

Federal Government Wasting Billions on Poorly Targeted Assistance



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Summary

■ The federal government has introduced a number of new programs and ad hoc additions to existing programs in response to the COVID recession. Unfortunately, much of this spending appears to have been poorly targeted towards those in genuine need, resulting in the waste of billions of dollars of taxpayer resources.

■ A review of the Canada Emergency Response Benefit (CERB) and Canada Emergency Student Benefit (CESB) for students plus the ad hoc, one-time payments linked to Old Age Security (OAS), the Guaranteed Income Supplement (GIS), and the Canada Child Benefit (CCB) result in a conservative estimate of \$22.3 billion in poorly targeted assistance.

■ This represents 27.4 percent—more than one in every four dollars—of the total \$81.6 billion estimated to be spent on these programs.

■ These potential poorly targeted income transfers include:

- \$11.8 billion in CERB for young people ages 15 to 24 with 2019 earnings between \$5,000 and \$24,000 deemed to

be dependents living with parents in households with at least \$100,000 in household income in 2019.

- \$7.0 billion in CERB for spouses (Census definition) with earnings between \$5,000 and \$23,999 in 2019 in families with at least \$100,000 in household income in 2019.
- \$1.6 billion in CESB for Canadians ages 18 to 24 who are eligible students and with earnings below \$5,000 in 2019 deemed dependents by the Census and living in families with more than \$100,000 in household income.
- \$1.4 billion in one-time payments to seniors not eligible for the GIS, which is specifically geared to low-income seniors. The payment's cost would have declined from \$2.5 billion to \$1.1 billion had it relied on the existing GIS program.
- \$503.5 million for CCB payments made to families with over \$100,000 in household income in 2019. This is slightly more than 25 percent of the total cost of the program.

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Introduction

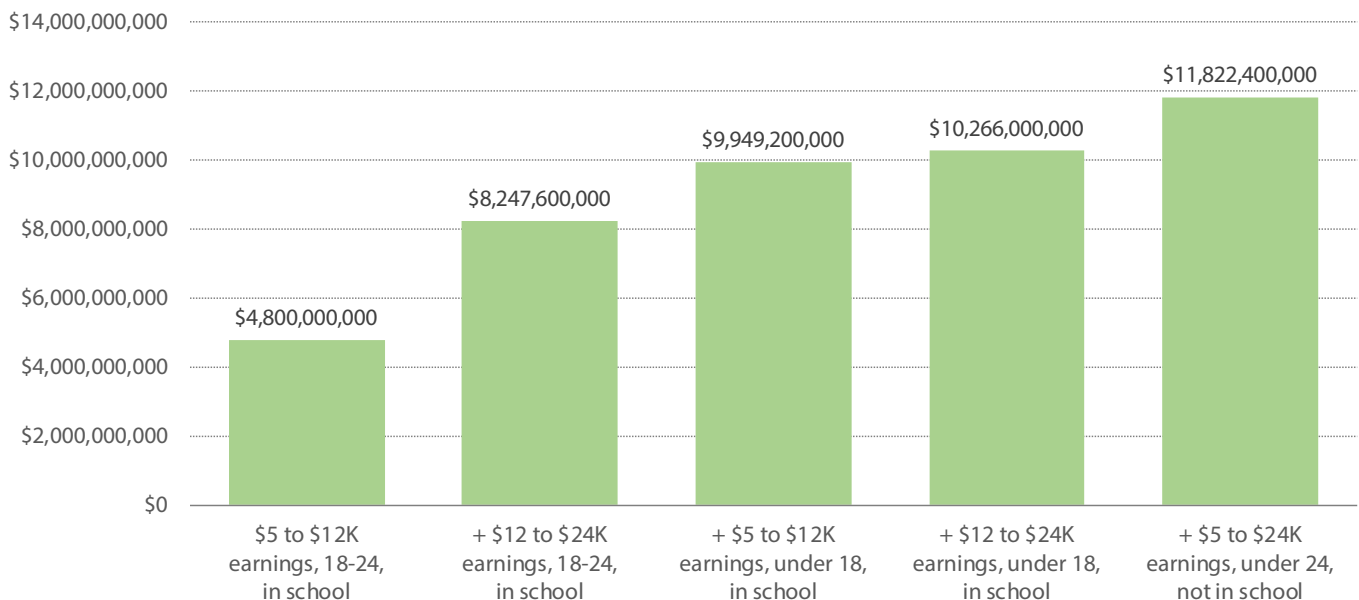
Income stabilization during a recession is a legitimate, sound economic policy, and in many ways, the federal government's response to the COVID recession has focused on income stabilization (see Clemens, Palacios, and Veldhuis, March 18, 2020). However, the introduction of several new programs in an extraordinarily short time as well as ad hoc additions to existing programs have resulted in poorly targeted assistance—meaning that income has been transferred to households with substantial income in 2019—and has led ultimately to billions of dollars in wasted resources. This is particularly concerning given the size of the current expected federal deficit: \$343.2 billion or 15.9 percent of GDP (Canada, Department of Finance, 2020).

