

# **A Path to Poverty: A Review of Child and Family Poverty Conditions in British Columbia**

Report prepared for  
B.C. Federation of Labour

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Poverty is a persistent problem in BC, both for many working families and for families who have been pushed out of the labour market due to weakened employment standards, high levels of unemployment, and the fall-out of issues like the Softwood Lumber Agreement confronting resource dependent communities. Through the 1990s and into the 21<sup>st</sup> century, rates of poverty among families and individuals remained unacceptably high, regardless of sporadic attempts by governments to increase the income and supports available to low-income families. A comprehensive anti-poverty strategy accordingly remains a pressing need in this province.

The election of the BC Liberals in 2001 was not cause for optimism from the perspective of securing a genuine commitment to reduce poverty. Thanks to a platform of tax cuts and corresponding spending reductions, the provincial government has reduced or eliminated support for many important programs and services on which low-income people rely. At the same time, a variety of measures have combined to undermine the wages and supports available to thousands of working people. While it is too early for comprehensive data on the impact these measures are having on provincial poverty rates, it is not a stretch to conclude that poor people, and those on the edge of poverty, are being hard hit. Importantly, this includes not only those receiving social assistance (welfare), but also thousands of working people who do not earn enough to escape from low income status.

## **Measuring poverty**

Assessing the impact of program and spending cuts on poor families requires that we first determine who 'counts' as poor. At first glance, measuring poverty may appear relatively straightforward. Determine the income level sufficient to meet the needs of families and individuals. All those who do not earn this level of income are considered poor. Where complications arise is around answering the question 'what do families and individuals need?'

Some analysts limit the needs of families and individuals to basic physical necessities – sufficient food, clothing, and shelter to ensure mere subsistence. More convincing accounts understand needs to be not just physical, but also emotional and social. Poverty is not simply about survival, it is also concerns one's ability to participate in the day-to-day life of the community. From this perspective, poverty is associated not only with inadequate outcomes around health and nutrition, but also with pricing the other goods and services for daily living such as transportation, personal care, telephone, and some recreation and leisure.

There are a variety of tools that governments and researchers use to measure poverty, the most common of which is the Low Income Cut-Offs (LICOs) produced by Statistics Canada. LICOs are based on average expenditures for food, clothing, and shelter,

taking into account variation among different-sized communities. This average expenditure is expressed as a percentage of gross income (35 percent in 1992), and the LICO is set at 20 percentage points above this average. Thus, a family is considered to have a low income if they spend more than 55 percent of their gross income from all sources before taxes on food, clothing, and shelter.

Low Income Cut-Offs, 2001 (before tax)					
Population of Community of Residence					
Family Size	500,000 +	100,000 – 499,999	30,000 – 99,999	Less than 30,000*	Rural
1	\$18,841	\$16,160	\$16,048	\$14,933	\$13,021
2	\$23,551	\$20,200	\$20,060	\$18,666	\$16,275
3	\$29,290	\$25,123	\$24,948	\$23,214	\$20,242
4	\$35,455	\$30,411	\$30,200	\$28,101	\$24,502
5	\$39,633	\$33,995	\$33,758	\$31,412	\$27,390
6	\$43,811	\$37,579	\$37,317	\$34,722	\$30,278
7	\$47,988	\$41,163	\$40,875	\$38,033	\$33,166

\* Includes cities with a population between 15,000 and 30,000 and small urban areas (under 15,000).

Source: Low income cut-offs from 1992-2001 Catalogue #75F0002MIE-2002005, November 2002.

The above table shows that a couple with two children receiving \$31,000 from all sources, including government transfers would be counted as poor in larger metropolitan communities such as Vancouver and Victoria, but would not be counted as poor in all other communities in BC.

Another way of measuring poverty is with a Market Basket Measure (MBM) – a tool used to determine the amount of disposable income families require to purchase needed items. Disposable income is the sum remaining after taking off taxes, payroll deductions (e.g. EI, CPP, union dues), child or spousal support, out of pocket spending on childcare, and non-insured health related expenses (e.g. dental care, vision care, prescription drugs).

