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# **The Disability Income System in Canada: Options for Reform**

*by*

**Sherri Torjman**

**October 1996**

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## ***THE DISABILITY INCOME SYSTEM IN CANADA: OPTIONS FOR REFORM***

### ***Introduction***

This report has been prepared for the federal Task Force on Disability Issues. The purpose of this report is to identify and analyze the range of possible options for reforming the disability income system in Canada. The paper does not present extensive details on the mechanics of existing programs or the various design options. Rather, it provides a 'broad brush' sweep of possible reforms and assesses their potential impact.

While this report recognizes the intrinsic links between the income system, employment issues, tax questions and the reimbursement of special needs, it acknowledges that other streams of research have been set up by the Task Force to explore these areas. They are discussed where appropriate but do not constitute a primary focus.

Before examining specific options for reform, the Task Force is advised to consider some broader issues that pertain to the overall disability income system. These include: the principles that underlie that system, the intended purpose of the income program under review and of the system more generally, eligibility, employability, delivery and financing. Each of these issues is discussed more fully below.

The first item on any agenda for reform should be to set out the major long-term goal. Within this statement of vision should be a clear articulation of the principles that will guide the discussion and a sense of what the reform seeks to achieve. Is its purpose to improve the adequacy of benefits paid under certain programs? Is it to ensure more extensive coverage of income security for persons with disabilities? Is it intended to 'rationalize' the system and minimize administrative duplication? Is its primary purpose to reduce the costs of specific programs or of the overall disability income system? The answers to these questions will help guide the selection of options for reform.

In exploring these issues, the Task Force should bear in mind the concerns that have been raised by members of the disability community about the underlying rationale for and process of reform. The disability community is deeply worried that the federal government is relinquishing its role in protecting and promoting the full citizenship of persons with disabilities. Ottawa is accused of failing to assume leadership and responsibility for the well-being of people who traditionally have been segregated from the mainstream of Canadian life. There is a sense that the current reform exercise has been undertaken to help the federal government find ways to relinquish protections for persons with disabilities rather than introduce improvements to certain programs or to the overall system of supports and services.

The level of government that delivers a given program can make a difference to its quality. Federal delivery of income security programs, in particular, ensures 'de facto' national standards in the form of adequacy (the federal government has the fiscal capacity to raise and distribute revenues to provide adequate benefits); comprehensiveness to ensure that all eligible Canadians are covered; equity in the treatment of people with similar needs; and portability of benefits throughout the country. The national system of public pensions illustrates the advantages of federal delivery.

The disability community is also fearful that any reform process inadvertently might create a worse

system than the one now in place. A new system could move towards a welfare base and away from an insurance base that provides coverage to all who have made the required contributions.

While the current patchwork is fraught with inefficiencies, at least there are alternatives if problems arise in any given program. A person who is deemed ineligible by a single system which includes no alternatives will have nowhere else to go. Monopolies can be very dangerous structures - especially in the absence of adequate accountability and appeal mechanisms.

Even the removal of the disability benefit from the Canada Pension Plan into a new 'comprehensive' insurance might have the effect of marginalizing people with disabilities and moving them out of the mainstream. The net result of the reform effort may be segregation rather than improved well-being. The reform could move in precisely the opposite direction of earlier federal efforts which attempted to remove barriers to the 'mainstream' and to ensure that persons with disabilities are able to participate in Canadian society as full and equal citizens. (It could be argued, however, that a comprehensive insurance which provided a significant earnings-replacement benefit also represents a form of mainstreaming.)

In short, the disability community would want to ensure that the Task Force proceeds very cautiously and carefully in its work - especially around an issue like income security that is so fundamental to basic human needs. *In fact, persons with disabilities would caution the Task Force not to proceed at all - unless there is a clear understanding of the alternatives and their implications and unless it is certain that any changes actually will improve the income security of persons with disabilities.*

### ***Principles for Reform***

Participants at the Task Force Consultations throughout the country identified the need for federal leadership in protecting and promoting the full citizenship of persons with disabilities. This leadership includes the articulation and enforcement of national standards - especially for programs that comprise the income security system. At the Montreal Consultation, participants noted the need for national standards and enforceable conditions for income security programs: *"On a discute 'importance des normes nationales a travers le pays pour ce qui est de la securite du revenu et du besoin d'avoir des conditions attachees aux programmes de securite de revenu."* Participants at the Vancouver Consultation were particularly concerned about the devolution of powers to the provinces as a result of replacing the Canada Assistance Plan with the Canada Health and Social Transfer. But national standards need not be set by the federal government alone. The Winnipeg Consultation proposed the possibility of pan-Canadian standards that would be set by the federal government in conjunction with the provinces.

It should be noted that the Caledon Institute has made a distinction between national standards and principles [Torjman and Battle 1995: 2]. Caledon has argued that objectives refer to overall goals. Principles act as the guides with respect to how these goals should be sought. Conditions spell out explicit requirements for the receipt of funds. Standards set benchmarks by which to judge the adequacy of certain programs. Best practices represent exemplary models. The following discussion considers the *principles* that should guide the reform of the disability income system. Ideally, conditions and standards would then be developed.

*Mainstreaming* is an overarching principle of reform in any discussion of disability. People with disabilities should have access to all public programs and to the same goods and services as other Canadians. Any reform that is being considered should be assessed against this principle - i.e., whether

the change moves persons with disabilities closer into the mainstream of society or segregates them even further to the sidelines.

Moreover, all reforms with respect to programs and services pertaining to persons with disabilities should be structured to *support and enhance* their *potential* to the greatest extent possible. The problem is that the receipt of disability-related supports and services is often tied to the receipt of a given income benefit; this link acts as a serious disincentive to moving off the income program.

With respect to income security reform, in particular, *entitlement* is a key underlying principle. Participants at the Winnipeg Consultation stated that income security is an inherent right or entitlement of Canadian citizenship. Income security is a fundamental right because it is a prerequisite to the satisfaction of basic living needs. National citizenship implies federal involvement in ensuring and protecting this right.

*Comprehensiveness* is another key principle. This means that the overall system of income security should provide at least some degree of protection to all persons with disabilities. Many people with disabilities are excluded from various programs because they do not qualify on the basis of definition or contributory requirements. There is little protection for non-earners with the exception of provincial welfare assistance, the legal system and private insurance. A Joint Federal-Provincial Task Force established by the federal and provincial Ministers of Social Services in 1982 to examine disability income reform built its recommendations on the 'no distinction' principle. This principle assured income protection to Canadians from the effects of disability regardless of where, how or why it had occurred [Federal-Provincial Task Force 1983: 2].

The British Columbia Division of the Canadian Mental Health Association (CMHA) includes comprehensiveness in its set of pan-Canadian standards for disability benefits and insurance [Working Group 1996]. The CMHA defines comprehensiveness as a principle which ensures the inclusion of people with temporary or episodic disabilities; no discrimination against frequent users of Employment Insurance with episodic disabilities such as mental illness; and access to income assistance not contingent on mandatory participation in training.

The related principle of *accessibility* assures the transparency of the income security system. Participants at the St. John's Consultation pointed to the need for federal involvement in "empowering persons with disabilities to access what is available to all Canadians and making aid available through the federal government accessible to persons with disabilities."

*Adequacy* is another principle that should underlie the disability income system. Adequacy refers to a fair and reasonable level of income support. The CMHA defines adequacy as a level of income sufficient to ensure a modest, comfortable standard of living, comparable to that provided by elderly benefits (i.e., Old Age Security and the Guaranteed Income Supplement), which would be indexed to the cost of living. Adequacy can be understood in both nominal and real terms.

'Nominal' adequacy refers to the actual level of a benefit; 'real' adequacy refers to its value relative to the cost of living. With respect to the latter, some programs within the disability income system are indexed on a regular basis - e.g., CPP benefits are pegged to changes in the Consumer Price Index (CPI). Welfare, by contrast, is not tied to any benchmarks - wages or CPI. In fact, most changes to welfare in recent years have resulted in reductions, rather than improvements, to the program.

The fact that most Canadians with disabilities are poor speaks volumes about the adequacy of the current system. Persons with disabilities are concentrated at the bottom end of the income scale. Close to 60

percent have incomes that fall below Statistics Canada's low income cut-offs [Canada 1994: 4]. An estimated 26 percent of adults with disabilities (defined by Statistics Canada as those between the ages of 15 and 64) have incomes of less than \$5,000; 17 percent fall between \$5,000 and \$9,999; 11 percent between \$10,000 and \$14,999; nine percent between \$15,000 and \$19,999; eight percent between \$20,000 and \$24,999; seven percent between \$25,000 and \$29,999; and 22 percent have \$30,000 or more [Canada 1994: 52]. Despite the range of programs, there is ample evidence that the 'system' is failing many people with disabilities.

*Equity* is another key principle. Horizontal equity refers to the similar treatment of people in like circumstances. Right now, certain programs within the disability income system pay benefits on the basis of how and why the disability occurred. The type and level of benefits vary widely despite the fact that the consequences of the disability - the limitations in functional ability or work capacity - may be the same.

Equity implies the provision of a basic income to all who require it and the application of the same eligibility rules across the board. But equity does not necessarily mean that everyone gets treated the same way. In fact, this type of treatment could be harmful for persons with disabilities if there is no flexibility in the system. In ensuring equity, it is important to bear in mind that programs should also be *responsive*, to the greatest extent possible, to individual needs. The Charlottetown Consultation raised the need for income programs to be flexible and to recognize individuality.

Support for independent living means that income programs should encourage and promote efforts towards independence, choice and control. The CMHA points to the need for the disability income system to *promote independence and integration* by removing workplace and educational barriers through various forms of accommodation. There are, however, some serious caveats which are discussed more fully under 'employability.' The right to a basic income should never be jeopardized by the pressure to move people towards 'independence.'

*Accountability* involves the presence of appeal mechanisms and representation by people with disabilities in planning and evaluation. Accountability should begin at the earliest stages of application; persons with disabilities should be informed about the various programs to which they may be entitled, how the application process works (information about the application process should be available in alternate formats), and how disputes are reviewed and appealed. Participants at the Regina Consultation spoke about the need to involve consumers in decision-making and proposed that some form of regional consumer/medical committees help determine eligibility and levels of need.

*Efficiency* refers to the proportion of dollars going into the system (as tax dollars, premiums, contributions or co-payments) that come back as compensation [Beatty 1991: 133]. Part of the drive to reduce excessive administration has to do not only with reducing costs but, equally important, with ensuring that as much of the money as possible going into the system is paid out in the form of benefits, not as administrative costs.

Many of the options discussed below - especially the medium- and long-term reforms - would reduce unnecessary administrative duplication, thereby streamlining the system and lowering excessive administrative expenditure. Cost reduction through other means, such as benefit reductions, is not a primary focus of this paper as it would have a serious negative impact upon the well-being of persons with disabilities.

### *purpose of program*

Disability income programs can serve several different purposes: earnings replacement; income support; compensation for loss, pain and suffering; and compensation for disability-related costs. In considering the reform of a given program as well as the entire system, it is important to be clear about the intended purpose of the assistance.

One set of programs within the disability income system *replaces lost earnings*. These programs are intended for people who are or have been employed. Their earnings were interrupted because of an injury, accident, illness or disability-related condition. These programs include workers' compensation, Employment Insurance, the Canada/Quebec Pension Plan and private disability insurance.

A second set of programs within the broader system provides *income support*. These programs are directed towards people with no earnings or whose earnings are so low that their earnings replacement benefits require supplementation. Provincially-run welfare is the primary program of income support.

Income support programs can also provide *compensation for loss*. This compensation is paid in order to recognize the pain, suffering and loss associated with a disabling injury or accident. Workers' compensation, for example, takes into account in the calculation of benefits the earnings loss arising from a work-related accident or injury. Private insurance may also provide compensation for pain and suffering.

Finally, some programs within the disability income system pay additional benefits to *offset disability-related costs*. Most provincial welfare programs provide higher benefits to persons with disabilities in respect of the fact that they tend to incur higher costs.

This paper focusses upon the earnings replacement and income support options. It incorporates the issues of compensation and disability-related costs within the discussion but does not explore in detail these objectives.

Determining the intended purpose of a given program is critical because it helps identify other features of the program, such as eligibility and level of benefit. For example, an earnings replacement scheme is intended for workers who have made the required contributions to the plan. Benefits for earnings replacement programs, such as the Canada Pension Plan, are determined as a percentage of earnings. The adequacy of the payment depends in part upon the level of earnings prior to disablement. This type of benefit is sometimes referred to as a 'relative benefit'; it is paid on the basis of a relative standard in which the benefit is equivalent to a percentage of lost earnings.

The benefit level is always a key issue in earnings replacement programs. The concern lies in ensuring that the benefit is not more attractive than paid work. "There is a conviction among employers' organizations that rates of compensation equivalent to 100 percent of lost earnings would create a disincentive to return to work" [Ison 1994: 18].

A related issue pertains to whether the benefit is intended to replace current or future income. Other design questions include the basis for the earnings calculation - the career average, the career period with or without a drop-out provision or the final career period in which benefits generally are higher. Final insured earnings refer to a benefit formula in which the earnings taken into account are those in the pay period (usually a year) just prior to the onset of the disability.

Beatty points out the problems inherent in earnings replacement systems. Typically, the level of pre-disability earnings used for the calculation of benefits is based on a formula. The formula does not distinguish between the promising employee with a lifetime of promotions and advancement ahead and



the employee about to be dismissed for incompetence. The linkage between the earnings history and benefits entitlement is subject to many arbitrary rules and distinctions. There is no inherent reason why the wage loss of someone who is permanently disabled at age 22, for example, should be a ceiling for his or her income forever [Beatty 1991: 114].

Decisions must also be made regarding the base for determining pension benefits once an individual reaches age 65. The disability/retirement interface is important to consider in order to ensure that the earnings level upon which retirement benefits are calculated represents an adequate base. Under the current system, CPP disability beneficiaries continue to receive benefits until recovery from the disability, until age 65 as long as they meet the disability definition or until death. At age 65, the disability benefit is converted to a retirement benefit. The latter is based on average wages at the time the beneficiary turns 65 and is thus wage indexed for the period of disability. This issue is considered more fully under short-term options (CPP disability/retirement interface).

In contrast to earnings replacement programs, income support programs are intended for persons who have not been employed or have not made sufficient contributions to qualify for earnings replacement programs. Benefit levels for income support are therefore determined not in relation to former earnings but according to some other standard. This type of benefit is fixed on the basis of an 'absolute standard' which is unrelated to past earnings. An absolute standard can be based on several criteria including basic needs, costs, comparability to programs for the elderly or relationship to the average or minimum wage [Federal-Provincial Task Force 1983: 36].

For example, earlier studies of disability income reform used as a benchmark the basic guarantee provided through Old Age Security/Guaranteed Income Supplement programs [Federal-Provincial Task Force 1985; Ontario 1988]. However, it should be noted that the combined maximum OAS/GIS (\$10,425 in 1996) falls well below the poverty level for a major metropolitan area (\$17,127).

In addition to benefit levels, a question that must be resolved is whether disability income programs - be they earnings replacement or income support programs - should take into account only the costs of basic living or whether they should also make allowance for special disability-related needs. It is difficult to assess the adequacy of income programs without considering whether or the extent to which they make provision for special needs. There are essentially two major kinds of special needs: one-time needs and ongoing needs.

One-time or emergency special needs include the costs of fire or flood in the home, funeral or theft. Periodic or ongoing needs are related to the presence of a health-related or disabling condition. These needs may take the form of special goods including drugs and medications; prosthetic equipment; wheelchairs and other aids for mobility; aids for persons with visual disabilities and communications devices for persons with speech and hearing impairments; reading and writing aids and adaptive equipment to activate computers; prosthetic and orthotic equipment; and respiratory equipment.

Special needs may also take the form of required services, such as homemaker assistance or attendant services. The latter provide assistance with the activities of daily living including feeding, dressing, personal hygiene, bathing, grooming and transferring (e.g., from a wheelchair into the bathtub). Homemaker services help with daily tasks such as home maintenance and cleaning, laundry, ironing, meal preparation, budgeting, shopping and banking. Respite care involves time to relieve caregivers in case of holidays or emergencies.

One possible approach is to provide a larger base benefit which is expected to cover the costs of many 'less obvious' special needs. Alternatively, an income protection program could offset disability-related

expenses on an itemized basis. But while some costs are more difficult or impossible to itemize, they nonetheless represent disability-related expenses. There may be a need to recognize these costs on both a flat-rate and itemized basis.

There is merit to separating out these costs so that basic needs are taken care of through a generic approach that suits all (assuming that most people's basic needs are relatively similar). Special needs can then be addressed through an individualized approach that allows considerable variation according to specific requirements. Participants at the Montreal Consultation spoke about the need to separate compensation for special needs from income security programs (*"l'importance de separer la compensation des besoins speciaux des programmes de securite du revenu"*).

While this paper does not focus specifically upon special needs, the Charlottetown Consultation pointed out that supports and services for special needs are often tied to the receipt of certain income benefits. The loss of associated supports can act as a major disincentive to moving off a given program of income support - clearly a problem that must be addressed.

### *eligibility*

Eligibility for benefits is another key issue. This paper focusses upon benefits for persons between the ages of 18 and 64. It is assumed that persons younger than age 18 live with parents or families. Canadians age 65 and older are entitled to elderly benefits and may also be eligible for a private pension. It is the age group between the 'young' and the 'old' with which this paper is concerned.

That having been said, the question of age raises a host of related issues because of the links between disability and age - i.e., the incidence of disability rises with age. If, for example, there were to be a serious focus on employability (discussed below), it would be essential to consider the best use of resources. It could be argued that training and employment enhancement programs should be directed primarily towards younger persons with disabilities; older persons with disabilities (e.g., those 55 and over), by contrast, should be eligible for full income support. This latter group would have access to training if desired and available.

However, older persons with disabilities who have never had appropriate training, education and employment experiences in the past will often have a difficult time integrating into the workforce. Employment opportunities for this group may be limited (or realistically may not exist at all) [Beatty 1992: 12]. Because of the range of work-related barriers they face, their income would be guaranteed and linked only to work effort where feasible.

Moreover, this paper focusses upon disability income for adults with disabilities who live either alone, with partners or as heads of families. It does not explore various options for survivors' benefits. There are several factors relevant to this issue; the first challenge is to ensure the presence of an adequate disability income system - a complex task in itself.

Eligibility criteria depend to a large extent upon the purpose for which the benefit is paid. In the event that a benefit is intended to provide protection from loss of earnings capacity as a result of disablement, it makes sense to deliver the benefit in the form of an insurance and to ensure coverage to workers who have made the required contributions. But this eligibility criterion does not answer the question of the type of disability that would qualify - yet another difficult issue.

Conversely, the benefit may be intended to provide income support to any person with a disability who

lacks enough money to live. In this case, the work status of the person is irrelevant - what matters is the presence of disability. Again, the key question is one of definition.

There are several ways to define disability. First, applicants may qualify on the basis of a particular condition or disease. There are problems with this approach, including the fact that not all persons with a given condition are unable to work or to carry out the basic activities of daily living. The ability to work may be more a function of a person's skills or abilities rather than physical or mental condition. Another factor is that a person may be at a certain stage of developing a condition (i.e., multiple sclerosis) and may be perfectly able to function independently or continue working - albeit at a different pace.

