

Transfer payments to families with children

Susan Crompton

In the 1990s, families have earned less real income from employment and other market activities than they did in the late 1980s. Many have had to rely more heavily on transfer payments from the government – Unemployment Insurance, social assistance, Child Tax Credit, Family Allowance and so on. However, with governments practising fiscal restraint, the average value of transfer payments may start to decline, and unless their market income improves, more families could find themselves struggling financially.

This article examines two aspects of transfer payments to non-elderly families with children under the age of 18 (see *Data sources, definitions and limitations*). It looks at trends in average transfer payments to families with dependent children between 1980 and 1994, to see how transfers have responded to changes in the business cycle. It also considers how effective these payments have been in raising the incomes of families with children above the low income cut-offs, or LICOs. Amounts are expressed in 1994 dollars.

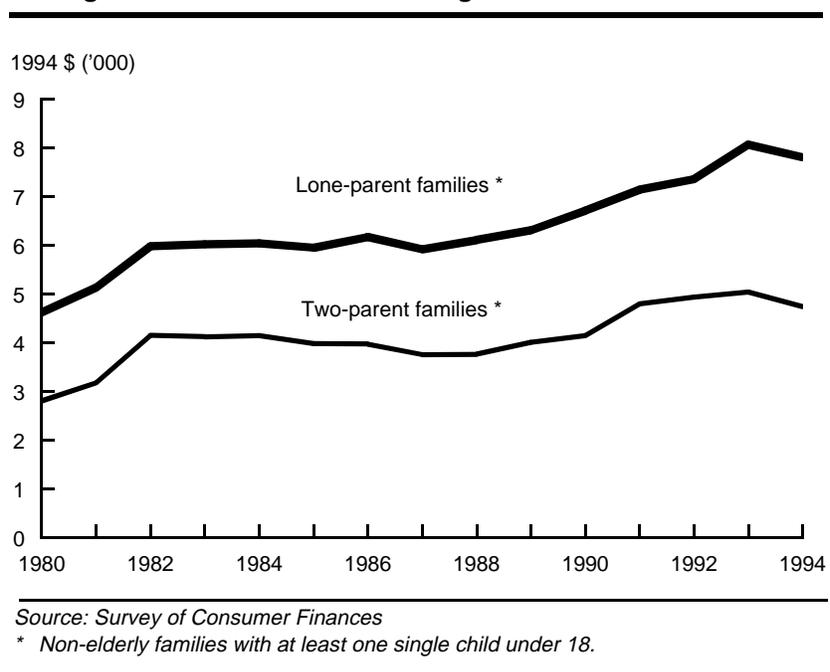
Transfers rise during recessions

The principal purpose of transfer payments is to help support families in times of need, and indeed, payments to all families with children rose steeply during the two recessions of the last 15 years (Chart A). During the 1981-82 recession, transfer payments to two-parent families jumped almost 31% in one year, from an average of \$3,200 to

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Chart A

Average transfer income rose during both recessions.



\$4,200; in lone-parent families, they rose 17%, from \$5,100 to \$6,000.³ Having risen, the average transfer payment did not drop until 1985, well into the recovery. And even during the expansion of the late 1980s, transfers were at least 30% more than they had been in 1980, hovering around \$3,800 for two-parent and \$6,000 for lone-parent families. There are a number of reasons why transfers have remained high, among them the continued stagnation of market income among young families (Picot and Myles, 1995); displaced workers' difficulty in finding new and/or steady employment; the continued high rate of unemployment; and the changing demographic composition⁴ of low income families with children.

Whatever the cause, or causes, once increased, transfer payments remained higher than pre-recession levels, not only as an absolute dollar amount, but also as a proportion of total family income. In 1980, transfers accounted for 5% of two-parent and 18% of lone-parent family income. Three years later, immediately after a severe recession, they accounted for 7% and 25%, respectively. Throughout the growth period of the business cycle (1984 to 1989), government income made up at least 6% (two-parent families) and 22% (lone-parent families) of family income (Appendix A).

