

# **GUARANTEED MINIMUM INCOME IN QUÉBEC: A UTOPIA? AN INSPIRATION FOR QUÉBEC**

FINAL REPORT  
FROM THE EXPERT  
COMMITTEE  
ON GUARANTEED  
MINIMUM INCOME

## **VOLUME 1**

**Principles,  
Diagnosis and  
Recommendations**



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**Guaranteed Minimum Income in Québec: A Utopia?**

**An Inspiration for Québec**

Final Report from the Expert Committee on Guaranteed Minimum Income

Volume 1 - Principles, Diagnosis and Recommendations

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# LETTER OF TRANSMITTAL FROM THE MEMBERS OF THE EXPERT COMMITTEE ON GUARANTEED MINIMUM INCOME

Québec, November 6, 2017

Mr. François Blais  
Minister of Employment and Social Solidarity

Mr. Carlos Leitão  
Minister of Finance

Mr. Blais, Mr. Leitão,

*The Expert Committee on Guaranteed Minimum Income hereby submits the final report stemming from its work.*

*The report's title, "Guaranteed Minimum Income in Québec: A Utopia? An inspiration for Québec" reflects the thrust of the conclusions and recommendations presented herein. The Committee was tasked with examining one concept—guaranteed minimum income—which, it became apparent, needed to be clearly defined and made practicable. Today, guaranteed minimum income in its purest and most comprehensive form is often considered a utopia. If that is the case, then for this Committee, that utopia is a source of inspiration, the core objective of our mandate being to draw from the concept the elements which could improve Québec's existing income support system.*

## **Recommendations consistent with a global vision**

*The Committee makes 23 recommendations, in keeping with a global vision of what would be a transformed and enhanced income support system. This system would correspond with the basic definition of guaranteed minimum income retained by the Committee, namely, "a guarantee of monetary resources for all, with the amount of these resources being related to a minimum threshold." At the same time, this system would allow for greater support for labour market integration. Furthermore, two of the Committee's recommendations pave the way for the system to potentially evolve into an even more comprehensive form of guaranteed minimum income in the future.*

## **Methodological choices and realities considered**

*To arrive at these recommendations, several methodological decisions were made. The Committee wanted as complete a picture as possible of where both the income support system itself and the labour market stand today. It was able to achieve this thanks to the help of the Ministère du Travail, de l'Emploi et de la Solidarité sociale and the Ministère des Finances.*

*The Committee gave due consideration to the multiple realities with which it was faced, including the complexity of the existing measures, the federal government's role, and the fact that insurance plans and many other income support mechanisms fell outside the scope of its analysis. The Committee quickly realized that the complexity of the existing measures could largely be explained by the State's desire to establish measures that are as closely aligned as possible with a hugely diverse array of needs and situations, to more effectively reach those requiring support.*

## **A conceptual endeavour**

*In the course of its activities, the Committee did a great deal of conceptual work which ultimately led it to propose a definition for guaranteed minimum income that is both open and inclusive. This conceptual work also touched on identifying the principles that should ideally be followed within an income support system. In both cases, the proposed concepts played a big part in the work of the Committee, especially in the development of its recommendations. The conceptual component of the definition of guaranteed minimum income was outlined in the Committee's progress report submitted to you in March. That progress report will be published at the same time as the final report.*

## **The hope of a society without poverty**

*In the final report's conclusion, the Committee explains the philosophy behind its approach with respect to poverty. A society without poverty is the Committee's wish, one which can only become reality by supporting poor persons who have the capacity to re-enter the labour market, pursue an education or training, and, from a larger perspective, enabling everyone to better integrate into society. For the Committee, the income support system must therefore guarantee a minimum of resources for society's most vulnerable and provide these individuals with basic support during transition periods. Above all, it must eliminate barriers preventing these persons from escaping poverty.*

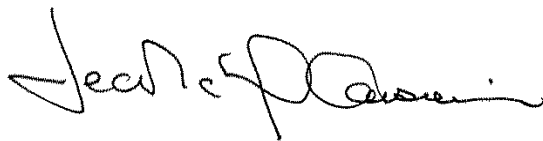
*In closing, we would like to express our sincerest thanks for entrusting us with this mandate, which was as stimulating as it was challenging.*

*Respectfully yours,*

*Members of the Expert Committee on Guaranteed Minimum Income*



*Dorothee Boccanfuso, Committee Chair*



*Jean-Michel Cousineau, Committee member*



*Raquel Fonseca, Committee member*

## ACKNOWLEDGEMENTS

*This report is the result of 14 months of work, for which a long list of acknowledgements are due.*

*I would like to start by thanking Mr. Carlos Leitão and Mr. François Blais, for giving me the opportunity to work on such an interesting and relevant issue for our society.*

*This work would not have been possible without the unconditional support of innumerable helping hands. These persons shared their impressive body of knowledge about Québec's income support system, and patiently answered our countless requests, allowing us to complete a well-informed reflection.*

*For that, I would like to thank Julie Gingras and Jean-Pierre Simard, of the Ministère des Finances du Québec, as well as Chantal Maltais and Anne Racine, of the Ministère du Travail, de l'Emploi et de la Solidarité sociale. All four provided unwavering assistance, despite having to handle a number of other files on top of our own.*

*Thank you also to the teams of both departments that guided us in this exercise. Specifically, thank you to Daniel Floréa, Gilbert Fontaine, Raymond Fournier, Jean Labbé and Carl Poulin, of the Ministère des Finances du Québec, to Guy Baillargeon, Guy Fréchette, François Roussin and Frédéric Savard, of the Ministère du Travail, de l'Emploi et de la Solidarité sociale, and to all their colleagues. While they may have been working in the background, their many talents did not go unnoticed.*

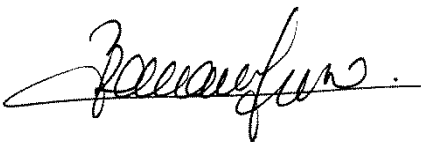
*In Joseph Joubert's words, [translation] "In order to write well there must be a natural ease, and an acquired difficulty" (Pensées, 1774–1824). This report would not be what it is without the keen eye and refreshing writing style of Jean-Pierre Pellegrin and Alexandre Simard, of the Ministère du Conseil exécutif, assisted by Claude Bertrand and Anne-Marie Dubocage. A heartfelt thank you for everything.*

*The efficiency of our meetings was greatly facilitated by Gisèle Gauthier's help. A big thank you to her for her dedication to making our work all the more pleasant and smooth. Thank you also to Louise Marois and Johanne Lagacé.*

*I thank my colleague turned friend, Raquel, who gave her all to this task. Thank you also to Jean-Michel, whom I had the pleasure of working with a few years ago. These two experts limitlessly gave their extensive knowledge to the service of the Committee, always with much rigour and a good dose of humour.*

*Thank you of course to our families, who supported and encouraged us, and accepted our frequent absences.*

*Lastly, thank you to our respective deans for allowing us to work on this project, whose results are presented in this report.*



*Dorothée Boccanfuso, Committee Chair*



## THE JOURNEY TOWARD GUARANTEED MINIMUM INCOME

### Ithaka (Ἰθάκη)

A poem by Constantine P. Cavafy (1863-1933)

Translated by Edmund Keeley (1928-) and Philip Sherrard (1922-1995)

As you set out for Ithaka  
hope your road is a long one,  
full of adventure, full of discovery.

Laistrygonians, Cyclops,  
angry Poseidon—don't be afraid of them:  
you'll never find things like that on your way  
as long as you keep your thoughts raised high,  
as long as a rare excitement  
stirs your spirit and your body.

Laistrygonians, Cyclops,  
wild Poseidon—you won't encounter them  
unless you bring them along inside your soul,  
unless your soul sets them up in front of you.

Hope that your road is a long one.  
May there be many summer mornings when,  
with what pleasure, what joy,  
you enter harbours you're seeing for the first time;

may you stop at Phoenician trading stations  
to buy fine things,  
mother-of-pearl and coral, amber and ebony,  
sensual perfume of every kind—  
as many sensual perfumes as you can;

and may you visit many Egyptian cities  
to learn and go on learning from their scholars.  
Keep Ithaka always in your mind.  
Arriving there is what you're destined for.

But don't hurry the journey at all.  
Better if it lasts for years,  
so you're old by the time you reach the island,  
wealthy with all you've gained on the way,  
not expecting Ithaka to make you rich.

Ithaka gave you the marvellous journey.  
Without her you wouldn't have set out.  
She has nothing left to give you now.

And if you find her poor, Ithaka won't have fooled you.  
Wise as you will have become, so full of experience,  
you'll have understood what these Ithakas meant.

For the Committee, this magnificent poem by Constantine P. Cavafy represents the “inspiring utopia” metaphor of guaranteed minimum income. This utopia provides us with a destination, and what matters most is not quickly achieving guaranteed minimum income in its complete or absolute form, but drawing from this utopia the elements that will take us down the right path, in keeping with the principles retained.





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## INTRODUCTION

The government instituted the Expert Committee on Guaranteed Minimum Income to “make recommendations to the Minister of Employment and Social Solidarity and the Minister of Finance on matters pertaining to income support”<sup>1</sup>.

In accordance with its mandate, the Committee hereby presents the government with its final report.

### □ Review of the Committee's mandate

The government mandated the Expert Committee to:

- “document and analyze the components and operations of Québec’s current income support system;
- identify, document and analyze the concrete initiatives that have impacted the income support system (using data from around the globe);
- reach a diagnosis regarding the current income support system’s operations in Québec;
- identify, document and evaluate options for improving the Québec income support system; [...]
- make recommendations for improving the Québec income support system so as to move toward the establishment of a guaranteed minimum income model”<sup>2</sup>.

### □ Members of the Expert Committee

The examination of guaranteed minimum income was entrusted to an expert committee comprising:

- Dorothee Boccanfuso, full professor, Département d’économique, École de gestion de l’Université de Sherbrooke, Committee chair;
- Jean-Michel Cousineau, economist and full professor, École de relations industrielles, Université de Montréal;
- Raquel Fonseca, associate professor, Département de science économique, École des sciences de la gestion, Université du Québec à Montréal.

The work of the Expert Committee is supported by the Ministère du Travail, de l’Emploi et de la Solidarité sociale and by the Ministère des Finances.

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<sup>1</sup> Ministère du Travail, de l’Emploi et de la Solidarité sociale and Ministère des Finances, *Mandate of the Expert Committee on Guaranteed Minimum Income*, [http://www.gouv.qc.ca/FR/RevenuMinimumGaranti/Documents/RMG\\_Mandat\\_Comite\\_experts\\_VF\\_en\\_ligne\\_juin2017.pdf](http://www.gouv.qc.ca/FR/RevenuMinimumGaranti/Documents/RMG_Mandat_Comite_experts_VF_en_ligne_juin2017.pdf).

<sup>2</sup> See the full text of the mandate on page 6 and the following pages.



## □ Reference to the Committee's work in Budget 2017-2018

The Minister of Finance referred to the Committee's work in Budget Speech 2017-2018 in announcing the upcoming release by the Minister of Employment and Social Solidarity of the third government action plan to fight poverty and social exclusion. One of the plan's objectives is to lift more than 100 000 persons out of poverty<sup>3</sup>.

At that time, the Minister noted that, in "the recommendations which will be made by the expert committee [...] will be evaluated during the drafting of the plan".

## □ Committee approach

To fulfil its mandate, the Committee adopted the following two-stage approach.

### ■ Stage 1

During the first stage, the Committee studied certain elements to support its thinking. The Committee prioritized two themes:

- the theoretical foundations and the definition of guaranteed minimum income;
- pertinent guaranteed minimum income applications and experiments outside Québec.

The results of this analysis were set out in the Committee's Progress Report<sup>4</sup>, submitted to the two ministers in March 2017 and published at the same time as this report.

### ■ Stage 2

In the second stage, based on this material, the Committee undertook a variety of tasks preparatory to formulating its recommendations.

#### ■ Analysis

First, the Committee reviewed the information required to analyze Québec's current income support system, evaluate the state of the labour market, and consider prospective trends likely to influence that market.

- The Committee examined the direct monetary assistance<sup>5</sup> – the budgetary programs and tax measures – that make up Québec's income support system.
- The Committee looked at the current state of the labour market and prospective factors likely to influence it. The characteristics of the labour market and expected changes are closely tied to needs for income support and ways of moving out of poverty.

Volume 2 of the Final Report outlines the Committee's analysis.

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<sup>3</sup> Québec government, *The Québec Economic Plan, Budget Speech 2017-2018*, p. 39.

<sup>4</sup> Expert Committee on Guaranteed Minimum Income, *The Concept of Guaranteed Minimum Income and its Practical Applications*, [progress report], March 2017.

<sup>5</sup> Pursuant to its mandate, the Expert Committee on Guaranteed Minimum Income excluded from its analysis minimum wage, insurance regimes such as employment insurance, pension plans, public assistance to organizations, and non-monetary assistance such as food banks. Where necessary, however, the Committee referred to some of these assistance modes.

- **Findings and diagnoses underpinning the evaluation of scenarios and drafting of recommendations**

The Committee's analysis yielded a number of findings and diagnoses, which are set out in Volume 1 of the Final Report.

The Committee then identified the options for improving Québec's income support system and examined their impacts based on a number of core principles, relying on, among other things, simulations and assessments entrusted to the Ministère du Travail, de l'Emploi et de la Solidarité sociale and the Ministère des Finances. The Committee analyzed close to thirty scenarios and simulations, the principales of which are presented in Volume 3 of the Final Report.

This work led to the recommendations that were forwarded to the government. Volume 1 of the Final Report contains the main results and all of the recommendations submitted to the government.

- **Departmental collaboration with the Committee's work**

The first- and second-stage work was based on presentations and studies developed by the Ministère du Travail, de l'Emploi et de la Solidarité sociale and the Ministère des Finances at the Committee's request.

The Committee's work also benefited from support from the Ministère du Conseil exécutif.

- **Information forwarded to the government during the work**

At meetings on May 8 and 25, 2017, and June 16, 2017, the Committee reported on its progress in reflecting on these recommendations to the two ministers so that certain recommendations could be considered in preparing the third government action plan on the fight against poverty and social exclusion.<sup>6</sup>

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<sup>6</sup> May 8, 2017 with Mr. Blais, May 25, 2017 and June 16, 2017 with Messrs. Blais and Leitão.

## □ **Three-volume Final Report**

The Expert Committee on Guaranteed Minimum Income's Final Report features three volumes.

### ■ **Volume 1: Principles, Diagnosis and Recommendations**

Titled **Principles, Diagnosis and Recommendations**, Volume 1 sets out the key components of the Committee's thinking on guaranteed minimum income. The reflection is presented in four sections, followed by an overview.

#### ■ **Part 1: The concepts presented in the progress report**

In Volume 1, the Committee first looks at the principal conclusions published in the progress report on the concept of guaranteed minimum income and its applications.

#### ■ **Part 2: Principles to respect**

The Committee then formulates a number of principles that must be respected in implementing an income support system.

#### ■ **Part 3: A global diagnosis leading to initial results**

The Committee formulates a global diagnosis of Québec's current income support system: the assistance that Quebecers receive is substantial and considers the evolution of situations experienced in life. The Committee proposes to secure these assets.

However, the Committee has found that the system does not fully meet the core definition of guaranteed minimum income. The Committee presents its initial results: the absolute or comprehensive forms of guaranteed minimum income – the universal allowance and negative income tax in its most complete form – raise significant problems of equity, efficiency and social acceptability.

#### ■ **Part 4: The improvements to be made move toward a guaranteed minimum income**

Based on the overall diagnosis, the Committee presents the enhancements to be made to the income support system to move toward a guaranteed minimum income that meets the core definition.<sup>7</sup>

To respect the core definition of guaranteed minimum income, the system must offer a guarantee of monetary resources for all and include a minimum threshold. Based on its analysis of Québec's existing income support measures, the current state of the labour market and prospective trends it reviewed, the Committee finds that these conditions are not fully met.

Based on these analyses, and in order to fight poverty and support economic growth in a sustainable manner, the Committee also finds that labour market integration must receive more support.

The Committee makes a number of recommendations, several of which are based on the results of simulations carried out at the Committee's initiative.

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<sup>7</sup> The report uses the term "system" to refer to a set of measures. It is equivalent to the term "regime."

- **A global vision of the proposed system**

The Committee's recommendations constitute the global vision of the proposed income support system, an income support system enhanced to meet the core definition of guaranteed minimum income and the principles selected, one that can evolve into an even more comprehensive form of guaranteed minimum income.

- **Volume 2: Income support and the labour market**

Volume 2 focuses on **income support** and the **labour market**, including forward look at trends. The volume is broken down into three sections, one on each of these themes.

- **Part 1: A presentation of income support measures**

First, Volume 2 describes Québec's existing income support measures to provide a general, factual view of the current income support situation and be in a better position to contemplate improvements that could be made.

The Committee therefore presents the principal budgetary programs and tax provisions that make up Québec's existing income support system. These programs and tax provisions are under either Québec or federal government jurisdiction.

- **Part 2: Analysis of the current state of the labour market**

Volume 2 tackles the current state of Québec's labour market in connection with the reflection on guaranteed minimum income.

The issues associated with labour market participation, new forms of work, or the need for training and qualifications underlie many questions regarding the income support measures.

- **Part 3: Identification of prospective trends**

Lastly, Volume 2 presents the prospective trends likely to influence the labour market.

For the Committee, it was essential to round out the analysis of the current state of Québec's labour market with a consideration of the phenomena that could change that market in the years to come.

- **Volume 3: Simulations**

Volume 3 is dedicated to the **simulations conducted**.

Initially, the Committee carried out three simulations, which all corresponded to absolute or comprehensive forms of guaranteed minimum income, i.e. a universal allowance or negative income tax in its complete form.

The Committee then simulated targeted measures that derived directly from a principle underpinning its analysis and reflection.

- **The appendices to the three volumes**

The Final Report's three volumes each feature a number of appendices containing, for example, information on the Expert Committee, the bibliography and experts consulted and certain systems or measures peripheral to the income support measures the Committee tackled directly.

## Mandate of the Expert Committee on Guaranteed Minimum Income

### Background

Economic, social and demographic change all influence the labour market. In response to these changes, with the constant objective of fostering access to the labour market by the largest number of citizens, the Québec government wishes to undertake an assessment of mechanisms associated with the principles of guaranteed minimum income that Québec society could draw on for the 21st century.

In order to define a new model, the Québec government will examine ways of simplifying, achieving greater transparency and alleviating the administrative burden of the various transfers to individuals and families living in Québec. It is from this perspective that the Minister of Employment and Social Solidarity and Minister of Finance formed an Expert Committee to conduct the initial assessment.

The process aims to explore new approaches to waging an even more effective fight against poverty, foster social inclusion, and move toward instituting a guaranteed minimum income.

### Primary mandate of the Expert Committee on Guaranteed Minimum Income

The primary mandate of the Expert Committee on Guaranteed Minimum Income is to provide the Minister of Employment and Social Solidarity and Minister of Finance with its recommendations on income support issues.

More specifically, the Committee's mandate is to:

- document and analyze the components and operations of Québec's current income support system;
- identify, document and analyze the concrete initiatives that have impacted the income support system (using data from around the globe);
- reach a diagnosis regarding the current income support system's operations in Québec;
- identify, document and evaluate options for improving the Québec income support system;

While giving due consideration to Québec's particular context and reality, the Expert Committee shall, for each of these options:

- analyze the impacts (e.g., citizen behaviour, redistribution of wealth, financial repercussions);
  - assess feasibility;
  - develop introduction and implementation means and conditions;
  - identify the issues;
- make recommendations for improving the Québec income support system so as to move toward the establishment of guaranteed minimum income.

## **Mandate of the Expert Committee on Guaranteed Minimum Income (cont.)**

### **Factors to consider during the reflection**

In carrying out its mandate, the Expert Committee must consider:

- the legislative and regulatory framework;
- the division of income support responsibilities (Québec and federal governments);
- the fiscal environment (Québec and federal governments);
- theoretical approaches and detailed experiments (international);
- results of existing studies and analyses.

### **Principles guiding the work**

In carrying out its mandate, the Expert Committee must consider the following principles, which will guide its process in updating the Québec income support system:

- maintain or enhance the visibility of government financial assistance offered to citizens;
- ensure or enhance the accessibility to financial assistance;
- simplify the process for individuals and administration;
- enable greater efficiency in managing government financial assistance;
- increase the incentive to work;
- ensure a smooth transition between social assistance and the labour market;
- respect the government's financial means.

### **Documentation of effects**

For each option aimed at improving the Québec income support system, the Expert Committee report will present, for example:

- households' gains and losses;
- net financial costs (tax revenue less budgetary expenditures);
- the additional fiscal burden on taxpayers;
- the impacts on the incentive to work;
- social assistance program exit rates;
- low income rates;
- impacts on the supply of jobs;
- impacts on economic activity;
- impacts on public administration.

Moreover, for options that carry financial costs, the Expert Committee must present financing sources.

## Mandate of the Expert Committee on Guaranteed Minimum Income (cont.)

### Composition of the Expert Committee

The Committee is composed of three experts appointed by the Minister of Employment and Social Solidarity from the university research community. They all have expertise in the field of public policy on income support and knowledge of the clientele affected by the issue, i.e. persons in low-income situations.

### Expert Committee operations

The Ministère du Travail, de l'Emploi et de la Solidarité sociale is charged with coordinating all of the Expert Committee's work.

The Ministère des Finances and Ministère du Travail, de l'Emploi et de la Solidarité sociale will be charged with assessing the impacts of the Committee's various analyses and proposals with respect to:

- the Québec government's fiscal balance;
- disposable household income;
- measure administration.

The Committee must meet regularly, i.e. on a bi-monthly or monthly basis.

### Deliverables

The Expert Committee must produce the following documents:

- progress report;
- final report.

Source: Ministère du Travail, de l'Emploi et de la Solidarité sociale and ministère des Finances, *Mandat du Comité d'experts sur le revenu minimum garanti*, [http://www.gouv.qc.ca/FR/RevenuMinimumGaranti/Documents/RMG\\_Mandat\\_Comite\\_experts\\_VF\\_en\\_ligne\\_juin2017.pdf](http://www.gouv.qc.ca/FR/RevenuMinimumGaranti/Documents/RMG_Mandat_Comite_experts_VF_en_ligne_juin2017.pdf)  
Date: June 15, 2016.

## □ Plan of Volume 1

Titled **Principles, Diagnosis and Recommendations**, Volume 1 sets out the key components of the Committee's thinking on guaranteed minimum income.

Volume 1 is broken down into four parts, which present, in order:

- the concept of guaranteed minimum income and its applications;
- the principles to respect;
- the global diagnosis formulated by the Committee: the income support system provides noteworthy assistance but, however, is not fully in line with the core definition of guaranteed minimum income;
- improvements to be made to the income support system to move toward a guaranteed minimum income that is in line with the core definition.

The Committee's recommendations constitute the global vision of the proposed income support system, an income support system enhanced to meet the core definition of guaranteed minimum income and the principles selected, one that can evolve into an even more comprehensive form of guaranteed minimum income.





## **PART ONE**

# **THE CONCEPT OF GUARANTEED MINIMUM INCOME AND ITS APPLICATIONS**

At the beginning of the Committee's mandate, the government referred to the economic, social and demographic changes influencing the labour market. These changes, under way or anticipated, contributed to the reflection process on strengthening the social safety net by creating a guaranteed minimum income.

In many developed jurisdictions, the ongoing debate over introducing a guaranteed minimum income aims to propose a response to these changes, by better protecting and supporting persons affected by labour market transformations.

- Since the early 2000s, a large number of jurisdictions have, to varying degrees, experimented with income support systems presented as guaranteed minimum income, as is clear from the Committee's selective survey of guaranteed minimum income applications and experiments.<sup>8</sup>
- A more in-depth analysis of certain applications and experiments also demonstrated that none of the previous or ongoing applications and experiments corresponds to the absolute form of guaranteed minimum income, that is, universal allowance, or negative income tax in its complete form.

### **□ Part 1, two sections**

The Committee's presentation of guaranteed minimum income and its applications is broken down into the following two sections:

- the theoretical foundations and selected definition of guaranteed minimum income;
- guaranteed minimum income applications and experiments.

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<sup>8</sup> See p. 45 of the Progress Report. The applications and experiments presented as they stood on January 19, 2017. Since then, the Committee has not identified any application or experiment that would call these conclusions into question.



## **1. THE THEORETICAL FOUNDATIONS AND SELECTED DEFINITION OF GUARANTEED MINIMUM INCOME**

The term guaranteed minimum income refers to income support systems that sometimes differ substantially from one another.

- The Expert Committee therefore opted to describe the various forms of guaranteed minimum income at the outset, and specify their properties.
- The Committee then presented the definition selected for the remainder of the work.

The Expert Committee's conceptualization refers to the work carried out during the first phase of its initiative.

## □ **Three-category classification**

In the first phase of its work, the Committee examined guaranteed income systems conceptually, putting them into three categories: universal allowance, a negative income tax or a basic income support plans.

### ■ **Universal allowance**

Universal allowance appeals to many researchers due to the anticipated consequences of its various properties, and its unconditionality in particular.

Despite these advantages, guaranteed minimum income is not in application anywhere, due to the unresolved questions its application raises.<sup>9</sup>

### ■ **Negative income tax**

Compared with universal allowance, negative income tax has many advantages that deal with the questions raised by the former.

Yet, its application also raises a number of questions. As is the case with universal allowance, there are no known examples of the full application of negative income tax.

However, many examples of partial negative income tax systems can be cited in the jurisdictions of developed countries, starting with the current systems in Québec and Canada as a whole.<sup>10</sup>

### ■ **Basic income support plans**

The third category contains basic income support systems that provide the most vulnerable with minimal resources related to a minimum threshold.

These systems are defined within highly varied programs. They are income support methods defined in most developed countries to ensure their most vulnerable citizens have access to minimal resources related to a minimum threshold.

Their implementation and impact have been subject to extensive analyses and multiple studies, raising many questions related to the social safety net available in a given community.

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<sup>9</sup> See p. 16 of the Progress Report.

<sup>10</sup> See p. 24 of the Progress Report.

## □ The definition to retain

This review of the three forms of guaranteed minimum income and their respective properties demonstrates that the concept can be applied under very diverse conditions, each with its own advantages and set of questions.

The Committee wanted to focus on the essential and chose the following as the definition of guaranteed minimum income:

“any system that offers a guarantee of monetary resources for all, with the amount of those resources being related to a minimum threshold”.<sup>11</sup>

TABLE 1

### **Summary of the properties of the three forms of guaranteed minimum income**

*Committee's definition: A guaranteed minimum income is a system that offers a guarantee of resources for all, the amount of these resources being related to a minimum threshold.*

<b>Properties</b>	<b>Universal allowance</b>	<b>Negative income tax</b>	<b>Basic income support plans</b>
<b>Unconditional</b>			
– Without regard for age	Yes	Not necessarily	No
– Without regard for income and assets	Yes	No, conditional on earned income	No
– No requirements imposed in exchange	Yes	Yes	Generally, no
<b>Combinable</b>	Yes	Yes	Generally, yes
<b>Individual</b>	Yes	Not necessarily	Generally, no
<b>Non-taxable</b>	Yes	Yes	Generally, no

Source: Expert Committee on Guaranteed Minimum Income, *The Concept of Guaranteed Minimum Income and its Practical Applications* [Progress Report Summary], March 2017, p. 104.

## ■ A core definition leading to a change in the current system

As stated in the Progress Report, using the core definition as a starting point, the Committee explored the changes required to Québec's current income support system to take it toward a more complete form of guaranteed minimum income.<sup>12</sup>

<sup>11</sup> See p. 39 of the Progress Report.

<sup>12</sup> Ibid.



## 2. GUARANTEED MINIMUM INCOME APPLICATIONS AND EXPERIMENTS

Also, in the first phase of its work, the Committee examined relevant guaranteed minimum income applications and experiments outside Québec. This survey illustrates the rising interest around the globe in the concept of guaranteed minimum income.

### □ The survey

The Committee reviewed 26 applications and experiments in developed, emerging and developing countries.<sup>13</sup>

The survey indicates that, since the early 2000s, a significant number of jurisdictions have conducted fairly broad experiments with income support systems presented as a guaranteed minimum income. A similar period of interest occurred in the early 1970s.

### ■ Limitations of the analysis

The Committee found that most of these applications and experiments could only make a small contribution to its thought process and analysis.

It is very difficult to find reliable, accurate information on these projects. The institutional context in which these projects are implemented is often too different from Québec's to draw conclusions from the applications and experiments for use in Québec.

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<sup>13</sup> See p. 45 of the Progress Report. The applications and experiments are dated January 19, 2017. Since then, the Committee has not identified any application or experiment that would call these conclusions into question.



## □ **In-depth analysis of seven applications and experiments**

A more in-depth analysis of seven applications and experiments allowed the Committee to make a number of observations.

### ■ **No applications or experiments in the absolute form of guaranteed minimum income**

No prior or current applications or experiments match the absolute form of guaranteed minimum income, i.e. a universal allowance.

- The Alaska Permanent Fund Dividend comes close.
- Only the Swiss proposal was a true universal allowance in every regard. However, the proposal was never applied because its underlying principle was rejected by referendum.

### ■ **Certain limits on the information provided by pilot projects**

The pilot projects now under way or announced (Finland, the Netherlands and Ontario)<sup>14</sup> will yield partial information on the impacts of the tested formulae on some groups. However, it will be several years before conclusions can be reached.

In general, the very nature of a pilot project poses some methodological constraints.

- The project is limited in time, which has an impact on the reactions and behaviours of the beneficiaries.
- The trial only affects the citizens for whom the system would be implemented and excludes groups that could lose in the event of actual implementation.
- Certain impacts of the proposed system cannot be tested in a pilot project, because of its short duration and small number of participants.

### ■ **Lessons drawn from analyzed applications and experiments**

Some of the applications and experiments analyzed prompted the Committee to underline specific learnings for its ongoing work, in particular the irreversibility of certain measures once introduced, the need for social acceptability and the occasionally varied aims (cost reduction, incentive to work, the fight against poverty).

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<sup>14</sup> Information on the details of Ontario's proposed pilot project was released between the time the Progress Report and Final Reports were filed. The new information was considered in a scenario assessed by the Committee and is presented in scenario 9 of Volume 3.

TABLE 2

**Summary of properties of certain guaranteed minimum income applications or experiments – Alaska, United Kingdom and Manitoba**

Properties	Alaska	United Kingdom	Manitoba
<b>Unconditional</b>			
– Without regard for age	Yes	No	No
– Without regard for income and assets	Yes	No	No
– No requirements imposed in exchange	Yes	No	Yes
<b>Combinable</b>	Yes	Yes	Yes
<b>Individual</b>	Yes	Not necessarily	No
<b>Non-taxable</b>	No	Yes	Yes
<b>Form of guaranteed minimum income</b>	Similar to universal allowance <sup>(1)</sup>	Negative income tax similar to a basic income support plan	Negative income tax <sup>(2)</sup>

(1) However, the amount paid in Alaska is not based on a certain threshold, which is one of the three characteristics of guaranteed minimum income.

(2) On a target group.

Source: Expert Committee on Guaranteed Minimum Income, *The Concept of Guaranteed Minimum Income and its Practical Applications* [Progress Report Summary], March 2017, p. 105.

TABLE 3

**Summary of properties of certain guaranteed minimum income applications or experiments – Switzerland, Finland, Netherlands (Utrecht) and Ontario**

Properties	Switzerland	Finland	Netherlands (Utrecht)	Ontario
<b>Unconditional</b>				
– Without regard for age	Yes	No	N/A	No
– Without regard for income and assets	Yes	No <sup>(1)</sup>	No	No
– No requirements imposed in exchange	Yes	Yes	No	Yes
<b>Combinable</b>	Yes	Yes	N/A	Yes
<b>Individual</b>	Yes	N/A	N/A	Yes
<b>Non-taxable</b>	N/A	Yes	N/A	Yes
<b>Form of guaranteed minimum income</b>	Universal allowance	Basic income support plan <sup>(2)</sup>	Basic income support plan	Negative income tax <sup>(3)</sup>

N/A: Property impossible to determine based on available information.

(1) The project is being tested with persons with little or no income, but the allowance will be paid regardless of work income earned during the pilot project.

(2) Does not fully correspond to universal allowance because the project is only for a targeted sample group

(3) On a target group.

Source: Expert Committee on Guaranteed Minimum Income, *The Concept of Guaranteed Minimum Income and its Practical Applications* [Progress Report Summary], March 2017, p.105.



## **PART TWO PRINCIPLES TO RESPECT**

To underpin the reflection process, the Committee chose a number of principles to respect in analyzing an income support system.

- The Committee chose three core principles.
- The Committee coupled these principles with a cross-cutting concern.

The Committee also pondered how to take these principles into account and the trade-offs that might be necessary.

### **■ Part 2 contains three sections**

The Committee discusses these factors in three successive sections:

- the three core principles;
- cross-cutting concern: accessibility;
- trade-offs between the principles and use of a cautious approach.



## 1. THREE CORE PRINCIPLES

The committee chose the following three core principles on which to base its analysis and reflection:

- equity;
- incentive to work;
- efficiency.

## 1.1 Equity

The first principle selected by the Committee was equity. Equity forms the basis of all income redistribution systems.

Equity must be distinguished from equality. It is the principle by which equal opportunity and equality in law must be assured for all individuals. However, inequalities may be socially acceptable if they benefit everyone and serve society's least advantaged persons. Equity is therefore not the same as equality.

The principle of equity is the foundation of a just society, as per the meaning given the term by philosopher John Rawls.<sup>15</sup>

### Equity: The just society according to John Rawls

In *A Theory of Justice*, in which John Rawls proposes a system based on the search for the rules of justice, Rawls took the notion of a just society further and formalized it. According to Rawls, justice makes the highest degree of liberty compatible with achieving effective equality of opportunity. He considers justice to be a cornerstone, just as truth is the cornerstone of all systems of thought.

According to Rawls, "justice is the first virtue of social institutions, as truth is of systems of thought."<sup>1</sup>

#### Two principles of justice

Rawls formulates two principles for justice.

First, that each person is entitled to a fully adequate system of equal basic liberties compatible with a similar system of liberty for all.

Secondly, that social and economic inequalities must satisfy two conditions:

- they must be attached to offices and positions open to everyone under conditions of fair equality of opportunity;
- they must provide the greatest benefit to the least advantaged members of society.

<sup>1</sup> John Rawls, *A Theory of Justice*, Harvard University Press, 1997, p. 29.

### □ Horizontal and vertical equity

We usually differentiate between horizontal and vertical equity.

- Horizontal equity means that two persons with equal conditions should be treated equally.
- Vertical equity refers to two persons whose positions are different in terms of needs or means to pay.

With respect to income support, someone who is in a more disadvantaged situation must receive more support. Conversely, someone with a more advantageous situation must be required to contribute more than someone who is more disadvantaged.

<sup>15</sup> John Rawls, American philosopher, 1921-2002.

## ❑ **Applying the principle of equity**

The principle of equity underpins the measures put in place to reduce inequality and combat poverty.

- Applying this principle will, among other things, help reach the government's target in its next Action Plan to Fight Poverty and Social Exclusion, which the government identified in Budget 2017-2018 as lifting more than 100 000 persons out of poverty in Québec.
- It is also this principle underlying the fight against the stigmatization of the least advantaged, the consideration of specific situations, the notion of equal opportunity – particularly with respect to education – and the concept of freedom of choice.
- Because of this principle, we will also aim for comprehensive social integration.
- Under the principle of equity, we offer some security to individuals during transition periods.
- Equity should include an alignment between the amount disbursed and the needs to be met.

## ❑ **Indicators selected**

The Committee identified the following indicators for assessing whether the principle of equity is respected:

- disposable income compared with the low-income threshold as measured by the market basket measure;
- the low-income measure as a measurement of poverty, calculated at 60% of median income;
- identification of average gains and losses per income bracket or household type subsequent to implementing changes in the system;
- measures to evaluate inequalities, including the interdecile ratios.<sup>16</sup>

In addition, a presentation of typical cases will illustrate certain concrete situations.

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<sup>16</sup> Deciles are the values that divide a distribution (in this case a distribution of income) into ten equal groups. An interdecile ratio is calculated as a decile ratio in relation to another.



## 1.2 Incentive to work

The second principle the Committee selected is the incentive to work.

### □ Application of the incentive to work principle

Applied to income support measures, this principle means that the applicable system must reward effort by favouring the initiatives persons undertake to enter and stay in the labour market.

The incentive to work principle is important in two ways:

- Bringing someone into the labour market is a preferred, long-lasting means of combating poverty because it improves that person's standard of living. The incentive to work principle is therefore aligned with the principle of equity previously selected.
- In terms of economic activity and financing income support measures, it is essential to have as many persons in the labour market as possible.

### □ A principle that must be construed in its broadest sense

For the Committee, the incentive to work principle must be taken broadly, to include the incentive to education and training, which are, from this perspective, tools for entering the labour market.

