

Government transfer payments and family income

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The income security system in Canada consists of federal, provincial and municipal programs whose main objective is "the provision of direct financial benefits to individuals and families in Canada". The system is both comprehensive and diversified and has evolved over several decades. It includes programs covering cash benefits for children, senior citizens, unemployed workers, retired or disabled workers, and persons in need. ⁽¹⁾ These programs can be classified into four groups:

Demogrant programs provide cash benefits to all Canadians of given demographic characteristic(s). The Family Allowances, Old Age Security and Veterans' and Civilians' Disability Pensions are examples.

Social Insurance programs pay benefits out of funds to which a specified group of persons has contributed. The Canada and Quebec Pension Plans, provincial workers' compensation programs and Unemployment Insurance are examples.

Income-tested programs generally provide graduated benefits to those whose incomes are below a specified qualifying level. The Child Tax Credit, Guaranteed Income Supplement, War Veterans' Allowances and a variety of provincial income supplements and refundable tax credits are examples.

Needs-tested programs, specifically provincial social assistance programs that are cost-shared between the federal and provincial governments under the Canada Assistance Plan, provide benefits to individuals and families on the basis of a budget deficit test. These programs take into account the beneficiaries' needs, income and other resources.

In addition to these direct money transfer payments, there are several programs that provide assistance in the form of subsidies, exemptions and rebates. The income tax system allows certain deductions before the calculation of taxable income and provides for non-refundable tax credits.

This article examines the incidence and distribution of government transfer payments among families and

the composition of their income in 1970 and 1985. Particular attention is paid to the families in the lowest income decile, that is, families that make up the bottom tenth of the income scale [\(2\)](#). The data presented are from the 1971 and 1986 Censuses of Canada.

Incidence of government transfer payments

In 1985, while nearly nine out of ten families reported income from employment, eight out of ten families reported income from government transfer payments. This high incidence of transfer payments reflects the universality of family allowances (54% of all families) and Old Age Security pensions (12% of all families). The second most common transfer payment (35% of all families) was child tax credits. Next, nearly one-quarter (23%) of all families reported receipt of unemployment insurance benefits in 1985. [\(11\)](#) About one-fifth of all families received other transfer payments, such as the provincial income supplements and social assistance. Transfer payments based on a recipient's income from other sources were concentrated in the lower income groups, while other transfer payments were found across all income levels.

There is a high concentration of families with Old Age Security pensions and Canada/Quebec Pension Plan benefits in the second and third deciles. These two deciles accounted for about 52% of all families with Old Age Security pensions. The payment of Guaranteed Income Supplement to elderly families with low incomes ensures their move out of the lowest decile.

Family allowances are received by all families with dependent children, but the incidence of child tax credits becomes insignificant as income increases. The low incidence of both family allowances and child tax credits in the second decile is the result of the high concentration of elderly families without children in that decile.

While unemployment insurance benefits were more common among the middle income deciles, [\(12\)](#) two out of five families in the lowest two deciles received other (mostly income- and needs-tested) transfer payments in 1985. [\(13\)](#)

Distribution of government transfer payments

On the whole, families in the lowest decile received 10% of all government transfer payments, but the next three deciles received above-average shares of government transfer payments ([Table 1](#)). Beginning with families in the fifth decile, the share drops below 10% and continues to decrease for higher income families.



Table 1 **Distribution of government transfer payments by income deciles, census families, 1985**

Source: 1986 Census of Canada

If all families received an equal amount from the various government transfer payments, the share of each decile would amount to 10%. In actual fact, there is substantial variation in these shares.



Chart A **Incidence of government transfer payments among families, 1985**

Source: 1986 Census of Canada

Families in the second and third deciles accounted for 52% of all families with Old Age Security pensions. They received about 62% of all income from these pensions. These two deciles also received 39% of the aggregate Canada/Quebec Pension Plan benefits. Since many of the recipients of these benefits are also likely to receive investment income from savings accumulated during their working life, work-related pensions and Old Age Security pension, the shares of upper deciles are not insignificant.

While most deciles received a more or less proportionate share of family allowances in 1985, the lower income deciles received a much larger share of the total amount of child tax credits. The middle income deciles received above-average shares of unemployment insurance benefits. Finally, a quarter of all income from other government transfer payments went to the families in the lowest decile.