With the onset of the 1990-92 recession, transfer payments again rose rapidly. From 1990 to 1993, average transfers to two-parent

Data sources, definitions and limitations

Data in this study are from the Survey of Consumer Finances (SCF) and the Labour Force Survey (LFS). The SCF, conducted each year in April or May as a supplement to the monthly LFS, collects information about amounts and sources of income received in the previous calendar year, and about work intensity (number of weeks worked in the year and whether employment was mostly full- or part-time). The LFS collects information about the family, employment status, industry and occupation, education, and so on.

Family: in this article refers to an economic family, meaning two or more persons living in the same dwelling who are related by blood, marriage (includes common law) or adoption.

Non-elderly family: family in which the reference person is under age 65. Most are two- or lone-parent families with at least one single child under 18 (also referred to as dependent child), but this category also includes married couples only, married couples with other relatives (most often children aged 18 and over) and other family groupings (for example, siblings living together).

Two-parent family: husband-wife with at least one single child under 18

Lone-parent family: a lone parent with at least one single child under 18

Market income: income from market sources, including earnings (employment income), investment income, retirement pensions, annuities and other money income.

Government transfer payments: includes Family Allowance,¹ Old Age Security pension and Guaranteed Income Supplement, Canada and Quebec Pension Plan benefit,² Unemployment Insurance, Child Tax Credit, refundable provincial tax credit, Goods and Services Tax credit, social assistance and other government transfer payments.

Family income: the sum of market income and government transfer payments received by all family members combined. Amounts are expressed in 1994 dollars, rounded to the nearest 100.

Low income cut-off (LICO): Statistics Canada's low income indicator, which is based on the proportion of family income usually spent on necessities, that is, food, shelter and clothing. This study uses the LICOs based on the 1992 Family Expenditure Survey of spending patterns, which defines low income individuals or families as those spending more than 54.7% of their income on necessities. The actual dollar amount of

the LICO differs according to family size and location; for example, a family of three in an urban area with a population of 500,000 or more is considered low income if its total income is less than \$25,668, while a family of four in a rural area is low income if it receives less than \$21,472. (For details, see Statistics Canada, 1995).

Low income family: family whose income falls below the low income cut-off for that family size and location.

Average low income gap: the difference between a low income family's income and the LICO for that family type, averaged over all families falling below their respective LICO.

Limitations

The low income cut-offs used here have not been adjusted to reflect the fact that people's spending patterns would be different if government transfer payments did not exist. LICOs adjusted for the absence of government transfers might be higher or lower than the current ones. Without knowing how people's behaviour would change in the absence of transfers, it is not possible to say whether the findings in this study under- or overestimate the number of families that would fall below the LICO without transfer payments.

families jumped 22%, peaking at \$5,000; those to lone-parent families rose 20%, to reach a high of \$8,100. By 1994, general economic conditions were improving: market incomes increased moderately, by 3% for two-parent and 6% for lone-parent families. In response, the average value of transfers subsided from the peaks recorded in 1993, to about \$4,700 for two-parent and \$7,800 for lone-parent families.

Transfers mean fewer low income families

For most families, transfer payments are a small, though no doubt

welcome, supplement to their market incomes; for others, they are a necessary source of income. The question then becomes, "how necessary?" Over the period 1980 to 1994, 11% of two-parent families, on average, had incomes below the LICO; without transfers, the proportion would have been 17%. In other words, transfer payments cut by one-third the number of two-parent low income families. The effect on lone-parent families was not nearly so dramatic: an average 54% had incomes below the LICO, while 62% would have been in this position without government transfers. In this case, transfer payments

cut the number of lone-parent low income families by over one-tenth (Chart B).

The considerable (and growing) support provided by transfers was necessary for many low income families because their average income from employment and other market activities was virtually stagnant throughout much of the period.⁵ During the expansion following the 1981-82 recession, market incomes in two-parent low income families waxed and waned, falling more than 2% between 1984 and 1989 (to \$11,900). Meanwhile, transfer payments rose 9%, and by

1989 accounted for 38% of these families' total income, up from 35% in 1984 (Chart C).

