JOINT FEDERAL-PROVINCIAL STUDY

OF A

COMPREHENSIVE DISABILITY PROTECTION PROGRAM

STAGE II REPORT:

PROGRAM DESIGN OPTIONS

December 1985
Reprinted March 1987

INDEX

EXECUTIVE SUMMARY

Background

This is the second report of the Joint Federal/Provincial Task Force on a Comprehensive Disability Protection Program. The First Report was submitted to Ministers in September 1983. It outlined the serious problems with Canada's disability income protection system and, as well, possible options were identified. It was indicated to Ministers that further detailed design modelling and costing could be undertaken.

In the second phase of study, the Task Force was asked to develop and cost specific models. This phase of study commenced in May 1984. Ministers requested that it be completed by the end of 1985.

Approach

Three earnings replacement and three income support models were designed and costed. They are not meant to be taken in isolation from other elements of the disability protection system. Further, they are models only, and can be modified to reflect the preferences of Ministers. Given the volatile nature of many of the assumptions and the lack of specific data bases, the costings are to be seen as reasonable estimates; they are meant to serve as a guide to Ministers in their decision making process.

Earnings Replacement Models

Although three separate models were developed, similar design features were used in order to allow key differences to be examined. All base models were designed to:

(i) replace 60% of pre-disability earnings up to the Canada/Quebec Pension Plan ceiling (tied to the average wage);

(ii) provide a high degree of inflation protection;

(iii) begin payment of benefits 17 weeks after the onset of disability;

(iv) protect all employees and the self-employed;

(v) include a rehabilitation component.

For costing purposes, each model described operates as an independent system fully responsible for earnings replacement. Further, all models assume that existing Workers' Compensation (WC) programs and other categorical programs such as provincial auto insurance would remain in place. It should be noted that any one model can be altered to reflect some aspects of another model.

(A) Long Term Disability (LTD) Insurance Type Program

Design Features - The design, which assumes private sector administration, closely parallels features common to existing voluntary private LTD programs. However, there are special administrative arrangements - particularly a "pooling" feature - to guarantee coverage at no more than a maximum premium for high-risk employees. Coverage would begin immediately upon employment and would extend for 90 days after employment terminates. Benefits would be provided to persons unable to perform the duties of any occupation for which they are reasonably qualified.

Premium rates would vary and the level (up to the maximum) would be determined through the competitive process. Estimates provided by the CLHIA indicate the average premium cost in 1990 is expected to be about 1.89%* of payroll. It is expected that there would be in the order of 60,000 persons awarded benefits as a result of disabilities occurring in the first year.

(B) Canada/Quebec Pension Plan (C/QPP) Type Program

Design Features - This option which assumes a central public administration, was costed on two bases, one providing a more liberal definition of disability than currently exists under the C/QPP, and one using the existing QPP definition of disability. The waiting period to qualify for coverage would be reduced to two years while coverage would continue for a maximum of five years after employment ceases.

It is projected that for Canada as a whole, the single premium rate using the liberalized definition of disability would be 1.53%* of insured payroll in 1990. Using the current QPP disability definition would result in a starting premium rate of about 1.1%*. Projections

* Note: It is important to note that the differences in premium rates quoted above result from differences in model design features and related actuarial assumptions, and do not imply that any one delivery mechanism is inherently less costly. Section II D of the report discusses the design comparisons.

for Quebec alone indicate slightly higher long-term costs for that province. It is estimated that using the liberalized definition, there would be in the order of 60,000 persons awarded benefits as a result of disabilities occurring in the first year.

(C) Full and Partial Program

Design Features - Under this program, earners would be protected in the event of both full and partial disability. Administration would be at the provincial level. The Task Force chose a definition of disability which would provide pro-rated benefits based on an individual's loss of earnings capacity, although the model was costed using a "ratings schedule" approach. Coverage is the same as that provided under the LTD option.

The premium rate for the model was projected at between 4 to 6.5% in the initial year. While these costs are based on more limited data than the other models, the Task Force was of the view that a program of this type is inherently more costly and would be more difficult to administer than the programs restricted to more severe impairments.

INCOME SUPPORT OPTIONS

The three options presented would be targetted to low-income persons and would be funded from general revenues.

It has been assumed that in cases where vocational rehabilitation is relevant, the income support program would rely on other parts of the disability protection system to provide these services.

A key issue is the special expenses associated with disablement, and the capacity of government programs to deal effectively with those costs. One approach, which was used for modelling purposes, would be to provide a higher base benefit level to disabled persons recognizing that disabled persons face a variety of daily expenses which are not experienced by low-income persons in general. By providing this higher base amount to cover these additional costs, government can then target other programs to specific major expenses.

A counter argument to this approach would be that disabled persons cannot be assumed to have different basic costs than other low-income persons. The second approach implies lower general income benefits, but potentially more elaborate administrative and higher costs for disability-related expense programs.

In conducting the modelling exercise, the Task Force did not seek to reach a conclusion on the relative merits of these approaches, both of which are evident in existing provincial program structures and policy statements.

The definition of disability used in all cases, was the CPP definition. The level of benefit under two models has been set at the OAS/GIS level and would be fully indexed to reflect changes to the OAS/GIS program.

The data in this report are very limited and estimates drawn from it are intended to give a general reference level only.

(A) Income-Tested Program

Design Features - This program would provide disabled persons with an income guarantee equal to that guaranteed the elderly through the OAS/GIS program. Benefits would be subject to an income test. The program could be federally funded and administered. It is estimated that this type of program could cost about $800 million annually in 1985, over and above what is currently spent by federal/provincial/territorial governments on social assistance costs for disabled persons. While the initial caseload is projected at about 227,000 beneficiaries, this number would be reduced if a complementary earnings replacement program providing significant benefit levels were in place.

(B) Enriched Social Assistance

This program would provide disabled persons on social assistance with a basic income guarantee at least equivalent to the OAS/GIS rate; the actual benefit level would be based on family size with eligibility determined by a needs test.

The program, including the determination of disability, would be provincially administered. Enhanced federal cost-sharing provisions, e.g., 75-25% sharing, would be made to assist provinces in meeting the cost of the enhancements. If cost-shared on a 75-25% basis, the program would cost the federal government somewhere in the order of $490 million and a further $160 million for the provincial/territorial governments. About 225,000 recipients would receive enhanced benefits under this option. As well, there is a potential for a caseload increase given the higher guarantees.

(C) Social Assistance Top-Up Program

This option would provide a flat-rate monthly benefit added to the regular provincial social assistance benefits that disabled persons would normally receive. Persons not qualifying for social assistance for any reason, would not qualify for the top-up. For modelling purposes the level of the top-up was set at $175 per month. It was assumed that it would be federally funded and administered. Determination of disability could be at either the federal or provincial/territorial level. Alternately, the program could be cost-shared with the provinces and/or provincially administered.

If set at $175 per month, the total annual program expenditures are estimated to be in the order of $475 million in 1986. Including institutionalized disabled persons would add an additional $50 million to program costs. Currently, about 225,000 non-institutionalized social assistance recipients would qualify. If the benefits were extended to long-term institutionalized disabled persons, a further 25,000 individuals would qualify.

Program Interactions

Implementation of mandatory disability earnings replacement would have a direct impact on social assistance costs. Savings would occur in the first year of the new earnings-replacement program and would build up to a considerably higher level within 5 to 10 years as the program matured. For example, it is conservatively estimated that a fully mature C/QPP model (using the QPP disability definition), if it were in place in 1987, would reduce social assistance costs by about $85 million. These savings would be proportionately higher with the enhanced income support options discussed in this report. These savings could be redirected to help meet the cost of providing one of the enriched income support options described in the report.

Rehabilitation and Disability Related Expenses

(i) Rehabilitation

The Task Force is of the opinion that rehabilitation is an integral component of a disability protection system. Within the context of the study, however, only vocational rehabilitation was considered, the object being generally to enable a person to secure, retain and advance in suitable employment. Therefore, once specific earnings replacement and/or income support programs were decided upon, fundamental decisions would be required as to the actual design of a rehabilitation program and its funding. At that point, a separate study to design a comprehensive complementary rehabilitation system is advised.

