

ONTARIO 360 – CHILD AND MATERNITY/PARENTAL BENEFITS – TRANSITION BRIEFING

Greater flexibility and support for Ontario’s working families

Issue

Each year in Ontario, families welcome 150,000 children by birth or adoption. One of the most pressing public policy challenges facing these families is managing the exit from, and re-entrance to, the labour force when they have a child.

The growth in the number of two-income families in the past four decades has been substantial with two-income families making up more than 70 percent of all households.¹ And the growth in female labour force participation has been a key factor in increasing economic growth in Canada.² Yet today’s policies in Ontario are not sufficiently flexible on the parental leave side, and while child benefits in general have been focused on less well-off families, the federal Child Care Expense Deduction remains focussed too heavily on higher income families paying for childcare. The incoming government should therefore enact reforms to child and parental benefits to better support Ontario families.

Overview

Maternity/Parental: Temporarily exiting the labour force

Under Ontario labour law, all parents are entitled to take time off to care for a new child and then return to work. However, like all provinces other than Quebec, Ontario’s policy framework relies on the federal Employment Insurance (EI) program to provide maternity and parental benefits. While that

¹ Statistics Canada, “The rise of the dual-earner family with children,” May 30, 2016. Available at: www.statcan.gc.ca/pub/11-630-x/11-630-x2016005-eng.htm.

² Bengt Petersson, Rodrigo Mariscal, and Kotaro Ishi, Women Are Key for Future Growth: Evidence from Canada, IMF Working Paper, July 2017.

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program has seen some changes in the right direction, those changes have not gone nearly far enough to meet the needs of working families.³

Quebec has shown the way on parental benefits when it pulled out of the federal EI program and implemented its own program offering a system that covers more workers and provides greater flexibility to families in the province.

Childcare: Re-entering the labour force

Many families with young children struggle to find affordable and good-quality childcare. Provincial governments support childcare both through funding services to create supply and by providing cash assistance – through tax breaks, subsidies and more – that help families meet their needs for childcare. Childcare expenses are a non-negotiable cost of earning income and should receive more generous tax treatment than other family expenses. The current federal tax deduction for child-care expenses helps to alleviate some of the net costs for some families who can manage the out of pocket costs. But many families, particularly at the lower end of the income scale, end up with practically no tax relief from the current system.

A much better plan would provide more responsive tax breaks to lower income families by making a tax credit refundable and focusing the benefits at the lower end of the income scale rather than as a deduction against income. This could also complement the suite of childcare-related reforms proposed in a previous Ontario 360 transition briefing on early childhood education and care.

The need for reform

Ontario has made some useful progress on access to childcare and support for low-income families. The key focus has generally been on expanding supply of centre-based care. The government rightly boasts that the number of

³ Jennifer Robson, “Parental Benefits in Canada: Which Way Forward?” Institute for Research on Public Policy, 2017. Available at: <http://irpp.org/research-studies/study-no63/>.

licensed childcare spaces has increased by 390,000 (or 32 percent) since 2012/13.⁴

While these investments are important, the government must balance various priorities – including supporting supply and demand and providing support to those who may not use centre-based care. There is room for a more holistic set of policies to enable more choice, flexibility, and ultimately better outcomes for working parents and children.

How to move forward

The Ontario government should consider two reforms to better support working families to exit and re-enter the labour force and cover the costs associated with childcare.

- 1) *Adopt a provincial parental insurance plan inspired by Quebec's model*

Ontario should adopt and adapt Quebec's Parental Insurance Program (QPIP) for Ontario. This means following Quebec's lead and withdrawing from the federal EI maternity/parental benefits program and levying an Ontario payroll tax to pay for the new benefits.⁵ Until and unless the federal government does a comprehensive reform to separate special benefits from EI, a new provincial plan is the best way to address gaps in the current system.

The Quebec program allows parents to choose between two options: either the basic plan or the special plan. They differ in the duration of leave and the percentage of income replaced, allowing parents to pick between lower benefits for a longer period or higher benefits for a shorter period. Presently a two-parent family can receive up to a total of 55 weeks of benefits to be used

⁴ Government of Ontario, "New childcare spaces coming to nearly 200 schools across Ontario," Press Release, December 11, 2017. Available at: <https://news.ontario.ca/opo/en/2017/12/new-child-care-spaces-coming-to-nearly-200-schools-across-ontario.html>.