Disability is a far more complex phenomenon than a simple physical state. It includes mental conditions, stress-related conditions and musculoskeletal disorders, the symptoms of which are not verifiable in a urine sample, blood test or x-ray. The medical model, which is generally used to determine eligibility for disability-related programs, is far too narrow and limited a framework; it leaves out many people with conditions that preclude them from working or at least from performing the job for which they were trained. A broader definition of disability reflects more accurately the complexity of disabling conditions (although it clearly has caseload and cost implications).

The second way of determining disability is to identify impairment to designated activities of daily living. The disability tax credit operates in this way. It makes payments in respect of individuals with an impairment severe enough to markedly restrict the ability to perform one or more basic activities of daily living all or almost all of the time. What is important is not the diagnosis or condition but rather how that condition affects a person's ability to perform one or more of these activities. The use of functional ability focusses upon the *consequence*, not the *cause*, of disability.

But the presence of a disability does not affect everyone the same way and to the same extent. "Disabilities run the range from relatively mild to profound. Their consequences may be very different. Some disabilities affect physical functioning, stamina, cognition, memory; many affect the person in a combination of these and other ways. Some disabilities can be accommodated easily in the workplace, home and elsewhere, while others cannot. The effect of a disability on an individual's life, and that of his or her family, often includes many intangible social and psychological obstacles which are not easily capturable in an inventory of the person's functional limitations" [Beatty 1991: 118].

Another way to determine eligibility is to identify limits to workforce participation. A person may be able to continue working but at a different pace or with some assistance in the form of work-related or technical supports. Certain individuals may be able to carry out their own jobs on a sporadic basis while others require a different form of work. Still others may be unable to work at all. Determining eligibility on the basis of workforce participation links closely to the issue of employability.

### *employability*

A major question to be addressed is the extent to which any given income program should incorporate expectations regarding workforce participation. This is an important consideration in that it will determine whether a training component should be built into the program and whether or not the benefit design will take earnings into account.

Current programs vary widely with respect to their employability expectations and associated training efforts. Workers' compensation has a built-in rehabilitation component. Most welfare programs, by contrast, require persons with disabilities to be unemployed on a long-term basis - in some cases,

'unemployable.'

Similarly, the CPP requires that a person be out of the workforce entirely and be incapable of performing any work that would provide sufficient income for basic support. Most people with disabilities are capable of some form of work; the problem is that the CPP does not recognize varying degrees of capacity.

It would appear that these expectations regarding employability - or unemployability - are somewhat dated. Over the past two decades, social attitudes towards disability have undergone a profound change. "It has been recognized more and more that persons with disabilities can work, especially if accommodation is made to their special needs through provision of an adapted workplace or special equipment through specialized training and through restructuring of job descriptions. ... But disability compensation programs have not all kept up with this changing perspective" [Beatty 1991: 125].

Moreover, there have been significant scientific, medical and technological advances since the introduction of the CPP in 1966. These advances mean that it is inappropriate - even incorrect - to equate disability with unemployability. The recent federal Social Security Review heard in its consultations that many more people with disabilities would like to work if they had the opportunity, tools and appropriate supports [Canada 1994: 4].

In fact, more than half (56 percent) of people with disabilities are in the workforce, either employed (48 percent) or actively seeking work (eight percent). But women with disabilities are at a particular disadvantage *vis-a-vis* the labour market. Even with education levels comparable to those of men, such women are not well represented in the labour force. The employment rate for women with disabilities is 40.7 percent, about two-thirds of the rate for non-disabled women and about 15 percent less than for men with disabilities [Canada 1994: 4].

On the one hand, it would appear that there should be a strong work component in all programs. A study on disability income reform prepared by a Federal-Provincial Task Force stated that "rehabilitation should be an integral component of a disability protection program" Federal-Provincial Task Force 1985: v]. The Task Force recommended a strong focus on vocational rehabilitation to enable a person to secure, retain and advance in suitable employment. In other words, most individuals should be considered employable to some degree. The nature and type of disability should not be used as the basis to make judgments about work capacity - e.g., it should not be assumed that someone with a specific condition, such as cerebral palsy, cannot work or perform a certain job.

It should be noted that in April 1990, the CPP approved a limited pilot project to examine the feasibility of the rehabilitation provisions of the disability benefit. In 1991, this project was integrated with the National Strategy on the Integration of Persons with Disabilities as a five-year interdepartmental initiative to promote the independence of Canadians with disabilities. The project will remain active another year although it ended officially in March 1996. Its purpose is to identify suitable CPP beneficiaries and provide the necessary vocational rehabilitation services to allow these individuals to return to remunerative employment. The assessment and rehabilitation plan are determined on an individualized basis with the approval of the client. Benefits continue to be paid during rehabilitation; they also continue to be paid upon completion of the program to allow for a three-month job search.

Effective August 1995, the Department of Human Resources Development put in place several additional measures to encourage self-reliance and participation. CPP disability beneficiaries who return to work will have their benefits extended for three months to assess their capacity to remain at work. Recipients are not generally considered to be gainfully employed until they have returned to work for

three months and unless their annual earnings are greater than \$8,850 (i.e., 25 percent of the Year's Maximum Pensionable Earnings or \$35,400 in 1996). They can have their work skills tested without fear of immediate benefit loss. CPP beneficiaries will continue to receive benefits while attending school or university to help them acquire other skills. Those with recurring or degenerative disabilities will have their benefits reinstated on a fast-track basis if the disability recurs. In order to promote the development of useful skills and reduce isolation, engaging in volunteer activities will no longer trigger an automatic reassessment.

*A strong caution is in order at this point.* While it may be appropriate to build employability expectations into programs of income support, it cannot be assumed that all individuals are able to work unless the appropriate work-related aids and personal supports are available. The lack of work-related and personal supports is a major obstacle to labour market integration.

Moreover, workforce participation may be an unrealistic expectation for many recipients of disability income, given the high rate of unemployment in the country. With a national average unemployment rate of 10 percent and even higher rates in some regions, jobs are at a premium. An individual who may have to perform the required work more slowly or who may need additional assistance in the form of work-related technical aids or personal supports is at a clear disadvantage in a high-unemployment labour market. It should come as no surprise, then, that workers with disabilities have a higher-than-average sensitivity to cyclical downswings; they are the first to be made redundant in times of economic downturn [Aarts and de Jong 1996: 9].

Negative attitudes and low expectations are another problem. Employers often see a person's disability rather than his or her capacity. "There are those members of socially disadvantaged groups, including many persons with disabilities, who would have been earners except for widespread patterns of systemic discrimination which have been documented so many times" [Beatty 1991: 113].

There are other inherent dangers in an approach which embodies employability expectations. Rehabilitation can become a *de facto* workfare program for people with disabilities - a "euphemism for enforced controls" [Ison 1994: 32]. There may not be sufficient rehabilitation or training opportunities for all those who would be potentially eligible for or interested in participating." The rehabilitation services will be spread too thinly, counsellors will have large caseloads, there will be delays, needed accommodations will not be available quickly enough to allow persons with disabilities to take advantage of training, education and employment opportunities" [Beatty 1992:13].

It would be entirely inappropriate to build a workfare-type expectation (i.e., no participation, no pay) in the disability income system. What is defined as suitable and available work could become a contentious issue if there are pressures to move people off programs of income support and back to the labour market as quickly as possible. Workers' compensation typically includes a strong 'rehabilitation obligation' which requires injured workers to participate in training or employment in order to receive continued support. Income program recipients would have to play an active role in determining the type and extent of work-related activity in which they become involved.

In short, employability expectations must bear in mind the profound barriers to employment: lack of work-related aids and devices, lack of personal supports, negative attitudes and high unemployment. Income support must always be assured in order to provide a secure base. Individuals then move into work-related opportunities where appropriate and available. Moreover, this support should continue or be reinstated in the event that the rehabilitation, training or job did not work out. Participants at the Vancouver Consultation stated clearly the need to ensure that benefits continued in case the work arrangement was unsuccessful. But while the CPP is striving to improve work incentives and provides income support during rehabilitation, training and job search, it cannot guarantee reinstatement if the

jobs do not work out unless the person cannot continue because of disability.

Finally, income security reform should be undertaken in the context of a broader national employment strategy that includes accessible mainstream training and education; effective and enforced employment equity legislation; removal of physical, attitudinal and systemic barriers to employment; support for disability-related costs for working people; and reform of the direct grant and tax systems to achieve these objectives [CCD 1996: 8].

### *delivery*

Once there are clear expectations regarding the purpose of the income program, it is then possible to determine the most appropriate design for achieving these objectives. The delivery mechanism is very much a function of program objectives and design. Benefits can be delivered through insurance programs or through universal, income-tested, means-tested and needs-tested programs.

*Social insurance programs* provide income protection by pooling contributions against designated risks such as unemployment, retirement and accidents on the job. Benefits are paid if contributors or eligible workers fall victim to the risk from which protection is ensured. Employment Insurance, the Canada/Quebec Pension Plan and provincial workers' compensation plans - all employment-based programs - are the major social insurances in Canada.

Universal programs provide benefits to all households that meet certain criteria - such as old age or presence of children - regardless of income. Benefits are not affected by the receipt of assistance from other income programs. Family allowances and Old Age Security (OAS) used to be delivered on a universal basis prior to the introduction of the 'clawback' in 1989. There are no longer any federal income programs delivered on a universal basis.

Income-tested programs deliver benefits to individuals who qualify on the basis of income level. Those whose net incomes fall below a certain level called the 'threshold' receive the maximum benefit. Above the threshold, benefits decline relative to increases in income. The 'reduction rate' is the amount by which benefits are reduced as income rises. Benefits end entirely when net incomes exceed a designated amount known as the 'cut-off point.' Most income security programs in Canada are income-tested. The Child Tax Benefit and Guaranteed Income Supplement for seniors are examples of income-tested programs; both use a household rather than individual definition of income. (The Guaranteed Income Supplement and Old Age Security will be replaced in 2001 by an income-tested Seniors Benefit.)

Means-tested programs determine eligibility on the basis of income and assets. The original federal Old Age Pension introduced in 1927 (predecessor to the universal Old Age Security) was delivered on a means-tested basis.

Needs-tested programs take into account not only income and assets but also the extent of need. They generally require an elaborate administrative apparatus because they collect much more information to determine eligibility than income-tested programs. Provincial welfare is an example of a needs-tested program.

The options discussed in this paper employ these terms in considering the ways to deliver various forms of income support. The specific delivery mechanism, in turn, influences the most appropriate federal-provincial configuration and financing arrangement.

### *financing*

The current disability income system is often referred to as a 'patchwork' of uncoordinated programs. Eligibility and benefits are based more on cause of disability - how and why the disability occurred - rather than degree of need. Two people with virtually the same functional capacity could receive very different types and levels of benefits depending on the origin of the disability. This patchwork is one of the major reasons for reform. Participants at the Regina Consultation pointed out that the existing patchwork of programs "results in a great deal of policing and virtual harassment, reviews and audits which put a terrific amount of unnecessary stress on people and lead to a lot of inconsistencies and a lot of expense."

Ironically, however, it could be argued that there is 'method to this madness.' As noted earlier, there are inherent dangers in monopoly arrangements - especially when there are no built-in forms of appeal or external review. Moreover, the fact that there is a range of different programs means that each is financed through different sources. Next to the issue of 'how much?,' the question of 'who pays?' is a key determinant of reform. The diversity of funding bases helps reduce the cost 'burden' on any one source.

A question closely related to 'who pays?' is 'who pays first?' This issue refers to the unresolved problem as to which program in the current patchwork arrangement should pay the 'base level' of benefits and which should act as a supplementary top-up to that base. Should government programs that cover the entire population (e.g., C/QPP) form the basis of a system over which all other programs, such as private insurance and welfare, provide an additional amount? Or should categorical programs, intended for specific purposes, make the first payment and then allow the more general program to top up the 'first-tier' benefit to a designated level?

This issue has been raised recently in public debates in relation to the fact that, in some jurisdictions, CPP beneficiaries can also receive workers' compensation for a work-related injury or accident. In this case, the benefits are 'stacked' - i.e., the worker gets benefits from both sources. While only an estimated 10 percent of CPP beneficiaries also receive workers' compensation, the problem nonetheless should be addressed. The issue of first/second payer has important implications for long-term reform - especially in relation to the respective roles of the public and private sectors. In fact, most Workers' compensation programs actually offset the CPP disability benefit, making CPP the first payer to Workers' compensation.

### *Options for Reform*

The Task Force on Disability Issues requested that possible reforms to the disability income system be set out under three major categories: short-term, medium-term and long-term options. This paper has classified as 'short-term' any changes that could be made in less than three years. 'Medium-term' change likely would take from three to five years to put in place. 'Long-term' options would require more than five years for implementation.

The complexity of administration and implementation is a key factor that helps distinguish between these various categories of reform. Short-term changes generally include interpretive measures and adjustments to current programs. Medium-term options usually need more time because they entail negotiations with another party involved in the area or affected by the change (e.g., establishing closer links between the Canada Pension Plan and workers' compensation). Finally, it would take more than five years to introduce some form of comprehensive change (e.g., a GAI) that would require

negotiations with the provinces, provincial bodies (i.e., workers' compensation boards) and the private insurance industry. There also would be substantial cost implications.

In fact, financing is another major factor that determines the time frame for reform. Financing includes two dimensions: 1) the cost of the proposed reform, and 2) the sources of revenue required to support that option.

The possible short-, medium- and long-term reforms are presented in Table 1. They have been placed along two dimensions: by program purpose and by time frame of the reform. The time frame was determined on the basis of the length of time required to effect the proposed change, the complexity of administration and implementation, and the financing implications for both cost and source of revenue. Each option is described and then discussed from the perspective of federal-provincial dimensions, financing considerations, strengths and weaknesses. Issues related to the impact on women and on accountability are also included.

***Table 1 - Options for Disability Income Reform***

***Earnings Replacement***

***Short-Term***

- CPP administration
- CPP eligibility criteria
- CPP contributory requirements
- CPP disability benefit level
- CPP disability/retirement interface
- taxability of CPP disability benefit

***Medium-Term***

- full and partial CPP disability benefits
- link CPP/EI
- link CPP/workers' compensation
- link CPP/private insurances
- CPP partnering with private employers
- integrated assessment/rehabilitations

***Long-Term***

- mandatory private insurance



- universal accident insurance
- comprehensive public insurance

### ***Income Support***

#### ***Short Term***

- enhancing disability tax credit
- refundability of disability tax credit
- welfare top-up

#### ***Medium-Term***

- low-income tax credit
- enriched welfare

### ***Earnings/Replacement/Income Support***

#### ***Long-Term***

- universal insurance and income-tested support
- guaranteed annual income

It should be noted that the options listed here as medium-term reform could be acted upon more quickly and become short-term reform with a sufficient investment of interest and resources. Conversely, some options identified as short-term proposals may take longer than one to three years because they require provincial approval; they were included as short-term reforms because they are on the CPP discussion table right now.

Moreover, the proposed options constitute the broad parameters for reform. Within each option, there are other possibilities. For example, while the Task Force may opt for comprehensive public insurance, certain components of that plan, such as assessment of disability or rehabilitation, could be privatized. Either or both of these components could be privately delivered within the context of a plan that is publicly administered and financed. However, in setting out a combination of public auspices and private delivery, the private components of the system must be held publicly accountable for all decisions. There are dangers in separating certain functions - e.g., allowing administrative autonomy without the associated fiscal responsibility. In addition to reduced accountability, concerns regarding privatization include an over-reliance on professionals and an emphasis on profit rather than the needs of individuals.

While the options are described separately, they should not necessarily be understood as discrete activities. For example, the Task Force could propose two short-term reforms - e.g., change the taxation status of the CPP disability benefit and move towards the refundability of the disability tax credit.

Alternatively, the Task Force could begin with short-term reform (e.g., change CPP eligibility definition to allow for some work activity) and move into medium-term options (e.g., full and partial CPP disability benefits). This type of two-stage reform would ensure some immediate benefit for persons with disabilities while the administrative and financing issues associated with longer-term reform were being worked out.

Ideally, the selection of options should not be undertaken as an exercise in and of itself without an appropriate context. The reform options outlined below represent the means to an end; it is best to determine the general direction which the Task Force wishes to pursue and the long-term objectives it seeks to achieve. The specific options then become much more apparent.

It is proposed that the Task Force articulate a vision for long-term reform - i.e., what the disability income system should look like five years from now. It should then identify the medium-term and short-term options that could be pursued to help reach that long-term goal. The staging of possible reforms is discussed below.

This type of policy development is 'strategic' for two reasons. First, it would help the Task Force members make decisions in an integrated and purposeful manner. Second, long-term reform often takes place through a series of incremental changes that are introduced to various systems over a period of time. Even if the ideal long-term goal is not reached or is delayed, at least several positive steps would have been taken along the way without dismantling the entire infrastructure now in place. While current programs have inherent weaknesses, at least they exist. Finally, short-term changes made in the absence of a broader context may simply result in shifting caseloads and costs from one jurisdiction to another.

### *staging of the reform*

The Task Force should set out a broad framework for reform which includes a clear long-term goal. Within the broader framework, the Task Force should develop a plan for reform that includes a series of interrelated stages. There are several ways in which to proceed. One way is to identify a certain objective and to select the specific reforms that meet that objective. The other option is to set out the desired program configuration and to determine the steps to reach that goal.

In the first case, the Task Force could decide, for example, that it wanted to modify the disability income system to enhance options which achieve a certain goal - e.g., enhanced employability. The other option is to set out the long-term goal that represents the most appropriate program design and the most feasible delivery mechanism, and then identify the incremental steps along the way to achieve that objective.

If, for example, the Task Force decided to pursue as a long-term goal a comprehensive insurance and income-tested support program, it could plan a path that would lead to this long-term objective through several short- and medium-term steps. In the short term, these would include expanding the definition of disability in the CPP to allow for employability and turning the disability tax credit into a refundable credit. Medium-term reforms would include the introduction of full and partial benefits within the CPP and the gradual integration of the CPP with other programs - starting with EI and moving towards automobile insurance, private insurance and Workers' compensation. Integration could begin with the assessment and rehabilitation components of various programs.

With respect to income support, the Task Force could build on the refundable disability tax credit to move eventually towards a national income-tested program. This program could take the form of an Integrated Disability Benefit similar to the Integrated Child Benefit proposed by the Premiers in their

*Report of the Ministerial Council on Social Policy Renewal and Reform.*

Finally, the two components would be integrated (not necessarily combined) to ensure that they are compatible and that the income support component provided not only full support for those with no earnings, but also supplementation for those whose earnings replacement benefits and other sources of income fall below a designated level.

***Short-Term Reform***

Most of the short-term options focus upon the Canada Pension Plan because reforms to this program are now under way. However, the proposed reforms may take longer to effect because provincial approval is required for most of these changes.