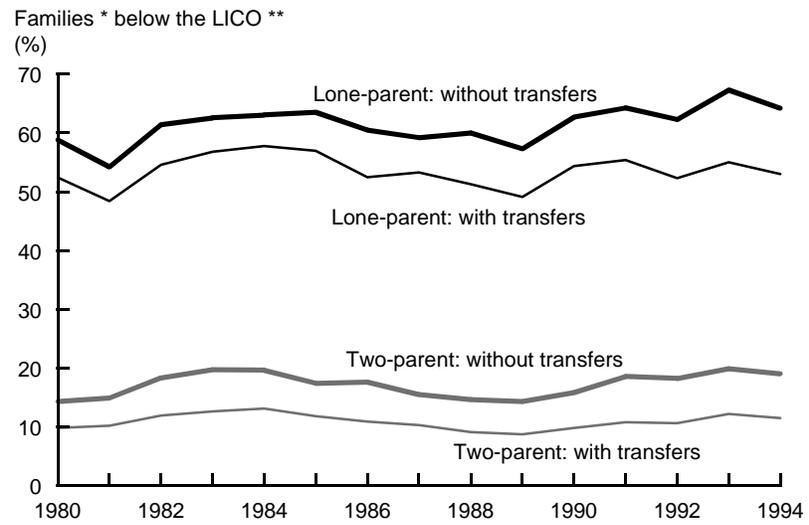
Lone-parent families with low incomes reported the same experience. They recorded a 3% decline in their average market income from 1984 to 1989 (to \$4,900). Not surprisingly, transfer payments increased by about 12%; in 1989, the peak of the expansion, 65% of the income in lone-parent low income families came from transfer payments, up from 61% in 1984 (Chart D).

Already heavily dependent on transfers, low income families were badly hurt by the 1990-92 recession. Between 1990 and 1993, the average market income of two-parent families with incomes below the LICOs dropped 18% (to \$10,300) while transfers increased 39% (to \$9,400). Market incomes of lone-parent low income families tumbled 20% in the first two years of the recession (to \$3,800 in 1992), and then began to recover; in the meantime, the average value of transfer payments to these families climbed 15% to reach \$10,300 by 1993. In 1994, as the recovery took hold, the market income of two-parent low income families improved slightly, while transfers correspondingly declined. Lone-parent low income families had the opposite experience: market income dropped 16% while transfers rose only 1% (Appendix B).

Average low income gap almost constant for 15 years

To what extent do transfer payments help families with low incomes? As already shown, transfer payments successfully lifted a large proportion of families above the LICOs. However, others remained substantially below. In 1994, the average family income (including transfers) of two-parent low income families was \$19,500, almost \$9,000 below the LICOs.

**Chart B
Government transfers reduce the incidence of low income families.**



Source: Survey of Consumer Finances
 * Non-elderly families with at least one single child under 18.
 ** Low income cut-off.

This “low income gap” was somewhat higher than it had generally been in most of the previous years, when it ranged between \$7,800 and \$8,700. In contrast, the gap for lone-parent low income families was somewhat lower than usual in 1994. Total family income averaged \$14,100 that year, leaving a gap of \$8,200; for much of the previous 15 years, it fluctuated between \$7,900 and \$9,700.