(ii) Disability-Related Expenses

A working group established that in the current system there is no consistent, common perspective or philosophy in the manner in which expenses are defined, that is, those disability-related expenses and services which go beyond the time-limited rehabilitation process. They are the equalizing factors which enable the disabled individual to live independently in the community after rehabilitation.

One possible approach would be to provide a larger base benefit which is expected to cover the cost of many of a disabled person's less obvious special needs. In doing so, the provinces could develop specific higher cost programs to cover higher cost items. Alternately, an income protection program could provide for disability-related expenses on an itemized basis.

Accordingly, disability-related expenses are considered to be deserving of their own broader study. An exploration of current and proposed delivery systems, as well as a determination of the level and extent to which services and benefits ought to be provided, is required as soon as possible. However, such a study need not delay Ministers in taking decisions now to improve the income protection system. In fact, decisions taken on the income protection system, may help to focus a study on specific disability-related expenses.

Acknowledgements

This report was produced at the request of federal and provincial Ministers of Social Services. The report was prepared by the staff of the Policy, Liaison and Development Directorate, Income Security Programs Branch, Department of National Health and Welfare, in conjunction with representatives from: Department of Social Services, Province of Newfoundland; Department of Social Services, Province of Nova Scotia; Ministère de la Main d'oeuvre et de la Sécurité du revenu and Régie des rentes du Québec, Province of Quebec; Ministry of Community and Social Services and Ministry of Treasury and Economics, Province of Ontario; Department of Finance, Province of Manitoba; Department of Social Services, Province of Saskatchewan; Department of Social Services and Community Health, Province of Alberta; Ministry of Human Resources, Province of British Columbia; and Status of Disabled Persons Secretariat, Secretary of State.

The costings provided in this report were prepared by the federal Department of Insurance, Régie des rentes du Québec, Canadian Life and Health Insurance Association (CLHIA) and the Data Development Analysis Directorate, Income Security Programs Branch, Department of National Health and Welfare. All the Provincial and Territorial Departments of Social Services were asked to assist in providing statistics used in the preparation of the provincial income support program data.*

Comments and analysis on the development of the models were received from: Ontario Ministry of Labour, Ontario Workers' Compensation Board, Saskatchewan Workers' Compensation Board, Office des personnes handicappées du Quebec, Vocational Rehabilitation Branch, Ontario Ministry of Community and Social Services and the Social Services Programs Branch, National Health and Welfare.

Consultants commissioned included Wm. M. Mercer Ltd., The Wyatt Company, Peter G. Crichton & Associates and Paul Dickinson. By arrangement with the CLHIA, Mr. K.G. Cook (CLHIA's Director of Insurance Operations) served as a consultant to the Task Force.

Special thanks are extended to Mrs. Carole Barr, Supervisor, Word Processing Unit, Income Security Programs Branch, Department of National Health and Welfare, and her staff, for their commendable efforts in typing this text, and to the translation services, Department of National Health and Welfare.

---

*In most cases, references in this report to provincial governments refer to territorial governments as well.

I. INTRODUCTION

A BACKGROUND

This is the Second Report of the Joint Federal/Provincial Task Force on a Comprehensive Disability Protection Program. The Federal/Provincial Task Force was established by the Minister of Social Services in February 1982, as a direct response to increasing concerns about the needs of Canadians for disability income protection. These concerns were brought into sharp focus during 1981, the International Year of Disabled Persons. The Report of the Special Parliamentary Committee on the Disabled and Handicapped entitled "Obstacles", prepared during that International Year had recommended that among other things (i) the gradual establishment of a Comprehensive Disability Insurance program and (ii) the expansion of benefit protection under the Canada Pension Plan.

Accordingly, Ministers of Social Services established a joint federal-provincial study with a mandate to determine the feasibility of establishing and operating a national disability benefit program and equivalent alternatives. The Federal-Provincial Task Force reported back to Ministers in September 1983.

In this first report, the Task Force noted the following facts:

- about 1.9 million working-age Canadians have some degree of long term disability;
- about 12% of the total population are disabled to some extent;
- of the disabled between the ages of 15 and 64, a total of 18% are severely disabled;
- a significant portion of the disabled population is unable to work. Of those that are employable, a high percentage are unemployed. On average, former wage earners suffer a drastic drop in income in the event of severe disability;
- about 43% of the employed labour force is covered by a private LTD insurance program;
- the incidence of disability varies with age.

This first phase report identified two specific types of income protection needs. The first is for the replacement of some portion of the earnings that are lost when an earner becomes disabled. In the absence of adequate earnings-replacement protection, either through private insurance or public income protection programs, the disabled earner may suffer a drastic reduction in living standards and could become dependent upon publicly funded social assistance programs.

A second clearly identified need is that of income support to provide a minimum income sufficient to assure a basic living standard for non-earners. This "safety-net" program would provide protection for those severely disabled persons now on public social assistance programs (e.g., congenitally disabled persons) as well as those disabled low-income earners and those with limited attachments to the work force whose basic needs would not be met by an earnings-replacement scheme.

The report stated that it would not be realistic or advisable to attempt to meet the differing needs of all disabled persons in different circumstances through a single national plan. Rather, a system of programs, each designed to meet specific objectives, integrated and rationalized to provide comprehensive protection to all Canadians who are or will become disabled, was more reasonable.

Recognizing that restructuring the entire disability benefit system was beyond the scope of the study, the report focused on options for meeting income protection needs.

The report concluded that feasible options could be developed to address the needs for earnings-replacement protection and income support. Possible options were identified and it was indicated to Ministers that further detailed design modelling and costing could be undertaken. Subsequently, Ministers directed the federal-provincial Task Force to develop and cost various mechanisms for the provision of such protection.

This second phase of the Joint Federal/Provincial Task Force commenced in May, 1984, and was asked to report to Ministers by the end of 1985. The findings of this second study are contained in this report.

It should be emphasized from the outset that the models of earnings-replacement and income support programs in this report are illustrative in nature and do not necessarily reflect the consensus that they are the only, or the best ways of meeting the needs of disabled persons.

B APPROACH

At its first meeting held in May 1984, the Task Force agreed that the initial step in developing an income protection program was to outline the specific parameters of basic models. This would allow a reasonable degree of comparability once the alternative options were detailed and costed.

The next steps would be to design and cost the options and to analyze the alternative approaches in terms of adequacy, equity, cost and administrative implications. In order to optimize time and talent, the Task Force agreed to divide the developmental work and analysis among smaller sub-groups.

In the case of the earnings-replacement mechanisms, the Task Force was able to draw upon the expertise and cooperation of the insurance industry to design and cost the option modelled on current LTD insurance. It also solicited the expertise of the federal Department of Insurance and the Régie des Rentes du Québec to prepare cost estimates of the basic models.

Concurrently, a sub-group developed and analyzed options for providing income support. Cost estimates for these programs were prepared by the Data Development and Analysis Directorate, Income Security Programs Branch, Department of National Health and Welfare, using provincial/territorial program information as a primary data source.

In addition, two separate working groups were established to examine how rehabilitation and disability-related expenses should relate to income protection.

The models developed by the Task Force are not meant to be taken in isolation from the other elements and programs within the disability protection system. Further, they are models only, and can be modified to reflect the preferences of Ministers.