Under this stream of options, the disability benefit would remain in place with all the advantages it confers: coverage for all working Canadians including the self-employed (who are not covered by workers' compensation or Employment Insurance); no exclusions on the basis of former medical history or inordinately higher premiums for contributors deemed to be high risk; a benefit that ensures some level of adequacy through its flat-rate component; full inflation protection; portability throughout the country; and guaranteed coverage until recovery from the disability or until retirement or death. Finally, if the CPP disability benefit is reduced in coverage or level, then private long-term disability (LTD) plans would become more expensive for employers and employees.

The Council of Canadians with Disabilities points out the importance of the breadth and equity in coverage provided by the CPP. "All employed and self-employed Canadians are eligible to participate on the same basis. There are no differential rates or exclusions based on personal health or disability history. A major concern of the CCD regarding any proposed replacement of the CPP by private insurance is that these rating variables or exclusions will be introduced, effectively denying coverage to disabled persons entering the workforce or changing jobs, or at the very least making it more expensive" [CCD 1996: 3]. The CPP represents a mainstream solution in that it is available to all Canadians; it is not a segregated program intended only for persons with disabilities. (It should be noted that it would be possible, in theory, to provide comprehensive coverage by the private sector through pooling high-risk cases; this financing arrangement is described under 'mandatory private insurance.' The concern lies in exclusions on the basis of previously-existing conditions.)

The disadvantage of focussing upon this program alone is that many fundamental problems with respect to the disability benefit and the disability income system more generally would remain unresolved. One of the identified problems is that the CPP provides protection in the event of earnings loss from three very different contingencies - retirement, disability and death. The original rationale for setting up the program in this way was to ensure protection from earnings loss in the face of factors that result in *long-term* interruptions. Unemployment Insurance, by contrast, was intended to protect earnings in the event of *short-term* work interruptions - i.e., loss of job (which, at the time the program was introduced, generally meant a short-term period), illness or temporary disability, or birth or adoption of a child.

While the original rationale underlying these two insurances made sense, it could be argued that the major risk factors against which the CPP provides earnings protection - retirement and disability - are fundamentally different contingencies. There have been calls to remove disability entirely from the CPP and to set up some other form of insurance for this purpose. This possibility is discussed under long-term options.

## *a. earnings replacement options*

### *1. CPP administration*

#### *description:*

The role of the CPP administration in this area is to assess initial eligibility for a disability benefit, determine continued eligibility for the benefit, collect and document information, and manage the process in the event that an appeal is launched. In addition, as a result of recent changes, the administration is involved in assessing claimants deemed to have some rehabilitation potential.

The administration of the disability benefit has been subject to substantial criticism over the years. The most vocal critic has been the Office of the Auditor General - which issued in September 1996 yet another set of recommendations regarding CPP administrative change.

This report is a follow-up to a 1985 Auditor General report which identified numerous problems in the CPP administration including the fact that "there were virtually no written policies, procedures or directives for reviewing and processing applications, entitlements and appeals, and for establishing boundaries within which medical decisions were made." The report also noted that "at the time of our audit, in December 1984, it took 90 days to complete the processing of an initial application for a CPP disability pension and up to two years to process appeals."

In January 1985, several steps were taken to correct the identified administrative deficiencies. These steps included introducing procedures to clear backlogs in processing applications, improving communications with client service centres and undertaking studies to improve work flow at all levels and to measure performance. While it was too early at the end of the audit to assess the full extent of these improvements, the Auditor General concluded that "they appear to be substantive."

Subsequent measures have been put in place to tighten up the administration of the program with respect to initial assessments, reassessments and the tracking of clients, improved communications, return-to-work incentives, data linkage between programs, and the redesign of the technology to ensure consistency of adjudication decisions and appeals. These changes have had a measurable impact on the disability caseload.

In the area of initial assessments, new guidelines were introduced for determining medical eligibility. As a result of administrative measures, including the introduction of these guidelines, there has been a slowdown in the caseload growth and costs since September 1994 and an actual reduction in new grants since September 1995. This trend is expected to continue, despite the growth in applications. The percentage of applications denied is currently 60 percent, and is likely to increase. The rate of reversal is down to 20 percent (the increase in denials has generated a higher number of appeals).

Between May 1993 and August 1996, 18,585 cases have been reassessed and 6,762 benefits have been cancelled. The appeals system has also been tightened. The CPP Review Tribunal, composed of members with legal and medical expertise, was established in 1992 to replace the more informal review committees at the second level of appeal. Denials now represent 60 to 65 percent of appeal decisions and are expected to rise to between 70 and 80 percent in the near term.

Additional work needs to be done to ensure that the eligibility criteria are applied consistently throughout the country. The program recently has been regionalized. While this makes the program

'closer' to the potential beneficiaries, it also can give rise to widespread variations in practice.

The CPP administration needed (and continues to require) improvement - especially with respect to data collection and the sharing of information with provinces and other deliverers of disability insurance. (A caveat should be noted here; consumers have expressed concern about the sharing of information and would like to have a say in determining how and where information about their specific circumstances is shared.) However, the Task Force should bear in mind the following factors in reviewing the Auditor General's report.

The administration of the CPP disability benefit faced a huge increase in demand due both to political decisions in the late 1980s and early 1990s and to recommendations from the Office of the Auditor General to make the CPP better understood by Canadians. The CPP administration must implement the will of Parliament; any time a change is made that results from a Parliamentary directive, the CPP must put it into effect. The Parliamentary directives of the late 1980s and early 1990s resulted from recommendations of the House of Commons Committee on the Disabled and the Handicapped struck by Parliament in respect of the International Year of the Disabled in 1981.

The Committee recommended in its *Obstacles* report that Canada take steps to design and implement a Comprehensive Disability Insurance Program [Canada 1981: 53]. As a first step towards comprehensive reform, the Committee proposed that the CPP disability benefit be increased - that the flat-rate component of the benefit be made equivalent to that of the Quebec Pension Plan - and that fewer people be excluded from coverage under the CPP [Canada 1981: 53]. In response to these recommendations, a Federal-Provincial Task Force was established by Social Services Ministers in 1982 to examine various options for reform of the disability income system. While the proposals it put forward in its *Joint Federal-Provincial Study* were not adopted, several reforms were introduced in 1987 to address a recognized national problem.

Prior to 1987, contributors were required to work and to have made CPP contributions for at least five of the last ten years before claiming disability benefits. In 1987, contributory requirements for the disability benefit were relaxed to allow workers who had contributed to the Canada Pension Plan for two of the past three years to qualify. Also in 1987, retroactivity claims were extended from 12 to 15 months. (The flat-rate component of the disability benefit was also increased in that year; see discussion of CPP benefit level below.)

The eligibility criteria for the disability benefit were loosened yet again by the introduction of Bill C-57 which took effect in 1992. The Bill opened up disability claims to many workers who previously had been denied benefits by lifting the time limit on late applications. The underlying rationale was that many potentially eligible candidates had not applied for the disability benefit because they were unaware that the CPP paid such a benefit; most people view the CPP as a retirement pension only and have no knowledge of its other components.

This problem was confirmed by the Auditor General in his 1993 report. The report pointed out that most Canadians do not understand the CPP and the benefits to which they may be entitled under the Plan. In response to the Auditor General's recommendations for more public information, the Department of Human Resources Development conducted a major information campaign [Wills 1995: 74]. The result was an increase in the number of applications from individual Canadians as well as a rise in referrals from other programs - notably, workers' compensation, welfare and private insurers - which reassessed their respective caseloads and referred to the CPP any candidates deemed potentially eligible.

In addition to factors that were essentially beyond the control of the program, administrative practice

guidelines - put in place in 1989 to reflect the decisions of the Pensions Appeals Board - contributed to caseload growth. These guidelines effectively allowed non-medical factors to be taken into account - unemployment rate in the region, the availability of certain jobs and the applicant's skills - in determining eligibility for a disability benefit. Older workers, in particular, are overrepresented among CPP disability beneficiaries relative to their share of the population. The incidence "can be attributed not only to the greater susceptibility of older workers to disability but also to the greater difficulty faced by older workers re-entering the workforce after accident or illness" [CPP Advisory Board 1994: 4].

While guidelines which recognize non-medical factors may appear to be highly questionable, they actually were quite consistent with practice in several European countries. A comprehensive cross-national study of disability policy attributed the growth of disability income support to faltering economic growth; disability income programs became, in effect, an instrument to encourage early retirement [Aarts and de Jong 1996: 1]. "In Holland, Germany and Sweden, entitlement durations depend on age, such that workers older than 58 or 60 may keep unemployment insurance until they reach pensionable age (65) or qualify for disability insurance benefits on non-medical, labour market grounds. Improper use of disability benefits as a more generous, and less stigmatizing, alternative to unemployment benefits was quite common in the 1975-1990 period" [Aarts and de Jong 1996: 9].

It should come as no surprise, then, that there was a dramatic rise in disability benefit caseloads - especially in the late 1980s and early 1990s. The growth in caseload was predictable and, to some extent, appropriate; the increase was essentially a response to identified problems in the program. The application 'surge' after the 1992 amendment could be seen as a correction to the system rather than the crisis that it has been widely portrayed. However, some of the caseload increase was due to the fact that the CPP was acting as a *de facto* Unemployment Insurance program. Clearly, this was an inappropriate use of the CPP. In 1995, the Department of Human Resources Development issued a directive to disregard socioeconomic conditions in determining eligibility for the disability benefit.

In summary, Parliament changed the benefit level and the contributory requirements in 1987 and 1992, respectively, for the express purpose of making the benefit more adequate and extending its coverage. The Auditor General encouraged the CPP disability program to inform Canadians about the benefit. While many of the CPP housekeeping mechanisms (e.g., reporting; reassessment) have been and still need to be improved, the fact that the caseloads increased substantially in recent years was not due primarily to administrative inefficiencies. *The caseload rise was the result of explicit political decisions and administrative directives intended to open the program and thereby redress its perceived inadequacies in both benefit and coverage.*

#### ***federal - provincial:***

The CPP administration can implement certain changes on its own if it improves the delivery of the existing program. However, federal-provincial negotiations are required for any changes that alter fundamentally the character or structure of the program.

#### ***financing:***

Any proposed administrative changes could have financing implications. For example, tightened administration may require additional staff to carry out reassessments, provide training to ensure regional consistency or apply a more stringent appeal process. The associated costs are relatively minor - especially considering the potential long-term savings arising from more effective program administration. Some of the costs related to multiple eligibility and rehabilitation assessment could be

reduced through the closer integration of CPP with other programs (discussed under medium-term options).

***strengths:***

Tighter administration would help restore confidence that the CPP is being run more consistently and effectively. Restoring confidence in the disability benefit component, in particular, is important not only for caseload and cost control but also for ensuring the long-term sustainability of the program.

***weaknesses:***

Some of the changes being introduced in the guise of more efficient administration actually will restrict eligibility. This unintended (or perhaps intended) consequence is a serious concern in that the program could end up refusing benefits to people with *bona fide* disabilities who have no recourse other than provincial welfare.

## ***2. CPP eligibility criteria (definition)***

***description:***

The current definition of disability employed by the Canada Pension Plan requires applicants to have a disability that is both severe and prolonged. A severe disability is one that renders a person incapable of regularly pursuing *any substantially gainful occupation*. (This requirement is different from a number of private insurance plans and even workers' compensation programs which relate initially to a person's inability to do his or her own job.) Under the CPP, a prolonged disability has to be long (usually more than 12 months), continued and indefinite, or likely to result in death. In short, the CPP requires that a person be out of the workforce entirely and be incapable of performing any work that would provide sufficient income for basic support.

These eligibility criteria appear to be an anachronism, given the scientific and technological progress that has been made in recent years in the field of disability. In most cases, the problem is not lack of capacity on the part of the identified person. Rather, the problem lies in the lack of access to appropriate goods and services which allow persons with disabilities to live independently and to work if possible.

Moreover, the CPP fails to recognize that persons with disabilities participate in the labour market to varying degrees. Some have no or minimal attachment to paid employment. Others are in transition; they may move into the workforce after a period of training or gradually ease out of the labour market because of a disabling condition. Some people have sporadic or intermittent work patterns as a result of a degenerative or recurring condition. For example, persons with multiple sclerosis or AIDS may find that they are able to work well for a period of time, face difficulties as their condition deteriorates and then can resume work fully or partially during a period of remission. Still others have a long and stable work history, despite the presence of a very severe disability. (As earlier noted, the recently-introduced work incentives allow the fast-tracking back onto benefits for anyone who returns to work and then becomes disabled. This helped address the problem, albeit to a limited degree, of sporadic work patterns of persons with degenerative conditions.)

The CPP does not recognize varying degrees of capacity; it requires recipients to be in or out of the labour market - as though the world were black and white when, in reality, it is actually quite 'gray.' One option is to redefine disability in terms of 'ongoing employment disadvantage' or 'significant loss of

earnings capacity.' The person could retain this status despite rehabilitation efforts [CCD 1996: 10].

Another problem related to definition is the fact that the scope of disabling conditions has expanded dramatically with the inclusion of stress, certain mental health conditions and environmental sensitivities. The new administrative guidelines being employed by the CPP are encouraging the acceptance of disability claims on the basis of 'objective' criteria and are looking more closely at claims in the mental and musculoskeletal categories.

***federal-provincial:***

The federal government can introduce interpretive changes to the eligibility criteria for the disability benefit within the terms of the existing law.

***financing:***

The financing implications of eligibility changes are fairly straightforward: Tightening the definition of disability will reduce the number of potentially eligible applicants and the associated costs. A more liberal definition of disability will raise costs as caseloads increase. However, as noted earlier, these costs do not 'go away.' They are simply shifted from one level of government to another; if applicants have no other source of income, they must rely on provincial welfare.

***strengths:***

A more narrow definition allows the program to be administered consistently throughout the country and to ensure that the eligibility criteria are clearly understood by all parties, including private insurers and other related programs.

***weaknesses:***

There are serious concerns about the apparent interest in assessing eligibility primarily on the basis of objective medical evidence. The more stringent medical interpretation of disability may exclude many potential claimants with conditions that are not verifiable or quantifiable in a laboratory including stress-related conditions, mental disorders and severe environmental sensitivities.

The Council of Canadians with Disabilities points out that 'objective' is a term which may carry questionable assumptions. "Individuals with significant psychiatric histories, or with chronic pain due to back and joint injuries (to take two examples), may qualify for CPP by documenting their own accounts of how these disabilities have affected them, supported by the opinions of their physicians. The fact that these diagnoses are not based directly on X-rays or blood tests does not make them less 'objective' or 'genuine,' and does not mean that these disabilities are not 'real'" [CCD 1996: 7].

Participants at the Vancouver Consultation argued that not all disabilities are visible and asked: "What exactly does 'sick' look like, anyway?" They contended that the federal government should not focus strictly on people with 'visible' disabilities. At the Whitehorse Consultation, participants noted how difficult it is to tell the difference between "the visible, invisible, mental, physical and other disabilities, who has got what."

Possible changes in the eligibility criteria are of particular concern to women; the data on gender breakdown by cause of disability show that women have a much higher incidence of claims for mental disorders and stress-related conditions [CPP Advisory Board 1994: Tables 4 and 5]. Any move to



tighten the eligibility criteria in the areas of mental and stress-related conditions, in particular, would have an adverse impact upon women.

Finally, it is of interest that the Quebec Pension Plan interprets 'severe' and 'prolonged' more stringently than the Canada Pension Plan. Severe is generally interpreted to mean a physical condition whose presence can be verified through quantifiable evidence. Prolonged is generally interpreted as 'lasting forever' compared to the CPP definition of lasting at least one year. Yet CPP physicians have pointed out the difficulty of predicting that any given condition will last 'forever.' In short, the purpose of tightening the initial assessment should be to ensure the more consistent application of definition - not to keep potentially eligible recipients off the system.

### ***3. CPP contributory requirements***

#### ***description:***

Eligibility can be affected through changes not only to the definition of disability but also to the contributory criteria required by the Plan. As noted, contributory requirements for the disability benefit were relaxed in 1987 to allow workers who had contributed to the CPP for two of the past three years to qualify for benefits. Prior to that time, applicants were required to have contributed for five of the past ten years. This reform was introduced in response to a recommendation by the House of Commons Committee on the Disabled and the Handicapped that fewer people be excluded from coverage under the CPP [Canada 1981: 53].

The *Information Paper for Consultations on the Canada Pension Plan* released by the federal, provincial and territorial governments in March 1996 raised the possibility of tightening the contributory requirements for the disability benefit. One option is to modify the contributory period by increasing the *amount of attachment to the workforce*. The *Information Paper* proposes extending the period of qualification for new applicants to require that contributions be made in four of the last six years. This means that some people entering or re-entering the labour market would not have CPP disability coverage until they accumulate a longer period of labour market attachment than required at present.

The problem with the proposal is that it was made with no substantiating data as to its potential impact, although clearly the intended purpose is to restrict eligibility. The eligibility criteria had been changed because they were deemed in a Parliamentary Committee report to be too restrictive [Canada 1981]. It is impossible to assess the strengths or weaknesses of such a proposal without knowing its likely impact. The eligibility criteria should remain intact until sufficient data are made available that documents the probable effect of the proposed change.

There is, however, a more stringent interpretation of the existing eligibility criteria that might be considered. Right now, somebody can work for several months at the end of one year and several months at the beginning of the next year and still be eligible for a disability benefit. Applicants may qualify even if they have not worked for two full years. The current eligibility criteria should be interpreted in the spirit in which the amendment was intended - to open the door but not to take excessive advantage of the eligibility liberalization. It should be noted that addressing this problem would require a different way of collecting information; right now, Revenue Canada provides information only on total annual contributions.

Another option is to repeal the Bill C-57 provision and replace it with a requirement similar to that in the Quebec Pension Plan in which eligibility is extended to all workers with a severe and prolonged

disability at the time of application who have made contributions in half their contributory period. The contributory requirement would change to two out of three years, five out of ten years or half the contributory period. This change would allow benefits to be granted for late application but still would require substantial attachment to the labour force. A variation would be to allow first-time applicants only to be eligible under this provision. Finally, the government could decide to repeal entirely the provisions of Bill C-57.

A different set of reforms would involve strengthening the *recency of attachment to work* provisions; right now, applicants need to make contributions in five of the last ten years and then there is a retroactive period. Somebody can stop working for six years for reasons other than disability, become severely disabled almost six years after he or she has stopped working and get a partial earnings replacement benefit. This appears to be an overly generous provision with respect to recent attachment to the workforce.

#### ***federal-provincial:***

The federal government would have to negotiate with the provinces any modifications to the CPP contributory requirements. Any change that would restrict eligibility for the CPP likely would lead to a rise in provincial welfare caseloads (although not all individuals would qualify because of the stringent asset tests employed in determining eligibility for welfare).

#### ***financing:***

An increase in the contributory requirements for CPP eligibility, regardless of the specific proposals, would reduce the costs of the program but would, in turn, shift some of the burden to the provinces; costs would also be borne by individuals, families and private insurers. Conversely, more liberal eligibility criteria would increase CPP costs.

#### ***strengths:***

The only apparent strength to this proposal is that it will reduce CPP costs by keeping potentially eligible recipients off the program for longer periods of time. Clearly, this so-called strength is a weakness from the perspective of adequate coverage and the principle of comprehensiveness.