Training that aims to align with the labour market's needs contributes directly to the incentive to work principle. Coaching on employability and job seeking is also part of the incentive to work.

In applying the incentive to work principle, the ability of persons to enter the labour market must be taken into account.

## □ Indicators selected

The Committee selected three indicators for measuring compliance with the incentive to work principle in its strict sense.

### ▪ Two static indicators

The two static indicators are as follows.

- The first static indicator is the effective marginal tax rate, which is expressed for a given income.

The effective marginal tax rate designates the share of an additional dollar of income that does not go to the person: governments recover this share through higher taxes or additional premiums, or a reduction in transfers.

The converse of this rate is the additional disposable income the individual gets at the margin for additional work effort. Therefore, the lower an effective marginal tax rate is, the more an individual will gain in disposable income.

The Committee sets out the effective marginal tax rates resulting from Québec's current income support and tax systems for several typical cases in Volume 2.<sup>17</sup>

- The second static indicator is the tax rate on participation. It measures the net gain of working. The tax rate on participation is therefore calculated on a greater change in income than the effective marginal tax rate.

The tax rate on participation is calculated based on the difference in disposable income between a given work situation (for example, a full-time job) and a situation of unemployment. This difference is expressed as a percentage of earned work income. Just like the effective marginal tax rate, the tax rate on participation takes into account taxes and mandatory contributions, as well as the loss of transfers.

### ▪ A dynamic indicator

The third indicator is dynamic: it concerns the change in the job supply projected by workers.

Such a projection can be done using the Ministère des Finances's general equilibrium model. The model makes it possible to consider all of the effects that can have simultaneous impacts.

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<sup>17</sup> See Volume 2, page 126 and the following pages.

## 1.3 Efficiency

In a context of limited resources, these resources must be distributed and used as efficiently as possible. The principle of efficiency refers to the best ratio between cost and outcome for the use of resources for a given objective.

Efficiency is different from effectiveness: an effective measure is a measure that makes it possible to achieve the objectives.

In a set of effective measures, the efficient measure is the least costly one. For a given cost, the efficient measure is the one that yields the best results.

### □ Application of the efficiency principle

Applied to income support systems, the efficiency principle has four implications.

#### ■ The best possible combination of available resources and programs offered

Firstly, the efficiency principle means we must achieve the best possible combination of available resources and programs offered.

- To this end, we must compare potential income support systems and determine which one is most likely to achieve the aims pursued based on the cost involved. Therefore, the efficient option is the option chosen from a set of effective options.
- Being efficient means we select the best policies or practices based on space (benchmarking) and time comparisons (by analyzing prior results). This means we must consider the results from existing measures, and consider the measures that work best.

#### ■ The government's financial means

Secondly, the efficiency principle means we must consider the government's financial means and the system's or measures' cost for public finances.

#### ■ Financing that is sustainable over the long term

Thirdly, the efficiency principle means that financing for the income support system or measures must be sustainable on a long term basis, so financing methods must be analyzed. This principle will be respected to a greater or lesser extent depending on whether financing of the measures is provided by debt, taxes or royalties.

#### ■ Ease of managing the measure

Fourthly, the efficiency principle refers to the notion of simplicity with respect to the public administration's management of the measure. An income support system must be simple to administer and must therefore be aligned with the policies of regulatory and administrative streamlining.

## □ Indicators chosen

The Committee selected the following two indicators for assessing compliance with the efficiency principle:

- cost of the assistance paid;
- cost of managing the measures; the assessment can be qualitative or quantitative.

The financing method can lead to the emergence of winners and losers.<sup>18</sup>

<b>Social acceptability</b>
<p>Compliance with the various principles stated should ensure that the proposed system or measures receive the social acceptance that is critical to implementation.</p> <p>Social acceptability therefore qualitatively attests to compliance with each of the three stated principles. Non-compliance with any principle will be enough to endanger society's acceptance of the measure. Conversely, an equitable, efficient measure that promotes work will have every chance of being socially acceptable, especially if its terms guarantee accessibility.</p> <p>Note, however, that, in terms of income support, social acceptability is also associated with other factors in relation to the proposed system, i.e.:</p> <ul style="list-style-type: none"><li>– respect for work value;</li><li>– observance of certain economic principles such as inclusive economic growth, i.e. everyone participates in the benefits of growth.</li></ul>

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<sup>18</sup> The Committee did not include financing in the simulations it evaluated, except for the first eight scenarios because in the latter cases, financing was an integral part of the scenarios.



## 2. A CROSS-CUTTING CONCERN: ACCESSIBILITY

In addition to the selected principles, the Committee identified a cross-cutting concern, accessibility, which must be considered in its analyses.

### □ **Application of the cross-cutting concern with accessibility**

This concern is fairly evident: the persons for whom the measures are defined must have access to them.

#### ■ **The delay must be reasonable**

Among other things, accessibility means that the delays involved in benefitting from the measures must be reasonable, with few steps required to access them. Accessibility therefore requires synchronism or – temporal alignment – between the assistance provided and the needs to be met.

#### ■ **Desire for simplicity**

Accessibility also refers to the notion of simplicity in terms of recipients' use of the measure. The measures must be simple to apply for and receive.

Simplicity exerted in service of accessibility therefore aligns with the simplicity aimed for in terms of efficiency, to reduce the costs to the public administration of managing the measure.

However, simplifying a measure and its corresponding controls can sometimes have undesired impacts on the measure's global costs. This happened in 2011, when the government wanted to combine three tax credits within the solidarity tax credit.

#### ■ **Understandable measures**

The income support measures must be decipherable, i.e. the public must be able to understand them, and the information on the measures must be clear.

A measure that is simple to use will be easy to understand for its beneficiaries, which will contribute to its accessibility and discernibility. This is consistent with the notion of visibility expressed by the government in the Committee's mandate.

### **An example of expensive simplification: unifying the components of the solidarity tax credit**

Simplifying a measure to reduce its management costs and enhance accessibility can sometimes trigger undesired impacts on its total costs, as seen with the creation of the solidarity tax credit.<sup>1</sup>

In July 2011, the government unified three existing tax credits into the solidarity tax credit to streamline taxation for taxpayers. To the same end, the government simplified the requirement for the tax credit's shelter component.

Concurrently, the government wanted to improve the measure's synchronism, adapting payments to recipients' needs by adjusting the tax credit based on changes in situation.

Simplifying the shelter component caused problems in terms of managing eligibility for this component. For its part, improving the measure's synchronism resulted in more red tape. Following a review by the Auditor General of Québec, the solidarity tax credit was rethought in Budget 2015-2016 in order to facilitate its application.

<sup>1</sup> See Volume 2, page 37.

### 3. TRADE-OFFS BETWEEN THE PRINCIPLES AND USE OF A CAUTIOUS APPROACH

Applying the stated principles may mean having to make trade-offs as the application of each principle may lead to different conclusions.

The Committee strove to provide for a balance in such trade-offs. Moreover, the Committee took a cautious approach, avoiding major upheaval, in the application of the proposed measures, independent of the principles.

#### □ Trade-offs between the three core principles

The three core principles outlined earlier can lead to conclusions that are hard to reconcile, as demonstrated by the experiences and applications the Committee studied.<sup>19</sup>

The three core principles chosen by the Committee – equity, incentive to work and efficiency – refer to three issues that are difficult to address simultaneously:

- An income support system must make it possible to combat poverty while taking specific situations into consideration.
- Such a system must simultaneously include a strong incentive to work.
- The cost of dealing with these two issues must be reasonable, leading to a method of financing that is acceptable to all.

#### ■ A challenging balance

Experience shows that the measures that make it possible to respect two of these principles general do so at the expense of the third.

For example, the measures that enhance equity and the incentive to work nearly always create difficulties with respect to cost and therefore efficiency.

Moreover, the measures that respect the constraints and requirements of cost almost inevitably do so at the expense of either of the first two principles.

This reality leads to the need to make trade-offs.

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<sup>19</sup> See the applications and experiments presented in the Progress Report on page 49 and the following pages.



## ■ **The proposed approach**

To resolve this difficulty, the Committee opted to take an approach that sought to consider the principles based on the beneficiaries' economic situations, i.e. income levels.

### ■ **The principle of equity: particularly important for those with very low incomes**

The principle of equity is especially important initially for persons with very low incomes. It is based on this principle that we must ensure equal opportunity or equality in law for all individuals – the principle that underlies measures implemented to reduce inequality and combat poverty, taking particular situations into consideration.

- For persons with very low incomes, the measures will first be assessed based on the minimum benefit to be granted.
- For these persons, the income support system must take them closer to the poverty line, based on whether they can enter the labour market.

### ■ **The incentive to work principle: specific attention to those who could enter the labour market**

For the persons for whom there is a possibility of entering the labour market and therefore emerging from poverty by increasing their income, special attention must be paid to the incentive to work principle. Under this principle, the applicable system must reward effort by favouring the initiatives persons take to enter the labour market and remain there.

- For those who can do so, work is the best way to get out of poverty and increase disposable income.
- The measures applied to these persons will be assessed first on the basis of the reward for effort in order to encourage persons to enter the labour market, or encourage those who are already working to continue, or work more. It will be especially important to include in these measures, initiatives concerning education and development, workforce skills development, as well as lifelong training.

### ■ **Subsequent compliance with the efficiency principle**

Once the first two core principles – equity and the incentive to work – have been considered, we will then focus on respecting the efficiency principle.

### ■ **Nuanced application**

Application of this initiative must be nuanced by considering age and family situation, for example, single individual or couples.

The Committee's cross-cutting concern – accessibility – must also be considered.

## □ **The cautious approach selected**

Independent of these principles, the Committee privileges a cautious approach.

Prudence is needed in tackling the income support system, given the nature of the assistance provided and characteristics of the target clientele.

### ■ **Avoid upheaval and ensure the system can be adjusted**

For these reasons, the Committee intends to avoid major upheaval. Prudence requires us to opt for focused improvements over broad disruption.

It must be possible to adjust, change or replace the system implemented, or its components, based on the results achieved in relation to the goals.



## **PART THREE**

### **AN OVERALL DIAGNOSIS: SIGNIFICANT ASSISTANCE THAT DOES NOT FULLY MEET THE CORE DEFINITION OF GUARANTEED MINIMUM INCOME**

Once the core principles to follow were identified, the Committee undertook the tasks required to formulate its recommendations.

First, the Committee reviewed the data that would make it possible to analyze Québec's existing income support system, evaluate the state of the labour market, and consider prospective trends likely to influence that market.

This analysis yielded a number of findings on which the global diagnosis is based: Quebecers benefit from substantial assistance, but the system is not completely aligned with the core definition of guaranteed minimum income.

#### **■ Part 3, in four sections**

The diagnosis, and the consequences the Committee draws from it, are explored within four headings:

- The income support system represents substantial assistance, which totalled nearly \$30 billion in 2015.
- Under this system, Quebecers can rely on a set of interlinked forms of financial assistance, which consider the evolution of life situations, as shown by the “life cycle” approach. The Committee proposes to secure these assets.
- However, the system does not fully meet the core definition of guaranteed minimum income: it leaves some persons with little or no protection, and does not contain an explicit minimum support threshold.
- The Committee presents the early results of its analysis: after studying the Québec application of absolute or comprehensive forms of guaranteed minimum income – universal allowance and negative income tax in its most complete form – the Committee found that the absolute or comprehensive forms raise major issues in terms of equity, efficiency and social acceptability.



## 1. TOTAL ASSISTANCE OF ALMOST \$30 BILLION IN 2015

In 2015, the measures that make up the income support system<sup>20</sup> represented total assistance of nearly \$30 billion a year, the equivalent of 7.7% of Québec's GDP, or more than \$3 600 per Quebecer. Of this amount, just over \$11 billion was borne directly by the Québec government.

The assistance is therefore substantial, with 37.9% of it financed by the Québec government and 62.1% by the Canadian government.

### □ Interrelationship between the measures

In some cases, the two governments' measures are complementary, each covering distinct clienteles or needs. In other cases, the measures are tied so as to cover the same situations jointly.

The Committee takes note of the close interconnections that exist between the measures instituted by the federal government and the measures established by the Québec government.

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<sup>20</sup> As stated earlier (page 2, note 5), the Committee excluded minimum wage, insurance plans including employment insurance, pension plans, public assistance to organizations and non-monetary assistance such as food banks from its analysis.

## □ The measures fall into three groups

The measures break down into three groups that are unequal in terms of the amounts allocated to them based on the governments' three objectives: basic financial measures, family assistance measures, and work incentive measures.<sup>21</sup>

### ■ Basic financial assistance measures

For basic financial assistance measures (64.3% of total assistance), the federal government primarily acts with the elderly.

- Measures for seniors account for nearly two thirds (66.1%) of basic financial assistance measures and over a third of all income support provided by the two governments.
- The magnitude of the amounts has a substantial impact on the overall income support picture. If we exclude the amounts devoted to these specific measures from the calculation, we see that the Québec government finances 66% of all of the system's other measures, with the federal government financing 34%.

The basic financial assistance measures account for close to half of the funds devoted by the Québec government to income support and close to three quarters of the assistance financed by the federal government.

### ■ Family assistance measures

In terms of assistance to families (33.1% of total assistance), the two governments take an almost equal hand, with 52.9% from the Québec government and 47.1% from the federal government.

Assistance to families accounts for nearly half of the amounts the Québec government allocates to income support, and one quarter of the amount dedicated by the federal government.

### ■ Work incentive measures

In terms of the incentive to work, the bulk of the assistance (66.4%) comes from the Québec government.

The total amounts devoted to this objective are relatively small (2.6% of total assistance), primarily because of the highly targeted nature of the measures in place.

Most of the income support measures in place in Québec are calculated based on the household; measures calculated on an individual basis are the exception.

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<sup>21</sup> See Volume 2, page 11 and the following pages for more information on the income support measures the Committee selected in its analysis.

CHART 1

**Breakdown of income support financing by group of measures**

(as a % of the group of measures)

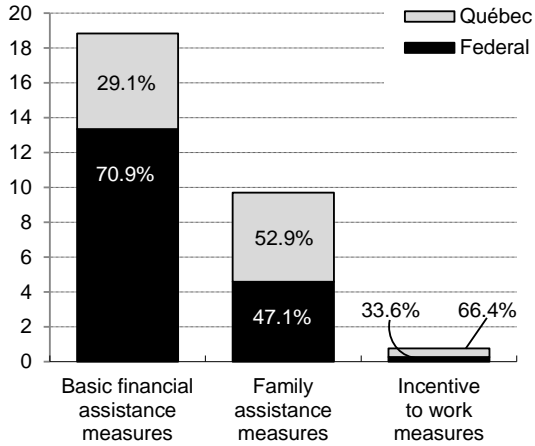
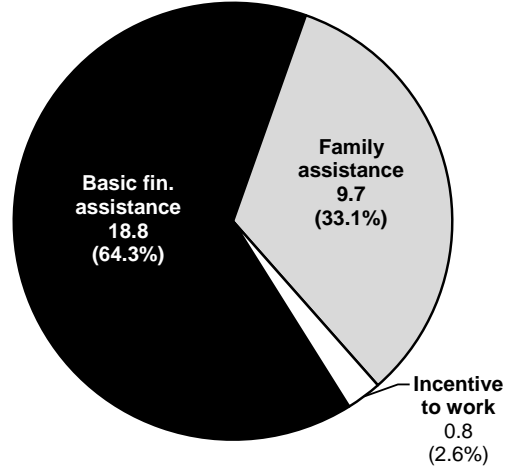


CHART 2

**Share of three groups of measures in income support**

(billions of dollars and as a % of total income support)





## □ Two kinds of measures

There are also two kinds of measures: budgetary measures and tax measures.

- Budgetary measures can easily be paid each month.
- Tax measures are usually calculated and paid annually, based on a submitted tax return; for monthly or quarterly payments, advanced payment mechanisms must be instituted and adjusted at year end.

In all cases, in addition to the value of the support given to individuals through the measures in place, the government must pay to manage the various programs.<sup>22</sup>

In all, these costs amount to over 214 million dollars for the Québec government<sup>23</sup> relative to the more than \$11 billion in assistance paid.

### Management charges for various income support measures

The respective administrative costs for budgetary and fiscal measures vary with the degree of control required to grant the assistance and the value of the assistance.<sup>1</sup>

- For the social assistance programs, the ratio of management charges to benefits is higher for the social assistance program (4.9%) than the social solidarity program (2.0%), because changes to the files of social assistance recipients are more frequent than to the files of social solidarity recipients.

The special benefits are the most costly to manage (22.3%), because documentation must be processed.

- For the socio-fiscal programs, the management charge ratio ranges from 0.3% for the tax credit for childcare costs to 5.6% for the Shelter Allowance Program due to administrative tasks to verify extensive supporting documentation.

<sup>1</sup> See Volume 2, page 145 and the following pages.

<sup>22</sup> See Volume 2, page 145 and the following pages.

<sup>23</sup> These costs include the administrative costs of social assistance and of the five main tax measures presented on page 145 and the following pages of Volume 2. This amount also includes 9.4 million dollars in financial assistance for education, which is not presented in Volume 2. Moreover, no costs were evaluated for subsidized childcare services, for the tax credit for experienced workers (low cost) or for the tax shield (new measure).

## **2. A SYSTEM THAT TAKES INTO ACCOUNT THE EVOLUTION OF LIFE SITUATIONS, AS ILLUSTRATED BY THE “LIFE CYCLE” APPROACH**

Globally, Québec's current income support system is characterized by its continuity, as illustrated by the “life cycle” approach: it features linked assistance, making it possible to consider the shifts in situations experienced during a lifetime.

Individuals' incomes usually change over their lifetime. Moreover, income support programs sometimes change according to age.

- Here, the Committee presents some illustrations of how the income support system factors in the evolution of life experiences.
- The Committee then emphasizes that there are assets that must be secured before proceeding.

## 2.1 Consideration of the evolution of life situations

The Committee analyzed the support over the life cycle to assess the links in and continuity of the income support system applied in Québec.

### □ An aggregated illustration

One way to illustrate the evolution of income and the income support system over a lifetime consists of an aggregated analysis of the breakdown of income sources by age.

- Pre-transfer income is the bulk of the income during the active period, after which support for seniors gains in magnitude after the retirement age.
- Recourse to work incentive measures is more focused among younger persons, when they enter the labour market.
- Family assistance primarily focuses on the mid-twenties to mid-forties period, i.e. when families are usually being started.
- Basic income support is available throughout life, because it is linked to a low-income situation that can arise at any age.

## □ The evolution of income support by age

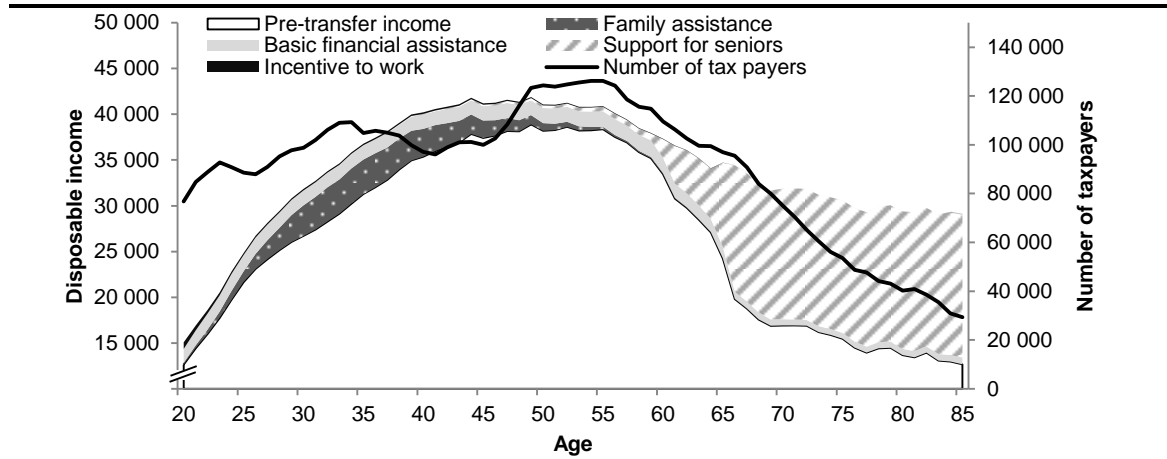
The charts below show a breakdown of the population's average income and total income for a given age.

The first chart also contains a curve to indicate the number of taxpayers involved at each age. Thus, despite the magnitude of income support at an older age, the number of taxpayers involved declines steadily.

CHART 3

### Average disposable income and number of taxpayers by age – 2013

(income in dollars and number of taxpayers)

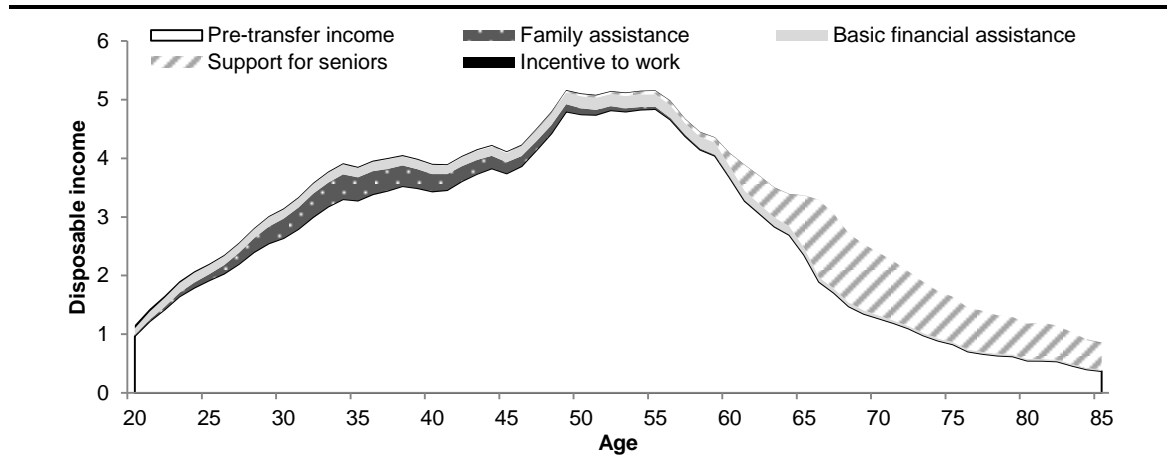


Note: The income support categories and their respective measures differ from what is presented elsewhere in this report.  
Source: Ministère des Finances du Québec

CHART 4

### Total disposable income by age – 2013

(billions of dollars)



Note: The income support categories and their respective measures differ from what is presented elsewhere in this report.  
Source: Ministère des Finances du Québec

## **Details of measures taken into account in disposable income as presented in Charts 3 and 4**

Charts 3 and 4 take into account more measures than the measures included in the income support system, as defined by the Committee in its analysis.<sup>1</sup> The following shows the measures taken into account in the charts, as well as the elements that form part of pre-transfer income.

### **Pre-transfer income**

Pre-transfer income consists of an individual's total income minus Québec income tax, federal income tax, childcare costs and contributions.

The following are common examples of income:

- employment income;
- pension income (RRSP, private pension plan, etc.);
- business income;
- interest income.

Québec income tax consists of:

- Québec income tax based on the tax table;
- non-refundable tax credits.

Federal income tax consists of:

- federal income tax based on the tax table;
- Québec abatement;
- non-refundable tax credits.

Contributions include the following:

- employment insurance;
- Québec Pension Plan;
- Québec Parental Insurance Plan;
- Health Services Fund.

### **Basic financial assistance**

Basic financial assistance consists of the following:

- last resort financial assistance
- Shelter Allowance;
- refundable solidarity tax credit;
- refundable medical expense credit;
- refundable GST tax credit;
- refundable medical expense supplement.

**Details of measures taken into account in disposable income  
as presented in Charts 3 and 4 (cont.)**

**Incentive to work**

The incentive to work consists of the following components:

- working income tax benefit;
- general work premium;
- adapted work premium;
- The supplement for long-term recipients who no longer receive last resort financial assistance or the Alternative jeunesse program.

**Family assistance**

Family assistance consists of the following measures:

- child assistance;
- supplement for children with disabilities;
- refundable tax credit for child care expenses;
- refundable tax credit for youth activities;
- refundable tax credit for infertility treatment;
- refundable tax credit for adoption expenses;
- Canada Child Tax Benefit;
- Universal Child Care Benefit.

**Support for seniors**

Support for seniors consists of the following elements:

- Old Age Security and Guaranteed Income Supplement benefits;
- Québec Pension Plan benefits;
- refundable tax credit for home-support services for seniors;
- refundable independent living tax credit for seniors for purchasing or renting items;
- refundable tax credit for seniors for stays in functional rehabilitation transition units;
- refundable tax credit for caregivers;
- refundable tax credit for respite of caregivers;
- refundable tax credit for volunteer respite services.

<sup>1</sup> See Volume 2, page 11 and the following pages for the list of income support measures the Committee selected in its analysis.

## □ An illustration for certain types of households

Another way to illustrate the life cycle involves analyzing the income support applied in Québec over the “life cycle” of certain households. The approach consisted of combining typical cases in order to take into consideration the possible sequence of situations over a lifetime for some households.

This approach sheds new light on the existing system by illustrating how components of the income support system adapt to situational changes over a lifetime.

These are examples of different situations for households that share some characteristics at different stages of life. The examples help highlight the adaptation of income support measures to such situations. However, the examples selected do not necessarily correspond to a given person’s usual or typical evolution over life.

### ■ The case of single individuals with no work income

The simplest cases for illustrating income support involve single individuals with no employment income who receive basic financial assistance.<sup>24</sup>

- Starting at age 18,<sup>25</sup> a single individual with no accumulated assets who is not in the labour market receives last resort financial assistance, which is the basic social assistance benefit plus the adjustment for a single individual, the solidarity tax credit and the refundable GST credit. His or her assistance totals \$9 192 annually.
- Starting at age 50, a single individual also receives the Shelter Allowance if their housing expenses justify it. The Shelter Allowance is in addition to the income support and replaces the single individual adjustment that someone under 50 benefits from with last resort financial assistance. In all, the assistance increases by \$480 a year to \$9 672.
- Starting at age 58, a person receiving social assistance is considered as having a temporarily limited capacity to work. Benefits increase by \$1 586, with assistance totalling \$11 258.
- Persons 65 or older are eligible for the income support for seniors paid by the federal government, i.e. the Old Age Security benefit and Guaranteed Income Supplement. They no longer receive social assistance. Income support is substantially higher: as of that age, a person receives total income support of \$18 253 per year.

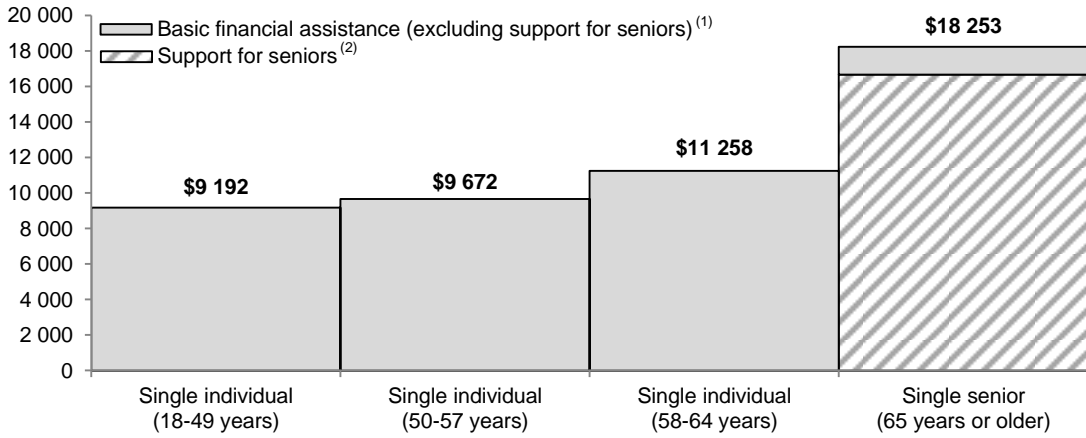
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<sup>24</sup> See the table that details the amounts paid under each measure in Appendix 3.

<sup>25</sup> If that person goes to university as an undergraduate for some of those years, for example, in early adulthood, he or she could receive financial assistance for education (loans and bursaries) rather than last resort financial assistance, in addition to the solidarity tax credit and refundable GST credit. In this case, assistance would total \$9 538 annually. As some of the assistance is a loan, it will have to be repaid in the future if the person earns income.

CHART 5

**Illustration of the income support granted a person living alone with no work income over a “life cycle” – 2016**  
(in dollars)



(1) The basic financial assistance measures (excluding federal support for seniors) correspond to all of the other basic financial assistance measures in the income support system, i.e. the solidarity tax credit, refundable GST credit, social assistance benefits and the Shelter Allowance.

(2) Support for seniors includes the two principal basic financial assistance measures the federal government offers to seniors, i.e. the Old Age Security benefit and Guaranteed Income Supplement.

Note: For the purposes of illustration, income and the tax system are treated as constant over time.



## ■ Persons with a severe and prolonged impairment

The case of single persons with a severe and prolonged impairment illustrates other income support mechanisms, especially with respect to labour market integration.

- As of age 18, if someone with a severe, prolonged impairment is not in the labour market and has no assets, he or she receives more last resort financial assistance<sup>26</sup> than someone with no employment limitations, i.e. a social solidarity benefit larger than the social assistance benefit, plus the solidarity tax credit and the refundable GST credit.

That person receives \$12 648 in income support, compared with the \$9 192 benefit for a person with no employment limitations.

- If, at age 31, a person with a severe, prolonged impairment finds a minimum wage (\$10.75 per hour) job and works 20 hours per week, he or she would, in addition to their wages, benefit from some income support measures.

The work incentive measures that encourage persons to enter the labour market, i.e. the adapted work premium and working income tax benefit, provide an additional \$3 054 in disposable income. That person also receives other income support measures, i.e. the solidarity tax credit and refundable GST tax credit, plus \$2 024 in social assistance due to their income.

- At age 50, a person with a severe, prolonged impairment also receives a \$918 Shelter Allowance.
- Starting at age 65, upon retirement, someone with a severe, prolonged impairment is eligible for the Old Age Security benefit and Guaranteed Income Supplement. He or she does not receive last resort financial assistance, but the income support received is substantially higher than the support received before age 65.

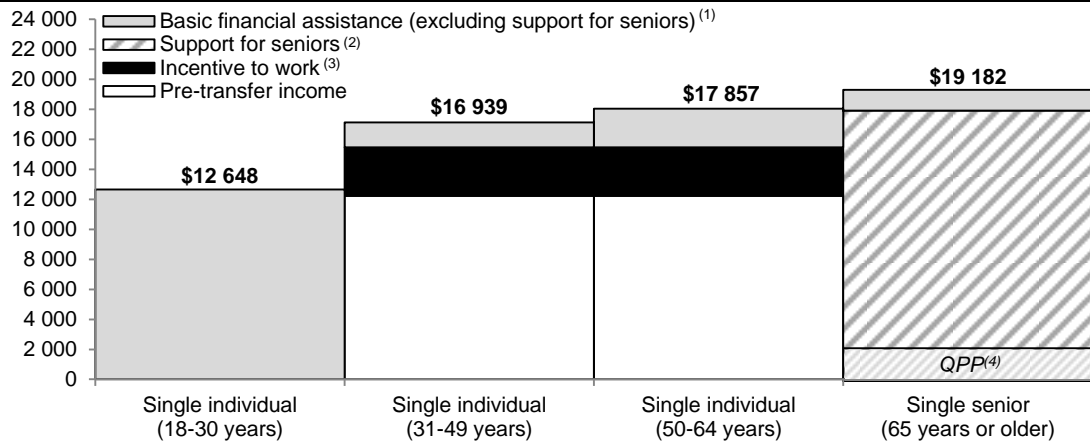
That person therefore receives \$19 182 in income support per year – including the \$2 451 from the Québec Pension Plan for the years of work during which he or she contributed to the plan.

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<sup>26</sup> If that person goes to university (undergraduate), he or she will receive financial assistance for education during this period rather than last resort financial assistance. He or she could receive more financial support than someone with no employment limitations (\$11 224 instead of \$9 538). In this case, the financial assistance for education (\$9 988) is paid over an entire year in the form of a bursary due to his or her situation, along with the solidarity tax credit and the refundable GST credit.

CHART 6

**Illustration of income support provided to someone living alone who has a severe, prolonged impairment during their “life cycle” – 2016**  
(in dollars)



- (1) The basic financial assistance measures (excluding federal support for seniors) correspond to all of the other basic financial assistance measures in the income support system, i.e. the solidarity tax credit, refundable GST credit, social assistance benefits and the Shelter Allowance.
  - (2) Support for seniors includes the two principal basic financial assistance measures the federal government offers to seniors, i.e. the Old Age Security benefit and Guaranteed Income Supplement.
  - (3) The work incentive corresponds to the adapted work premium and working income tax benefit.
  - (4) The Québec Pension Plan (QPP) is another income support measure for seniors.
- Note: For the purposes of illustration, income and the tax system are treated as constant over time.

## ■ The cases of couples with children

Cases of couples with children allow us to observe the impact of family assistance measures.

- If neither spouse works, they will be able to receive last resort financial assistance<sup>27</sup> as of age 18. The couple receives \$13 355 in support when social assistance benefits, the solidarity tax credit and the refundable GST credit are considered.
- If each spouse works full time (35 hours per week) for minimum wage (\$10.75 per hour), starting at age 20, for example, the income support is limited to the solidarity tax credit and refundable GST credit as they have no children and their income is above the threshold for last resort financial assistance and work incentive measures. The income support totals \$1 413.

The support adds to the \$33 910 in earned income after tax and contributions, bringing their disposable income to \$35 323.

- If a couple has a child at age 31, their earned income declines because both spouses benefit from parental leave. However, their disposable income increases due to income support. The Québec Parental Insurance Plan provides up to \$13 075 to offset the \$20 694 decline in income.

The couple also receives \$2 392 from the Québec government's child assistance program, and \$6 294 through the federal government's Canada Child Benefit. Due to their work level, a payment under the work premium (\$1 726) is added.

Their disposable income totals \$41 898 compared with \$35 323 in previous years.

- If both parents go back to work full time following parental leave, their disposable income remains higher thanks to the family support measures. From age 32 to 35, the couple's child will attend subsidized daycare. As such, the couple will receive \$6 327 net in the form of family support measures.

When their child turns five and leaves subsidized daycare to go to school (with a school daycare included), the net amount of assistance falls from \$6 327 to \$5 646.

- The next situation arises when the couple's child becomes an adult when both parents reach age 49. The child moves out to go to work. The couple no longer not receives family assistance because they are again considered as a couple with no children.
- From age 65, the couple can count on the Old Age Security pension and the Guaranteed Income Supplement to increase their income. These two benefits, together with the other basic income support measures (solidarity tax credit and refundable GST credit), represent a total assistance of \$22 129. With the Québec Pension Plan benefits, the couple has an annual disposable income of \$31 911.

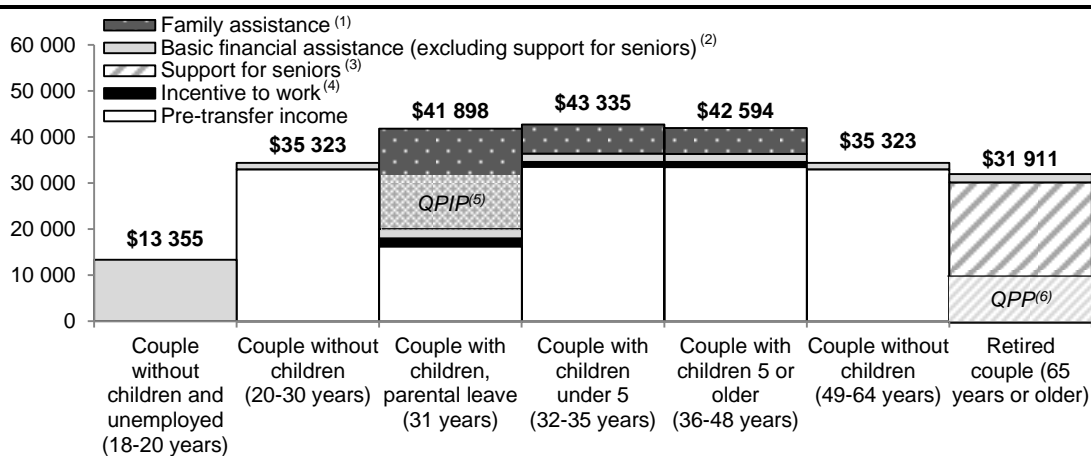
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<sup>27</sup> If both persons, who are already married, go to university (undergraduate) for a number of years and work part-time while going to school (\$10 000 each), they can receive financial assistance for education. Since they are married, these individuals could receive more financial assistance for education because their parents' income will not be taken into account. With the solidarity tax credit and the refundable GST credit, their disposable income rises to \$11 327.

CHART 7

**Illustration of income support granted to a couple that works for minimum wage during their “life cycle” – 2016**

(in dollars)



Note: For the purposes of illustration, income and the tax system are treated as constant over time.