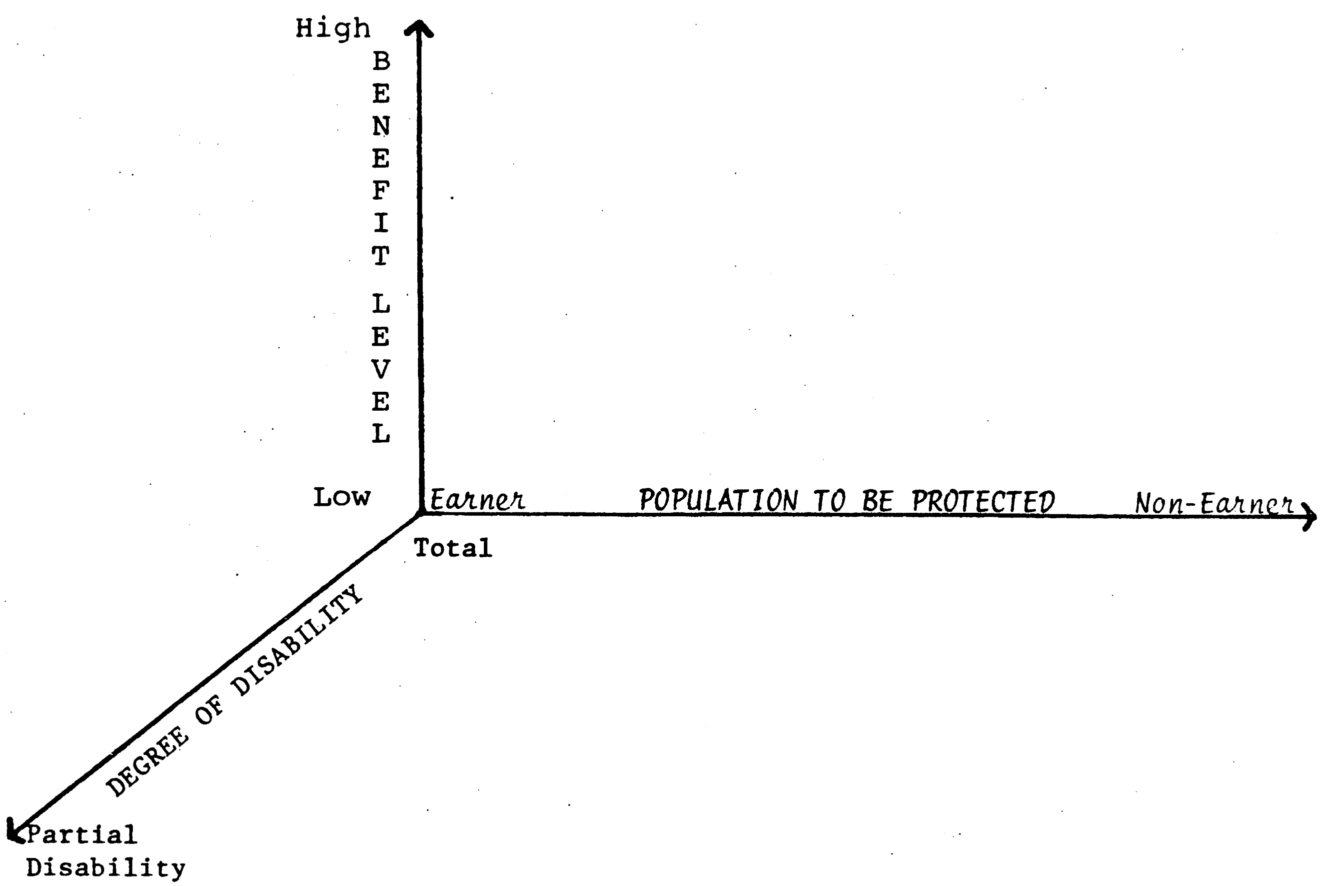
C <u>General Design Considerations</u>

As noted in the September 1983 report of the Task Force, the issues which dictate how comprehensive a disability income protection system is, fall along three dimensions:

1. the determination of the benefit levels for total disability;
2. the implications of varying degrees and types of disability; and
3. the population to be protected and under which contingencies.

These considerations can best be expressed graphically.

GENERAL DESIGN CONSIDERATIONS



THE DYNAMICS OF DESIGN CONSIDERATIONS BECOME MORE COMPLEX AS ONE MOVES ALONG MORE THAN ONE AXIS AT THE SAME TIME.

The centre of the diagram represents the simplest case - providing a low-benefit to a totally disabled earner. As one moves out along any of the axes, the issues become more complex. For example, any program which attempts to compensate for partial disability must address the very difficult problem of how to measure the decrease in a person's earnings potential. A further consideration is striking a balance between providing adequate benefits without creating a disincentive to return to work. Rehabilitation and provisions to meet disability-related expenses are also concerns.

All of these considerations - determination of the degree of disability, provision of appropriate benefit levels, rehabilitation and an ability to meet disability-related expenses, become even more complex if benefits are extended along the spectrum from full-time earners to non-earners.

II. EARNINGS REPLACEMENT OPTIONS

This section of the paper examines only one element within a comprehensive disability system - that being the options for mandatory earnings-replacement programs in the event of long-term disabling conditions. All models assume the continuence of existing arrangements for short-term conditions through leave, sickness, insurance, Unemployment Insurance, etc. These models are designed to integrate with, rather than replace, such arrangements. In designing and modelling specific earnings-replacement options, a major objective of the Task Force was to exemplify both the type of earnings-replacement model to be provided and the possible administrative mechanisms which could be used. The three models have been developed to serve as illustrations and it should be noted that aspects of one model can be altered to reflect aspects of another model.

The first model describes an insurance-type option with the variable premium rates up to a defined maximum level, characteristic of the current system of private LTD plans providing protection in the event of long-term disabling conditions. The second option is modelled on the current C/QPP to the extent that the amount of the benefit provided in the case of long-term severe disability would depend on the number and level of contributions made to the plan. The third option would extend protection to both full and partial long-term disabilities on a basis similar to that now used for compensation for on-the-job illness under many WC programs.

In the 'base case' models the Task Force used similar design features in order to allow comparison between the costs and other impacts of the various designs. Thus, all the base models are designed to replace 60% of pre-disability earnings up to the C/QPP ceiling* which is linked to the average wage and to provide a high degree of inflation protection. Similarly, efforts were made to ensure that differences in costing, resulting from different actuarial assumptions, were recalculated.

While specific base case models were chosen, it must be emphasized that a broad range of alternative program possibilities exist. There are, in fact, an infinite

* The C/QPP ceiling (YMPE) in 1985 is $23,400

number of variations and many of the choices are, to some extent, arbitrary. Nevertheless, it is hoped that the specific designs chosen will be helpful to Ministers in assessing the feasibility of entering into a mandatory earnings-replacement scheme. Design comparisons and alternatives are discussed in detail in Section IID.

It should be noted that for costing purposes, each of the three models described operates as an independent system, fully responsible for earnings replacement. That is, each assumes no offset of benefits are provided by the current C/QPP or by non-compulsory LTD programs.* However, all models do assume that the current WC system and other categorial programs would remain in place. This approach reflects the special and limited role of provincial programs such as WC and auto insurance, as discussed more fully in Section IID, subsection 9, p. 25. The Task Force assumed that these programs would remain in place and would continue to offset benefits from any of the earnings replacement options.

Two specific cautions must be observed concerning the projections. First, the definition of disability, and the incidence of disability benefits which would be expected in the administration of that definition, are the most difficult factors to assess in both costing and comparing program models. Current experience and data in Canada are limited to existing programs, all of which differ markedly from the modelled program. For example, the current C/QPP provide benefits at a relatively low level, which means that monetary incentives to leave work and claim benefits, and disincentives to return to work, are reduced. The existing LTD plans, while providing higher benefits using definitions of disability which are less restrictively written, have tended to cover larger employee groups, which would have a different risk than employees in smaller groups and self-employed persons who would be brought into a mandatory scheme. Experience with partial disability awards is largely confined to WC programs which cover only job-related conditions, of which only a small fraction would be illnesses of the type expected in a national on-and-off-the-job scheme.

*It should be noted that LTD modelling provided by the CLHIA was based on a previous model which contemplated a C/QPP offset. These costings have been adjusted for purposes of this paper.