The lowest decile contains a large number of young lone-parent families with young children and very few elderly families. The families in this decile received family allowances, child tax credits and other (mostly social) assistance but their share of old age pensions and unemployment insurance benefits was very small compared with the families in the next few deciles. The average payments for family allowances and child tax credits are much smaller than those for unemployment insurance benefits and government old age pensions. Consequently, the share of the bottom decile in total government transfer payments was less than the second, third and fourth deciles.

Impact of government transfer payments

The impact of government transfer payments is two-fold: they augment family income and they reduce income inequality. Although these payments added to the income of about 80% of all families in 1985, the addition was much more important in the case of low income families. In 1985, census families

received an average amount of \$3,600 in government transfer payments, accounting for about 10% of the average income of all families. Although the average amount of transfer payments received by census families in the lowest decile was about the same, it accounted for nearly two-thirds of their total income. The average income of the families in the lowest decile (\$5,650) was 15% of the overall average family income (\$37,827) in 1985. Without government transfer payments, their average income would have amounted to a mere 6% of the national average.

Government transfer payments tend to reduce the overall inequality of income distribution. The share of the lowest decile families amounted to 1.5% of aggregate income in 1985. If government transfer payments were excluded from total income, the share of the lowest decile would drop to only 0.6%. Without government transfer payments, the cumulative share of the five lower deciles would drop from a total of 25% to 21% and that of the upper five deciles would increase from 75% to 79%.



Chart B **Distribution of family income with and without government transfer payments, 1985**

Source: 1986 Census of Canada

This is illustrated by two Lorenz curves in the chart below. The horizontal axis represents the cumulative distribution of families arranged in order of their income size and the vertical axis represents the cumulative distribution of total income. The Lorenz curve shows the percentage of total income received by a specified percentage of families.

If all families received an identical amount of income, the Lorenz curve would coincide with the diagonal. The farther a curve is from the diagonal, the more unequal the distribution of income is. The actual income distribution curve is closer to the diagonal than the curve showing the distribution of income excluding government transfer payments. Thus, government transfer payments tempered the inequality of income distribution.

Changes in government transfer payments between 1970 and 1985

Although the overall incidence of government transfer payments changed little between 1970 and 1985, there were significant changes in the *incidence of specific government transfer payments* ([Table 2](#)). The continuing increase in the proportion of the elderly population and the growing numbers of recipients of Canada/Quebec Pension Plan benefits increased the incidence of government pensions to the elderly from 12% in 1970 to 17% in 1985. [\(15\)](#)



Table 2 Sources and composition of family income, census families, 1970 and 1985

Sources: 1971 and 1986 Censuses of Canada

Secondly, although the child tax credits, introduced in 1978, were received by about one-third of all families in 1985, this benefit did not increase the overall incidence of government transfer payments because the recipient families also received family allowances. However, because of a decline in the proportion of families with young children entitled to family allowances, the incidence of family allowances declined from 62% in 1970 to 54% in 1985.



Chart C Low income families with and without government transfer payments, 1985

Source: 1986 Census of Canada

Thirdly, the incidence of other government transfer payments, which include unemployment insurance benefits, provincial income supplements and social assistance, more than doubled, from 18% in 1970 to 40% in 1985. Changes in the unemployment insurance legislation and the introduction of provincial income supplements and grants to the elderly have been major factors in this increase.

The changes in the lowest decile do not follow this pattern. On the one hand, the movement of the elderly families out of the lowest decile reduced the incidence of government old age pensions in the bottom decile from 27% in 1970 to 11% in 1985. On the other hand, the concentration of lone-parent families with young children increased the incidence of family allowances and other government transfer payments among families in the lowest decile.

Between 1970 and 1985, the average amount of government transfer payments received by families increased as a result of expansion and enrichment of various programs. This led to significant changes in the *composition of family income*. Between 1970 and 1985, the share of government transfer payments in the total income of all families increased substantially. Compared with five cents of every dollar of family income in 1970, nearly ten cents came from government transfer payments in 1985. The benefits to the elderly in the form of government old age pensions and income supplements under other transfer payments were the main source of this increase.