#### ***weaknesses:***

Tightening the contributory requirements to the CPP would increase provincial welfare, private insurers and provincial workers' compensation programs which offset the CPP. Moreover, a proposal to tighten the contributory requirements also raises a philosophical issue as to the role of social insurance. When should insurance coverage begin? One could argue that a worker should be covered under an insurance program as soon as contributions are made. Private insurance pays benefits as soon as premiums have been paid. Because the purpose of an insurance is to pool risks, the cost burden arising from 'early claimants' should be offset, in theory, by those who make late claims or who do not claim under the program at all. It should be noted that Quebec has expressed opposition to any extension to the CPP contributory requirements, noting that it would contravene recent directions taken by the province.

#### ***4. CPP benefit level***

##### ***description:***

The House of Commons Committee on the Disabled and the Handicapped recommended in its *Obstacles* report that Canada take steps to design and implement a Comprehensive Disability Insurance Program [Canada 1981: 53]. As a first step towards comprehensive reform, the Committee recommended that the CPP disability benefit be increased - that the flat-rate component of the benefit be made equivalent to that of the Quebec Pension Plan - and that fewer people be excluded from coverage under the CPP [Canada 1981: 53].

In 1987, the value of the disability benefit was increased substantially; the monthly flat-rate portion went from \$91.06 in 1986 to \$242.95. This change raised the total maximum disability benefit from \$455.64 to \$634.09 a month in that year. The total maximum monthly benefit is \$870.92 in 1996 - although the average benefit is only \$657.40.

Benefits should remain at their current levels and should continue to be indexed in order to protect their value. However, it is possible that benefit reductions will be considered in order to lower costs. One option is to reduce the flat-rate component because it bears no relation to contributions. A person might have made the minimum contribution to the CPP, but still be eligible for at least \$312 a month until the age of 65. But such a reduction would create hardships for many people because there is little other assistance for disability-related costs. (The maximum CPP disability benefit is actually lower than most provincial welfare rates - and welfare itself falls well below the poverty line throughout the country.)

Any reduction would hit women especially hard; the average monthly benefit for women (\$587.29) is much lower than the average benefit for men (\$709.10). The difference is due to the fact that women's earnings are lower, on average, than men's earnings; this gap affects the earnings-related component of the benefit. Maintaining an adequate flat-rate amount is crucial for women because it helps compensate, to a limited extent, for the gender differences in the earnings-related portion of the benefit.

It might be possible to remove the flat-rate component of the benefit altogether. However, the loss would have to be offset by a higher earnings replacement rate - e.g., in the 60-75 percent range rather than the one now in place (55 percent).

#### ***federal-provincial:***

The federal and provincial governments would have to negotiate changes to benefit levels. Any change in this area would affect provincial budgets; welfare is often used to top up inadequate CPP benefits. Reducing the disability benefit would increase provincial welfare costs.

#### ***financing:***

The purpose and intended result of any benefit reduction would be an associated drop in CPP costs. However, the likely increase in welfare costs means that the net result is not a reduction in pay-outs but simply a shift in the level of government assuming the costs.

#### ***strengths:***

There are no apparent strengths to this option other than cost reduction.

#### ***weaknesses:***

A reduction in the value of the CPP disability benefit would move far from making the disability income system more adequate - a key principle that should underlie any reform of the disability income system.

As noted, most CPP beneficiaries receive less than the associated welfare benefit in their respective jurisdictions.

It could be argued that the disability benefit should be reduced in order to promote equity among recipients of CPP retirement and disability benefits. However, the equity argument has little relevance here. The retirement and disability benefits are paid at different rates because they are intended for different purposes. The higher disability benefit provides some (albeit limited) recognition of higher disability-related costs. Moreover, Canadians age 65 and over have access to a related system of elderly benefits if their incomes fall below certain levels. Persons with disabilities have no access to this associated income system until they reach age 65. Neither do they have much capacity for private savings unless they happen to be independently wealthy.

The proposal to move towards a complete and higher earnings-based system may make more sense from an insurance perspective but could have high cost implications depending upon the selected percentage of earnings replacement.

### ***5. CPP disability/retirement interface***

#### ***description:***

Under the current system, CPP disability beneficiaries continue to receive benefits until recovery from the disability, until age 65 as long as they meet the disability definition or until death. At age 65, the disability benefit is converted to a retirement benefit. The latter is based on average wages at the time the beneficiary turns 65 and is thus wage indexed for the period of disability. The government *Information Paper* on CPP reform proposes that the retirement benefit to which CPP beneficiaries would be entitled could be modified in one of three ways.

First, the retirement benefit of disability pensioners could be based on the average wage at the time of disablement with subsequent price indexing. At age 65, the benefit would have the same value as it had at the time the person became disabled. This change would link the benefit more closely to the work history of the disabled recipient. It would not apply to current recipients of a retirement benefit.

The second option involves reducing the value of the retirement benefit to the equivalent of an actuarially reduced early retirement benefit. CPP retirement benefits can be taken as early as age 60. But few disability recipients opt for this provision because the disability benefit is greater than the comparable early retirement benefit and is not reduced at age 65 when converted to a full retirement pension. If the retirement pension for Canadians with disabilities is made equivalent to an actuarially reduced early retirement pension, they would be treated at retirement the same way as those who take early retirement. The provision would not apply to those already age 65.

A third option is to permit only a partial drop-out of the years of disability when calculating the retirement benefit, rather than allowing all the years of disability to be excluded in addition to the 15 percent general drop-out allowed under the CPP.

The *Information Paper* also raised the possibility of ending benefits for claims for a disability occurring up to six months after a person started an early retirement benefit. This option would be feasible primarily because the disability was not the cause of interrupted earnings. Moreover, in some circumstances, contributors can become eligible for disability benefits after they die and benefits are paid to their estate.

***federal-provincial:***

The federal government would have to negotiate any proposed changes to the retirement base with the provinces. The modification could have implications for the federal government itself in that many seniors with disabilities would require additional assistance through federal elderly benefits if the value of their CPP retirement benefit were reduced.

***financing:***

A proposed change in the base for calculating the retirement benefit for persons with disabilities could reduce CPP payouts but likely would create additional pressure on another federal program. The cost burden would shift from a payroll-supported program to a benefit financed through general revenues.

***strengths:***

As in the case of an extended contributory period, the *Information Paper* provides no data on the potential impact any of these options. It is impossible to know whether a few people would be hit inordinately hard as a result of these changes or whether many people would be affected only slightly. It is difficult to make any specific recommendations in the absence of this data. There appear to be no strengths to this option other than cost reduction.

***weaknesses:***

Many recipients could experience a substantial drop in benefits under the first option for reducing the value of the retirement benefit to which disability beneficiaries are entitled - i.e., using the earnings base at the time of disablement and moving towards price rather than wage indexing. People who may have become disabled early in their working careers could suffer a substantial loss of income.

The second option for reducing the retirement benefit - an actuarially reduced benefit equivalent to an early retirement benefit - may hurt fewer beneficiaries or may result in a smaller loss of income. However, this proposal may affect many more people than the first option. Moreover, the second option may be seen as an unfair change. Individuals do not choose to become disabled and thereby reduce their earnings capacity; however, many workers (clearly not all in *these* economic times) have opted to lower their earnings through early retirement. Again, it is impossible to assess the true impact of this option in the absence of any data. A Consultation Paper issued by the Quebec government on the Quebec Pension Plan contends that recipients of the disability benefit should be eligible for the same level of benefits as workers who have chosen their age of retirement [Quebec 1996: 47].

***6. taxability of CPP disability benefit******description:***

CPP disability beneficiaries pay income tax on the disability benefit. This means that they actually receive less than the amounts paid out by the CPP. The proposed option would remove the taxable status of the CPP disability benefit in order to allow recipients to keep the full amount.

The taxable status of the benefit creates a serious burden for many people with disabilities, most of whom have low incomes in the first place and many of whom pay high costs for disability-related goods and services. In 1996, the federal income taxpaying threshold for a single person claiming the disability

tax credit begins at \$11,314 of gross income - well below the \$17,127 poverty line for a major metropolitan area. The income-taxpaying threshold for taxfilers who claim the disability tax credit begins at an income level which represents only 66 percent of the poverty line.

The taxpaying threshold has been falling steadily in recent years as a result of the decision to partially index the personal income tax system starting in 1986. Taxpayers who qualify for the disability tax credit have largely escaped the effects of partial indexation of tax benefits and credits because the disability tax credit was boosted in 1991 (from \$575 in 1990 to \$700 in 1991 in terms of federal income tax savings). However, since 1991, the disability tax credit has lost value to inflation because of partial indexation, with an attendant decline in the taxpaying threshold for taxfilers qualifying for the credit. In 1991, it was worth \$749 (federal) in constant 1996 dollars, as opposed to its 1996 value of \$720 in federal income tax savings. The taxpaying threshold went from \$11,681 in 1991 to \$11,314 in 1996.

An alternative is to introduce a low-income tax credit to help offset the tax burden on low-income Canadians (this proposal is discussed under medium-term options). However, this tax credit would be open to all poor households and not simply to those with disabilities.

***federal-provincial:***

The federal government would have to consult with the provinces regarding a change in the taxation status of a benefit. They would be affected by the (albeit modest) loss of tax revenue if the taxability of the disability benefit were removed.

***financing:***

This option would represent a direct loss of revenue to the federal government (and to provincial governments which collect an average 59 percent of federal income tax payable). However, the actual loss would be relatively minor because many CPP disability beneficiaries have no other source of income and therefore pay very little tax - although at very low incomes, any tax is a high tax.

***strengths:***

The proposal to remove the tax on the CPP disability benefit would provide direct assistance to current beneficiaries, many of whom cannot afford to lose even a dollar of benefits. It would be a relatively minor program adjustment. The removal of the tax status would reduce a disincentive in the system in which people with disabilities may find it more advantageous to be on welfare because the level of assistance - while very low - is often higher than a taxable CPP disability benefit.

***weaknesses:***

While the proposal represents a relatively minor tax adjustment, it would create inequities that would be subject to serious question. First, CPP retirement beneficiaries would point to the inconsistencies of a program in which one component (the retirement benefit) was taxed and the other component (the disability benefit) was not. Moreover, benefits under related programs, such as Employment Insurance, are taxable. Welfare, by contrast, is not taxed (all income-tested and needs-tested benefits are non-taxed benefits because the income and needs tests used to determine eligibility eliminate the need to apply income taxation). This potential equity problem would not exist if the federal government chose, instead, to introduce a low-income tax credit. The proposal could also be challenged on the basis that the CPP is offset by the fact that employers can deduct their premium contributions and employees claim their respective contributions in the form of a tax credit.

Finally, it could be argued that special tax status for the disability benefit flies in the face of the mainstreaming principle which seeks, to the greatest extent possible, to reduce distinctions between people with disabilities and other Canadians and thereby apply the same rules and standards to both.

## ***b. income support options***

### ***1. enhancing the disability tax credit***

#### ***description:***

The disability tax credit is not an income program *per se* because it does not transfer cash directly to individuals. But it is included in this discussion of income support for two reasons. First, while the purpose of the disability tax credit is to offset disability-related costs, it effectively increases the income available to certain persons with disabilities by reducing federal and provincial income tax payable. It thereby acts as an income supplement for many persons with disabilities.

Second, the disability tax credit can act as a mechanism for income security reform; it provides the basis upon which a more adequate benefit can be built in the long term. In fact, the House of Commons Standing Committee on Human Rights and the Status of Disabled Persons recommended the use of the tax system as a delivery mechanism for benefits for lower-income persons with a disability [Canada 1993: 14].

(The medical expenses credit is not included in this paper because its primary purpose is to compensate for health and disability-related costs for which receipts must be produced. It is therefore much more relevant to a discussion of the costs of disability rather than an integral component of the income security system *per se*. The medical expenses credit is being explored in the research on the tax system.) Neither does this paper consider options such as a disability expense credit or an employment tax credit which would help offset the costs of going to work.

For the purposes of the disability tax credit, Revenue Canada interprets 'severe' to mean a mental or physical impairment that markedly restricts an individual's ability to perform the basic activities of daily living. 'Prolonged' implies that the impairment has lasted or may be expected to last for a continuous period of at least 12 months. 'Markedly restricted' means that all or almost all of the time the person is unable, or requires an inordinate amount of time, to perform a basic activity of daily living, even with therapy and the use of appropriate devices and medication. The specific diagnosis or condition is irrelevant; what is important is the impact of that condition upon a person's ability to carry out one or more basic activities. These include feeding and dressing oneself; eliminating (bladder or bowel functions); walking; perceiving, thinking and remembering; and speaking so as to be understood in a quiet setting, by another person familiar with the individual. (It should be noted that while Revenue Canada interprets the eligibility criteria for the disability tax credit, these are actually set by the Department of Finance.)

The disability tax credit is calculated by taking a fixed amount (\$4,233 in 1996) and multiplying it by the lowest tax rate for the year. In 1996, it amounts to \$720 (17 percent of \$4,233) or \$1,145 in federal/average provincial tax savings. The disability tax credit could be enriched by increasing its value. For example, it could be raised from its current (federal) value of \$720 a year to \$900 a year.

Where an individual pays no tax, or not enough to benefit from the entire credit, he or she can transfer the unused portion to another family member who pays tax. Another individual (usually a parent or spouse) may be able to obtain a transfer of the disability tax credit (or its unused portion) from a child or

spouse, and in certain circumstances, from another family member and/or claim the qualifying medical expenses of a dependent or a family member.

The fact that the disability tax credit is non-refundable means that it is of no value to people too poor to pay income tax. A non-refundable tax credit is subtracted from taxes owed and can only reduce taxes to zero. A refundable tax credit, by contrast, not only reduces taxes to zero but also pays a benefit if the taxpayer deducts the value of the credit from taxes owing and comes up with a negative balance. In other words, taxfilers who are below the taxpaying threshold would receive a cheque from the government. The GST credit is an example of a refundable tax credit.

However, even if the credit were to be made refundable, it would be of no assistance to those deemed ineligible on the basis of the current Revenue Canada criteria. Persons with cystic fibrosis or other respiratory ailment, for example, generally cannot qualify for the disability tax credit because 'breathing' is not included as an activity of daily living. People who are hard of hearing may be as markedly restricted in their ability to perform the activities of daily living as persons who are deaf. Yet they are generally ruled ineligible for the credit. The Canadian Hard of Hearing Association has pointed out the inappropriateness of certain eligibility criteria; they note in communication to the Department of Revenue that daily living does not occur in a "quiet setting."

It could be argued that because the unused portion of the credit is transferable to another family member, it is, in effect, a refundable credit. As noted, a taxfiler who financially supports a spouse or the taxfiler's or spouse's child, grandchild, parent or grandparent who qualify for the disability tax credit can claim the credit if the latter would be unusable to the dependent because he or she has little or no income. (The advantage of this arrangement to the federal government is that provinces share the costs of the current credit as well as the portion that is transferred; with a refundable credit, the federal government would pay the entire amount if the current practice for the financing of refundable credits is followed.) However, many people with disabilities would argue that benefits should be paid to them directly and not to others on their behalf. There is a big difference between a refundable credit that pays a cash benefit to low-income persons with disabilities and a transferable credit that reduces the income tax payable by a supporting family member. The current practice simply reinforces the dependence of persons with disabilities.

#### ***federal-provincial:***

The federal government could make the proposed change on its own. However, consultation with the provinces is advised in that there would be an associated impact on provincial budgets in the form of a revenue loss.

#### ***financing:***

The federal government would pay the lion's share of the cost of raising the value of the credit; provinces would pay part of the cost by virtue of the revenue loss resulting from an increased credit.

#### ***strengths:***

The proposed increase in the value of the disability tax credit would provide slightly higher assistance to persons with severe and prolonged disabilities. This support is important in that the majority of persons with severe disabilities have incomes that fall well below poverty levels.

#### ***weaknesses:***



Many persons with disabilities do not benefit from the credit because they are too poor to pay income tax. Increasing the value of the disability tax credit would be of no assistance to those individuals. The way to address this problem is to make the credit refundable.

The related problem of exclusion from the credit was discussed at the Yellowknife Consultation. Participants proposed the possibility of including occupational therapists in carrying out functional assessments for determining eligibility.

## ***2. refundability of disability tax credit***

### ***description:***

The 1991 Health and Activity Limitation Survey (HALS) identified 4,200,000 who reported a disability. Of those, 549,352 adults in households are severely disabled according to the HALS 'severity index.' Yet only 355,840 taxpayers claimed the disability credit in 1990; fewer than 10 percent of those who identified themselves as disabled for the purposes of the 1991 Census claimed the disability tax credit.

The low proportion of claims from potentially eligible individuals may be due to the fact that many people with disabilities are unaware of the credit. In addition, the criteria for qualification may be interpreted inconsistently by medical practitioners. The Standing Committee on Human Rights and the Status of Disabled Persons made several recommendations for improving the availability of information about the credit. However, the Committee also pointed out that the most probable reason for the low incidence of claims is that many persons with disabilities are too poor to benefit from the credit [Canada 1993:7]. The Committee went on to propose its refundability.

As noted above, it could be argued that because the unused portion of the credit is transferable to a family member, it provides assistance to individuals who may not be able to claim the assistance for themselves. On the other hand, transferring the credit to someone else relegates people with disabilities to a dependent position.

### ***federal-provincial:***

The federal government should consult with provinces on the proposed change. These negotiations are especially important to ensure that the benefit of a refundable tax credit is not offset by an associated reduction in provincial welfare (see weaknesses).

### ***financing:***

The federal and provincial governments currently share the cost of the disability tax credit, including the transferable portion. At last count (1992), the federal government spent \$265 million on the disability tax credit and the provinces an estimated \$156 million. However, the federal government would assume all the costs of a refundable credit (unless some arrangement could be worked out with the provinces to require them to continue paying part of the cost, which is unlikely). There also could be a windfall gain to the provinces if they decide to reduce their respective welfare payments by an equivalent amount.

If the disability tax credit were to be made refundable, it is possible that administrative costs would go down because there no longer would be a need to track the component of the credit that is transferred to a relative.

***strengths:***

The proposal would address the problem of inadequate coverage; many people with disabilities do not benefit under the current system. Moreover, a refundable credit would direct additional money to people who really need financial assistance.

***weaknesses:***

The inherent danger in a refundable credit is that provinces may use the opportunity of an enhanced (federally-funded) payment to cut their respective welfare benefits. This problem arose in the past when the federal government brought in the refundable child tax credit (predecessor to the Child Tax Benefit) and the refundable GST credit. Negotiations would have to precede the introduction of this measure to ensure that the credit was not offset by an equivalent cut. Moreover, even if the credit were to be made refundable, it would be of no assistance to those deemed ineligible on the basis of the current eligibility criteria.

***3. welfare top-up******description:***

Social assistance - or welfare - is the income program of last resort. It provides financial assistance to individuals and families whose resources are inadequate to meet their needs and who have exhausted other avenues of support.