Thus, any projections of the incidence of disability under the modelled plans must be regarded as an "educated guess". The C/QPP model was designed to reflect specifically the current program experience, without taking account of possible behavioral changes on the part of employers and employees and those administering claims which might occur if the benefit level were increased, or the potential costs/savings associated with rehabilitation efforts. In this case, they represent a 'minimum' expected cost. The LTD program model costs on the other hand, are based on experience with the higher-level benefits provided under the Old Age Survivors, Disability and Health Insurance program in the United States. The latter approach results in a higher overall cost. Projections made by the federal Department of Insurance indicate that if (despite its more restrictive definition) the C/QPP were assumed to have the same claims experience as used in the LTD model, costs would be about 10% higher in 1990 rising to about 20% higher in 2010 than those noted in this report. A larger difference results from the definition of earnings used in calculating benefits (see section D-4).

Second, the volatility of claims experience under disability programs is inherently not capturable by a modelling exercise. Experience in private insurance plans, as well as in public plans in Canada, the United States and elsewhere, indicates that factors such as economic conditions and unemployment levels can have a major impact on short-term experience. As well, given the partly subjective nature of disability, changes in attitude on the part of the public and of administrative authorities can have a very important effect on costs. All the model projections are inherently based on the assumption that relatively strong and effective control would be maintained over claims administration.

A. LONG TERM DISABILITY INSURANCE (LTD) - TYPE PROGRAM

PROGRAM DESCRIPTION

The design for this mandatory program closely parallels features common to existing voluntary private LTD programs. There is, however, stronger inflation protection in the model than private plans normally guarantee, and there are special administrative arrangements, particularly a pooling arrangement needed to ensure broad mandatory coverage at affordable rates. The design and costing of this model plan assume administration through the private insurance industry, although (as discussed later) similar benefits could be provided through a publicly-administered scheme.

(i) DESIGN CHARACTERISTICS

1. Coverage - This model would provide mandatory protection to all employed and self-employed persons on earnings up to the AIW ($23,900 in 1985). Protection would be provided to all persons satisfying the UI definition; that is, working at least 15 hours a week or earning $92 a week on a regular basis. For modelling purposes, the LTD option was based on the UI population which normally excludes the self-employed population. The figures were then adjusted to include self-employed persons. Further discussion on the inclusion of self-employed persons is given in Section D.

2. Entry and Exit - Coverage would begin immediately upon employment and would extend for 90 days after employment terminates or when a new job commences if earlier. However, the model was costed using the UI formula which requires employment for 20 of the last 52 weeks before benefits will be paid. Using this basis may have the effect of understating overall program costs. In the first year of employment, disability resulting from an illness/injury for which the individual received treatment within the past 90 days would not be covered. However, once that condition had been satisfied and the individual changed jobs, she/he would not have to satisfy a second waiting period.

3. Definition of Disability - Benefits would be provided to a person who, by reason of disability, is unable to perform the duties of any occupation for which the insured individual is reasonably qualified or may become qualified through training, education or experience. The process of disability determination would also assess rehabilitation potential.

4. <u>Benefit Level</u> - The benefit would be 60% of final insured earnings* - up to a ceiling or equal to the average wage.

5. <u>Indexation</u> - Benefits in the model would be indexed to the Consumer Price Index with an 8% annual maximum.

6. <u>Period of Payment</u> - Benefits would start 17 weeks after the onset of disability and would continue until the beneficiary dies, reaches age 65, or is rehabilitated.

7. <u>Vocational Rehabilitation</u> - Rehabilitation would be patterned on the individual assessment approach now used in private LTD plans. Under this model, insurers would have an explicit obligation to facilitate, where appropriate, the vocational rehabilitation of beneficiaries. Accordingly, a beneficiary who engages in any occupation or training as a rehabilitation program, under the supervision of a physician and with the approval of the insurer, would have his/her monthly benefits reduced to the extent necessary so Total Income From All Sources not exceed 100% of the Pre-disability Income of the insured employee. However, benefits would be increased to the full amount if the beneficiary was unable to continue because of total disability.

8. <u>Administration</u> - The program as modelled would be operated through the private sector. LTD coverage would be offered on a competitive basis by licensed accident and sickness insurers, writing a group insurance business. Employers could be permitted to

---

* Final insured earnings - a benefit formula where the earnings taken into account are those in the pay period (usually a year) immediately before the onset of disability.

operate self-insured* plans provided these met all standards. As at present, features of the plans would vary from one employer-employee group to the next, depending on specific needs and priorities.

However, in each case the minimum national standards must be met. The premium cost for protection would vary depending on projected risks, workplace conditions and claims experience.

Owing to the high risk associated with some groups (particularly small employee groups), a maximum premium and 'insurance pool' arrangement would be required. The pool, which would be intended to operate on a "break even" basis, would be governed by a management board made up of government, insurance industry, employer and employee representatives.

The pool would be established to guarantee coverage at no more than the maximum premium for high-risk employee groups who might otherwise have to pay high premiums or be refused coverage by insurers.** Any excess costs resulting from the need to fund the claims arising from these cases would be charged back to all other disability plans, whether insured or self-insured. The pool management would be responsible for setting the maximum premium rate, the

---

*Self-insured plans usually finance the cost of disability benefits on a pay-go basis rather than purchasing an insurance policy. Thus, the employer carries the insurance risk and the insurance company merely provides the administrative services. Because such arrangements are not classified as insurance, provincial premium taxes are avoided. A problem with such plans, if they establish no adequate reserves, is that the disabled person may lose all benefits if the employer goes out of business. Special provisions would have to be devised to avoid such risks if employers were to continue to operate self-insured plans as part of the compulsory LTD system.

**In the CLHIA costing provided, employee groups with more than 500 lives would remain outside the Pool. The Task Force does not necessarily agree with this limitation, which the Task Force anticipates would have a minor impact on costs.

rate of interest to be earned on investments, and the actuarial valuation basis for claims on "pooled" groups. It would also be responsible for establishing a claims and administration review committee which would decide on appeals. The pool management could also set guidelines for the provision of vocational rehabilitation to beneficiaries and for claims administration.

9. Financing/Funding - The plans would be financed on a fully funded basis through the payment of employer/ employee premiums. The level of premiums (up to the maximum) would be determined through the competitive process as is now the case with voluntary plans. Insurers would have strong profit incentives for maximizing investment returns and controlling administrative and claims costs. Self-insured plans, where they continued to exist, should have to make suitable arrangements to ensure that beneficiaries would not be financially at risk if the employer became bankrupt.

(ii) ANALYSIS

Using the description above, the following estimates would be projected for the LTD-type model option, subject to the cautions observed on pages 8 and 9.

1. Premium Cost - Although premiums would vary, the premium would be expected to be 1.89% of payroll in 1990. Assuming that the maximum premium for 'pooled' risks is set so that only the 10% of contributors with the highest risk belong to the pool, the maximum premium would amount to 3.78% of insured earnings in 1990.

2. Caseload/Administration - It is estimated that there would be in the order of 60,000 persons awarded benefits as a result of disabilities occurring in the first year, with the beneficiary population eventually rising to 319,000 assuming that Canada's population growth remains stable.

3. Program Interactions - As modelled, the program would cover the full C/QPP population and thus could replace the C/QPP disability benefits, thereby minimizing administrative duplication. However, the plans could be integrated with a continuing C/QPP as do existing private plans. Voluntary LTD plans which base their definition of disability on ability to perform "own occupation" for the first 24 months, would more than meet the definition under the national plan.

4. Overall Analysis - If administered by the private sector, the LTD-type plan could be seen as both offering the least disruption in existing systems and minimizing public sector involvement, while still assuring mandatory protection. The pooling arrangement is considered to be a potentially viable means of assuring protection to all persons at reasonable cost. The variable premium rate reduces cross-subsidization between industries and provides incentives for employers to participate actively in vocational rehabilitation. It would have to be accepted that the variable premium rate will result in some employee groups paying considerably higher premiums. There would be concerns, however, as to the uniformity of administration, particularly given the degree of discretion which always exists in determining who is, or is not, disabled. The pool management which would consist of business employee, employer and government representatives would be responsible for setting appropriate standards.

   In terms of design features, coverage would be immediate and available to new employees (also a feature of the Full and Partial program) and the variable premium rate would be an incentive to both employers and insurers to minimize disability claims and to undertake cost effective rehabilitation efforts.

