

A B.I.G. Typology – and what we might be able to afford

David Zhang and Mike Moffatt

Lawrence National Centre for Policy and Management



Agenda

SECTION 1 – Ontario's Fiscal Context

SECTION 2 – Dimensions of Cash Transfer Programs

SECTION 3 – Trade-Offs

SECTION 4 – Existing Federal Cash Transfer Programs

SECTION 5 – Existing Provincial Cash Transfer Programs

SECTION 6 – Summary Chart

SECTION 7 – Ontario Options (Calculator)

SECTION 8 – Final Thoughts

Section 1 – Ontario's Fiscal Context

**JOBS FOR TODAY
AND TOMORROW**
2016 ONTARIO BUDGET



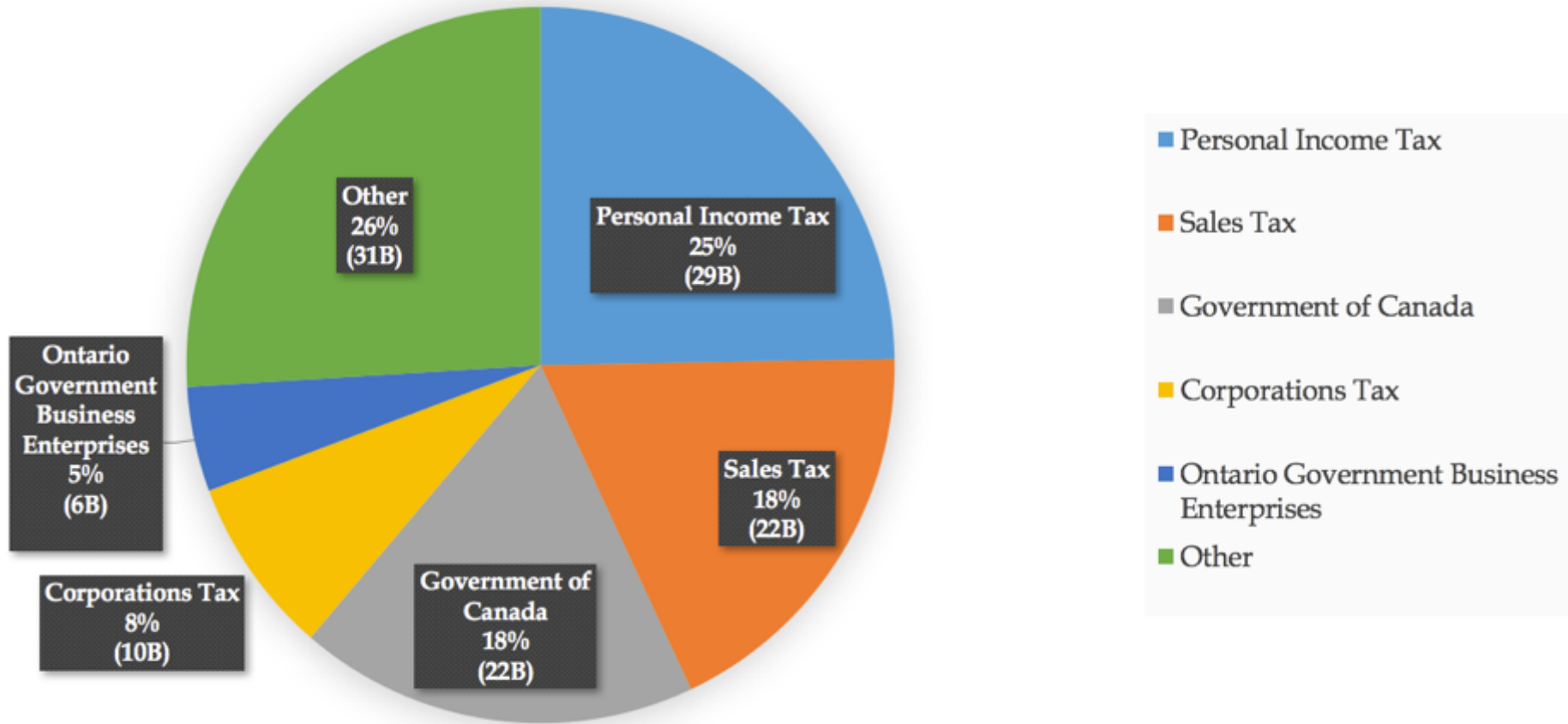
Putting potential cost numbers into context