Each province and territory sets its own rules and regulations that govern eligibility for assistance, the amount of basic assistance, type and level of special assistance, enforcement policies and provisions governing appeals. Despite the differences, all jurisdictions have several features in common. Applicants must qualify on the basis of provincial definition. Provinces generally require that the disability be severe and prolonged and that the applicant with a disability be considered 'unemployable' - i.e., unable to engage in remunerative employment.

tab In addition, applicants must qualify for welfare on the basis of a needs test which takes into account assets, incomes and needs. The value of their liquid (i.e., cash, bonds) and fixed (i.e., house, car) assets must not exceed designated levels. Their incomes cannot exceed certain amounts. (Eligibility for Alberta's Assured Income for the Severely Handicapped is determined on the basis of an income test.) Applicants may also have special needs which generate higher costs than their available resources.

Most provinces pay more generous benefits to single-parent families and to persons with disabilities than to recipients considered employable. Despite the higher levels of assistance for those deemed 'unemployable,' welfare rates in all parts of the country fall well below poverty levels [National Council of Welfare 1995: 24-25]. In 1994, the latest date for which national comparable data are available, maximum annual welfare benefits for a single person with a disability were as follows (the numbers in brackets represent the welfare benefit as a percentage of the poverty line for the largest city in each province): \$8,546 in Newfoundland (63 percent); \$9,202 in Prince Edward Island (69 percent); \$8,806 in Nova Scotia (65 percent); \$8,325 in New Brunswick (61 percent); \$8,312 in Quebec (54 percent); \$11,757 in Ontario (76 percent); \$8,227 in Manitoba (53 percent); \$8,515 in Saskatchewan (63 percent); \$6,770 in Alberta (44 percent); \$9,504 in British Columbia (61 percent); \$8,980 in Yukon (no poverty line comparisons); and \$13,108 in the Northwest Territories (no poverty line comparisons).

Under the proposed option, the federal government would pay a flat-rate or standard monthly benefit to all recipients who qualify for long-term welfare because of a disabling condition. The *Joint Federal-Provincial Study* modelled a top-up worth \$175 a month in 1986. The benefit would not be taxable; welfare is not a taxable benefit because income is already taken into account in determining benefits.

A variation of this approach is to pay a variable amount so that all welfare recipients receive the same income on a national basis after the top-up is paid. Those who do not qualify for social assistance for whatever reason - e.g., their assets exceed the allowable limits in a given province - would not be eligible for the top-up.

***federal-provincial:***

This option would be a federally-financed and federally-delivered benefit. Determination of disability could be at the federal or provincial level. However, the federal government would require access to welfare data - names and addresses of recipients - in order to pay the benefit. One way to deal with this administrative issue is to direct money to the provinces which, in turn, would deliver the benefit to their respective recipients. Provinces could be required to recognize the federal contribution to the program. The *Joint Federal-Provincial Study* referred to this option as "the least disruptive" approach among the various options for reform [Federal-Provincial Task Force 1985: 40].

***financing:***

The top-up would be federally financed through consolidated revenues. The flat-rate top-up of \$175 a month proposed by the *Joint Federal-Provincial Study* would cost an estimated \$475 million in 1986. The inclusion of institutionalized people would have added an extra \$50 million to the costs in that year.

***strengths:***

The benefit would improve the incomes for people who rely on welfare for their subsistence. As noted, welfare benefits - even for persons with disabilities who generally receive higher provincial benefits - fall well below the poverty level in all jurisdictions.

The *Joint Federal-Provincial Study* noted that a welfare top-up could also reduce or eliminate the need for the CPP flat-rate component, assuming the top-up was also payable to the recipients of CPP disability benefits. While this option would lower CPP costs which are supported through payroll taxes, it would increase the costs paid through general revenues. The option would simply shift the financing burden from employers and employees to taxpayers generally [Federal-Provincial Task Force 1983: xiii].

***weaknesses:***

Some provinces already pay a higher rate of assistance to persons with disabilities. A potential problem in the proposed option is that provinces could retract the higher-cost programs and reduce benefits to the level paid to recipients considered to be employable. There would be no incentive to improve welfare because provinces simply could rely on the federal top-up to compensate the inadequacies. In fact, this possibility raises the question as to what would happen if provinces not only fail to increase their benefits but actually reduce their benefits. Would the federal government be expected to fill the gap?

Moreover, the proposed benefit may provide an incentive for people to go on welfare in order to receive the top-up. Yet recent welfare reform has headed in precisely the opposite direction by trying to move

recipients off welfare. In addition, this option would bring no resolution to the fundamental problem inherent in the welfare system; in order to receive a higher benefit, most persons must be declared or classified as 'unemployable.' This requirement acts as a major disincentive to work.

Finally, concerns could be raised as to why the federal government has decided to provide special assistance to only one category of persons with disabilities (i.e., those who qualify for welfare). It could be argued that because welfare recipients have access to special assistance for disability-related needs, they may be relatively better off in net terms than someone who relies primarily upon other programs of income support, such as the CPP disability benefit.

### ***Medium-Term Reform***

#### ***a. earnings replacement options***

##### ***1. full and partial CPP disability benefits***

###### ***description:***

CPP now pays only full benefits - i.e., a person is either in or out of the workforce. Under the proposed reform, CPP would pay partial benefits as well. The value of the benefits would vary by the extent of workforce participation. This option could be implemented only if the definition of disability under the program were changed to recognize work potential.

*The Joint Federal-Provincial Study* put forward a broader proposal for reform; a disability insurance that would provide protection for earners in the event of full or partial disability of a long-term nature. The proposed program would ensure mandatory coverage of all employed and self-employed Canadians on earnings up to the average wage.

Both the population protected and the level of earnings covered would be identical to the C/QPP. But the definition of disability for determining eligibility would be based on the experience from past workers' compensation claims and would include an estimated percentage loss of individuals' earning capacity.

*The Joint Federal-Provincial Study* proposed that a full benefit would be 60 percent of 'final insured earnings' up to the earnings ceiling - i.e., a formula based on earnings in the pay period (usually a year) just prior to the onset of disability. Partial benefits would be paid on a pro-rated basis relative to the person's loss of earnings capacity. Partially disabled workers would receive 60 percent of their wage loss. The program would have a strong commitment to rehabilitation. Benefits would be indexed to CPI up to a maximum eight percent. They would begin 17 weeks after the onset of disability and would continue until recovery from the disability, age 65 or death. Periodic reassessment would determine continuing entitlement, especially in partial benefit cases.

###### ***federal-provincial:***

Although the CPP Act allows for rehabilitation, the federal government would be required to negotiate the proposed change with the provinces. The inclusion of partial benefits would represent a fundamental shift in the nature of the CPP, its eligibility criteria and the associated benefits. The provision of partial benefits in recognition of a recipient's work efforts means that the current eligibility criterion of severe and prolonged disability with no capacity to perform any work would no longer be relevant.

The *Joint Federal-Provincial Study* proposal on full and partial benefits would be administered as a network of provincial and territorial plans, each of which meets minimum national standards. As in the case of the C/QPP, the proposed program would allow provinces to opt out if they operated an analogous plan.

***financing:***

There are several cost implications. Costs would decrease to the extent that beneficiaries earned money from work. However, this reduction would be offset by the increase in the numbers of people who would qualify if the eligibility criteria were liberalized to include work potential. Moreover, administrative costs could rise because of the greater focus on assessment and rehabilitation - reflecting, in effect, the costs of a case management approach. The net cost would be difficult to project because of these counteracting forces.

The Federal-Provincial Task Force proposal would be funded through equally-shared employer and employee premiums. Premium rates might vary from province to province although they would be standard within the same jurisdiction. The program would be financed as a 'full cost' system - i.e., the amount required to fund the liabilities of a mature system. Full-cost financing would involve a larger government- administered fund as well as a higher initial premium than the current CPP pay-as-you- go approach.

***strengths:***

A program that paid partial benefits - whether within the context of the CPP or not - would recognize that many individuals with disabilities are capable of working to some degree. A person may have a disability that is both severe and prolonged but may still be able to return to work with some training or work-related aid. In addition, the availability of full and partial benefits within the context of an earnings replacement program could reduce welfare caseloads.

***weaknesses:***

Concern has been expressed by some groups representing persons with disabilities about the rehabilitation measures and about partial benefits, more generally. Apparently, some individuals have been encouraged to participate in the rehabilitation measures introduced within the CPP only to find that it is not easy to go back on the program when required - ironically, because they had demonstrated their rehabilitation potential. The problem lies in the underlying legislation which states that individuals must have a severe and prolonged disability that prevents them from regularly pursuing substantially gainful employment. Once they have demonstrated that their disability no longer prevents them from pursuing employment, the legislation provides little choice but to discontinue benefits. It should be noted that some consumers have raised questions as to whether the CPP should be engaged in rehabilitation at all - or whether this involvement reduces opportunities for access to generic employability programs.

There is also the danger that a program which pays partial benefits sets up unrealistic expectations and pressures with respect to work performance. There must be associated personal and work-related supports as well as available jobs. Otherwise, the program will withdraw benefits inappropriately because it is based on the false assumption that certain clients can resume work in the absence of supports or available employment.

There are also concerns that partial benefits can create insecurity and poverty. "A person with a

disability which effectively excludes him or her from the workforce needs a full income, not 15 or 50 percent" [Beatty 1991: 119]. The *Joint Federal-Provincial Study* pointed out the difficulty of assessing the degree of disability and setting the appropriate level of partial benefits.

Yet another concern relates to the potential for skewing the nature of an insurance program - whether it is CPP or some other configuration. A decision to introduce partial benefits must consider whether the benefit as it is currently paid (i.e., as a percentage of former earnings) would have to change to take earnings into account. The program could become, in effect, an earnings-tested benefit and move away from the concept of an insurance that is paid regardless of outside earnings or income.

## **2. link CPP/EI**

### ***description:***

Another option for medium-term reform is to merge parts of the CPP disability benefit with the employability measures within the new Employment Insurance (EI) program. Employment Insurance is a federally-administered program that replaced the former Unemployment Insurance (UI) program. UI provided income protection from temporary work absences arising from unemployment, illness, temporary disability, or birth or adoption of a child. The risk against which the insurance is afforded must be a temporary interruption; those unemployed over a prolonged period receive assistance under different programs - notably, the Canada Pension Plan and welfare. Employment Insurance continues to provide income protection in the event of a short-term interruption of earnings - but the entry requirements, maximum level of benefit and maximum duration of benefit have become more stringent.

Employability enhancement is a major focus of the new program. Employment Insurance redirects a substantial sum of money (\$800 million) from income support towards employment benefits. These include a package of measures - wage subsidies, earnings supplements, self-employment assistance, job creation partnerships, and skills loans and grants - to help workers prepare for and find a job. In addition, a three-year \$300 million fund is intended to stimulate economic growth and create new jobs.

Closer integration of EI and the CPP would mean a more explicit and active focus upon employment and employability within the latter program. The EI employment assistance services effectively would be made available to CPP disability applicants and beneficiaries. Far more persons with disabilities could be working successfully but are not because of the barriers they face in opportunities for retraining and in access to work-related and personal supports.

There is precedent for this focus on rehabilitation in other countries. Sweden, for example, emphasizes early intervention for workers receiving sickness benefits and the coordination of all parties involved in rehabilitation including physicians, unions, employers and vocational professionals.

### ***federal-provincial:***

The linkage of the CPP with EI could be implemented by the federal government alone. Both programs are administered by the Department of Human Resources Development. However, the provinces should be consulted; changes which focus on employability could have an impact upon provincial programs. Responsibility for labour market training and other employability measures recently has been transferred by Ottawa to the provinces - although the federal government could continue to provide additional funding for this purpose through its Human Resources Investment Fund (HRIF).

***financing:***

Costs would be pooled from premiums paid for both CPP and EI. Both programs are currently supported through employer-employee premiums (i.e., payroll taxes) although the contribution rates for the two programs differ.

***strengths:***

Closer links with Employment Insurance - whose primary focus is employability - would allow workers to test out whether they are employable over the long term (i.e., more than 12 months). In a brief prepared on the CPP, the Council on Canadians with Disabilities points out that "many people whose disabilities could reasonably be described as 'severe' have proven themselves able to work very successfully, particularly with suitable education and training. Many more persons with disabilities could be working successfully, but have not been given a fair opportunity to do so because of the barriers they face" [CCD 1996: 2].

A link with EI also would allow training to begin at earlier stages. The literature points out that the sooner reintegration begins, the more likely the chances of a successful outcome (i.e., some degree of labour force participation). A closer link with EI would reduce administrative costs in that CPP and EI would not have to run two parallel administration systems for rehabilitation and case management.

***weaknesses:***

The problem in linking CPP with EI is that the move would add another layer of complexity to the latter program - which has been criticized by several federal commissions and studies over the years on the grounds that it is trying to accomplish too much under the same umbrella. In addition, incorporating the rehabilitation function within EI could exclude the self-employed - a growing segment of the labour market - who currently are not covered by that program. Participants at the Winnipeg Consultation pointed out that many people with disabilities are not eligible for Employment Insurance; they cannot make the required contributions because they are unemployed or they are self-employed and are therefore not included in the program.

Moreover, the Council of Canadians with Disabilities contends that a focus on rehabilitation and retraining should be part of a larger employment strategy for people with disabilities that includes accessible mainstream and training opportunities, removal of physical barriers and greater assistance with disability-related costs [CCD 1996]. The fact that there is no effective employment strategy - not only for persons with disabilities but for Canadians more generally - creates dependence on all programs of income support. The 'problem' with the CPP disability benefit is that its small rehabilitation effort barely scratches the surface of the huge need for retraining, continual upgrading and restoration of work capacity.

***3. link CPP/workers' compensation******description:***

The purpose of workers' compensation is to compensate for earnings loss due to a work-related accident or injury. The program is provincially run and administered and therefore varies throughout the country.

Workers' compensation replaces between 75 percent and 90 percent of lost insured earnings in the event

of occupational injury, disability or disease (the variation is smaller than the numbers suggest because the programs with a 75 percent replacement rate base benefits on gross earnings while the 90 percent benefits are based on net earnings). Employees receive compensation in the case of injury but abrogate their right to seek legal damages from their employers. Benefits are determined by the length and severity of the incapacity; lost earnings potential may also be taken into account. In addition to cash awards, workers' compensation plans include a variety of in-kind benefits, such as rehabilitation services. Employers pay 100 percent of the cost of workers' compensation. Benefits are not taxed.

While workers' compensation offsets earnings loss for work-related accidents or injuries, the CPP pays benefits in the presence of a severe and prolonged disability that causes a substantial interruption of earnings, regardless of cause. This means that a worker could receive benefits under both programs. One option for reform is to look at how benefits are stacked between programs.

In some provinces, workers' compensation is added to the CPP and recipients can make more money from both programs than from working. In other provinces, workers' compensation deducts the Canada Pension Plan benefits dollar for dollar and thereby reduces its own costs.

In Quebec, by contrast, people with a work-related injury go to workers' compensation in the first instance. They cannot apply to the Quebec Pension Plan. In effect, the QPP is second payer to workers' compensation. The Quebec practice could be a model for the CPP.

In considering the closer links between the two programs, a key question that must be resolved is who assumes the role of first payer? It could be argued that workers' compensation should bear the primary cost of a disability resulting from a *work-related injury*. The program was set up for that purpose.

The categorical programs that pay benefits in the event of injury, such as automobile insurance, as well as the other social insurances (i.e., workers' compensation and Employment Insurance) should be the first payer in the event of a disability. The CPP could then top up the benefits from the other programs to the designated maximum that the person would have received as a disability benefit. This shift could mean that a person receives no benefits at all under the CPP if the maximum has been reached under an equivalent program. As a general principle, the CPP should be the second - or at least partial payer - to categorical programs that compensate for disability.

An agreement could be sought to cap the combined earnings replacement at some percentage - e.g., 80 percent - of pre-disability gross earnings. The amount must be set at an adequate level to ensure that the administrative efficiencies involved in rationalizing the two programs do not result in a substantial drop in income for recipients.

#### ***federal-provincial:***

This option would require extensive negotiations with provinces which are responsible for the program through their respective workers' compensation boards.

#### ***financing:***

While the CPP is funded through employer and employee premiums, workers' compensation is financed by employer premiums alone. Both sources of financing would continue to support an integrated program.

#### ***strengths:***



A closer link with workers' compensation could help integrate certain administrative and rehabilitation functions that are now carried out independently by both programs (this model is described below under 'integrated assessment/rehabilitation'). Moreover, the links between programs would begin to resolve the issue of first and second payer.

*weaknesses:*

Only an estimated 10 percent of workers receive both CPP and workers' compensation benefits. The extent of the overlap may not be worth the administrative complexities of linking the programs. (However, there would be future savings derived through shared administrative procedures, such as assessment and rehabilitation.)

Workers' compensation is different from other programs because it provides compensation for partial loss of capacity. Other programs, by contrast, are based on 'all or nothing' approaches - like the CPP disability benefit. This basic difference between workers' compensation and other programs is sometimes cited as the reason why the former cannot (at least just yet) be integrated or harmonized with other programs of income support. Yet lump-sum awards for pain and suffering can continue to be paid as a top-up to the basic level of benefits delivered through another program. Quebec has this kind of lump-sum award as part of its no-fault automobile accident insurance which has been largely harmonized with workers' compensation in that province.

One problem in proposing a closer merger of the CPP and workers' compensation (especially if the latter becomes the designated first payer) is that a greater burden could be shifted to employers who now pay 100 percent of the cost of workers' compensation but only 50 percent of the cost of the Canada Pension Plan. If, by contrast, the CPP becomes first payer to workers' compensation, then the former would assume more of the cost, thereby transferring the increase to employees (although it could be argued that all employer costs are shifted to employees through reduced wages). In addition, a closer integration of workers' compensation and CPP could complicate the experience-rated base of workers' compensation which is intended to act as an incentive to provide a safe workplace.

The proposed option raises concerns about the nature of a social insurance. If CPP becomes second payer to workers' compensation (and potentially to other categorical programs), would there be difficulty collecting premiums for a program for which people ultimately may derive no benefits if the contingency occurs? (Apparently, this issue has not been a problem in Quebec where the QPP is second payer to workers' compensation.)

Turning the CPP into a second payer could make it a residual program rather than an insurance that provides guaranteed coverage to all who have made the required contributions. Under the proposed option, for example, a worker injured on the job may receive workers' compensation and nothing from the CPP. The lack of payment potentially could create a problem, given that the worker had made compulsory contributions to the CPP. While the QPP is second payer to workers' compensation in that province, it still provides protection to anyone who needs it as a primary source of income.

The issue of first and second payer becomes even more complex when considering the links of the CPP and private insurances. This issue is explored below.

#### *4. link CPP/private insurances*

*description*

This option would link CPP with private insurances that pay compensation for disability. There is considerable variation among private long-term disability insurance plans. In general, however, most pay benefits for the first two years after disablement to insured persons who cannot do their own jobs. After two years, these individuals are reassessed. If they are able to do any job, they are cut off the benefit. CPP pays benefits to those unable to carry out any substantially gainful employment and whose condition is expected to last at least a year. Most private insurances act as second payer to the CPP. They either top up the CPP benefit or provide a sum to compensate for earnings loss. In general, private insurers assure a certain percentage (usually 60-65 percent) of pre-disability earnings, and take into account income from other sources, including the CPP. Insurance premiums are calculated with this offset in mind.