   Administration costs on the LTD option are considerably higher than under the other two options. Its difference is partly due to the subsidies assumed in the public programs for administration costs (e.g., collection of premiums through the existing CPP contributory system), and partly due to allowances in the LTD model's assumed marketing and distribution cost.

B. CANADA/QUEBEC PENSION PLAN (C/QPP) - TYPE PROGRAM

PROGRAM DESCRIPTION

Under this option, two definitions were modelled: (i) a more liberal definition of disability than currently exists under the C/QPP and (ii) the existing QPP definition. Both models would be used to cover all employed and self-employed individuals. Benefit levels would be higher, and the long waiting period for effective coverage after starting employment, which now exists under the C/QPP, would be reduced.

(i) DESIGN CHARACTERISTICS

1. Coverage - The population covered would be the same as that under the existing C/QPP - virtually 100% of labour force participants - and applies to the same level of earnings. However, due to revised entry rules the effective date on which entrants are covered is earlier.

2. Entry and Exit Rules - Although employer/employee premiums would begin immediately, protection under the Plan would begin after two years of contributions. On the other hand, coverage would continue, for an extended period of time after the employee ceases to contribute - up to a maximum of 5 years.

3. Definition of Disability - For modelling purposes, two definitions were used. The first definition was a relaxed CPP definition such that the requirement that an illness/injury be prolonged was removed and the disabled person would be allowed to earn income up to 1/3 of the YMPE for the first two years following disablement.

   The second definition used in the modelling exercise was the current QPP definition. That definition, like the CPP, considers a person disabled if suffering from a severe and prolonged mental or physical disability and is incapable of regularly pursuing any substantially gainful employment. The disability must be long-continued and of indefinite duration, or likely to result in death. Such a definition restricts eligibility to the most severely disabled. However, unlike the CPP, benefits under the QPP are made available to a 60-64 year old who, for health reasons, is no longer capable of carrying out his/her own regular employment. For this age group the requirement that contributions to the Plan must be made in five (5) of the last ten (10) years would also be waived.

4. Benefit Level - The benefit would be 60% of the individuals best three of the last five years of earnings or the adjusted career average earnings, generally reflecting the proportion of the average wage earned each year. Unlike the C/QPP there would be no adjustment for years of low or zero earnings.

5. Indexation - Benefits would be subject to full CPI indexing with an 8% maximum.

6. Period of Payment - Benefits would begin 16 weeks* after the onset of disability and be paid to age 65, death or cessation of disability.

7. Vocational Rehabilitation - The current C/QPP have no effective vocational rehabilitation component. In the model plan based on the more liberal definition, it is considered to be both desirable and necessary to incorporate stronger and more effective rehabilitation efforts similar to the approach taken in the LTD model.

8. Administration - The program as modelled would have a centralized national administration as does the C/QPP. Provinces would have the option of administering a similar but autonomous plan.

9. Financing/Funding - The model assumes a uniform earnings-based premium rate shared equally by employer and employee. As with the other two models, the base plan uses a 'full cost' system. The full-cost rate is the amount required to fund liabilities of a mature system. This implies a larger government administered fund and higher initial premium than would result from a 'partly-funded' or 'pay-as-you-go' approach. Fund investment returns in the model are assumed to be the same as projected for the CPP Investment Fund.

---

*Under UI rules, used in the other models, benefits would begin 17 weeks after the onset of disability while under the existing C/QPP, benefits begin to be paid after 16 weeks; the one week difference has no effect on overall program cost.

(ii) ANALYSIS

Using this model, the following estimates can be made, subject to the cautions observed on pages 8 and 9.

1. Premium Cost - Using the liberalized definition of disability, the full-funding cost would be about \$4.5 billion in 1990, with a premium rate of 1.53% rising to 1.98% in 2010. This figure is roughly comparable to the average premium rate resulting from the LTD model. The premium cost to employers would be offset by reductions in existing C/QPP and, in some cases, LTD premiums.

   Using the current QPP definition of disability, the full-funding cost in 1990 is projected by the federal Department of Insurance at approximately \$3.2 billion with a premium rate of 1.11% rising to 1.43% in 2010.

   For this option, a further set of costings has been prepared by the Actuaries for the Régie des Rentes. Using single premium funding and the current definition of disability, the premium cost is estimated at 1.14% in 1990 rising to 1.72% in 2010; with the liberalized definition, the cost would be 1.39% in 1990 rising to 2.45% in 2010.

   One of the reasons for the slight variance between the two costing exercises is that the CPP costings are based on Canada wide statistics while the Régie costing is based only on the Quebec experience.

2. Caseload/Administration - It is estimated that, using the liberalized definition, there would be approximately 60,000 persons awarded benefits as a result of disabilities occurring in the first year that benefits are payable.

3. Program Interactions - This program would be expected to absorb the existing C/QPP disability provisions except for C/QPP benefits already in pay. Continuity of protection for current C/QPP contributors would have to be provided. Existing private LTD plans would be largely displaced, with potential impacts on the cost and viability of other employee benefit plans.

4. Overall Analysis - The publicly-administered model could provide uniformity in disability determination if centrally administered. At the same time, there would be concerns about the ability to resist pressure to broaden the interpretation of disability over time. Currently no rehabilitation component exists under the CPP. Central administration of a single national plan may affect the type of possible rehabilitation programs which could be established. Coordination with existing rehabilitation programs would be required. Neither the start-up costs nor the effects on costs over time have been modelled.

The career average approach could result in benefits which are sometimes higher and sometimes lower than the final earnings approach. For example, fluctuations in earnings prior to disability, caused by unemployment or underemployment would be avoided. Conversely, it could mean a smaller benefit in cases where earnings just prior to disability were considerably higher than the career average. It is estimated that on average, the benefits would be 30 to 35% lower than they would if a final earnings approach were used as in the other two models. The fact that the drop-out provisions inherent to the C/QPP were not included in the modelling exercise makes the difference even greater.

In terms of other design features, the entry and exit rules differ markedly from those of the other two models. That is, the entry rules into the CPP type program do not provide immediate coverage upon employment. Conversely, the exit rules under the CPP-type program extend coverage for a period of up to five years after employment ceases, compared with 90 days under the LTD program.

The percentage premium rate charged to employer/employees under this model is uniform. Thus, there is a greater subsidy from the low risk individual and employer to the higher risk groups. As well, claims costs and rehabilitation efforts would not impact directly on premium rates.

C. FULL AND PARTIAL DISABILITY-TYPE PROGRAM

Under this option, earners would be protected in the event of both full and partial disability of a long-term nature. Although there are a number of methods which could be used to determine partial disability, the Task Force chose an option which would provide pro-rated benefits based on an individual's loss of earnings capacity.

(i) DESIGN CHARACTERISTICS

1. Coverage - The modelled program would provide mandatory protection to all employed and self-employed persons on earnings up to the average wage. In other words, the population protected would be virtually identical to that of the C/QPP, as would the earnings ceiling.

2. Entry and Exit - Coverage would begin immediately upon employment and would extend for 90 days after employment terminates. Disability resulting from an illness/injury for which the individual received treatment within the past year would not be covered in the first year of employment. Special rules would be required to assure continuous coverage for persons changing jobs.

3. Definition of Disability - The costing provided for this model is based on the experience resulting from past WC claims for conditions which would most closely match those expected in the new program. These would be more related to illnesses than accidental causes. Some programs define disability in accordance with a "rating schedule" reflecting the degree of physical impairment which exists, rather than the real or potential loss of earnings. Recently, some WC Boards have adopted a disability definition which is based on the estimated percentage loss of the individual's earning capacity. In the view of the Task Force, such an approach (although more difficult to administer) would be more appropriate than a "rating schedule" in a national scheme. While costing estimates on an "earnings capacity" basis were not available, this definition would likely reduce the number of persons considered partially disabled; nevertheless, such a definition of disability would be expected to result in a larger number of eligible beneficiaries than the other two options (which would provide partial benefits only in the context of a rehabilitation effort).