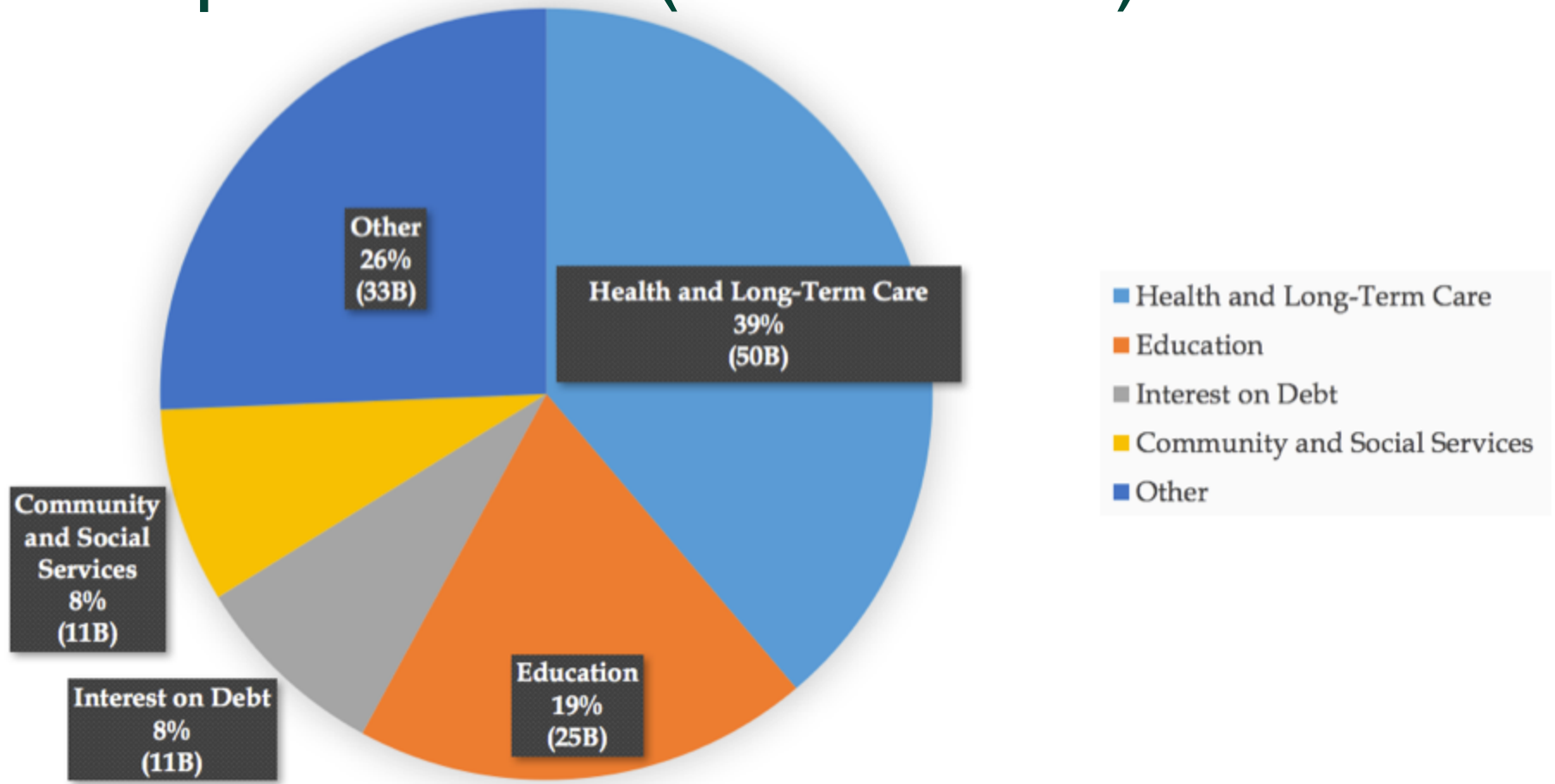
The Honourable
CHARLES SOUSA
Minister of Finance