As noted earlier, government income security programs helped most elderly families move out of the lowest decile into the second and third deciles between 1970 and 1985. Their place in the lowest decile was taken by lone-parent and young families. This resulted in major changes in the *composition of transfer payments* received by the families in the lowest decile. Compared with 54% in 1970, only 12% of all transfer payments received by the lowest decile families consisted of old age pensions in 1985. In contrast, family allowances and child tax credits increased from 12% to 22%, while other government transfer payments increased from 34% in 1970 to 65% in 1985.

The importance of government transfer payments becomes even clearer when census families are classified by *major source of income* ([Table 3](#)). Although employment income retained its predominant position over the years, the proportion of families with employment income as their major source declined by ten percentage points from 87.3% in 1970 to 77.8% in 1985. A similar change occurred for families in the lowest decile. Compared with 44.6% in 1970, families with employment income as their major income source formed 34.1% of the bottom decile.



Table 3 **Distribution of census families by major source of income, Canada, 1970 and 1985**

Sources: 1971 and 1986 Censuses of Canada

The overall increase in the income from government transfer payments had a dual effect. On the one hand, the proportion of families with these payments as their major source of income nearly doubled, from 8.7% in 1970 to 15.7% in 1985. On the other hand, families with government transfer payments as their major source of income became less likely to be in the bottom decile. The proportion of such families in the lowest decile dropped from over one-half in 1970 to a little over one-third in 1985.



Chart D **Composition of government transfer payments in the lowest income decile**

Sources: 1971 and 1986 Censuses of Canada

Summary

Canada has a comprehensive system of income security and social welfare, which involves all levels of government. The system provides cash benefits to individuals and families. The overall incidence of government transfer payments among families is very high (80% in 1985). In the lowest income decile, nine out of ten families received some form of monetary assistance in 1985. About two-thirds of the total income of the families in the lowest decile came from government transfer payments.

Government transfer payments temper inequality of income distribution. Families forming the bottom one-tenth on the income scale received 1.5% of the total income received by all families in 1985.

Without government transfer payments, their share would have amounted to only 0.6%.

Compared with five cents of every dollar of family income in 1970, nearly ten cents came from government transfer payments in 1985. On the whole, the proportion of families with government transfer payments as their major source of income almost doubled between 1970 and 1985.

The impact of government transfer payments on certain groups is crucial. Most lone-parent families with young children would be in a very distressing economic situation without the child tax credits and family allowances. Similarly, the Guaranteed Income Supplement and other assistance to the elderly have ensured reasonable well-being for them. Thus, the income security programs introduced during the last two or three decades provide protection to children and the elderly, the two segments of the population whose earning capacity is limited.

Notes and definitions [\(3\)](#)

A **census family** consists of a married couple (with or without never-married children) or a lone parent with one or more never-married children. [\(4\)](#) The analysis in this paper covers all census families but excludes persons who are living alone or who do not form part of census families. [\(5\)](#)

Family income consists of money income received by all family members 15 years and over during a calendar year from wages and salaries (before deductions for taxes, social security contributions, etc.), net income from farm and non-farm self-employment, investment income, government transfer payments, private pensions and other money income. [\(6\)](#)

Government transfer payments consist of cash benefits received by individuals and families under various federal, provincial and municipal income security programs. Benefits in kind, such as subsidized housing and health care, are not included in government transfer payments in this paper.

Income deciles divide census families, arranged in order of their income size, into ten equal groups.

Data and their quality

The Canadian censuses collect, from a sample of households, information on various sources of income, such as employment income, investment income, government transfer payments, retirement pensions, etc. (7) Census estimates from each of these sources are reconciled with similar data elsewhere, such as the national accounts, other surveys, taxation statistics, and other administrative data. (8)

On the whole, the estimates of employment income reconcile well with other data sources, as do the estimates of old age pensions, family allowances and child tax credits. Census data on unemployment insurance benefits, other government transfer payments and investment income are, however, weak, since there tends to be substantial underreporting of these sources of income. (9) These results are consistent with the results from other surveys both in Canada and elsewhere. (10)

Transfer payments and low income families

The choice of the bottom decile, to examine the impact of government transfer payments on family income, was made for its conceptual unambiguity and simplicity compared with more sophisticated measures such as Statistics Canada's low income cut-offs. (14) About 92% of the lowest decile consisted of such low income families. Although larger families have generally higher incomes, and are, therefore, less likely to be in the lowest decile, the decile accounted for about two-thirds of all low income families according to Statistics Canada's low income cut-offs in 1985.