MBM income figures are established by pricing a range of goods and services – the items included in the ‘basket’. A new set of MBMs released in May 2003 by Human Resources Development Canada includes the cost of food, clothing/footwear, transportation, shelter, and some additional expenses including personal care, household needs, telephone service, school supplies, furniture, and a modest amount of reading material and recreation expenses.

Market Basket Measure, 2000					
Population of Community of Residence					
Family Size	Vancouver	100,000 – 499,999	30,000 – 99,999	Less than 30,000	Rural
1	\$13,896	\$13,318	\$13,446	\$14,376	\$14,188
2	\$19,454	\$18,645	\$18,824	\$20,126	\$19,863
3	\$23,622	\$22,640	\$22,858	\$24,439	\$24,120
4	\$27,791	\$26,635	\$26,892	\$28,752	\$28,378

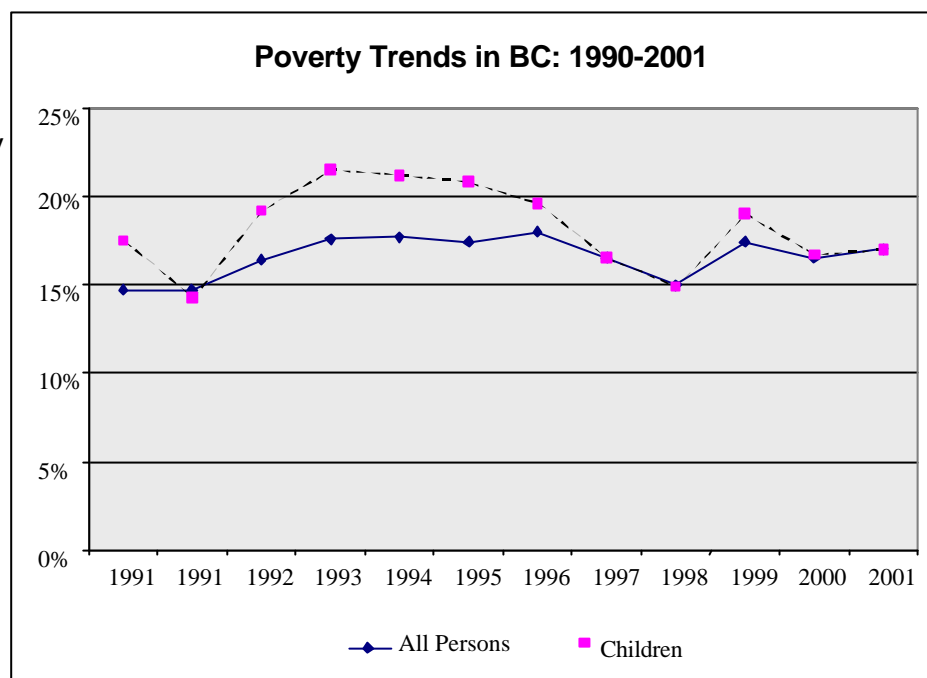
Source: Understanding the 2000 Low Income Statistics Based on the Market Basket Measure. Applied Research Branch, Strategic Policy, Human Resources Development Canada. May 2003. Figures for families with 1 to 3 members are calculated from the above report by the author.

While the income thresholds for the MBM are lower than the LICO, the actual rates of poverty are higher. For 2000, BC had a poverty rate of 16.5 percent using the LICO and 20.0 percent using the MBM. The comparable rates for child poverty were 16.9 percent for the LICO and 24.1 percent under the MBM. The higher MBM poverty rates are due to the fact that actual costs in rural communities, where there is no public transportation, offset the higher rental housing costs in larger cities where public transportation costs are much lower. The higher child poverty rates can be accounted for by the cost of childcare, which is deducted from family income in determining the amount of disposable income needed to purchase items included in the MBM. What this comparison indicates, then, is that rates of poverty using the before tax LICOs are likely somewhat understated for both the population as a whole, and for families with children.

### **Poverty trends in BC**

As the chart below indicates, poverty rates for all persons and for children increased in the early 1990s, reflecting a worsening economy in both BC and Canada during that period. Poverty rates began to decline for children in 1994, with a sharp drop following the introduction of the BC Family Bonus in 1996. Poverty rates jumped sharply in 1999 (possibly due to sample size error), but the overall trend in the later part of the 1990's through 2002 has been fairly flat, at approximately 17 percent for all persons and for children in 2000 and 2001.