- (1) The family support includes family assistance and the Canada Child Benefit. The assistance is reduced by the amount paid in child care costs.
- (2) Basic financial assistance measures (excluding federal support for seniors) include all other basic financial assistance measures in the income support system, i.e. the solidarity tax credit, refundable GST credit, and social assistance benefits.
- (3) Support for seniors includes the two principal basic financial assistance measures the federal government offers to seniors, i.e. the Old Age Security benefit and Guaranteed Income Supplement.
- (4) The work incentive corresponds to the work premium and working income tax benefit.
- (5) The Québec Parental Insurance Plan (QPIP) is another income support measure during parental leave.
- (6) The Québec Pension Plan (QPP) is another income support measure for seniors.

## 2.2 Securing assets

The above illustrations show that, overall, Quebecers benefit from an income support system that represents substantial assistance covering the main life stages during which a citizen could end up in a vulnerable situation.

Before identifying the improvements to be made to the current system, the Committee proposes to take cognizance of the features that work, and secure them by formalizing the steps already taken in that direction.

- It involves acknowledging that Quebecers benefit from an income support system that is defined on a complementary basis by the Québec and federal governments.
- It also involves emphasizing that this system establishes a set of interconnected provisions to guarantee monetary resources for most citizens based on vulnerable situations that may arise throughout their lives.

### ■ Factors to consider before making any changes to the system

This system is on the right track for corresponding to a guaranteed minimum income, i.e., a system that offers a guarantee of monetary resources for all, with the amount of these resources being related to a minimum threshold.

Therefore, any change to the system must take into account the links between its various components, and its overall coherence in relation to this definition. These changes should thus ensure that the guarantees provided by the current system are maintained.

#### **Recommendation No. 1**

The Committee finds that Québec's existing income support system is on the right track for corresponding to a guaranteed minimum income, i.e., a system that offers a guarantee of monetary resources for all, with the amount of these resources being related to a minimum threshold.

**The Committee recommends** that the Québec government formally recognize in a document:

- that Quebecers benefit from an income support system that is defined on a complementary basis by the Québec and federal governments;
- that this system consists of a set of interconnected provisions to guarantee monetary resources for most citizens based on vulnerable situations that can arise throughout their lives.

**The Committee recommends** that, in future policies, the government consider these assets and treat them as foundational before making any additional change to better align with a guaranteed minimum income, as defined above.

Such formal recognition and commitment could, for example, be enshrined in enabling legislation or a similar document.

### **3. A SYSTEM THAT DOES NOT FULLY MEET THE CORE DEFINITION OF GUARANTEED MINIMUM INCOME**

The Committee finds that, when all elements of Québec's existing income support system are taken into account, it only partially meets the definition of guaranteed minimum income selected by the Committee in its Progress Report.

According to that definition, guaranteed minimum income is a “system that offers a guarantee of monetary resources for all, the amount of these resources being related to a minimum threshold. [...] The mandate entrusted to the Committee by the government, as the Committee understands it, is to explore changes to be made to the current income support system in Québec, starting with this core definition, to lead to a more complete form of guaranteed minimum income”.<sup>28</sup>

On the two essential points that characterize a guaranteed minimum income system, the Committee finds:

- that the system leaves some persons with little or no protection, as the guarantee of monetary resources is not offered to everyone;
- that the guarantee of monetary resources is not linked to an explicit minimum threshold.

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<sup>28</sup> See p. 39 of the Progress Report.

### 3.1 A guarantee of monetary resources for all?

The first feature of guaranteed minimum income is that it ensures monetary support for all vulnerable persons. The Committee finds that, in the case of Québec's existing income support system, this first characteristic is not entirely fulfilled.

#### ❑ **Complex rules**

The provision of monetary support is tied to a number of conditions. In practice, the definition and implementation of these conditions results in excluding some persons from the system, even though they are in a highly vulnerable situation.

#### ■ **Complexity that hampers accessibility**

The very complexity of the rules makes the system and the support it defines less accessible. Persons who are entitled to the benefits offered do not claim them.

#### ■ **Last resort financial assistance**

Last-resort financial assistance programs were gradually developed to cover a great many specific situations, resulting in the development of complex rules.<sup>29</sup>

Depending on the situation, the person is required to fill out a number of forms and provide supporting documentation, such as bank statements, proof of separation, a judgment or agreement stipulating support payments, a vehicle registration certificate, life insurance policy statement, copy of a lease or proof of residence form if the applicant does not have a lease.

Moreover, all of these steps must be taken by persons who, in many cases, are single and have little education.

#### ■ **Socio-fiscal programs**

The socio-fiscal programs are also governed by complex rules that make them difficult to access. Persons who are entitled to assistance must produce an income tax return, complete the sections to request the desired support and, ultimately, provide supporting documentation.

#### ■ **Rules preventing payment of monetary support**

The programs' eligibility rules are rigid and inflexible, and do not adequately treat some situations that justify financial support, for example, fairly rapid or unexpected changes in a person's working or personal life, all of which reduce or even eliminate income sources.

The conditions imposed in order to benefit from government support therefore do not allow monetary support to be paid.

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<sup>29</sup> See Volume 2, page 34.

## ❑ **Situations in which vulnerable persons cannot benefit from income support**

The Committee closely analyzed the situations in which vulnerable persons cannot benefit from Québec's existing income support system due to its complexity or rigidity.<sup>30</sup>

### ■ **The system's complexity: "Non-recourse" situations**

The system's complexity is the reason why persons who are entitled to social assistance or income tax benefits do not take advantage of it.

These persons, who are in the "non-recourse" group, are inadequately covered by or even outside the system, despite efforts made to reach them.

However, It is difficult to ascertain how prevalent these situations are.

### ■ **The system's rigidity: "Transition situations"**

It is even harder to assess the impact of the system's rigidity.

The Committee established a typology of persons who are in at-risk situations that could lead to insufficient or no income.

The Committee labelled these cases "transition situations" to take into account the phenomenon of change – sometimes sudden and unexpected – that individuals face.

"Transition situations" include, for example, job losses that result from jobs being eliminated for economic reasons, business closures, technological change and personal considerations. They also include a variety of personal situations some citizens may face.

Based on several typical cases, it becomes clear that due to the rules of insurance plans and the eligibility criteria for various income support programs, such persons cannot benefit from income support unless they sell off most of their remaining assets.

They must therefore become even worse off before they can receive monetary support, whereas they should, on the contrary, receive the help they need to remedy their situation and get through this difficult "transition" period.

## ❑ **A system that does not offer a guarantee of monetary resources to everyone**

The Committee therefore finds that the existing income support system does not constitute a "guarantee of monetary resources for all" due to the very nature of the rules defined: due to the system's complexity and rigidity, highly vulnerable situations are not covered.

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<sup>30</sup> These situations are presented in greater detail in the fourth part of this volume, on page 67 and the following pages.



### 3.2 Monetary resources linked to an explicit minimum threshold?

The second characteristic of a guaranteed minimum income relates to the existence of a minimum threshold, which defines the situation that leads to payment of monetary support.

#### No explicit threshold

Québec's existing income support system does not set an explicit threshold.<sup>31</sup>

The assistance awarded to persons who do not have access to any income, particularly social assistance, is based on amounts that were established over three decades ago and the change in these amounts has not followed a logic that adequately justifies the current level. The actual amount of the support is not based on a threshold that can be considered the minimum.

In the various existing programs, the amount of assistance is defined historically: the assistance provided is adjusted regularly, most frequently on the basis of price increases, and by taking into account the government's ability to pay.

This means that the minimum is no longer associated with the needs to be covered, and the relationship between the various amounts awarded are also far removed from the initial logic.

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<sup>31</sup> This issue is addressed in greater detail in the fourth part of this volume, on page 67 and following.

## 4. THE FIRST RESULTS OF THE COMMITTEE'S ANALYSIS

The Committee has just presented its first findings, which are as follows:

- Overall, Quebecers benefit from an income support system that represents substantial assistance and covers the main life situations that could place a citizen in a vulnerable situation.
- However, the system does not completely meet the definition of guaranteed minimum income: the guarantee of monetary resources does not benefit all citizens, and the very amount of the resources disbursed is not explicitly defined on the basis of a single income threshold considered to be minimum.

### ■ **First assumption: Application of an absolute form of guaranteed minimum income or comprehensive form of negative income tax**

In accordance with its mandate, the Committee reflected on the changes to make to the existing system to ensure the income support system evolves toward a more complete form of guaranteed minimum income.

To this end, the Committee initially addressed the assumption of applying an absolute form of guaranteed minimum income – a universal allowance – or comprehensive form of negative income tax in Québec.

Among other things, the proponents of absolute or complete form of guaranteed minimum income point to the vulnerability situations that are not covered and the anticipated changes in the labour market to justify implementing a universal allowance or comprehensive negative income tax.

### ■ **Results obtained**

The Committee has arrived at the following initial results: the absolute or comprehensive forms of guaranteed minimum income – the universal allowance and negative income tax in its most comprehensive form – raise significant problems in terms of equity, incentive to work and social acceptability. These results are based on three series of simulations conducted by the Committee, which all correspond to the application of absolute or comprehensive forms of guaranteed minimum income in Québec.<sup>32</sup>

- In the first series of simulations, the Committee considered a universal allowance replacing almost all of the current support and financed by the elimination of the replaced measures (Scenarios 1 and 2).
- In the second series of simulations, the Committee considered a universal allowance made up by only a part of the current support – i.e. a portion of last-resort financial assistance (Scenarios 3 and 4).
- In the third series of simulation, the Committee considered a comprehensive negative income tax, consisting of only part of the current support – i.e. a part of the last-resort financial assistance – and financed by income tax (Scenarios 5, 6, 7, and 8).

The Committee finds that the application of the absolute or comprehensive forms of guaranteed minimum income, as the case may be, would raise substantial equity, efficiency and social acceptability problems. Each of the three series of simulations makes it possible to derive various findings.

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<sup>32</sup> The simulations and their results are presented in Volume 3 (scenarios 1 to 8).

## □ **First series of simulations: a universal allowance replacing almost all of the current support**

The first series of simulations considered a universal allowance replacing almost all of the current support and financed by the elimination of the replaced measures.

- In the first scenario,<sup>33</sup> the replacement would be carried out for everyone aged 0 to 64.<sup>34</sup> The scenario involved redistributing assistance representing \$9.6 billion in 2017. The allowance paid would be \$1 637 per adult aged 18 to 64 and \$737 per dependent child.
- A second scenario was simulated, in which the replacement was only carried out for persons aged 18 to 64, so as to not jeopardize family support measures (Scenario 2). The redistributed assistance would only represent \$4.4 billion in 2017. The allowance paid would be \$878 per adult aged 18 to 64.

The Committee noted that these scenarios only allow the payment of limited assistance.

## ■ **Insufficient assistance**

A universal allowance so defined would impoverish the majority of the poorest households and would have a mixed effect on the incentive to work – depending on whether the family assistance measures were maintained.

In terms of equity, Scenario 1 is not acceptable: it would impoverish the majority of the poorest persons, whether the calculation is done individually or by household.

Also in terms of equity, Scenario 2 is also unacceptable, even if families are protected: this scenario would impoverish a large portion of the poorest persons.

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<sup>33</sup> This scenario is based on the methodology developed by the OECD.

<sup>34</sup> Many simulated scenarios exclude persons aged 65 and over, since they are primarily covered by income support measures that fall under the responsibility of the federal government. Some scenarios also simulated different types of assistance for individuals under age 18.

## ❑ **Second series of simulations: a universal allowance replacing part of the current support**

The second series of simulations considered a universal allowance made up of only a part of the current support – i.e. a portion of last-resort financial assistance. The amount of the allowance is more generous than in the previous scenarios. The amount of the allowance corresponds to 50% of the maximum last-resort financial assistance to which a couple without limited capacity for employment is entitled, i.e. \$5 832 per year. Last-resort financial assistance would be maintained, but reduced by an amount equal to the new universal allowance. All the other provisions of the income support system would remain unchanged. The allowance is not entirely financed by the eliminated measures.

- In Scenario 3, this allowance would be paid out to persons aged 18 to 64.
- Another scenario was simulated, according to which the allowance would be paid out to everyone aged 18 years and over – therefore including those 65 and over receiving income support provided by the federal government (Scenario 4).

## ■ **Very costly assistance benefitting the richest households**

These scenarios would ensure that no segment of the population loses out. However, the costs are very high and the financing has not been fully defined. Complete financing – regardless of form – would result in some persons losing out.<sup>35</sup>

The effects of the simulated measures would not be distributed equitably according to income brackets. While the poorest households would not lose out, the measure would create a lot of winners among the richest households.

In terms of work incentives, the results would be positive among low-income households.

These measures would not be efficient: administrative savings would be limited, and the high cost of the proposed measures would not be entirely financed based on the selected assumptions.

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<sup>35</sup> This would be the case unless the financing were obtained by reducing expenses in other areas, or by new revenues generated without anyone losing out – such as unexpected and recurring mining or petroleum royalties.

### □ **Third series of scenarios: comprehensive negative income tax**

The third series of simulations considered a negative income tax in its comprehensive form, consisting of only part of the current support – i.e. a part of the last-resort financial assistance – financed by income tax.<sup>36</sup> This series of simulations seeks to finance the same assistance as in the two previous scenarios and was based on the same assumptions for replacing the current support. The amount of assistance offered to each person would thus correspond to 50% of the maximum last-resort financial assistance to which a couple without limited capacity employment is entitled, i.e. \$5 832 per year.

- Both in Scenario 5 and Scenario 4, the measure is applied to all persons over age 18. The negative tax is financed by a single tax rate, replacing the current tax structure and by eliminating the basic personal amount.
- Another scenario was simulated according to which the negative income tax is financed by a single tax rate but without eliminating the basic personal amount (Scenario 6).
- A second variant of Scenario 5 (Scenario 7) was simulated, according to which the negative tax would apply to persons aged 18 to 64. The single tax rate would be modified.
- A third and final variant (Scenario 8) was simulated. According to this scenario, the negative tax would apply to persons aged 18 to 64 and be financed by a two-rate tax table, i.e. a rate for the first \$100 000 of income and a second for any income over this amount. In this scenario, the basic personal amount is eliminated.

### ■ **A very high level of taxation required**

The results of these scenarios show that the tax rate that would be required would lead to many who would lose out. Overall, taxpayers would have to pay two to three times the current tax rate to the government of Québec,<sup>37</sup> i.e. 27% compared to 9% in Scenario 5.- The negative tax with a single tax rate (or two rates, in the case of Scenario 8) overall would be beneficial for those with the lowest incomes, but many others would lose out, in particular, taxpayers with medium and high incomes (income of about \$35 000 for Scenario 5 and \$50 000 for Scenario 8).

No matter what the scenario, the comprehensive negative income tax raises issues of equity, due to the fact that the resulting tax system would be less progressive.

With regard to work incentives, the results would be positive among low-income households, but negative among other taxpayers, due to resulting high tax rate.

In terms of efficiency, the various scenarios would maintain the government's ability to pay, but the administrative savings would be limited.

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<sup>36</sup> The Committee did not simulate financing from other tax sources, such as corporate or sales taxes or new forms of taxation.

<sup>37</sup> For example, the single tax rate is 27% in scenario 5. For its part, scenario 8 calls for two rates, i.e. 24% and 48%. In comparison, under the current tax structure, the average tax rate was 9.4% in Québec in 2013. These rates only cover Québec tax, to which federal tax must be added.

## Transferring measures to fiscality, a source of savings?

Proponents of the absolute form of guaranteed minimum income often assume such a system would be partially financed by the savings realized by replacing the main budgetary measures with tax measures, with the taxation of major income support programs making it possible to achieve significant efficiency gains by eliminating certain conditions and by eliminating the red tape associated with conducting checks to ensure compliance.

### **Simulated situation: transfer of last resort financial assistance to fiscality**

The Committee simulated this situation, by assuming the transformation of programs based on last-resort financial assistance into a reimbursable tax credit.<sup>1</sup>

This credit would be calculated based on annual income (rather than on monthly income in the case of last-resort financial assistance), the composition of the household (one or two adults) and whether there are severely limited capacity for employment according to the same conditions currently applied to last-resort financial assistance.

However, this assistance would no longer be conditional on an asset ceiling, thereby increasing the number of potential beneficiaries. Income would now be calculated on net income for tax purposes, taking into account different deductions than those taken into account for last resort financial assistance.

Assistance would be paid out with a certain time lag, with eligibility being established only once per year, on income tax returns.

This measure would be costly due to the expansion of eligibility resulting from the absence of conditions in the tax system tied to the ownership of assets.

The net cost is estimated at \$1.8 billion, or a cost of \$4.5 billion for the new tax credit and a savings of \$2.7 billion from the cost of social assistance measures.

<sup>1</sup> See Volume 3, Scenario 10.

TABLE 4

**Application of an absolute form of guaranteed minimum income – i.e. Universal allowance  
– or comprehensive negative income tax**

	Universal Allowance			
	Scenario 1	Scenario 2	Scenario 3	Scenario 4
<b>Description</b>	Assistance replacing almost all of the current support (OECD approach)	Assistance replacing almost all of the current support, except family assistance (OECD approach)	Assistance equal to 50% of the social assistance paid to a couple <sup>(1)</sup>	Assistance equal to 50% of the social assistance paid to a couple <sup>(1)</sup>
<b>Persons targeted</b>	0 to 64 years	18 to 64 years	18 to 64 years	18 years and over
<b>Amount of assistance for targeted persons</b>	\$1 637 per adult \$737 per child	\$878	\$5 832	\$5 832
<b>Payment to individual or household</b>	Individual	Individual	Individual	Individual
<b>Financing identified</b>				
– Gross costs for the government	\$9.6 billion	\$4.4 billion	\$29.2 billion	\$38.4 billion
– Financing identified	Redistribution of current assistance, including family assistance (\$9.6 billion)	Redistribution of current assistance, excluding family assistance (\$4.4 billion)	Replaces part of the current support (\$1.8 billion)	Replaces part of the current support (\$1.8 billion)
– Net costs for the government	\$0	\$0	\$27.4 billion	\$36.6 billion
<b>Compliance with principles</b>				
– Equity	Drop in disposable income for many poor households	Drop in disposable income for many poor households	No one loses out. However, many winners among the richest households	No one loses out. However, many winners among the richest households
– Incentive to work	Limited effect on the incentive to work, given the high cost of childcare	Greater incentive to work for social assistance recipients	Positive effect for social assistance recipients Negative effect for workers who do not receive social assistance	Positive effect for social assistance recipients Negative effect for workers who do not receive social assistance
– Efficiency	Major simplification	Major simplification, but maintains current measures for children and seniors	Limited administrative savings	Limited administrative savings and maintains assistance for seniors

(1) Current recipients of last resort financial assistance who receive more than \$5 832 would continue to receive amounts under this program. The amount they would receive would correspond to the difference between the current benefit and the universal allowance of \$5 832.

TABLE 4

### Application of an absolute form of guaranteed minimum income – i.e. universal allowance – or comprehensive negative income tax (cont.)

	Comprehensive Negative Income Tax			
	Scenario 5	Scenario 6	Scenario 7	Scenario 8
<b>Description</b>	Assistance equal to 50% of the social assistance paid to a couple <sup>(1)</sup>	Assistance equal to 50% of the social assistance paid to a couple <sup>(1)</sup>	Assistance equal to 50% of the social assistance paid to a couple <sup>(1)</sup>	Assistance equal to 50% of the social assistance paid to a couple <sup>(1)</sup>
<b>Persons targeted</b>	18 years and over	18 years and over	18 to 64 years	18 to 64 years
<b>Amount of assistance for targeted persons</b>	\$5 832	\$5 832	\$5 832	\$5 832
<b>Payment to individual or household</b>	Individual	Individual	Individual	Individual
<b>Financing identified</b>				
– Gross costs for the government	\$38.4 billion	\$38.4 billion	\$29.2 billion	\$29.2 billion
– Financing identified	Replaces part of the current support (\$1.8 billion)  Single tax rate of 27.1% <sup>(2)</sup> in Québec <b>with</b> elimination of the basic personal amount (\$36.6 billion)	Replaces part of the current support (\$1.8 billion)  Single tax rate of 32.8% <sup>(2)</sup> in Québec <b>without</b> elimination of the basic personal amount (\$36.6 billion)	Replaces part of the current support (\$1.8 billion)  Single tax rate of 26.5% <sup>(2)</sup> in Québec <b>with</b> elimination of the basic personal amount (\$27.4 billion)	Replaces part of the current support (\$1.8 billion)  Two tax rates in Québec, i.e. 24.1% on income below (or equal to) \$100 000 and 48.2% <sup>(2)</sup> on income over that amount, <b>with</b> elimination of the basic personal amount (\$27.4 billion)
– Net costs for the government	\$0	\$0	\$0	\$0
<b>Compliance with principles</b>				
– Equity	Tax system becomes less progressive	Tax system becomes less progressive	Tax system becomes less progressive	Tax system becomes less progressive
– Incentive to work	Positive effect for social assistance recipients  Negative effect for other taxpayers	Positive effect for social assistance recipients  Negative effect for other taxpayers	Positive effect for social assistance recipients  Negative effect for other taxpayers	Positive effect for social assistance recipients  Negative effect for other taxpayers
– Efficiency	Respects the government's ability to pay  Limited administrative savings	Respects the government's ability to pay  Limited administrative savings	Respects the government's ability to pay  Limited administrative savings	Respects the government's ability to pay  Limited administrative savings

(1) Current recipients of last-resort financial assistance who receive more than \$5 832 would continue to receive amounts under this program. The amount they would receive would correspond to the difference between the current benefit and the universal allowance of \$5 832.

(2) In 2013, the average tax rate in Québec was 9.4%





## PART FOUR

# IMPROVEMENTS TO BE MADE TO THE INCOME SUPPORT SYSTEM IN ORDER TO MOVE TOWARD A GUARANTEED MINIMUM INCOME

In order to make Québec's existing income support system evolve into one that meets the core definition of guaranteed minimum income, the path towards the absolute or comprehensive forms – i.e. the universal allowance and negative income tax in its comprehensive forms – raises issues of equity and, in certain cases, of efficiency and work incentives, depending on the scenarios studied.

In order to move toward a more comprehensive form of guaranteed minimum income, the Committee considers the approach of targeting changes and transformations to fill current gaps as much more promising.

The Committee therefore considers it possible to improve and reinforce Québec's existing income support system, without jeopardizing the system's current overall architecture.

### ■ Part four in three sections

To this end, the Committee identified three series of transformations in line with the main diagnoses it identified with respect to the system's current shortcomings and that would make a sustainable fight against poverty possible.

- It is necessary to ensure that the system offers a guarantee of monetary resources to everyone, by better covering “non-recourse” and “transition situations.”
- An explicit minimum threshold must be established in support of the most disadvantaged and by deducing the adjustments that may need to be made to the current support.
- Moreover, the system must further stimulate integration into the labour market, as that is the most sustainable and efficient way to support income.

<b>Illustration of the minimum guaranteed income in Québec</b>	
<p>The income support system in Québec will match the basic definition of a guaranteed minimum income if, <b>for every person</b> with insufficient resources:</p> <p><b>Net employment income + <u>Guaranteed minimum income</u> = Disposable income ≥ explicit minimum threshold</b></p> <p>where:</p> $  \begin{aligned}  \underline{\text{Guaranteed minimum income}} &= \text{Income support system} &&= \text{Basic financial assistance} \\  & &&+ \text{Incentive to work} \\  & &&+ \text{Family assistance}  \end{aligned}  $	

Note: The income support plan defined in this manner corresponds to the third form of guaranteed minimum income identified in the progress report, on page 32, i.e. the “basic income support plan”.



## **1. ENSURING THAT THE SYSTEM OFFERS A GUARANTEE OF MONETARY RESOURCES FOR ALL**

Despite the income support system's mission to cover all situations of vulnerability, some of the vulnerable persons do not always benefit from this support, for two main reasons.

- Those who are entitled to the services offered are not claiming them: this is what the Committee has grouped under the term “Non-recourse”.
- Others cannot take advantage of income support measures due to eligibility rules, even if they are in a vulnerable situation: These individuals are going through a “transition situation” as a result of changes in the labour market or events of another nature – such as illness.

The Committee is proposing improvements to the income support system in order to address these two issues.

## 1.1 “Non-recourse”

All income support measures in place assume that those entitled to them have to go through certain procedures to benefit from them.

For social assistance, an application must be submitted in order to receive assistance.

- Some persons who could be eligible do not apply for social assistance. However it is difficult to assess the number.
- It is also possible that these persons prefer not to apply for assistance due to the complexity of the procedures involved or for fear of stigma.

For tax measures, those entitled to assistance must, on the one hand, file a tax return and, on the other, properly complete the necessary sections and schedules to ask for the support in question.

- It may be that some types of assistance are unknown, due to their poor readability, or it may be too complex for some persons to fill in the tax forms.
- It is difficult to know how many persons are not filing tax returns that would entitle them to one or more of the income support tax measures.

### ■ A partial evaluation of the phenomenon

Among persons who file tax returns, Revenu Québec estimates that between 7% and 14% are eligible for but do not claim certain support measures.<sup>38</sup>

### ■ Two recommendations aimed at addressing this issue

In order to make the income support system accessible to “non-recourse,” the Committee is making two recommendations, namely:

- automatic payment of certain tax credits;
- group payment of three income support measures.

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<sup>38</sup> See Volume 2, page 142.

## ❑ **Automatic payment of certain tax credits**

The Committee analyzed the possibility of making the payment of certain tax credits automatic.

Despite the principle of self-subscription in effect in Québec, the Committee examined the possibility of Revenu Québec automatically determining, calculating and paying certain tax credits to eligible individuals who complete their tax returns without requesting all the credits to which they are entitled.

Some individuals do not benefit from the tax relief measures to which they are entitled, either because they do not complete a tax return and the relevant schedules, or because they do not know they can benefit from such measures, or for other reasons.

This scenario assumes that Revenu Québec has all the necessary information.

## ■ **Similar provisions implemented in the federal government system**

The federal tax system provides for the automatic payment of certain tax credits when an individual files his or her tax return.

Once tuition fees have been declared, the federal government grants the maximum non-refundable tax credit for tuition to which the taxpayer is entitled.

Since the 2014 tax year, the refundable GST/HST credit has been determined automatically by the Canada Revenue Agency and is paid every quarter to eligible households.

## ■ Measures covered by the Committee

The Committee assumed the payment of three tax measures would be made automatically by the Québec government, for individuals who file their tax returns. These would be:

- the tax shield;
- the work premium;
- the QST component of the solidarity tax credit.

For these three measures, Revenu Québec would already have the information required to make the calculations and proceed with the automatic payment.

### ■ The tax shield

The tax shield is a measure by which households that are no longer entitled to certain refundable tax credits following an increase in work income can receive an additional benefit.<sup>39</sup>

In order to request the tax shield, households must check the boxes provided for this purpose or complete a calculation form. The simulated measure would, for example, involve requiring tax software designers to check, by default, the tax shield request boxes.

In this way, all eligible taxpayers who file their tax returns electronically could automatically receive the tax shield, which would represent around 90%<sup>40</sup> of this group. In order for the coverage rate of the measure to be 100% of the group, the tax shield would have to be paid automatically without a request being necessary.

### ■ The work premium

The work premium is a work incentive measure aimed at reducing effective marginal tax rates for certain situations and therefore encouraging low-income individuals to join or increase their participation in the labour market.<sup>41</sup>

In order to request the work premium, a household must complete Schedule P of the tax return. According to Revenu Québec, 13.5% of households that would have been entitled to the work premium did not request it for the 2015 tax year.

The simulated measure would involve making payment of the work premiums automatic. According to Revenu Québec, payment automation would mean that 55 000 more persons would receive work premiums.

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<sup>39</sup> See Volume 2, page 60.

<sup>40</sup> According to Revenu Québec, as of November 7, 2016, 89% of returns filed are submitted electronically.

<sup>41</sup> See Volume 2, page 56.

- **The QST component of the solidarity tax credit**

In order to request the solidarity tax credit,<sup>42</sup> an individual must complete a tax return as well as Schedule D of the return.

The simulated scenario would involve automating the payment of the QST component of the solidarity tax credit, as long as it is possible to properly target eligible taxpayers. Revenu Québec possesses information for determining the QST component, since this component is determined based on income and family situation.

According to Revenue Québec, payment automation would mean that 186 000 more persons would receive the QST component of the solidarity tax credit. In 2015, 10 668 social assistance recipients filed their tax returns, but did not take advantage of the solidarity tax credit because they did not complete Schedule D.

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<sup>42</sup> See Volume 2, page 36.



## ■ Estimated cost of the measure

Automatic payment of certain tax credits for which Revenu Québec has the necessary information would represent a total cost of 82.9 million dollars to cover the additional assistance.

This cost does not take into account the cost associated with the tax shield, for which information is not available, since the measure only came into effect in 2016.

TABLE 5

### Estimated cost of automatic payment of certain tax credits — 2015 (millions of dollars)

	Tax cost
Tax shield	— <sup>(1)</sup>
Work premium	26.5
Refundable solidarity tax credit — QST component	56.4
<b>Total</b>	<b>82.9</b>

(1) The tax shield was not implemented in 2015.  
Source: Revenu Québec.

## ■ One limitation of the measure

The Committee notes that despite the automatic payment of the QST component of the solidarity tax credit, those who do not file their tax returns will still not be added.

In April 2017, 32 686 adult social assistance recipients had still not filed their 2015 tax returns, and consequently did not receive the solidarity tax credit.

### Recommendation No. 2

Vulnerable persons entitled to tax benefits do not claim them, either because they do not know about these kinds of assistance, or because it is too complicated for them to complete the tax documentation.

**The Committee recommends** the automatic payment of certain tax credits to those who file a tax return, in order to make certain tax-based income support measures available to eligible individuals who are currently not benefiting.

**The Committee also recommends** the automatic payment of the tax shield, work premiums and the QST component of the solidarity tax credit by Revenu Québec, provided the latter has the information necessary to proceed with such a payment.

**The Committee recommends** making continued or increased efforts to reach individuals who do not file tax returns.

## ❑ **Grouping of payments for three income support measures**

In order to make the income support system available to “non-recourse,” the Committee analyzed the possibility of grouping the payment of three income support measures; namely, the solidarity tax credit, last-resort financial assistance, and work premiums.

### ■ **A measure inspired by Ontario**

The Committee was inspired by Ontario’s Trillium benefit.

Ontario’s Trillium benefit combines the payment of three refundable credits, namely the Ontario sales tax credit, the Ontario tax credit for energy costs and property taxes, as well as the credit for energy costs in Northern Ontario.

This does not involve a single tax credit, but a grouping of the payment of three types of tax assistance. The three tax credits are calculated separately, combined and then paid in a single payment to households.

### ■ **A more accessible and effective assistance**

The Committee has noted that providing multiple forms of assistance through a single payment would help simplify the current assistance for beneficiaries and make it more transparent.

- It would probably make this assistance more accessible and help beneficiaries better understand the help they are receiving and to which they are entitled.
- A greater knowledge and a better understanding of the measures could improve their effectiveness, in particular with regard to work incentives. The government could also accompany the payment with information that would make it more understandable.
- Furthermore, if possible, this single payment would make it possible to grant these three targeted forms of assistance with the same frequency.

### **Recommendation No. 3**

Many of those who are entitled to social assistance or income support tax measures do not request this assistance, due to the complexity of the procedures, the fear of stigma, or the difficulty to understand some of the measures.

**The Committee recommends** that the Québec government issue social assistance benefits, the solidarity tax credit and the work premiums by means of a single payment.

## 1.2 “Transition situations”

The Committee has grouped under the expression “transition situations” those at-risk situations in which some persons are placed, and that can lead to insufficient or no income.

The term “transition” refers to the fact that these persons are subject to a change of situation, sometimes sudden and unexpected, and sometimes gradual.

The term also implies that the change is only temporary, and that the person could re-establish his or her situation or benefit from a more favourable situation later on. In reality, certain “transition situations” can be extended over a long period, or even be permanent.

## □ **Transition situations: three types of causes**

To better identify the phenomenon, the Committee decided to first categorize the “transition situations.”

A person may be in a “transition situation” voluntarily or involuntarily. In all cases, this situation is related to three types of cause, i.e. economic reasons, changes in activities and personal considerations

### ■ **Economic reasons**

A person may be in a “transition situation” for economic reasons.

#### ■ **Cyclical reasons**

A person loses his or her job and the associated income because the company is forced to shut down or eliminate the position – due to a slowdown in business or orders, a recession in the sector in question, or to changes in economic activity.

#### ■ **Reasons of a structural nature**

A person may also lose his or her job for other economic reasons, of a structural nature. This is the case, for example, when the company is subject to competitive pressure and needs to profoundly transform the nature of the jobs or tasks to be carried out, which forces it to reduce labour costs and lay off a certain number of employees.

In terms of structure, the company may also still be subject to major changes affecting its sector of activity. Globalization and the fast growth of the manufacturing sector in China have led to the disappearance of several industries in Québec as well as in most developed countries, thereby placing the employees concerned into “transition situations.”

— This is the type of situation faced by many textile workers due to the globalization of the economy and the relocation of many manufacturing activities.

— Integration into the “value chains”<sup>43</sup> of new emerging countries that offer a large, cheap and often well-trained workforce, will lead to pressure of the same nature in the future – even if the phenomena appears to be over.<sup>44</sup>

#### ■ **The case of single-industry regions**

These business-cycle or structurally-based economic reasons have a particularly significant impact when the difficulties of the sector affect industries representing the principal or only gainful work in a given region. In the past, employees from the forestry sector who lost their jobs and found themselves in a “transition situation” had to deal with major problems when they lived in regions where forestry was the major industry. It thus became crucial for them to have access to training in other areas of activity.

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<sup>43</sup> A value chain is a set of interdependent activities, the pursuit of which makes it possible to create an identifiable and, if possible, measurable value. The value chain of a given product therefore integrates all the stages for creation of the product, from the procurement of raw materials to its final consumption, and even after-sales service. This concept has been proposed by American economist Michael Porter, a business strategy expert.

<sup>44</sup> See Volume 2, page 240.

## ■ Changes in activities

A person may also be in a “transition situation” due to changes occurring in the work itself. This refers to changes within professions.

These transformations may be gradual or sudden.

## ■ Technological changes

One should classify into this category all the “transition situations” occurring due to technological changes.<sup>45</sup>

All researchers estimate that current and future technological changes will exert significant pressure on the labour market; however, these changes will also lead to the creation of new professions. Automation and the use of robots in jobs pose a particular risk to “routine manual labour” and “routine cognitive labour.”<sup>46</sup>

Employees in the areas of health, education, law, finance and transportation may thus quickly find themselves in “transition situations” because their jobs have been transferred to automated systems.

These changes are already underway: the development of digital technologies has thus led to the complete disappearance in the written press of typographers and press operators, putting specialized workers in these areas into “transition situations” that are difficult to manage.

Faced with a future that is difficult to envisage in terms of future jobs, training is an especially important part of transition management.<sup>47</sup>

## ■ Personal considerations

A third group of “transition situations” is related to personal considerations.

Due to problems affecting the health of a person or of a relative, he or she may be forced or choose to leave his or her job or to considerably reduce his or her workload, thereby affecting a large part of his or her earnings.

These “transition situations” may also occur due to the needs of family-work balance. This is the case, for example, when a person leaves his or her job due to family obligations, or in order to follow a spouse who has been transferred.

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<sup>45</sup> See Volume 2, page 232 and following pages.

<sup>46</sup> See Volume 2, page 241.

<sup>47</sup> See Volume 2, page 255 and 256.

## □ **Some aggravating factors**

This typology illustrates a potential case where persons are, or may be, put into “transition situations,” leading specifically to a sudden decrease or even loss of wages.

In all cases, the person will have even more trouble getting out of the “transition situation” the older and less educated he or she is, and if he or she lives in a region where there are too few or poorly diversified economic activities.

In many cases, geographic mobility may constitute a way of escaping “transition situations,” but this solution may not be the answer for all situations. For personal reasons or due to certain obstacles, the persons concerned are not always ready or able to move in order to get out of their “transition situation.”

## ❑ **Lack of flexibility in the income support system**

In order to help individuals get through these various situations, the income support system is normally able to offer monetary assistance. However, in certain cases, persons may not benefit from this coverage.

The problem stems from a lack of flexibility on the part of the income support system to respond to the needs created by these situations.

### ■ **Employment insurance coverage**

Insurance plans, such as employment insurance, provide support to workers who have lost their jobs, but within a strict framework.<sup>48</sup>

Workers must have lost their jobs without being responsible for doing so. Support is provided while the worker looks for a job or completes a training program. Persons must have worked and paid into the employment insurance system for a certain period.

The access threshold is determined by the number of hours worked over the reference period. The actual duration of assistance is limited, and may vary from 14 to 45 weeks.

The access threshold and the duration of the assistance are determined based on the monthly unemployment rate in the region where the worker lives and therefore they vary in each one of the twelve defined regions.

### ■ **Social assistance and other income support measures**

Income support measures are subject to eligibility criteria.