The impact of government transfer payments becomes even clearer when the position of families is examined in relation to Statistics Canada's low income cut-offs. In 1985, the incomes of 942,800 census families (14.1% of all families) were below these low income cut-offs. Another 715,000 families would have fallen below the cut-offs without government transfer payments, increasing the proportion of such families to 24.8%. Over one-half (403,000) of these additional families would have been elderly.

In 1985, beginning at 33.2% for very young families (15-24 years), the proportion of families below Statistics Canada's low income cut-offs falls, almost steadily, as families go through the life cycle. Only 7.1% of the families headed by persons 70 years and over fell into the low income category. Without government transfer payments, the proportion of low income families would have increased in all age groups, reaching three out of five families in the oldest age group.

Notes

Note 1

Each income security program has its own conditions of coverage. For details on about 100 federal, provincial and municipal programs providing financial benefits to Canadians, see [Inventory of Income Security Programs in Canada, January 1988](#), Health and Welfare Canada. For a summarized overview, see [Health and Welfare in Canada](#), Health and Welfare Canada, Catalogue No. H21-102/1989.

Note 2

In 1985, about 45% of the lowest income decile consisted of lone-parent families with young children, 25% were couples without children and the remaining 30% were couples with children of varying ages. For a detailed analysis of the changes in the composition of the lowest income decile between 1970 and 1985, see [The Changing Profile of Low Income Families](#), 1970-1985, Analytical Report No. 4, 13-588 (forthcoming).

Note 3

Readers interested in more detailed definitions should consult [the listed references](#).

Note 4

This family concept differs from the broader concept of an **Economic Family** which consists of all individuals in a household who are related by blood, marriage or adoption. For details, see [Families](#), The Nation Series, 1986 Census of Canada, Statistics Canada, Catalogue No. 93-106.

Note 5

According to census estimates, government transfer payments to census families in 1985 amounted to \$24,196 million. Another \$3,280 million were received by persons not in families. Government transfer payments to non-family persons are not analyzed in this paper.

Note 6

For details, see [Family Income: Census Families](#), The Nation Series, 1986 Census of Canada, Catalogue No. 93-117.

Note 7

For details, see [Census Handbook](#), 1986 Census of Canada, Catalogue No. 99-104.

Note 8

The qualitative assessment of income estimates from the 1971 Census is contained in [An Evaluation of](#)

[*Income Data from the 1971 Census of Canada, Research Memorandum No. 71-EC-5*](#), April 1976. A similar procedure was adopted to evaluate the data from the 1986 Census.

Note 9

Other government transfer payments are more common among low income families and their underreporting is, therefore, of greater concern in an analysis of these families.

Note 10

Statistics Canada has now developed a new data base (SPSD/M), which is built upon the data from the Survey of Consumer Finances (SCF) after making adjustments for the underreporting of income components. The possibility of similar adjustments to the SCF and Census data is being explored.

Note 11

At the individual level, the incidence of unemployment insurance benefits is, of course, lower but the probability of a family receiving these benefits is much higher since the presence of multiple recipients of these benefits in a family is quite low.

Note 12

Most of the families in the lowest decile are headed by lone parents (who have very little participation in the labour force) and the second decile has a concentration of elderly families (who are generally retired and no longer active in the labour force).

Note 13

Some of the transfer payments included in the "Other" category are not related to the recipient's income from other sources. This explains the incidence of other transfer payments among families in upper deciles.

Note 14

For a brief description of the concept and methodology underlying Statistics Canada's low income cut-offs, see [*Family Income: Economic Families*](#), The Nation Series, 1986 Census of Canada, Catalogue No. 93-118. Statistics Canada is currently in the process of concluding an overall review of these cut-offs. For details, see [*Statistics Canada's Low Income Cut-Offs, Methodological Concerns and Possibilities: A Discussion Paper*](#), Research Paper Series, Analytical Studies Branch, Statistics Canada, December 1989.