Summary

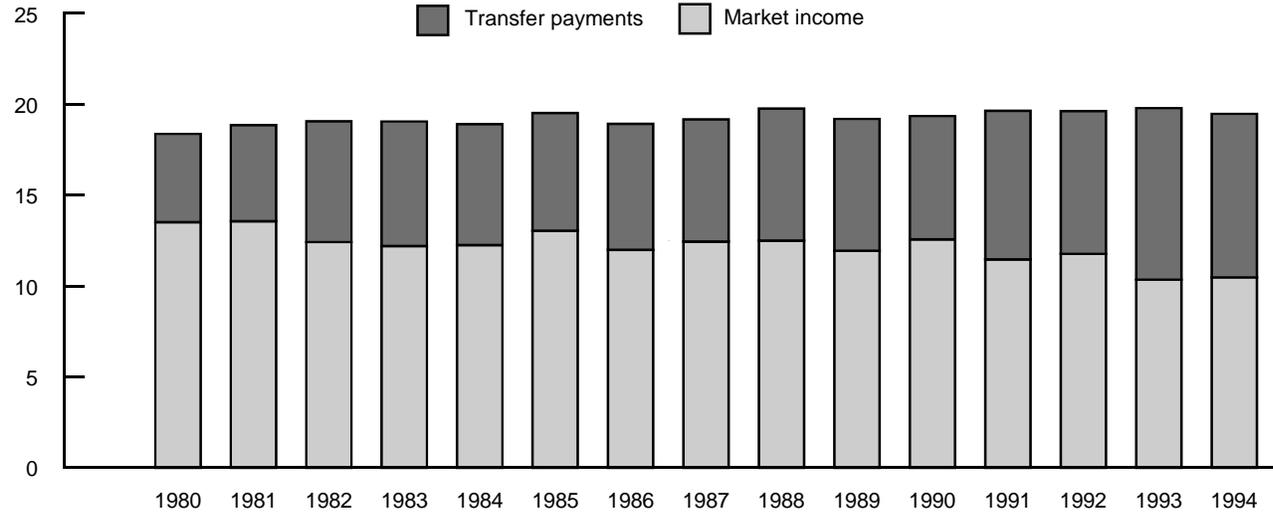
The dollar value of transfer payments to all families with children under the age of 18 has risen fairly steadily in the past 15 years. From 1980 to 1994, transfer payments to both two- and lone-parent families increased by 69%, or by \$1,900 for two-parent and \$3,200 for lone-parent families. By 1994, transfers formed 8% of total family income for two-parent families, up from 5% in 1980, and reached 31% for lone-parent families, up from 18%.

Recent cutbacks in government programs such as social assistance and Unemployment Insurance (many implemented in 1995) are not reflected in the data quoted here. However, the evidence suggests that transfer payments have become increasingly important to low income families. Throughout the study period, about one-third of two-parent and one-tenth of lone-parent families with low market incomes have needed this assistance to rise above the LICO threshold. For families that have remained below the LICO, transfers have been essential, accounting for at least 33% of two-parent and over 61% of lone-parent families' income since 1982. Yet despite the steady increase in the average value of these payments to low income families, the size of the average low income gap has remained comparatively constant. □

Chart C

Two-parent low income families * rely increasingly on transfer payments.

Average family income
(1994 \$, '000)



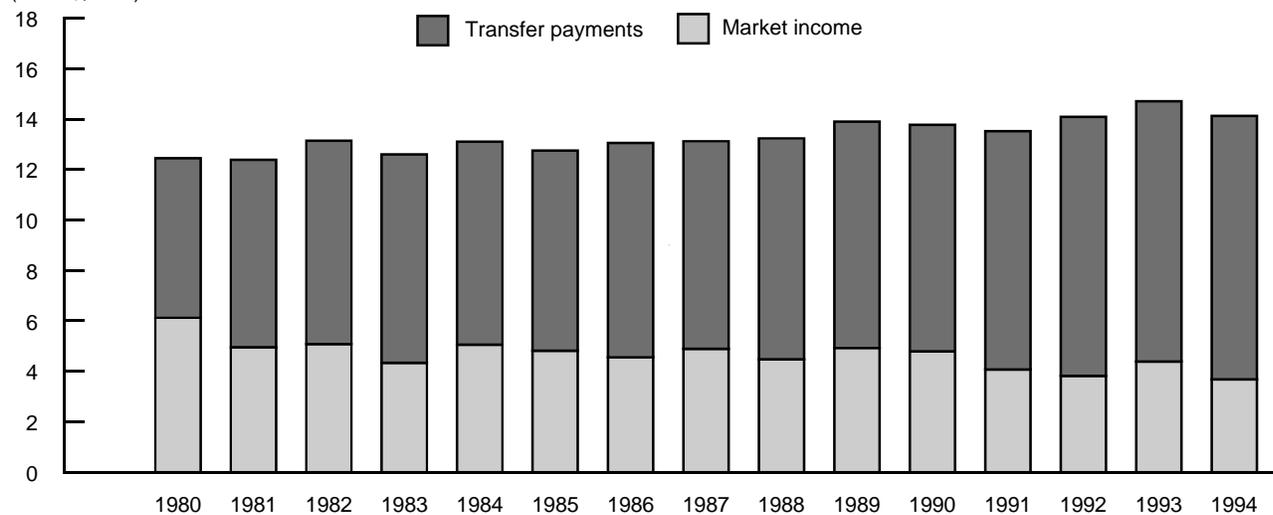
Source: Survey of Consumer Finances

* Non-elderly families with at least one single child under 18.