In the case of last-resort financial assistance,<sup>49</sup> property and liquid assets are taken into account in determining the resources<sup>50</sup> of recipients. The value of property owned and of liquid assets reduces the assistance paid, if this value exceeds a fixed threshold. Consequently, even in the absence of income, a person may not receive last resort financial assistance.

Existing rules are such that employment insurance does not cover all unemployment situations, and persons not covered by employment insurance are not necessarily covered by social assistance.

As for the solidarity tax credit,<sup>51</sup> the amount granted is calculated based on the income of the household for the tax year preceding the one during which the payment starts. In this way, assistance is not always synchronized with the needs of beneficiaries when they are faced with a change of situation.

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<sup>48</sup> See Volume 2, Appendix 1.

<sup>49</sup> See Volume 2, page 31.

<sup>50</sup> Resources include both income and assets – i.e. the value of property and liquid assets held as money, cash or in bank accounts.

<sup>51</sup> See Volume 2, page 36.

## Employment insurance coverage

The Committee reviewed evaluations made based on the Employment Insurance Coverage Survey conducted in 2015.

### Employment insurance coverage rate

In Québec in 2015, the coverage rate for employment insurance<sup>1</sup> for all unemployed persons was 47.0% – meaning that 53.0% of the unemployed did not have access to regular employment insurance benefits.

### Groups with the lowest coverage rates

Among all unemployed individuals, whether or not they contributed to an employment insurance plan, certain groups have lower coverage rates, in particular:

- young persons and immigrants;
- uneducated individuals, as well as those who failed to complete their post-secondary education;
- individuals living in a two-income household, single persons and heads of single-parent families.

Individuals who worked in primary, retail, hotel and food service sectors as well as in education, health and public administration also have lower than average employment insurance coverage rates.

This is also true of unemployed individuals who held permanent part-time or non-permanent jobs, other than seasonal jobs. It bears mentioning that independent workers are not covered by the plan.

### Reasons for separation

Unemployed persons may not be eligible for regular employment insurance benefits,<sup>2</sup> if they do not have a just cause for separation as per the rules of the program – for example, if they quit their job.

Employment insurance contributors without a just cause for separation represent a minority of benefit claimants. In fact, 86% of employment insurance applicants have a valid job separation – which does not mean they are automatically covered under other conditions.

However some groups of employment insurance applicants have a lower proportion of valid job separation. They include:

- young persons aged 15 to 24;
- full-time students;
- two-income couples;
- permanent part-time workers.

1 The employment insurance coverage rate represents the number of individuals receiving regular employment insurance benefits during the reference week of the Employment Insurance Coverage Survey, expressed as a percentage of the unemployed population as measured by the Labour Force Survey.

2 Eligibility for regular employment insurance benefits is reserved for those who contributed to the employment insurance program in the 12 months preceding their unemployment, have a just cause for separation and a sufficient number of insurable hours.

Source: Statistics Canada, *Employment Insurance Coverage Survey 2015*, special compilation by the Ministère du Travail, de l'Emploi et de la Solidarité sociale.



## □ **Three hypothetical cases**

The various eligibility rules defined throughout the income support system are explained through the objectives of each measure and by the need to take into account the ability of governments to pay. However, in reality, this leads to leaving some of the “transition situations” identified above without protection and without assistance.

Three hypothetical cases make it possible to illustrate these “transition situations,” where the persons in question find themselves without income after a change of situation and without access to monetary support.

### ■ **A transition situation related to economic reasons: the case of a 50-year-old sawmill worker**

The first hypothetical case concerns a single 50-year-old worker who lives in a small town in Bas-Saint-Laurent.

He worked for 30 years in a timber sawmill as a sawing machine operator. His salary was \$23 per hour, or \$47 840 per year. One year ago, the mill closed its doors. The sawmill is the largest employer in his region.

After he loses his job, this worker is eligible for employment insurance benefits, which would give him benefits equal to 55% of his weekly income or \$920.

This worker owns several assets (a mortgage-free \$200 000 home, a car, a truck paid for in cash, a snowmobile and an all-terrain vehicle), but has no liquid assets (a maxed-out \$5 000 line of credit).

With the employment insurance benefits not being enough to maintain his lifestyle, this worker must consider divesting himself of certain assets.

### ■ **The worker submits an application for social assistance**

After using up his entitlement period to employment insurance benefits, this worker, who has professional sawmill training, has not been able to find a job in his region due to difficult economic conditions. He therefore submits an application for social assistance in order to provide for his needs.

After an analysis of his application for financial assistance, the worker learns that he is not eligible for a social assistance benefit, because he still has assets that exceed the exclusions stipulated in the social assistance program.

In order to be eligible for the social assistance program, the worker must sell his house, as well as his car or his truck. He must then use up the resulting liquid assets.

Incapable of quickly selling his house and finding himself without public income support, the worker must consider various avenues that would allow him to have income to satisfy his basic needs: mortgaging his house, finding a job outside of his region, selling his car below market value and selling other assets (snowmobile, all-terrain vehicle), etc.

■ **A transition situation related to changes occurring in activities: the case of a worker whose job is slated to disappear**

The second hypothetical case concerns a resident from the region of Québec who has worked as a teller at a financial institution for more than 20 years.

He has a stable, full-time job that provides him with an hourly wage of \$23 (\$47 840 per year) in addition to significant benefits.

His company announces major changes to its business line. The company will shortly make a digital shift and offer its customers “online” financial services. As a consequence, teller positions will be abolished and replaced by positions for financial services advisers.

The employee loses his job.

However, he is eligible for employment insurance benefits, which give him a weekly income of around \$500, or 55% of his weekly income of \$920. The maximum period of entitlement to regular employment insurance benefits in the region of Québec is 36 weeks. To cover his needs, he uses some of his savings to complement his unemployment insurance benefits.

At the end of this period, he still has not found a job commensurate with his qualifications – jobs of this type are becoming increasingly rare.

He therefore decides to follow a training program that would allow him to register for an Autorité des marchés financiers exam. After he completes the training and passes the exam, he should be able to find a job in the financial sector.

After expending his employment insurance benefits, the ex-teller must liquidate his remaining savings, in particular, his registered retirement savings plan in order to meet his essential needs (housing, food, etc.). He has no access to social assistance because of the assets he owns and the training he is taking does not entitle him to the student financial assistance program.

■ **The employee does not complete the training**

Ultimately, his financial situation prevents him from completing the training program. One his assets are almost depleted, he finally receives social assistance. He resumes and successfully completes the training program but the process was longer and more complex than initially expected due to the obstacles he encountered.

The ex-teller ultimately finds a new job in the financial sector, in a job category that is still in demand and that pays more than his previous job. However, from now on he will have to save more and work a few years longer in order to secure his retirement, since he used up the savings he had accumulated.

- **A transition situation related to personal situations: the case of a woman suffering from breast cancer**

The third hypothetical case concerns a single, 44-year-old woman diagnosed with breast cancer.

Working as an administrative assistant at a small services company at an hourly rate of \$18.50, i.e. \$38 480 per year, this woman must leave her job for an extended period in order to receive medical care.

The woman's employer does not have group health or disability insurance. This woman has not taken out personal disability insurance. However, she can count on the health benefits from employment insurance (\$407 per week, or 55% of her weekly income of \$740).

The employment insurance plan provides up to fifteen weeks of health benefits to help workers who need to leave work due to a short-term illness, an injury or from being placed under quarantine.

The treatments she received did not provide the sought-after results. A new series of more aggressive treatments is planned. As is the case with almost a third of the employment insurance health benefit recipients, she has used up the fifteen weeks to which she was entitled.

Not being able to return to work due to her health condition and the treatments that she must continue, she must get by with the resources that she has (savings, RRSP, sale of some assets). Since her house is paid off, paying rent would be much more expensive than continuing to live in her house.

- **Last-resort financial assistance**

One year later, she is still undergoing treatment. Her state of health still prevents her from returning to work. This woman now makes a request for last-resort financial assistance.

Since her property and liquid assets are more than the exclusions stipulated by the rules, she cannot be admitted to the social solidarity program.

Without income support, this woman must therefore sell off some assets and use up the resulting liquid assets, including her accumulated savings for retirement, before being eligible for the social solidarity program.

## ❑ No evaluation of the persons affected

The Committee could not obtain rigorous and precise information on the number of persons who are placed in at-risk situations that would lead to insufficient or no income, and who are not eligible for the income support system.

### ■ Two pieces of data

However, certain data sheds light on the number of persons with insufficient income who are not eligible for income support measures.

- According to Statistics Canada's Survey of Financial Security (2012), among Québec households whose incomes are below the social assistance exit threshold, about 93 000 households<sup>52</sup> own property or liquid assets whose value exceeds the stipulated exclusions. Other households in this income situation may also have other types of assets exceeding the stipulated exclusions. However, their number has not been evaluated.
- In 2016, among the households that applied for social assistance, 4 005 separate households were declared ineligible due to an excess amount of property or liquid assets.

Without knowing whether these persons were in a transition period, these two pieces of data shed light on the potential number of households whose incomes are insufficient or nil but who cannot receive social assistance support due to the program's rules.

### ■ Additional light on the subject

A third piece of data sheds additional light on the subject. It is estimated that in 2011, according to Statistics Canada's Survey on Labour and Income Dynamics, close to 94 000 persons belonged to a household where income was below the low-income threshold, according to the market basket measure, and had also experienced at least one "transition" between work, unemployment or inactivity during the year. This data covers persons aged 16 to 64. Full-time students were excluded.

Among these persons, 23 000 were considered the breadwinner of their household and had not received income support in the form of last-resort financial assistance or income replacement (employment insurance, Québec Parental Insurance Program, other indemnity plan, etc.).

The definition of transition used here is broad, since it is applied to all persons whose situation changed at least once – job, unemployment, health or inactivity – during the year, without knowing the meaning or number of these changes.

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<sup>52</sup> Including 84 000 households that owned a residence valued at more than the exclusions stipulated in the last resort financial assistance program and 9 000 other households who had both a principal residence and RRSPs valued at more than the stipulated exclusions.

## □ **A disturbing reality**

Although rigorous and precise information is not available to help understand their extent, “transition situations” correspond to a disturbing reality, requiring appropriate initiatives. The hypothetical cases give some illustrations of vulnerable situations not covered by Québec’s current income support system, due to the rigidity of the programs in effect.

In the cases described above, persons found themselves in “transition situations” for economic reasons or due to a change in activities or due to a personal event – in this case, an illness.

## ■ **A common point**

In these three cases, the income support system was not able to help the persons in question because of the rules related to property that need to be taken into account in determining the beneficiary's resources. These persons would have to liquidate most of their property before being able to benefit from monetary support.

## ■ **The only answer currently: the discretionary power of the Minister**

At this time, the only way to provide a solution to these situations involves the responsible Minister exercising his or her discretionary powers.<sup>53</sup> However this is only a partial and imperfect response to situations where there are several causes that are likely to multiply in certain cases.

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<sup>53</sup> See Volume 2, page 28.

## □ **The needed response to “transition situations”**

In its reflection on the needed response to “transition situations,” the Committee did not take into account any changes that may be required to the employment insurance rules. The insurance plans, including employment insurance, were not part of the Committee’s scope of analysis.<sup>54</sup>

### ■ **Taking action in two directions**

The Committee proposes taking action in two directions, namely:

- making the current system more flexible by modifying the rules related to property and liquid assets that need to be taken into account to determine a recipient’s resources;
- actively responding to certain “transition situations” by creating a new training-based support tool.

### ■ **A better understanding of “transition situations”**

These two series of initiatives would have to be accompanied by efforts to gather more information on persons living in a “transition” situation and not benefiting from income support.

### ■ **Three recommendations**

The Committee is making three recommendations regarding these “transitions,” with each one targeting a different objective, namely:

- increased flexibility in accounting for property and liquid assets in order to get temporary assistance within the framework of social assistance programs, coupled with employability programs, which would be in order to support the income of persons in a transition situation;
- the creation of a personal training or transition account in order to facilitate these transitions, but also to act proactively;
- the development of a database that can be accessed in order to adequately assess the number of persons affected and to specify causes.

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<sup>54</sup> See page 2, note 5.

## □ **Increased flexibility in accounting for property and liquid assets**

The first recommendation formulated by the Committee for supporting the income of persons in a “transition” situation involves relaxing the accounting rules for property and liquid assets in order to obtain temporary assistance equivalent to social assistance, where this flexibility would be coupled with the obligation to participate in employability activities, such as those of the *Aim for Employment* Program.

To this end, the Committee studied the possibility of giving financial assistance to some of the persons currently unable to take advantage of social assistance, due to a net value of property and liquid assets in excess of the stipulated exclusions.

### ■ **A proposed program**

A temporary assistance program would be implemented, which would operate under the following main terms.

- The program would make it possible for households that are experiencing a transition and whose incomes remain insufficient to benefit from social assistance for a limited cumulative duration, in order to prevent their impoverishment due to the liquidation of almost all of their assets during their transition period.
- With regards to the planned exemptions, the authorized value of property would be higher than for current social assistance programs. The value of exemptions for the other types of assets could also be revised.
- This assistance would be conditional upon the creation of a work integration plan similar to the one that is stipulated in the *Aim for Employment* Program for persons with no employment constraints.
- The amount of the assistance should be consistent with the basic support from last-resort financial assistance, so that the assistance is not more generous than last-resort financial assistance.

### ■ **Certain provisions that must be specified**

The exact rules of such a program should be determined by the government. The Committee has reflected on more specific provisions that could be retained.

- This program would last, for example, a maximum of 12 cumulative months during a given person’s lifetime.
- The program would be offered to applicants for social assistance who have been rejected due to the net value of their primary residence or other assets. Higher asset ceilings than in the framework of current programs would therefore be defined for this temporary assistance program. This would focus primarily on the value of the principal residence.
- Applicants exceeding these ceilings would first have to use their available resources before being entitled to the temporary assistance program.

## ■ Assistance combined with an employment integration approach

The assistance could be equal to the basic benefit from the social assistance program, without providing entitlement to additional advantages such as special benefits.

Assistance would be accompanied by an employment integration plan and require the recipient to participate in a process similar to that stipulated by the *Aim for Employment* Program. Unlike participants in the *Aim for Employment* Program, the beneficiary would not receive additional allowances.

## ■ Additional conditions to be defined

The assistance could be offered in two stages, namely:

- in the form of non-reimbursable assistance, in the first three cumulative months during which an individual benefits from the program.
- in the form of reimbursable assistance, therefore taking the form of a loan, for the remaining months.

The Committee was not able to specify the cost that this program would represent, since this cost depends on the conditions and rules to be determined.

### **Recommendation No. 4**

There are cases where the income support system cannot provide help to persons in “transition situations,” namely the at-risk situations that can lead to insufficient or no income.

In order to support the income of these persons, **the Committee recommends** the government of Québec to implement a temporary assistance program, which would involve relaxing the accounting rules for property and liquid assets associated with the payment of social assistance.

This program would help prevent the impoverishment of these persons, due to the liquidation of almost all their assets during their transition period. The principal terms of this assistance would be the following:

- The program would make it possible for households experiencing a transition and whose incomes remain insufficient to benefit from social assistance for a limited cumulative duration.
- The authorized value of property – and primarily the main residence– would be higher than for current social assistance programs. The value of exemptions for the other types of assets could also be revised.
- This assistance would be conditional upon the creation of a work integration plan similar to the one stipulated in the *Aim for Employment* Program for persons with no employment constraints.
- The amount of assistance should be consistent with the basic support from last-resort financial assistance, so that the assistance is not more generous than last-resort financial assistance.

The Committee contemplated specific rules concerning the maximum duration of the program, how to take into account the main residence and other assets, and the amount of assistance. The exact rules should be determined by the government.



## □ The creation of a personal account for training and transition

For the Committee, training constitutes a means of proactively responding to certain “transition situations.”

Broadly speaking, faced with a future that is difficult to decipher in terms of the nature of future jobs, training assistance constitutes a major issue for managing transition situations related to technological changes, and, on a larger scale, economic reasons.<sup>55</sup>

- Training benefits workers by offering them new opportunities, benefits employers by offering them with a workforce adapted to their needs and benefits society as a whole by enabling increased economic growth.
- Training in particular makes it possible to ensure that the skills of a company’s workforce keep up with the evolution of the tasks to be accomplished.

Therefore, responsibility must be shared.

## ■ Applications elsewhere in the world

The Committee analyzed the possibility of creating a personal training and transition account. Initiatives of this type have been implemented in some developed countries.

### ■ Singapore

In 2016, Singapore introduced the individual skills development account.<sup>56</sup> However, Singapore’s social system is very different from Québec’s.

Every Singaporean is entitled to a \$SGD500 credit (\$CAN470)<sup>57</sup> that he or she can use for a series of training and education courses supported by the government.

### ■ France

In January 2017, the French government created the *compte personnel d’activité* [personal activity account]. This is a tool aimed at helping persons who are active in the labour market to further their careers.

The implementation of this account is based on the idea that work constitutes an essential element of social integration.<sup>58</sup>

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<sup>55</sup> See Volume 2, page 255 and 256.

<sup>56</sup> More information is available at [www.skillsfuture.sg](http://www.skillsfuture.sg)

<sup>57</sup> In Singapore dollars, (\$SGD), conversion at the average rate of the first nine months of 2017.

<sup>58</sup> Personal Activity Account Commission, *Le compte personnel d’activité, de l’utopie au concret* [The personal activity account, from utopia to the concrete] [Report by the Commission], French Government, October 2015, p. 58. [http://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs\\_rapport\\_cpa\\_final\\_2.pdf](http://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs_rapport_cpa_final_2.pdf)

### ■ An interesting idea for Québec

This personal account for training and transition would be offered to all workers, after an initial trial period in the form of a pilot project.

Such an account, if adequately defined, would constitute a flexible tool available to persons who may find themselves in a “transition situation,” giving them the means to successfully make this transition and therefore remain in or re-enter the labour market.

Such an account would also serve to prevent these kinds of transitions, by giving persons the means to adapt their skills to the anticipated evolution of their tasks.

### ■ Measures already in place in Québec

The Committee has noted that Québec already has a financing system for training activities, with the obligation on employers whose overall payroll exceeds 2 million dollars to invest at least 1% of this payroll into conducting workforce skills development activities. Companies not making this investment must pay equivalent amounts to Revenu Québec in order to feed a fund administered by the *Commission des partenaires du marché du travail*<sup>59</sup>.

This system has recently been improved.

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<sup>59</sup> Companies not declaring these investments and those that declare investments below 1% are also subject to this payment.

## ■ **A new system with four characteristics**

The new system for financing training activities – the personal training and transition account – would have four characteristics:

### ■ **Financing**

The system would be subject to financing that acknowledges the shared responsibility between workers, companies and the government with regard to training.

- The exact mode of financing would be defined after examination of the financing currently available for training and of various forms that could be rolled out in the form of pilot projects.
- The amounts paid to the account would accumulate gradually as periodic payments are made.

### ■ **Use**

Its use would be managed by the worker, following certain rules.

- The framework would be defined by the government, according to the anticipated evolution of the labour market.
- The amounts accumulated by the worker could finance basic and ongoing training, as well as the time necessary to benefit from this training, i.e. the compensatory wage during this period.

### ■ **Preventive action**

The purpose of the account would be to finance training, with a view to taking preventive action for transition situations related to the labour market or to facilitate the success of these transitions.

### ■ **Broad application**

The account would have a broader application than the current system for financing training activities, since it would be accessible to all workers. Therefore, it would include workers from companies whose total payroll is less than 2 million dollars. As such, the account would have to take into consideration the particular constraints of small or medium-sized businesses with regard to their ability to provide training time to their workers.

## ■ **Prior implementation of pilot projects**

The innovative character of the measure and its alignment with current mechanisms make it necessary to start with pilot projects.

The Committee is of the opinion that the implementation of a training account should include two pilot projects within the finance sector and the transport sector, respectively.

- Financial services and the freight transport sector make up a part of the activities likely to be affected by technological changes.<sup>60</sup> Some researchers have also emphasized the potential automation of logistical activities in the transport sector.
- Both sectors include workers with diverse skill levels.
- In addition, the freight transport sector includes both large and small companies.

## ■ **A use that could be expanded**

This account, initially meant for training, could eventually be expanded to include other activities, depending on the results of the pilot projects. However, such an expansion would require the definition of new terms, in particular with regard to financing.

## ■ **The characteristics of a targeted and small-scale universal allowance**

The Committee is of the opinion that this personal training and transition account would take the form of a small-scale universal allowance which would only benefit workers.

The cost of such a measure would depend entirely on the methods selected by the government for its implementation and funding.

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<sup>60</sup> See the works of David H. Autor, cited in Volume 2 of the Final Report, page 241.

## Recommendation No. 5

Training is a way to address "transition situations" resulting from technological changes, and more broadly for economic reasons.

**The Committee recommends** creating a new training support tool, in the form of a personal account for training and transitioning.

Such an account would be a flexible tool available to persons who may find themselves in a "transition situation," giving them ways to get through that transition and thereby stay in or re-enter the labour market.

Such an account would also serve to prevent these kinds of transitions, by giving persons the means to adapt their skills to the anticipated evolution of their tasks.

The personal account for training and transitioning would have four characteristics:

- The account would be funded on the basis of shared responsibility for training between workers, businesses, and the government. The amounts paid to the account would accumulate gradually as periodic payments are made.
- Its usage would be managed by the worker in accordance with rules defined by the government, based on expected changes in labour market needs. The amounts accumulated by the worker could finance basic and ongoing training, as well as the time necessary to benefit from this training, i.e. the compensatory wage during this period.
- The purpose of the account would be to finance training, with a view to taking preventive action for transition situations related to the labour market or to facilitate the success of these transitions.
- The account would have a broader application than the current system for financing training activities, since it would be accessible to all workers. Therefore, it would include workers from companies whose total payroll is less than 2 million dollars. As such, the account would have to take into consideration the particular constraints of small or medium-sized businesses with regard to their ability to provide training time to their workers.

Given the measure's innovative nature and the need to operate in harmony with existing programs, **the Committee recommends** that this initiative first go through two pilot projects, in the financial sector and the freight transport sector. These two sectors were selected based on the potential impact of technological changes on tasks and jobs.

### **The training obligations of Québec businesses**

The *Act to Promote Workforce Skills Development and Recognition* aims to improve worker qualification.

It requires employers with payrolls over \$2 million to invest in training.

During a given calendar year, the company must invest the equivalent of at least 1% of its payroll in conducting training activities aimed at developing the skills of its staff. If it does not do so, or if it can only prove expenses below 1% of its payroll, it must pay the amount not invested to Revenu Québec, which will then transfer it to the Workforce Skills Development and Recognition Fund. The Fund is used to subsidize projects related to workforce training.

The company must therefore declare the amount invested in training to Revenu Québec each year. The company must also provide the details of its training expenditures to the *Commission des partenaires du marché du travail*.

## ❑ The development of an accessible information bank

The committee noted the difficulty of accessing accurate, precise information for evaluating the number of persons undergoing a "transition" who did not receive any income support.

In order to fill this information gap, the Committee recommends that an accessible information bank be developed that would make it possible to define the number of persons affected by these situations, and to specify the causes behind them.

### **Recommendation No. 6**

The Committee noted the difficulty of accessing accurate, precise information for evaluating the number of persons undergoing a "transition" who did not receive any income support.

**The Committee recommends** that the *Institut de la statistique du Québec* be mandated to conduct a survey to create an information bank making it possible to better identify persons living in transition situations and who do not receive income support.

The survey should specify the number and profile of persons undergoing a transition situation, the reasons for that transition situation, and the presence or absence of income support. The survey should be longitudinal, meaning that it should track the same individuals over time.

It should also include all the information needed to identify persons in transition situations and the income support that they do or do not receive during those periods, as well as various other data relevant to monitoring how those persons's lives are changing, including their financial status.

The information obtained from the survey should be available free of charge to the public, without departing from the rules concerning the protection of personal information.

## 2. SETTING AN EXPLICIT MINIMUM THRESHOLD: SUPPORT FOR THE LEAST ADVANTAGED

The second series of improvements to be made to the income support system in order to meet the basic definition of a guaranteed minimum income relates to setting a minimum threshold in support for the least advantaged.

The current income support system has not been defined based on an explicit minimum threshold, and this shortcoming raises the question of support for the least advantaged.<sup>61</sup>

### □ An issue covered in seven points

The committee's thinking as to establishing a minimum threshold and support for the least advantaged is presented in seven points.

The first two points are devoted to a certain number of observations regarding the state of poverty in Québec.

- Progress has been made, particularly from the viewpoint of lowering the number of social assistance recipients.
- Encouraging data on inequality has been increasingly visible, but poverty persists.

In the following four points, the committee presents its proposals regarding the determination of an explicit minimum threshold in the income support system, as well as improvements to be made to the income support system in order to adhere to it.

- The committee proposes defining a reference threshold, distinct from the poverty line, determined based on the varying ability of persons to join the labour market.
- The committee proposes what that reference threshold could be for certain categories of persons.
- The committee analyzes the disposable income observed, situating it with respect to the proposed reference threshold.
- These observations lead the committee to make a certain number of recommendations regarding improvements to be made to the support for persons without children or employment restrictions, persons with disabilities, and persons 65 years and over.

In the seventh point, the committee deals with an issue commonly raised in support for the least advantaged, which is how to treat couples relative to individuals when it comes to social assistance and the issue it raises with respect to personal freedom.

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<sup>61</sup> The notion of "disadvantaged persons" refers here to persons in a situation of insufficient resources. As defined, resources refer to income and assets. Thus, here only the minimum income support threshold will be analyzed for persons who do not have assets above the exemptions set out in current social assistance programs.



## 2.1 Decline in the number of social assistance recipients

In March 2017, Québec contained 330 761 adult social assistance recipients,<sup>62</sup> essentially under two last-resort financial assistance programs:<sup>63</sup>

- 196 149 adults or 59.3% - the social assistance program.
- 134 516 adults or 40.7% - the social solidarity program.

The number of adult social assistance recipients has sharply declined in recent years. Twenty years earlier, in March 1997, that number was 543 128. This decline comes from the reduction in the number of social assistance recipients, who accounted for 77.2% of beneficiaries at the time.

### □ Three factors

This change can be explained by three factors.

#### ■ Improvement in the labour market

Improvement in the labour market – combined with the employment guidance and integration efforts put in place – has led a large number of social assistance recipients to join the labour market and no longer depend on the program. This improvement in the labour market has also prevented many other persons from needing to apply for social assistance.

One sign of the labour market's positive performance is that since 2002, the proportion of social assistance recipients who declare labour income has sharply declined, going from 9.3% to 4.7%. This decline may reflect the ability of persons who collect labour income to earn enough to stop receiving social assistance.

#### ■ Movement towards family allowances

The movement of covering the needs of children from social assistance programs to the family allowance has enabled a number of families to leave these programs.

#### ■ Recipient ageing

The ageing of recipients means that recipients over the age of 65 become eligible for federal income support programs, at which time they fall outside the scope of social assistance measures in Québec.

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<sup>62</sup> See Volume 2, pages 107 and the following pages for a complete portrait of social assistance recipients as of March 2017.

<sup>63</sup> Social assistance also includes Youth Alternative Program recipients, who were only 96 in March 2017, or less than 0.3% of all adults receiving social assistance benefits

## **2.2 Encouraging data on inequality, but poverty persists**

When it comes to inequality, the data is encouraging – with Québec comparing favourably to other jurisdictions despite some increase in inequality in recent years.

Furthermore, despite the progress achieved with respect to the labour market and the decline in the number of social assistance recipients, poverty still persists.

## □ Income inequality

Income distribution and inequality shed light on the ability of the income support system and the various distributive measures to share wealth<sup>64</sup>.

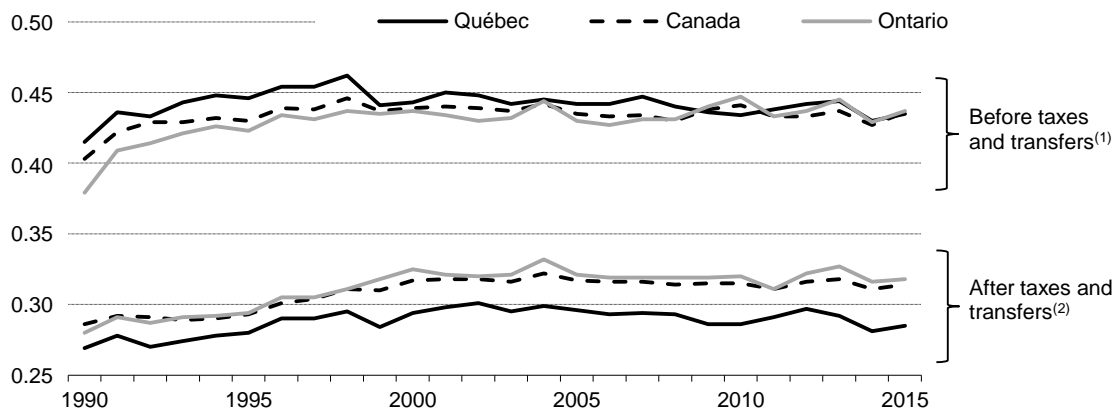
### ■ Inequality is up

From a historical standpoint, inequality is higher in Québec now than in the early 1990s. It rose until the early 2000s, but has since stabilized.

In Canada as a whole and in Ontario, the evolution is similar. It should be noted however that, in Québec, the Gini coefficient after taxes and transfers is lower than for Canada as a whole and for Ontario for the whole period.

CHART 8

#### Gini coefficient, before taxes and transfers and after taxes and transfers, in Québec, Ontario, and Canada – 1990 to 2015



Note: Lower results mean less inequality.

(1) Corresponds to adjusted market income as presented by Statistics Canada.

(2) Corresponds to adjusted after-tax income as presented by Statistics Canada.

Source: Statistics Canada (Canadian Income Survey, Table 206-0033).

<sup>64</sup> See Volume 2, pages 90 and the following pages.

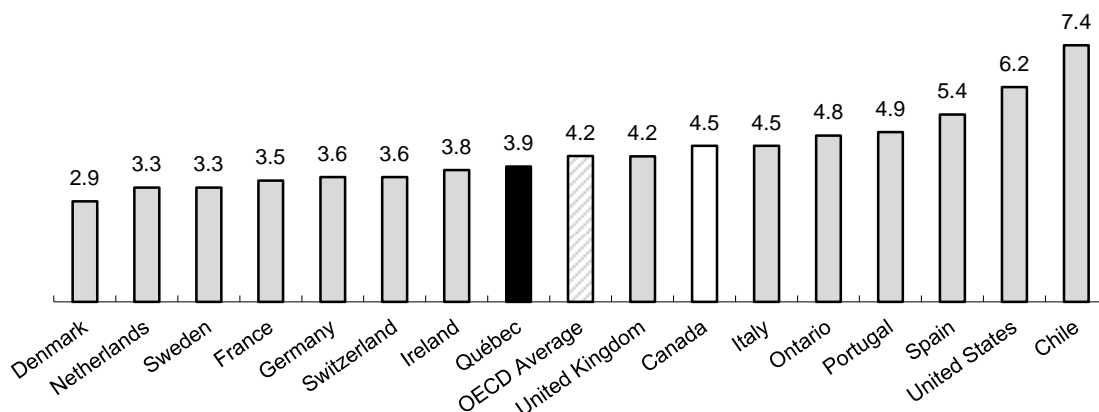
## ■ A favourable ranking among OECD member countries

Québec is ranked favourably within OECD member countries, with respect to income distribution after taxes and transfers.

CHART 9

### Income of the wealthiest households as a proportion of the income of the less wealthy households in Québec, Ontario, and certain OECD member countries – 2013

(ratio of the upper bound value of the ninth decile to that of the first decile, after taxes and transfers)



Sources: OECD for international data and Statistics Canada for Canadian data.

## ■ First among Canadian regions

Within Canada, income is most equally distributed in Québec, notably owing to the income support system and other redistributive measures.

TABLE 6

### Gini coefficient in Québec and in certain regions of Canada – 2015

Regions	Gini coefficient			Rank <sup>(4)</sup>
	Before taxes and transfers <sup>(1)</sup>	After transfers (before taxes) <sup>(2)</sup>	After taxes and transfers <sup>(3)</sup>	
Québec	0.435	0.330	0.285	1
Atlantic provinces	0.437	0.334	0.295	2
British Columbia	0.416	0.343	0.312	3
Ontario	0.437	0.360	0.318	4
Prairie provinces	0.424	0.363	0.322	5
Canada	0.436	0.354	0.314	—

Note: Lower results mean less inequality.

(1) Corresponds to adjusted market income as presented by Statistics Canada.

(2) Corresponds to adjusted total income as presented by Statistics Canada.

(3) Corresponds to adjusted after-tax income as presented by Statistics Canada.

(4) The ranking between Québec and other Canadian regions is determined based on the Gini coefficient after taxes and transfers.

Source: Statistics Canada (Canadian Income Survey, Table 206-0033).

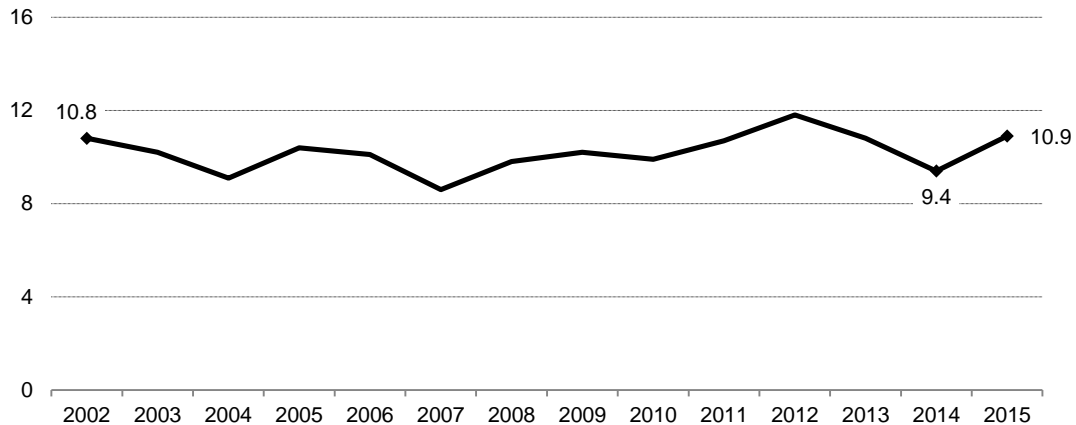
## □ Poverty in Québec

For about a decade, the incidence of poverty has been relatively stable in Québec.<sup>65</sup> The share of low-income persons in the population as a whole, according to the market basket measure, has been fluctuating for ten years around 10% (9.4% in 2014 and 10.9% in 2015).

The persons most affected are single individuals and single-parent families.

CHART 10

**Poverty rate according to the market basket measure in Québec – 2002 to 2015**  
(as a percentage)



Source: Statistics Canada (Canadian Income Survey, table 206-0041).

## ■ A favourable ranking among Canadian provinces

Based on this share, Québec does well among Canadian provinces in terms of its low poverty rate.

Québec ranked third in 2015, behind Alberta and Saskatchewan<sup>66</sup> with respect to the poverty rate according to the market basket measure.

When another measure is used, Québec maintains this strong position.

<sup>65</sup> See Volume 2, pages 73 and the following pages. For a portrait of poverty in Québec.

<sup>66</sup> See Volume 2, page 78 for the data.

