

## IAPR POLICY BRIEF

### **ASSURED INCOME FOR THE SEVERELY HANDICAPPED: THE DECLINE IN FINANCIAL BENEFITS SINCE 1993**

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# Assured Income for the Severely Handicapped: The Decline in Financial Benefits Since 1993

## Introduction

The government of the province of Alberta is soon to receive, and presumably act upon, a review of one of its social assistance programs. The program, *Assured Income for the Severely Handicapped* (AISH), is intended to provide income support for the permanently disabled. The stated goal of the government's review of the AISH program is to "identify ways to renew AISH so it better meets the needs of people receiving AISH, while ensuring the program is affordable and remains available to Albertans who need it."<sup>1</sup> The government committee assigned the task of reviewing the program consulted with the public in the fall of 2004 and is currently preparing a report to be submitted to the government. The government is scheduled to respond to the report in the spring of 2005. While AISH recipients, taxpayers, and other interested parties await the government's response to the AISH review it might be useful to provide some background into what will likely be a key recommendation of that review; the size of the monthly payment to AISH recipients. The purpose of this policy brief is to provide that background.

## What is AISH?

*Assured Income for the Severely Handicapped* (AISH) is a government of Alberta program designed to provide income support for the permanently disabled. To be eligible to receive AISH payments, a person must have "physical or mental impairment that substantially limits ability to earn a livelihood and is likely to continue to affect that individual permanently." According to the background paper *Renewing AISH* released by the government in September 2004, of those receiving AISH payments, 45% have a physical disability, 23% have a developmental disability and 32% have a chronic mental illness. Thus, while many of those receiving AISH payments suffer from disabilities that are not "visible", the disabilities are permanent and debilitating nonetheless. 11% of AISH recipients are between 60 and 65 years of age, 52% are between 40 and 59 years of age 50 years or older, 37% are aged between 18 and 39 years of age. Approximately 31,500 people are currently receiving AISH payments.

Those eligible to receive support through the AISH program currently receive a maximum financial benefit of \$850 per month. Those in the program can supplement their income through employment though only a maximum amount of income can be earned before the monthly AISH payment is clawed-back. For example, a single person on AISH can earned up to a maximum of \$200 per month without suffering a reduction in the monthly AISH payment. Income earned in excess of \$200 per month results in a claw-back of AISH payments in the amount of \$75 for

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<sup>1</sup> In September 2004, the review committee published a background document called *Renewing AISH* in which it describes the AISH program, describes the characteristics of those receiving AISH benefits, and states the goals of the review committee. The document is available from the web site of Human Resources and Employment at [http://www3.gov.ab.ca/hre/aishreview/docs/renewing\\_aish.pdf](http://www3.gov.ab.ca/hre/aishreview/docs/renewing_aish.pdf).

every \$100 of earned income. As earned income increases, the AISH financial benefit shrinks. By the time earned income exceeds \$1,300 per month, the AISH benefit has fallen to zero.<sup>2, 3</sup>

As well as the monthly financial benefit, AISH recipients and their families receive benefits in the form of premium-free Alberta Health Care Insurance, eyewear, eye exams, dental work, emergency ambulance services, essential diabetic supplies, and prescription drugs. The benefits provided to those in the AISH program, then, are multi-faceted: Benefits are in the form of direct income-support and in the form of health benefits (income in-kind).

## **Evaluating the AISH Program**

The design of any income support program reflects trade-offs. On the one hand, the program needs to provide a reasonable level of support in the form of income and other benefits. On the other hand, if this support is overly generous, it provides an incentive for recipients to reduce their efforts to generate earned income and so rely too heavily on government support. The problem of finding the right balance between income-support generosity and the disincentive to seek employment is reduced in the case of the AISH program because the program is intended to accommodate the needs of the severely handicapped. Thus, beneficiaries of the AISH program are, by definition, seriously restricted in their ability to earn income. As such, there is much less of an incentive for AISH recipients to substitute away from earned income toward government support and so the problem of identifying an appropriate level of income-support is relatively straight-forward in this case. One need only identify a reasonable, or “fair”, level of income support.