4. Benefits Level - The full benefit for a totally disabled person would be 60% of final insured earnings up to the earnings ceiling. For partially disabled persons, the benefit would be 60% of the earner's wage loss. For example, a person with final insured earnings of $20,000 and a 40% disability would receive 60% (40 wage loss x $20,000), or $4,800 annually.

5. Indexation - Benefits would be indexed by the full CPI increase with a maximum of 8% annually.

6. Period of Payment - Benefits would start 17 weeks after the onset of disability and continue to recovery, death or age 65. Periodic examination would be required to determine continuing entitlement, particularly in partial benefit cases.

7. Vocational Rehabilitation - The program would have a strong commitment to rehabilitation. The program would require the authority to take such measures and make such expenditures as it may deem necessary or expedient in getting beneficiaries back to work. [In fact, the feasibility of this type of program depends on the existence of efficient and effective rehabilitation procedures and equitable and effective administration.] The program must have the capacity to determine the extent to which a beneficiary could engage in any occupation and to provide training.

8. Administration - The program is assumed to be established as a network of provincial/territorial plans, each of which meets the minimum national standards. However, for modelling purposes, central administration was assumed.

9. Financing/Funding - The program would be financed through employer/employee premiums. Premiums would be a percentage of insured earnings shared equally between employer and employee. Rates would be uniform within a province but might vary from province to province. Funding would be on a 'full cost' basis. This implies the build-up of government-administered funds.

(ii) ANALYSIS

On the basis of the above description, the following results would be projected:

1. Premium Cost - While data sources on which to base a costing are limited, estimates prepared by the federal Department of Insurance indicate that a

program using a "rating schedule" approach rather than the earning capacity approach could potentially require an employer-employee contribution varying from 4 to 6% of earnings in the initial years. While costs could be lower if an "earnings capacity" definition of disability were used, the approach has inherently higher costs than the other two models. In view of the above, and in light of the relatively high program costs experienced in those European countries using "full and partial" benefit schemes, it is the view of the Task Force that much more study would be required before governments could be assured that an affordable and controllable program based on full and partial benefits could be instituted.

2. <u>Caseload/Administration</u> - While the exact caseload number would depend on the definition chosen, it is clear that, in comparison with the other two models, a higher caseload and administration structure would be implied. The administration burden would be of particular concern if individual assessments of earnings capacity were required in each case.

3. <u>Program Interactions</u> - This program would offset benefits from any other legislated disability program. Moreover, it would completely eliminate the need for C/QPP benefits for disabilities occurring after the start-up date, and would largely displace private LTD plans, leaving room only for some 'top-up' plans (e.g., to protect pre-disability earnings above the public program ceiling). As discussed in more detail later, this could affect the cost/viability of other private employee benefit plans. Although this program could theoretically be administered by the current provincial WC administrations, it would have to remain separate in structure.

4. <u>Overall Analysis</u>: Because of the limitations of data on partial disability income programs, the numbers quoted above must be viewed with caution. However, the Task Force concludes that programs of this type are inherently more costly than options which protect only for severe disability. As well, the Task Force has serious concerns about the difficulties that would be faced in establishing adequate and equitable administration, given the wide range of physical and mental conditions which could be used to justify a partial benefit claim. For example, an administrative body would have to determine when an earner is rehabilitated or perhaps underemployed. Further, the loss of earning capacity becomes more difficult to measure over a lengthy period of time, even though the loss of wages may have been evident at the commencement of a disability.

D. DESIGN COMPARISONS AND ALTERNATIVES

While the three design models above give valuable insight into potential program design choices, and their impacts on cost and effectiveness, it is clear that many other possible options could have been designed. In fact, a considerable number of program design features were considered. A direct comparison of the features of the three models may give a better understanding of the range of possible alternatives and impacts.

1. Coverage - It may be noted that all three options cover virtually the entire paid labour force. In fact, the Task Force could find no compelling reason why a mandatory disability plan should not cover all employed persons (except possibly some very marginal groups such as the very lowest paid casual workers). However, there are special concerns about the coverage of self-employed persons. Inherently, it is more difficult to define numbers of this group and to determine the appropriate level of the income replacement on an ongoing basis than it is for employees. The C/QPP provide protection to this group on the basis of career-average earnings. In fact, if there were no mandatory protection for the self-employed under the new program, this could be seen as an argument in favour of retaining the existing C/QPP to avoid leaving the self-employed with less coverage than they now receive.

2. Entry and Exit - Two of the models are based on immediate coverage, that is, when employment begins; termination of coverage would cease 90 days after employment ends. The C/QPP type model shows that entry and exit from coverage can be much more gradual. Under the C/QPP type model, coverage does not begin until the second year after employment begins although it is extended for up to five years after employment ceases.

3. Definition of Disability - The Full and Partial Model illustrates a very broad approach to the definition which determines eligibility while both the LTD and C/QPP options use a much narrower approach. There could be many other approaches, such as a definition based on a minimum 50% loss of

earning capacity. Experience under existing public programs in both Canada and the United States has demonstrated that even a strict definition can, in practice, be broadened in its application. Thus, it was apparent to the Task Force that the definition of disability, and the way it is administered, can have a profound impact on costs.

4. Benefit Level - All models provide 60% replacement on earnings up to a ceiling based on the average wage. However, there are major differences between models in the calculation of the level of earnings on which the benefits are based. Benefits in the LTD and "full or partial" models are both based on final earnings while the C/QPP type model uses an adjusted career average. The latter results in benefits which are estimated to be between 30 and 35% lower. This in turn implies that the actual drop in income upon disability will be significantly greater in the C/QPP model. It is recognized, as well, that the capacity to absorb reduction in income varies with income, location and family size. Those with low pre-disability earnings could face serious problems even with a 60% or higher replacement rate; however, contributors with earnings in excess of the AIW would have an effective replacement rate of less than 60%. Two other factors which could materially affect the adequacy and cost of benefits are the tax status (are benefits to be taxable or not?) and provisions for retirement (will part of the benefit be diverted for compulsory retirement savings?) These issues are discussed more fully in Part E - "Common Issues".

5. Indexing - All models preserve a high degree of inflation protection. Currently this is more common to public than to private sector plans. Reduced inflation protection tends to lower costs. However, it also tends to bring the adequacy of benefits into question, particularly for the small minority of younger disabled workers who may receive benefits for many years. It was the consensus among Task Force members that inflation protection is a highly desirable program feature.

6. Vocational Rehabilitation - All options modelled were predicated on a vigorous vocational rehabilitation effort. This can be viewed as an "all win" feature which aids beneficiaries while reducing program costs. Further, in models where the employer is experience rated (e.g., the LTD-type model), there is an implicit incentive to support an active

rehabilitation program. Because rehabilitation is a critically time-related effort, it would be necessary to co-ordinate rehabilitation efforts between the long-term system and the spectrum of programs which provide for immediate short-term sickness coverage, in order to assure that the rehabilitation process began as early as possible.

Administration - The options tend to illustrate protection which is 'all public' or 'all private'. It would also be possible to deliver the protection through a mixture of public and private vehicles. For example, the coverage and benefits of the LTD-type model could be provided by crown corporations or public agencies in some provinces/ territories, and by private insurance carriers in others. Depending on the provinces involved, this could have a major impact on the viability of the 'pooling' system and costs and premium rates would vary from province to province if there were separate programs. Mechanisms would have to be developed to ensure that coverage was uniform across the country. The issue of jurisdictional responsibility would have to be explored further.

8. Financing/Funding - All options are assumed to be self-financing through employer/employee contributions. The Task Force considered this as the only appropriate means of financing a program whose benefits rise in proportion to earnings. This is essential in an LTD-type model administered by the private sector.

The public sector options could be designed to operate on a 'pay-go' basis, allowing a more gradual build-up to full benefits without the creation of a significant fund. However, within a few years, the 'pay-go' premium rate would have to match, or even exceed, the rates given in the models. Based on pay-go funding, using the current QPP definition of disability, the premium rate in 1990, would be about .74%. Using the liberalized definition of disability, the premium rate in 1990, would be about 1.29%. By the year 2010, however, it is projected that the pay-go cost using the more strict QPP definition would have a premium rate of about 1.64%, while the liberalized definition would have a premium rate of about 2.34%.