While the chart shows that the percentage of the population experiencing poverty has not re-attained 1991 levels, it is important to note that most families do not have incomes close to the poverty line. On average, BC families with low incomes had incomes that were \$9,115 below the poverty line in 2000 (last year for which statistics are available).



Contrary to popular impression, the majority of poor children (55 percent) live in two parent households, although children living in lone parent households have a much

higher risk of living in poverty. Also over 25 percent of children living in poverty are in households where the parent(s) work the equivalent of full-time, full-year.

Despite the fact that family poverty stabilized over the 1990s, and has even declined in recent years, there is reason to be cautious about prospects for the future. The sweeping changes introduced by the BC government in the areas of employment standards, welfare, and childcare (to name just a few) are having a disproportionately negative impact on poor and vulnerable residents – those most likely to rely on government income support or other programs and services. By making it more difficult for the working poor to earn a decent wage, further reducing the value of welfare benefits, and increasing the cost of needed services like childcare and healthcare, poor families have little to look forward to from the Liberal's 'New Era'.

### **Key BC Policy Changes**

This section outlines some of the key policy changes affecting poor working families as well as families on welfare. These particular issues have been included because of the particular negative impact that they have had – or are likely to have – on low-income families already struggling to make ends meet. It is not intended to be an exhaustive list, but rather a starting point for raising awareness about the ways in which provincial government policy are further entrenching poverty among BC families.

#### **Rising Unemployment**

According to the latest Labour Force Survey, BC's unemployment rate increased from 8.3 percent to 8.7 percent between July 2002 and July 2003. According to BC government budget documents tabled in 2002 and 2003, the provincial government does not expect current high levels of unemployment to reverse themselves anytime soon. In fact, the budget documents show that the province's unemployment rate is not expected to return to pre-2001 levels during the current mandate.

The bleak outlook for jobs closely parallels the province's flagging economic growth. Although the BC liberals predicated much of the economic strategy on the impacts of tax cuts, it would appear that their estimates of growth are well off projected targets. Compounding the problem is that the tax cut strategy is being financed in large measure by significant spending cuts in most Ministries. Not only are the spending cuts cancelling out whatever fiscal stimulus tax cuts may have created, they are adding job losses to an already weak provincial economy and labour market.

#### **Declining Real Wages**

Further weakening of the labour market has undermined any positive moves in real earnings for average British Columbians. The latest report from the government appointed BC Progress Board underscores the significant erosion that has taken place in real earnings.

The BC Progress Board's July 2003 *Interim Benchmarking Report* shows that real average hourly wages have declined over the last three years. The tables in the

appendix show that real average hourly wages declined by 1.35 percent in BC between 2001 and 2002 compared to a 0.45 percent decline for all of Canada.

Such deterioration in the BC labour market reflects problems with the province's economic strategy. Moreover, if labour market conditions continue to weaken, more families will see their incomes reduced to levels that are closer to or below the poverty line.

### **Low Rate of Unionization**

Another factor in the pattern of declining real wages is that unionization rates in BC have continued to decline. Privatization and contracting out have also accelerated, especially in the health sector. The Premier extolled the virtue of BC having doctors and nurses that are amongst the highest paid in Canada in his February 12<sup>th</sup> State of the Province television presentation. At the same time, he condemned hospital support workers (such as Medical Record Clerks who annually gross approximately \$33,500 working full-time) as earning too much. Clearly, the premier seemed to be saying that while BC needs to have higher pay for doctors and nurses the same is not the case for other groups of workers. Recent news releases indicate that many unionized health care support workers could see their wages decrease from around \$18.00 per hour to \$10.00 per hour as a result of contracting-out.

### **Employment Standards**

In May 2002, the BC government introduced legislation that radically overhauled the employment standard legislation in this province. Employment standards regulate things like minimum wage, hours of work, overtime, minimum work age, statutory holidays and vacation time, seniority, layoffs, termination and severances. For employees that do not have a collective agreement, these standards are a key source of workplace protection. Under **Bill 48**, however, many of these protections are being severely rolled-back.