There are a number of ways of defining a reasonable or fair level of income support. Some advocate linking income support to the average level of earned income. This relative-measure stresses that those on income-support should receive an amount of support sufficient to maintain a standard of living that is constant relative to that enjoyed by others in society. By this measure, if the average person in society enjoys an increase in his or her standard of living, the level of income support paid to those on social assistance should also be increased so as to enable recipients to similarly enjoy an increase in their standard of living. The logic of this approach is based on the idea that what is deemed to be an adequate income changes over time. A standard of living deemed acceptable 100 years ago (no indoor plumbing, limited access to health care, etc) might now be viewed as unacceptable. Thus, income support should increase with the standard of living of the average person in society.

Other analysts prefer an absolute measure whereby the level of income-support reflects the cost of maintaining a certain standard of living. Under this approach income-support increases only if the cost of maintaining the defined standard of living increases; there is not necessarily a

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<sup>2</sup> A description of how earned income affects the size of the AISH financial benefit is available the Human Resources and Employment publication *The AISH Guide*. That publication is available electronically at <http://www3.gov.ab.ca/hre/aish/publications/pdf/NCN0315.pdf>.

<sup>3</sup> The size of the claw-back, which is similar to a tax imposed on AISH-recipients who find employment, is rather steep and acts as a significant disincentive to AISH-recipients to seek earned income. The appropriate size of the claw-back rate is an interesting question but is beyond the scope of this short note.

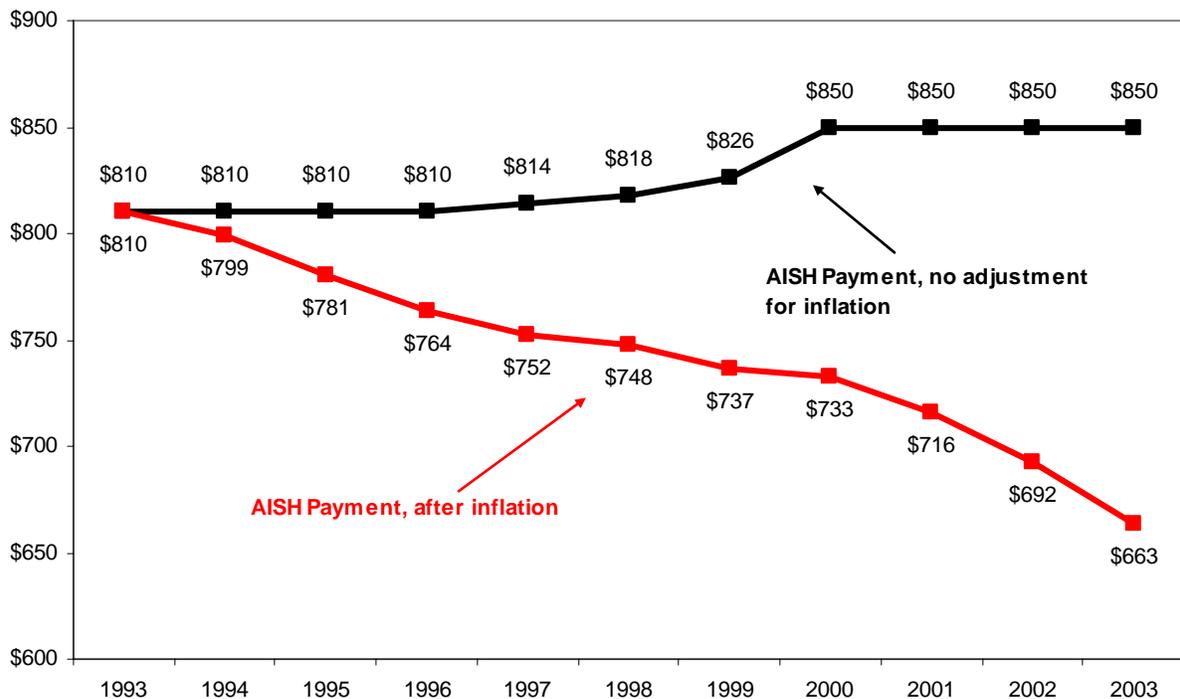
connection between the standard of living of the average person in society and the person on social assistance. The logic of this approach is that income support should be sufficient only to guarantee access to life's necessities.

Considerations of the arguments for and against the relative versus absolute measures of social assistance take us deep into theories of social welfare and are beyond the scope of this short note. What I will do instead is rather more modest. In the next section I present data which show how AISH payments have changed over time, in particular how they have changed during the tenure of the Klein government. I will present these data in a way that allows us to evaluate how AISH payments have changed in both a relative and an absolute way.