■ **A less favourable position compared to other jurisdictions**

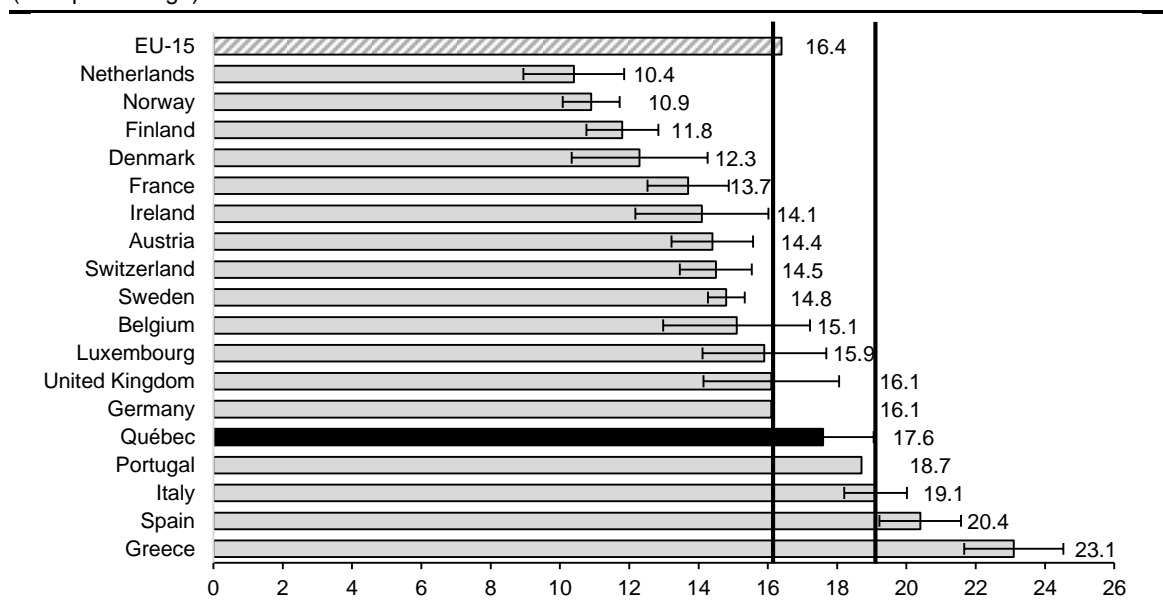
Despite this strong performance at the Canadian level, Québec scores lower in an international comparison to several "industrialized nations having the least number of persons living in poverty."<sup>67</sup>

It should be noted that international comparisons by poverty rate are limited by the availability of data. The market basket measure is not available on an international basis. Thus, the low-income measure – a measure relative to the median income of each country – is the one used to compare Québec to 17 European countries counted among the world's most economically developed.<sup>68</sup>

Based on this data, the Centre d'étude sur la pauvreté et l'exclusion concludes that Québec has not achieved the target set by the Act to Combat Poverty and Social Exclusion, which is to be among the industrialized nations having the least number of persons living in poverty by 2013.<sup>69</sup>

CHART 11

**Poverty rate of persons in households based on the low-income measure at 60% of the median adjusted income, in Québec and certain European countries – 2013**  
(as a percentage)



Note: The 95% confidence intervals are indicated in the chart. The two vertical lines indicate the interval for Québec.  
Source: Centre d'étude sur la pauvreté et l'exclusion, *La pauvreté, les inégalités et l'exclusion sociale au Québec : État de la situation 2016*, December 2016, p. 27 (Figure 9).

<sup>67</sup> These are terms used in section 4 of the Act to Combat Poverty and Social Exclusion.

<sup>68</sup> Centre d'étude sur la pauvreté et l'exclusion, *La pauvreté, les inégalités et l'exclusion sociale au Québec : État de la situation 2016*, December 2016, pages 25 and the following pages.

<sup>69</sup> *Ibid.* In its report, the *Centre d'étude* states that "in 2013, Québec has a low-income rate according to the 60% low-income measure, similar to what is found in the group of countries composed of Belgium, Luxembourg, the United Kingdom, Germany, Portugal, and Italy. This group trails statistically significantly behind a leading group made up of all Scandinavian countries, the Netherlands, France, Ireland, Austria, and Switzerland."

## □ A portrait of persons living in poverty in Québec

Persons living in poverty, or low-income persons, are persons who belong to a low-income family unit,<sup>70</sup> meaning persons whose income is below the set threshold.

In Québec, the most common absolute measure for defining poverty is the market basket measure.<sup>71</sup> According to this measure, in 2014, 9.4% of Quebecers were living in poverty. This proportion was 10.0% among women, compared to 8.8% among men.

Overall, the number of those persons living in poverty in 2014 was estimated to be 740 800, including adults and children.<sup>72</sup>

### ■ Persons living in poverty by gender, age, and educational level

In 2014, among these persons, i.e. those living in a family unit whose income was below the poverty line:

- 53.6% were women, while they accounted for 50.3% of the total population;
- 46.4% were men, while they accounted for 49.7% of the total population.

The poverty rate varies by age group. In particular, among persons age 65 and over, there is a substantially lower poverty rate than for the age 15-64 population, particularly due to the income support they get.

Persons with a low educational level are more common among persons living in poverty than among the general population. Thus, in 2014 among persons age 25 and over:

- 23.1% of persons living in poverty were without a secondary school degree (compared to 18.5% among the population as a whole);
- 22.1% of persons had not earned that degree (compared to 19.0% among the population as a whole).

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<sup>70</sup> The expression "family unit" includes both economic families and single individuals. Statistics Canada's concept of an "economic family" is defined as a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage, common-law, adoption or a foster relationship. "Single individuals" are defined as persons who live outside of such a family.

<sup>71</sup> See inset on page 108.

<sup>72</sup> See Volume 2, page 98 and the following pages for a more detailed portrait of persons living in poverty in Québec. Unless otherwise indicated, the data used for this portrait come from the public use microdata file of the *Canadian Income Survey* published by Statistics Canada.

## ■ Persons living in poverty by type of household

Single individuals and single-parent families are living in poverty in significantly larger numbers than other types of households.

Breaking down the 740 800 persons living in poverty identified in 2014 shows that:

- 46.9% are in a household of one single individual;
- 14.9% are in a couple without children;
- 12.5% are in a single-parent family;
- 17.7% are in a family made up of a couple and at least one child;
- 7.9% are in other types of family units.<sup>73</sup>

## ■ Asset ownership by poor households

Based on 2012 data,<sup>74</sup> it is also noted that among poor households (by the 50% of median income measure),<sup>75</sup> a certain share own relatively sizeable assets – although this share and the scale of the assets owned are smaller than in households with larger income.

## ■ Situation of the working poor

In 2011<sup>76</sup>, the 833 000 persons counted as living in poverty<sup>77</sup> in Québec at the time included 75 800 working poor, who are persons aged 18 to 64 not enrolled in studies, who have worked at least 910 hours during the reference year, and who belong to a household whose income was less than the market basket measure.<sup>78</sup>

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<sup>73</sup> This includes all households made up of two or more persons which contain persons that do not meet the definition of an "economic family." For example, this is the case for a couple, with or without children, that has a parent living with them.

<sup>74</sup> This data comes from the 2012 *Survey of Financial Security*, the most recent available.

<sup>75</sup> As the data does not allow this assessment to be made based on the market basket measure, the low income measure of 50% of the median has therefore been used.

<sup>76</sup> This data comes from an analysis produced by the Ministère du Travail, de l'Emploi et de la Solidarité sociale based on data from the 2011 *Survey on Labour and Income Dynamics*. No analysis based on more recent data is available.

<sup>77</sup> This figure may be compared to the 740 800 persons living in poverty counted for 2014.

<sup>78</sup> See Volume 2, pages 205 and the following pages.



## 2.3 Defining a reference threshold, separate from the poverty line

With respect to disposable income, assessing the effect of income support measures raises the question of what reference threshold to adopt to qualify that effect and deduce from it which corrections must be made to the system.

### □ The question of the poverty line and the reference threshold

For the Committee, it is first important to emphasize that the poverty line cannot be directly adopted as the reference threshold. If this were done, it would undermine the role assigned to labour in helping to lift persons out of poverty.

#### ■ Two separate concepts

In fact, the poverty line (or low-income threshold) and the reference threshold refer to two different concepts.

- The poverty line defines the disposable income required to cover basic needs, established based on certain criteria. It serves to evaluate the poverty rate and track it over time.
- The reference threshold defines the basic income that the income support plan must guarantee to recipients. It should be used to set the minimum assistance level to offer under the income support plan while taking into account the ability of persons to earn work income.

For persons with the ability to join the labour market, the reference threshold is necessarily lower than the poverty line, in order to maintain an incentive to work. The increase in income from joining the labour market is what will enable the recipient to rise above the poverty line.

This incentive to work also applies to persons already in the labour market. Such persons should not be given an incentive to leave the labour market due to lack of difference in disposable income – or too low a difference in disposable income – compared to a person who is not working.

#### ■ A fundamental distinction

This distinction between the two concepts is fundamental.

The income support plan must enable the least advantaged to get closer to the poverty line, but it cannot by itself provide the income needed to lift everyone out of poverty.

The gap between the poverty line and the reference threshold is related to the ability to join the labour market, and it is obvious that this ability decreases considerably for persons experiencing severe employment restrictions.

It is therefore essential to clearly distinguish the poverty line from the reference threshold, used to determine the minimum income support to be provided to persons, and thereby fulfilling the threshold notion present in the definition of guaranteed minimum income.

#### ■ The Committee's analysis

Hereafter, the Committee looked at the issue of determining the poverty line, before going into greater detail on the issue of the reference threshold.

## ❑ Determining the poverty line

With respect to the poverty line, the Committee takes note of the fact that the market basket measure is the tool adopted in Québec and Canada to define it.<sup>79</sup>

This measure is published by Statistics Canada, based on work carried out by Employment and Social Development Canada.<sup>80</sup>

This measure allows for interprovincial comparisons.

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<sup>79</sup> There are two other poverty measures. See Volume 2, pages 74 and 75, for an overview of several measures used in Canada.

<sup>80</sup> Michael Hatfield, Wendy Pyper and Burton Gustajtis. *First comprehensive review of the market basket measure of low income*, Human Resources and Skills Development Canada, SP-953-06-10E, 2010, 88 p. [https://www.bibliotheque.assnat.qc.ca/DepotNumerique\\_v2/AffichageFichier.aspx?idf=39088](https://www.bibliotheque.assnat.qc.ca/DepotNumerique_v2/AffichageFichier.aspx?idf=39088).

## **Poverty measures as presented by the Centre d'étude sur la pauvreté et l'exclusion**

### **The market basket measure**

Under the market basket measure<sup>1</sup>, a family unit is considered to be low-income if its disposable income available for consumption is less than the value of a basket of goods and services calculated for its community or for a community of the same size.

This basket includes the following: food, clothing and footwear, shelter, transportation (public transit in urban areas, automobile in rural areas), other goods and services (like furniture, telephone service, household goods, tuition, recreation).

Currently used income measures look at "total income" (market income and other sources, including government transfers, before taxes), and "disposable income" (after paying income taxes).

The designers of the market basket measure innovated by proposing another income concept in order to reflect only the income actually available to purchase goods and services, which is income minus the following non-discretionary expenses:

- taxes, Québec Pension Plan contributions, employment insurance contributions;
- health care costs not covered by insurance, dental care, vision care;
- childcare;
- alimony and child support payments;
- pension contributions, union dues.

This is the "disposable income available for consumption for the purposes of calculating the market basket measure," a different concept from disposable income after taxes and transfers, which is often used for the purposes of measurement, research, and public debate. This concept marks an advance in assessing income for the purpose of measuring the standard of living.

The market basket measure is calculated based on a basket intended for a family of two adults and two children. It varies based on the size and makeup of the family unit.

The basket's cost varies by province and urban area size, which enables interprovincial comparisons.

The market basket measure implies a higher cost of living in rural regions and large cities, and slightly less in small- and medium-size towns.

The affordability of less expensive housing outside the cities does not offset the costs of transportation, which are essential for commuting to work or accessing goods and services.

Conversely, the affordability of public transit in large cities does not offset the costs of housing, which are much higher than in rural regions, to the point that the cost of living would be higher both in rural regions and in large cities, compared to the cost in small- and medium-size towns.

<sup>1</sup> Human Resources and Skills Development Canada *Low Income in Canada: 2000-2006*

*Using the Market Basket Measure*, Applied Research Branch, catalogue no. SP-864-10-08F, 2008, 81 p.

Source: Centre d'étude sur la pauvreté et l'exclusion, *Prendre la mesure de la pauvreté – proposition d'indicateurs de pauvreté, d'inégalités et d'exclusion sociale afin de mesurer les progrès réalisés au Québec* [Advice to the Minister], 2009.

## ■ Improvements to be made to the market basket measure

However, the Committee believes that the market basket measure could be improved.

### ■ Better explained

First, it should be better explained.

The market basket measure is often misunderstood or misinterpreted. The interpretation of the findings is sometimes incorrect, due to a brief overview that lacks details.

It would be particularly helpful for a distinction to be made among its components. Some of those components relate to covering basic needs. Other components of the market basket are aimed at meeting additional needs, such as those related to social inclusion.

### ■ Regular reassessment

Next, the measure should be reassessed regularly.

The market basket selected to define poverty is changing quickly, based on the underlying changes of what is considered essential by society. Therefore, the market basket should be analyzed and adjusted regularly, in order to adapt the selected measure to these changes.

Such a regular reassessment raises the issue of data consistency over time, and mismatched series as a result<sup>81</sup>. The Committee is of the opinion that the regular reassessment of the market basket measure should always be accompanied by a retroactive reconciliation of the data, to ensure the consistency of the series over time.

## Recommendation No. 7

The Committee takes note of the fact that the market basket measure is the tool adopted in Québec and Canada to define the poverty line.

**The Committee recommends** making the following improvements to how the market basket measure is presented and determined.

- Statistics Canada should make a clearer distinction between the components that relate to covering basic needs and those which aim to address additional needs in the basket used to calculate the market basket measure.
- The measure should be periodically every five years, for example reassessed to take into account changes in what is recognized as essential by society.
- This reassessment should always be accompanied by a retroactive reconciliation of the measure, in order to ensure the consistency of the series over time.

<sup>81</sup> The composition of the market basket measure has changed over the years, but the series have not always been retroactively revised for all of those changes.

## □ **Determining the reference threshold**

As stated before, the poverty line serves to evaluate different poverty rates and track them over time.

### ■ **A threshold separate from the poverty line**

The minimum level of assistance to offer under the income support plan is not equivalent to the poverty line, but rather a reference threshold that makes it possible to grant sufficient assistance while maintaining an incentive to work. For persons who can do so, the increase in income from joining the labour market is what will enable the recipient to rise above the poverty line.

This incentive to work also applies to persons already in the labour market – meaning that the income support offered must not incentivize them to leave the labour market because of a lack of difference in disposable income.

### ■ **A minimum threshold referring to the basic definition of guaranteed minimum income**

The reference threshold therefore corresponds to the minimum threshold to which the basic definition of guaranteed minimum income refers.

According to the definition adopted by the Committee, a guaranteed minimum income is "a system that offers a guarantee of monetary resources for all, the amount of these resources being related to a minimum threshold".<sup>82</sup>

The existing income support system in Québec has not been defined based on an explicit minimum threshold. Adoption of a reference threshold would help move the existing income support system in Québec closer to a guaranteed minimum income system as defined by the Committee.

### ■ **Two factors to take into account**

This reference threshold should be determined based on two factors.

#### ■ **The ability to increase income through work**

First, it is essential for the reference threshold to take into account the ability of individuals to increase their disposable income through work.

It goes without saying that assistance given to persons who are unable to join the labour market should be at a higher threshold than for persons with limited capacity for employment. This means that the government should not determine a single reference threshold, but variable thresholds based on the capacity to join the labour market.

#### ■ **Immediate needs**

Second, it seems logical to assume that the lower reference threshold – the one that applies to persons without employment restrictions – should enable those persons to meet all of their immediate needs.

These needs represent a share of the needs taken into account in the market basket measure. For a person without labour restrictions, coverage of other needs can only be provided by joining the labour market.

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<sup>82</sup> See page 15.

## ■ A potential enactment restriction

When enacting it, the reference threshold should also take into account the cost that its implementation would represent for the government, including the potential effect of its appeal. If setting the reference threshold at a certain level exceeds the government's capacity to pay, the determined threshold should be enacted gradually.

### Recommendation No. 8

The Committee notes that there is no explicit reference threshold in the income support system in place in Québec.

**The Committee recommends** that the government establish a reference threshold that explicitly determines the minimum income support to provide to persons and that the threshold be set based on the following criteria.

- It should be clearly established that the reference threshold is separate from the poverty line, in order to maintain an incentive to work for persons with the ability to join the labour market, and to not incentivize persons already in the labour market to leave it.
- The chosen reference threshold should be defined based on two factors.
  - The reference threshold should take into account the ability of individuals to increase their disposable income through work, and for this reason, should differ according to capacity to join the labour market.
  - For persons without limited capacity for employment, the reference threshold should enable them to meet all of their immediate needs.
- When being enacted, the reference threshold should also not exceed the government's capacity to pay, taking into account the potential effects of its appeal, and for this reason, its definition may be accompanied with a proposal for gradual enactment.

**The Committee recommends** that to determine the reference threshold that meets these criteria, the government is particularly reliant on research to define a basket for meeting immediate needs. This basket may be a subset of the basket used in the market basket measure, if this proves to be possible.

The Institut de la Statistique du Québec could be involved in this research.

## 2.4 A proposed reference threshold, for certain categories of persons

In order to go as far as possible in its recommendations, the Committee has defined the order of magnitude that the reference threshold chosen by the Québec government may have in order to determine the support it provides to persons without employment restrictions.

For the remainder of its analysis and recommendations, the Committee is expressing this threshold as a percentage of the market basket measure, for the sake of illustration.

### □ A first benchmark: Updating the work carried out in the 1980s

In order to establish the order of magnitude that the reference threshold should have, a first benchmark is the work performed in 1985 by two experts, Denis Fugère and Pierre Lanctôt.<sup>83</sup>

#### ■ The methodology developed

These two experts proposed a methodology for creating reference thresholds called "minimum income thresholds," which the government may use to determine the amounts of last resort financial aid benefits.

Based on the consumer habits of low-income workers, the authors created a market basket representing essential household needs. The data used to estimate the value of the various consumption baskets was produced for several reference groups and different types of households.

A limited basket gives rise to a "minimum income threshold" corresponding to the reference threshold that would apply to persons without employment restrictions.

#### ■ The results obtained at the time

According to Fugère and Lanctôt, the "minimum income threshold" calculated based on the limited basket for a single individual was \$440 per month in 1985. Also, according to them, this was an amount equivalent to the welfare benefit for a single individual in July 1985.

At the time, the amount of welfare benefits combined with other income support measures would therefore enable single individuals, couples with or without children, and single-parent families to reach or exceed this "minimum income threshold."

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<sup>83</sup> Denis Fugère and Pierre Lanctôt. *Méthodologie de détermination des seuils de revenu minimum au Québec*, Québec, 1985.

## ■ Updating these results

As an initial estimate, the Committee updated the "minimum income threshold" calculated based on Fugère and Lanctôt's limited basket, annually indexing the value of that basket as defined in 1985. By using the consumer price index excluding alcohol and tobacco for Québec,<sup>84</sup> the minimum income threshold is set at \$858 per month for a single individual (\$10 302 per year).

This is an initial assessment, one which does not take into account changes in the composition of the basket itself, nor actual inflation of prices in the categories of goods it contains.

## ■ Updated threshold coverage rate

Compared to this "minimum income threshold," income support paid to a single individual enrolled in the social assistance program in 2017 is \$781 per month, or 91.0% of the reference threshold.

The income support given today to a single individual without an income and without limited capacity for employment is not enough to reach the indexed threshold. To achieve Fugère and Lanctôt's "minimum income threshold," the single individual should receive an additional \$930 per year.

TABLE 7

### Fugère and Lanctôt's minimum income threshold updated for 2017 and comparison to the income support given for a single individual without limited capacity for employment (in current dollars)

	\$ per month	\$ per year
<b>Minimum income threshold (reference threshold)</b>		
– Fugère and Lanctôt's minimum income threshold calculated in 1985	440	5 280
– <b>Threshold updated for 2017 (based on CPI excluding alcohol and tobacco)</b>	<b>858</b>	<b>10 302</b>
<b>Income support for a single individual with no employment restrictions and no income in 2017</b>		
– Social assistance (including the supplement for a single individual)	678	8 136
– Solidarity tax credit	80	960
– GST tax credit	23	276
– <b>Total income support (2017)</b>	<b>781</b>	<b>9 372</b>
<b>Coverage level of the minimum income threshold in 2017 (as a %)</b>	<b>91.0%</b>	<b>91.0%</b>
<b>Difference</b>	<b>77</b>	<b>930</b>

Note : The amounts indicated for the solidarity tax credits and for the GST tax credit are those in effect on January 1, 2017. These amounts, adjusted to July 1, 2017, are respectively \$973 and \$280.

Source: Ministère du Travail, de l'Emploi et de la Solidarité sociale.

<sup>84</sup> This is the rate used by the Ministère du Travail, de l'Emploi et de la Solidarité sociale since 2005 for indexing its welfare programs.



- **57% of the market basket measure**

Calculated with respect to the market basket measure, current support represents 52% of the poverty line, and should be set to 57% to correspond to essential goods and services – with the ability to close the gap by joining the labour market.

This 57% rate with respect to the market basket measure represents the first benchmark used by the Committee to determine options for setting the reference threshold for a person without limited capacity for employment.

TABLE 8

**Coverage level of the market basket measure for a single individual without limited capacity for employment – 2017**

(in dollars and as a percentage)

	Amount	Coverage level of the market basket measure
<i>Poverty line per the market basket measure, single individual 2017 (Montréal)</i>	18 125	—
<b>Income support given in 2017</b>	<b>9 372</b>	<b>52%</b>
<b>Fugère and Lanctôt's minimum income threshold updated for 2017</b>	<b>10 302</b>	<b>57%</b>

Source: Ministère du Travail, de l'Emploi et de la Solidarité sociale.

## ❑ **A second reference point: parallel with coverage in an unemployment insurance program**

The second reference point is more theoretical and is based on work regarding the income replacement rate in an unemployment insurance system.

### ■ **The income replacement rate theory for unemployment insurance**

Based on this work, an income replacement rate of 50%<sup>85</sup> should be used on the basis of the costs and benefits of unemployment insurance.<sup>86</sup>

Applied to the minimum wage, the income replacement rate determined by an unemployment insurance system represents the ceiling for income support, for a person with no limited capacity for employment.

It would indeed be unfair for someone with no limited capacity for employment to receive more money from an income support system than the unemployment insurance amount paid to a minimum wage worker who has lost his or her job.

### ■ **50% of the market basket measure**

There is an analogy between the minimum wage and the poverty line according to the market basket measure. This is because a full-time minimum-wage job pays an income close to or exceeding the market basket measure.

Thus, the 50% rate with respect to the market basket measure may be applied to obtain a second reference point, which the Committee is using to specify what could be the reference threshold for a person with no limited capacity for employment.

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<sup>85</sup> See the following:

- Martin Neil Baily, *Unemployment Insurance as Insurance for Workers*, Industrial and Labor Relations Review, vol. 30 no. 40, July 1977, p. 495-504;
- Martin Neil Baily, *Some Aspects of Optimal Unemployment Insurance*, Journal of Public Economics, vol. 10, no. 3, December 1978, p. 379-402;
- John Stanton Flemming, *Aspects of optimal unemployment Insurance – Search, leisure, savings and capital market imperfections*, Journal of Public Economics, vol. 10, no. 3, December 1978, p. 403-425.

<sup>86</sup> The costs correspond to the production losses resulting from extending the unemployment while the benefits result from the satisfaction provided by more stable consumption.

## □ **Range identified by the Committee: 50–60% of the market basket measure**

Based on these two reference points, the Committee considers that the reference threshold used by the government to determine the support amount for persons with no limited capacity for employment should be between 50% and 60% of the market basket measure.<sup>87</sup>

### ■ **Temporary setting of a threshold at 55%**

For the rest of its analyses and recommendations, and while awaiting a more in-depth study to more precisely set this threshold, the Committee has chosen a reference threshold of 55% of the market basket measure for a single individual with no limited capacity for employment. This 55% threshold is in line with the order of magnitude established by the two previously adopted reference points.

In the Committee's opinion, this reference threshold for a single individual with no limited capacity for employment constitutes an adequate starting point pending a more thorough evaluation, which also provides some flexibility for additional adjustments that could be required. As proposed above, this complete assessment could involve the Institut de la statistique du Québec.

This amount would allow a single individual with no income to obtain disposable income equivalent to 55% of the market basket measure. For the sake of consistency, the Committee proposes that the threshold for a couple without children allow this same coverage rate of the market basket measure.

### ■ **Adaptations for different situations**

Households with children, for their part, should benefit from the same support, but enhanced by family assistance measures.

The Committee recognizes that persons with a limited capacity for employment should obtain income support based on a higher reference threshold. The issue of what income support to provide to persons with disabilities is covered later.

For persons age 65 and over, the threshold should therefore be explicitly set at 100% of the market basket measure. The federal government's income support policy for persons age 65 and over effectively and implicitly considers this threshold as the measure to retain, given that for these persons, work cannot be taken into consideration to reach the poverty line.

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<sup>87</sup> A theoretical income replacement rate of 50%, as proposed for an unemployment insurance system, corresponds to a range of 50-60% of disposable income.

### Recommendation No. 9

Pending the establishment of a final reference threshold by the government that explicitly specifies the minimum income support to provide to persons, **the Committee recommends** a reference threshold for certain categories of persons. The Committee will express this threshold as a percentage of the market basket measure, for the sake of illustration.

- For persons do not have a severely limited capacity for employment, single persons or couples without children, **the Committee recommends** that the reference threshold used by the government to determine the support amount should be between 50% and 60% of the market basket measure. For the remainder of its analyses and recommendations, the Committee will use 55% of the market basket measure as a reference threshold. A more detailed assessment should be conducted by the government, involving the Institut de la statistique du Québec.
- **The Committee recommends** that households with children and no limited capacity for employment should benefit from the same support, but enhanced by family assistance measures.
- For persons with a limited capacity for employment, **the Committee recommends** that the income support be based on a higher reference threshold.
- For persons age 65 and over, **the Committee recommends** that the threshold be set at 100% of the market basket measure, because from that age on, work should no longer be taken into account to reach the poverty line.

## 2.5 Disposable income observed, with respect to the proposed reference threshold

In order to assess the monetary resources provided to the neediest persons as part of the income support system, the Committee evaluated disposable income based on typical cases,<sup>88</sup> with this disposable income being compared to the poverty line—i.e. the market basket measure—and to the reference threshold proposed by the Committee where applicable.

For each typical case, the Committee calculated the coverage rate<sup>89</sup> of the proposed market basket measure for households through income support and employment income.

The cases presented are the following:

- childless households (single individuals or couples);
- households with children (single-parent families or couples with children);
- persons with a severely limited capacity for employment (single individuals);
- persons age 65 and over (single individuals or couples).

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<sup>88</sup> In all cases, households without jobs are considered to have assets lower than the exemptions provided for in the social assistance programs.

<sup>89</sup> The coverage rate compares an individual's disposable income with the low-income threshold calculated by the market basket measure. A rate lower than 100% means disposable income lower than the threshold, a rate of 100% means disposable income equal to the threshold and a rate greater than 100% means that the household has disposable income higher than the low-income threshold.

## ❑ Childless households

For childless households under 65 with no limited capacity for employment, we see that the minimum support granted to someone with no employment income is just above 50% (52% for a single individual and 54% for a couple). This support is thus lower than the reference threshold of 55% of the market basket measure proposed by the Committee.

For these persons, disposable income reaches more than 80% of the market basket measure for employment income equivalent to the cut-off threshold for social assistance – i.e. 20 hours a week at minimum wage for a single individual or 30 hours for a couple where only one spouse works (81% for single persons and 85% for couples).

Disposable income exceeds 100% of the market basket measure with a full-time job (40 hours a week) at minimum wage (116% for a single individual and 101% for a couple without children where only one spouse works) – which is above the poverty line.

CHART 12

### Disposable income with respect to the market basket measure and reference threshold, person under 65 living alone – 2016

(in dollars and as a percentage of the market basket measure)

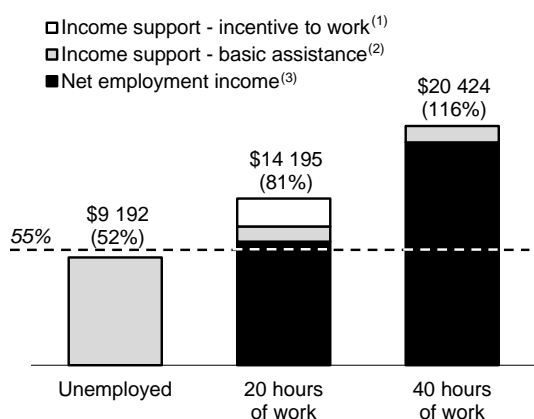
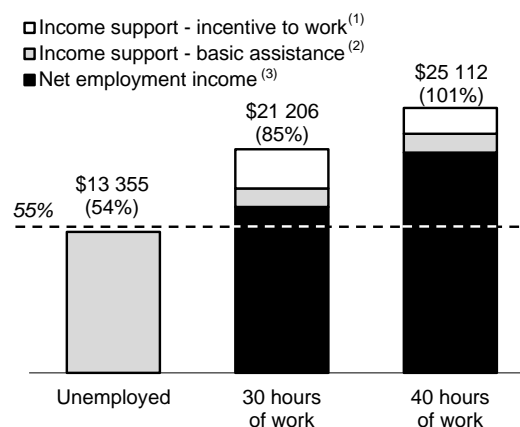


CHART 13

### Disposable income with respect to the market basket measure and reference threshold, childless couple both under 65 – 2016

(in dollars and as a percentage of the market basket measure)



Notes: The cut-off threshold for social assistance is usually reached at an income equivalent to about 20 hours of work for a single individual and 30 hours for a couple. Hours of work are paid at the minimum wage rate of \$10.75 over a full year, the effective rate since May 1, 2016. For a couple, only one of the spouses has a job.

The market basket measure threshold for 2016 is calculated based on the market basket measure for 2014 indexed in 2016 in accordance with the evolution of the consumer price index for Québec.

(1) Includes the Working Income Tax Benefit and general work premium.

(2) Includes the refundable GST credit, social assistance recipients, and the solidarity tax credit.

(3) The net employment income is equal to the employment income less taxes and mandatory contributions to be paid.

Source: Ministère des Finances du Québec.

## □ Households with children

When there are children in the household, the coverage rate with respect to the market basket measure increases, because of the amount of family assistance measures.

A single-parent family, like a couple with two children, benefits from a coverage rate of at least 85% in the absence of employment income (85% for a single-parent family with one child and 87% for a couple with two children).

This support is greater than the reference threshold of 55% of the market basket measure proposed by the Committee for single persons with no limited capacity for employment. In their case, as they benefit from child support whose objective is different than basic income support, this disposable income cannot be compared directly with the threshold of 55%.

With employment income equivalent to the cut-off threshold for social assistance (20 hours for a single-parent family and 30 hours for a couple), the coverage rate exceeds 100% (103% for a single-parent family and 110% for a couple with two children).

CHART 14

### Disposable income with respect to the market basket measure for a single-parent family with one child – 2016

(in dollars and as a percentage of the market basket measure)

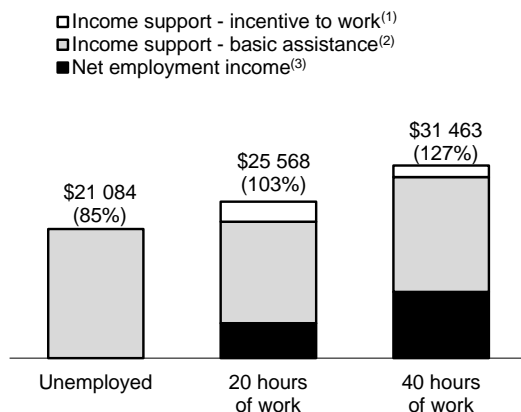
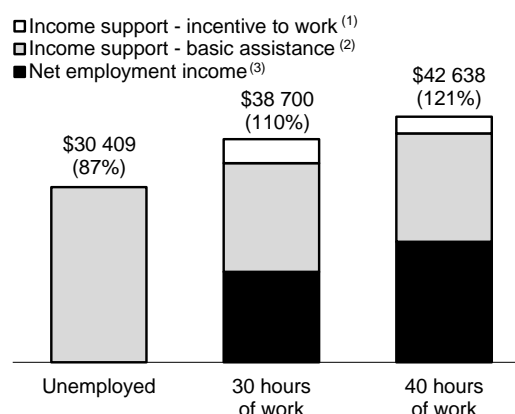


CHART 15

### Disposable income with respect to the market basket measure for a couple with two children – 2016

(in dollars and as a percentage of the market basket measure)



Notes: The cut-off threshold for social assistance is usually reached at an income equivalent to about 20 hours of work for a single-parent family and 30 hours for a couple with children. Hours of work are paid at the minimum wage rate of \$10.75 over a full year, the effective rate since May 1, 2016. For a couple, only one of the spouses has a job. The market basket measure threshold for 2016 is calculated based on the market basket measure for 2014 indexed in 2016 in accordance with the evolution of the consumer price index for Québec.

- (1) Includes the Working Income Tax Benefit and general work premium.
  - (2) Includes basic financial assistance measures and basic family assistance measures, namely: The Canada Child Tax Benefit, National Child Benefit supplement, Universal Child Care Benefit, Canada Child Benefit, child assistance, the refundable GST credit, social assistance recipients, shelter allowance program, the tax credit for child care expenses and the solidarity tax credit.
  - (3) The net employment income is equal to the employment income less taxes, mandatory contributions to be paid and the cost of unsubsidized childcare services for the single-parent family. The couple does not have childcare expenses.
- Source: Ministère des Finances du Québec.

## □ Persons with severely limited capacity for employment

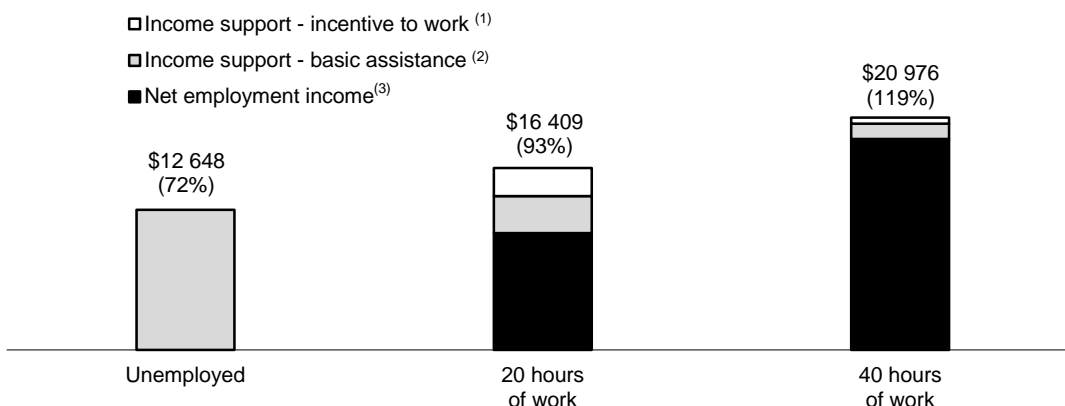
Persons with severely limited capacity for employment benefit from greater income support.

For a single individual with severely limited capacity for employment and no other income, the coverage rate is 72% of the market basket measure, compared with 52% for a single individual with no limited capacity.

This support is greater than the reference threshold of 55% of the market basket measure proposed by the Committee for single persons with no limited capacity for employment. The reference threshold that should apply to these persons remains to be established, however. It needs to take into account their reduced ability or inability to enter the workforce.

CHART 16

### Disposable income with respect to the market basket measure, single individual with severely limited capacity for employment – 2016 (in dollars and as a percentage of the market basket measure)



Notes: The cut-off threshold for social assistance is usually reached at an income equivalent to about 20 hours of work for a single individual. Hours of work are paid at the minimum wage rate of \$10.75 over a full year, the effective rate since May 1, 2016. For a couple, only one of the spouses has a job.

The market basket measure threshold for 2016 is calculated based on the market basket measure for 2014 indexed in 2016 in accordance with the evolution of the consumer price index for Québec.

(1) Includes the Working Income Tax Benefit and the adapted work premium.

(2) Includes the refundable GST credit, social solidarity benefits, the shelter allowance program and the solidarity tax credit.

(3) The net employment income is equal to the employment income less taxes and mandatory contributions to be paid.

Source: Ministère des Finances du Québec.



## □ Persons 65 years and over

Persons 65 years and over also benefit from greater income support.

For persons 65 years and over with no other income, the coverage rate exceeds 100% – i.e. the reference rate identified for these persons by the Committee and implicitly used by the federal government.

CHART 17

### Disposable income with respect to the market basket measure and reference threshold, person 65 years or older living alone with no other income

(in dollars and as a percentage of the market basket measure)

□ Income support - basic assistance<sup>(1)</sup>



CHART 18

### Disposable income with respect to the market basket measure and reference threshold, couple 65 years or older with no other income

(in dollars and as a percentage of the market basket measure)

□ Income support - basic assistance<sup>(1)</sup>



Note: The market basket measure threshold for 2016 is calculated based on the market basket measure for 2014 indexed in 2016 in accordance with the evolution of the consumer price index for Québec.

(1) Includes the refundable GST credit, the shelter allowance program and the solidarity tax credit as well as the Old Age Security pension and the Guaranteed Income Supplement.

Source: Ministère des Finances du Québec

## □ A global observation

We note that globally, the effect of income support measures on disposable income differs based on age, family situation and ability to enter the workforce.

- The income support granted is greater for persons 65 years and over than for the rest of the population, in the same way as support granted for households with children is greater than for childless households.
- Persons with severely limited capacity for employment also benefit from greater support than persons with no such limited capacity.

## **2.6 Improvements to be made to the support for persons without children and no limited capacity for employment, persons with disabilities and persons 65 years and over**

As we have just seen, the current system does not allow the set reference threshold to be reached in all cases.

The Committee therefore presents its successive recommendations for:

- persons without children who do not have a limited capacity for employment;
- persons with disabilities.

The Committee also presents recommendations aimed at reaching the reference threshold for a greater number of elderly persons.