Budget Papers

Major Ontario Government Revenue Streams (2014-2015)



Major Ontario Government Expenditures (2014-2015)



The Deficit Problem

	2013-2014	2014-2015	2015-2016 (Interim)	2016-2017 (Plan)
Ontario Total Revenue (millions)	115,911.00	118,546.00	126,547.00	130,589.00
Ontario Total Expense (millions)	126,364.00	128,860.00	132,083.20	133,895.40
Difference (millions)	(10,453.00)	(10,314.00)	(5,536.20)	(3,306.40)
% Over Budget	9%	9%	4%	3%

Source: 2016 Ontario Budget

Section 2 – Dimensions of Cash Transfer Programs

- Which age categories are eligible?
- Money paid to individuals or families?
- Maximum \$ payout
- Is money “clawed back” based on income?
- Is money taxable?

CHOICES AFFECT TOTAL COST

Section 2 – Dimensions of Cash Transfer Programs

No universally agreed upon definitions. We propose the following:

	Not Clawed Back (Not Means Tested)	Income Clawback (Means Tested)
Not (income) Taxed	<ul style="list-style-type: none"> • Unconditional Basic Income • National Dividend • Social Credit 	<ul style="list-style-type: none"> • Universal Basic Income • Guaranteed Annual Income • Mincome
(Income) Taxed	<ul style="list-style-type: none"> • Negative Income Tax 	

Section 3 – Trade-Offs (TO)

Individual Income vs. Family Income

Tax vs. Clawback

*Low Payout/Clawback vs. High
Payout/Clawback*

TO: Personal vs. Family

	Based on Personal Income	Based on Family Income
PROs	<ul style="list-style-type: none">• Easier to administer.• More flexible as family status changes.• Allows individuals to escape abusive/unstable situations.	<ul style="list-style-type: none">• Better targeted.
CONS	<ul style="list-style-type: none">• Not as well targeted (high-income spouse problem)	<ul style="list-style-type: none">• More complex.• Administration issues as family structure changes (e.g. divorce)• Possible marriage penalties.

TO: Tax vs. Clawback

	Taxed	Clawed Back
PROs	<ul style="list-style-type: none">• Simpler: Everyone receives same size cheque.	<ul style="list-style-type: none">• Better targeted – can set a “clawback rate” and exempt high-income earners.• Can avoid nasty surprises at tax time.
CONs	<ul style="list-style-type: none">• Not as well targeted.• Potential nasty surprises at tax time.	<ul style="list-style-type: none">• More complex to administer.• Backward looking RE: income, raising administration issues.

TO: Low vs. High

	Low Payout/Low Clawback	High Payout/High Clawback
PROs	<ul style="list-style-type: none">• Low clawback rates do not discourage work effort.	<ul style="list-style-type: none">• Well targeted towards low-income individuals.• High levels of support.
CONS	<ul style="list-style-type: none">• Poorly targeted towards low-income individuals.• Modest support.	<ul style="list-style-type: none">• Creation of “welfare walls.”

Section 4 – Existing Federal Cash Transfer Programs

How do federal programs address these tradeoffs?

Existing Federal Programs

PROGRAM	COST/YR	MAX. AMOUNT/YR (Ind.)	CLAWBACK	TAXABLE
OAS	\$33.5B	\$6,880	15%	Yes
GIS	\$10.1B	\$10,277	50%	No
GST/HST	\$4.2B	\$276	5%	No
CCB	\$21.8B	\$5400 – 6400 per eligible child	7 – 23%	No
(old) UCCB	\$4.4B	\$720 – 1920 per child	No	Yes

Section 5 – Existing Provincial Cash Transfer Programs



How do provincial programs address these tradeoffs?