There are several functions - notably assessment, reassessment and determination of rehabilitation potential, and rehabilitation and training - which both the CPP and private insurers now carry out that could be more closely integrated. Currently, there is little collaboration around rehabilitation and retraining. This lack of collaboration is unfortunate; private insurers often come into contact with individuals at relatively early stages in the development of a disability and could provide earlier intervention which generally results in a higher rate of success.

***federal-provincial:***

Discussions would have to be held with the private sector around the possible integration of administrative and rehabilitation functions as well as the actual payment of benefits.

***financing:***

Private plans calculate their premiums on the understanding that they are second payers to the CPP. They are more in the 'top up' mode than in the full coverage business. There would be serious cost implications if private insurers were to pay higher benefits than they do now.

With respect to rehabilitation, in particular, costs for both CPP and private insurers could be reduced if both parties invested jointly in the assessment of rehabilitation potential, provision of training and ongoing assessment of capacity.

***strengths:***

The proposed option would streamline the system and reduce unnecessary testing and administrative duplication. There is value in collaborating on reassessments in particular. If these are not carried out jointly, then the same person could be found by one administration to be capable of working while deemed unemployable by the other program. This inconsistency is not only confusing and destabilizing for the individual; it also could act as a disincentive to work.

Right now, the fact that private insurers are second payers to the CPP means that they tend to encourage applicants to apply for the CPP, even though these individuals may not be eligible. This practice increases the workload for the CPP administration and the associated costs. Closer integration would reduce the likelihood of inappropriate referrals to the CPP. However, costs could be reduced for both parties through closer collaboration on rehabilitation and reassessment.

***weaknesses:***

If private insurers were to assume more of the cost burden of disability, then premiums for private

insurance coverage could increase. Higher costs would reduce coverage as fewer employers would want to purchase the insurance. In fact, only an estimated 43 percent of the Canadian workforce is covered by private disability insurance and, in the long term, only for total disability.

### ***5. CPP partnering with private employers***

#### ***description:***

The CPP could partner with private employers. The employer would agree to hold open the job for the employee who is off work as a result of a severe disabling condition. (The job may not be the same position as the one previously held.) The CPP could pay benefits in the interim while the employee received some form of training or rehabilitation. The CPP could test out this model in partnership with several large employers.

#### ***federal-provincial:***

The CPP can undertake this type of initiative on its own because it is working with individual employers and assisting employees in returning to their former workplace.

#### ***financing:***

Costs would be shared with the selected employer.

#### ***strengths:***

The strength of this model is that it works with individual employers (albeit relatively large employers) to keep work positions open for their employees who have become disabled or whose previously existing condition has deteriorated. This 'open door' arrangement helps expedite the return to work.

#### ***weaknesses:***

This plan works well with employers who are keenly interested in the rehabilitation potential of their employees. However, this type of approach applies to only a small and select group of employers.

### ***i. integrated assessment/rehabilitation***

#### ***description:***

Under this model, existing income programs would remain in place - at least for the time being. However, several of the common functions that they carry out - notably assessment and rehabilitation - would be shared. The purpose of this approach is to streamline various programs by reducing expensive duplication with respect to assessment for eligibility and rehabilitation. The integrated assessment/rehabilitation function could be publicly financed and delivered, privately financed and delivered, or a combination of the two (e.g., publicly financed and privately delivered).

The Canada Pension Plan is currently testing out a model of integrated assessment/rehabilitation with the BC Ministry of Labour, the Insurance Bureau of British Columbia (responsible for automobile insurance), the provincial workers' compensation board, a private insurer and the regional Employment Insurance office (a federal program).

Many CPP disability recipients are also eligible for benefits under other income programs including workers' compensation, Employment Insurance and private insurance. The purpose of the model is to test a 'single window' approach to program delivery. At the Edmonton Consultation, participants pointed out the need for "one-stop shopping for income support-related information and services"; all levels of government must work together to build such a model.

The pilot operates on a case management basis in which each claimant is assigned to an individual who assesses needs and rehabilitation potential, develops a rehabilitation plan, sets out a training program and assists in finding an employment placement. These functions are being carried out according to a set of mutually agreed 'best practices.' The BC Paraplegic Association is helping to provide case management and job placement.

Up to 50 individuals will be involved in the project. An evaluation will determine whether participants in the project return to work more quickly than members of the control group.

***federal-provincial:***

This option requires extensive collaboration among all parties involved in the delivery of income programs including the federal government, each provincial government, provincial bodies (e.g., workers' compensation boards) and private insurers. Because of the administrative complexities involved in setting up such an arrangement, it would be necessary to implement the proposed model on a province-by- province basis. Each jurisdiction would be encouraged to work out its own model for delivery based on current programs and the most feasible design in that particular province. All models would adhere to a set of national guidelines or standards.

***financing:***

The project is expected to last 18 months at an estimated cost of \$224,800. The CPP will contribute \$20,000 for the evaluation of the pilot and up to \$10,000 per client for rehabilitation.

If this model were to be more widely applied, all involved parties would make a financial contribution to support the integrated assessment/rehabilitation function. The costs would be divided according to a pre-set formula or on a pro-rated basis relative to the number of cases. However, such an arrangement would require core funding for the actual facility in addition to individualized funding on a client basis.

***strengths:***

This option reduces administrative duplication. A streamlined assessment and rehabilitation process not only would lower costs but also would minimize the burden for claimants who no longer have to deal with (and follow the rules of) several different systems.

***weaknesses:***

A consolidation of the assessment process, in particular, represents a centralization of decision-making power. It would be essential to build an appeal process into any integrated arrangement in order to ensure that all claimants can question decisions regarding their specific cases.

While the BC partnership operates under the guidance of an advisory committee that includes consumers, concern has been expressed about the medically-based assessments that are being used for the project. These assessments are seriously restricting eligibility for the program. A related problem

arises from the fact that consolidation represents the only option; failure to meet the definition or medical criteria results in total exclusion of persons with disabilities from all programs.

## ***b. income support options***

### ***1. low-income tax credit***

#### ***description:***

The purpose of a low-income tax credit is to offset the income tax burden on low-income households. The federal income taxpaying threshold for a single person begins at \$6,547 of gross income - well below the \$17,127 poverty line for a major metropolitan area. However, the disability tax credit raises the income- taxpaying threshold to \$11,314. The proposed option would provide a payment that offsets the income taxes paid by low-income households.

#### ***federal-provincial:***

This option would have to be negotiated with provinces as it represents a major change in the tax system and would reduce provincial revenues.

#### ***financing:***

The federal and provincial governments would share the cost of a non-refundable credit.

#### ***strengths:***

This option provides a way of directing more money towards low-income Canadians with disabilities. It also would reduce disincentives to work by removing the income tax paid on low earnings; wages are subject to income tax while welfare is not.

#### ***weaknesses:***

A low-income tax credit would help reduce or eliminate the tax burden for the majority of people with disabilities. However, it is also a 'blunt' instrument from the viewpoint of disability income options in that it would provide assistance to all low-income households, not just to those with disabilities. The eligible population would be relatively large. At the same time, a low-income tax credit could be less costly than a refundable disability tax credit in that the latter would have to be a sizeable sum in order to make a financial difference. The relative costs of each approach would depend upon its specific design.

### ***2. enriched welfare***

#### ***description:***

The Joint Federal-Provincial Study explored the option of enriched social assistance or welfare. The rationale underlying the proposal was to ensure a higher base benefit level to persons with disabilities, recognizing that they face a variety of daily expenses which do not apply to low-income people more generally. The proposed design of the Joint Study would provide all persons with disabilities who are current recipients of social assistance with an income guarantee at least equivalent to the OAS/GIS rate - or \$10,425 in 1996. (It should be noted that this rate falls well below poverty levels; any option of this

nature would have to employ a higher base.)

Under the Joint Study option, eligibility would require the presence of a severe and prolonged disability - i.e., the same criterion currently used in the C/QPP. Benefits would be based on household size and would be determined through a needs test that would take into account level of assets, income and need. The benefit would be adjusted to changes to the Consumer Price Index. The existing welfare provisions in which extra assistance is paid to persons with special needs would be retained. While persons with disabilities would receive benefits, these individuals would still be part of the welfare system.

Higher earnings exemptions for persons with disabilities could be another feature of the design. 'Earnings exemptions' refer to the amount of income that welfare recipients may earn from outside employment without affecting their welfare entitlement. Once their earnings exceed the specified limit, their welfare cheques are reduced by a designated amount.

Earnings exemption guidelines vary widely by province and territory. In some provinces, such as Quebec, earnings exemptions take the form of a flat-rate amount. Welfare cheques are reduced by one dollar for every dollar of income earned over and above that level. In other jurisdictions, such as Alberta, exemptions are expressed as a percentage of earnings. Recipients may keep up to a certain percentage of their employment-related earnings (to a designated maximum) before their welfare cheques are reduced. In still other provinces, such as Ontario, a combination of flat-rate and variable exemptions is used in which recipients may earn up to a designated level as well as an additional amount that represents a certain percentage of their earnings. Welfare payments are reduced after that point.

#### ***federal-provincial:***

This option would use existing welfare programs as the base. It would be provincially administered which means that some lack of uniformity - e.g., determination of eligibility - would be inevitable as in the existing system. The federal role would be limited primarily to financing.

#### ***financing:***

The federal government could pay for the enrichments to current welfare payments on its own or could share the additional cost with the provinces. The Joint Federal-Provincial Study estimated that 225,000 recipients would have been eligible for the enriched welfare option in 1985; it would cost in the order of \$490 million for the federal government and an additional \$160 million for the provinces and territories (based on a 75-25 federal-provincial cost-sharing arrangement).

#### ***strengths:***

The proposal would provide additional assistance to persons with disabilities currently receiving welfare. The option would ensure that welfare benefits approach a minimum income guarantee that is more adequate than the payments now in place.

#### ***weaknesses:***

The benefits would be paid only to people who qualify as severely disabled. It could be argued that these are not the people who require assistance because they already have a form of support (despite the fact that it falls below poverty levels). Many people with disabilities are left out of the income system; they may have a partial or recurring disability which interferes with their work performance but the disability is not prolonged or severe enough for them to qualify for benefits.

Another potential problem is that the higher income guarantee could encourage people to qualify for welfare and inadvertently could increase, rather than lower, welfare caseloads. Provinces also could decide to reduce the availability of special assistance and/or personal supports in the form of technical aids, attendant care or homemaker services if they spend more on basic assistance or if welfare recipients are perceived to be better off financially and more able to purchase these supports on their own.

## *Long-Term Reform*

### *a. earnings replacement options*

Long-term reform would involve the creation of a new earnings replacement program. The CPP disability benefit would be removed from the Canada Pension Plan and combined with other programs into some new form of insurance.

The advantage of creating a new insurance is that it could be designed with precisely the features that are considered appropriate. For example, benefits could be established on a sliding scale to allow for variable work capacity. There could be a strong focus on rehabilitation and retraining. A new insurance could integrate several (or all) of the existing programs to reduce the excessive administration and costs involved in multiple assessments, reassessments and rehabilitation.

A new option could help resolve the 'apples' and 'oranges' problem in which two very different contingencies, retirement and disability, are being insured within one program - the CPP. Because some critics appear not to understand that the CPP was set up to provide protection in the event of long-term earnings interruption, they believe that the disability component of the program is taking the CPP away from its 'original purpose.' This lack of understanding has created serious difficulties for the disability benefit which has become the target of growing attack.

If a decision is made to design a new earnings replacement income program, it is important to determine the specific features that would be ideal - and possible - to achieve. For example, it would be essential to include self-employed workers (currently covered under the CPP) in any new insurance scheme; the self-employed comprise a growing segment of the labour market.

While the following options set out the basic parameters for redesigning the income security system, they do not provide details (although some specifics are presented for illustrative purposes). These would have to be determined on the basis of in-depth examination and modelling to determine the potential impact and cost of any given design.

The three proposed earnings replacement options put forward in the Joint Federal-Provincial Study incorporate several key features. All the options were designed to replace 60 percent of pre-disability earnings up to the C/QPP ceiling; provide a high degree of inflation protection; begin payments of benefits 17 weeks after the onset of disability; protect all employees and the self-employed; and include a rehabilitation component. Moreover, all the options assumed the continued existence of workers' compensation, other categorical programs (e.g., automobile insurance) and welfare. Two of the options assumed public administration [Federal-Provincial Task Force 1985].

But there could be serious disadvantages to a new insurance - especially if privately delivered. A private scheme could reduce coverage - with many individuals denied inclusion on the grounds that they are considered to be too high risk. The premium rate could be far too high - effectively leaving out many

potentially eligible individuals. A private plan could mean the loss of equity and portability of benefits throughout the country. However, there may be ways in which to combine public and private elements (e.g., privately deliver certain parts of a public program). Finally, as earlier noted, a coordinated plan which becomes a monopoly is a potentially dangerous arrangement if there are no appropriate safeguards.

### *1. mandatory private insurance*

#### *description:*

Mandatory private insurance would replace the CPP disability benefit. Legislated standards would govern the various features of the program including benefit levels, inflation protection, groups of people covered, premiums and rehabilitation benefits.

The proposal put forward in the Joint Federal-Provincial Study would provide mandatory protection for all employed and self-employed persons with earnings up to the average industrial wage (\$23,900 in 1985 or \$35,400 in 1996). Protection would be afforded to all workers who satisfied the Unemployment Insurance (now Employment Insurance) eligibility criteria.

Benefits would be paid to persons, who by reason of disability, are unable to perform the duties of any occupation for which they are reasonably qualified or may become qualified through training, education or experience. The process of disability determination also would assess rehabilitation potential.

Under the option presented in the Joint Federal-Provincial Study, workers' compensation would remain in place as a separate program. The new scheme's benefit would be equivalent to 60 percent of final insured earnings - i.e., a formula based on earnings in the pay period (usually a year) prior to the onset of the disability. Benefits would be indexed to the CPI up to an eight percent annual maximum. Payments would begin 17 weeks after the onset of disability and continue until rehabilitation changes the circumstances or until retirement or death.

Coverage would begin immediately upon employment and would extend for 90 days after employment terminates or when a new job begins if earlier. In the first year of employment, disability resulting from an illness or injury for which the individual received treatment within the past 90 days would not be covered. Once that condition was satisfied and the individual changed jobs, there would be no second waiting period.

The program would incorporate an active rehabilitation component that would be patterned on the individual assessment approach now used in private plans. Insurers would have an explicit obligation to promote rehabilitation. Individuals who engage in training or an occupation under the supervision of a physician and with the approval of the insurer would have benefits reduced; total income from all sources would not exceed 100 percent of pre-disability income. However, benefits would be increased back up to the full amount if the beneficiary were unable to continue the work activity.

#### *federal-provincial:*

The design and costing of the proposal made by the Joint Federal-Provincial Study assumed administration through the private insurance industry. Coverage would be offered on a competitive basis by licensed accident and sickness insurers. Features of the plan could vary from one employer-employee group to another but all plans would be required to meet national minimum standards. Employers could



operate self-insured plans if these met the designated standards. Special arrangements would have to be made for small employee groups (see financing). Alternatively, similar benefits could be provided through a publicly-administered scheme [Federal-Provincial Task Force 1985: 10].

This option would require extensive federal-provincial negotiations. Constitutionally, Ottawa and the provinces have concurrent jurisdiction over insurance. The federal government regulates the corporate structure and financial standards of federally incorporated companies, the Canadian branch operators of foreign insurers and provincial companies that have chosen to register federally. Provincial governments regulate the corporate structure and financial standards of provincially incorporated insurance companies as well as the market operations of all insurance companies licensed to do business in that province [Ontario 1986: 105].

### ***financing:***

The proposed plan would be financed on a fully-funded basis by employer and employee premiums. Premium rates would vary and would be determined by a competitive process as is now the case with private insurance plans.

A maximum premium and insurance pool arrangement would have to be introduced for some groups, such as workers employed in small businesses. The pool would be established to guarantee coverage for small groups at no more than the maximum premium. These workers would otherwise have to pay high premiums or be refused coverage.

The proposed pool would operate on a break-even basis and would be governed by a management board composed of government, private insurers and employer/employee representatives. The management would be responsible for setting the maximum premium rate, the rate of interest on investments and the actuarial valuation basis for claims on pooled groups. The management also could set guidelines for the provision of vocational rehabilitation and would be responsible for setting appropriate standards.

### ***strengths:***

The option would provide universal coverage to all employed and self-employed Canadians. Inflation protection would be better than that now afforded under private sector plans - although potentially it could be worse than the inflation protection assured under the CPP. The variable premium rate would act as an incentive to employers to reduce disability claims and to encourage vocational rehabilitation.

The program would lower administrative costs somewhat because it would incorporate the CPP disability benefit. However, the reduction would be offset by the fact that administrative costs are generally assumed subsidies in public programs; in the proposed design, the administration would be an explicit cost [Federal-Provincial Task Force 1985: 14].

### ***weaknesses:***

Private insurance raises serious concerns about the coverage and adequacy of the protection. The Canadian Life and Health Insurance Association (CLHIA) estimates that 43 percent of the employed labour force is covered by private long-term disability insurance.

It would be essential to ensure the adequacy of benefits. The percentage replacement of private disability insurance is usually lower than workers' compensation. (The latter generally pays the highest benefit because it effectively 'compensates' employees for having abrogated the right to sue the employer.)

Private benefits are rarely indexed except in government-sponsored plans.

There would be a strong profit motive to lower costs, control eligibility and shorten the length of claims. A private scheme could reduce coverage - with many individuals effectively denied inclusion on the grounds that they are considered to be too high risk. Categorical exclusions by type of disability could be introduced. Many private plans already exclude persons with pre-existing disabilities. Alternatively, persons deemed to be high risk could be covered but may be required to pay inordinately high - and in some cases unaffordable - premiums. An independent body would have to be set up to monitor and enforce minimum national standards.

Another way in which potential beneficiaries have been left out is through lack of information. Many people who become disabled are not informed of the specific provisions of their private plan and have no access to the details of their insurance coverage.

Finally, the Joint Federal-Provincial Study noted the difficulty of implementing a private insurance scheme which compensated for anything other than full and total disability. Private insurance provides short-term benefits during an initial rehabilitation period for those who cannot perform their own work but retain significant earnings capacity. However, serious administrative problems could arise if efforts were made to extend protection further by paying partial disability benefits, given the wide range of physical and mental conditions which could be used to justify a partial benefit claim [Federal-Provincial Task Force 1985: 21]. Another administrative difficulty includes the fact that multiple providers could make the system very complex and unmanageable.

## ***2. universal accident insurance***

### ***description:***

This insurance would pay benefits to persons disabled as a result of an accident. The proposed option would consolidate many of the categorical programs currently in place. Categorical programs include tort liability, automobile accident insurance, criminal injuries compensation and war veterans benefits; the purpose of these programs is to compensate for the effects of disability or injury related to specific causes or events. While workers' compensation is also a categorical program, there is considerable debate as to whether or at what stage to include this program in a comprehensive disability insurance scheme.