⁵ Ottawa collects EI premiums for salaried workers in Quebec 0.35% of insurable earnings lower than in the rest of Canada (1.27% vs 1.63%). Quebec then collects a premium of 0.548% of insurable earnings to pay for its maternity/paternity program.

in the year after a child is born with up to 3 weeks where both parents can be on leave at the same time. Under Quebec's special plan, the same family receives up to 43 weeks of benefits but at a higher benefit rate, during the same year. The federal government has recently adopted a similar approach in letting parents choose to spread the same EI maternity and parental benefits over either 12 or 18 months.

Others have pointed to Quebec's reserved leave for fathers as a positive feature. While it has increased the rate at which fathers in the province claim benefits, we do not yet have compelling evidence that it has had the hoped-for effects on gender equity in unpaid care and paid work. Again, the federal government has announced that, beginning in 2019, second parents will have access to a similar reserved benefit.

But Quebec's provincial plan has other important features that the federal EI system does not:

- Nonstandard employment (part-time and contract work, self-employment and freelancing) is not well-recognized in the federal model. Self-employed workers can, with enough advance planning, choose to opt into the federal EI system and collect benefits if they meet the minimum contribution and earnings requirements. But Quebec's system covers all workers by default, regardless of whether they are in standard or non-standard employment, and, with more and more of these jobs becoming common practice, fewer parents will be covered under the federal program.⁶
- More than one in five new mothers outside Quebec work in the year before giving birth or adopting but does not meet the EI eligibility test of working at least 600 hours (or about 4 months full-time) in insured employment and, as result, miss out on EI benefits, even if she has paid into the system. By contrast, Quebec's system makes it easier to qualify based on a low earnings threshold of \$2,000. For a minimum wage worker today in Ontario, this would mean working about 143 hours to qualify.

⁶ Robson, 2017.

- When employers agree, Quebec’s labour laws let a parent pause their leave and benefits to go back to work temporarily, if or when it makes sense for their family. By contrast, the federal system imposes a very low cap on the amount of work a parent can do while on parental benefits and, otherwise, asks parents to cancel their claim for benefits if they want to work for a brief time.

Under proposed legislation⁷, Quebec is considering adding even more flexibility to:

- Let parents use their benefits over two years instead of one, and extending the time within which birth mothers can claim maternity benefits, allowing parents more choice on when to work and when to take time off.
- Let parents bank up to 10 days of benefits to be taken later on, since parents often need to take time off work as kids grow into pre-school years and beyond.
- Offer more weeks of maternity benefits to mothers who have multiple births, recognizing the unique circumstances when delivering more than one infant at a time.

Taken together, there are real advantages for a province that is willing to take parental benefits out of the federal EI system. Namely, Ontario would get to design a system built for today’s families. The incoming government should learn from Quebec’s experience and design “made-for-Ontario” parental benefits regime.

2) *Rebate for up to 75 percent of childcare costs*

The existing federal Child Care Expense Deduction (CCED) allows families to reduce annual taxable income by up to \$8,000 for children under 6 and \$5,000

⁷ For an English-language summary and link to the text (in French) of the bill, see: http://www.rqap.gouv.qc.ca/quoi-de-neuf_en.asp?idDoc=142758.

for children 7-16. As a deduction, the CCED is more valuable to families paying higher tax rates. This must be deducted from the income of the lower income parent and cannot exceed two-thirds of the income of the lower earning spouse. In principle, the CCED is available to all two-income families, but because it is a deduction rather than a refundable credit, and because of the two-thirds and lower income spouse rules, the CCED is significantly more generous to higher income families. Sixty percent of low-income families are affected by the two-thirds rule, reducing the benefit they can claim.⁸ Because the province currently, for provincial income tax, simply passes on the federal measures, it also passes on the same vertical inequity in the tax treatment of childcare expenses.

Media reports suggest the annual cost of childcare in Toronto is over \$20,000 a year per space.⁹ In Toronto alone, there are tens of thousands of children in low and modest income families who, whether or not they are able to access to subsidized childcare space, may not see any real tax benefit from the existing federal income tax deduction.

The risk is that, when families do not qualify for a subsidy and cannot afford childcare using existing tax measures, mothers will reduce their paid work just to make up the gap. That represents a significant loss to Ontario's economy.