Existing Provincial Programs

PROGRAM	COST/YR	MAX. AMOUNT/YR (Ind.)	CLAWBACK	TAXABLE
OST Credit	\$1.7B	\$291	4%	No
<i>Ontario Works</i>	<i>\$2.6B</i>	<i>\$8,472</i>	<i>50%</i>	<i>No</i>
<i>ODSP</i>	<i>\$4.4B</i>	<i>\$13,536</i>	<i>50%</i>	<i>No</i>

OPERATING EXPENSE

Financial and Employment Supports (Item 3)

Salaries and wages		166,789,074
Employee benefits.....		28,015,193
Transportation and communication.....		10,818,737
Services		76,363,083
Supplies and equipment		1,838,814
Transfer payments		
Ontario Disability Support Program –		
Financial Assistance	4,382,504,023	
Ontario Disability Support Program – Employment Assistance	44,414,738	
Ontario Works – Financial Assistance.....	2,377,477,068	
Ontario Works – Employment Assistance.....	188,786,379	
Ontario Drug Benefit Plan.....	1,035,298,204	
		<u>8,028,480,412</u>
		<u>8,312,305,313</u>

Ontario Summary

ODSP/OW cash \$7 billion

ODSP/OW drug benefits: \$1 billion

ODSP/OW admin costs: \$300 million

Sales tax credit: \$1.7 billion

Section 6 – SUMMARY CHART

	Not Clawed Back (Not Means Tested)	Income Claw Back (Means Tested)
Not (Income) Taxed		GIS (10.1 B) Fed GST (4.2 B) New CCB (21.8B) Ont Works (2.6 B) ODSP (4.4 B) Ont Sales Tax (1.7 B)
(Income) Taxed	Old UCCB (4.4B)	OAS (33.5 B)

Section 7 – COSTING AN ONTARIO BASIC INCOME

We built a calculator!

[Tinyurl.com/BICalculator](https://tinyurl.com/BICalculator)

Section 7 – COSTING AN ONTARIO BASIC INCOME

Calculator allows you to estimate cost of a basic income program for Ontario, assuming program:

- Uses a clawback
- Based on individual income

Section 7 – COSTING AN ONTARIO BASIC INCOME

Calculator uses tax filer data, adjusted for two issues:

- ~5% adult Ontarians do not file tax returns.
- ~42% of social assistance payments are unaccounted for on tax returns.

Section 7 – COSTING AN ONTARIO BASIC INCOME

Calculator should be treated as rough estimate at best (example: it treats all income as taxable, which causes it to somewhat underestimate costs of a BI programs.)

Based on test, we believe worst case scenario estimates accurate +/- 20% of actual cost.

NOTE: THESE ARE “STATIC” ESTIMATES. ASSUME NO BEHAVIOURAL CHANGES.

Section 7 – COSTING AN ONTARIO BASIC INCOME

7 plans for illustration:

- No clawback
- 25% clawback @ \$30,000
- 50% clawback @ \$30,000
- 25% clawback @ \$15,000
- 50% clawback @ \$15,000
- 25% clawback @ \$0
- 50% clawback @ \$0

PROGRAMS LIMITED TO 18-64 YEAR OLDS

What does 1B/yr get you?

Maximum Yearly Payout	Clawback Rate	Clawback Starting Point	Clawback End Point
\$117/yr	0%		
\$237/yr	25%	\$30,000	\$30,948
\$240/yr	50%	\$30,000	\$30,480
\$364/yr	25%	\$15,000	\$16,056
\$369/yr	50%	\$15,000	\$15,738
\$841/yr	25%	\$0	\$3,364
\$934/yr	50%	\$0	\$1,868

Section 7 – COSTING AN ONTARIO BASIC INCOME

But.... What if we reduced ODSP/OW payments by an equivalent amount.. what do these programs cost now?

What does 1B/yr get you?

Maximum Yearly Payout	Clawback Rate	Clawback Starting Point	Total cost with ODSP & OW reduced
\$117/yr	0%		\$923M
\$237/yr	25%	\$30,000	\$844M
\$240/yr	50%	\$30,000	\$845M
\$364/yr	25%	\$15,000	\$761M
\$369/yr	50%	\$15,000	\$757M
\$841/yr	25%	\$0	\$445M
\$934/yr	50%	\$0	\$383M

Section 7 – COSTING AN ONTARIO BASIC INCOME

Costs are reduced when OW & ODSP cheque size reduced by an off-setting amt.