- The training wage

As of November 2001, BC employers can pay 'new' workers \$6 per hour for up to the first 500 hours of employment – a full \$2 less than the regular minimum wage of \$8 per hour. This so-called 'training wage' will disproportionately impact young people and immigrants, but there is also considerable risk that it will be abused by employers confronted by a pool of applicants desperate for employment. The rules governing the new wage – employees who have worked more than 500 hours do not qualify, and employers cannot lay off an \$8 per hour employee to hire a \$6 per hour employee – will be difficult to enforce, particularly given the significant reductions in Employment Standards Branch staff. There are also few requirements for employers to

An immigrant woman with one child who lives in Vancouver and works full time starting at the \$6 minimum wage, and moving up to \$8 after the first 500 hours of work, earns \$13,560 in her first year. The LICO line for this family size is \$23,551. With the \$6 wage, this family falls just under \$10,000 short. Even at \$8 per hour, they would require an additional \$8,991 to escape poverty.

demonstrate the amount of training actually required (or provided) to \$6 employees.

The \$6 training wage was lobbied for by the restaurant and hospitality industry – a sector in which many young people find their first jobs, and which was a significant contributor to the Liberal’s campaign fund. The BC government defended the new wage by arguing that it will “increase youth employment by giving employers incentive to hire young people without experience”.<sup>1</sup> In the first six months after the new wage came into effect, however, youth unemployment was higher than over the same six-month period in previous years. Even now, the unemployment figure for young people still hovers between 13 percent and 15 percent – no different than in 2000 or 2001 prior to the initiation of the training wage.

- The ‘flexible’ work week

The flexible workweek provision changes the rules governing hours of work and overtime pay. Instead of being required to pay overtime following a regular 8-hour day or 40-hour week, employers can now seek an agreement with employees whereby their hours of work are averaged over a two, three, or four week period. On this arrangement, an employee can work 60 hours in a single week without receiving any overtime pay so long as this person does not work more than 20 hours in the following week. These new provisions not only allow for a far greater range of schedules than the old rules did, but are also designed to operate between individual employees and the employer, detracting from the strength conferred by the previous requirement for approval of work hours from a majority of workers. The likelihood that greater latitude around work time arrangements will motivate employers to demand more ‘flexibility’ from employees will wreak havoc for workers with family responsibilities and for those who need to use childcare.

“Centre-based [childcare] facilities were asked if they provide evening, overnight, or weekend childcare. None of these types of care was commonly offered. Evening care was offered by 1.5 percent of facilities, weekend care by 1.3 percent, and a minuscule 0.3 percent of facilities offered overnight care.”

Source: 2001 Provincial Childcare Survey. Ministry of Community, Aboriginal and Women’s Services – Childcare Policy Branch.

- The minimum call-out

Under the new legislation, the minimum number of hours for which employees could be called out was reduced from four to two. This change will have a significant impact on service sector employees, particularly in the retail and hospitality sectors. Many jobs in these areas are already part-time and typically offer little in the way of security or benefits. Now employers will be able to require employees to come into work for just

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<sup>1</sup> “First Job’ Wage Rate to Address Youth Unemployment”. Ministry of Skills Development and Labour Press Release, October 29, 2001. [www.labour.gov.bc.ca/news/2001/2001-015.htm](http://www.labour.gov.bc.ca/news/2001/2001-015.htm)