## ❑ **Persons without children who do not have a limited capacity for employment**

First, there is a gap between the reference threshold proposed by the Committee and the support effectively granted to single persons and to couples without children and no limited capacity for employment.

For these households, the support granted represents 52% and 54% of the market basket measure, respectively, while it should reach 55% in accordance with the reference threshold proposed by the Committee.

### ■ **A situation to be corrected**

For the Committee, it is important to correct this situation.

The Committee studied the possibility of increasing the disposable income of households without children (single individuals and couples without children) with no limited capacity for employment, such that the coverage rate of the market basket measure corresponds to the reference threshold proposed by the Committee, or 55%.

The Committee has simulated a scenario, consisting of providing a supplement to social assistance benefits,<sup>90</sup> applicable to childless households. This scenario appears interesting on a number of counts.

Under the simulated scenario, the government increases the amounts paid under the social assistance program for childless households with no limited capacity for employment. The rules of the social assistance program apply, meaning that the supplement would only be paid to persons eligible for the program who conform to the asset and liquid asset criteria.

In order for the targeted households to achieve 55% coverage of the market basket measure, the increase would be \$472 per year for a single individual, and \$311 per year for a couple without children.

### ■ **An approach that respects the adopted principles**

With respect to the principles used by the Committee, the measure would be fair and efficient.

It would achieve the desired goal, bringing to 55% the market basket measure coverage rate for single individuals and couples without children with no limited capacity for employment.

It would be easy to apply, since it would be incorporated into the current income support mechanism. On the other hand, the measure might slightly decrease the incentive to work.

### ■ **Estimated cost of the measure**

The cost of the measure would be relatively limited, i.e. \$86.4 million.

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<sup>90</sup> See Volume 3, scenario 11.

### **Recommendation No. 10**

The Committee finds that there is a gap between the proposed reference threshold and the support granted for single individuals and couples without children and no limited capacity for employment.

To fill that gap, **the Committee recommends** increasing the amounts paid under the social assistance program for childless households (single individuals or couples), so that their disposable income in the absence of labour income reaches the reference threshold, i.e. 55% of the market basket measure.

**The Committee recommends** that this increase be \$472 per year for a single individual and \$311 per year for a couple without children.

## ■ Examination of an alternative

The Committee has studied a “partial fiscalization” scenario as an alternative solution to narrow the gap noted between the proposed reference threshold and the support granted to single individuals and to couples without children and no limited capacity for employment.

Under this scenario, the income supplement would be paid by a new refundable tax credit. The “partial fiscalization” scenario seems to have more disadvantages than advantages.

It would involve creating a new refundable tax credit reducible based on income, and would only be offered to households without children.

Like other tax measures of the same nature, this tax credit would be paid without any condition imposed on the assets or liquid assets owned. The difficulty stems from the fact that this tax credit, created to adjust basic social assistance, would benefit a large number of households that are not in fact eligible for social assistance.

It raises major questions in terms of logic and fairness. The scenario strays from the purpose it was created to address, i.e. adjusting the income support provided with respect to the threshold considered the reference threshold. Some households that are not truly disadvantaged might benefit from the tax credit, namely households with low net income that have assets above the thresholds required for social assistance.

It would cost the government \$266.5 million annually to implement this tax credit.

## □ Persons with disabilities

Persons with disabilities are among the least advantaged and require special attention, because of the difficulty or impossibility of working.

For these persons, as we saw previously, the Committee recommends that the reference threshold be higher than for persons with no limited capacity for employment.

Moreover, the Committee believes that the situation of persons with disabilities justifies that the assistance provided be under less restrictive, simpler terms.

### ■ Parameters to be developed to establish the applicable reference threshold

The Committee believes that it is important that the government defines the parameters for determining the ability of persons with disabilities to participate in the labour market.

The definitions regarding persons with disabilities are many, and the criteria defined to benefit from the various types of help available vary depending on the measures.<sup>91</sup>

- The *Act to secure handicapped persons in the exercise of their rights with a view to achieving social, school and workplace integration* defines a “handicapped person” as “a person with a deficiency causing a significant and persistent disability, who is liable to encounter barriers in performing everyday activities.”<sup>92</sup>
- For social solidarity program claimants, the notion of severely limited capacity for employment is defined as “a physical or mental condition that is deficient or altered for a permanent or indefinite period of time and which, given the individual’s psychosocial and socioprofessional characteristics, leads to significant functional limitations.”<sup>93</sup>

By offering additional assistance to persons with disabilities, the government recognizes that their condition limits their ability to increase their disposable income through work.

The government should therefore set clear parameters to define different levels of ability to join the labour market. The Ministère de la Santé et des Services sociaux could be involved in this process.

### ■ A precise threshold and assistance to go with it

Once these parameters have been established, the government should set the minimum income support to guarantee to persons with disabilities, based on their ability to increase their disposable income through work.

The reference threshold selected should thus differ based on the effect of the disability on the ability to enter the labour market.

The government should then evaluate the disposable income currently provided to persons with disabilities based on the reference threshold selected, and eventually raise this income support if a gap is observed.

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<sup>91</sup> See Volume 2, appendix 4.

<sup>92</sup> *Act to secure handicapped persons in the exercise of their rights with a view to achieving social, school and workplace integration*, section 1.

<sup>93</sup> According to the social solidarity program definition.

### **Recommendation No. 11**

Persons with disabilities are among the least advantaged and require special attention, because of the difficulty or impossibility of working.

For such persons, **the Committee recommends** that the reference threshold be higher than for persons with no limited capacity for employment.

In order to determine this reference threshold, **the Committee recommends** that the government define parameters to determine the capacity of persons with disabilities to participate in the labour market. The Ministère de la Santé et des Services sociaux could be involved in this process.

Once these parameters been established, **the Committee recommends** that the government set the reference threshold determining the minimum income support to provide to persons with disabilities, based on their ability to increase their disposable income through work. The reference threshold should thus differ based on the effect of the disability on the ability to enter the labour market.

**The Committee recommends** that the government evaluate the possible gap that exists between the disposable income currently provided to persons with disabilities and the reference threshold selected, and to improve this disposable income if a gap is observed.



## ■ **Less restrictive, simpler access terms**

The Committee believes that the government should make sure that the assistance provided to disabled persons be less restrictive and simpler.

The data on social solidarity program recipients, i.e. persons with a severely limited capacity for employment, shows that they are mainly long-term claimants. The proportion of persons that have been in the program for ten years or more, without interruption, is greater than 54.0%, and the exit rate before age 65 is very low.

The Committee is of the opinion that these persons, because of their condition, should be subject to looser rules and simplified assistance terms. The concept includes reducing the nuisances that may be experienced by these persons with disabilities and to lighten their burden, especially as regards obtaining and maintaining the assistance.

## ■ **Implementing a separate measure**

To do so, the Committee analyzed the creation of a separate, less restrictive measure than the current social solidarity program.

This measure would apply to persons with a severely limited capacity for employment and who have been social solidarity program recipients for some time.

Such a measure could take the form of a:

- new budgetary program, with relaxed rules;
- tax measure.

## ■ **Fiscalization option**

The Committee studied the second of these two options, i.e. fiscalization, for part of the recipients, of the assistance currently granted under the social solidarity program.

Such fiscalization would simplify the assistance to the persons in question, and focus the resources of the Ministère du Travail, et de la Solidarité sociale on integrating persons into the labour market.

According to the analysis performed, fiscalized assistance would be available only to claimants meeting additional criteria related to how great their needs and disability are and their incapacity to work.

It would come with fewer conditions than the current social solidarity program.

- Earned labour income would no longer be subject to monthly declarations, only an annual declaration. The exemption of employment income allowed would become annual, rather than monthly.
- The seven-day limit to time spent outside Québec would be loosened.

Benchmarks could be defined, involving setting a timeframe after which the assistance would be fiscalized; two years after the person becomes a social solidarity program claimant, for example.

- **Maintaining conditions related to assets**

Usually, fiscalization of assistance makes it unconditional to assets, because of the very nature of the tax system. The Committee is nevertheless of the opinion that in this case, and for reasons of equity, fiscalized assistance should remain conditional to assets or liquid assets owned.

This condition would then be checked only after a few years, e.g. five years.

The assistance would also remain conditional on income, but on an annual rather than monthly basis, with this condition being checked in a tax return.

- **Assistance related to implementing a guaranteed minimum income inspired by absolute or complete forms**

Due to the decrease in required conditions, this measure would be part of implementing a guaranteed minimum income inspired by absolute or complete forms for such persons with a more severe disabilities. Because of its fiscal nature and being external to social assistance programs, this form of assistance would comprise fewer irritants for this category of claimants.

In parallel, methods should be implemented for special benefits to continue to be paid outside the tax system.

## Recommendation No. 12

The situation of persons with disabilities justifies that the assistance provided to them be less restrictive and simpler, so as to reduce potential irritants and reduce the burden of required procedures.

**The Committee recommends** the creation of a separate, less restrictive measure than the current social solidarity program, for persons with a severely limited capacity for employment and who have been social solidarity program recipients for some time. The measure could take the form of a new budgetary program, with relaxed rules, or of a tax measure.

**The Committee recommends** evaluating the second of these two options, i.e. the fiscalization of financial assistance for certain persons with disabilities; those meeting criteria related to how great their needs and disability are and their inability to hold down a job.

The terms of this new tax measure could be the following:

- Benchmarks would be defined, involving setting a timeframe after which the assistance would be fiscalized; two years after the person becomes a social solidarity program recipients, for example.
- For reasons of equity, fiscalized assistance should remain conditional to assets or liquid assets owned. The exemption of employment income allowed would become annual, rather than monthly.
- This condition would be checked only after a few years, e.g. five years.
- The assistance would also remain conditional on income, with this condition being checked in a tax return.

Due to the decrease in required conditions, this measure would be part of implementing a guaranteed minimum income inspired by absolute or complete forms for such persons with a more severe disability.

In parallel, methods should be implemented for special benefits to continue to be paid outside the tax system.

## □ Persons 65 years and over

Among the least advantaged, persons 65 years and over also require special attention.

As we saw previously, the Committee proposes, for these persons, a reference threshold for income support measures of 100% of the market basket measure, because in their case, work must not be taken into consideration to reach the poverty line.

Overall, this threshold is reached or exceeded, but despite this, the Committee notes that poverty persists among persons 65 years and over. The Committee is making a recommendation to provide an answer to one of the reasons for this situation.

Moreover, the labour market situation and demographic changes under way require that the efforts made by persons 65 years and over to keep working be recognized. This is the point of another recommendation made by the Committee regarding workforce participation by persons 65 years and over.

### ■ An answer to ongoing poverty in persons 65 years and over

In the income support system that exists in Québec, the income support of persons 65 years and over is provided primarily by the federal government through the Old Age Security pension and the Guaranteed Income Supplement. For these persons, the federal government recognizes implicitly that work must not be taken into consideration to reach the poverty line.

Because of these federal programs, persons 65 years and over enjoy greater income support than younger persons.<sup>94</sup> The basic assistance granted to persons 65 years and over with no other income is greater than the support for persons under 65 in the same financial situation.

There is therefore a significant increase in income support at age 65, marking a change between the systems implemented by the Québec government and by the federal government.

The federal government's level of support explains why the proportion of persons considered poor is less for persons 65 years and over than for the general population.

The rate of low-income persons in Québec in 2015 according to the market basket measure was 3.6% for persons 65 years and over, compared with 10.9% for the general population.<sup>95</sup> This proportion is worrisome, given the difficulty of persons 65 years and over to keep working.

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<sup>94</sup> See graphs 17 and 18, page 122.

<sup>95</sup> See Volume 2, page 73 and 81. The data comes from the *Canadian Income Survey* published by Statistics Canada.

▪ **The causes identified**

Poverty in persons 65 years and over is essentially due to three reasons.<sup>96</sup>

- Some persons 65 years and over do not take advantage of the Guaranteed Income Supplement, although they are entitled to it.
- Given eligibility rules for federal programs, recent immigrants are not entitled to the full amount.
- So-called "threshold effects" are produced when Old Age Security pension and Guaranteed Income Supplement amounts are close to the low-income thresholds based on the market basket measure.

"Threshold effects" are mismatches produced in the time between the change in the market basket measure and the indexing of amounts paid by the federal government. Delays occur between the increase in the market basket measure and the adjustment of amounts paid under federal programs.

▪ **"Non-recourse": actions already taken**

The fact that some persons 65 and over do not take advantage of the Guaranteed Income Supplement is similar to the "non-recourse" problem.

In some cases, persons eligible for the Guaranteed Income Supplement do not apply for it because they don't know about the program or because of difficulty filling out the paperwork. The federal government has already implemented measures to correct the situation<sup>97</sup>.

▪ **Eligibility rules with respect to immigrants: What the federal government can do**

To be eligible for the full *Old Age Security benefit and Guaranteed Income Supplement*, certain conditions must be met with respect to length of stay in Canada<sup>98</sup>. These rules mean that some immigrants who have reached the age of 65 cannot receive full support. The Committee is concerned by this problem.

Ultimately, it is up to the federal government to revise its rules or put measures in place aimed at reducing the poverty rate among persons age 65 and over.

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<sup>96</sup> See Volume 2, page 82 and 83.

<sup>97</sup> See Volume 2, page 82.

<sup>98</sup> See Volume 2, pages 41 and 82.

▪ **Threshold effects: a possible answer through adequate indexation**

The Committee looked at the threshold effects, and recommends that the proper means be used to ensure the maintenance of adequate assistance over time.

The indexation of the Old Age Security and Guaranteed Income Supplement benefits to the market basket measure is logical, since the purpose of the benefits is to help persons get out of poverty.

In the mandate letter of the federal Minister of Families, Children and Social Development, the Prime Minister of Canada recognized the problem of “threshold effects” and of the adjustment of the amounts paid to persons 65 and over under federal programs.<sup>99</sup>

A change in the indexing process of the Old Age Security and Guaranteed Income Supplement benefits would correct the situation.

**Recommendation No. 13**

The Committee notes that poverty persists among persons 65 years and over. Even though the poverty rate is lower than for the population at large, the situation is of concern, considering how difficult it is for persons 65 and over to stay in the labour market.

**The Committee recommends** bringing an answer to one of the causes of this situation by asking the Québec government to make representations to the federal government in order for the indexing process of the *Old Age Security and Guaranteed Income Supplement benefits* to be based on the market basket measure. The amount of assistance should be periodically revised, at the same time the market basket measure is changed.

With respect to situations of poverty attributable to immigrant eligibility rules for the *Old Age Security pension and Guaranteed Income Supplement*, **the Committee recommends** that the Québec government to make representations to the federal government in order for the appropriate corrective measures to be applied.

<sup>99</sup> Cabinet of the Prime Minister of Canada, *Minister of Families, Children and Social Development Mandate Letter*, 2015, <http://pm.gc.ca/fra/lettre-de-mandat-du-ministre-de-la-famille-des-enfants-et-du-developpement-social>.

## ■ Recognize the work efforts of persons 65 and over

In its analysis of the current state of the labour market in Québec, the Committee paid special attention to persons 65 and over.<sup>100</sup>

Québec registers a sharp drop in the employment rate starting at age 65: in 2016, the employment rate was at 45% for persons aged between 60 and 64, and 19% for persons between 65 and 69.

The drop is not as marked in Ontario, and in Canada as a whole. In 2016, the employment rate for persons aged 65 to 69 was 27% in Ontario, and 25% in Canada as a whole. This difference is due in part to the training and education gap that still exists among older generations between Québec and the rest of Canada.

## ■ Allow the persons who can and wish to do so to increase their income

Due to the increase in life expectancy, workers close to retirement age may realize that they don't have enough savings to finance their retirement, which may extend over a longer period of time than expected.<sup>101</sup>

Even though the work should no longer be taken into account in reaching the poverty threshold for these persons, remaining employed to an older age is, for those healthy enough to do so, a way to bring their disposable income above that threshold – while contributing to fulfilling the requirements of the labour market.

For Québec, the possibility of increasing the employment rate of persons 65 and over is one of the means to be considered to alleviate the impact of the demographic changes on economic growth.

## ■ An obstacle to lift

Income support as defined by the federal government for persons 65 and over does not encourage such persons to remain on the job market.

Low-income persons aged 65 and over have no incentive to continue working to increase their disposable income, due to the sharp rate of reduction in the Guaranteed Income Supplement. The rate can reach 75%.

In order not to dissuade persons 65 and over from staying in the labour market when they are able to do so, and to ensure that these persons can increase their disposable income, the rate of reduction in the Guaranteed Income Supplement should be lowered.

Such a decision belongs to the federal government, which is responsible for the supplement.

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<sup>100</sup> See Volume 2, pages 180 and 181. The data comes from the Labour Force Survey published by Statistics Canada.

<sup>101</sup> See Volume 2, page 239.

#### **Recommendation No. 14**

The current parameters of the Guaranteed Income Supplement may dissuade persons 65 and over from remaining in the labour market even though they are able to do so. From the point of view of the Committee, it is important to ensure that these persons are able to increase their disposable income by staying in the labour market if they wish to.

To that effect, **the Committee recommends** to the Québec government making representations to the federal government to lower the rate of reduction that applies to the *Guaranteed Income Supplement for employment income*.

#### ■ **An alternative considered**

The Committee studied the possibility of implementing a new additional employment premium for persons 65 and over. This premium would lower the impact of the reduction of the Guaranteed Income Supplement. Its cost has been assessed at 187 million dollars annually.

This scenario could be examined as an alternative to lowering the rate of reduction of the Guaranteed Income Supplement for employment income.

This would raise the problem of financing the measure. Since this employment premium would correct a problem created by a federal measure, it would be logical for the federal government to cover its financing.



## 2.7 The treatment of couples versus single individuals in terms of social welfare

The character of income support, for an individual or a household, raises the question of individual freedom – a property of the universal benefit – versus treating households according to their needs.

For a couple, the assistance granted under social welfare is paid jointly to both persons. This may represent a form of limitation of the individual freedom of both spouses, even though such freedom is desirable.<sup>102</sup>

The assistance granted on the basis of the household takes into account the economies of scale of two persons living together versus living alone. A single individual gets additional assistance, given that he or she must defray additional expenses.

### □ Better respect individual freedom while recognizing the respective needs of persons living alone and of couples

The Committee studied the possibility of better respecting individual freedom while at the same time taking into account the differences in economic realities between single persons and couples, sharing the assistance to a couple between the spouses. The amount of assistance would remain unchanged, but its mode of payment would be modified. For single individuals, there would be no change in the assistance paid.

This modification would not limit the joint liability of the couple regarding social welfare.

### ■ A first step

The change proposed by the Committee would be in line with the income support system, even though other income support measures would still be paid to one or the other member of the couple for particular reasons.<sup>103</sup>

This would be a first step to providing better individual freedom within the income support system.

The administrative and legal impacts of the measures would have to be taken into account prior to implementation.

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<sup>102</sup> The notion of individual freedom, as targeted by the universal benefit, is presented in the progress report, pages 16 and the following pages.

<sup>103</sup> This refers to child assistance in particular.

### **Recommendation No. 15**

The terms of payment of social welfare raise the question of respecting individual freedom in the treatment of couples.

To ensure more fairness and freedom between spouses, **the Committee recommends** that, in the case of a couple, the assistance paid for social welfare be shared equally between both members of the couple rather than paid jointly.

The amount of assistance would remain unchanged, but its mode of payment would be modified. For single individuals, there would be no change in the assistance paid.

The administrative and legal impacts of this recommendation would have to be taken into account prior to implementation.



### **3. SUSTAIN INCOME BY INTEGRATION INTO THE LABOUR MARKET**

The third series of improvements formulated by the Committee regarding the income support system has to do with the integration into the labour market: this is a privileged and sustainable way to fight poverty and, in the existing system in Québec, several obstacles stand in its way, discouraging persons from participating in the labour market.

This series of improvements and the recommendations that arise from it are presented in four aspects.

- The incentive to work is doubly important: the integration into the labour market fights poverty in a sustainable manner and supports economic growth.
- In Québec, integration into the labour market is faced with high effective marginal rates for certain specific levels of disposable income.
- Despite all the efforts made for integration into the labour market, the Committee notes the dependency of a significant number of social welfare recipients, which requires targeted initiatives.
- The debt owed by certain social welfare recipients to the Ministère du Travail, de l'Emploi et de la Solidarité sociale is another obstacle to their integration into the labour market.

### 3.1 **The incentive to work is doubly important: fighting poverty in a sustainable manner and sustaining economic growth**

From the point of view of the Committee, it is crucially important for the income support system to reward effort, by encouraging the initiatives of individuals to enter the labour market and remain employed.

The incentive to work is doubly important: It helps fight poverty and sustain economic growth.

#### **□ A privileged way to fight poverty**

Bringing someone into the labour market is a preferred, long-lasting means of combating poverty because it improves that person's standard of living.

In the long run, employment provides a higher income than what social programs can offer. Employment is the surest and most durable way to get out of poverty.

Work represents a privileged social integration tool. It develops a sense of belonging. In fact, for a person, the value of work far exceeds the financial compensation it provides. Work gives a chance for persons to challenge themselves. It therefore helps create a sense of pride, when the effort to join the labour market is successful.

#### **□ A privileged way to sustain economic growth**

The incentive to work also represents a privileged way to sustain economic growth and increase the collective wealth.

In terms of economic activity and financing income support measures, it is essential to have as many persons in the labour market as possible.

Québec is faced with a rapidly ageing population, which directly impacts the size of the active population, and therefore economic growth<sup>104</sup>. This ageing population has direct consequences on economic growth, by way of the labour market. Since 2014, the contribution to economic growth made by the increase in the pool of potential workers aged 15 to 64 has been negative, and the trend will continue over the coming years.

Increased participation in the labour market represents a key factor in sustaining growth.

Persons who are employed directly contribute to the collective wealth. The more citizens contribute to the creation of wealth, the better society can offer generous and comprehensive support to those who need it most.

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<sup>104</sup> See Volume 2, pages 173 and 237.

## □ **An essential action**

When it comes to income support, the challenge is implementing assistance measures for the most vulnerable that will not result in encouraging persons who are able to work to leave the labour market or not return to it.

The action must focus on both the employment demand of businesses and the employability of the persons who want to enter the labour market.

A good labour market coincides with the existence of a significant number of persons outside of the market; the committee targets young persons, older workers and immigrants in particular.

The labour market is evolving quickly. New needs and new trades emerge, raising the question of the fit between the employment demand of businesses and the qualification of the workforce actually available.

## ■ **The incentive to work in broad terms**

The incentive to work must be understood in broad terms and include the incentive to get an education and training, which, from this point of view, are tools to enter the labour market.

Training, which targets a fit with the needs of the labour market, directly contributes to the integration into the labour market. The support for employability and job searching is also related to it.

### 3.2 High effective marginal tax rates at certain specific levels of employment income

The income support system may create an obstacle to labour market entry by generating high effective marginal tax rates.

The effective marginal tax rate refers to the share of an additional dollar of income that does not go to the person: governments recover this share through higher taxes or additional premiums, or a reduction in transfers. This rate is expressed for an increase in income at a given income level.

The converse of this rate is the additional disposable income the individual gets at the margin for additional work effort.

A high effective marginal tax rate discourages persons from working.

#### The origin of high effective marginal tax rates

For lower income earners, high effective marginal tax rates come mainly from the impact of the reduction in assistance paid under the income support programs.

In the case of persons with higher incomes, the effective marginal tax rate instead corresponds to the marginal income tax rate.

#### The targeted limit

An effective marginal tax rate higher than 50% is generally considered to be a psychological threshold above which the person is incentivized not to do additional work.

This threshold may instead be considered as an indicator to monitor, but no rigorous study has been conducted to determine the exact limit that an effective marginal tax rate should not exceed.

## □ The findings of the Committee

The Committee carried out a detailed review of the effective marginal tax rates observed in Québec for different scenarios, for incomes up to \$100 000, based on incremental \$1 000 increases in income. The Committee made several findings.

### ■ Effective marginal tax rates higher than 60%

Effective marginal tax rates exceeding 60% are observed mainly among lower income persons.<sup>105</sup>

Few households seem to be in income zones where effective marginal tax rates are the highest: this may be due to the dissuasive effect of these rates.

Due to the higher level of assistance granted to families with children, effective marginal tax rates are higher for them than for households without children.

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<sup>105</sup> See Volume 2, pages 136 and 137.



## ■ Strategic areas to monitor

Among the efforts made by low income persons to increase their disposable income, two strategic zones appear especially sensitive in the eyes of the Committee:

- the income zone that ranges from the end of the exemption defining the employment income allowed along with the social welfare benefit up to the exit from the social welfare program;
- the income zone around the emergence from poverty, i.e. the moment where disposable income exceeds the poverty line.

## ■ An illustration of these zones for a single individual

For a single individual, in 2016, the first zone ranges from \$2 400 to \$10 464, while the second is above about \$17 570.

The effective marginal tax rate associated with these levels is illustrated here for an increase of \$1 000 over an initial employment income of \$9 000 (first zone) or \$17 600 (second zone). The effective marginal tax rates observed are 70.4% and 63.4% respectively.

TABLE 9

### Detail of the effective marginal tax rate for a person under 65 living alone, at different income levels – 2016 (per cent, for a gain of \$1 000)

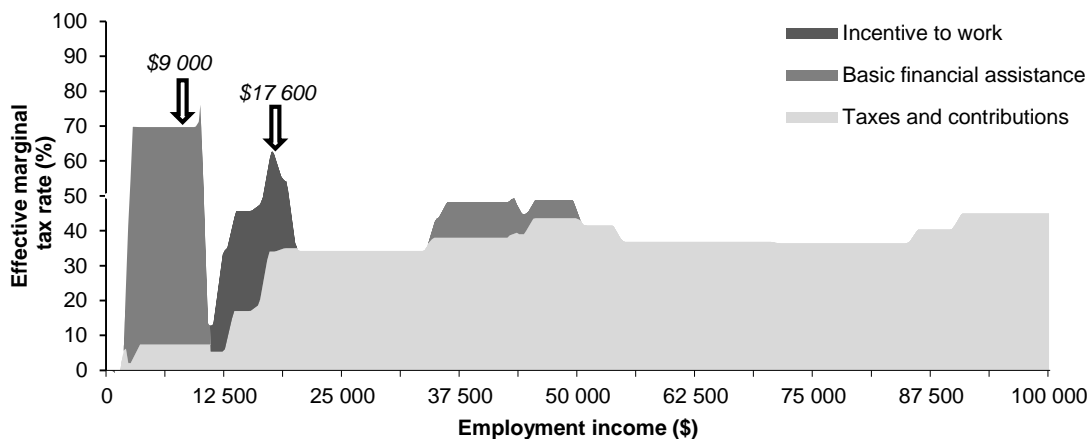
	Employment income	
	\$9 000	\$17 600
<b>Basic financial assistance</b>		
– Social assistance	92.6	—
– Solidarity tax credit	—	—
– GST tax credit	-0.2	—
<b>Subtotal</b>	<b>92.5</b>	<b>—</b>
<b>Incentive to work</b>		
– Work premium	-9.0	9.4
– Employment income tax benefit	-20.5	20.0
<b>Subtotal</b>	<b>-29.5</b>	<b>29.4</b>
<b>Taxes and premiums</b>		
– Québec tax	—	15
– Federal tax	—	11.6
– Contributions to the Québec Parental Insurance Plan	0.6	0.6
– Contributions to the Québec Pension Plan	5.3	5.3
– Employment Insurance premium	1.5	1.5
<b>Subtotal</b>	<b>7.4</b>	<b>34.0</b>
<b>Total effective marginal tax rate</b>	<b>70.4</b>	<b>63.4</b>

Source: Ministère des Finances du Québec.

CHART 19

**Effective marginal tax rate for a person under 65 living alone – 2016**

(as a percent, for a gain of \$1 000)



Note: Effective marginal tax rate calculated for a \$1 000 increase in work income.

Source: Ministère des Finances du Québec.

■ **The issue of the loss of special benefits by social assistance recipients**

It should be added that, when social assistance recipients lose benefits and allowances, they also lose various special benefits after a period of time.

In Québec, the benefits and allowances paid as part of last resort financial assistance can be accompanied by more than one hundred special benefits, generally linked to a health condition or a crisis situation.

The Committee finds that exiting social assistance or social solidarity programs involves the loss of these special benefits after a certain period of time, even though they are replaced, at least in part, by the refundable tax credit for medical expenses.

The loss of the special benefits should not translate into an increase in the effective marginal tax rates, but the question remains to be clarified, as replacing these very visible benefits with less obvious refundable tax credits may impact the perception of the support received.

■ **The situation of seniors**

In addition, persons 65 years of age and over are also affected by high effective marginal tax rates at certain income levels, due to the sharp reduction in the Guaranteed Income Supplement paid by the federal government.

The Committee previously formulated a recommendation for dealing with this issue (Recommendation No. 14).

## □ **The fiscal tools implemented in order to reduce effective marginal tax rates**

In Québec, the problem surrounding the effective marginal tax rates, and the need to become aware of the situation and intervene where they are the highest came to light in 1984, with the publication of the White Paper on the Personal Tax and Transfer Systems.

Following the White Paper, a budgetary program, the Parental Wage Assistance Program, constituted an initial response designed to lower the effective marginal tax rates.

In 2005, the Québec government replaced the program with a fiscal measure, the work premium, to which the tax shield has been added over the last few years.<sup>106</sup>

### ■ **The work premium**

The work premium<sup>107</sup> is intended to increase the value of the work effort and encourage social assistance recipients to leave the program and return to the labour market. It compensates for the significant challenge of reconciling income support and the incentive to work.

The work premium is made up of:

- a general premium;
- a premium adapted to persons with a severely limited capacity for employment;
- a supplement for long-term recipients no longer receiving last resort financial assistance.

The work premium is granted on the basis of the household, according to the family income and the presence of children in the household.

It offers assistance that increases as employment income rises, up to a maximum income level at which the household is no longer entitled to last resort financial assistance. The work premium only benefits persons who have employment income.

Above a certain income threshold, however, it declines to zero based on the additional income.

### ■ **A complementary federal tax measure**

The Working Income Tax Benefit offered by the federal government is similar to the work premium of Québec. It is designed to offer tax relief to low income workers, or to encourage those who are not working to enter the labour market.

The federal government's Working Income Tax Benefit is subject to a particular application in Québec so as to ensure harmonization with the work premium.

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<sup>106</sup> In order to increase incentives to work, the government has also implemented the tax credit for experienced workers, targeting workers 63 years of age and over.

<sup>107</sup> See Volume 2, page 56.

## ■ The tax shield

The tax shield<sup>108</sup> is designed to allow households to increase their disposable income through additional work, by temporarily protecting them against a reduction in transfers linked to the work premium or tax credit for child care expenses.

The financial assistance is paid on the basis of the family income of the household that has increased its employment income over the previous year. The measure came into effect in January of 2016. The Ministère des Finances projects that some 400 000 households will benefit from the tax shield over a full year.

## ■ Effective measures, provided they are visible

The effectiveness of these measures, in particular the work premium, is directly linked to their visibility. The Committee considers that the work premium and tax shield may be misunderstood by those who benefit or might benefit from them, thereby raising issues of visibility and readability.

For that reason, several of the recommendations presented previously propose to improve or simplify the granting of the work premium and tax shield.

Some of the recommendations formulated by the Committee would help improve the eligibility to these two tax measures, and increase the visibility of these forms of assistance and of their understanding by the persons who benefit from them.

The various proposals regarding the work premium and tax shield addressed previously would thus enhance the incentive to work. They are the recommendations regarding:

- the automatic payment of the tax shield and work premiums (Recommendation No. 2);
- a single payment of the work premiums together with two other income support measures (Recommendation No. 3).

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<sup>108</sup> See Volume 2, page 60.

## ❑ **Relying on existing tools to significantly expand the coverage of targeted recipients**

The Committee considers that, with the work premium and the tax shield, the Québec government has the appropriate tools to ensure that the income support system does not become an obstacle to entering the labour market.

The Committee recommends relying on these two fiscal measures to enhance the incentive to work even further and expand the coverage of targeted recipients.

Specifically, the Committee addresses:

- a major enhancement of the work premium;
- over the longer term, a paradigm shift;
- compliance with a key condition, i.e. the ability for persons who want a job to find one.

■ **A major proposal: significant strengthening of the work premium**

The Committee formulates a major proposal, which is to significantly enhance the work premium by increasing it, expanding its coverage, and having more workers receive it.

The Committee has simulated an enhancement of the work premium, calculated in such a way that, once combined with the Working Income Tax Benefit, in total, these two measures would offer up to 50% in additional income<sup>109</sup>.

TABLE 10

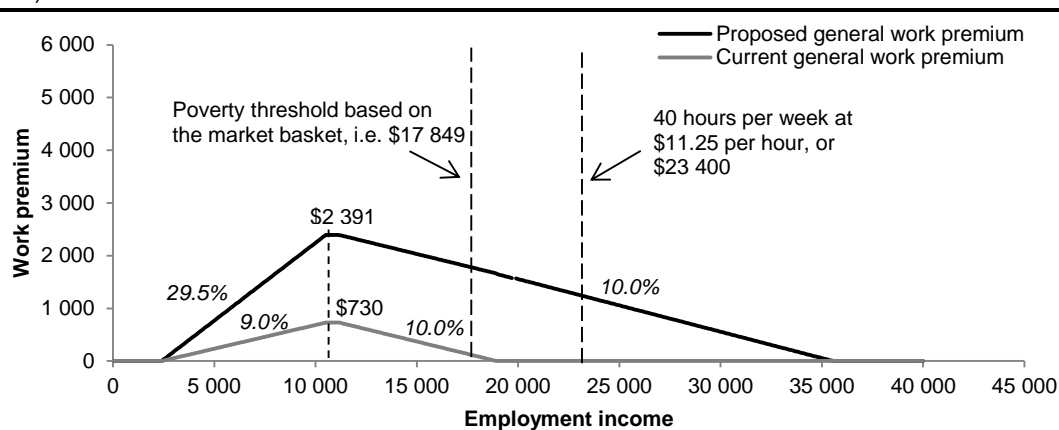
**Supplementation rate of the work premium and the Working Income Tax Benefit according to the proposed change – 2017**  
(per cent, unless otherwise indicated)

	Current situation			Increase	Situation after enhancement		
	Work premium	Tax benefit	Combined rate		Work premium	Tax benefit	Combined rate
Single individual	9.0	20.5	29.5	+20.5 pts	29.5	20.5	50.0
Couple without children	9.0	20.5	29.5	+20.5 pts	29.5	20.5	50.0
Single-parent family	30.0	12.0	42.0	+8.0 pts	38.0	12.0	50.0
Couple with children	25.0	8.0	33.0	+17.0 pts	42.0	8.0	50.0

Note: The "Tax benefit" is the Working Income Tax Benefit.  
ppt: Percentage points.

CHART 20

**Illustration of the proposed work premium (general work premium) for a single individual – 2017**  
(dollars)



Note: The social assistance exit threshold (\$10 506) for minimum-wage workers (\$10.75/hr) is 18.8 hours a week. As of May 2017, with a minimum wage of \$11.25, it will be 18.0 hours a week.  
Source: Ministère des Finances du Québec.

<sup>109</sup> See Volume 3, Scenario 12.

- **Terms to limit the interaction effects with other measures**

In the simulation carried out, the enhancement was adapted and optimized in order to limit the changes to the desired effect, improving the incentive to work.

For households without children, the rate of reduction of the premium has been adjusted so the threshold to exit the measure remains unchanged. This threshold is coordinated with the threshold for the reduction of child assistance.

The reduction rate would remain at 10.0% for households without children. It would increase to 12.7% for single-parent families, and to 16.8% for couples with children.

- **A significant impact on the effective marginal tax rates of lower income households**

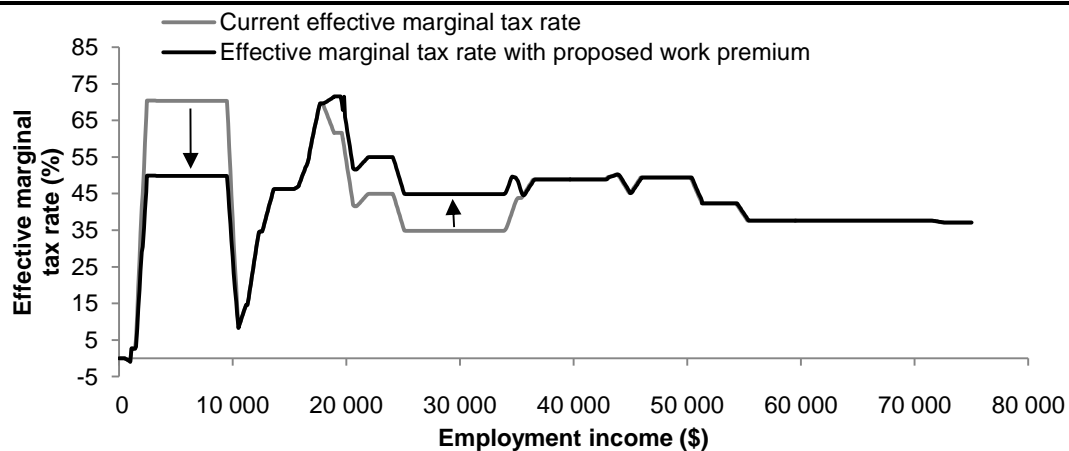
Such an enhancement of the work premium would significantly decrease the effective marginal tax rate of lower income households, bringing it back to around 50% in the social assistance reduction zone, the first strategic income level identified.

