terminated.

(v) Major concerns

Many countries are becoming concerned by the considerable growth in the costs of disability programs experienced over the past decade. These growth trends have been most notable in countries with relatively broad definitions of disability, fairly generous benefits, high unemployment, aging populations and declining mortality rates, and a high degree of urbanization.*

* The Netherlands, Belgium, Sweden, Finland, West Germany

The interaction of all of these factors has significantly increased disability program expenditures and stabilization measures have been discussed by program administrators abroad. To date, the growth problem has been approached primarily by increasing revenues (raising contribution rates, contribution ceilings, or both).

Consideration has also been given by some European administrators to other program changes. For example, at a recent conference (International Social Security Association in Vienna, 1981) the following possibilities were raised:

- early identification of disabling conditions and preventive care;
- elimination of labour market considerations from disability assessment criteria during initial claim period; and
- implementing stricter medical control procedures once a pension has been awarded.

However, it must be emphasized that no such measures have been announced or implemented by any of these European countries.

**INTERNATIONAL COMPARISON OF MAJOR FEATURES
OF PUBLIC DISABILITY PROGRAMS**

Country	Coverage under Public Scheme	Extent of Disablement		Benefit Levels for Total Disability**	Notable Features*
		Total	Partial		
Belgium	employed and self-employed earners	loss of at least 2/3 of earning capacity	none	43.5% of earnings (up to 2 x AWS)***; 65% if dependents present	flat-rate supplements for special needs
Canada	employed and self-employed earners	loss of total earning capacity for the foreseeable future	none	18.75% of earnings (up to AWS) + flat-rate amount	provincial assistance programs for minimum needs
Federal Republic of Germany	employed and self-employed earners	loss of total earning capacity	loss of at least 50% of earning capacity	1.5% of earnings (up to 2 x AWS) x years of coverage	voluntary contributions for non-earners
France	about 70% of employed earners	loss of total earning capacity	loss of 1/3 of earning capacity	50% of earnings (up to 1½ x AWS)	supplements for special needs, income-tested allowances for needy invalids
Netherlands	all residents over age 18; employed earners	loss of at least 80% of earning capacity	loss of between 15-79% of earning capacity	80% of earnings (up to AWS) + flat-rate amount	flat-rate universal benefits; comprehensive work injury, cash sickness and disability scheme
Sweden	all residents; all employed and self-employed earners	loss of at least 83% of earning capacity	loss of between 50-82% of earning capacity	60% of covered earnings (up to 2xAWS) + flat-rate amount	flat-rate universal benefits (coverage for homemakers)
U.K.	all residents; employed and self-employed earners	loss of total earning capacity	none	1.25% of best 20 years of earnings (up to 1½ x AWS) + flat-rate amount	flat-rate universal benefits; supplement for special needs
U.S.A.	all employed and self-employed earners	loss of total earning capacity	none	variable % of earnings (up to 2 x AWS); Average monthly benefit = \$429.00	trial work period for self-rehabilitation purposes

* All above countries have work injury programs either separate from, or provided through the social security system.

** All benefits indexed to wages or prices.

*** AWS Average Wages and Salaries

VII. GENERAL DESIGN CONSIDERATIONS FOR DISABILITY PROGRAMS

In theory it might be possible to envisage a comprehensive disability protection scheme which would exactly compensate for any disability. The loss in both present and future income would be fully made up and disability-related expenses would be compensated for. Rehabilitation would be exactly suited to individual requirements.

In the real world, practical considerations make the attainment of such objectives impossible. For example, it is extremely difficult, and perhaps impossible, to measure future income or earnings ability. At the outset, decisions would have to be taken as to the objectives of the system (e.g., compensation for disability or provision of an acceptable level of income). Further, provision of full compensation for a partial disability may have serious implications for costs and possible abuses of the system and could reduce the likelihood of successful rehabilitation. Thus, difficult judgements and trade-offs must be made if an equitable, adequate, affordable and workable disability benefits system is to become a reality.

The issues which dictate the design of a comprehensive scheme, or of any disability benefits scheme, fall along three dimensions:

1. the determination of the benefit levels for total disability;
2. the implications of varying degrees and types of disability;
3. populations to be protected.

To a great extent, the impact of a disability benefit system will be a function of the decisions made in relation to these considerations.

1. The Determination of the Benefit Levels for Total Disability

Maximum benefits for total disability can be defined either as an absolute standard unrelated to any past earnings or by a relative standard, where a benefit is some percentage of lost income. If a system is to be comprehensive it might be necessary to have both types of programs to satisfy at the same time the very

different needs of, for example, the full-time earner and the non-earner. Depending on the contingency to be provided for, one standard may be more appropriate than the other.

Benefits under an absolute standard are by their nature unrelated to past earnings - i.e., the program does not have income replacement as its main objective. Accordingly, the maximum level of benefits can be based on a number of criteria such as costs, basic needs, comparability to programs for the elderly and the relationship to the average or minimum wage. Whichever criteria are used, simple justice dictates that the benefit level for disabled persons cannot be less than that provided by social assistance. Additionally, a good argument could be made that an absolute benefit level for totally disabled persons should be at least somewhat higher than basic assistance rates, in recognition of the fact that disabled persons are less able to support themselves through paid work than the general population and that therefore work incentive arguments favouring low benefit levels are less applicable to disabled persons, and not at all to the truly totally disabled.

Different absolute benefit levels could be paid to different groups, depending on the method of financing and the eligibility criteria for benefits. For example, insurance-type programs financed through premiums might provide a higher benefit level than a "safety-net" program financed through general revenue.

If a relative standard is adopted (i.e., if the program has income replacement as its objective), measuring the income loss resulting from disability is the critical issue. For earners, programs usually determine benefit levels and premiums on the basis of all or part of actual pre-disability earnings. Currently, C/QPP, WC and LTD programs in Canada, and most disability programs for earners throughout the world, use this approach.

Determining benefit levels solely on the basis of past earnings has many shortcomings. For example, such factors as age at the time of disability, degree of attachment to the work force, and individual potential for higher earnings had disability not occurred, are excluded from consideration if past earnings are the only measure used. Nevertheless, the use of past earnings as the basis of both benefits and premiums is simple, understandable and administrable.

The percentage of past earnings replaced may vary depending on the objectives of specific programs, cost considerations and the relative concern given to work incentives and rehabilitation. For example, it has long been accepted that a high earnings-replacement level is necessary for programs such as WC, where the benefit is a compensation for work-related accidents and the legal right to sue for such compensation has been forfeited. Whether an equally high benefit level is appropriate for non-work-related disabilities is debatable. Current private LTD plans which cover both work and non-work related disability have a fairly high earnings-replacement ratio but this is generally lower than that of the WC programs for those earning under the WC ceiling. The decision on how high a percentage of earnings-replacement should be provided by a program is really a decision as to how much of the cost of disability should be borne by the individual and how much by society (or the program's contributory population) as a whole.