Chart D

Transfer payments are the major source of income for lone-parent low income families *.

Average family income
(1994 \$, '000)



Source: Survey of Consumer Finances

* Non-elderly families with at least one single child under 18.

■ Notes

1 Some transfers have been amalgamated with others and their names revised since the beginning of the study period. For example, Family Allowance, Child Tax Credit and the tax exemption for dependent children are now collectively known as Child Tax Benefits.

2 Strictly speaking, Canada and Quebec Pension Plan (C/QPP) benefits should not be called transfer payments because they are contributory plans. Similarly, Unemployment Insurance (UI) benefits can be paid only if the recipient has contributed to the plan. However, the Survey of Consumer Finances classifies these benefits as transfer payments because they originate from government. In this study of non-elderly families with children under 18, C/QPP benefits should be virtually negligible unless a family member

is receiving a disability pension, which has no age restriction.

3 Lone-parent families – about 85% of which are headed by women – are more dependent on transfer payments than are two-parent families because they receive much less from employment and other market activities. From 1980 to 1994, the average market income of lone-parent families never rose above \$22,100 (1981), while that of two-parent families never fell below \$52,000 (1983).

4 In an increasing proportion of low income families – from 20% in 1980 to 44% in 1994 – the reference person for the family was under 24 years old, an age group for which the unemployment rate is particularly high.

5 In 1993, only 65% of low income families had at least one family member employed at some time in the year; over half (53%) of

that employment was part-time. Consequently, low income families had less than half the volume of work obtained by families with incomes above the LICOs: the equivalent of 34 weeks of full-time work, compared with 77 weeks (Crompton, 1995).

■ References

Crompton, S. "Work and low income." *Perspectives on Labour and Income* (Statistics Canada, Catalogue no. 75-001-XPE) 7, no. 2 (Summer 1995): 12-14.

Picot, G. and J. Myles. *Social Transfers, Changing Family Structure, and Low Income Among Children*. Catalogue no. 11F0019MPE, no. 82. Ottawa: Statistics Canada, 1995.

Statistics Canada. *Income Distributions by Size in Canada, 1994*. Catalogue no. 13-207-XPB. Ottawa, 1995.

Appendix A Selected income data for non-elderly families

	1980	1981	1982	1983	1984	1985	1986	1987
	\$							
Non-elderly families *								
Average market income	53,400	52,500	49,900	49,500	49,100	50,700	51,900	53,000
Average transfer payment	2,700	3,000	3,900	3,900	4,000	3,900	3,900	3,700
Average total income	56,200	55,500	53,800	53,500	53,100	54,600	55,800	56,700
Transfers as % of total income	4.9	5.4	7.3	7.4	7.5	7.1	7.0	6.6
Two-parent families								
Average market income	55,700	54,500	52,200	52,000	52,300	54,100	55,300	56,900
Average transfer payment	2,800	3,200	4,200	4,100	4,100	4,000	4,000	3,800
Average total income	58,500	57,700	56,400	56,200	56,400	58,100	59,300	60,600
Transfers as % of total income	4.8	5.5	7.4	7.3	7.3	6.9	6.7	6.2
Lone-parent families								
Average market income	21,400	22,100	18,900	17,900	19,000	18,800	19,000	20,400
Average transfer payment	4,600	5,100	6,000	6,000	6,000	6,000	6,200	5,900
Average total income	26,000	27,200	24,900	23,900	25,000	24,800	25,200	26,300
Transfers as % of total income	17.8	18.8	24.0	25.2	24.2	24.0	24.5	22.5
	\$							
	1988	1989	1990	1991	1992	1993	1994	
	\$							
Non-elderly families *								
Average market income	54,300	55,200	54,000	52,100	51,800	50,200	51,800	
Average transfer payment	3,700	3,900	4,200	4,800	5,000	5,100	4,900	
Average total income	58,000	59,100	58,200	56,900	56,800	55,400	56,600	
Transfers as % of total income	6.4	6.7	7.2	8.4	8.8	9.3	8.6	
Two-parent families								
Average market income	58,000	59,600	58,200	56,000	56,300	54,800	56,400	
Average transfer payment	3,800	4,000	4,100	4,800	4,900	5,000	4,700	
Average total income	61,800	63,600	62,300	60,800	61,300	59,800	61,100	
Transfers as % of total income	6.1	6.3	6.7	7.9	8.1	8.4	7.8	
Lone-parent families								
Average market income	19,900	21,800	19,500	17,700	18,800	16,700	17,800	
Average transfer payment	6,100	6,300	6,700	7,100	7,400	8,100	7,800	
Average total income	26,000	28,100	26,200	24,900	26,200	24,800	25,600	
Transfers as % of total income	23.5	22.4	25.7	28.7	28.1	32.5	30.5	