On the other hand, reducing the premium at higher income levels would result in an increase in the effective marginal tax rates at those income levels, particularly in the second strategic zone identified, the zone that follows emergence from poverty.

Accordingly, the implementation of the measure should undergo careful government review so that it can set terms that may alleviate that effect.

CHART 21

**Illustration of the proposal's impact on effective marginal tax rates for a single individual – 2017**



Source: Ministère des Finances du Québec.

- **A positive effect on the supply of jobs for the persons targeted**

Overall, the decrease in the effective marginal tax rates in the social assistance reduction zone, i.e. the strategic zone for which the measure is designed, would increase the supply of jobs for the persons targeted<sup>110</sup> by around 9% to 10% for households without children and 3% to 5% for households with children.

- **An enhancement in disposable income for a high number of households**

The measure would mainly benefit households without children that currently have access to a less generous work premium. Households with children would also benefit.

Over a million households could benefit from the measure, including close to 500 000 single individuals and couples without children who would become eligible for the enhanced premium.

- **Estimated cost of the measure**

According to the initial projections, enhancing the work premium in this manner would cost over \$1.0 billion annually.

Since the cost is very high, the measure could be considered as an objective to meet after gradual implementation.

### **Recommendation No. 16**

The income support system may constitute an obstacle to labour market entry by creating high effective marginal tax rates: the proportion of an additional dollar in income that is recovered by the governments through higher taxes or contributions or lower transfers can sometimes equal 70% or more.

In order to reduce these effective marginal tax rates, the government already has the work premium. From the Committee's point of view, this is an appropriate tool as it encourages persons to enter the labour market.

**The Committee recommends** that the government substantially enhance the work premium to reduce effective marginal tax rate impacts in the social assistance reduction zone, i.e. the strategic zone the measure is designed for.

This enhancement would make it possible for all households to benefit from a 50% combined rate (Québec's work premium and the federal government's Working Income Tax Benefit).

To that effect, the government would expand coverage of the work premium and have it benefit more workers. Such an enhancement would reduce the effective marginal tax rates of lower income persons, and increase their job supply.

The measure should be accompanied by the implementation of the appropriate terms to limit the upside impact on effective marginal tax rates resulting from the reduction of the measure for higher income levels, particularly in the strategic zone that corresponds to emerging from poverty.

<sup>110</sup> See Volume 3, appendix 1, for a presentation of the impacts on the job supply calculated using the Ministère des Finances du Québec's general equilibrium model.



- **An initial step in a gradual application**

An initial step towards this scenario would be to enhance the work premium for households without children.<sup>111</sup>

For these households, this would be a “catchup” with households with children, since single individuals and couples without children currently have an income supplementation rate of 29.5%, while couples with children have a rate of 33.0% and single-parent families a rate of 42.0%.

This enhancement would bring the income supplementation rate granted by the work premium combined with the Working Income Tax Benefit to 33.0%.

441 000 households would benefit from this enhancement, or 396 000 single individuals and 45 000 couples without children.

This enhancement of the work premium represents an annual cost of 109 million dollars.

#### **Recommendation No. 17**

The enhancement of the work premium recommended by the Committee under Recommendation No. 16 represents a high cost for the Québec government. The Committee sees this enhancement as an objective to meet, which could be accomplished gradually.

As a first step, the priority would be to give single individuals and couples without children an income supplementation rate equivalent to the one offered to couples with children.

**The Committee recommends** that the government enhance the work premium for single individuals and households without children, so that these households benefit from a combined rate equal to that offered to couples with children, i.e. 33.0%.

Single-parent families would continue to benefit from a higher supplementation rate, i.e. 42.0%.

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<sup>111</sup> See Volume 3, scenario 13.

## ■ A paradigm shift over the longer term

The current work premium is designed to harmonize fully with the last resort financial assistance program. The thinking behind the work premium is to lower marginal tax rates in the social assistance reduction zone.

This is intended to improve the incentive to work for each marginal increase in employment income.

### ■ Stronger encouragement for greater integration into the labour market

The Committee analyzed the possibility of opening up a new avenue in incentives to enter the labour market by contemplating what a new work premium could be, based on a thinking that differs from that of the current premium.

The new paradigm would involve offering very significant encouragement to social assistance recipients to enter the labour market on a full-time or part-time basis for a significant number of hours per week.

The encouragement would not be “marginal,” i.e. by trying to lower effective marginal tax rates in the last resort financial assistance reduction zone.

### ■ Reducing the “participation tax rate”

The idea would instead be to reduce the “participation tax rate”,<sup>112</sup> i.e. the effective tax rate observed for a person who goes from being inactive or unemployed to holding a part-time or full-time job.

The participation tax rate is no longer marginal as it is calculated based on a significant change in income, which is much more in tune with the reality of a person who enters the labour market.

According to the work carried out at the Committee’s request, the participation tax rate for a single individual who goes from being unemployed to holding a part-time job (20 hours a week) at minimum wage amounted to 55.3% in 2016. The person actually only kept 44.7% of the additional income earned, taking into account both the taxes and contributions to be paid, and the decrease in transfers.

A single individual going from being unemployed to holding a full-time job (40 hours a week for 52 weeks) at minimum wage only kept 50.0% of the additional income earned.

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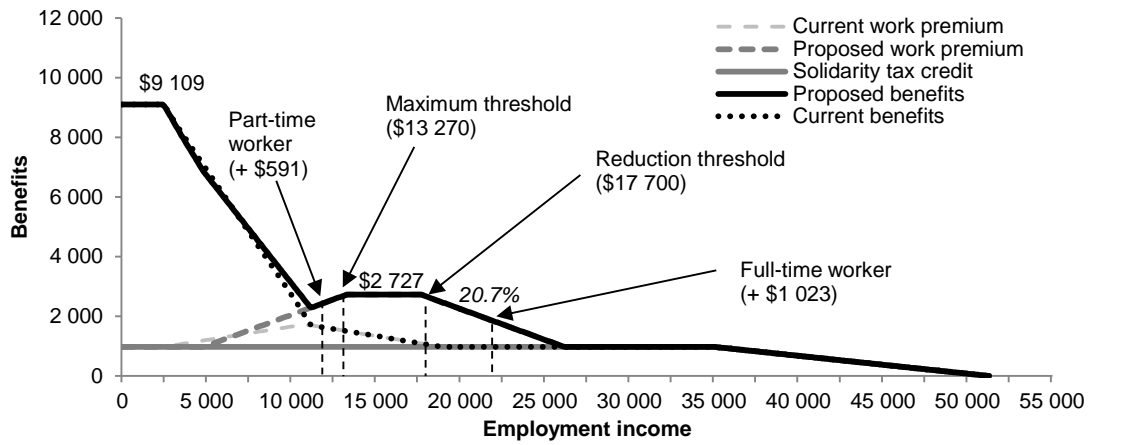
<sup>112</sup> See page 27 for a definition of the participation tax rate, and Volume 2, page 140, for a fuller description of participation tax rates.

▪ **The new proposed work premium**

The scenario the Committee examined involves introducing a new work premium to replace the existing work premium. The new premium would act much more extensively in the income ladder, and with much more strength.

CHART 22

**Illustration of the proposed measure's impact on assistance paid for a single individual – 2017**



Source: Ministère des Finances du Québec.

This scenario helps reduce the participation tax rate.

- A single individual who goes from being unemployed to part-time work would have his or her participation tax rate go from 55.3% to 50.0%. The portion of income he or she keeps on entering the labour market would therefore go from 44.7% to 50.0%.
- In the case of a single individual going from being unemployed to full-time work, his or her participation tax rate would go from 49.8% to 45.2%. The portion of income he or she keeps on entering the labour market would therefore go from 50.2% to 54.8%.

TABLE 11

**Example of effective tax rate on participation for a single individual following modification of the work premium – 2016**

(income and support in dollars, rate in percentage)

	Current situation			Situation after the modification		
	Employment income	Disposable income	Effective tax rate <sup>(1)</sup>	Employment income	Disposable income	Effective tax rate <sup>(1)</sup>
Unemployed	—	9 192	—	—	9 192	—
Part-time at minimum wage <sup>(2)</sup>	11 180	14 195	55.3	11 180	14 786	50.0
Full-time at minimum wage <sup>(3)</sup>	22 360	20 424	49.8	22 360	21 447	45.2

(1) Effective tax rate for unemployed households entering the labour market (part-time or full-time).

(2) 20-hour a week job for 52 weeks at an hourly rate of \$10.75.

(3) 40-hour a week job for 52 weeks at an hourly rate of \$10.75.

Source: Ministère des Finances du Québec.

■ **An illustrative scenario designed to trigger a thought process**

This scenario is only a first step in the thinking. So far, only persons living alone have been assessed.

The specific terms of the measure under consideration will have to be designed taking into account the various issues regarding the reduction rates and the integration of the measures with one another, in particular for households without children.

In the eyes of the Committee, this scenario is first and foremost for illustration purposes. If implemented, the measure could be defined otherwise so as to adapt it to the situation of other kinds of households.

**Recommendation No. 18**

The Committee analyzed the possibility of opening up a new avenue in labour market entry incentives by contemplating what form a new work premium could take that offered a very substantial incentive to social assistance recipients to enter the labour market on a full-time basis, or part-time for a significant number of hours per week.

The scenario studied by the Committee consists of replacing the existing work premium with a new one that would act much further up the income ladder, and much more strongly, to reduce the participation tax rate.

**The Committee recommends** that the government continue the reflection process started by the Committee, taking into account the various issues around the reduction rates and the integration of the measures, in particular to adapt the measure to the situations of other kinds of households.

## ■ Respecting a key condition

A reduction in the effective marginal tax rates will lift a major obstacle to entering the labour market.

The various measures designed to increase the incentive to work presuppose, however, in order to reach their goal, that the persons looking for work can indeed find a job, which requires them to meet the needs of the businesses. In other words, their skills must line up with the requirements of the labour market.

## ■ A favourable economic climate

Regarding the demand for work on the part of businesses, the currently prevailing climate in Québec is favourable. Most employment indicators show an improvement in the situation of Québec, with a slight dip during the 2008 crisis and a return to normal since then.<sup>113</sup>

- The Québec employment rate has significantly improved over the last few years, in particular among persons aged 15 to 64.
- The unemployment rate has dropped considerably and the average length of unemployment also decreased slightly from the end of the 1990s to 2008, but it seems to be on a slight increase since then.
- More recently, the wage gap between Québec and Canada seems to have shrunk over the last year.

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<sup>113</sup> See Volume 2, pages 153 and the following pages.

## ▪ Transformations to be expected

The labour market is undergoing various transformations that could expand in the future, due in particular to technological changes.

- We could see job cuts due to the advent of robots and automation. The employment categories most at risk are “routine manual labour” and “routine cognitive work”.<sup>114</sup>
- At the same time, new needs and new trades will appear, creating a new challenge, that of the match between companies demand for work and the qualifications of the available labour force.
- The polarization between “automatable” jobs and jobs not affected by automation could increase the gap between employables and non-employables, and thus between rich and poor.<sup>115</sup>

Regarding the employability of the persons who wish to enter the labour market, we can see that there are a significant number of persons outside the labour market, despite its good health. The Committee is particularly concerned with the situation of three categories of citizens who are directly affected: young persons between 15 and 24, persons 55 and over, and immigrants.<sup>116</sup>

The various studies regarding the upcoming technological changes, in particular automation and robotization, agree on one thing: improving the training of current and future workers to allow them to quickly adjust to the projected changes is a winning strategy.<sup>117</sup>

## ▪ A context of demographic change to take into account

In the context of an ageing population, this training is especially important because it may allow for better integration of young persons into the labour market at the end of their studies, retaining older workers in the labour market and integrating immigrants into the labour market.

The Committee previously presented a recommendation designed to support training, the creation of a personal account for worker training and transition (Recommendation No. 5).

This account would provide workers with a tool for completing their basic education or continuing education, which would allow them to face the challenges linked to labour market transformations.

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<sup>114</sup> See Volume 2, page 241.

<sup>115</sup> See Volume 2, page 244.

<sup>116</sup> See Volume 2, pages 175 and the following pages.

<sup>117</sup> See Volume 2, page 256.

▪ **A process already started by the government**

The Rendez-vous national sur la main-d'oeuvre, organized by the Québec government on February 16 and 17, 2017, addressed in an in-depth fashion the questions of the misalignment between companies' demand for labour and worker qualifications, as well as the specific situations of young persons, persons over 55, and immigrants.

The proposals resulting from the Rendez-vous national sur la main-d'oeuvre will yield a number of government initiatives, undertaken as part of the National Labour Strategy currently being drafted.

The Committee expects this government strategy to emphasize general education and continuing education and training, privileged means for bringing those who are currently excluded from the labour market into it.

▪ **Human resources management in small and medium businesses**

The Committee is formulating a specific recommendation regarding human resources management in businesses, in particular SMBs.

Integration into the labour market is often hampered by the very size of these businesses. Businesses, in particular the smallest ones, use forms of work organization that do not meet the new needs of workers.

The employers must be given an incentive to make work organization more flexible:

- by implementing less rigid human resources management, in particular for work schedules (small and medium businesses in particular frequently do not have the required resources);
- by being open to diversity in their hiring policy, in particular by recruiting older workers and immigrants, as well as integrating disabled persons and social assistance recipients.

The idea here is to concretely combat the prejudices expressed against certain categories of the population, which such persons face when they try to enter the labour market.

The Committee is of the opinion that, for example, it is important that the future National Labour Strategy address the question of HR management in businesses, in order to stimulate the development of new, less rigid forms of organization, within small and medium businesses in particular.

### **Recommendation No. 19**

The various measures designed to increase the incentive to work presuppose, however, in order to reach their goal, that the persons looking for work can indeed find a job. This means that they can meet the needs of the businesses, i.e. that their skills match the requirements of the labour market.

To make sure it happens, **the Committee recommends** that the Québec government integrate into the future National Labour Strategy an enhancement of the current initiatives, or new measures designed to support the employers through state support to encourage them to make work organization more flexible.

This may be in the form of an offer of support services.

These initiatives would favour the implementation of less rigid HR management in businesses, particularly when it comes to work schedules, as well as a hiring policy open to diversity, easing the recruitment of older workers and immigrants, and the integration of disabled persons and social assistance recipients.

These initiatives would target small and medium businesses in particular.



### 3.3 Dependency upon social assistance

In addition to the high effective marginal tax rates, the Committee noted another obstacle to social assistance recipients' entry into the labour market: the development of a dependency upon social assistance among persons who could enter the labour market.

#### □ The existence of a significant number of long-term recipients

Despite a drop in the number of social assistance recipients, we noted the existence of a significant number of very long-term social assistance recipients, even if these persons could work.<sup>118</sup>

As of March 2017, about 107 000 adult social assistance recipients had been on the program for at least 120 consecutive months. Among them, a little over 20 000 were social assistance recipients and had no limited employment capacity.

#### ■ Some factors

The data available allows us to better frame the social assistance dependency phenomenon for these persons.

- Being on social assistance for an extended period of time generally translates into a drop in employability and the ability to hold a job, making it that much more difficult to exit social assistance.
- Entering the social assistance system at the beginning of one's adult life increases the risk of remaining on it for the long term. There also seem to be social factors that favour an intergenerational presence on social assistance.
- Approximately three quarters of young persons under 25 who benefit from the social assistance program come from families who have previously received social assistance.

#### ■ A two-pronged intervention

The Committee recommends initiatives in two directions in order to fight this social assistance dependency phenomenon, i.e.:

- preventive action by adjusting the terms of the work premium supplement;
- a better understanding of the phenomenon in order to offer adapted support, including the development of social skills.

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<sup>118</sup> See Volume 2, pages 112 and the following pages.

## ❑ Preventive action: adjusting the work premium supplement

The Committee has assessed a measure to counter an increase in the number of long-term social assistance recipients<sup>119</sup> by modifying the terms of the work premium supplement.

A \$200 a month supplement, for a maximum term of 12 months, is currently paid to recipients of last resort financial assistance who have accumulated a presence of at least 36 months out of the last 42 and who are leaving the last resort financial assistance program due to employment income.

### ■ Suggested terms

The modification would reduce the period of presence on last resort financial assistance in order to be eligible for the supplement from 36 months out of the last 42 to 24 months out of the last 30. This change would allow for quicker intervention among recipients at risk of remaining on social assistance in the long term.

The new terms would allow us to reach those recipients not eligible for the Aim for Employment Program, and thus to align the efforts with those under the program.

The cost of the measure is evaluated at \$2.4 million dollars, based on the current exit rate from social assistance. Its actual cost will depend upon the number of current recipients who would enter the labour market.

Even if only a relatively small number of persons are reached every year, the measure may have significant benefits in the long term, as these persons would leave social assistance in a sustainable manner.

### Recommendation No. 20

Being on social assistance for an extended period of time generally translates into a drop in employability and the ability to hold a job, making it that much more difficult to exit social assistance.

In order to prevent an increase in the number of long-term social assistance recipients, **the Committee recommends** modifying the terms of the work premium supplement.

The modification would reduce the period of presence on last resort financial assistance in order to be eligible for the supplement from 36 months out of the last 42 to 24 months out of the last 30. This modification would allow for quicker intervention among recipients at risk of remaining on social assistance in the long-term.

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<sup>119</sup> The main targets are social assistance recipients.

❑ **Better understand the needs of long-term financial assistance recipients, and offer them adapted tools**

For the Committee, the incentive to work by itself is not enough for at least part of this clientele of long-term recipients who have no work restrictions.

In order for those persons who are currently far removed from the work market to enter employment, they must be given the opportunity to develop the necessary tools. Their prolonged absence from the labour market creates bigger challenges to their reintegration.

■ **Needs that have to be better understood**

Their situation is not well understood, however, which means there is limited knowledge of the means to implement to help them approach the labour market. These persons may be in very diverse personal situations which require a variety of interventions, which may go beyond training or job search techniques.

**Recommendation No. 21**

Long-term social assistance recipients' situations and needs in the area of health and social services are not well understood, which makes it difficult to identify the means to implement to help them approach the labour market.

**The Committee recommends** carrying out additional studies on the needs of this clientele and the services to be implemented to support them.

In addition to identifying the measures to put in place to support this clientele, the studies should, among other things:

- target the reasons why these persons remain outside the labour market for long periods of time;
- identify the factors that will help reduce the risk, especially regarding the various situations that have affected their lives.

The Ministère de la Santé et des Services could be involved in this initiative.

## ■ A tool with interesting potential

Among the skill development tools offered by public employment services, the Committee highlights the upcoming new measures to develop social skills that the Ministère du Travail, de l'Emploi et de la Solidarité sociale intends to offer as part of the Aim for Employment Program.

The point is to allow participants to draw on social skill development services that exist in the community, such as legal services, psychosocial services, and drug addiction services.

Depending on the outcome of the assessment of the results and effectiveness of the measures, the government may consider offering them to the entire clientele, and in particular to long-term social assistance recipients. It seems that such tools may be adapted to their situation.

### **Recommendation No. 22**

The Committee underscores the importance of the new measures intended to develop social skills that the Ministère du Travail, de l'Emploi et de la Solidarité sociale intends to offer as part of the Aim for Employment Program.

**The Committee recommends** assessing the results that will be obtained through these new measures to develop social skills.

If the results obtained through the social skills development measures are positive, these measures could be offered to other social assistance recipients, and in particular to long-term social assistance recipients, after adjustment to their specific situations.

### 3.4 The debt situation of current or past social assistance recipients

The debt owed by current or past social assistance recipients to the Ministère du Travail, de l'Emploi et de la Solidarité sociale may constitute an obstacle to the entering or staying in the labour market for those persons.<sup>120</sup>

#### □ A phenomenon on the increase

The data regarding the debt situation of current or past social assistance recipients highlights the magnitude of the debt owed to the Ministère du Travail, de l'Emploi et de la Solidarité sociale by many current or past social assistance recipients, and shows the phenomenon has worsened over the last few years.

As at March 31, 2017, the Ministère's debtor account stood at 734.3 million dollars, 25% higher than the balance five years earlier. This represents average annual growth of nearly 5%. Also on March 31, 2017, the debt concerned 134 365 persons. Over five years, the number of persons involved increased by 21%.

Note that, on its own, a 2013 change in the criteria for striking the debt increased the balance of the debtor account by 61.9 million dollars.

This only explains part of the situation: the increase in the debt is a real phenomenon, and growth by accrued debt outstrips collections by about 15 million dollars a year.

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<sup>120</sup> See Volume 2, pages 118 and the following pages.

## □ The portrait of the persons involved

We have a fairly clear picture of the persons who owe money to the Ministère du Travail, de l'Emploi et de la Solidarité sociale as part of the social assistance program.

At March 31, 2017, 81.9% of the amounts claimed by the department were for false declarations. However, the debt concerned 39.3% of all persons who owed money to the department.<sup>121</sup>

Also as of March 31, 2017, a little over 58% of all those who owed money to the department were no longer receiving social assistance, either because they had rejoined the labour market or because they had reached the age of 65 and were eligible for the federal government's income support programs.

The amount of debt accumulated by the persons concerned varies significantly. In most cases, the amount to repay is small. In 64.2% of cases, it is below \$3 000. At the other end of the scale, a smaller number (14.7%) of persons have a debt in excess of \$12 000.

Even though fewer persons have large debts (\$12 000 or more), in dollars, that debt represents almost 70% of the total amount owing.

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<sup>121</sup> The other motives are the reimbursements owed under assistance paid conditionally, or reimbursement of assistance paid to someone who was not entitled to it, with no intentional false declaration or submission of false documents.

## ❑ Existing repayment rules

The Committee finds that the rules for repaying amounts owed implemented and applied by the Ministry are balanced.

### ■ Persons who are still receiving social assistance

If the person is still receiving social assistance, the Ministry applies collection rules directly linked to the reason for the overpayment.

- In the event of overpayment for reasons other than a false declaration, the monthly deduction is limited to \$56.
- The monthly deduction increases in the event of a false declaration (\$112), and doubles in the event of two or more false declarations (\$224).

Only false declarations are subject to interest on the amounts due, the interest rate being set quarterly under Section 28 of the Tax Administration Act<sup>122</sup>.

### ■ Persons who no longer receive social assistance

For persons who no longer receive social assistance, the monthly repayment is agreed upon with the person inasmuch as possible, with the department ensuring that the amount does not prompt someone to leave the labour market and go back on social assistance.

This approach lets the parties set a monthly payment amount that is satisfactory for both.

If the person does not want to come to an agreement or does not make the payments, other steps can be taken, including a direct deduction from other government transfers the person might be entitled to.

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<sup>122</sup> The applicable interest rate was 6% for the quarter starting July 1, 2017, and ending September 30, 2017.

## ❑ **The specific issue of debt overload**

These rules generally make it possible to initiate a real repayment process without risking having debtors leave the labour market or decide not to return to work.

### ■ **A debt that does not decrease**

This approach, however, sometimes leads to repayments which are lower than the interest accruing on the debt. So, despite the fact these persons begin a repayment process, their debt continues to grow. This situation applies to 4.2% of the persons who owe money to the department. This issue was raised in the last annual report of the Protecteur du citoyen.

It reads:

“ [...] in many cases, the payments represent a minimal portion of the capital or only the interest on the debt. Over the years, debtors may therefore have paid back more than they actually owed because of the interest accrued. If this continues, sometimes for more than 25 years, these persons are not able to pay off their debt by the time they are advanced in years”.<sup>123</sup>

### ■ **A bar to labour market entry or increased work effort**

In all cases, despite the efforts made to facilitate the repayment, for persons with few financial resources, such debt is an additional bar to entry into the labour market or increasing work effort, given that some of the effort must go toward repaying the accumulated debt.

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<sup>123</sup> Protecteur du citoyen, *2016-2017 Annual Report*, September 2017, p. 59.



## □ **A two-pronged intervention**

The Committee has assessed the possibility of acting in two directions.

### ■ **Taking preventive action**

First, the Committee raises the importance of acting in a preventive manner to stop the growth of the debt load and the number of debtors.

The idea would be to continue the efforts of the Ministère du Travail, de l'Emploi et de la Solidarité sociale in terms of prevention and compliance, by better informing persons of the importance of making accurate declarations and the consequences of a false declaration, for example. Recipients' rights and responsibilities must be explained to them as clearly as possible, making sure they fully understand the rules.

In addition, the voluntary declaration program the Ministère du Travail, de l'Emploi et de la Solidarité sociale intends to implement shortly is an interesting avenue to give recipients who realize they are in default the ability to regularize their situation without incurring interest and penalties.

### ■ **Reducing the burden the debt represents**

Second, the Committee proposes to act to reduce the burden this debt load represents for the persons involved who are living in poverty.

The goal is to encourage social assistance recipients to adopt regular repayment habits, reduce the accrued debt, re-enter the labour market or increase work effort. The measures that can be put in place to that effect are limited.

- Directly reducing the debt of the persons involved would be unfair to those who have played by the rules, and would contravene government rules regarding proper management of public funds.
- Reducing the interest rate that applies to this debt would only benefit those persons who have made false declarations, sometimes repeatedly, since persons who are indebted for other reasons are not subject to interest. In addition, the interest rate applied is the rate applied by other departments and bodies. A change targeting only the debt due to the Ministère du Travail, de l'Emploi et de la Solidarité sociale would break with this consistency.

The Committee proposes a third option, i.e., encouraging debtors to enter into an agreement to stagger the repayments, making sure the agreement can be revoked in the event of another false declaration. The objective would be to encourage the persons involved to maintain regular repayment habits while integrating the labour market or taking steps to that effect.

### **Recommendation No. 23**

The debt owed by current or former social assistance recipients to the Ministère du Travail, de l'Emploi et de la Solidarité sociale may constitute an obstacle to entering or staying in the labour market for those persons. The debt is heavy, and the phenomenon has worsened over the past few years.

For persons with few financial resources, this debt load hinders increasing work effort, given that some of the effort will have to go toward repaying the accumulated debt.

First, **the Committee recommends** to the government that the efforts already undertaken to prevent false declarations for social assistance be continued. These efforts should be designed to ensure the recipients have a proper understanding of their rights and responsibilities, and of the consequences of a false declaration.

The voluntary declaration program that will be implemented shortly by the Ministère du Travail, de l'Emploi et de la Solidarité sociale will allow recipients who realize there is an irregularity in their file to correct the error.

Second, **the Committee recommends** that the government encourage debtors to enter into an agreement to make staggered repayments, ensuring the agreement can be revoked in the event of another false declaration. The objective would be to encourage the persons involved to maintain regular repayment habits while entering the labour market or taking steps to that effect.

### The Ministère du Travail, de l'Emploi et de la Solidarité sociale's new voluntary declaration program

A provision has been added to the *Act to allow a better match between training and jobs and to facilitate labour market entry* (Bill 70, adopted November 10, 2016), to allow the Minister of Employment and Social Solidarity to establish a program for persons who want to regularize their situations following a false declaration.

Changes to the *Individual and Family Assistance Regulation*, which should be implemented shortly, will allow a voluntary declarant to take advantage of the new program and obtain the following benefits compared with the situation in which the person would be if he or she made a false declaration:

- interest on the debt would not be charged, as happens with no false declaration (section 192 of the regulation);
- the \$100 recovery charge stipulated in the event of a false declaration would not be claimed (section 193 of the regulation);
- the minimum repayment amount would be the amount applicable with no false declaration, i.e. \$56 a month for financial assistance paid on a monthly basis, and \$13 a week for assistance paid weekly (sections 185 to 189);
- the exclusions from work income could be applied, whereas they are not applicable in the event of a false declaration (sections 114 and 162 of the regulation).

The program would be for current or former recipients of a financial assistance program covered by the *Individual and Family Assistance A* who have:

- failed to report their actual situation, in whole or in part;
- made an incomplete or erroneous declaration regarding their situation.

Source: Ministère du Travail, de l'Emploi et de la Solidarité sociale.

## AN OVERVIEW OF THE PROPOSED INCOME SUPPORT SYSTEM

The Committee's recommendations form a coherent whole. They correspond to a global vision of what Québec's income support system should be:

- an income support system that has been transformed and enhanced to align with the core definition of guaranteed minimum income, and provide more support for labour market entry;
- an income support system that can evolve into an even more comprehensive form of guaranteed minimum income.

### □ **A transformed, enhanced income support system**

The recommendations the Committee is making to the government have a common goal: to transform and enhance Québec's existing income support system so that it is in line with the core definition of guaranteed minimum income, i.e., “a system that offers a guarantee of monetary resources for all, the amount of these resources being related to a minimum threshold.”

#### ■ **A guarantee of monetary resources for all**

The Committee's proposed income support system introduces further initiatives so that everyone who is entitled to the measures in fact benefits from them.

The proposed system calls for automatic payment of certain tax credits, and payment of various forms of support with a single cheque, which streamlines the steps to be taken and makes the measures clearer.

The Committee's proposed system provides additional coverage for persons who are in “transition situations” and cannot get social assistance under the current rules. These persons, who are in vulnerable situations, can draw on a temporary assistance program. Moreover, all workers have access to a personal account for training and transition through which they can be adequately prepared to deal with transitions that arise from technological change and, more broadly, economic reasons.

## ■ **A guarantee of resources tied to a minimum threshold**

The Committee's proposed income support system guarantees monetary resources based on a minimum threshold.

Under this system, the government sets a benchmark level that explicitly establishes the minimum income support to be given to persons based on their ability to increase their disposable income through work, which is why it is different from the poverty line. At a minimum, it makes it possible to meet all immediate needs.

Until the government establishes that benchmark threshold, the Committee has selected a benchmark threshold for persons with no employment restrictions and for those aged 65 and older, deriving some recommendations as to the changes to make to the support paid. For those with disabilities, the Committee recommends a higher benchmark threshold than for persons who can participate in the labour market, enhancements that will eventually have to be made to current support based on the threshold selected.

## ■ **Stronger support for labour market entry**

The Committee's proposed income support system provides stronger support for labour market entry, education and training. In fact, entering the labour market and, more broadly, social integration are the way to combat poverty on a lasting basis, while strengthening economic growth.

The proposed system provides a greater reward for work efforts through a major increase to the work premium. The Committee paves the way for a new approach that goes much further on the income ladder than the current system to encourage those receiving social assistance benefits to move out of unemployment to part- or full-time work.

The different measures intended to strengthen the work incentive are tied to new initiatives for how work is organized in businesses, and hiring policies, with the goal of increasing flexibility and openness, and aim for the social integration of those who remain outside the labour market.

## □ **Moving towards a more comprehensive form of guaranteed minimum income**

Two Committee recommendations shine a light on the later evolution of the income support system into a more comprehensive form of guaranteed minimum income.

- Creating a personal training and transition account would take the form of a universal allowance for workers.
- The fiscalization of financial assistance for some persons with disabilities, contemplated by the Committee, would also correspond to guaranteed minimum income inspired by absolute or comprehensive forms. In fact, fiscalization would be one step towards making the support unconditional for those with a major disability.

## CONCLUSION

The Progress Report and three volumes of the Final Report are the outcome of the work of the Expert Committee on Guaranteed Minimum Income carried out in response to the government's mandate. The report deals with immediate issues, but also considers future challenges. It is part of a social project involving the citizens of today, and future generations.

### □ **Methodological choices**

In the course of its work, the Committee made a number of methodological decisions that cluster around three points.

#### ■ **Acquire an assessment of the situation that is as comprehensive as possible**

Firstly, the Committee thought it was essential to have as much information as possible on the income support system and labour market.

The Committee wanted to base its analysis on a thoroughly comprehensive, rigorous report on the income support system, drawing on information provided by the Ministère du Travail, de l'Emploi et de la Solidarité sociale and the Ministère des Finances. The information covered existing measures and programs within the Committee's field of analysis, and also dealt with a number of indicators associated with the properties assigned to various forms of guaranteed minimum income. With the support of the two departments, the Committee was able to draw up a complete, up-to-date picture of Québec's existing income system. The Committee's Final Report sets out new data and information on the profile of persons receiving social assistance, on the portrait of the poor, and the application of "life cycle" income support.

Information gathering also focused on the primary characteristics of the labour market, and changes we can project due to a number of prospective trends.

During this exercise, the Committee frequently ran up against limits related to data availability, which led it to draft specific recommendations on that matter.

#### ■ **Use simulations to test the measures considered**

Secondly, the Committee focused on simulations.

Based on its findings and diagnoses, the Committee considered the changes to make to enhance the current income support system. For quantitative changes, the Committee privileged the simulation approach, which involved testing hypotheses about the measures to take using a process that allowed the principles selected to be considered.

The Committee is publishing most of these simulations with a view to transparency and to facilitate the discussion its recommendations will create.

#### ■ **Little behavioural analysis**

Thirdly, the Committee had to limit behavioural analysis.

Here, we refer to analyses intended to consider changes in the behaviour of individuals and labour market actors, corporate policies and, more broadly, the impacts on migration flows subsequent to some of the measures examined. This type of analysis requires tools and expertise that the Committee could not easily mobilize within the framework of its work.

## □ **Three realities**

From the outset, the Committee became aware of three major realities.

### ■ **The complexity of existing measures**

The first of these realities, the Committee was mandated to study an area of public policy that was particularly complex and sophisticated. Québec's existing income support system is made up of a set of budgetary and fiscal measures that include multiple provisions. The complexity can be explained by the government's desire to define measures that are as tailored as possible to the needs and situations of a highly diverse public, in order to better serve the persons to support. It also results from the need to take the government's financial means into consideration, leading to pinpoint targeting of the measures selected, so that the available resources go to those who need them the most.

For the Committee, it was immediately clear that there could be no question of doing away with this complex set of supports. Instead, we had to define what could be treated as assets and then establish the improvements to be made based on what must be considered as steps already taken.

The current system's complexity also prompted the Committee to be very careful in factoring in the potential impacts of some of the initiatives contemplated on the current system, and the plethora of existing provisions.

### ■ **The federal government's place**

The Committee immediately became aware of a second reality, the role the federal government plays in Québec's existing income support system. The federal government bears almost all of the income support for persons aged 65 or older. It also plays a big role in family assistance and, to a lesser extent, in the incentive to work.

The difficulty was that the Committee's mandate came from the Québec government. Accordingly, the various recommendations formulated had to be addressed to the Québec government.

However, the fact of the federal government's presence had to be taken into account. The Committee therefore included the various federal measures in its analysis of Québec's current income support system. When the analysis led to conclusions that involved the federal government, the Committee opted to use the Québec government as an intermediary and liaison, recommending that it demand the desired changes from the federal government.

### ■ **Income support measures outside the scope of analysis**

A third reality comes from the existence, on the fringes of the income support system as defined, of many mechanisms that are also designed to provide support to vulnerable persons.

These mechanisms interact with the budgetary and fiscal income support measures studied; the Committee could not overlook them even if they fall outside the scope of its analysis. Among these mechanisms, we primarily refer to insurance plans, particularly employment insurance and the Québec Pension Plan, and non-monetary assistance.

Where necessary, the Committee referred to these assistance mechanisms and, in some cases, even set out their main features.

## □ **A conceptual endeavour**

From the outset, the Committee assessed the scope of the conceptual issue associated with all of the thinking surrounding guaranteed minimum income.

### ■ **Proposing a definition of guaranteed minimum income**

The term guaranteed minimum income is used to define income support systems that differ substantially on major points. In recent years, the very notion of guaranteed minimum income has become a political issue in several countries, without necessarily specifying which income support system is being referred to.

The Committee therefore engaged in initial conceptual work, reviewing, as clearly as possible, the forms of guaranteed minimum income that were the focus of discussion or debate, and placing them in three categories: universal allowance, negative income tax, or basic income support systems. The categorization was done by defining the properties of each form, its benefits, and the issues it raises.

#### ■ **An open, inclusive definition**

The Committee wrapped up its conceptual effort by proposing an open, inclusive, operational definition of the concept of guaranteed minimum income, which the Committee stated as follows: “any system that offers a guarantee of monetary resources for all, with the amount of those resources being related to a minimum threshold.”

As the Committee explained in its Progress Report, this definition made it possible to consider what already exists without skewing the concept. The chosen definition played a key role in the remainder of the Committee's work, as it helped steer the assessment of Québec's current system, then establish the meaning of improvements to be made subsequent to the assessment.

The Committee sees the universal allowance and complete form of negative income tax as examples of guaranteed minimum income, but the concept of guaranteed minimum income cannot be restricted to these forms alone.

#### ■ **The notion of unconditionality**

Among other things, the Committee's definition opened up some possibilities regarding the property of unconditionality. This property, one of the foundations of the universal allowance, is captured by the idea of “guarantee for all” in the Committee's chosen definition. Conversely, the wording chosen by the Committee opens up some opportunities for reconciliation between the idea of unconditionality and the issues it raises.