The introduction of tort actions in the last century allowed people who experienced a disabling accident as a result of someone else's negligence to seek redress through the courts [Muszynski 1992: 3]. Today, tort liability is an important component of the disability compensation system except in cases when the right to sue has been removed explicitly - i.e., in workers' compensation programs and in provinces with no-fault automobile insurance schemes.

Partial no-fault systems of automobile accident insurance have been adopted in Ontario, Manitoba, Saskatchewan and British Columbia. A full no-fault system operates in Quebec [Muszynski 1992: 4]; Ontario has a threshold system which allows only those with serious and permanent disabilities to sue. Criminal injuries compensation is also available for people who are victims of violent crime.

Veterans benefits may be paid to members or former members of the Canadian Armed Forces who are suffering from a disability. It must be the result of an injury or disease attributable to military service in war or peace.

Under the proposed option, the cause and site (i.e., workplace, home) of the accident would be irrelevant in terms of eligibility and benefit levels. There are enormous costs involved in trying to determine cause when attribution is often impossible. The Ontario Task Force on Insurance noted that "a technologically advanced, post-industrial society exposes citizens to an array of risks and hazards, many of which are highly indeterminate and long-range, for example, the as-yet- undetermined effect of environmental pollution or various complex chemical and biological processes" [Ontario 1986: 4].

The Ontario Task Force proposed an incremental process for introducing universal accident insurance. The process would begin with no-tort injury compensation for automobile accident injury that would involve the redesign of existing automobile insurance schemes. The second stage would introduce a no-tort injury compensation system for all accidents. This plan would integrate non-work and non-automobile injury - in effect covering all accidents. (The model presumed the continued existence of workers' compensation.) The third stage would build on the second phase by adding no-tort compensation for all disability, including sickness and disease.

Australia and New Zealand are often cited as examples of countries with a universal accident insurance program. Prior to the introduction of a universal plan, several studies of the disability income system in New Zealand found that the system was inequitable, inefficient and irrational. In 1972, the government introduced a comprehensive plan based on the abolition of tort liability and the integration of compensation schemes for accidents under one administration.

Under the New Zealand system, benefits are paid to victims of disabling accidents after the first week of disability up to a level of 80 percent of lost or interrupted earnings. Benefits are also paid on an income-tested basis to non-earners, regardless of cause of the accident. The plan includes a lump-sum payment to those who have been seriously and permanently disabled as well as a survivor's benefit. Comprehensive rehabilitation is also built into the program.

#### ***federal-provincial:***

A universal accident insurance program could be administered by the federal government or by a private agency with premiums collected by the federal government. Substantial negotiations with provinces and the private sector would be required to design and implement such a plan because it would consolidate all existing accident insurance schemes and possibly workers' compensation boards. (The inclusion of the latter is a design option that would have to be explored; in theory, a comprehensive insurance would include accidents both on and off the job.) Alternatively, a comprehensive program could be administered jointly by the federal and provincial governments because so much of the current insurance system falls under provincial jurisdiction.

#### ***financing:***

A universal accident insurance program could be financed through a combination of employer premiums, automobile premiums, a tax on hazardous activities such as certain sports and through general revenues. The New Zealand system is supported through a levy on employers which varies according to the risk category of the employment, a levy on motor vehicles through a license fee, and general government revenues to cover the costs of benefits and services to persons who are non-earners [Muszynski 1992: 28].

#### ***strengths:***

The major strength of this proposal is that it would replace the range of programs which compensate for

accidents - whether these are the result of workplace injury, car accident, household injury (e.g., a fire) or war-related injury. The cause of disability would be irrelevant; the focus would shift to the consequence of the accident. Such integration would eliminate duplication of administration and consolidate several programs set up to compensate for various accidents.

A national accident insurance program would be less complex than a more general disability insurance and would not have the problems of definition associated with other programs: An accident is the result of a traumatic incident which is readily identifiable and observable. Moreover, a national accident insurance scheme would standardize the provision of benefits for various problems. Workers' compensation boards, for example, pay different levels of compensation throughout the country for the same injury.

A universal accident insurance scheme would go a long way towards addressing problems in the current system. Under tort, compensation is paid on an irrational basis. More than half of all modern injuries go uncompensated. The Ontario Task Force on Insurance noted that "the best evidence we have today indicates that only one-third to one-half of accident victims get any compensation through the tort system. Others, including those who are seriously or catastrophically injured, are left behind or slip through the cracks" [Ontario 1986: 65].

Finally, the proposed option would redress the problems arising from the fact that the present tort-insurance system, although run by a well-intentioned and compassionate judiciary, remains riddled with uncertainty and unpredictability - so much so that tort litigation has been described as a lottery. A universal accident insurance also would reduce the inordinate cost of continuing to use tort for injury compensation. A large portion of every premium dollar is eaten up by the transaction costs of the tort-insurance system. In fact, "more than 50 cents of every premium dollar is absorbed in the administrative and legal costs of running the system" [Ontario 1986: 66].

The current tort system involves enormous delay. It is not unusual for some cases to drag through the courts from two to 13 years. The tort system as it presently operates does not pay compensation promptly even to the 'winners' [Ontario 1986: 65-6]. A study conducted for the (former) Department of Health and Welfare on the impact of liability claims on health care concluded that "the civil liability system for the compensation of the disabled is cumbersome, complex and expensive" and urged that an alternative to litigation be sought for those disabled by medical injury [Ontario 1986: 67].

While the proposed option would be designed on a no-tort basis, the latter would not necessarily eliminate the establishment of fault. Fault would remain relevant and the deterrence of negligent behaviour would be achieved through a more refined and rigorous penalty rating or premium-pricing mechanism.

#### ***weaknesses:***

The weakness of this proposal is that it is based upon the provision of income support as a result of a disabling accident. While it would be relatively easy to determine eligibility for benefits, the majority of claims for disability are not made because of accidents. The majority of claims arise from disabling illnesses - which would be left out under a plan that compensated only for accidents. About 80 percent of deaths for people between the ages of 20 and 60 result from disease; accidents, poisonings and violence including suicide account for only 19.9 percent of deaths [Ison 1994: 10]. Weiler points out that three different measures - disease/accident statistics, CPP disability benefits and mortality rates - point to the same conclusion: Disability and death due to disabling diseases are far more prevalent than disability and death due to accidents [Weiler 1983: 16-17].

Another potential problem relates to the controversy regarding the right to sue. The really difficult and controversial issue in this area is whether persons who become disabled through the wrongful acts of others, whether intentional or negligent, have a special level of claim to a higher level of compensation as 'innocent victims.' This issue is the great 'fault/no fault' debate which dominates both the technical literature and the public debate on the need for more comprehensive, universal approaches to disability compensation [Beatty 1991: 115-6]. However, if it is deemed important to establish fault, then this can be accomplished in other ways - e.g., administrative compensation systems run by tribunals or boards.

Finally, there is a problem in detaching workers' compensation, in particular, from labour market policies which recently have been transferred to the provinces. "The interplay between social policy and the labour market must be kept within provincial control if the flexibility to react to local needs while remaining competitive is to be maintained" [Bogyo 1996: 130].

### *3. comprehensive public insurance*

#### *description:*

A proposal for a comprehensive disability insurance plan was set out in the 1988 Transitions report of the Ontario Social Assistance Review Committee (SARC). Under the SARC proposal, a comprehensive insurance plan would pay benefits for disability due to accident, illness or injury primarily on a mostly 'no fault' basis, regardless of cause. Coverage against total and partial disability would be extended universally to all full-time, part-time and self-employed workers. There would be a minimum qualifying period for part-time workers. For those who have been in the labour force for a long time, coverage could be extended for a period after they have stopped working.

The proposal would integrate the range of earnings replacement programs, including workers' compensation and the CPP disability benefit. The integration also could abolish or limit the right to sue for damages arising from accidents that cause personal injury or death, such as car accidents. Private insurance could continue to be provided for temporary or short-term disability or for the provision of benefits over and above the earnings level established by the comprehensive plan.

The benefits under the proposed program would be pegged at a certain percentage of earnings prior to disablement. SARC suggested that the level of earnings replacement be set at 80 to 85 percent of net average recent earnings (as in the proposed Australian legislation at the time). This percentage would represent a higher level than both the current CPP and the proposals for comprehensive reform put forward in the Joint Federal-Provincial Study. However, it is lower than the 90 percent of net income generally paid under workers' compensation. Benefits would be fully indexed to inflation. Inflation protection is particularly important for persons with severe disabilities who experience a loss of career advancement and generally lack opportunities to increase their earnings.

Under a similar model for comprehensive insurance (the Ison model), all government systems for compensation or premature death would be abolished as separate systems and would be combined in one plan. The plan would include workers' compensation, actions for damages for personal injury and death, automobile accident benefits, compensation for the victims of crime, the sickness benefit under Employment Insurance, the disability and death benefits under the Canada Pension Plan, veterans' benefits and any other systems that involve the categorical treatment of persons who are temporarily or permanently disabled [Ison 1994: 132]. The basic welfare system would remain separate - as a last resort measure to provide temporary assistance in the event of short-term disability or until another plan came into effect in the case of long-term disability. While private insurance would neither merge with the plan

nor be prohibited, it would become unnecessary.

The cause of disability would be irrelevant for the purpose of eligibility so that claims could be paid quickly without inquiry into cause. While it would be easier to confine the plan to 'workers,' this restriction would be unfair because it would not provide coverage to individuals now excluded from the system. The Joint Federal- Provincial Study } proposed that non-earners could be included in a comprehensive program through government subsidy of their premium contributions [Federal-Provincial Task Force 1983: 42].

Under the proposal, an income allowance would be paid in cases of total disablement from work, whether temporary or permanent. The payment would represent 80 to 90 percent of pre-disability gross earnings. Partial disability benefits also would be paid.

Benefits would be indexed to the cost of living. The allowance would commence after one month of absence from work because of disability and would not be retroactive. Special calculations would apply to income for the first month [Ison 1994: 136]. The income allowance would be taxable and the tax would be deducted at source. There would be no income test required to qualify; income would be taken into account through the taxation status of the benefit. The allowance would be payable until the person returns to work, becomes eligible for a retirement pension or dies. Allowances also would be paid to survivors after the death of the recipient.

In addition to a full or partial income allowance, the Ison plan includes a component that would compensate for the disability itself. To provide this form of compensation, statutory tables would be compiled to specify the amount payable for loss of faculty or disfigurement. The proposal does not provide details about this form of compensation; "within the framework of the plan, provision could be made to compensate for whatever losses ought, according to prevailing judgment, to be compensated" [Ison 1994: 135]. This lump-sum benefit would not be paid in cases of short-term, temporary disability; rather, it would compensate for long-term or permanent injuries.

In cases of serious disability, especially where there is an employment problem, counselling could be provided and the costs of rehabilitation would be paid by the system. These costs include retraining, educational upgrading, relocation, home adjustments or any other required measures. An allowance also could be provided for special needs, such as the additional costs of mobility, appliances or attendant services.

It should be noted that a comprehensive disability insurance program exists in other countries, such as the Netherlands. After 52 weeks of sickness benefits insured under the Sickness Benefits Act, employees in the Netherlands are entitled, in principle, to a disability benefit. The disability insurance for workers is based on two acts - the general Disablement Benefits Act which insures income-earning citizens up to the minimum wage and the Disablement Insurance Act which provides an additional wage-related benefit [Beekman 1996: 77].

### ***federal-provincial:***

The proposed option would require extensive negotiations among the federal government, provincial governments and private insurers. Ideally, the new plan would be delivered by the federal government. But provinces may be unwilling to give up the programs they now operate. Given current political realities, a provincially- administered initiative may be more likely.

However, the door to income security reform has recently been opened. In March 1996, all provinces

(except Quebec) released a Report of the Ministerial Council on Social Policy Reform and Renewal. The Report suggests the possible integration of income support for individuals with long-term and significant disabilities into a single national program. However, the focus on income support means that provinces may be willing to discuss possible changes only to their respective welfare systems. It is uncertain whether the proposal is intended to include other provincial programs, such as workers' compensation and automobile accident insurance.

***financing:***

In order to pay for income insurance as well as the other costs of disablement, the Ison Plan suggests that there be a compensation fund administered by an agency of government. The revenue for the fund would be derived from several sources [Ison 1994: 133-4].

First, there would be an assessment on employers that would replace workers' compensation assessments, the premiums paid by employers for public liability and disability insurance, and long-term sick pay. The second source of funds would be a charge on the use of motor vehicles - in the form of an owners' premium, drivers' premium or earmarked fuel tax. This charge would replace the personal injury portion of the premium now paid for automobile insurance. The third source of revenue would be a special tax or premium imposed on hazardous activities. This levy would be determined on the basis of experience and documented statistics. Finally, a portion of the fund would be supported through general revenues.

Decisions on costs could be made by producing estimates on aggregate data - e.g., government statistics on highway injuries and deaths could be compared with claims statistics to produce a rough estimate of the proportion of total income from the fund that should be derived from highway traffic [Ison 1994: 133]. The objective would be to achieve good social cost accounting without the enormous cost, waste and damage of inquiring into the cause for each claim.

Ison contends that the reserve portion of the fund should not be determined by actuarial estimates of future cost. Instead, there should be a statutory formula for the reserve requirement. For example, after an initial period, the reserve could be expressed as a multiple of the average payout for the last three years. He suggests that reform could be fiscally neutral or even result in cost savings because of the excessively wasteful and costly duplication in the current system.

The Ontario Social Assistance Review Committee also noted the need for multiple sources of funds. A comprehensive plan would require a levy on employers as in the case of workers' compensation, premiums for employees, a levy on the use of motor vehicles similar to current automobile insurance premiums and a premium on other hazardous activities. The plan also would have to be supplemented through government funds. While SARC identified premiums as the preferred method for financing such a plan, it recognized that flat-rate premiums are regressive; low-income households would have to pay a higher proportion of their income than better-off households. SARC proposed a premium subsidy to offset the burden on low-income households. Another solution is to employ a proportional, sliding-scale premium system.

***strengths:***

The advantages of comprehensive insurance include the fact that the program would cover all disabilities, regardless of cause or where the accident, injury or disabling condition happened to occur. This design would help respond to one of the fundamental problems in the disability income system - the fact that type and level of benefits are determined more by the cause of disability rather than its

consequence - i.e., inability to work or perform a basic activity of daily living.

Eligibility requirements and levels of compensation in current programs commonly do not reflect need, loss, blame or premium contributions so much as the specific circumstances of how the disability occurred. "Current systems of compensation for disablement and premature death do not have their origins in any coherent design. Individually, and more so collectively, they are haphazard, wasteful, limited in their achievements and damaging in their collateral effects" [Ison 1994: 129].

Under a comprehensive insurance plan, scarce resources such as time, money and expertise would be spent helping individuals re-enter the labour market rather than determining the specific cause of disability and the associated attribution of responsibility. Rather than being concerned about what caused the condition, a comprehensive program would focus on its impact, the needs felt by its victims, and what can and should be done by way of monetary compensation. Moreover, a national plan would ensure the equitable treatment of persons with disabilities - not only with respect to cause and type of disability but also in regard to residence. "The grief of this uncoordinated conglomeration of systems includes a wasteful duplication of administrative and adjudicative structures, the grief of disabled people who sometimes have to deal with several agencies when one would be enough, wasteful over-insurance in some cases and tragic under-insurance in others" [Ison 1994: 130].

Weiler explains how complicated is the issue of attribution. "A compensation program which is founded simply on occupational causation is inherently incapable of accommodating the fact that seriously disabling diseases are usually multi-causal in character. In the initiation and promotion of cancer, for example, we know that personal lifestyle - smoking or diet - and the general environment - air and water pollution - often figure along with a toxic industrial substance. Without the conjunction of these external factors, the workplace exposure might not have generated any malignancy at all, or at least the cancer might not have manifested itself as early as it did" [Weiler 1983: 54].

A study of workers' compensation in Ontario also supported the need for comprehensive disability insurance. "A typical accidental injury follows immediately on the mishap taking place in the plant. When a worker falls, or is cut, or is involved in a collision, the occurrence of the injury is visible to the naked eye. Simple common sense suffices to make an occupational connection. By contrast, if a worker is exposed to a toxic substance such as asbestos, coke oven emissions, or radon daughters, a malignancy may not manifest itself for ten, twenty or thirty years. In the meantime, what happens inside the worker's body is invisible and little understood. Nor can one tell, by examining the cancerous growth itself, what kind of exposure may have produced it" [Weiler 1983: 30].

Several of the plans that would be integrated are already in the public domain. There would be a reduction in administrative costs (especially with respect to assessment for initial and continued eligibility) if these plans were pooled. However, the private sector may resist such integration (see below).

A comprehensive insurance might be able to address another fundamental weakness in the current system: the fact that the disability income system tends to undercompensate those with severe disabilities and to fully compensate (or even overcompensate) those injured or ill in the short term [Weiler 1983: 81-82].

Finally, a new plan would remove disability from the CPP. Tom Kent, one of the architects of the CPP, has argued recently that it no longer makes any sense to finance non-work-related disability benefits through payroll taxation. In follow-up correspondence to the National Forum on the CPP organized by the Caledon Institute, Kent admits that payroll taxes were light in 1964 (at the inception of the program)



and the original, tight disability provisions responded to very severe needs. However, he now believes that the federal government should persuade the provinces to pool resources into one scheme of disability coverage financed, apart from the employer levy for workers' compensation, from general revenues. (The concerns of the disability community should be noted here; the fact that disability is included in the CPP helps ensure that persons with disabilities are integrated in the mainstream of Canadian society.)

***weaknesses:***

The potential weakness of such a plan is that the responsibility for the cause of an accident or injury is removed. In the case of employers, in particular, the absence of responsibility could reduce their interest in maintaining a safe work environment. One way to address this problem is to ensure that some form of experience rating continues to be built into the premium system.

Experience rating means that premium rates are set according to use of the system. Premium rating is intended not only to finance program costs but also to encourage employers with more frequent claims on the system to improve the occupational health and safety of their workplaces. Employers with disproportionate claims pay higher premiums than those with lower claims who are 'rewarded' for their safer work environments. In fact, a study of workers' compensation in Ontario pointed out that a program financed entirely through industrial assessments of employers should provide a necessary incentive to the development of a less hazardous workplace [Weiler 198: 12].

Another potential problem is the fact that a national disability insurance scheme which covers the entire population could be subject to question by the private insurance industry that could see the plan as a substantial incursion into their 'territory.' Moreover, it could be subject to challenge under the North American Free Trade Agreement (NAFTA) which could limit new activity by national governments in areas in which there is already substantial private activity.

The counter-argument is that the individual disability programs already exist; the primary change would be the administrative integration and pooling of finances. Second, it could be argued that the private sector has had unfettered opportunities to act in this field and, to date, has done so in only a limited way. Finally, there would continue to be plenty of scope for the private sector to play a role in topping up the base level of benefits. In addition, there could be substantial private sector involvement in various aspects of a new program including assessments for initial eligibility, ongoing eligibility and rehabilitation potential, and provision of training and rehabilitation.