### AISH Financial Assistance, 1993-2003

Figure 1 shows the history of the AISH financial benefit as the black line. In 1993, a person in the AISH program received \$810 per month. This was bumped up to \$818 four years later on July 1, 1997, and was increased again two years later to \$850 per month on October 1, 1999. The monthly payment has remained at that level to this day.<sup>4</sup>

**Figure 1: Monthly AISH Financial Benefit**



Sources: AISH financial benefit from Alberta Human Resources and Employment. Inflation adjusted AISH benefit calculated using the all-items Consumer Price Index for Alberta available from Statistics Canada, CANSIM II database, series v738849.

<sup>4</sup> The values for 1997 and 1999, when monthly payments increased during the year, represent a weighted average of the monthly payment before and after the change. Data is not yet available for 2004 and so our analysis stops with 2003.

Every Albertan is aware that the cost of living has increased since 1993. As a result, a dollar today buys fewer groceries than it did then. A useful way economists have of keeping track of the cost of living is the Consumer Price Index, or CPI. The CPI keeps track of the cost of buying a well-defined “basket” of consumer goods and services. The basket includes groceries, transit fees, the cost of rental accommodation, and a long list of other goods and services. The CPI for Alberta shows that between 1993 and 2003, the price of the basket of goods defined by the CPI increased by just over 28%. This means that the same basket of goods that cost \$100 in 1993 would have cost just over \$128 in 2003. To put it differently, an expenditure of \$100 would buy a much smaller basket of goods in 2003 than it would have bought in 1993. An economist would say that the *purchasing power* of that \$100 fell by just over 28% between 1993 and 2003.

We can use the CPI to calculate what has happened to the purchasing power of AISH payments over the period 1993 to 2003. The red line in Figure 1 shows this calculation. What the calculation shows is a rather steep decline in purchasing power. Even though AISH payments were increased in 1997 and again in 1999, these increases have been overwhelmed by increases in the prices of groceries, rent, and all the other items in the CPI basket so that over time the purchasing power of AISH payments have fallen quite considerably.

For AISH recipients to be able to buy the same amount of goods and services they were able to buy with the \$810 monthly payment they received in 1993, they would need to have been receiving \$1,038 per month in 2003. That is, the \$810 monthly payment would need to have been increased by \$228, or by just over 28%, just to keep up with inflation. Instead of the \$228 needed to allow AISH recipients to keep up with inflation, AISH payments have been increased by just \$40 since 1993; a shortfall of \$188 per month. Those who advocate an absolute-measure of what is the appropriate amount to be paid to AISH recipients should advocate an increase in monthly financial support of \$188. This amount reflects the increase in the cost of maintaining the standard of living AISH-recipients enjoyed in 1993.

If instead of an absolute measure of what is an appropriate level of income support one prefers a relative measure, then the appropriate increase in the AISH financial benefit can be higher or lower than \$188 depending on what relative measure is used. Figure 2 (below) shows calculations relevant to this argument.

The black line in Figure 2 plots values of average monthly disposable income in Alberta.<sup>5</sup> It shows that since 1993, the average Albertan has realized an increase in personal disposable income of \$684; from \$1,497 in 1993 to \$2,181 in 2003. The red line shows the change in the monthly financial benefit paid to AISH-recipients over the same period.<sup>6</sup> The monthly AISH financial benefit increased by \$40 over the period; from \$810 in 1993 to \$850 in 2003. Advocates of the relative-measure who link income support to the average level of disposable income enjoyed in Alberta compare the monthly incomes described by these two lines. In