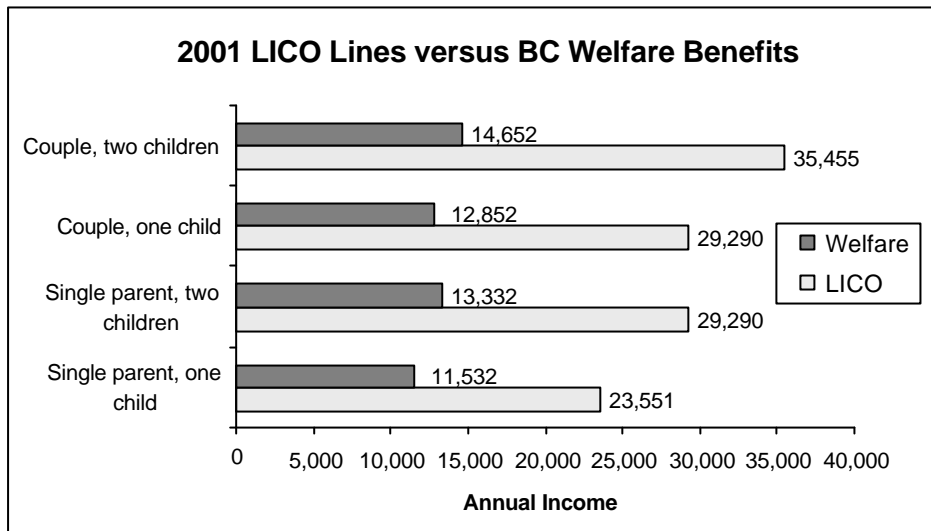
two hours, regardless of transportation costs, the disruption in schedule, or difficulty planning family life around such shifts.

- Age of work provisions

The BC government is proposing to make it easier for employers to hire children between the ages of 12 and 15 by decreasing regulatory requirements. Previously, children under age 15 could not be employed without the permission of the Employment Standards Branch, a school counsellor, and the child’s parents. In the name of ‘decreasing red tape’ the government has eliminated the requirement of Branch and school consent. In the absence of any requirement for child employment permits, the Branch lacks authority to monitor and enforce rules around conditions of work for children. Rules will likely be set by regulation for each industry, and the Branch will simply have to trust that employers are honouring them. There is significant potential for abuse.

Social Assistance

A second area in which the BC government has made profound changes is the welfare system. To achieve the cost-savings mandated by a 30 percent reduction in the operating budget of the Ministry of Human Resources, welfare benefits have been cut and eligibility rules tightened, making it more difficult for those in need to access the welfare system.



The provincial government’s decision to cut welfare benefits came as a surprise not only because Gordon Campbell expressly stated in the election campaign that he did not intend to reduce benefit levels, but also because welfare was already profoundly inadequate. Research done by SPARC BC has repeatedly

demonstrated that even prior to the most recent reductions, welfare benefits failed to cover minimum living costs. Given that welfare does not provide recipients with sufficient income to pay for basics like food, clothing, and shelter, the result of benefit reductions is most certainly increased hardship. Single parents have been particularly hard hit – some may lose as much as \$400 a month out of an already meager income, likely making it practically impossible for many families in BC to make ends meet.

**Lost monthly income for a single parent with 2 children:**

- Support allowance reduction = \$51
- Shelter allowance reduction = \$55
- Elimination of earnings exemption = \$200
- Elimination of child support exemption = \$100

**Total income lost = \$406**

More stringent welfare eligibility requirements make it difficult for people to access benefits. This constitutes a fundamental shift in Canadian social policy – the denial of welfare when in need as a basic human right. Given that people typically turn to welfare when they have exhausted all other options for support, the stricter policing of eligibility will undoubtedly leave some families with no source of support.

Key changes in eligibility rules include:

- The two-year time limit rule, limiting ‘employable’ welfare recipients to 2 years of support during any 5-year period. Upon reaching the time limit, the benefits of recipients without children are discontinued, while recipients with children have their benefits reduced.
- The two-year independence test, requiring new welfare applicant to demonstrate two consecutive years of financial independence before becoming eligible to apply for welfare.
- The three week wait, obliging ‘enquirers’ to wait a minimum of three weeks before they can apply for welfare (in practice, it appears that the required waiting period can last as long as six weeks).

### Childcare

Government changes to the childcare subsidy program – a key support for low-income working families – have made it more difficult for over 10,000 families to access regulated, quality childcare. The maximum monthly income that a family may have to be eligible for the childcare subsidy has been reduced by \$185. In addition, the government now claws back more of the subsidy from modest income families. Despite the fact that the childcare subsidies already failed to come close to covering the entire cost of care, these changes mean that the value of the subsidy has been substantially reduced for many families. As the table below illustrates, a single mother with one child in licensed group care and a gross income of \$24,300 will now pay \$1,534 more towards her childcare per year.

