

A patchwork quilt: Income security for Canadians with disabilities

The purpose of this Issue Briefing is to describe the sources of disability income security available to Canadians. We summarize seven distinct sources of disability income security benefits. In 2008-2009, these seven sources provided \$25.7 billion in benefits or tax credits to people with disabilities. This amount represents an income security expenditure about twice the size of the federal Employment Insurance program in Canada. This briefing draws attention to the policy challenge of coordinating and aligning both the goals and the administration of disability income security programs in Canada.

The nature and severity of disability, how a person became disabled, and a person's employment status are all factors that determine eligibility for specific disability income security sources. Some disabled working-age Canadians may qualify for benefits from more than one source. Differing eligibility requirements and program designs have resulted in multiple programs. Some of these programs stack benefits (i.e. allow for benefits from one program to be added to those from another), while others substitute benefits (i.e. reduce benefits in one program as they are received from another). Disability benefit amounts differ by program and degree of disability, and benefit amounts in a number of programs are low by Organisation for Economic Cooperation and Development (OECD) standards, exposing persons with disabilities to poverty. Improved coherence in disability programs could simplify benefit administration, provide fairer treatment of persons with disabilities, and increase participation in work and/or community activities.

The prevalence of disability in Canada

How is disability defined? Across most developed economies, national statistical agencies have adopted a (generally) consistent definition of a person with a disability. Canada's Participation and Activity Limitation Survey (PALS) refers to "people whose daily activities are limited because of a condition or health problem." This definition encompasses a broad range of impairments across domains of physical function, learning, communication and emotional/ psychological function. In 2006, PALS data indicated that 14.3 per cent of Canadians had some degree of activity limitation affecting their participation at work, school or home. Of these 4.4 million Canadians, 2.5 million were between the ages of 15-64.

The severity of disability has a profound impact on the nature and degree of an individual's activity limitations. Some conditions such as a single episode of depression may be transitory,

KEY MESSAGES

- In Canada, there are seven distinct sources of disability income security benefits at the federal and provincial levels.
- These seven programs are not well-coordinated and differ in terms of eligibility, disability definitions and benefit generosity. They also have different rules with regard to allowing other program benefits without deductions, or income from a partial return to work. As a result, individuals with similar degrees of impairment often have different benefit levels.
- Ongoing dialogue among key stakeholders is needed to develop and implement successful reforms to create a better coordinated, more client-oriented approach to programs that also facilitate reintegration to the workforce and provide greater equity in income security benefits.

resulting in temporary disability. Other conditions, such as arthritis, may result in chronic but episodic disability. In one study of Canadians with disabilities, only 13 per cent of participants reported having a chronic continuous activity limitation over all six years studied (Galarnau & Radulescu, 2009). And some conditions, such as cognitive impairment arising from traumatic brain injury or stroke, can result in permanent and severe disability.

For many Canadians with disabilities, adaptations and accommodations can remove the barriers to participation in socially-valued roles, such as care-giving or participation in the labour force. However, for large numbers of Canadians with disabilities, the impact of their impairments prevents their full participation in work roles. The social goal of disability income security programs is to reduce the impact of economic insecurity arising from disability that prevents participation in the labour force.

Of the 2.5 million working-age Canadians with disabilities, approximately 50 per cent were active in the labour force in 2006. Information on the coverage and adequacy of income security benefits for disabled persons who are not in the labour force is imprecise in Canada. A study conducted by the Institute for Work & Health estimated that approximately 5.1 per cent of Canadians aged 15-64 (900,000 individuals) received disability benefits from one of four income security programs in 2001 (Mustard et al, 2007). A further 390,000 Canadians with disabilities in this age group were not participating in the labour force and were not receiving disability benefits. At ages 55-64, approximately 11 per cent of Canadians were receiving a disability benefit.