Other sources of non-earnings income, such as investments, or indirect income, such as the earnings of a spouse, are sometimes considered by a program. Relative benefit programs normally do not take these sources into account, since this would not be compatible with the basic objective of such programs, which is to replace the lost earnings of the disabled individual. However, absolute benefit programs, such as social assistance programs, can, and do, take other personal and family income and assets into account. While this might be appropriate in government-funded support programs, it might be considered less desirable if the absolute benefits were based entirely on additional premiums.

Additionally, it should be recognized that disability-related expenses vary widely from one disabled person to the next. The system as a whole should not only provide adequate income insurance but also adequate protection against disability-related expenses to the individual and/or family. Dealing with the latter can be considered a more or less separate issue from the basic designing of an income insurance scheme.

As noted above, it is most unlikely that one program could adequately meet the needs of all client groups in all circumstances. It is more likely that an array of programs with specific objectives would be more successful. That these programs harmonize is essential.

For example, if both a relative and absolute program were instituted to provide comprehensive protection, it would be desirable to integrate the programs in such a way that a disabled earner with a low benefit under the relative program would not be worse off than a non-earner protected by the absolute benefit. Equity considerations would also require that programs be integrated in such a way that total benefits provided to the same person from more than one program would not over-compensate for a disability.

2. Degree and Circumstances of Disability

A further set of issues and considerations follow from the implications of varying degrees and circumstances of disability. In this respect, a comprehensive system must address some basic questions:

- (i) How should entitlements to the maximum benefit for total disability be determined? What is "total disability"?
- (ii) How should this maximum benefit level be reduced for partial disability? Will there in fact be benefits for partial disability?

(i) Total Disability

Different programs define "total disability" in different ways. For example, the CPP excludes from eligibility an individual with any residual earnings capacity - that is, anyone who is not totally disabled from an employment perspective. The QPP has adopted a slightly more lenient interpretation of "total disability" which extends eligibility to those aged sixty to sixty-five who can no longer perform their previous job by reason of disability, even if they retain some capacity for other employment. As we have seen, some European countries, in determining total disability, take into consideration not only the individual's residual earnings capacity but also such non-medical factors as age at the time of disability, education and past experience and such environmental factors as the state of the economy and the real possibility of re-entry into the labour force.

Clearly, the more broadly written and administered is the definition of total disability, the greater the number of persons receiving the maximum benefit and the higher the cost of the program. It is estimated, for example, that if the CPP were administered using the broadest European-style interpretation of total disability, the number of benefits awarded could more than double. If such a definition were coupled with a very high maximum benefit, there would be serious concerns, as well, about abuses to the system and incentives for rehabilitation.*

On the other hand, if total disability were narrowly defined, there would tend to be more persons with disabling conditions excluded from the maximum benefit and greater pressure (and need) to provide partial disability benefits. One possible compromise, short of the provision of partial benefits, would be to provide a maximum benefit on the basis of a broad definition of disability, but only for a limited period of time (e.g., 2 years). After the specified time had elapsed, the benefit would continue only if the disabled individual met a more strict definition of disability. This would create greater incentives for rehabilitation and return to work.

(ii) Partial Disability

Any program which attempts to compensate for partial reduction in earning ability must address the very difficult problem of how to measure with a fair degree of accuracy the decrease in a disabled person's earning potential.

One approach is to base a benefit on the degree of disability, decided either by a disability-rating schedule or by a medical judgement. This approach can greatly over-compensate or under-compensate because it does not take individual situations into account. For example, in an earnings-replacement program, it would provide a larger initial benefit

* The compromises in defining total disability may be different in the case of categorical programs such as WC and automobile accident insurance. These programs are able to utilize the characteristic limitation of the program, (e.g., the provision of benefits only for on-the-job injury) to control costs and administrative problems.

to a lawyer who lost his hand than to a labourer who suffered the same accident, even though the lawyer's earnings capacity might be unchanged by the accident and the labourer's might be drastically reduced. An alternative approach is based on individual estimates of post-disability earning potential. This approach can be more accurate in estimating the initial earnings loss but could be more difficult to administer. With such an approach it is very important that (a) post-disability earning potential be accurately estimated and (b) post-disability earning potential be actually realized.

Regardless of which approach is used to measure initial earnings loss in the case of partial disability, the subsequent reality in terms of earnings will differ from the estimate in many cases, and policies must be adopted for dealing with the situations that arise. For example, if the beneficiary has been over-compensated, and is able to earn a higher portion of past earnings than was estimated, the program might "tax back" the benefits by a percentage of the excess earnings. Unfortunately, particularly if the tax-back rate is high, this will lower the incentive to work and decrease the possibility of the person becoming more self-reliant. On the other hand, if the partially disabled individual cannot actually find employment to realize the estimated earning potential, his or her actual income will be inadequate. Given the very high unemployment rates among the employable disabled population, this problem might actually occur in a majority of partial disability cases (unless very active and successful programs of rehabilitation and re-employment were in place). If special benefits were provided to unemployed partial disability pensioners to compensate for this problem, the program would in effect be providing early retirement or unemployment benefits, rather than disability benefits.

All of these considerations - determination of degree of disability, provision of appropriate benefit levels, rehabilitation concerns and special needs, could become even more complex if benefits for both full and partial disability were extended along the spectrum from full-time earners to non-earners. In the end, it is quite possible that different approaches might be adopted by various components of

a comprehensive system. For example, there might be a relative benefit program for wage-earners giving full or partial benefits based on lost earnings, and at the same time an absolute program for non-earners which gives benefits to totally disabled persons only and requires the partly disabled non-earner to depend on other sources of income, or the "safety-net" of social assistance.

3. Populations to be Protected

Regardless of other program characteristics, the design of a disability program or system and the extent to which it can be considered "comprehensive" will be dependent upon decisions as to who will be protected, under what circumstances and how adequate that protection is. As noted throughout, it is likely that a comprehensive system would in practice be comprised of several programs, to meet the different protection needs of earners and non-earners, implying that decisions would have to be taken as to who would be protected by which program(s). The decisions would to a great extent be dictated by administrative concerns and by the need to minimize gaps and duplications between programs.

A related question that must be answered is that of who will pay the costs associated with protection under the system. Whether delivered by the public or private sector, it is likely that any relative benefit program to protect earnings will be financed through premiums paid by employers, employees or both. (Financing through general government revenues might be considered inappropriate in view of the fact that such programs pay higher benefits to high-income workers than low-income workers.) However, an absolute-type benefit program might be financed by premium payments, by general revenues, or both. In at least some cases, the costs would almost certainly have to be borne by government.

Beyond a certain point, the extension of relative benefit coverage for earners on the basis of premiums would run into administrative and equity problems. To some degree, the decisions would be arbitrary as to where coverage (and premium) payment would be required in "gray areas" such as part-time work, casual or intermittent employment or low-paying jobs. In Canada, seasonal employment is extensive, and decisions as to how these earners could be protected would have significant coverage and adequacy implications. Roughly speaking, however, it is unlikely that a system for

earners could extend protection much beyond the current C/QPP contributory population. As a lower limit, it is unlikely that a system could be considered "comprehensive" if it protected a smaller population than those now protected by Workers' Compensation (roughly 80 percent of paid workers).