***b. income support options***

***1. income-tested support program***

***description:***

Under this option, benefits would be paid to persons with severe and prolonged disabilities in the form of an income guarantee set at a designated level. Benefits would be calculated through an income test that took into account the availability of other resources. Benefits would decline as income from other sources rose.

The Joint Federal-Provincial Study put forward a proposal for an income- tested benefit in which maximum benefits for single persons with no dependents would be equal to OAS and GIS at the single

rate schemes. In 1996, these programs paid a combined maximum of \$10,425 a year for a single person or \$16,904 for a couple. Under the 1985 proposal, the first dependent (either spouse or child) would receive an equivalent amount while \$100 per month would be paid for each additional dependent. Private top-up insurance would be allowed.

It should be noted, however, that while the principle of an income guarantee is appropriate, the precise OAS/GIS configuration would not be adequate. The OAS/GIS combined maximum falls below the poverty line for a major metropolitan area (\$17,127 for a single person and \$21,408 for a family). One option is to set a higher benchmark. The Regina Consultation proposed a national universal program pegged at the poverty line plus 20 percent - or an estimated \$20,552 for a single person in a major metropolitan area in 1996. (Clearly, the latter is a controversial proposal; there are questions about the poverty lines themselves and concerns regarding the potential costs of using these lines as a base.)

Provinces also could top up these rates as five provinces and the territories currently do for elderly benefits; Ontario, Manitoba, Saskatchewan, Alberta, BC, Yukon and the Northwest Territories provide income-tested supplements for seniors. A top-up not only improves the adequacy of the benefit but also helps compensate for regional variations in the cost of living.

Under the Joint Federal-Provincial Study, benefits would be calculated on an income-tested basis. Income from all outside sources, including workers' compensation, private disability insurance and the CPP disability benefit, would be taxed back at 100 percent. Earned income would be retained up to the OAS level. Above that, additional income would be reduced at a 50 percent rate, like the GIS. Under the GIS, maximum monthly benefits are reduced by \$1 for every \$2 of outside family income, including earnings.

#### ***federal-provincial:***

Ideally, the proposed program would be operated by the federal government. The income tax system would be used as the means of determining benefits. The Department of Human Resources Development would be responsible for the determination of disability. Provincial administration of the program with joint federal-provincial financing is another option.

#### ***financing:***

This program would be funded by the federal government (with possible contributions by provincial governments) and would be financed through general revenues. In theory, provinces should be expected to contribute to the program because their welfare caseloads would be substantially reduced as people with disabilities move off the program. The Joint Federal-Provincial Study estimated in 1985 that its income-tested benefit would cost \$800 million a year, over and above what the federal and provincial/territorial governments currently spend on welfare for persons with disabilities. (The key program parameters for this cost estimate included the definition of disability employed by the Canada Pension Plan and the OAS/GIS maximum income guarantee.) However, the proposal assumed that these costs would drop if there were a complementary earnings replacement program that provided full and partial benefits. The possibility of a combined earnings replacement/income support option is discussed below.

#### ***strengths:***

The advantage of this option is that it would remove people with severe and prolonged disabilities from provincial welfare. Benefits would be paid at an adequate level and would be consistent throughout the

country. A national program would respect the principle of equity by treating beneficiaries the same in all parts of the country (although it could be argued that the same treatment would ensure inequity since the cost of living and the availability of supports vary so much by region). Under a national program, benefits would be portable from one province to another. "This program model gives the widest assurance of uniform, adequate income support for the low-income disabled on a nationwide basis" [Federal-Provincial Task Force 1985: 36].

A major strength of income-tested benefits is the fact that they can be administered easily and efficiently through the tax system. Persons whose net income falls below a designated amount would be eligible for benefits. The current federal Child Tax Benefit and Guaranteed Income Supplement operate in this way and the Seniors Benefit that will take effect in 2001 will be calculated on an income-tested basis.

Because an income-tested program does not take assets into account, it does not require that individuals 'spend down' their assets in order to qualify for financial assistance. In addition, the fact that benefits would be paid on an income-tested basis means that individuals could work. Their earnings would be supplemented by the income support program up to a maximum level. The program would act, in effect, as a work incentive (see counter-argument below).

***weaknesses:***

A major weakness of this proposal is that it would not provide any assistance to persons with disabilities that were not severe and prolonged. It also could be argued that an income-tested support program could have the opposite-than-intended effect upon work performance. Participation in the paid labour market could be discouraged because individuals know they have an income guarantee, regardless of their work involvement. In fact, it may be difficult to incorporate the concept of partial disability within any comprehensive model.

There is really no way to get around this conundrum. If the purpose of a program is to provide an income guarantee and at the same time encourage workforce participation, there always will be individuals who choose not to work. It is assumed, however, that they will comprise a minority of the potential recipient population - primarily because of what is known about the psychological benefits of work and the fact that people who have the opportunity generally want to work. The alternative (i.e., to make the program a simple flat-rate amount with no offset for outside income) is less palatable because its all-or-nothing design effectively acts as a complete disincentive to work.

Another option is to pay the income-tested benefit only to persons with very severe and prolonged disabilities. Yet this option fails to acknowledge that individuals whose disabilities may be severe and prolonged still may be able to do some form of work.

***2. means-tested support program***

***description:***

This program would be similar in design to the income-tested support program and would provide similar levels of benefits. It would be tied to changes in the Consumer Price Index.

The key difference from the national income-tested option described above is in the determination of eligibility. Applicants would qualify on the basis not only of their income but also their assets including wills, trusts and estates. A means-tested program for disability already exists in the form of provincial

welfare. In fact, welfare employs an even more stringent test by taking into account income, assets and needs - hence the term needs test.

***federal-provincial:***

This program could be administered by the federal or provincial governments. The difficulty with federal administration is that a means test is an 'intrusive' test which inquires not only into income but also into levels of assets. It thereby requires more extensive administration than a simple income test which can be applied through the income tax system.

There is precedent for a federal means-tested benefit; the Old Age Pension introduced by Ottawa in 1927 determined eligibility on the basis of both income and assets. However, the program was administered by provincial welfare departments and, in some provinces, by local welfare authorities [McGilly 1991: 126]. A means-tested disability income program could be run by federal regional offices which administer other federal programs, such as the Canada Pension Plan.

Conversely, this program could be delivered by provinces through the offices they already have established for their welfare systems. The federal government would share the costs.

***financing:***

As in the case of an income-tested benefit, a new national program could be financed by the federal government, the provinces or both. The program would be an entirely new expenditure if it were to be financed by the federal government because provinces are already funding this type of program through their respective welfare systems. Another possibility is to negotiate a provincial contribution in respect of the individuals that the program effectively would remove from provincial caseloads.

A means-tested program is more selective than an income-tested program because it takes into account assets that may be available for an individual's support. Means-testing could thereby reduce costs, although the administrative expenses involved in a more intrusive eligibility test would be higher.

***strengths:***

A national program would respect the principle of equity by treating beneficiaries the same in all parts of the country. The benefit also would be portable from one region to another.

The strength of means-testing is that it takes into account individual circumstances and requirements, as do provincial welfare systems in assessing recipient needs. It is thereby considered to operate more selectively than an income-tested benefit. Means-testing is a more complete and accurate test of the true extent of resources available to a household.

***weaknesses:***

The proposed program does not really represent an improvement to existing welfare systems unless there is a substantial rise in the nominal value of the benefits as well as an increase in real terms in which benefits are indexed to changes in the cost of living.

While means tests are a more accurate reflection of financial circumstances than income tests, the strength of means-testing is also its prime weakness. These tests are administratively more cumbersome, intrusive and costly.

Moreover, it could be argued that means tests are unnecessary in this case. Most people with disabilities are poor and have no income - let alone assets - to contribute to their support. Even if they had access to some resources through an estate, means and needs tests are often criticized on the grounds that they require applicants to 'spend down' their assets into poverty. One way of addressing this problem is to allow certain exemptions so that applicants can write off a given level of their assets and not have to become virtually penniless in order to qualify for assistance.

### *c. earnings replacement and income support options*

#### *1. universal insurance and income-tested support*

##### *description:*

This program would combine two of the options outlined above: universal insurance and income-tested support. In order to work properly, the two programs would have to be closely integrated.

Program integration does not necessarily imply that people would receive the same benefits under the insurance plan as they would get under the income support plan. Two people with similar disabilities or with similar functional capacity could continue to receive, as under the current system, different levels of benefits. While this difference may appear to contradict the underlying rationale for reforming the income security system, the continued 'inequity' actually would arise because the earnings- related component of the program would be calculated on a different basis (i.e., a percentage of former earnings) while the income support component of the benefit would employ a different base (e.g., poverty line).

It is also possible that an individual might qualify for both the earnings replacement and the income support benefit. This could happen, for example, in the case of persons whose earnings were so low that their benefits do not meet their living needs. In this case, the income-tested support would supplement the earnings component up to a certain level. Provincial welfare programs now play that supplementation role.

The presence of a combined earnings replacement and income support program would require a consistent definition of disability to determine eligibility for entitlement. At the current time, different definitions are used and the existing programs do not share a common approach to establishing eligibility.

A decision would have to be made as to which component of the program acted as the first tier - or the first payer. One possibility is to assume that the earnings replacement or insurance component is the first payer and that the income-tested component is the second payer which takes into account income from other sources, including earnings.

However, other two-tier systems work differently. In Holland and Sweden, for example, compensation for loss of earnings capacity due to long-term disabilities is provided through a two-tier system. The first tier is universal, with eligibility based on citizenship. Eligibility for the supplement or second tier is restricted to labour force participants. Second-tier benefits are based on age or employment history and wage earnings [Aarts and de Jong 1996: 7].

##### *federal-provincial:*

The Social Assistance Review Committee contended that disability insurance and income support ideally would be delivered by the same level of government, thereby increasing the prospects for harmonization. Despite the ideal arrangement, the complexity of federal-provincial collaboration may require that various income programs be delivered by different levels of government. "In that event we would simply argue that the program as a whole will benefit to the extent that its constituent elements are coordinated" [Ontario 1988: 112]. The new program could be administered by the federal government - although parts of it, such as the assessment of disability or the rehabilitation component of the program, could be publicly or privately delivered.

***financing:***

The program could be financed through a variety of sources, including employer/ employee premiums, automobile insurance premiums, consolidated revenue funds, and a tax on hazardous products (e.g., cigarettes) or on hazardous activities (e.g., race car driving, parachuting, mountain climbing).

***strengths:***

A two-pronged program would combine the 'best of both worlds.' The insurance component would continue to provide earnings protection in the event of earnings interruption as a result of an accident, injury, illness or disabling condition. The cause of disability would be irrelevant.

Persons who had no attachment to the labour force or who had not made sufficient contributions to the plan still would be covered through the income-tested support component. The advantage of income-testing is that it allows partial work activity. Ideally, an income-tested benefit would be more adequate than current welfare systems.

***weaknesses:***

It could be argued that a combined insurance/income support approach remains a patchwork of sorts. There still would be multiple administration and a hierarchy of support. Moreover, Beatty points out that while advocates of comprehensive disability compensation reform usually recommend this type of 'two-tier' system, those with marginal labour force attachment wonder why they should be forever relegated to a 'lower tier.' The earnings of women are more sporadic and lower than those of men. Women with disabilities, in particular, view the two-tier system as just another social mechanism which relegates them to poverty [Beatty 1991: 111].

As noted earlier, a universal insurance likely would add many more people to the disability income rolls because the eligibility criteria would be more inclusive than the current system. While this inclusion would be positive from a comprehensiveness point of view, it would have associated cost implications. An income-tested program would be costly for two reasons: 1) more people would qualify than under a means- tested approach, and 2) ideally, benefits would be more adequate in both nominal and real terms than current welfare payments.

## ***2. guaranteed annual income***

***description:***

This option is often referred to as the guaranteed annual income as though there were only one possible design without recognizing that there is a wide range of possibilities. Many commissions and

organizations have called for some form of guaranteed income. The Social Assistance Review Committee pointed out that the term 'guaranteed annual income' refers more to a concept than to a construct. It does not describe a structured income security program with a detailed and specific set of rules and regulations governing benefit levels or eligibility requirements. In fact, "a GAI could function in many different ways and could even be designed in such a way as to worsen the lot of poor Canadians" [Ontario 1988: 103].

A GAI is often considered to be a totally new method for providing income to persons whose own income is inadequate [National Council of Welfare 1976: 1]. However, there are various forms of guaranteed income now in place. For example, persons eligible for long-term disability benefits under welfare systems in some provinces already receive a form of guaranteed income. The Old Age Security/Guaranteed Income Supplement package is often considered to be a guaranteed income for seniors. In short, "any program that sets an income floor below which a person will not be allowed to fall (i.e., an income guaranteed by the government) is a guaranteed income (emphasis in the original) [National Council of Welfare 1976: 2].

Despite the differences in design, a GAI would incorporate several key features. First, it would provide a minimum level of income guarantee to all deemed eligible for the program. In this case, the target could be narrowed to include only people with severe disabilities between the ages of 18 and 64.

Second, a GAI would assume that most people derive some income from employment. An income test would be applied to take into account income from other sources, including earnings and investment. The benefit would supplement earnings and would provide total income support only for those with no attachment to the labour market. A GAI is best delivered as an income-tested benefit through the tax system.

The difference between this proposal and the income support option earlier described is that the GAI proposal is a 'big bang' approach. It effectively would eliminate the need for publicly-financed insurance-based programs (although individuals and employers could continue to purchase private disability insurance as a top-up). A 'big bang' would rationalize and integrate all existing income security programs - federal, provincial and private - that deliver disability-related benefits.

***federal-provincial:***

Federal delivery through the income tax system is the ideal delivery mechanism for a guaranteed annual income.

***financing:***

A program which provides more adequate coverage would extend its reach and thereby the number of potential recipients and associated costs. If the program is funded as a supplementation/support rather than as an insurance, then the financing moves from a premium-based system shared by employers and employees to a consolidated revenue base (i.e., government).

***strengths:***

A GAI is often cited as a solution to current problems in the disability income system (see, for example, the Halifax, Charlottetown and Whitehorse Consultations). The recent federal Social Security Review identified the advantages of a guaranteed annual income. These include the fact that it could provide more adequate support to persons who are eligible under the scheme; it could separate access to income

from access to disability-related goods and services; and it could improve incentives to work if benefits were taxed back at a relatively low rate. A comprehensive scheme could disentangle federal-provincial cost-sharing and top up payments from other disability earnings replacement programs, such as CPP and partial payments under workers' compensation. Finally, the needs test currently used to determine eligibility for provincial welfare would be replaced by a less intrusive test [Canada 1994: 19].

All citizens, including earners and non-earners, would be covered in a comprehensive redesign of the disability income system. Right now, non-earners with no private resources must rely on provincial welfare. A more integrated, rationalized set of programs would reduce the complexity of the system and minimize costly duplication and excessive administrative costs. Partial work would be permitted, thereby (in theory) reducing disincentives to work.

A GAI would provide a minimum income floor below which individuals would not fall. The option would reduce stigma because benefits would be delivered as a tax credit rather than through welfare. Finally, a GAI could assist people who fall through the cracks because they do not fit the criteria of any given program; a GAI ensures that there are effectively are 'no cracks' (unless the eligibility criteria are highly restrictive).

*weaknesses:*

The disadvantages of this option include the fact that it could label people as permanently unemployable. Any form of GAI that increased the number of potentially eligible recipients would be costly and could divert resources from other supports and services. In addition, a GAI would be paid at a rate that would not meet all needs - especially those with very high disability-related costs. Some form of program would have to be in place to offset these costs. If eligibility were limited only to those with severe disabilities, then there would be a problem for persons who had less severe or only partial disabilities.

Another disadvantage of comprehensive reform lies in its cost and associated financing. A program which provides more adequate coverage would extend its reach and thereby the number of potential recipients. If it were funded as a supplementation/support rather than as an insurance, then the financing would move from a premium-based system shared by employers and employees to a consolidated revenue base (i.e., government). It is possible that the costs of such a program would be so high that only those with very severe disabilities would qualify; there would be a serious trade-off between adequacy and coverage.

A background report to the federal Social Security Review pointed out that a GAI, on its own, would not be able to respond to individual needs and may always require a top-up for extra costs. A fiscally sustainable GAI would have to be selective [Canada 1994: 19]. This selectivity raises questions as to how to meet the needs of persons with mild or moderate disabilities.

This conclusion echoed the findings of an earlier report; the Joint Federal- Provincial Study stated that "it would not be realistic or advisable to attempt to meet the differing needs of all disabled persons in different circumstances through a single national plan. Rather, a system of programs, each designed to meet specific objectives, integrated and rationalized to provide comprehensive protection to all Canadians who are or will become disabled, was more reasonable" [Federal-Provincial Task Force 1985: 2].

It could be argued that a program which ensures income support could discourage workforce participation because it ensures a basic income floor regardless of labour market involvement.



Moreover, the implementation of a GAI could detract from job creation. SARC noted that "the provision of employment is so central to achieving our overall objective of community integration that we would be extremely wary of any program that might diminish the importance of job creation" [Ontario 1988: 104].

SARC also pointed out that a program which provides adequate financial assistance but does nothing to facilitate integration into community life does not necessarily improve the status quo [Ontario 1988: 104]. There would be no incentive for provinces (now responsible for labour market training) to fund employment-based programs for persons with disabilities if they had an income guarantee from the federal government. The result could be the full exclusion of persons with disabilities from these programs as well as the workforce.

Another weakness of a GAI is that it cannot distinguish between basic income needs and special needs that may be associated with a disabling condition. Despite the problems of current welfare systems, at least they are flexible enough to meet individual needs. A complete rationalization of all programs into one large income program would remove some of the positive aspects of an individualized approach.

Finally, a new national program may not even be possible if it violates the terms and conditions of Canada's free trade commitments in which the national government could be seen as interfering significantly in a field in which there is substantial private sector activity.

### *Conclusion*

This paper has put forward a range of short-, medium-, and long-term options for reforming the disability income system. Before selecting any specific reforms, the Task Force on Disability Issues is encouraged to set out a vision for the ideal disability income system. It should then determine a medium- and short-term course of action which moves towards the ideal long-term objective. Short-term changes in the absence of a broader context will have the effect of shifting clients and costs from one jurisdiction to another and from one payer to another.

After determining its long-term objectives, the Task Force should then articulate clear principles to guide the reform. It also should consider certain questions such as the purpose of specific income programs and of the overall income security system as well as general issues related to eligibility, employability, delivery and financing.

There are many possible options for reforming the disability income system. Changes can be made to the earnings replacement components, the income support components or both. There are many possible changes that can be made to the CPP in both the short- and medium-terms. However, some of these improvements would come at great cost in terms of providing adequate income protection for all Canadians, including those with disabilities.

While making decisions about the specific income reforms, it is important to bear in mind the issue of disability-related goods and services. It could be argued that a major investment in supports and services - whether through tax compensation, individualized dollars or direct service delivery - would enhance independent living and workforce participation, thereby reducing dependence on programs of income support.

Finally, the Task Force should bear in mind the concerns raised by persons with disabilities not only at the Consultations but also over the many years during which income security reform has been studied.

Unless the reform improves the income security and well-being of persons with disabilities, then the best reform is no reform.

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