Disability income support programs in Canada

In 2008-2009, \$25.7 billion in disability income security benefits were provided by seven sources (see Table 1). Jurisdiction over disability income security policy is divided between programs delivered by the federal and provincial governments. The federal government has jurisdiction over the income taxation system, Employment Insurance (EI), the Canada Pension Plan (CPP) and disability benefits for veterans of the Canadian Armed Forces. Provincial governments have jurisdiction over disability income security provided through social assistance programs, workers' compensation schemes, and the regulation of disability insurance plans provided by the for-profit life and health insurance industry. In the following section, we describe the four programs under federal jurisdiction, followed by the three disability income security schemes under provincial jurisdiction.

1. Canada Pension Plan Disability (CPP-D) and Quebec Pension Plan Disability (QPP-D)

The Canada Pension Plan and the Quebec Pension Plan are compulsory contributory social insurance schemes that provide a source of income and protection to workers and their families in the event of retirement, disability or death. Contributions to CPP/QPP are made by employers and employees. Eligibility for the CPP disability benefit (CPP-D) is based on a stringent definition of disability: "severe and prolonged disability such that the person is incapable of gainful employment." Eligibility is also subject to minimum contribution requirements.

Expenditures on CPP-D and QPP-D totalled \$4.1 billion in 2008-09, representing a nine per cent increase over the course of three years. There are currently 321,122 beneficiaries of CPP-D and 69,425 beneficiaries of QPP-D. Plan benefits are scheduled at approximately 30-40 per cent of the average labour market income. As of March 2010, the average CPP-D monthly benefit was \$811.75, and the maximum monthly benefit was \$1,126.76.

CPP-D is treated as a "first-payer" by private long-term disability (LTD) plans, provincial social assistance programs and provincial workers' compensation agencies. Historically, CPP-D has been administered on the assumption that beneficiaries have no prospect of re-entering the labour force. Recent reforms have provided opportunities for beneficiaries to participate in a paid work trial for up to three months without loss of benefits.

2. Employment Insurance Sickness Benefit

The Employment Insurance (EI) Sickness Benefit provides benefits for a maximum of 15 weeks for periods of temporary disability. In order to qualify, the worker must show that regular weekly earnings have decreased more than 40 per cent due to disability, and that 600 insured hours have accumulated over the last 52 weeks, or since the worker's last claim.

The basic benefit rate for EI Sickness is 55 per cent of a recipient's average insured earnings, up to a yearly maximum insurable amount of \$43,200. For 2008-2009, Employment Insurance expenditures for sickness benefit recipients totalled \$1 billion.

Expenditures have increased by approximately 15 per cent over the past three years. In 2008-2009, there were 332,220 recipients of the EI Sickness Benefit.

Employment Insurance Sickness Benefits are administered as a "last-payer" benefit program. Sickness benefits are reduced where beneficiaries receive contributions from workers' compensation, group insurance income, accident compensation for loss of wages, CPP-D and provincial social assistance programs.

3. Veterans' benefits for disability

Veterans or members of the Canadian Armed Forces are eligible for a disability benefit administered by Veterans' Affairs Canada. To be eligible, an individual must be a Canadian Forces veteran, a Merchant Navy veteran of the Second World War or Korean War, a current or former member of the regular or reserve force, or a civilian who served in close support of the Armed Forces during wartime.

Entitlement to a disability benefit under the Veterans' Affairs program is based on adjudication of the attribution of disability to exposures arising from service in the Canadian Armed Forces and the severity of disability. The disability benefit is reduced if the veteran is receiving benefits from an employment-based group disability insurance plan. The current monthly veterans' benefits range from \$119.89 up to \$2,397.83. During the 2008-2009 year, Veterans' Affairs expenditures on disability benefits were \$2 billion. There were 177,721 recipients during this period. Expenditures have increased by 19 per cent over the past three years.