Non-earners might also be protected through an "absolute" benefit program(s). It could be argued that all such persons are already protected by the general social assistance and special disability programs provided by the provinces. However, many disabled non-earners are unable to qualify for these programs because of their family income and/or asset levels.

Many non-earners could be covered through an absolute benefit program based on premiums paid by an earning family member (i.e., a parent or spouse). Such a program could also protect some of the low-income or part-time earners who might be excluded from a relative benefit program. It would be more difficult, however, to protect those non-earners who are not dependents of earners. Unless their premiums were paid from unearned income or by government, this group of people would have to continue to rely on the existing "safety-net" of social assistance programs.

Thus, the provision of comprehensive disability protection to non-earners could take basically three forms:

- (i) a premium-based system involving some contributions from government,
- (ii) a mixture of premium-based and government financed programs, or
- (iii) a program entirely financed by government(s).

As noted earlier, the government-sponsored programs could take the form of a fully needs-tested benefit or partly income-tested benefit structure similar in design to the Old Age Security/Guaranteed Income Supplement benefit.

VIII. DIRECTIONS FOR CHANGE

Using the general design framework for disability schemes, it is possible to analyse the key features and impacts of various changes to the current system of programs. These may be grouped into two broad categories:

Modifications to Existing Programs

This category includes a series of possible changes to the major programs for long-term disability protection (the C/QPP, WC, private LTD plans and provincial assistance programs). Many of the changes discussed have already been formally proposed by governments; all are intended to enhance the effectiveness of individual programs in meeting the needs of their client populations. Nevertheless, reform of the current array of programs does not address the fundamental issues of equity and consistency in disability compensation. Persons who suffer similar disabilities would continue to be compensated according to their access to coverage under one scheme or another, not according to the extent of the losses they suffer.

Restructuring the System

This category consists of changes which would fundamentally alter the protections provided by the system as a whole. Of necessity they involve alterations in the basic design features of the programs concerned, and several could imply the possible elimination of existing programs. All would constitute major steps towards a more comprehensive overall system of disability protection.

1. MODIFICATIONS TO EXISTING PROGRAMS

While there are an infinite number of possible changes or groups of changes to individual programs, the following have been chosen because most have been proposed by governments and, in some cases, already implemented by some governments in Canada. The remainder are included for illustrative purposes. Each is analysed in terms of the main design characteristics as well as in terms of program costs and interaction with other programs.

A. CANADA/QUEBEC PENSION PLAN CHANGES

The changes considered here include: (i) those proposed by the Minister of National Health and Welfare in 1981; (ii) those included in the federal Green Paper "Better Pensions for Canadians" in 1982, and (iii) those introduced by the Government of Quebec in 1983 (to take effect January 1, 1984). More specifically, they would involve:

(i) Proposal by the Minister of National Health and Welfare To Improve CPP Disability Benefits

The intent of the proposal is to ensure that a disabled C/QPP contributor would have the same minimum guaranteed pension amount that the elderly are provided with through the combined CPP and basic Old Age Security pension.* It would mean raising the current flat-rate component (\$78.60 under CPP and \$201.47 under QPP, in 1983) to approximately \$260 per month. It would also mean raising the earnings-related component from 75 percent to 100 percent of the retirement benefit. One further element of the proposal was to alter the contributory rule so that contributors may qualify if they have made contributions in one of the last two years. The current contributory rule requires contributions in one-third of the contributory period or 10 years (whichever is less) and in at least 5 of the last 10 calendar years. This results in delays in protection against disability from age 18-22 for all contributors and means even longer delays in coverage for those entering the work force after age 18.

Impact on Benefit Levels: The increased absolute benefit, guaranteed to all current and future C/QPP disability pensioners would represent an amount in the order of 15 percent of the average wage in 1983; the increase would not, however, be high enough to preclude C/QPP beneficiaries from access to provincial assistance programs. The minimum relative benefit guaranteed would be raised from 18 3/4 percent to 25 percent of earnings up to about the average wage. However, raising the earnings-related component would not be considered a major increase in overall C/QPP replacement, which would remain low.

* This proposal was made in the 1970 federal White Paper on Income Security and was partly implemented by Quebec in 1972.

Impact on Types and Degrees of Disability covered:
none

Impact on Size of Population Protected: There would be a very slight increase, estimated at 15 percent, in the total C/QPP contributory population protected against disability. However, the younger age group which is most affected by the change in contributory requirements has an especially low incidence of disability and a high rate of unemployment. Consequently, the number of C/QPP beneficiaries would not be expected to increase significantly.

Impact on Other Programs: The proposal would lower the cost of LTD and those WC and provincial assistance programs which offset C/QPP benefits. Also, beneficiaries who now receive drug and other assistance, under social assistance, may no longer qualify for these benefits. About 25 percent of CPP beneficiaries receive long-term insurance benefits while 10 percent receive WC. Savings to these programs would be difficult to estimate. In terms of provincial assistance, about 14 percent of CPP disability pensioners receive provincial benefits. Roughly speaking, provincial assistance programs might be expected to save \$30 million in the first year.

Impact on Costs: The proposal could increase CPP expenditures and (eventually) contributory costs more substantially than for QPP, since the QPP already has a much higher flat rate. It is estimated that CPP flat-rate disability benefit costs would rise by \$240 million in 1983, while QPP expenditures would rise by \$20 million in 1983. In terms of contributions, the proposal would raise the cost of the CPP disability flat-rate benefit from .09 to .31 percent of contributory earnings in 1983. There would be an increase of one third in CPP and QPP earnings-related disability benefits at an estimated cost of \$100 million in 1983 for CPP and \$25 million for QPP. This could correspond to a rise in contributory costs from .25 percent to .33 percent of contributory earnings in 1983. The cost of reducing the contributory period is estimated to be negligible.

(ii) Federal Green Paper Proposal on the Division of Pension Credits

The intent of the proposal is to give personal pension protection for spouses working at home. In the event of the disablement of a non-earning (or low-earning) spouse, C/QPP pension credits would be divided between the spouses to provide entitlement to a pension or to increase the amount of that pension.

Impact on Benefit Levels: None, except to the extent that lower-earning spouses might have their benefits increased somewhat. (Conversely higher-earning spouses may have their benefits decreased.)

Impact on Size of Population Protected: The protection of the C/QPP would be extended to spouses working at home. (Non-earning non-dependents would be excluded.) This would be estimated to increase the coverage of the C/QPP disability benefit from about 10 million to about 12 million persons.

Impact on Other Programs: The additional population protected would not be covered by LTD or WC, so that there would be no interaction with these programs (except in those cases where there was an earnings-related C/QPP benefit of a lower-earner spouse receiving WC or LTD). The disability beneficiaries concerned would in most cases be considered dependents by provincial assistance programs, so that there would only be savings for these programs in the case of low-income families or after family breakups.

Impact on Costs: It is estimated that the credit-splitting proposal would increase C/QPP disability benefit expenditures by 10 percent in 1983. If proposal (i) were implemented in addition to credit-splitting, the cost would rise to about .75 percent of contributory earnings under the program(s) in 1983.