This bulletin documents a number of new programs and ad hoc additions to existing programs that have not been targeted to those in genuine need and have thereby likely wasted billions of taxpayer dollars at a time when the federal deficit is at historic levels.

(1) Canada Emergency Response Benefit (CERB)

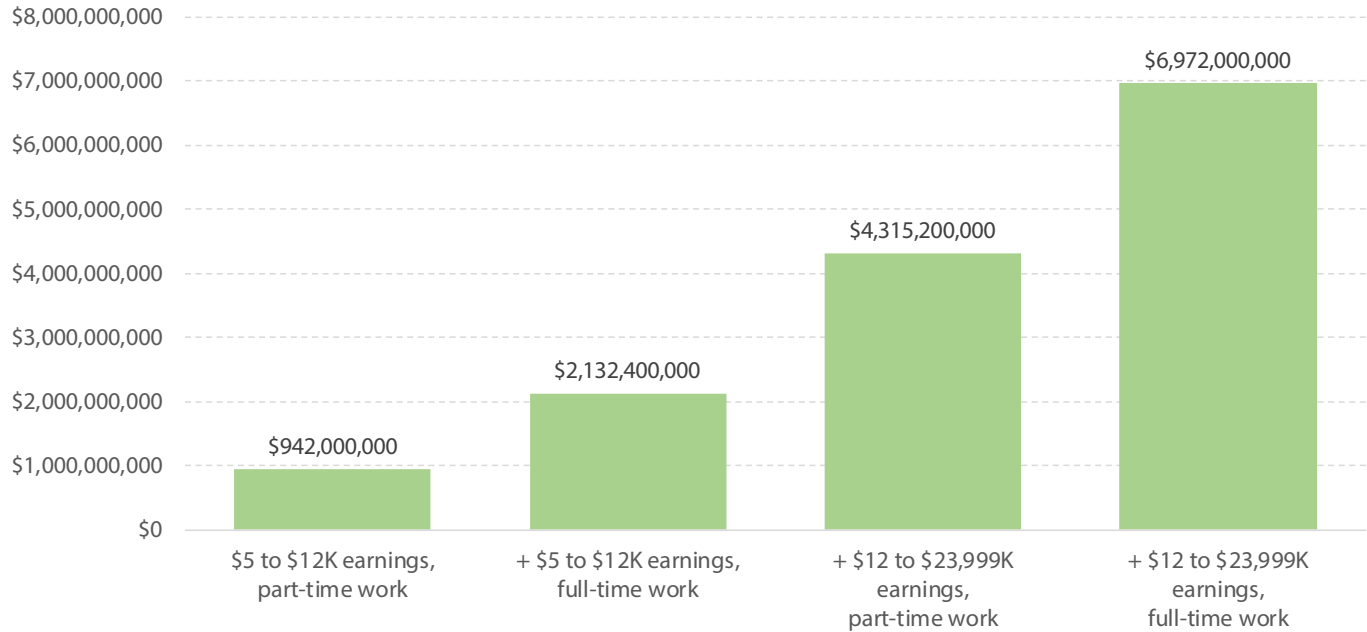
The Canada Emergency Response Benefit (CERB) is one of the new programs at the heart of the federal government's response to the COVID-19 recession. It provides a flat, taxable \$2,000 a month benefit to eligible Canadians adversely affected by the recession. A recent study by Clemens, Palacios, and Li (2020) estimated the number of potential CERB recipients

Figure 1: Cumulative Cost Estimates for CERB for Individuals in Households with a Minimum of \$100,000 in Household Income



Source: Clemens, Palacios, and Li (2020).

Figure 2: Cumulative Costs for CERB for Spouses in Households with a Minimum of \$100,000 in Household Income



Source: Table 1.

ents ages 15 to 24 living at home as dependent children in households with at least \$100,000 in income (2019). It included those with earnings between \$5,000 (minimum eligibility requirement) and \$24,000, which means almost all recipients would have experienced an increase in their average monthly income under CERB compared to their employment earnings in 2019.¹ Figure 1, taken from the Clemens, Palacios, and Li (2020) study, shows the cumulative estimated costs of CERB. It includes young people attending school as well as those out of school. In total, 985,200 Canadians were estimated to fit these criteria with a potential cost of \$11.8 bil-

lion.² As a result, a program that should have provided income stabilization resulted in increasing income, which is not the purpose of income stabilization during a recession.