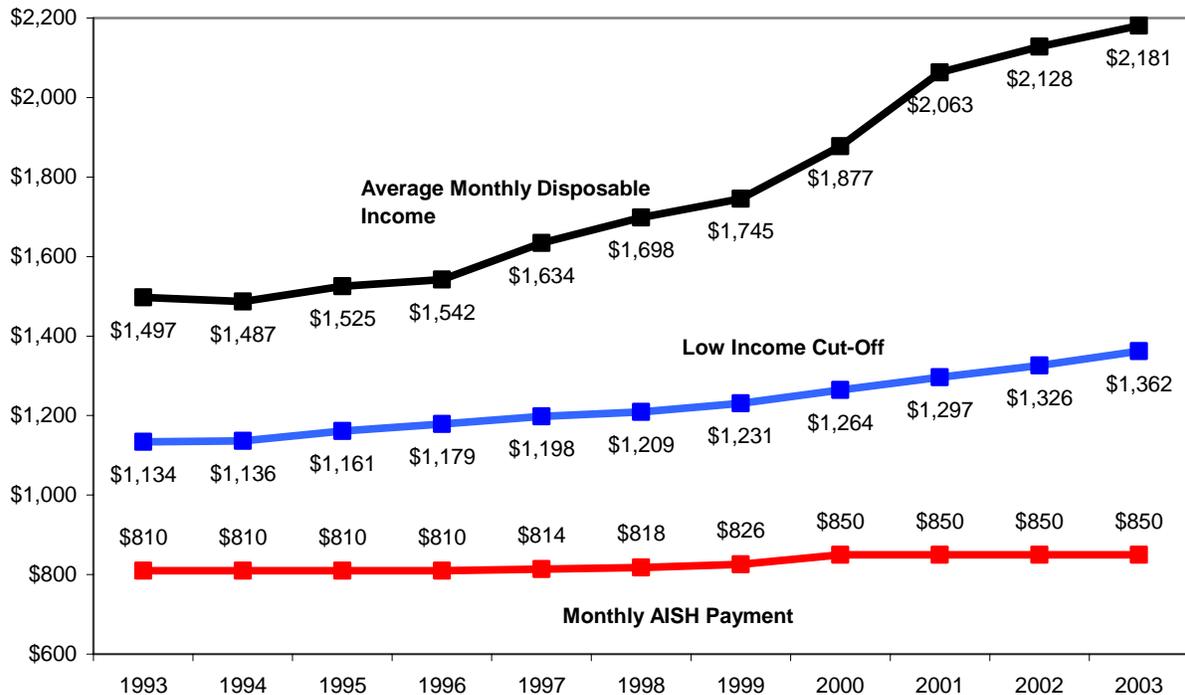
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<sup>5</sup> Disposable income is earned income less taxes paid plus receipt of income transfers such as employment insurance and Canada Pension Plan. It is a measure of the monthly amount available to the average Albertan to spend on goods and services. Disposable income is an appropriate income measure against which to compare the AISH financial benefit because the latter is largely untaxed and, hence, is also a measure of what is available to spend on goods and services.

<sup>6</sup> Neither value is adjusted for inflation. Using the same CPI to adjust for inflation would not affect the calculations.

particular, they note that in 1993 AISH-recipients received a financial benefit equal to just over 54% of average disposable income. By 2003, the AISH financial benefit had fallen to just under 39% of average disposable income. Thus, the AISH financial benefit has fallen relative to the average level of disposable income in Alberta. For AISH-recipients to receive an income equal to 54% of average disposable income – as they did in 1993 – they would need to receive a financial benefit in 2003 equal to \$1,180. They would, then, need to receive a \$330 increase in the current monthly financial benefit of \$850.

**Figure 2: Average Personal Disposable Income, Low Income Cut-Off and the AISH Financial Benefit**



Sources: Average disposable income of Albertans is from Statistics Canada, CANSIM II series v691989. The LICO is from Statistics Canada, CANSIM II series v25745100.

The blue line in Figure 2 presents information for making a different relative-comparison. That line shows values of the low-income cut-off (LICO) calculated by Statistics Canada for a single person living in a large urban area (one with a population exceeding 500,000).<sup>7</sup> The LICO measures the monthly after-tax income at which a single person spends 20 percentage points more of their income on food, shelter, and clothing than the average person.<sup>8</sup> The LICO measure increases with the cost of food, shelter, and clothing and so is sometimes interpreted as measuring the cost of providing the necessities of life. However, the LICO also increases with

<sup>7</sup> Statistics Canada also produces a LICO measure for those living in smaller urban centers and in rural areas. The measure for large urban areas was used because the majority of Albertans – and I assume, AISH-recipients – live in the large urban areas of Calgary and Edmonton.

<sup>8</sup> For example, if the average person spends 30% of his income on necessities, then the LICO is that income at which someone spends 50% of their income on necessities.

increases in average disposable income even with no change in the cost of necessities. This is so because it measures the amount spent on necessities relative to the amount the average person spends on necessities. For this reason the LICO is a relative-measure and is not a measure of poverty or the cost of material survival. Statistics Canada suggests the LICO should be interpreted as an income level that defines someone who is substantially worse-off than the average person in society.