(iii) Government of Quebec Proposal to Change the QPP Definition of Disability

The CPP might be amended to reflect the amendment to QPP (effective January 1, 1984) by which a person aged 60-64 will be able to claim a benefit if unable to perform his or her previous work, even if that person has the capacity for other work. Because this change applies only to a small group of contributors in a narrow range of circumstances and very low level of benefits, resulting cost increases are estimated at 0.7 percent above existing disability benefit expenditures under QPP in 1984 and 2.1 percent in 1985.* Percentage increase to CPP can be expected to be comparable.

* Cost estimates are from the Rapport Actuariel, Régime de Rentes du Québec, May 1983.

VIII.1

MODIFICATIONS TO EXISTING PROGRAMS
A. CANADA/QUEBEC PENSION PLANS

Program Modifications	IMPACTS				
	Benefit Levels for Totally Disabled	Types and Degrees of Disability	Population Covered	Other Programs	Program Costs
(i) Raise flat-rate component to OAS level;	raises absolute benefit levels	no change	no change	cost reduction for all other programs which offset CPP benefits	\$240 million for CPP, \$20 million for QPP in 1983
Raise earnings-related component to equal retirement pension; and	raises relative benefit from 18.75% to 25% of earnings up to AIW*	no change	no change	cost reduction for WC, LTD; small cost reduction for provincial programs	An increase from .25 percent to .33 percent of contributory earnings in 1983
Relax contributory requirements	no change	no change	18-22 year olds and late labour force entrants	negligible	negligible
(ii) Credit-splitting on contingency	some increase in benefit levels for low income spouses	no change	non-earning spouses	some cost reduction for provincial programs	10 percent increase in disability expenditure
(iii) Relax definition of disability for 60-64 year old (new QPP provision)	no change	reduces strictness of limitation to severe disability for a small group of contributors	negligible	negligible	negligible

* AIW - Average Industrial Wage reduces strictness of limitation to severe disability for a small group of contributions.

B. WORKERS' COMPENSATION

The following modifications basically parallel proposals in the recent Ontario White Paper on the Workers' Compensation Act. Since provincial Workers' Compensation programs vary, the impacts of the proposals would differ from province to province. Some of the proposed changes are already in force in some provinces.

(i) Raise the Ceiling on Earnings to 2½ Times Average Wages (as is currently the case in Newfoundland).

Currently, provincial WC programs protect earnings (and require employer contributions on earnings) up to a ceiling varying from 1 to 2½ times average wages. It is argued that since WC is a substitute for an employee's right to sue his or her employer, and the compensation for disabilities resulting from job-related injuries should be recognized as a cost of production, then the full earnings of all but the highest paid employees should be protected.

Impact on Benefit Levels: Protection would be improved so that almost all workers could have the same percentage of income replacement now enjoyed by low-to-average income workers.

Impact on Types and Degrees of Disability: none

Impact on Size of Population Protected: none

Impact on Other Programs: There would be some increase in offsets for LTD programs, since LTD benefits cover all earnings but offset for WC benefits.

Impact on Costs: There would be an increase in both temporary and permanent benefits to higher income workers (estimated in the Ontario White Paper to represent about 20 percent of program costs), balanced by an increase in employer contributions for higher-income workers.

ii) Calculate Partial Disability on Earnings-Loss Basis:

At present, some provinces calculate permanent partial disability using a ratings schedule, while others use individual estimates of earnings loss. In principle, the latter approach would appear to be more accurate but in practice somewhat more difficult to administer (see discussion in Section VII).

Impact on Benefit Levels: The result should be a benefit level more closely related to actual earnings loss.

Impact on Types and Degrees of Disability: The distribution of awards between partial and total disability and the consequent benefit levels would change. The degree of change would be dependent on the design of the program.

Impact on Size of Population Protected: none

Impact on Other Programs: negligible

Impact on Costs: A more accurate assessment of disability levels would not, of itself, be expected to significantly change costs, except in instances where the program has been consistently overcompensating or undercompensating beneficiaries. The Ontario White Paper estimated a slight (4 percent) increase in costs resulting from a wage-loss approach to permanent disability awards.

(iii) Expand Population Protected:

It would be possible to make some increase in the population protected by WC, for example by providing wider coverage for workers now excluded, such as agricultural and domestic workers.

Impact on Benefit Levels: none

Impact on Types and Degrees of Disability: none

Impact on Size of Population Protected: Depending on the degree of expansion, it is estimated that up to 10 percent more workers could be covered by WC.

Impact on Other Programs: There could be some limited decrease in provincial assistance costs if some workers now ineligible for WC were protected against on-the-job injury. Savings would be expected to be minor.

Impact on Costs: There would be corresponding increases in both expenditures and employer contributions. In some cases, the additional costs could be offset by private insurance premium reductions for an employer who previously was providing some protection in lieu of WC through an LTD plan.

VIII.2

MODIFICATIONS TO EXISTING PROGRAMS
B. WORKERS' COMPENSATION

Program Modifications	IMPACTS				
	Benefit Levels for Totally Disabled	Types and Degrees of Disability	Population Covered	Other Programs	Program Costs
(I) Raise earnings ceiling to 2½ X AWS*	raises income replacement levels for higher-income earners comparable to levels for lower-income earners	no change	no change	cost reduction for LTD programs	Increased employer contributions for high-income earners
(II) Calculate partial benefits on earnings-loss basis	no change	may reduce the number of partial disability awards	no change	negligible	4 percent increase in costs of permanent disability benefits (Ontario White Paper)
(III) Expand coverage	no change	no change	additional 10% of workforce (e.g., agricultural, clerical & domestic workers)	minor cost reductions for provincial programs	Increased employer contributions

* AWS - Average Wages and Salaries

C. LONG-TERM DISABILITY

The following proposals have not been made formally. They are discussed here for illustrative purposes.

- (i) Increase Benefit Level: The benefit provided by LTD plans is usually in the order of 60 to 75 percent of previous (taxable) earnings. The initial benefit level could be raised to the 80 percent range, and/or the benefit at present levels could be indexed, at additional cost to employers/employees.

Impact on Benefit Levels: The proposals would result in improved initial and/or long-term replacement levels.

Impact on Types and Degrees of Disability: none

Impact on Size of Population Protected: none

Impact on Other Programs: negligible

Impact on Costs: The cost of increasing benefits to 80 percent of past earnings would depend on the previous replacement level. The cost of increasing benefits to 80 percent of past earnings in a program now paying 75 percent benefit would be expected to raise premiums by about 7 percent; if the program had been providing a 60 percent replacement, the premium cost rise would be about 33 percent. Increases tied to the Consumer Price Index would make it difficult to estimate future obligations to current beneficiaries; this could be a serious concern to employers and insurance carriers. There could be some possible increases in the number of claims or average length of payment if benefits were more attractive.