4. Tax measures

There are currently two tax measures related to disability administered by the Canada Revenue Agency under the *Income Tax Act*: the Disability Tax Credit (DTC), which also includes the Working Income Tax Benefit Disability (WITB-D), and the Registered Disability Savings Plan (RDSP).

The Disability Tax Credit is available to persons who have an impairment of physical or mental functions that have lasted or are expected to last one year, to those who are blind, and to those who are receiving life-sustaining therapy. These non-refundable tax credits are used to reduce the amount that the person owes on federal income tax. In 2008-2009, approximately 750,000 income tax filers received tax credit benefits of \$435 million.

The Registered Disability Savings Plan was established in December 2008. The number of registered plans has not yet been reported, though program expenditures for 2009 were estimated to be less than \$2.5 million.

5. Provincial social assistance disability benefits

All Canadian provinces have provisions in their social assistance programs that provide benefits to persons with disability. In most provinces, eligibility for benefits is determined by a combination of the duration of disability and means-testing. Qualifying disability status is established by a doctor's certificate indicating severity of disability, though the process and definition of disability for social assistance varies among provinces.

**Table 1: Estimated disability benefit expenditures
Canada, 2008-2009**

	\$ million
Canada and Quebec Pension Plans: Disability benefit	\$4,100
Employment Insurance: Sickness benefit	\$1,000
Veterans' benefits for disability	\$2,000
Tax measures	\$435
Provincial workers' compensation benefits	\$5,400
Provincial social assistance benefits: Disability	\$8,100
Employment-based long-term disability plans	\$4,700
Total	\$25,735

Most provinces adjust benefits to account for assets, labour market earnings or other disability income security benefits. As one example, in Ontario, an applicant will be deemed ineligible if he or she owns assets exceeding limits of the Ontario Disability Support Program (ODSP). These assets can include cash, stocks and bonds, vehicles, properties, registered retirement savings plans (RRSPs) and trust funds. If a person resumes work while receiving ODSP, 50 per cent of the recipient's earnings will be exempt from deductions, and the remaining half will be reduced after factoring in disability and child-related costs. Moreover, any CPP, EI, workers' compensation, or private disability insurance payments will be deducted dollar-for-dollar from ODSP benefits.

In 2008-2009, provincial government social assistance expenditures for persons with disabilities were estimated to be \$8.1 billion.

6. Provincial workers' compensation benefits

Income security benefits for wage losses arising from disabling disease or injury caused by work exposures are administered by provincial workers' compensation agencies. Workers' compensation is the oldest social security program in Canada. The coverage of provincial labour forces ranges from approximately 70 per cent in Ontario to approximately 95 per cent in Quebec. Insurance premiums are paid by employers. The large majority of recipients of provincial workers' compensation wage replacement benefits experience episodes of temporary disability. Less than five per cent of disability episodes have durations greater than one year. Provincial workers' compensation agencies administer benefits that acknowledge permanent impairment arising from a work-related injury or illness. Permanent partial disability benefits are payable to age 65. There is a minor degree of variation in benefit levels among provincial plans. In Ontario, benefits combined with labour market earnings are designed to replace 85 per cent of post-tax pre-injury earnings.

In 2008-2009, provincial workers' compensation agency expenditures on short-term and long-term income security benefits were approximately \$5.4 billion. Expenditures on health-care services are excluded from this estimate.

7. Employment-based long-term disability plans

Approximately 55 per cent of the Canadian labour force work for an employer who offers an employment-based long-term disability (LTD) plan. Typically, premiums are paid by employees, although the share of premiums paid by the employer and employees varies depending on plan design. Most plans provide a two-year period of benefits for persons unable to perform their pre-disability occupation and who have medical evidence of a permanent or long-duration impairment; thereafter benefits are only provided if the beneficiary is unable to perform any occupation for which the person is reasonably trained or educated. Plan benefits are scheduled at 50-75 per cent of pre-disability income.