Note 15

In 1970, data on Canada/Quebec Pension Plan benefits were collected in combination with Old Age Security and the Guaranteed Income Supplement while the data on unemployment insurance benefits were included in other government transfer payments. It is therefore not possible to examine changes in the incidence of these two benefits separately.

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Source

Perspectives on Labour and Income, Autumn 1990, Vol. 2, No. 3 (Statistics Canada, Catalogue 75-

001E). This is the fifth of six articles in the issue.

 HIGHLIGHTS

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Table 1

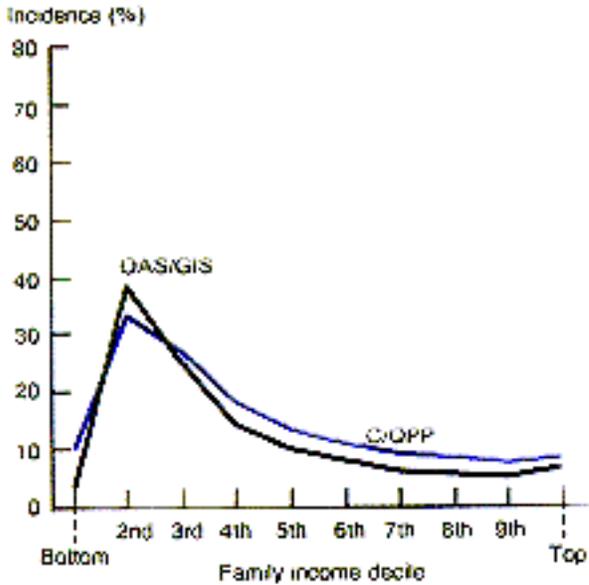
Distribution of government transfer payments by income deciles, census families, 1985

Income decile	Total	OAS/GIS	C/QPP benefits	Family allowances	Child tax credit	Unemployment Insurance benefits	Other
	%						
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Bottom	10.0	2.6	4.6	10.7	19.0	5.9	24.1
2nd	20.7	41.6	19.2	7.3	12.6	9.6	19.5
3rd	15.6	20.0	20.1	8.4	14.6	13.0	14.5
4th	11.7	9.9	13.6	9.8	16.9	13.5	9.7
5th	9.6	6.6	9.9	10.8	16.6	12.3	7.2
6th	8.3	5.0	8.0	11.2	11.3	11.4	6.2
7th	7.0	3.9	6.6	11.2	5.9	10.2	5.3
8th	6.3	3.4	6.0	11.0	2.3	9.5	4.8
9th	5.7	3.1	5.6	10.2	0.7	8.4	4.6
Top	5.2	3.8	6.4	9.4	0.2	6.2	4.1