VIII.3

**MODIFICATIONS TO EXISTING PROGRAMS
C. LONG-TERM DISABILITY INSURANCE**

Program Modification	IMPACTS				
	Benefit Levels for Totally Disabled	Types and Degrees of Disability	Population Covered	Other Programs	Program Costs
(i) Increase benefit rate to 80% of previous net earnings	Improves initial and/or long-term replacement levels	no change	no change	negligible	7-33% increase in premium costs depending on previous benefit level
(ii) Indexation of benefits	Improves long-term benefit levels	no change	no change	negligible	difficult to estimate

D. PROVINCIAL ASSISTANCE

Three of the provinces now provide special income support programs for disabled persons on an income-tested or needs-tested basis. The benefits resulting are generally higher than general social assistance programs. The Study Group considered the impacts if other provinces undertook similar programs.

Impact on Benefit Levels: The absolute benefit guaranteed is usually higher - akin to the income guarantee under Old Age Security/Guaranteed Income Supplement plus provincial "top-ups".

Impact on Types and Degrees of Disability: none

Impact on Size of Population Protected: If the tests applied were more lenient, particularly in terms of assets, it could be argued that a slightly greater percentage of the low-earning and non-earning population could potentially qualify.

Impact on Other Programs: negligible

Impact on Costs: There could be an expected net increase in expenditures from general revenues for those provinces entering into special programs, especially if parity with existing provincial supplement programs were attempted.

VIII.4

**MODIFICATIONS TO EXISTING PROGRAMS
D. PROVINCIAL ASSISTANCE**

Program Modification	IMPACTS				
	Benefit Levels for Totally Disabled	Types and Degrees of Disability	Population Covered	Other Programs	Program Costs
Implement special benefit programs	raises absolute benefit levels	no change	slightly greater percentage of low- and non-earners	could change cost-shared expenditures under CAP program	would depend on size of benefits provided

E. SUMMARY

To summarize, if all these modifications to current programs (i.e., C/QPP, WC, LTD and social assistance) were made then disability protection would be as follows:

- ° Almost all earners would be protected under WC against both total and partial on-the-job disability to the same percentage earnings-replacement rate currently enjoyed by only low-to-average income earners.* Those covered by LTD programs would be protected to a higher percentage of earnings for off-the-job injury but only for total disability in the long term.
- ° Almost all earners and their dependent spouses would be covered (under C/QPP) in their own right for both on-the-job and off-the-job disability, but only at low levels and only for total disability.
- ° The modified safety net would guarantee a standard of living more comparable with that available to senior citizens.

However, the system would still provide less than adequate protection for many persons and in a wide range of circumstances:

- ° A majority of earners (those not belonging to LTD programs) would continue to suffer a very large drop in living standard in the event of off-the-job injury or sickness causing total disability, since even with the outlined increases, their C/QPP benefits would still only replace a small portion of their previous earnings.
- ° Most earners would have little protection against partial disability resulting from off-the-job injury or illness.

* It should be noted that while almost all earners would be nominally protected to a high degree of earnings replacement for on-the-job disabilities, the effective earnings replacement rate would be significantly influenced by the method used to calculate the degree of disability.

- ° A large proportion of totally and partially disabled earners and non-earners and their families would continue to be forced onto provincial assistance if they were in need. Furthermore, since a needs-test or an income-test would apply, the assistance would be limited to low-income families, and dependent non-earners (or very low earners) would not be eligible for individual benefits.
- ° Duplication of administrative procedures would remain, and would likely increase marginally.
- ° The practical problems of determining whether disability resulting from illness and disease was "on-the-job" or "off-the-job" would remain.

2. RESTRUCTURING THE SYSTEM

While modifications of the type described above would have a positive impact in meeting the needs of some disabled Canadians, they could not change the system as a whole. To do this requires fundamental changes in existing programs, and/or the introduction of entirely new programs. As in subsection 1, it must be acknowledged that there is an infinite number of possibilities. The examples below are intended to show the feasibility of various degrees of restructuring and the extent to which it is possible to achieve a truly "comprehensive system". The approaches that will be considered are:

- A. Mandatory Long-Term Disability Insurance
- B. High Benefit Level C/QPP-Type Disability Protection Program
- C. Expanded Workers' Compensation-Type System, covering accidents and illness whether or not they arose on the job

Each of these could be combined with an expanded system of protection for non-earners.

A. MANDATORY LONG-TERM DISABILITY INSURANCE

The proposal would alter the basic nature of LTD coverage from voluntary to mandatory through (coordinated) legislative action on the part of the provinces and the federal government. Standards would have to be set as to benefit levels, method of inflation protection, contingencies covered, approved carriers*, classes of persons protected and premiums. While there would be problems in all these areas, a preliminary study conducted by William M. Mercer Ltd. indicates that such a system would definitely be feasible as long as it was restricted to totally disabled persons. As well, some LTD plans now cover costs of rehabilitation and special needs. This additional protection could be extended to virtually all earners under a mandatory plan. Further, some degree of benefit coverage (and possibly protection for special needs) could be extended to dependents of contributors on a premium-paying, absolute benefit basis.

Impact on Level of Benefits: There would likely be little change in benefit protection for those already enrolled in LTD plans, except possibly in terms of protection against inflation. However, the guaranteed relative benefit levels for earners in the event of total disability would be drastically increased from the low C/QPP replacement guarantees to the higher LTD guarantee levels.

* As with mandatory automobile insurance, this type of insurance could be delivered by private carriers, public agencies or both.

Impact on Types and Degrees of Disability: The typical LTD definition of disability is somewhat less stringent than the C/QPP definition. This makes it possible to provide benefits at least during an initial "rehabilitation" period for those who cannot perform their previous work but who retain a significant earning capacity. However, if efforts were made to extend protection further by providing partial disability benefits, serious administrative problems could arise. The Mercer report, for example, stated that "partial benefits using a loss of earnings approach would make the use of the private sector impossible from a practical point of view". Thus, it might be necessary to use the less accurate disability rating schedule approach for initially determining the degree of disability, perhaps in combination with a high tax-back on post-disability earnings to prevent over-payments. A system of private plans providing relatively generous benefits for partial disabilities by this means could encounter problems with poor incentives for rehabilitation and employment.

Impact on Size of Population Protected: It is not likely that LTD protection, even on a mandatory basis, could feasibly be extended to cover 100 percent of the labour force. However, coverage could be extended from the current 43 percent to over 80 percent of the employed labour force without creating serious administrative difficulties. As well, minimal benefit coverage could be extended to dependents of contributors on a premium-paying, absolute benefit basis. This possibility is examined further under the discussion of expanded protection for non-earners.

Impact on Other Programs: The major impacts would be on the C/QPP and on provincial assistance. If private LTD plans were in place in most provinces, a low-level government program such as C/QPP would simply duplicate forms and administration without changing benefit levels for the large majority of persons. However, it may be difficult for LTD plans to cover as broad a population as does the C/QPP since the latter covers virtually 100 percent of earners and potentially could protect their spouses as well through the credit-splitting provision. Under these circumstances the elimination of C/QPP disability benefits could pose difficult problems. One possibility is the incorporation of a flat-rate, premium-based, insurance provision for spouses of LTD members and/or the creation of a government-sponsored flat-rate benefit

for those not entitled to LTD benefits. If the amount of this benefit was at least equivalent to the CPP flat-rate components, then the need for continued C/QPP disability benefits might be highly questionable.