Total Cost: \$11.8 billion

We completed a related analysis, summarized in table 1, estimating the number of spouses (based on Census definitions) eligible for CERB with earnings between \$5,000 and \$23,999, which means their average monthly income under CERB is higher than their employment

¹ Note that the analyses are based on Statistics Canada's SP5D/M, which is described and explained in Clemens, Palacios, and Li (2020), pp. 3-4.

² Note that the potential cost increases to \$13.3 billion with an estimated 1.1 million eligible Canadians if the income threshold for the household is lowered to \$80,000.

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Table 1: Demographics of Individuals Living in a Census Family Household with Total Income above \$100,000 in 2019¹

Total employment income ²	\$5,000 to \$12,000		\$12,001 to \$23,999		All	
	Number (000s)	Share (%)	Number (000s)	Share (%)	Number (000s)	Share (%)
All	917.7	100	1,027.5	100	1,945.1	100.0
Age						
15-17	143.4	15.6	27.5	2.7	170.9	8.8
18-24	448.9	48.9	370.0	36.0	818.8	42.1
25-64	273.7	29.8	564.7	55.0	838.4	43.1
65 and older	51.7	5.6	65.3	6.4	117.0	6.0
Sex						
Male	431.4	47.0	416.1	40.5	847.5	43.6
Female	486.2	53.0	611.3	59.5	1,097.6	56.4
Marital status						
Married/Common-law union	262.1	28.6	523.8	51.0	785.9	40.4
Single (never married)	645.2	70.3	493.3	48.0	1,138.5	58.5
Separated/Divorced/Widowed	10.4	1.1	10.4	1.0	20.8	1.1
Education attainment						
Less than high school graduation	144.9	15.8	86.8	8.4	231.7	11.9
Graduated high school or partial post-secondary education	412.1	44.9	389.6	37.9	801.7	41.2
Non-university postsecondary certificate or diploma	203.3	22.2	285.6	27.8	488.9	25.1
University degree or certificate	157.4	17.2	265.5	25.8	422.9	21.7
Educational status						
Not in School or N/A	349.9	38.1	665.0	64.7	1,014.9	52.2
School Full-Time	535.1	58.3	320.5	31.2	855.5	44.0
School Part-Time	25.6	2.8	31.7	3.1	57.3	2.9
Some of each	7.1	0.8	10.3	1.0	17.4	0.9
Job status						
Did Not Work ³	52.1	5.7	63.4	6.2	115.5	5.9
Full-time	386.3	42.1	514.7	50.1	901.0	46.3
Part-time	479.2	52.2	449.4	43.7	928.6	47.7
Number of earners in the census family						
1	46.4	5.1	61.1	5.9	107.5	5.5
2	221.7	24.2	356.6	34.7	578.3	29.7
3 and more	649.6	70.8	609.7	59.3	1,259.3	64.7
Relationship to census family head						
Head	78.0	8.5	101.3	9.9	179.4	9.2
Spouse	196.0	21.4	432.6	42.1	628.6	32.3
<i>Did Not Work³</i>	18.3	2.0	29.3	2.9	47.6	2.4
<i>Full-time</i>	99.2	10.8	221.4	21.5	320.6	16.5
<i>Part-time</i>	78.5	8.6	181.9	17.7	260.4	13.4
Child	643.6	70.1	493.5	48.0	1,137.1	58.5

Notes: ¹A census family in SPSP/M consists of a person, the person's spouse if present (including a common-law spouse), and any of their children or grandchildren (if no parent is living with them). Please note that a grandchild is classified as a "child" to the head as in Census Family.

²Estimates are based on individuals with total employment income between \$5,000 and \$23,999.

³This variable is derived from the Canadian Income Survey and cross checked with tax records. Individuals might report that they did not work during the year, but tax records show some employment income.