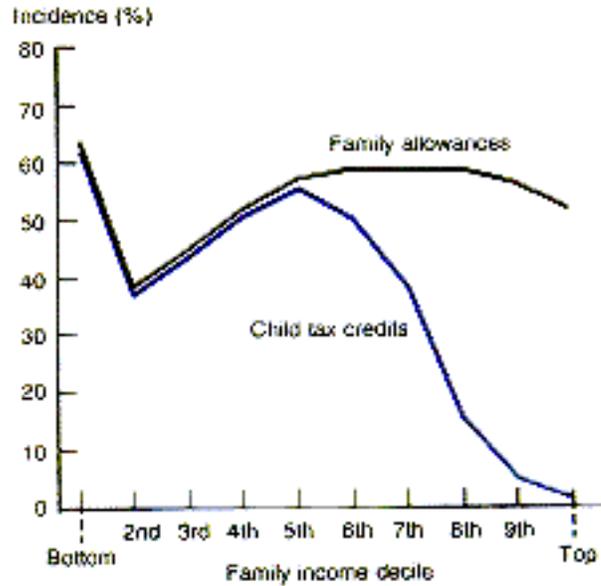
Source: 1986 Census of Canada

Incidence of government transfer payments among families, 1985

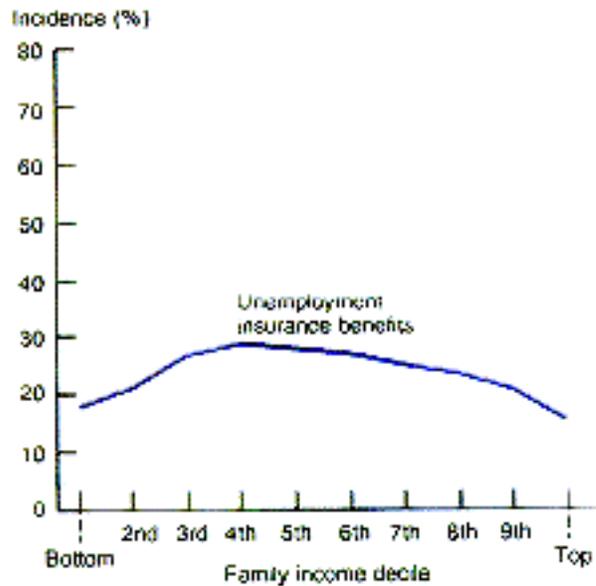
Most recipients of OAS and C/QPP are in the second and third deciles.



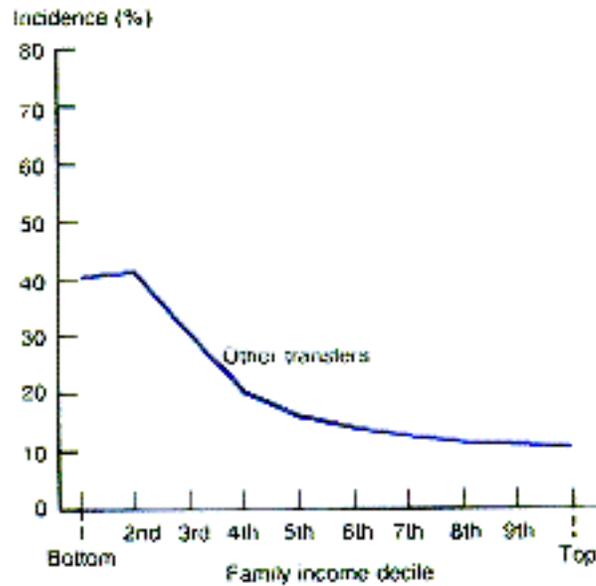
Unlike family allowances, child tax credits go mostly to low income families.



Unemployment insurance benefits spread across all income groups.



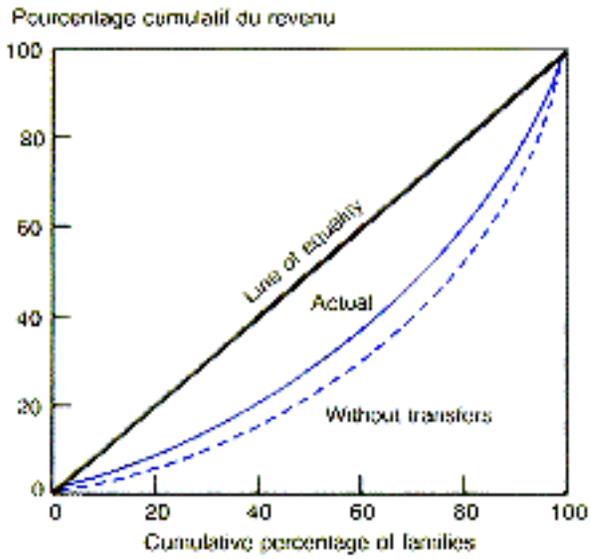
Other transfers (mostly social assistance) are concentrated in low income families.



Source: 1986 Census of Canada

Distribution of family income with and without government transfer payments, 1985

Transfer payments reduce income inequality.