As we see from Figure 2, the monthly AISH financial benefit has since 1993 been below the LICO. Over time, it has fallen even further below. Thus, in 1993, the AISH financial benefit was equal to just over 71% of the LICO. By 2003, it had fallen to just over 62% of the LICO. Simply to return to 71% of the LICO would require an increase in the AISH monthly benefit of \$123 to a total of \$973. To increase the monthly AISH financial benefit to the level of the LICO would require substantially more. It would require an increase of \$512 (from \$850 to \$1,362).

### **Costing-Out the Proposals**

Increasing AISH payments is an expense for the government. Taxpayers expect their government to be aware of the cost of its programs and should expect them to report the cost of policy changes. If we assume 31,500 people receive AISH benefits, then the monthly cost to the Alberta treasury of increasing AISH payments is simply the required monthly increase times 31,500. The annual cost is that monthly figure times 12.

I have presented three alternative ways of thinking about what would be an appropriate size for the AISH financial benefit. The absolute measure suggests an increase of \$188 in the monthly financial benefit (to a total of \$1,038 per month). This increase would require that the provincial government's social assistance budget be raised by \$71 million. Two relative measures have been considered. Measuring income support relative to the disposable income of the average Albertan suggests the need for an increase in the AISH financial benefit of \$330 per month (to a total of \$1,180). This increase would require that the provincial government's social assistance budget be raised by \$125 million. Measuring income support relative to the low income cut-off (LICO) suggests the need for an increase in the AISH financial benefit of just \$123 per month (to a total of \$973). This increase would require that the provincial government's social assistance budget be raised by just over \$46 million. These alternatives therefore define a range of costs to the provincial treasury of between \$46 million to \$125 million.

To put these amounts into perspective, it is helpful to note that in its last complete fiscal year (2003/04), the government of the province of Alberta collected in revenue a total of \$25,338 million. The cost of increasing AISH payments therefore amounts to an expenditure equal to between 0.2% and 0.5% of total revenue, depending on which proposal is accepted. To put it differently, increasing AISH payments by the amounts suggested above would mean increasing the amount the provincial government spent on social services in 2003/04 (\$2,305 million) by between 2.0% and 5.4%, again depending on which proposal is implemented.

## Concluding Comments

Following the election of Premier Klein in 1993, Albertans grew accustomed to policies directed toward deficit and debt reduction. Many of those policies involved reductions in government spending. In recent years, deficits have been replaced with surpluses and debt has been eliminated with the result that the government has been able to loosen the spending reins. This has resulted, for example, in so-called re-investments in health care spending. Until Premier Klein's impromptu and highly-criticized comments about AISH recipients during the election campaign in the fall of 2004, the question of the appropriate level of financial assistance made available to those on social assistance in general, and those on AISH in particular, had not caught the attention of Albertans. The provincial government has recently been studying the question of social assistance benefits and the results of this study are due sometime in the spring of 2005. In this note, I have provided some background and some ways of evaluating what would be an appropriate adjustment to the monthly AISH financial benefit.

The exact amount by which the monthly financial benefit should be increased is contentious. I have presented a range of estimates which reflect different ways of thinking about what is an appropriate level for the financial benefit paid to those in the AISH program. While analysts will disagree over the exact amount, all will agree that the currently monthly benefit is too low and that a \$40 increase in the amount of benefit paid to the severely disabled spread over 12 years is far too little. The only way of justifying such a small increase over such a long period of time is to suggest that the size of the AISH financial benefit in 1993 – an amount equal to 54% of average income and 71% of the low income cut-off -- was overly generous. If one held that view – a view that would seem difficult to justify given the LICO is best thought of as an income level that defines someone who is substantially worse-off than the average person in society -- allowing inflation to whittle-away at the purchasing power of the AISH financial benefit could be deemed to have been an appropriate policy. However, even if that were so, using inflation to reduce the purchasing power of social assistance rates is a disagreeable way of making public policy. Important policy choices should not be made by inflationary stealth. Good public policy is made by policy-makers who are forthright in stating and holding up to comment and evaluation their judgments about issues such as the appropriate level of income support offered to the disadvantaged and vulnerable in society. It is important that Albertans be made aware of what choices are being made by their government and understand the implications of those choices for those Albertans whose physical and mental impairments limit their ability to earn a living. The provincial government, as part of its review of the AISH program, needs to clearly state where it stands on the issue of what is the appropriate level of income support to be made available to the disabled. This will require a statement of what will be the new level of the monthly financial benefit and a description of how the financial benefit will be adjusted over time. The purpose of this note was to provide the information required for Albertans to form a judgement on the appropriateness of the government's choice.

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