9. <u>Program Interaction</u> - It has been assumed that the existing system of provincial WC programs would remain, and that any new program would wrap around and offset WC benefits. WC would remain first payer with benefits being offset by the income-replacement program. It can be argued that the cost of industrial injury should be a cost of doing business, so that WC should generally be seen as a 'first payer' in disability protection. The QPP was amended in 1985 to reflect this approach. Even aside from this argument, the fact remains that for on-the-job injury, WC provides higher benefits than suggested by the basic models, and in a broader range of circumstances (e.g., short-term and partial disabilities) and would have only a small overlap with the illustrated options. However, it is a fact that a number of WCB's have been moving toward a second payer approach with respect to C/QPP benefits. If this practice of offsetting were to increase, and were followed with an enriched mandatory program, there would be a slight decrease to the overall cost of WC programs.

If the existing C/QPP were to disappear and the C/QPP type program were introduced, the entry and exit rules of the new plan could reduce protection for a small percentage of the population who may have otherwise qualified under the existing C/QPP. If the C/QPP were to remain in place and a new program stacked on top, there would be a duplication of administration and furthermore, unless definitions of disability were parallel, there would be added confusion and complexity. However, the direct premium cost of the new plan would be reduced because it would take advantage of the benefits provided by the existing public programs. On the other hand, if existing C/QPP disability benefits were to disappear, there would be a reduction in the long-term costs of the C/QPP. Any enriched publicly administered plan would, in all likelihood, not only displace private LTD and could affect the distribution of overhead cost to other elements of the employee compensation package.

E. COMMON ISSUES

1. Provision for Retirement

Currently, programs providing coverage for off-the-job injury or illness provide benefits only to age 65 at the latest. A key problem, however, is that a person receiving a disability pension is not in the same position to make retirement savings, participate in company pensions, etc. after becoming disabled, and thus could suffer a serious drop in living standards at 65. Some employers currently deal with this situation by maintaining the disabled person in the company pension plan until normal retirement age; however, in many other cases, even with good LTD insurance, there is no such provision.

A straightforward solution to this problem would be to include a compulsory retirement savings feature into the disability benefit. If this were implemented, there would be two main choices involving a trade-off between cost and adequacy.

(i) The benefit could be reduced by the amount of the savings. For example, a 60% benefit would actually be a 55% benefit with 5% set aside for pension savings. There would be no extra cost but reduced current income.

(ii) The benefit could be kept constant, and the savings 'stacked' onto the benefit. For example, a 60% benefit could have an additional 5% of earnings placed in a locked-in RRSP. This would maintain current income for the beneficiary but increase premium costs.

2. Provision of Benefits to Dependents

For purposes of this modelling exercise, no benefits for dependents were included. Rather, provision of benefits for dependents were considered a matter which could be incorporated into the broader context of income protection extended through income support programs.

3. Tax Status

The current tax system impacts unevenly on benefit providers, employers, payers, contributors and disability benefit beneficiaries.

For example, the C/QPP benefit is a taxable benefit while WC benefits are not. This implies that if WC benefits replace a fixed percentage of gross earnings, the net after tax replacement rate rises as pre-disability income increases. This effect is a matter of concern to provincial WC administrations. The tax status of private LTD benefits depends on whether or not the premium is paid by the employer or employee, or is shared. Additionally, private insurance companies pay a provincial premium tax on each policy they sell. This tax is not uniform between jurisdictions.

Regardless of the option chosen, governments will have to decide the tax status of disability benefits and to ensure that premiums and benefits are compatible with other elements of the disability income system.

The decision will directly impact on federal and provincial revenues as well as on benefit adequacy. As an example, Table I below illustrates the estimated tax values associated with the premiums and benefits under the C/QPP model.

TABLE 1

IMPACT ON TAX REVENUES OF THE C/QPP MODEL
(in millions of dollars)

	Contributions Collected*		Foregone Tax Revenues Due to Deductibility of Contributions		Benefit Payments*		Taxes Collected Due to Taxability of Benefits	
Year	Current CPP	Proposed CPP Model	Impact on Tax**Revenues Federal	Impact on Tax**Revenues Provincial	Current CPP	Proposed CPP Model	Impact on Tax***Revenues Federal	Net Impact of benefits and contributions on Tax Revenues Federal
1987	705	3,369	(533)	(267)	705	873	17	(516)
1988	765	3,585	(564)	(282)	765	1,368	60	(504)
1989	825	3,756	(586)	(293)	825	1,831	101	(485)
1990	884	3,971	(617)	(309)	884	2,266	138	(479)
1995	1,238	5,679	(888)	(444)	1,238	4,422	318	(570)
2000	1,744	8,235	(1,298)	(649)	1,744	6,992	525	(773)
2005	2,560	11,947	(1,877)	(939)	2,560	10,931	837	(1,040)
2010	3,689	16,615	(2,585)	(1,293)	3,689	16,282	1,259	(1,326)
2015	4,991	22,216	(3,445)	(1,723)	4,991	22,548	1,756	(1,689)
2020	6,553	28,444	(4,378)	(2,189)	6,553	30,176	2,362	(2,016)
2030	9,684	43,617	(6,787)	(3,394)	9,684	37,851	2,817	(3,970)
2050	28,403	132,110	(20,741)	(10,371)	28,403	44,926	1,652	(19,089)

*Based on CPP Actuarial Runs numbers 1600, 1803 and 1819. Contributions collected refer only to the disability portion of CPP. The contributions are based on single minimum financing.

**Assumes a federal marginal tax rate of 20% and provincial taxes at 50% of federal taxes.

***Assumes 10% marginal tax rate.

( ) Indicates a negative number

Table II shows the impact on effective after-tax replacement rates of the tax treatment of benefits. The table assumes the person will qualify for the revised disability tax deduction.

TABLE 2

C/QPP MODEL - INCOME REPLACEMENT RATES
1985

Gross Pre-Disability Income Level* $	Net Pre-Disability Income Level $	Benefit Amount $	Net Replacement Rate** %
5,000	4,760	3,000	63.0
10,000	8,700	6,000	69.0
15,000	12,160	9,000	74.0
20,000	15,580	12,000	77.0
25,000	18,970	14,040	74.0
30,000	21,940	14,040	64.0
35,000	25,070	14,040	56.0
40,000	28,080	14,040	50.0
50,000	34,240	14,040	41.0

* Adjusted career average

** Assumes that benefits are not taxable and therefore gross and net benefits are the same. Net pre-disability income is income minus federal and Ontario tax (assumes no claims for dependents), C/QPP and UI deductions.

A final determination as to the tax status was not considered crucial to the design efforts of the Task Force. It must be presumed that, once any final decision on the tax treatment was made, benefit levels and premium rates could be adjusted if necessary.