(that is, recipients get \$117/yr more in basic income, \$117/yr less a year in OW/ODSP)

From here out, let's calculate costs *net* of off-sets.

What does 1B/yr net get you?

Maximum Yearly Payout	Clawback Rate	Clawback Starting Point	Clawback End Point
\$127/yr	0%		
\$281/yr	25%	\$30,000	\$31,124
\$284/yr	50%	\$30,000	\$30,568
\$471/yr	25%	\$15,000	\$16,884
\$483/yr	50%	\$15,000	\$15,966
\$1405/yr	25%	\$0	\$5,620
\$1814/yr	50%	\$0	\$3,628

OPTIONS

1. Introduce a \$1 billion basic income of \$127-\$1814/yr, but no additional money goes to OW & ODSP recipients.
2. Increase OW/ODSP cash budget from \$7 to \$8 billion, a 14% increase.

What does 2B/yr net get you?

Maximum Yearly Payout	Clawback Rate	Clawback Starting Point	Clawback End Point
\$254/yr	0%		
\$553/yr	25%	\$30,000	\$32,212
\$561/yr	50%	\$30,000	\$31,122
\$901/yr	25%	\$15,000	\$18,604
\$942/yr	50%	\$15,000	\$16,884
\$2195/yr	25%	\$0	\$8,780
\$2809/yr	50%	\$0	\$5,618

OPTIONS

1. Introduce a \$2 billion basic income of \$254-\$2809/yr, but no additional money goes to OW & ODSP recipients.
2. Increase OW/ODSP cash budget from \$7 to \$9 billion, a 29% increase.

What does 5B/yr net get you?

Maximum Yearly Payout	Clawback Rate	Clawback Starting Point	Clawback End Point
\$634/yr	0%		
\$1332/yr	25%	\$30,000	\$35,328
\$1374/yr	50%	\$30,000	\$32,748
\$2024/yr	25%	\$15,000	\$23,096
\$2206/yr	50%	\$15,000	\$19,412
\$3922/yr	25%	\$0	\$15,688
\$5073/yr	50%	\$0	\$10,146

What does 10B/yr net get you?

Maximum Yearly Payout	Clawback Rate	Clawback Starting Point	Clawback End Point
\$1268/yr	0%		
\$2530/yr	25%	\$30,000	\$40,120
\$2664/yr	50%	\$30,000	\$35,328
\$3592/yr	25%	\$15,000	\$29,368
\$4047/yr	50%	\$15,000	\$23,094
\$5895/yr	25%	\$0	\$23,580
\$7843/yr	50%	\$0	\$15,686

What does 20B/yr net get you?

Maximum Yearly Payout	Clawback Rate	Clawback Starting Point	Clawback End Point
\$2536/yr	0%		
\$4659/yr	25%	\$30,000	\$48,636
\$5060/yr	50%	\$30,000	\$40,120
\$6153/yr	25%	\$15,000	\$39,612
\$7184/yr	50%	\$15,000	\$29,368
\$8734/yr	25%	\$0	\$34,396
\$11453/yr	50%	\$0	\$22,906

Final Thoughts

1. Cost is *highly* dependent on program design.
2. There are several significant trade-offs that any cash transfer program needs to address.
3. “Administration cost” savings for the province are small to non-existent.
4. Backward looking nature of “income” definition creates own administration costs for BIG.

Final Thoughts

5. Cost reductions could come from behavioural changes – pilot useful in calculating these. But remember magnitudes!

6. A BIG that could replace the adult cash portion of Ontario Works would cost 10B+.

Final Thoughts

7. Poverty decreases here are due to massive increases in government spending on a woefully underfunded social assistance system, rather than the BIG structure.
8. A BIG that could replace the adult cash portion of ODSP would cost 20B+.

Final Thoughts

9. Given the fiscal state of the province of Ontario, they simply do not have 10B+ to spend on such a program. So either:

- Program must be relatively modest.
- Large tax increases needed. (Doubling prov HST from 8 to 16%?)
- Federal government must pay large portion of program (and then where does money come from?)

A B.I.G. Typology – and what we might be able to afford

David Zhang and Mike Moffatt

Lawrence National Centre for Policy and Management