If the current provincial share of the CCED was converted to a generous and progressive refundable rebate for childcare expenses¹⁰, it could alleviate the current limitations for lower income parents who are hurt by the two thirds income replacement of their spouse and for middle income families who are limited by the amount they can claim per child. It would go a long way to helping middle-income families who cannot afford the high cost of childcare in Ontario but don't qualify for public subsidies.¹¹

⁸ Laurin and Milligan, 2017. See Table 1.

⁹ Ben Spurr, "The high cost of child care keeps many Toronto families in poverty," Toronto Star, May 10, 2015. Available at: <https://www.thestar.com/news/gta/2015/05/10/high-cost-of-child-care-keeps-many-toronto-families-in-poverty.html>.

¹⁰ The credit would net out the federal CCED.

¹¹ Laurie Monsebraaten, "Vast majority of Toronto parents can't afford daycare," Toronto Star, October 18, 2016. Available at: <https://www.thestar.com/news/gta/2016/10/18/vast-majority-of-toronto-parents-cant-afford-daycare.html>.

The rebate would be modeled on Quebec’s refundable childcare credit, as described and modeled in a CD Howe Institute paper by Alexandre Laurin and Kevin Milligan. Laurin and Milligan’s model provides a rebate of 75 percent of childcare expenses for families with incomes below about \$35,000. The rebate falls to 26 percent for families with incomes above about \$155,000 (See Appendix).

The Quebec rebate is available for up to \$9,000 for each child under 7; \$5,000 for each child between 7 and 15; and \$11,000 for children “who have severe and prolonged impairment in mental or physical functions.”

Using the tax system to subsidize childcare will have a significant and positive effect on female labour force participation.¹² More women working will create more tax revenue for the government and cut the cost of the rebate. Based on Laurin and Milligan’s estimates, the rebate would enable 36,800 additional women to join the labour force in Ontario.¹³

Although the policy in Quebec is delivered as a refundable tax credit through their standalone provincial income tax system, the Ontario Childcare Benefit could be designed to provide rebates to families who qualify for amounts based on reasonable income and benefit thresholds. For example, a family with two children under six years old could qualify for up to \$1,125.00 per month even if they owe no taxes and could claim no CCED. This money should be available to them on an ongoing basis rather than waiting over a year for their annual tax return. For example, the Ontario Trillium Benefit is delivered as monthly payments above a threshold and would be the model for doing this for the proposed childcare benefit. This would make childcare more affordable for lower income families when they need it, rather than just at tax time. It would also be a good demand side complement to current policies to add more spaces in Ontario.

¹² Lauren and Milligan, Footnote 1.

¹³ Ibid.

Conclusion

The next Government of Ontario can enact important policy changes that would make provincial policy more responsive to the needs of families in the province. We know that families and the economy do best when families have access to both 1) paid, job-protected leave to care for a new child, and 2) affordable childcare. The two have to go hand in hand. The province has made progress – for example in making subsidies more portable, and by increasing and streamlining child benefits. The province should add to this by making the best use of provincial tools and systems, to ease the transition out and back into work when families have children.

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APPENDIX: Ontario Childcare Rebate

Family Income (\$)		Rebate (%)	Family Income (\$)		Rebate (%)	Family Income (\$)		Rebate (%)	Family Income (\$)		Tax Credit Rate (%)
More than	But not more than		More than	But not more than		More than	But not more than		More than	But not more than	
0.00	34,800.00	75	43,830.00	45,110.00	67	95,380.00	136,925.00	57	146,015.00	147,310.00	40
34,800.00	36,090.00	74	45,110.00	46,390.00	66	136,925.00	138,230.00	54	147,310.00	148,595.00	38
36,090.00	37,385.00	73	46,390.00	47,695.00	65	138,230.00	139,525.00	52	148,595.00	149,900.00	36
37,385.00	38,665.00	72	47,695.00	48,985.00	64	139,525.00	140,820.00	50	149,900.00	151,195.00	34
38,665.00	39,955.00	71	48,985.00	50,270.00	63	140,820.00	142,120.00	48	151,195.00	152,505.00	32
39,955.00	41,240.00	70	50,270.00	51,555.00	62	142,120.00	143,420.00	46	152,505.00	153,800.00	30
41,240.00	42,545.00	69	51,555.00	52,850.00	61	143,420.00	144,710.00	44	153,800.00	155,095.00	28
42,545.00	43,830.00	68	52,850.00	95,380.00	60	144,710.00	146,015.00	42	155,095.00	or more	26