Source: 1986 Census of Canada

Table 2

Sources and composition of family income, census families, 1970 and 1985

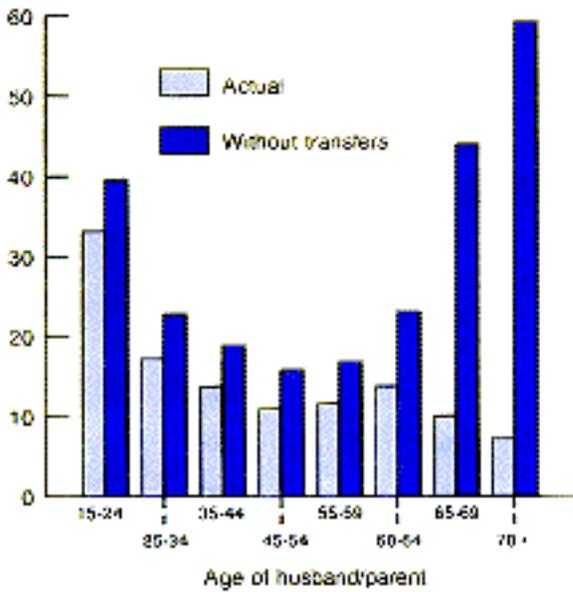
Source of income	All families		Lowest decile families	
	1970	1985	1970	1985
	%			
INCIDENCE				
All sources	99.7	99.7	97.1	96.9
Employment income	91.8	85.7	57.0	52.5
Government transfers	78.0	79.7	83.0	84.8
OAS/GIS and C/QPP	12.1	16.9	26.8	11.2
Family allowances	62.2	53.7	52.3	63.7
Child tax credit	-	35.4	-	61.9
Other	18.5	39.5	27.1	53.5
Investment income	35.2	40.2	17.4	13.2
Retirement pensions	6.7	10.9	4.1	3.2
Other money income	4.0	6.9	3.3	7.5
Number of families ('000)	5,055	6,733	505	673
COMPOSITION				
All sources	100.0	100.0	100.0	100.0
Employment income	88.5	81.1	30.6	29.6
Government transfers	5.4	9.5	60.1	63.3
OAS/GIS and C/QPP	2.0	3.6	32.3	8.0
Family allowances	1.4	1.0	7.5	7.1
Child tax credit	-	0.6	-	7.0
Other	2.0	4.3	20.3	41.1
Investment income	4.1	6.0	5.5	2.1
Retirement pensions	1.3	2.6	2.0	1.8
Other money income	0.7	0.8	1.8	3.2
Average family income (1985 dollars)	29,803	37,827	4,350	5,650
Average transfer payments (1985 dollars)	1,596	3,593	2,614	3,579

Sources: 1971 and 1986 Censuses of Canada

Low income families with and without government transfer payments, 1985

Without transfer payments, over one-half of all elderly families would have been below the low income cut-offs in 1985.

Percentage with low income



Source: 1986 Census of Canada

Table 3

Distribution of census families by major source of income, Canada, 1970 and 1985

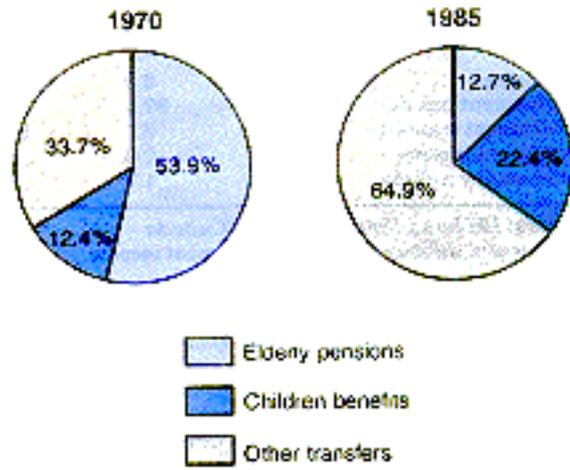
Major source of income	All families		Families in the lowest decile		Percentage of major source group in the lowest decile	
	1970	1985	1970	1985	1970	1985
	%					
All families	100.0	100.0	100.0	100.0	10.0	10.0
No income	0.3	0.3	2.9	3.1	100.0	100.0
Employment income*	87.3	77.8	44.6	34.1	5.1	4.4
Government transfers	8.7	15.7	47.4	56.1	54.2	35.8
Investment income	2.0	3.2	2.9	3.4	14.8	10.7
Other money income	1.7	3.0	2.2	3.3	12.5	10.8

Sources: 1971 and 1986 Censuses of Canada

** Wages and salaries and self-employment income.*

Composition of government transfer payments in the lowest income decile

Between 1970 and 1985, significant changes occurred in the composition of transfers in the lowest decile.



Sources: 1971 and 1986 Censuses of Canada