In 2008-2009, LTD plans provided by insurance carriers had benefit expenditures of \$4.7 billion, and short-term disability (STD) plans had expenditures of \$1.2 billion. LTD benefits are reduced dollar-for-dollar by any CPP-D, QPP-D or workers' compensation benefits.

Fragmented programs: Some scenarios

Consider the following scenario. On a weekday morning, three separate motor vehicle accidents result in identical spinal cord injuries to three male drivers. Each driver is permanently disabled as a result of these injuries. One of the men is a self-employed construction worker driving to his worksite; the second is an insurance company manager with 10 years of employment tenure; the third is a commercial truck driver employed by a transportation company. As the third driver had an injury arising in the course of employment, he would be eligible for workers' compensation benefits. The second driver would very likely have an employment-based long-term disability plan. The first driver would not be eligible for workers' compensation, and as a self-employed construction worker, may not have a long-term disability plan.

Consider a second scenario involving two veterans. Veteran A was disabled through combat and becomes ill again during the course of a civilian job. Veteran A applies for and receives veterans' disability benefits, CPP-D and workers' compensation, all of which stack together. Veteran A is now receiving a fair and adequate sum of \$30,000 a year. Veteran B was not disabled during combat, and following retirement from the Canadian Armed Forces is employed in the civilian labour force. His employer provides a long-term disability plan. Following a decade of employment, Veteran B becomes disabled and applies for LTD benefits, CPP-D benefits and social assistance benefits. The LTD benefits are "clawed back" (deducted) by CPP and social assistance, leaving Veteran B with an annual benefit income of \$12,000.

Discussion

There are very significant challenges in coordinating and aligning both the goals and the administration of disability income security programs in Canada. The Canadian system that has evolved over 100 years has been described “as a system with many different payers and no central administration” (Campolieti & Lavis, 2000).

The fragmented and uncoordinated features of disability income security programs in Canada have a number of consequences. Considerable administrative effort is expended by disability income security programs in adjudicating the eligibility of individual claimants, especially where the claimant may be eligible for benefits from more than one program (Longfield & Bennett, 2003). In addition, differences in eligibility, in the definitions of disability and in benefit generosity across the seven primary sources of disability income security will too frequently result in different benefit outcomes for persons with similar degrees of impairment, raising concerns about equity. Some programs allow for benefits from another program to be added without deductions; other programs deduct benefits received from other programs on a dollar-for-dollar basis. There are also different rules about the eligibility of income derived from a partial return to work. Programs also differ in the type of condition covered (e.g. most are not designed for episodic conditions, though CPP-D does allow for this). Outcomes for workers and their families can vary dramatically depending on program eligibility, leaving some

with little or no benefits and limited access to services to assist with reintegration into the workforce, since a person must be eligible for an income support program to obtain any support services associated with that program.

The distributed responsibility for disability income security policy in Canada creates very significant obstacles to reform. A recent OECD report on disability income security programs in Canada notes that, “The plethora of benefits and employment supports for persons with disabilities is complex and has often come about as a result of federal and provincial attempts to address gaps in core federal insurance programmes that cannot easily be amended” (Kim et al, 2010). The report’s recommendations include a call for better coordination among programs, a more client-oriented approach to program design and delivery, and earlier access to supports that could facilitate reintegration to the workforce. Such reforms could improve the efficiency of benefit programs, achieve better participation of disabled persons in the workforce, and provide greater equity in the amount and duration of income security benefits.

As the OECD report points out, moving towards a more coordinated, client-oriented system of disability program and supports will “require ongoing dialogue with all major stakeholders for the development and implementation of reforms that really take hold.”

This briefing was authored by John Stapleton and Stephanie Procyk, with review comments from Anne Tweddle, Dr. Cameron Mustard and Dr. Ron Saunders.

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For more information, please contact: info@iwh.on.ca

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481 University Ave., Suite 800
Toronto, ON M5G 2E9 CANADA
www.iwh.on.ca