Sources: Statistics Canada SPSP/M V.28; calculations by authors.

earnings in 2019. The analysis was limited to households with at least \$100,000 in household income in 2019.³ It included spouses that worked both part- and full-time. As illustrated in figure 2, a total of 581,000 Canadians were estimated to meet these criteria with a potential cost to CERB of \$7.0 billion.⁴

Total Cost: \$7.0 billion

(2) Canada Emergency Student Benefit (CESB)

The Canada Emergency Student Benefit (CESB) is another new program⁵ developed in response to the COVID recession. It was designed to support students, specifically those who recently graduated from high school, college, or university, or those currently enrolled in college or university who are not eligible for CERB, meaning that their income over the previous 12 months (or in 2019 annualized) was less than \$5,000. It provides a \$1,250 flat, monthly taxable benefit over a 16-week period starting in May through to the end of August. The amount increases to \$2,000 per month if the person has a dependent or is deemed to have a disability.

³ The total potential cost to CERB is lowered to \$2.3 billion if the threshold for household income is increased to \$150,000 (2019).

⁴ An additional estimated 47,600 Canadians meet these conditions, except that according to the underlying survey data they did not work in 2019. If these individuals are added to the previous group, the total potential cost to CERB increases to \$7.5 billion. However, there is the potential that this represents errors in tax filings and/or a response error to the survey. For this reason, these individuals are excluded from the estimate of potential waste.

⁵ For more information on CESB, see Canada (2020a).

It is important to recognize that like many of the CERB recipients estimated previously in this essay, more than likely all CESB recipients would be better off in terms of average monthly income from CESB than they were over the last 12 months (or in 2019 annualized). Recall that to be eligible for CESB, one's employment income has to be less than \$5,000 and the CESB provides \$5,000 in total benefits. It is also worth noting that it's unlikely there will be any tax recoveries from these benefits from either program (CERB or CESB) given that potential recipients have an overall low level of income.

Canada's Parliamentary Budget Officer estimated that 1.1 million Canadians would be eligible for the CESB with a net cost of \$5.9 billion (PBO, 2020a). The question for CESB, like the previous analysis of the CERB, is the degree to which young people with questionable need are receiving CESB, and the potential cost of the benefit. This analysis estimated the number of Canadians between the ages of 18 and 24 who are eligible students and who had earnings below \$5,000 in 2019, making them eligible for CESB. The analysis further filtered eligible Canadians to include only those deemed dependents by the Census and living in families with more than \$100,000 in household income. In total, 324,900 individuals⁶ were identified as meeting these criteria with a potential cost to CESB of \$1.62 billion.

Total Cost: \$1.62 Billion⁷

⁶ This includes Canadian-born students as well as landed immigrants.

⁷ There is an important consideration regarding income stabilization for CESB as well as the top-up payments to OAS, GIS, and CCB covered later in this essay. Specifically, none of these expenditures is aimed at replacing income, or stabilizing income during a recession. There is, therefore, an argument

(3) Top-Up for Seniors

In May 2020, the federal government announced a one-time top-up payment of \$300 for seniors eligible for (but not necessarily receiving) Old Age Security (OAS) and an additional \$200 for those receiving the Guaranteed Income Supplement (GIS). It's important to recognize the nature of those qualifying for both OAS and the GIS.

Eligible seniors earning less than \$79,054 annually receive the full OAS benefit.⁸ A 15 percent tax (or claw-back) is applied to the benefit for those with earnings above this level up to \$128,137, at which point seniors no longer receive the OAS benefit. In other words, seniors with income up to \$128,136 receive some OAS benefit. However, this is different from seniors being eligible for OAS.⁹ This explains the difference between the number of OAS recipients, which totalled 6.5 million in March 2020 (Canada, 2020e) compared to the estimated number of recipients of the one-time OAS top-up, which the PBO estimated at 6.7 million (PBO, 2020b).

Moreover, OAS benefits accrue to the individual so married seniors can earn double the individual limit (just over \$158,000) and still receive full OAS benefits. Indeed, the benefit is

that the entirety of these expenditures are excess subsidies and could be counted as wasteful government spending. To present a more conservative estimate of potential waste, the essay has attempted to adjust the spending in these areas by a reasonable measure of targeting.

⁸ See Canada (2020b) for eligibility details.

⁹ One explanation for the difference is deferral of the OAS benefit. That is, individuals must apply in order to receive OAS benefits, and they also have an option to defer take-up of their OAS pension to receive a higher, actuarially adjusted pension.

not fully eliminated until family income exceeds \$250,000 for married seniors.

The GIS, on the other hand, is specifically targeted to low-income seniors. A single senior, for instance, can only earn up to \$18,600 while receiving the maximum monthly GIS benefit of \$916 before losing eligibility.¹⁰

The PBO estimates the cost of this one-time payment to eligible seniors at \$2.5 billion (PBO, 2020b). However, if the program had simply provided \$500 to seniors receiving GIS, which, to reiterate, is intended specifically for low-income seniors, the cost of the top-up would have been roughly \$1.1 billion, a saving of \$1.4 billion or 56.0 percent.