#### ■ **Consider what is being done elsewhere**

The conceptual effort the Committee made in defining the concept of guaranteed minimum income was based on a survey of applications of and experiments with guaranteed minimum income elsewhere in the world in recent years that was as representative as possible. For some of the applications identified, which were closer to the situation in Québec, the Committee took a closer look at the work done, each time relating the work to its conceptual effort.



## ■ Identify core principles

Defining the term guaranteed minimum income was not the only conceptual challenge. In essence, the committee wanted to ponder the capacity of the current or contemplated income support systems to improve income redistribution. In the Committee's view, there was no guarantee that a guaranteed minimum income could necessarily achieve such an improvement.

The Committee thus selected three principles--equity, incentive to work and efficiency--that, ideally, all had to be respected in an income support system. The Committee specified the meaning and implications of these principles. The Committee also defined a process for arbitrating between the principles, and took a transversal concern into account: accessibility. Overall, respect for these principles and this concern is essential to social acceptability.

As with defining guaranteed minimum income, establishing the principles played a big role in the Committee's subsequent work: the various initiatives considered were studied on the basis of indicators that were directly related to each of the three principles.

The Committee's proposed definition of guaranteed minimum income made it possible to replace the idea of unconditionality--a characteristic of a universal allowance--with a more flexible property, the guarantee for all, thus creating opportunities for reconciliation between the principles of equity, efficiency, and incentive to work.

## ■ Different kinds of recommendations

The recommendations formulated by the Committee are highly diverse.

Some are quantitative, which means that, in some cases, the Committee defined budgetary or fiscal measures with specific parameters whose impacts could be assessed. Other recommendations are more qualitative, taking the form of orientations or directions.

The recommendations set out cover different horizons. With several recommendations, the Committee was aiming for short-term action; with others, the recommended initiatives are long term. Among the short-term actions, the Committee identified an improvement in support measures for persons living alone and households without children, which currently get less support than other vulnerable persons.

The recommendations' details vary. Some recommendations could be implemented immediately if the government follows up on them, while others are lines of thinking that could be new avenues for future action.

## ■ A global vision

All of the recommendations, regardless of their nature, are part of a global vision of what the Committee's proposed income support system could be. Implementing the various recommendations made to the government would mean that the transformed, enhanced income support system would be in line with the core definition of guaranteed minimum income, and do more to support labour market integration.

Two of the Committee's recommendations pave the way for the system to evolve into an even more comprehensive form of guaranteed minimum income. With these recommendations, the Committee wanted to strike a balance between introducing some unconditionality – one of the fundamental properties of a universal allowance – and respect for the principles of equity, work incentive, and efficiency.

## ■ The Committee's philosophy on poverty

Beyond the core definition retained by the Committee, the recommendations made to the government and all of the work done correspond to an underlying philosophy on poverty and the response to it. The Committee wants a society that is free of poverty, but this wish can only be achieved by helping poor persons who are able to re-enter the labour market, pursue education and training or, more generally, better integrate into society.

In the Committee's view, poverty is not a status, but rather a situation and those who are in it must be helped to get out. The income support system must guarantee the minimum resources required for vulnerable persons to meet their immediate needs. Above all, it must eliminate barriers that prevent poor persons from escaping poverty. The labour market is the primary avenue for achieving this, for those who are capable. We must also ensure that persons who are in the labour market are not prompted to leave it due to side effects of the measures introduced.

## ■ The need to invest in better information

Still regarding the recommendations put forward, the Committee returned to one last point repeatedly: in the field of public policy, a huge information gap exists. The Committee's analysis ground to a halt several times due to data issues that made it hard to interpret the information.

The three members of the Expert Committee are all academics. The Committee therefore places great importance on having rigorous, reliable data that can be validated available to it.

Several of the avenues proposed to the government therefore presuppose a large, prior investment in gaining a better knowledge of the phenomena and issues involved. Access to reliable, rigorous data is a prerequisite for any further contemplation of introducing a more complete form of guaranteed minimum income.



## LIST OF RECOMMENDATIONS

### Existing gains to be secured

#### A formal recognition

##### Recommendation No. 1

The Committee finds that Québec's existing income support system is on the right track for corresponding to a guaranteed minimum income, i.e., a system that offers a guarantee of monetary resources for all, with the amount of these resources being related to a minimum threshold.

**The Committee recommends** that the Québec government formally recognize in a document:

- that Quebecers benefit from an income support system that is defined on a complementary basis by the Québec and federal governments;
- that this system consists of a set of interconnected provisions to guarantee monetary resources for most citizens based on vulnerable situations that can arise throughout their lives.

**The Committee recommends** that, in future policies, the government consider these assets and treat them as foundational before making any additional change to better align with a guaranteed minimum income, as defined above.

Such formal recognition and commitment could, for example, be enshrined in enabling legislation or a similar document.

## **Improvements to be made to the income support system in order to move toward a guaranteed minimum income**

### **❑ Ensuring that the system offers a guarantee of monetary resources for all: the non-claimants**

#### **■ Automatic payment of certain tax credits**

##### **Recommendation No. 2**

Vulnerable persons entitled to tax benefits do not claim them, either because they do not know about these kinds of assistance, or because it is too complicated for them to complete the tax documentation.

**The Committee recommends** the automatic payment of certain tax credits to those who file a tax return, in order to make certain tax-based income support measures available to eligible individuals who are currently not benefiting.

**The Committee also recommends** the automatic payment of the tax shield, work premiums and the QST component of the solidarity tax credit by Revenu Québec, provided the latter has the information necessary to proceed with such a payment.

**The Committee recommends** making continued or increased efforts to reach individuals who do not file tax returns.

#### **■ Grouping payments for three income support measures**

##### **Recommendation No. 3**

Many of those who are entitled to social assistance or income support tax measures do not request this assistance, due to the complexity of the procedures, the fear of stigma, or the difficulty to understand some of the measures.

**The Committee recommends** that the Québec government issue social assistance benefits, the solidarity tax credit and the work premiums by means of a single payment.

❑ **Ensuring that the system offers a guarantee of monetary resources for all**

■ **More flexible accounting of property and liquid assets**

**Recommendation No. 4**

There are cases where the income support system cannot provide help to persons in “transition situations,” namely the at-risk situations that can lead to insufficient or no income.

In order to support the income of these persons, **the Committee recommends** the government of Québec to implement a temporary assistance program, which would involve relaxing the accounting rules for property and liquid assets associated with the payment of social assistance.

This program would help prevent the impoverishment of these persons, due to the liquidation of almost all their assets during their transition period. The principal terms of this assistance would be the following:

- The program would make it possible for households experiencing a transition and whose incomes remain insufficient to benefit from social assistance for a limited cumulative duration.
- The authorized value of property – and primarily the main residence– would be higher than for current social assistance programs. The value of exemptions for the other types of assets could also be revised.
- This assistance would be conditional upon the creation of a work integration plan similar to the one stipulated in the *Aim for Employment* Program for persons with no employment constraints.
- The amount of assistance should be consistent with the basic support from last-resort financial assistance, so that the assistance is not more generous than last-resort financial assistance.

The Committee contemplated specific rules concerning the maximum duration of the program, how to take into account the main residence and other assets, and the amount of assistance. The exact rules should be determined by the government.

## ■ The creation of a personal account for training and transition

### Recommendation No. 5

Training is a way to address "transition situations" resulting from technological changes, and more broadly for economic reasons.

**The Committee recommends** creating a new training support tool, in the form of a personal account for training and transitioning.

Such an account would be a flexible tool available to persons who may find themselves in a "transition situation," giving them ways to get through that transition and thereby stay in or re-enter the labour market.

Such an account would also serve to prevent these kinds of transitions, by giving persons the means to adapt their skills to the anticipated evolution of their tasks.

The personal account for training and transitioning would have four characteristics:

- The account would be funded on the basis of shared responsibility for training between workers, businesses, and the government. The amounts paid to the account would accumulate gradually as periodic payments are made.
- Its usage would be managed by the worker in accordance with rules defined by the government, based on expected changes in labour market needs. The amounts accumulated by the worker could finance basic and ongoing training, as well as the time necessary to benefit from this training, i.e. the compensatory wage during this period.
- The purpose of the account would be to finance training, with a view to taking preventive action for transition situations related to the labour market or to facilitate the success of these transitions.
- The account would have a broader application than the current system for financing training activities, since it would be accessible to all workers. Therefore, it would include workers from companies whose total payroll is less than 2 million dollars. As such, the account would have to take into consideration the particular constraints of small or medium-sized businesses with regard to their ability to provide training time to their workers.

Given the measure's innovative nature and the need to operate in harmony with existing programs, **the Committee recommends** that this initiative first go through two pilot projects, in the financial sector and the freight transport sector. These two sectors were selected based on the potential impact of technological changes on tasks and jobs.

## ■ The development of an accessible information bank

### Recommendation No. 6

The Committee noted the difficulty of accessing accurate, precise information for evaluating the number of persons undergoing a "transition" who did not receive any income support.

**The Committee recommends** that the *Institut de la statistique du Québec* be mandated to conduct a survey to create an information bank making it possible to better identify persons living in transition situations and who do not receive income support.

The survey should specify the number and profile of persons undergoing a transition situation, the reasons for that transition situation, and the presence or absence of income support. The survey should be longitudinal, meaning that it should track the same individuals over time.

It should also include all the information needed to identify persons in transition situations and the income support that they do or do not receive during those periods, as well as various other data relevant to monitoring how those persons's lives are changing, including their financial status.

The information obtained from the survey should be available free of charge to the public, without departing from the rules concerning the protection of personal information.



- **Setting an explicit minimum threshold: Support for the most disadvantaged**
- **Determining the poverty threshold: improvements to be made to the market basket measurement**

**Recommendation No. 7**

The Committee takes note of the fact that the market basket measure is the tool adopted in Québec and Canada to define the poverty line.

**The Committee recommends** making the following improvements to how the market basket measure is presented and determined.

- Statistics Canada should make a clearer distinction between the components that relate to covering basic needs and those which aim to address additional needs in the basket used to calculate the market basket measure.
- The measure should be periodically every five years, for example reassessed to take into account changes in what is recognized as essential by society.

This reassessment should always be accompanied by a retroactive reconciliation of the measure, in order to ensure the consistency of the series over time.

## ■ Defining a reference threshold, separate from the poverty threshold

### Recommendation No. 8

The Committee notes that there is no explicit reference threshold in the income support system in place in Québec.

**The Committee recommends** that the government establish a reference threshold that explicitly determines the minimum income support to provide to persons and that the threshold be set based on the following criteria.

- It should be clearly established that the reference threshold is separate from the poverty line, in order to maintain an incentive to work for persons with the ability to join the labour market, and to not incentivize persons already in the labour market to leave it.
- The chosen reference threshold should be defined based on two factors.
  - The reference threshold should take into account the ability of individuals to increase their disposable income through work, and for this reason, should differ according to capacity to join the labour market.
  - For persons without limited capacity for employment, the reference threshold should enable them to meet all of their immediate needs.
- When being enacted, the reference threshold should also not exceed the government's capacity to pay, taking into account the potential effects of its appeal, and for this reason, its definition may be accompanied with a proposal for gradual enactment.

**The Committee recommends** that to determine the reference threshold that meets these criteria, the government is particularly reliant on research to define a basket for meeting immediate needs. This basket may be a subset of the basket used in the market basket measure, if this proves to be possible.

The Institut de la Statistique du Québec could be involved in this research.

## ■ The proposed reference threshold, for certain categories of persons

### Recommendation No. 9

Pending the establishment of a final reference threshold by the government that explicitly specifies the minimum income support to provide to persons, **the Committee recommends** a reference threshold for certain categories of persons. The Committee will express this threshold as a percentage of the market basket measure, for the sake of illustration.

- For persons do not have a severely limited capacity for employment, single persons or couples without children, **the Committee recommends** that the reference threshold used by the government to determine the support amount should be between 50% and 60% of the market basket measure. For the remainder of its analyses and recommendations, the Committee will use 55% of the market basket measure as a reference threshold. A more detailed assessment should be conducted by the government, involving the Institut de la statistique du Québec.
- **The Committee recommends** that households with children and no limited capacity for employment should benefit from the same support, but enhanced by family assistance measures.
- For persons with a limited capacity for employment, **the Committee recommends** that the income support be based on a higher reference threshold.

For persons age 65 and over, **the Committee recommends** that the threshold be set at 100% of the market basket measure, because from that age on, work should no longer be taken into account to reach the poverty line.

- **Improvements to be made to the support of persons without children and without restrictions to employment**

**Recommendation No. 10**

The Committee finds that there is a gap between the proposed reference threshold and the support granted for single individuals and couples without children and no limited capacity for employment.

To fill that gap, **the Committee recommends** increasing the amounts paid under the social assistance program for childless households (single individuals or couples), so that their disposable income in the absence of labour income reaches the reference threshold, i.e. 55% of the market basket measure.

**The Committee recommends** that this increase be \$472 per year for a single individual and \$311 per year for a couple without children.

- **Improvements to be made to the support of disabled persons**

- **Parameters to be developed to establish the applicable reference threshold**

**Recommendation No. 11**

Persons with disabilities are among the least advantaged and require special attention, because of the difficulty or impossibility of working.

For such persons, **the Committee recommends** that the reference threshold be higher than for persons with no limited capacity for employment.

In order to determine this reference threshold, **the Committee recommends** that the government define parameters to determine the capacity of persons with disabilities to participate in the labour market. The Ministère de la Santé et des Services sociaux could be involved in this process.

Once these parameters been established, **the Committee recommends** that the government set the reference threshold determining the minimum income support to provide to persons with disabilities, based on their ability to increase their disposable income through work. The reference threshold should thus differ based on the effect of the disability on the ability to enter the labour market.

**The Committee recommends** that the government evaluate the possible gap that exists between the disposable income currently provided to persons with disabilities and the reference threshold selected, and to improve this disposable income if a gap is observed.

▪ **Looser, simpler access terms**

**Recommendation No. 12**

The situation of persons with disabilities justifies that the assistance provided to them be less restrictive and simpler, so as to reduce potential irritants and reduce the burden of required procedures.

**The Committee recommends** the creation of a separate, less restrictive measure than the current social solidarity program, for persons with a severely limited capacity for employment and who have been social solidarity program recipients for some time. The measure could take the form of a new budgetary program, with relaxed rules, or of a tax measure.

**The Committee recommends** evaluating the second of these two options, i.e. the fiscalization of financial assistance for certain persons with disabilities; those meeting criteria related to how great their needs and disability are and their inability to hold down a job.

The terms of this new tax measure could be the following:

- Benchmarks would be defined, involving setting a timeframe after which the assistance would be fiscalized; two years after the person becomes a social solidarity program recipients, for example.
- For reasons of equity, fiscalized assistance should remain conditional to assets or liquid assets owned. The exemption of employment income allowed would become annual, rather than monthly.
- This condition would be checked only after a few years, e.g. five years.
- The assistance would also remain conditional on income, with this condition being checked in a tax return.

Due to the decrease in required conditions, this measure would be part of implementing a guaranteed minimum income inspired by absolute or complete forms for such persons with a more severe disability.

In parallel, methods should be implemented for special benefits to continue to be paid outside the tax system.

- **Improvements to be made to the support of persons 65 and over**
- **An answer to persistent poverty in persons 65 years and over**

#### **Recommendation No. 13**

The Committee notes that poverty persists among persons 65 years and over. Even though the poverty rate is lower than for the population at large, the situation is of concern, considering how difficult it is for persons 65 and over to stay in the labour market.

**The Committee recommends** bringing an answer to one of the causes of this situation by asking the Québec government to make representations to the federal government in order for the indexing process of the *Old Age Security and Guaranteed Income Supplement benefits* to be based on the market basket measure. The amount of assistance should be periodically revised, at the same time the market basket measure is changed.

With respect to situations of poverty attributable to immigrant eligibility rules for the *Old Age Security pension and Guaranteed Income Supplement*, **the Committee recommends** that the Québec government to make representations to the federal government in order for the appropriate corrective measures to be applied.

- **Recognizing the work efforts of persons 65 and over**

#### **Recommendation No. 14**

The current parameters of the Guaranteed Income Supplement may dissuade persons 65 and over from remaining in the labour market even though they are able to do so. From the point of view of the Committee, it is important to ensure that these persons are able to increase their disposable income by staying in the labour market if they wish to.

To that effect, **the Committee recommends** to the Québec government making representations to the federal government to lower the rate of reduction that applies to the *Guaranteed Income Supplement for employment income*.

- **The treatment of couples vs. persons living alone on social assistance: better respect individual freedom while recognizing the respective needs of persons living alone and of couples**

#### **Recommendation No. 15**

The terms of payment of social welfare raise the question of respecting individual freedom in the treatment of couples.

To ensure more fairness and freedom between spouses, **the Committee recommends** that, in the case of a couple, the assistance paid for social welfare be shared equally between both members of the couple rather than paid jointly.

The amount of assistance would remain unchanged, but its mode of payment would be modified. For single individuals, there would be no change in the assistance paid.

The administrative and legal impacts of this recommendation would have to be taken into account prior to implementation.

## ❑ Sustaining income by integration into the labour market

- Relying on existing tools to significantly expand the coverage of targeted recipients
- A major proposal: significantly strengthening the work premium

### Recommendation No. 16

The income support system may constitute an obstacle to labour market entry by creating high effective marginal tax rates: the proportion of an additional dollar in income that is recovered by the governments through higher taxes or contributions or lower transfers can sometimes equal 70% or more.

In order to reduce these effective marginal tax rates, the government already has the work premium. From the Committee's point of view, this is an appropriate tool as it encourages persons to enter the labour market.

**The Committee recommends** that the government substantially enhance the work premium to reduce effective marginal tax rate impacts in the social assistance reduction zone, i.e. the strategic zone the measure is designed for.

This enhancement would make it possible for all households to benefit from a 50% combined rate (Québec's work premium and the federal government's Working Income Tax Benefit).

To that effect, the government would expand coverage of the work premium and have it benefit more workers. Such an enhancement would reduce the effective marginal tax rates of lower income persons, and increase their job supply.

The measure should be accompanied by the implementation of the appropriate terms to limit the upside impact on effective marginal tax rates resulting from the reduction of the measure for higher income levels, particularly in the strategic zone that corresponds to emerging from poverty.

- An initial step in a gradual application

### Recommendation No. 17

The enhancement of the work premium recommended by the Committee under Recommendation No. 16 represents a high cost for the Québec government. The Committee sees this enhancement as an objective to meet, which could be accomplished gradually.

As a first step, the priority would be to give single individuals and couples without children an income supplementation rate equivalent to the one offered to couples with children.

**The Committee recommends** that the government enhance the work premium for single individuals and households without children, so that these households benefit from a combined rate equal to that offered to couples with children, i.e. 33.0%.

Single-parent families would continue to benefit from a higher supplementation rate, i.e. 42.0%.



- **In the longer term, a paradigm shift**
- **An illustrative scenario designed to trigger a thought process**

#### **Recommendation No. 18**

The Committee analyzed the possibility of opening up a new avenue in labour market entry incentives by contemplating what form a new work premium could take that offered a very substantial incentive to social assistance recipients to enter the labour market on a full-time basis, or part-time for a significant number of hours per week.

The scenario studied by the Committee consists of replacing the existing work premium with a new one that would act much further up the income ladder, and much more strongly, to reduce the participation tax rate.

**The Committee recommends** that the government continue the reflection process started by the Committee, taking into account the various issues around the reduction rates and the integration of the measures, in particular to adapt the measure to the situations of other kinds of households.

- **Respecting a key condition**

#### **Recommendation No. 19**

The various measures designed to increase the incentive to work presuppose, however, in order to reach their goal, that the persons looking for work can indeed find a job. This means that they can meet the needs of the businesses, i.e. that their skills match the requirements of the labour market.

To make sure it happens, **the Committee recommends** that the Québec government integrate into the future National Labour Strategy an enhancement of the current initiatives, or new measures designed to support the employers through state support to encourage them to make work organization more flexible.

This may be in the form of an offer of support services.

These initiatives would favour the implementation of less rigid HR management in businesses, particularly when it comes to work schedules, as well as a hiring policy open to diversity, easing the recruitment of older workers and immigrants, and the integration of disabled persons and social assistance recipients.

These initiatives would target small and medium businesses in particular.

- **Dependency upon social assistance**
- **Preventive action: adjusting the work premium supplement**

#### **Recommendation No. 20**

Being on social assistance for an extended period of time generally translates into a drop in employability and the ability to hold a job, making it that much more difficult to exit social assistance.

In order to prevent an increase in the number of long-term social assistance recipients, **the Committee recommends** modifying the terms of the work premium supplement.

The modification would reduce the period of presence on last resort financial assistance in order to be eligible for the supplement from 36 months out of the last 42 to 24 months out of the last 30. This modification would allow for quicker intervention among recipients at risk of remaining on social assistance in the long-term.

- **Better understand the needs of long-term financial assistance claimants, and offer them adapted tools**

#### **Recommendation No. 21**

Long-term social assistance recipients' situations and needs in the area of health and social services are not well understood, which makes it difficult to identify the means to implement to help them approach the labour market.

**The Committee recommends** carrying out additional studies on the needs of this clientele and the services to be implemented to support them.

In addition to identifying the measures to put in place to support this clientele, the studies should, among other things:

- target the reasons why these persons remain outside the labour market for long periods of time;
- identify the factors that will help reduce the risk, especially regarding the various situations that have affected their lives.

The Ministère de la Santé et des Services could be involved in this initiative.

- **A tool with an interesting potential**

#### **Recommendation No. 22**

The Committee underscores the importance of the new measures intended to develop social skills that the Ministère du Travail, de l'Emploi et de la Solidarité sociale intends to offer as part of the Aim for Employment Program.

**The Committee recommends** assessing the results that will be obtained through these new measures to develop social skills.

If the results obtained through the social skills development measures are positive, these measures could be offered to other social assistance recipients, and in particular to long-term social assistance recipients, after adjustment to their specific situations.

- **The debt situation of current or past social assistance recipients**
- **Acting in a preventive manner and reducing the burden the debt represents**

#### **Recommendation No. 23**

The debt owed by current or former social assistance recipients to the Ministère du Travail, de l'Emploi et de la Solidarité sociale may constitute an obstacle to entering or staying in the labour market for those persons. The debt is heavy, and the phenomenon has worsened over the past few years.

For persons with few financial resources, this debt load hinders increasing work effort, given that some of the effort will have to go toward repaying the accumulated debt.

First, **the Committee recommends** to the government that the efforts already undertaken to prevent false declarations for social assistance be continued. These efforts should be designed to ensure the recipients have a proper understanding of their rights and responsibilities, and of the consequences of a false declaration.

The voluntary declaration program that will be implemented shortly by the Ministère du Travail, de l'Emploi et de la Solidarité sociale will allow recipients who realize there is an irregularity in their file to correct the error.

Second, **the Committee recommends** that the government encourage debtors to enter into an agreement to make staggered repayments, ensuring the agreement can be revoked in the event of another false declaration. The objective would be to encourage the persons involved to maintain regular repayment habits while entering the labour market or taking steps to that effect.

## APPENDIX 1: EXPERT COMMITTEE ON GUARANTEED MINIMUM INCOME

### □ Members of the Expert Committee

#### ■ **Dorothée Boccanfuso, Committee Chair**

Dorothée Boccanfuso, full professor, Département d'économique, École de gestion de l'Université de Sherbrooke.

Researcher, Groupe de recherche en économie et développement international (GREDI) and Fellow, Centre interuniversitaire de recherche en analyse des organisations (CIRANO), Dorothée Boccanfuso was a member of the Centre d'étude sur la pauvreté et l'exclusion from 2009 to 2012.

Dorothée Boccanfuso's work primarily focuses on in-depth analyses of poverty and inequality, the contribution of inclusive growth to improving the well-being of populations and, in particular, on impact studies of economic policy.

#### ■ **Jean-Michel Cousineau**

Jean-Michel Cousineau, economist and full professor, École de relations industrielles, Université de Montréal.

Jean-Michel Cousineau specializes in labour economics, econometrics, and public policy. He chaired the Association des économistes québécois's Comité des politiques publiques for many years, and remains a member of the association. Jean-Michel Cousineau was also a member of the Centre d'étude sur la pauvreté et l'exclusion from 2006 to 2012.

His research interests and latest publications focus on poverty, income inequality, and public policy on inclusive growth.

#### ■ **Raquel Fonseca**

Raquel Fonseca, associate professor, Département de science économique, École des sciences de la gestion, Université du Québec à Montréal.

Raquel Fonseca is a joint holder of the Chaire de recherche Industrielle Alliance sur les enjeux économiques des changements démographiques (CEDIA) and a Fellow of the Centre interuniversitaire de recherche en analyse des organisations (CIRANO). She has also been a researcher and laboratory director at the Centre de recherche de l'Institut universitaire de gériatrie de Montréal and assistant economist affiliated with the RAND Corporation.

Raquel Fonseca has published numerous articles on self-employment, entrepreneurship, population ageing, poverty and the costs of health care systems.

## □ Resources

### ■ Ministère du Travail, de l'Emploi et de la Solidarité sociale.

**Chantal Maltais**, Assistant Deputy Minister, Secteur de la solidarité sociale et de l'analyse stratégique

**Anne Racine**, director, Direction générale de la solidarité sociale et de l'action communautaire

**Guy Baillargeon**, economist, Secteur de la solidarité sociale et de l'analyse stratégique

**François Roussin**, economist, Secteur de la solidarité sociale et de l'analyse stratégique

**Marco de Nicolini**, manager, and his team at Direction de la recherche

**Dalil Maschino**, manager, and his team at Direction de l'analyse et de l'information sur le marché du travail

**Anik Labonté**, economist, Direction des politiques de lutte contre la pauvreté et action communautaire

**Louise Marois**, administrative assistant, Secteur de la solidarité sociale et de l'analyse stratégique

**Geneviève Rompré**, executive assistant, Secteur de la solidarité sociale et de l'analyse stratégique

**Martine Pelletier**, senior technician, Secteur de la solidarité sociale et de l'analyse stratégique

### ■ Ministère des Finances

**Julie Gingras**, Assistant Deputy Minister, Secteur des politiques aux particuliers et de l'économique

**Jean-Pierre Simard**, director, Direction générale des politiques aux particuliers

**Gilbert Fontaine**, manager, and his team at Direction de la politique sociale

**Carl Poulin**, manager, and his team at Direction de la taxation des particuliers

**Vincent Vidal**, manager, and his team at Direction de l'analyse des politiques et des taxes de vente

**Daniel Floréa**, director, Direction générale de l'analyse et de la prévision économiques

**Raymond Fournier**, manager, and his team at Direction de l'économie québécoise et canadienne et internationale

**Francis Hébert**, manager, and his team at Direction de la prévision économique québécoise et canadienne

**Jean Labbé**, manager, and his team at Direction de l'analyse structurelle et de la modélisation

**Danielle-Josée Pelletier** manager, and her team at Direction des communications

**Gisèle Gauthier**, administrative technician, Secteur des politiques aux particuliers et de l'économique

**Sophie Roy**, administrative assistant, Direction générale des politiques aux particuliers

■ **Ministère du Conseil exécutif**

**Jean-Pierre Pellegrin**, economist, assistant secretary, Secrétariat aux priorités et aux projets stratégiques

**Alexandre Simard**, economist, advisor, Secrétariat aux priorités et aux projets stratégiques

**Claude Bertrand**, administrative technician, Secrétariat aux priorités et aux projets stratégiques

**Anne-Marie Dubocage**, administrative technician, Secrétariat aux priorités et aux projets stratégiques



## APPENDIX 2: EXPERTS MET AND BIBLIOGRAPHY

The following are the experts the Committee consulted as well as the bibliography covering the different stages of its work (progress report and volumes of the final report).

### □ Experts met

During its work, the Committee invited various experts to present their analyses concerning the themes it was discussing.

As such, the Committee met with:

**Nicholas-James Clavet**, PhD student in economics, Université Laval

**Nicolas Comeau-Tremblay**, Research Associate, Industrial Alliance Research Chair

**Luc Godbout**, Professor, Director of Taxation Department, Université de Sherbrooke, Research Chair in Taxation and Public Finance

**Maripier Isabelle**, PhD student in economics, University of Toronto

**Guy Lacroix**, Professor, Economics Department, Université Laval, Co-holder of the Industrial Alliance Research Chair on the Economics of Demographic Change (IAEDC)

**Steeve Marchand**, PhD student in economics, Université Laval

**Éric Noël**, Senior Vice-President, North America, Oxford Analytica/Initiator, Canada Towards 2030 Project; Visiting Expert – Global Markets, IESE Business School; Executive Fellow – School of Public Policy, University of Calgary

**Hugh D. Segal**, Master, Massey College

**Suzie St-Cerny**, Research Associate, Research Chair in Taxation and Public Finance

**Philippe Van Parijs**, Professor, Université catholique de Louvain (Hoover Chair of Economic and Social Ethics), Katholieke Universiteit Leuven and Oxford



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## APPENDIX 3: DETAIL OF THE AMOUNTS OF INCOME SUPPORT TAKEN INTO ACCOUNT UNDER THE “LIFE CYCLE” APPROACH

TABLE 12

**Illustration of the income support granted a person living alone with no work income over a “life cycle” – 2016**  
(dollars)

	<i>Government involved</i>	Situation			
		Single individual (18–49 years old)	Single individual (50–57 years old)	Single individual (58–64 years old)	Single senior (65 ans over)
<b>Pre-transfer income</b>		—	—	—	—
– Employment income		—	—	—	—
– Taxes and premiums	<i>Québec-Federal</i>	—	—	—	—
<b>Basic financial assistance</b>		<b>9 192</b>	<b>9 672</b>	<b>11 258</b>	<b>1 571</b>
– Last resort financial assistance	<i>Québec</i>	7 956	7 476	9 060	—
– Solidarity tax credit	<i>Québec</i>	960	960	960	960
– GST tax credit	<i>Federal</i>	276	276	278	421
– Shelter Allowance Program	<i>Québec</i>	—	960	960	190
<b>Incentive to work</b>		—	—	—	—
– Work premium	<i>Québec</i>	—	—	—	—
– Working Income Tax Benefit	<i>Federal</i>	—	—	—	—
<b>Family assistance</b>		—	—	—	—
– Child assistance(1)	<i>Québec</i>	—	—	—	—
– Canada Child Benefit	<i>Federal</i>	—	—	—	—
– Québec Parental Insurance Plan	<i>Québec</i>	—	—	—	—
– Daycare fees	<i>Québec</i>	—	—	—	—
<b>Support for seniors</b>		—	—	—	<b>16 682</b>
– Old Age Security pension	<i>Federal</i>	—	—	—	6 879
– Guaranteed Income Supplement	<i>Federal</i>	—	—	—	9 803
– Québec Pension Plan	<i>Québec</i>	—	—	—	—
<b>Disposable income</b>		<b>9 192</b>	<b>9 672</b>	<b>11 258</b>	<b>18 253</b>

Source: Ministère des Finances du Québec



TABLE 13

**Illustration of income support provided to someone who lives alone and has a severe, prolonged impairment during their “life cycle” – 2016**  
(dollars)

	<i>Government involved</i>	Situation			
		Single individual (18–30 years old)	Single individual (31–49 years old)	Single individual (50–64 years old)	Single senior (65 and over)
<b>Pre-transfer income</b>		—	10 540	10 540	—
– Employment income		—	11 180	11 180	—
– Taxes and premiums	<i>Québec-Federal</i>	—	–640	–640	—
<b>Basic financial assistance</b>		12 648	3 345	4 263	1 381
– Last resort financial assistance	<i>Québec</i>	11 364	2 024	2 024	—
– Solidarity tax credit	<i>Québec</i>	960	960	960	960
– Refundable GST credit	<i>Federal</i>	324	361	361	421
– Shelter Allowance Program	<i>Québec</i>	—	—	918	—
<b>Incentive to work</b>		—	3 054	3 054	—
– Work premium	<i>Québec</i>	—	1 098	1 098	—
– Working Income Tax Benefit	<i>Federal</i>	—	1 956	1 956	—
<b>Family assistance</b>		—	—	—	—
– Child assistance	<i>Québec</i>	—	—	—	—
– Canada Child Benefit	<i>Federal</i>	—	—	—	—
– Québec Parental Insurance Plan	<i>Québec</i>	—	—	—	—
– Daycare fees	<i>Québec</i>	—	—	—	—
<b>Support for seniors</b>		—	—	—	17 801
– Old Age Security pension	<i>Federal</i>	—	—	—	6 879
– Guaranteed Income Supplement	<i>Federal</i>	—	—	—	8 471
– Québec Pension Plan	<i>Québec</i>	—	—	—	2 451
<b>Disposable income</b>		12 648	16 939	17 857	19 182

Source: Ministère des Finances du Québec.

TABLE 14

**Illustration of income support granted to a couple that works for minimum wage during their “life cycle” – 2016**

(dollars)

	<i>Government involved</i>	Situation (first four of seven)			
		Unemployed couple with no children (18–20 years old)	Couple without children (20–30 years old)	Couple with children, parental leave (31 years old)	Couple with a child under 5 (32–35 years old)
<b>Pre-transfer income</b>		—	33 910	16 375	34 156
– Employment income		—	39 130	18 436	39 130
– Taxes and premiums	<i>Québec-Federal</i>	—	–5 220	–2 061	–4 974
<b>Basic financial assistance</b>		<b>13 355</b>	<b>1 413</b>	<b>2 036</b>	<b>1 772</b>
– Last resort financial assistance	<i>Québec</i>	11 580	—	—	—
– Solidarity tax credit	<i>Québec</i>	1 223	1 021	1 339	1 137
– Refundable GST credit	<i>Federal</i>	552	392	697	635
<b>Incentive to work</b>		<b>—</b>	<b>—</b>	<b>1 726</b>	<b>1 080</b>
– Work premium	<i>Québec</i>	—	—	1 726	1 080
– Working Income Tax Benefit	<i>Federal</i>	—	—	—	—
<b>Family assistance</b>		<b>—</b>	<b>—</b>	<b>21 761</b>	<b>6 327</b>
– Child assistance(1)	<i>Québec</i>	—	—	2 392	2 392
– Canada Child Benefit	<i>Federal</i>	—	—	6 294	5 898
– Québec Parental Insurance Plan	<i>Québec</i>	—	—	13 075	—
– Daycare fees	<i>Québec</i>	—	—	—	–1 963
<b>Support for seniors</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
– Old Age Security pension	<i>Federal</i>	—	—	—	—
– Guaranteed Income Supplement	<i>Federal</i>	—	—	—	—
– Québec Pension Plan	<i>Québec</i>	—	—	—	—
<b>Disposable income</b>		<b>13 355</b>	<b>35 323</b>	<b>41 898</b>	<b>43 335</b>

Source: Ministère des Finances du Québec.

TABLE 14

**Illustration of income support granted to a couple that works for minimum wage during their “life cycle” – 2016 (cont.)**  
(dollars)

	<i>Government involved</i>	Situation (last three of seven)		
		Couple with a child 5 or older (36–48 years old)	Couple without children (49–64 years old)	Retired couple (65 and over)
<b>Pre-transfer income</b>		<b>34 113</b>	<b>33 910</b>	—
– Employment income		39 130	39 130	—
– Taxes and premiums	<i>Québec-Federal</i>	–5 017	–5 220	—
<b>Basic financial assistance</b>		<b>1 755</b>	<b>1 413</b>	<b>1 775</b>
– Last resort financial assistance	<i>Québec</i>	—	—	—
– Solidarity tax credit	<i>Québec</i>	1 137	1 021	1 223
– Refundable GST credit	<i>Federal</i>	618	392	552
<b>Incentive to work</b>		<b>1 080</b>	—	—
– Work premium	<i>Québec</i>	1 080	—	—
– Working Income Tax Benefit	<i>Federal</i>	—	—	—
<b>Family assistance</b>		<b>5 646</b>	—	—
– Child assistance(1)	<i>Québec</i>	2 392	—	—
– Canada Child Benefit	<i>Federal</i>	4 874	—	—
– Québec Parental Insurance Plan	<i>Québec</i>	—	—	—
– Daycare fees	<i>Québec</i>	–1 620	—	—
<b>Support for seniors</b>		—	—	<b>30 136</b>
– Old Age Security pension	<i>Federal</i>	—	—	13 758
– Guaranteed Income Supplement	<i>Federal</i>	—	—	6 596
– Régime de rentes du Québec	<i>Québec</i>	—	—	9 783
<b>Disposable income</b>		<b>42 594</b>	<b>35 323</b>	<b>31 911</b>

Source: Ministère des Finances du Québec.

FINAL REPORT  
FROM THE EXPERT  
COMMITTEE  
ON GUARANTEED  
MINIMUM INCOME

## VOLUME 1

Principles,  
Diagnosis and  
Recommendations

# GUARANTEED MINIMUM INCOME IN QUÉBEC: A UTOPIA? AN INSPIRATION FOR QUÉBEC