Costs: The cost of the extended LTD coverage for employers and employees would be similar to that for current LTD plans for total disability, ranging between 1 and 2 percent of payroll. The cost would likely be higher if benefits for partial as well as total disability were provided. Also, the method adopted for inflation protection could affect premium costs. Furthermore, the premium costs for protecting certain groups such as small businesses could create problems. In order to protect small groups and higher-risk groups, the Mercer report suggests that governments establish a maximum premium to be charged by insurance companies for LTD coverage, with carriers participating in an insurance pool to deal with cost overruns in high-risk cases. This approach has been tried with reasonable success in other forms of private insurance.

Summary: Under a mandatory LTD system, most earners would have reasonable protection against total disability, and against partial disability at least in the initial rehabilitation stage. Some protection could be extended to dependents of contributors. However, non-dependent non-earners would not be covered, except by provincial social assistance. Further, WC programs would still be necessary to provide a higher percentage earnings-replacement rate for on-the-job injuries.

VIII.5

**RESTRUCTURING THE SYSTEM
A. MANDATORY LONG-TERM DISABILITY INSURANCE**

Program Modification	IMPACTS				
	Benefit Levels	Types and Degrees of Disability	Population Covered	Other Programs	Program Costs
Federal/provincial legislation mandating private disability insurance	substantially increases <u>guaranteed</u> relative benefit levels for earners	little if any change	could be extended from 43% to 80% of employed labour force	overlap with current C/QPP provisions and provincial programs	on the order of 2 percent of insured earnings, shared by employer and employee who do not already have plans

B. HIGH BENEFIT LEVEL C/QPP-TYPE DISABILITY PROTECTION PROGRAM

The C/QPP disability benefit now amounts to 18 3/4 percent of insured earnings (up to an annual ceiling) plus a flat-rate benefit. If the ceiling on earnings were removed or drastically increased for disability, and if the earnings-related benefit were raised to, say, between 60 and 75 percent of average insured earnings, virtually all earners would be guaranteed a high degree of income protection against at least total disability.

The resulting protection would be markedly different from the current C/QPP both in terms of level of earnings protected and amount of benefits. Thus, in practice such a benefit structure might entail the creation of a mechanism(s) separate from the C/QPP.

Impact on Level of Benefits: A 60 to 75 percent CPP-type benefit would be much higher than the current CPP benefit level for most earners, particularly if the ceiling on earnings were raised. In a small number of cases, earners with very low earnings might have a lower pension than would result from the current (or proposed) flat-rate component. One possible method of overcoming this would be to provide the greater of the 75 percent benefit or the current flat-plus-earnings related benefit, thus assuring a minimum (absolute) amount for low-wage earners.

A further problem could relate to earnings replacement for persons with rising or falling earnings patterns. If this benefit were to provide a high level of earnings-replacement, the lifetime-average approach of the CPP benefit calculation could undercompensate or overcompensate such individuals for their lost earnings. This problem could be overcome by adopting a final earnings approach to benefit calculation, as described for the WC-type mechanism below. However, the average earnings approach could be used if the CPP-type benefit were to provide only moderate replacement (e.g., 50 percent of average insured earnings). This has the advantage of allowing benefits to be calculated for those earners, such as part-time and seasonal workers, where earnings may fluctuate greatly.

Impact on Types and Degrees of Disability: The C/QPP currently use a very strict definition of disability (stricter than private LTD plans, for example). If a high level CPP-type program were introduced the existing system of private LTD plans might disappear.

In this case, it would be necessary to broaden the disability definition under the C/QPP-type program to avoid reducing the protection for current LTD members against loss of the ability to perform their current job. As noted below, a relaxation of the disability definition would have a direct impact on costs.

A change in the level of CPP disability benefits alone would not provide protection against partial disability. Additional expansion of the C/QPP to cover this type of situation would involve increases in program administration, caseload and benefit costs. These impacts would be hard to estimate in advance. While European experience cannot be regarded as a reliable yardstick, the international comparison indicates that an increase of at least 15-30 percent in the beneficiary population would not be surprising if the CPP were to provide partial benefits. As well, in order to minimize abuses of the system and maximize incentives for rehabilitation, it might be possible to consider setting the maximum benefit at a lower level (such as 50 percent of earnings) if partial benefits were to be provided. In this case, there would still be a drop in living standards for disabled beneficiaries who have no other income.

Impact on Populations Protected: There would not necessarily be any difference between the population protected by this scheme and that protected by the current C/QPP (which covers virtually 100 percent of the labour force). However, if a high-level benefit were introduced, and if as a result the benefit calculation were to be made on final earnings (as opposed to average earnings), then it might become difficult to provide coverage to part-time or seasonal workers. Also, there would be a problem for those earners who could not meet the very strict contributory rules which, among other things, require at least 5 years of contributions to the C/QPP in all cases. Some relaxation of the rules to cover young workers and new entrants to the labour force might be necessary.

Impact on Other Programs: An expanded CPP-type program with a high-level benefit could virtually eliminate existing LTD. To a great extent, this would depend on the earnings ceilings protected by a public plan and the opportunity provided for LTD plans meeting specific standards to "opt-out". Insurance plans are experience-related in terms of premiums, whereas the CPP would be based on an extremely broad pooling of risk. If it were found that most private plans could compete some form of "opting out" could be considered.

However, if the C/QPP were expanded to provide a lower level of benefit, such as 50 percent of prior earnings, then LTD plans would probably continue to exist to provide an additional 10-25 percent of income in the event of total disability.

The implications for WC would depend on the richness of the benefit level and the contingencies which the new program would cover. If the expanded C/QPP was a high level benefit program protecting against both total and partial disability, WC benefits for long-term disabled individuals would be virtually eliminated. If the new program were restricted to total disability, the benefits would probably be offset by WC, and the costs for WC pensions for total disability (up to age 65) would be virtually eliminated. WC would still retain its role in providing compensation for partial disability. However, if the new program provided for both total and partial benefits at a lower level, the offsets from WC would be expanded. Provincial assistance programs would be affected to the extent that very few of the 14 percent of C/QPP beneficiaries (about 20,000 persons) drawing provincial benefits would need to do so in the future. Depending on how far the definition of disability was broadened, an increased number of disabled persons would qualify with a comparable drop in the number of provincial assistance recipients.

Impact on Costs: It is estimated that a CPP expansion to 75 percent replacement would raise program costs by about \$650 million in 1985, and would involve an increase in the contributory cost of CPP disability benefits from .38 percent of insured earnings to 1.0 percent. This figure would rise to 1.4 percent of contributory earnings by the year 2000. If the CPP disability definition were relaxed as discussed above, the contributory cost could be as much as doubled.