<b>Changes to the Childcare Subsidy</b>				
<b>(for a single parent with a 4 year old in licensed group care)</b>				
<b>Gross yearly income</b>	<b>Hourly Wage</b>	<b>Old annual subsidy</b>	<b>New annual subsidy</b>	<b>Subsidy change</b>
\$12,672	\$6.96	\$4,416	\$4,416	\$0
\$16,056	\$8.82	\$4,416	\$4,416	\$0
\$20,184	\$11.09	\$4,416	\$3,674	-\$742
\$24,300	\$13.35	\$3,408	\$1,874	-\$1,534
\$28,404	\$15.61	\$1,908	\$74	-\$1,834
\$32,652	\$17.94	\$408	\$0	-\$408
\$37,368	\$20.53	\$0	\$0	\$0
\$41,796	\$22.96	\$0	\$0	\$0

Source: *A Bad Time to be Poor: An Analysis of British Columbia's New Welfare Policies*. SPARC BC and the Canadian Centre for Policy Alternatives, 2003.

### **Working and poor**

This section illustrates how the incomes of various family groupings measures up to the poverty lines established by the before-tax LICOs. As the following scenarios illustrate, it is not just part-time workers who struggle with poverty. It is possible for many families to work full-time, full-year and yet not earn enough to lift them out of low-income status. In fact, approximately 25 percent of the families with incomes below the poverty line have earnings from employment based on a minimum of 1,700 hours of work in a year.

<b>Scenario 1 – Couple with Children ages 2 and 4</b>	
Annual earnings at \$15 per hour, 35 hours a week (52 weeks)	\$27,300
Federal and Provincial child benefits and refundable GST credit <sup>2</sup>	5,175
Total annual income	32,475
2003 (estimated) LICO for family of 4 in Vancouver <sup>3</sup>	36,972
Dollars <b>below</b> poverty line	-4,497
Income as percentage of poverty line	87.8%

Take home income for scenario 1 is estimates at \$23,143 calculated by using 2003 payroll deductions for federal and provincial income tax, and employee CP and EI contributions.

In this scenario, we have assumed that one of the parents' stays at home caring for the two children. Annual average group childcare fees for a toddler and preschooler would be \$13,872 according to the 2001 Provincial Childcare Survey.<sup>4</sup>

<b>Scenario 2 – Single Parent, Children ages 9 and 13</b>	
Annual earnings at \$13 per hour, 35 hours a week (52 weeks)	\$23,660
Federal and Provincial child benefits and refundable GST credit	5,854
Total annual income	29,514
2003 (estimated) LICO for family of 3 in Vancouver	30,543
Dollars <b>below</b> poverty line	-1,029
Income as percentage of poverty line	96.6%

Take home income for scenario 2 is estimates at \$20,505 calculated by using 2003 payroll deductions for federal and provincial income tax, and employee CPP and EI contributions.

<b>Scenario 3 – Single Parent, Child age 5</b>	
Annual earnings at \$9.50 per hour, 20 hours a week and \$8.50 per hour, 15 hours per week	\$16,510
Federal and Provincial child benefits + refundable GST credit	3,802
Total annual income	20,312
2003 (estimated) LICO for family of 2 in Vancouver	24,559
Dollars <b>below</b> poverty line	-4,247
Income as percentage of poverty line	82.7%

Take home income for scenario 3 is estimates at \$15,325 calculated by using 2003 payroll deductions for federal and provincial income tax, and employee CPP and EI contributions. In this scenario, we have assumed that the parent is using centre-based

<sup>2</sup> Based on August 2003 child and family benefits on-line calculator at [www.cera-ardc.ca](http://www.cera-ardc.ca). Net income is based on 2002 tax return (line 236) and assumes that the families do not have deductions from gross income for RRSPs, union or profession dues, etc.

<sup>3</sup> The 2003 LICO is estimated based on 2001 LICOS as reported earlier in the report and assumes inflation of 2.2 percent for 2002 and 2.0 percent for 2003.

<sup>4</sup> 2001 Provincial Childcare Survey, BC and Regional Profiles. Vancouver.

care and is paying \$126 per month (the difference between the \$494 average monthly fee based on the 2001 Provincial Childcare Survey and the maximum provincial childcare subsidy of \$368/month for children of this age).