Total Cost: \$1.4 billion

(4) Top-Up for the Canada Child Benefit

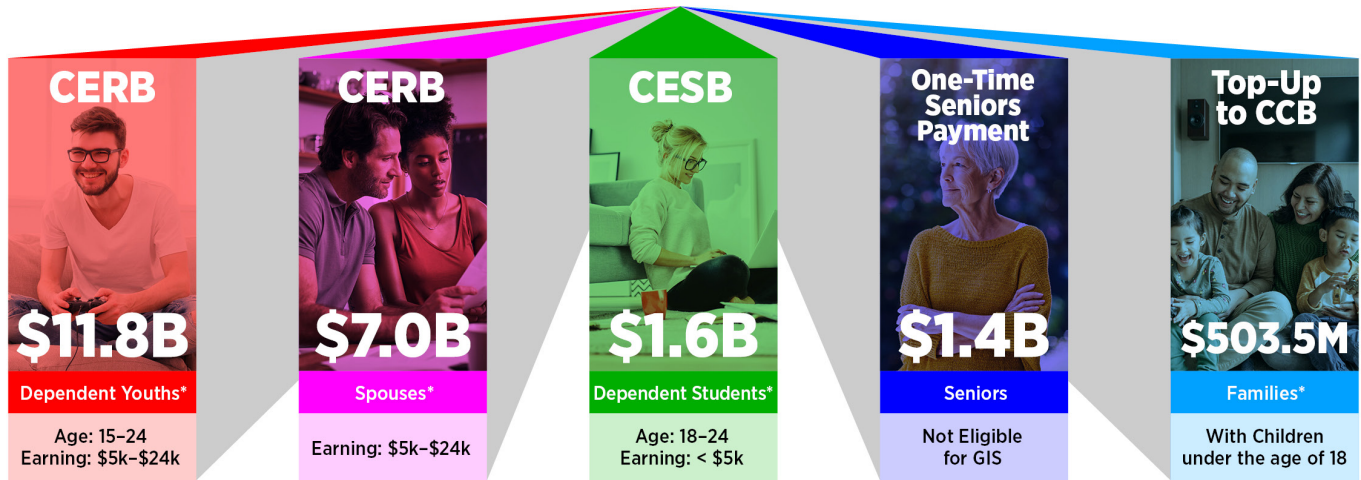
The federal government also provided a one-time top-up to the Canada Child Benefit (CCB) of \$300 in May 2020.¹¹ The PBO estimates that the cost of this one-time payment will be \$1.9 billion (PBO, 2020c). Examining the distribution of the CCB shows that 50.3 percent of total benefits go to families with income (gross) above \$70,000 and 26.5 percent of the total benefits go to families with income above \$100,000. Put simply, the top-up provided through the CCB did not concentrate assistance on lower-income families and indeed didn't even differentiate between families adversely affected by the COVID-recession and those unaffected. Simply capping the payment

¹⁰ Canada (2020c) gives information on the limitations and income tests applied to the GIS.

¹¹ See Canada (2020d) for details of the one-time payment.

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Figure 3: Summary of Potential Waste Based on Poor Targeting, by Program



* In families with household income of at least \$100,000 in 2019

for families with income above \$100,000 in 2019 would have saved an estimated \$503.5 million.

Total Cost: \$503.5 million

Conclusion

This brief analysis, which excludes major programs such as the Canada Emergency Wage Subsidy, concludes that several of the new programs created in response to the COVID-19 recession as well as some of the ad hoc payments distributed through existing programs have been poorly targeted, which has resulted in large sums of money likely wasted at a time when the federal deficit is at an historic level. Specifically, the analysis of CERB and CESB as well as the ad hoc one-time payments attached to OAS, GIS, and the CCB result in a conserva-

tive estimate of poorly targeted assistance of \$22.3 billion (figure 3). This represents 27.4 per cent, or more than one in every four dollars of the total \$81.6 billion estimated to be spent on these programs.¹² Greater prudence in the spending of public monies, particularly with respect to targeting assistance to those in genuine need, is urgently required to mitigate Canada's deteriorating finances.

¹² The cost estimates (total) for each of the programs included in the analysis are taken from the PBO (2020d) report as of August 10, 2020. The \$81.6 billion is composed of CERB (\$53.4 billion and \$17.9 billion), CESB (\$5.9 billion), seniors' top-up (\$2.5 billion) and the CCB top-up (\$1.9 billion).

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