Summary: The expanded C/QPP-type system would provide earners with more adequate protection against total disability and possibly against partial disability. Some protection could be extended to dependents of contributors. However, as with the LTD option non-dependent non-earners would not be covered, except by provincial social assistance. Further, WC programs would still be necessary, (unless the new program provided high-level benefits for both total and partial disability) to provide a higher percentage earnings-replacement rate for on-the-job injuries, and to provide for temporary disabilities.

VIII.6

B. MAJOR EXPANSION OF A C/QPP-TYPE DISABILITY BENEFIT

Program Modification	IMPACTS				
	Benefit Levels	Types and Degrees of Disability	Population Covered	Other Programs	Program Costs
Remove or substantially increase insured earnings ceiling, increase replacement rate to 60-75% of insured earnings	substantially higher benefits for all but very low-income earners	definition of disability would have to be broadened to avoid reducing current protection should LTD disappear	no change	eliminate LTD plans; reduce costs of WC and provincial assistance programs	Costs would rise from current .38 percent of 1.4 percent of contributory earnings by year 2000. Costs would be higher if disability definition were broadened

C. EXPAND THE WORKERS' COMPENSATION SYSTEM TO COVER ACCIDENTS AND ILLNESSES, WHETHER OR NOT THEY ARISE ON THE JOB

Comprehensive disability protection might also be provided through an expanded earnings-related scheme of the type currently operated under WC. The plan would provide significant levels of income replacement to permanently disabled earners with partial or total disabilities, whether or not the condition arose through on-the-job illness or injury. This, of course, would represent a fundamental departure from the categorical, job-related basis of current WC benefits. The program(s) would be funded by shared premium contributions from earners and employers.* Coverage could be extended to dependents of contributors on a premium-paying absolute benefit basis. Prevention incentives for employers could be built into this social insurance plan through the use of experience rating and hazard premiums for industry.**

* As with the C/QPP-type benefits described above, it is not necessarily implied that this type of program would have to be delivered by current WC program administrations. The description would apply equally, for example to a single national scheme with an identical design.

** A detailed discussion of such a plan is provided in the recent Ontario Study, Protecting the Worker from Disability: Challenges for the Eighties by Professor Paul C. Weiler.

Impact on Level of Benefits: There would be a very high-level benefit for total disability, up to 90 percent of net past earnings on a tax-free basis. This would be higher than the level provided by the (taxable) LTD or CPP increases discussed above.

Impact on Types and Degrees of Disability: There would be protection through partial benefits for all types and degrees of disability. While reliable figures could not be estimated for the cost of partial disability benefits from all causes, it may be noted that the vast majority of WC permanent benefit awards are for very small partial disabilities. If this experience held true for an expanded WC-type system, the caseload could be very high.

Impact on Populations Protected: The number of earners protected can be identical to the current WC contributory population. However, pressure might be brought to bear to expand the covered population (now 80 percent of the paid labour force) to give comprehensive protection to more persons.

Impact on Other Programs: The expanded WC-type system would completely eliminate private LTD plans and, if combined with provisions for expanding coverage to include all earners, would virtually remove any value for the continuation of the current C/QPP disability benefit. Rehabilitation and disability-related expenses would be provided for regardless of cause of disability. In effect, the program would become a single, national social insurance scheme protecting earners against all forms of disability.

There would remain, however, a need for absolute benefit programs to provide a safety-net for earners and non-earners. The availability of a WC-type benefits program would minimize but not eliminate the cost of providing provincial assistance to some disabled former earners, so that some resources might be freed up for re-direction to other government priorities, including possible improvements to minimum disability benefits.

Impact on Costs: Cost estimates are difficult given the lack of information on the number and cost of potential partial benefits under an expanded WC approach. Current contributions are paid entirely by employers and the premium rates are experience-related by industry. With an expanded system it is more likely that employer and employee sharing of contributions would be required, but it would be possible to continue using experience rating and hazard premiums to encourage industrial safety and minimize cross-subsidies between industries.

Summary: Under the expanded WC-type system, most earners would have a high degree of protection for total or partial disability regardless of how the injury or illness was caused. Thus, for those belonging to the scheme, the income protection provided could be considered comprehensive. However, the potential caseload could be very high and the resultant costs would be difficult to predict. Also, as with the previous two options, the resulting program would not necessarily improve protection for non-earners. These persons would have to be protected either by provincial assistance or through improvements as suggested in the next section.

VIII.7

C. EXPANDED WORKERS' COMPENSATION SYSTEM COVERING INJURY AND ILLNESS OCCURRING BOTH ON AND OFF THE JOB

Program Modification	IMPACTS				
	Benefit Levels	Types and Degrees of Disability	Population Covered	Other Programs	Program Costs
Remove restriction limiting coverage for on-the-job disablement only	very high-level non-taxable benefits; 70-90% replacement rate	partial benefits for all types and degrees of disability	no change	eliminates need for relative benefits under C/QPP, LTD	Increased premium costs for employers. Amount difficult to project due to unknown number of partial benefit claims.

EXPAND PROTECTION FOR NON-EARNERS

While any of the restructuring changes described above would have a major impact on the disability income protection for earners, special provisions would have to be made to improve protection for non-earners. This could be achieved through various mechanisms.

One approach is to implement special benefit programs as discussed under modifications to provincial assistance programs. Another approach would be through premium-paid flat-rate benefits for spouses and dependents under LTD, C/QPP and WC-type plans. This approach would give protection to many non-earners but would fail to protect non-earning individuals (and couples) who are not dependents. To extend coverage to all non-earners, premiums for this last group would have to be paid either from non-earned income or by government.

Alternatively, governments could decide that protection of non-dependent non-earners could best be provided by some form of provincial assistance.

Another approach would be to provide a universal flat-rate benefit, similar to the Old Age Security pension, regardless of income; alternatively, eligibility for such a flat-rate benefit could be restricted to non-earners or the program could be income-tested.* A further "top-up" program to cover disability-related expenses could be considered.

Cost and administrative concerns would make it likely that eligibility for benefits from any such program(s) would be restricted to severely disabled persons.

Impacts on Benefit Levels: A flat-rate absolute benefit would insure some amount of personal income to eligible disabled persons. The level of the benefit would be a matter of judgement. However, for discussion purposes, an amount equal to the Old Age Security pension (\$256.67 per month in September 1983) might be considered.

Impact on Types and Degrees of Disability: This type of program would, virtually by necessity, be confined to those persons with very severely incapacitating conditions. It could be difficult to devise an equitable, administrable and cost-controlled system of partial benefits for non-earners. It would be less difficult to devise a program which would cover disability-related expenses and special needs (especially if it were income-tested).

Impact on Populations Protected: Depending on the eligibility restrictions selected, non-earners who are dependents, i.e., spouses and children of earners, could gain protection in their own right if a flat-rate benefits program were introduced. These persons would be ineligible for benefits under current income/asset tested provincial assistance programs. Most other non-earners and low-income earners would remain dependent on provincial assistance regardless of the existence of a flat-rate benefit.