Source: Survey of Consumer Finances

Note: Amounts are in 1994 dollars rounded to the nearest 100.

* Includes two-parent and lone-parent families with single children under 18, married couples only, married couples with other relatives, and all other families with a reference person under age 65.

Appendix B
Selected income data for non-elderly families below the low income cut-offs

	1980	1981	1982	1983	1984	1985	1986	1987
	\$							
Non-elderly families *								
Average market income	9,600	9,800	8,900	8,800	8,700	9,100	8,400	8,800
Average transfer payment	5,400	5,700	6,800	6,800	6,700	6,600	7,100	6,800
Average total income	15,000	15,500	15,700	15,500	15,500	15,700	15,500	15,600
Average low income gap	8,300	8,400	8,100	8,500	8,400	8,200	8,000	8,100
Two-parent families								
Average market income	13,500	13,600	12,400	12,200	12,300	13,000	12,000	12,400
Average transfer payment	4,900	5,300	6,600	6,900	6,700	6,500	6,900	6,700
Average total income	18,400	18,900	19,100	19,000	18,900	19,500	18,900	19,200
Average low income gap	8,400	8,600	8,200	8,700	8,700	8,100	8,400	8,600
Lone-parent families								
Average market income	6,100	5,000	5,100	4,300	5,100	4,800	4,600	4,900
Average transfer payment	6,300	7,400	8,100	8,300	8,000	7,900	8,500	8,200
Average total income	12,400	12,400	13,100	12,600	13,100	12,700	13,000	13,100
Average low income gap	9,400	9,700	9,100	9,600	9,400	9,600	9,000	8,900
	1988	1989	1990	1991	1992	1993	1994	
	\$							
Non-elderly families *								
Average market income	8,100	8,100	8,200	7,500	7,300	7,200	7,100	
Average transfer payment	7,500	7,500	7,400	8,200	8,500	8,900	8,800	
Average total income	15,600	15,600	15,600	15,600	15,800	16,100	15,900	
Average low income gap	7,700	7,700	8,000	8,100	7,900	7,700	8,000	
Two-parent families								
Average market income	12,500	11,900	12,600	11,500	11,800	10,300	10,500	
Average transfer payment	7,300	7,300	6,800	8,200	7,800	9,400	9,000	
Average total income	19,800	19,200	19,300	19,600	19,600	19,800	19,500	
Average low income gap	7,800	8,200	8,600	8,400	8,500	8,400	8,900	
Lone-parent families								
Average market income	4,500	4,900	4,800	4,100	3,800	4,400	3,700	
Average transfer payment	8,800	9,000	9,000	9,400	10,300	10,300	10,400	
Average total income	13,200	13,900	13,800	13,500	14,100	14,700	14,100	
Average low income gap	8,700	8,000	8,400	8,900	8,300	7,900	8,200	

Source: Survey of Consumer Finances

Note: Amounts are in 1994 dollars, rounded to the nearest 100.

* Includes two-parent and lone-parent families with single children under 18, married couples only, married couples with other relatives, and all other families with a reference person under age 65.