### **Reshaping BC's policy context**

As the policy changes crafted by the provincial government come into effect, there is little on the horizon for poor families to look to. However, the policy platforms that the BC Government has developed around privatization, employment standards, welfare, and childcare are far from inevitable. There are other avenues open to governments concerned with the well being of all BC residents, including low-income families.

To begin with, the approach that the BC government has taken towards the provision and funding of services is problematic from the perspective of securing equal and unfettered access for low-income people. Many of the policy changes implemented or proposed by the Provincial Government have created greater reliance on user fees and other supplemental charges for services, as opposed to funding these programs with government revenues collected through the tax system. This imposition of targeted fees places a greater burden on low and modest-income families, who end up paying a greater proportion of their income to cover the new charges.

For example, a family of four with adjusted net income of \$25,000 would pay the same Medical Service Plan (MSP) premiums of \$1,296 a year as a family with adjusted net income of \$100,000. These fees amount to 5 percent for the family with an adjusted income of \$25,000, but only 1 percent of the family with \$100,000 in adjusted income. In essence, MSP premiums are a regressive form of taxation that favours wealthy families at the expense of the less well off. This outcome is exacerbated by the fact that those with stable, well paying jobs are more likely to have MSP paid for by their employers, while those with unstable, low-paying employment most likely have to pay the premiums out of pocket.

In addition to the disproportionate financial burden for low-income families, greater reliance on supplemental fees and charges to pay for services erodes the principle of universality that has long been a part of the Canadian social policy tradition. When services are not made available on a universal basis to all residents, but rather only to those who can afford to cover the service charges, it is not difficult to determine who will go without. The result we risk is poorer outcomes in terms of health, education, child development, and general social well being. In the childcare field, research has repeatedly demonstrated that a commitment by governments to universal childcare will yield a return on investment of at least 2 to 1. However, the BC government has still chosen to reduce its overall commitment to childcare, and to deliver what money is available directly to parents rather than using it to support a more broadly accessible system. While it is low-income families who are the immediate losers in this context, as limited childcare subsidies remain far below the actual cost of quality childcare, we all lose in the long run.

Behind the BC government's decisions to scale back existing services and to charge those who wish to access these services through various fees and charges, is the

argument that these measures are necessary for economic reasons – namely, that we simply cannot afford to maintain these programs. This fiscal rationale has driven the massive reductions in the budget of the Ministry of Human Resources, and the corresponding cuts on welfare benefit rates and tightened eligibility rules. The government's goal was to achieve a drop of 40,000 in the welfare caseload within three years (a target that has already been met), thereby achieving a significant cost-savings, as required by the Ministry's \$609 million budget cut. Unfortunately, what the province has failed to acknowledge is that the impacts of these cuts are not neutral. Those who are disproportionately impacted by these measures are low-income families, women, and immigrants.

In the larger picture, a strong economic performance and real action to eliminate poverty (and the inequalities that result from it) are not mutually exclusive. International comparisons tell us that other countries have found ways of holding onto a commitment to both economic prosperity and low levels of poverty without compromising either one. With enough political will, we could adopt in BC the kind of long-term policy perspective that recognizes both the economic and social value of things like universal childcare, adequate minimum wages and employment standards, and a strong social safety net.

In the short-term, the BC Government could enact the following:

1. Move from increased reliance on fees for revenue and return to a more progressive income tax system based on ability to pay.
2. Repeal the deleterious changes to the **Employment Standards Act**, particularly the \$6 training wage, Section 34 on minimum daily hours by returning to a minimum four-hour callout and Section 37 on average hours of work. Do not pass **Bill 37** and the changes to Section 9 on the requirements for hiring children 12-15 years of age.
3. Reverse the move to lower-pay, contracted-out services, particularly for healthcare support workers.
4. Develop a high quality regulated childcare system that is accessible and affordable for all families.
5. Recognize the hardships that have been caused by reductions in the amounts of income assistance to persons and families and, at a minimum, restore the already inadequate rates prior to the reductions. Repeal the changes in eligibility criteria, specifically the three-week wait period, the two-year independence rule, and the time limits.