Impact on Other Programs: There would be no direct impact on current earnings-based programs (LTD, C/QPP, WC), unless the absolute benefit was a universal benefit available to both earners and non-earners on the basis of disability without regard to other income. In

* An income-tested flat-rate disability supplement was suggested in Recommendation 41 of the "Obstacles" report.

that case, the C/QPP would likely eliminate its flat-rate component, while the LTD and WC programs would likely offset the universal benefit. It would be presumed that any benefit of this type would be directly offset from existing or future provincial assistance programs. Also, any additional "top up" program which would cover disability-related expenses would impact on almost all other program components of the system.

Impact on Costs: It is very difficult to estimate costs for a flat-rate benefit for non-earners. However, it is estimated that the number of totally disabled persons between the ages of 15 and 65 is approximately 345,000. If those not receiving the C/QPP flat-rate benefit were to receive a universal OAS-equivalent amount, the cost would be approximately \$640 million in 1983. It would be very difficult to estimate the cost of a program which would cover disability-related expenses and special needs. Costs to current C/QPP, WC, LTD and provincial assistance could be reduced by offsets.

Summary: A benefit payable to the severely disabled would provide a minimum level of income and/or coverage for disability-related expenses to this group. This improvement is compatible with any of the above options.

VIII.8

EXPANDED PROTECTION FOR NON-EARNERS

Program Modification	IMPACTS				
	Benefit Levels	Types and Degrees of Disability	Population Covered	Other Programs	Program Costs
Provide either universal or targetted flat-rate absolute benefits, and/or coverage for disability related expenses, funded by either premiums or through general revenue	would guarantee a minimum income level to all eligible disabled persons and/or coverage for disability-related expenses	Would likely be confined to severe disabilities	A new absolute benefit might be instituted for dependents of earners. Other non-earners would remain dependent on provincial assistance	a universal benefit could eliminate need for C/QPP flat-rate component; LTD, WC and provincial assistance programs could offset benefit amount	depends on option chosen - \$640 million to provide OAS-equivalent amount to totally disabled persons not currently receiving C/QPP flat-rate benefit (this could be substantially offset by savings to provincial assistance)

IX. CONCLUSIONS

The findings of the Task Force confirm that there are serious shortcomings in the current system of disability income protection in Canada. For earners, the current major programs fall short of providing the protection needed to maintain living standards, even in the event of total disability, because the benefits are very low in comparison to past earnings (e.g., C/QPP) or because many earners do not belong to the program (e.g., voluntary LTD insurance) or the protection applies to a restricted range of circumstances (e.g., WC). For non-earners, there is very little protection apart from provincial assistance programs.

Some improvement in this situation could be achieved through modifications to individual programs within the current system. Various proposals could be considered, including limited increases in C/QPP benefit levels, better inflation protection for LTD beneficiaries, more accurate methods of determining disability and protection of higher earnings levels under WC programs and higher income guarantees under provincial assistance programs. The implications of each of these proposals are discussed in Section VIII.

If all these modifications were implemented, the result would be somewhat higher income guarantees under C/QPP for totally disabled earners, higher and more stable benefits for LTD plan members, better protection (particularly for above-average earners) from WC programs, and a minimum income comparable to that now available to senior citizens, for disabled persons through provincial assistance.

Nevertheless, there would still be major gaps in the disability protection provided. The majority of totally disabled earners (those not belonging to LTD plans) would still face a severe drop in living standards because the C/QPP benefit level would remain relatively low. Most partially disabled earners would be protected by WC programs only if the disability was the result of on-the-job injury or illness. Many disabled earners and non-earners would still have to rely on provincial assistance programs.

Thus, the Task Force has concluded that fundamental improvements to the protection provided would involve some degree of restructuring of the system.

Earners

For earners, three possible mechanisms were identified:

- (i) Mandatory LTD insurance would provide high level protection for most earners at least against total disability. The mandatory plan(s) would be similar to existing voluntary LTD plans in both benefits and financing methods and could be delivered by private carriers or public agencies. Current LTD plans generally protect against partial disability only for an initial rehabilitation period, and difficulties could be encountered in providing for long-term protection for partial disability by this mechanism.
- (ii) A C/QPP-type approach could also be used to provide comprehensive protection for earners. The program would have to provide much higher income replacement than the current C/QPP. As well, a higher ceiling on earnings and modifications to the present method of calculating average earnings would be necessary. If partial disability were to be provided for, the very strict C/QPP definition of disability would have to be modified. Unlike the LTD plan above, this mechanism would be publicly administered.
- (iii) A WC-type program for long-term disabilities could provide earners with full protection for total or partial disability. The program would differ from the current WC in that protection would not be restricted to on-the-job illness or injury. Instead, benefits would be available regardless of how the disability was caused. As with the current WC programs, provision could be made for rehabilitation and disability-related expenses. Again, such a mechanism would be publicly administered.

While exact costing of such a system for earners could depend on the detailed program design, the Task Force has concluded that programs using any of the three mechanisms above could be feasibly designed and administered. Thus, the decision as to which mechanism would be most appropriate for the protection of earners will depend on choices made on such issues as:

- (i) whether the administration and financing should be public or private;
- (ii) who should be protected and under what circumstances;
- (iii) the extent to which protection against partial disability should be provided;

- (iv) how high a level of earnings should be protected;
- (v) how high a level of earnings replacement should be provided for;
- (vi) the degree of inflation protection which should be provided;
- (vii) whether premiums should be varied by industry (e.g., experience-rated as with current WC programs) or whether they should be uniform for all contributors.

For example, if there were a strong preference for maximizing the role of the private sector, this would tend to favour the LTD approach. On the other hand, if the widest range of protection for both full and partial disability were desired, a WC-type plan might be considered most appropriate. Or if protection of the largest possible number of earners with a moderate level of mandatory benefits were desired, then a CPP-type mechanism might be chosen.

Ministers may therefore wish to direct that the Task Force proceed to a further stage of detailed program development for all three mechanisms which would specify:

- (i) the population protected;
- (ii) the specific contingencies covered by the protection;
- (iii) the expected caseload;
- (iv) the level of benefits to be provided;
- (v) premium costs;
- (vi) funding and administrative structure.

Non-Earners

None of the above mechanisms would necessarily give improved protection to non-earners. Improved protection for this group could either be provided as a part of, or complementary to, a new program for earners. For example, as part of a new program for earners, a premium-financed flat-rate benefit could provide against the disability of a contributor's dependent. Alternatively, governments could provide a flat-rate benefit, or an income-tested benefit similar to that assured to the aged. Ministers may wish to direct that the design and development of these mechanisms be undertaken in concert with the next stage of program development for earners.

Two final observations should be made. First, with anything less than the most comprehensive of nationwide schemes, there will continue to be a need for categorical programs such as Workers' Compensation and automobile accident insurance. These programs exist for reasons other than simply the general objective of disability protection. Second, the income needs of the current disabled population must not be forgotten in considering the improvement of protection against future disability. Today's disabled population can be assisted only through government action to improve provincial assistance programs (such as by creation of special programs in more provinces) and/or Canada/Quebec Pension Plan disability benefits (such as the increase proposed by the Minister of National Health and Welfare). Improvements in either of these areas would not conflict with, and thus need not await the later implementation of more comprehensive improvements to the system.