Income Replacement Models
Design Comparisons

	Long-term Disability Type Model	C/QPP Type Model	Full & Partial Benefit Type Model
Distinct Features	- private sector administration - experience rated - variable premiums - pooling arrangement for smaller high risk groups	- public sector central administration - coverage based on best three of the last five years or on an adjusted career average (other models based on final earnings)	- public sector - provincial-administration - provides most comprehensive protection to partially disabled earners
Coverage	- UI basis (except self-employed have been included)	- C/QPP population	- C/QPP population
Entry/Exit	- immediate coverage - coverage extends for 90 days after employment ceases	- up to 2 year waiting period - coverage extends for up to 5 years	- immediate coverage - coverage extends for 90 days after employment ceases
Definition	- ability to perform any occupation	(i) relaxed CPP (ii) current QPP disability definition	- ratings schedule for partial disability was modelled; loss of earnings capacity would be a preferable method of determining degree of disability
Rehabilitation	- system partially in place but not uniformly administered.	- since no rehabilitation system is in place under existing C/QPP, a new system would have to be developed - start-up costs have not been modelled	- no comparable rehabilitation system in place for off-the-job partial disablement - start-up costs not modelled
Premium Cost	1.89% in 1990 (average premium) 2.22% in 2010	(i) liberal 1.53% in 1990 1.98% in 2010 cost - $4.5B in 1990 (ii) QPP - 1.11% in 1990 1.43% in 2010 cost - $3.2B in 1990	over 6% in 1990 over 8% in 2010 cost $16.0B - 1990 $67.0B - 2010
Caseload/ Administration	- in the order of 60,000 persons awarded benefits as a result of disabilities occurring in the first year, eventually rising to 319,000 - coverage provided on competitive basis by insurers - minimum national standards requiring intergovernmental co-ordination - pool governed by a management board	- in the order of 60,000 persons awarded benefits as a result of disabilities occurring in the first year that benefits are payable, using the liberal definition. - central administration (provinces having option to administer similar plan)	- provincial administration
Finance/ Funding	- fully-funded - variable premiums shared equally between employer/ee	- fully funded - uniform premium shared equally between employer/ee	- fully-funded uniform premium rate shared equally between employer/ee; rates could vary by province

Income Replacement Models
Design Comparisons

	Long-term Disability Type Model	C/QPP Type Model	Full & Partial Benefit Type Model
Overall Analysis	- using UI basis could reduce complexity and confusion for both administrators and claimants - pooling will be limited to employee groups who meet the rules - co-ordinated effort required on part of governments to establish national pooling system - if publicly administered, the premium structure, claims experience, financing and treatment of reserves would differ from those assumed under a private system	- could affect private LTD system - protection for current C/QPP contributors required - central administration would ensure uniformity of claims administration - no rehabilitation component exists; rehabilitation efforts would have to be coordinated at a regional level	- could affect private LTD system and costs of other elements of employee compensation plans - data on this type of plan is limited; much more elaborate effort required to give assurance of an affordable and controllable program. - administration of claims very complex - no comparable administrative structure exists, except for provincial WC programs

- introduction of any of these models would result in cost savings to provincial social assistance programs
- the incidence of disability is volatile and tends to fluctuate, especially in tho short term. This could affect program costs including premium rates in any one of these models.

III. INCOME SUPPORT OPTIONS

Income support options are intended to provide income to meet basic needs to all those who either do not qualify for or do not receive an adequate basic income protection from income replacement program(s). Beneficiaries would be severely disabled persons, including the congenitally handicapped. Benefits would be targetted to low-income persons and would be funded from general revenues.

In considering program options which elevate general income support levels for disabled persons, it is important to recognize the intended effects, the possible justifications for higher income support vis-à-vis other vulnerable groups in society, and the possible alternatives to direct income enrichments. A key issue here is the special expenses associated with disablement, and the capacity of government programs to deal effectively with those costs. More specifically, a principle argument favouring higher income support is that disabled persons as a whole face a variety of daily expenses which are not experienced by low-income persons in general; such expenses could include the cost of greater dependency on convenience shopping, wear and tear on clothing and furniture, increased transportation costs, etc. It is assumed that these needs would be difficult to meet through individual specific benefits, and that by providing a higher base income to cover non-specific expenses, government can then target programs to the specific major expense items faced by a minority of disabled persons - e.g., home modifications, institutional and attendant care, wheelchairs, prosthesis, etc. This approach implies higher income program costs and lower special expense program costs.

It should not be presumed that this is the only argument favouring higher income support for disabled persons. Other potential arguments include the social isolation of the disabled, the absence of work incentive/disincentive concerns related to higher benefit levels, and the general recognition of the disabled as a "deserving" group. These arguments, however, are not necessarily unique to the low-income disabled persons since similar assertions could be made concerning single parent mothers, persons in disadvantaged regions, etc.

A counter argument to this approach would be that disabled persons cannot be assumed to have different basic costs than other low-income persons. Accordingly, the most fair and efficient way of providing assistance would be to limit additional benefits to the costs identified and budgetted through individual assessment. This second approach implies lower general income benefits, but potentially a more elaborate administration and higher costs for disability-related expense programs.

In conducting the modelling exercise on income support programs, the Task Force did not seek to reach a conclusion on the relative merits of these approaches, both of which are evident in existing provincial program structures and policy statements. It is sufficient for this exercise to note the major trade-off that is implied between providing a higher basic income and providing benefits for specific needs; this issue is addressed in Section IV.

Although vocational rehabilitation would be an inherent element as in the income replacement options, such provisions have not been included in the modelling exercise. It has been assumed that in cases where vocational rehabilitation is relevant, the income support program would rely on other parts of the disability protection system to provide these services.

The Task Force also considered the feasibility of an OAS type benefit payable to all disabled persons regardless of their income level. However, the inherent cost of such a program is so much higher than that of other models considered here that the Task Force agreed it would not proceed to model this approach within this report.

The Task Force made a further assumption that benefits modelled would be provided only to those between the ages of 18 and 65. The provision of benefits for persons under 18 would be presumed to be met through programs directed to the family or children, while persons over age 65 would be provided for through the system of benefits provided to the elderly. The latter assumption would become questionable were income guarantees for disabled persons to be increased to a level <u>exceeding</u> current guarantees for the elderly.

Three program design options are presented. In each case, the benefits are non-taxable and full indexing is assumed. One of the options designed and costed is income-tested. The other two are needs-tested. The first option offers an income guarantee for disabled persons equal to that currently assured the aged. The second option would provide higher benefit levels than currently paid to disabled persons through the current provincial/territorial social assistance programs. The third program option would provide a uniform income benefit to those disabled persons already eligible for social assistance.

The cost and expected caseload estimates are based on data provided by provincial and territorial social assistance administrations. Because of the structuring of these programs and the variations in data analysis capabilities, the data in this report are very limited and estimates drawn from it are intended to give a general reference level only.

A. INCOME-TESTED PROGRAM

PROGRAM DESCRIPTION

This program would provide disabled persons with an income guarantee equal to that guaranteed the elderly through the OAS/GIS program. Benefits would be subject to an income test and there would be no minimum benefit. (Assets would not be considered.) Maximum benefits for single persons with no dependents would be equal to OAS plus GIS at the single rate. Persons with a dependent spouse and/or dependent children would receive benefits equal to OAS plus GIS at the married rate. An equivalent amount would be paid for the first dependent (spouse or child). $100 per month would be paid for each additional family dependent.

what would be receive by two married pensioners, that is, 2(OAS + GIS); the first dependent would receive an equivalent amount, while each additional family dependent would receive $100 per month.

Provinces may wish to "top-up" these benefits as they do OAS/GIS to account for regional differences in living costs. However, such costs have not been considered in this report.

(i) DESIGN CHARACTERISTICS

1. Definition of Disability - Individuals suffering a severe and prolonged disability would be eligible.

2. Benefit Level - The monthly rates would parallel those currently paid under the OAS/GIS program:

   2(OAS/GIS married rate): $981.00 (April 85)
   OAS/GIS single rate: $605.00
   an additional $100 would be paid for the third and subsequent members of the family unit.

   All disability-related income such as C/QPP, WC and LTD benefits would be taxed back at 100%. The maximum monthly family benefits would be reduced by $1 for every $2 of other family income, including earned income.

3. Administration/Funding - This program could be federally funded and operated. The income tax system would be used to verify the amount of income. The determination of disability could be administered by the staff of National Health and

Welfare, who already administer the disability determination under the CPP. Alternatively, the program could be provincially administered. If such were the case, a greater proportion of federal funding than is currently possible under the Canada Assistance Plan could be considered.

(ii) ANALYSIS

On the basis of the above description, the following results would be projected:

1. Cost - It has been estimated that this type of program could cost about $800 million annually in 1985, over and above the estimated $1.1 billion that is currently spent by the provincial, territorial and federal governments on social assistance costs for disabled persons. For modelling purposes, the CPP definition of disability was used.

2. Caseload/Administration - This program could have a significantly greater caseload than current programs, given its lower tax-back rate, lack of asset testing and its generally higher income guarantees. While the initial caseload is projected at about 227,000 beneficiaries, this number would be reduced in time if a complementary earnings replacement program providing significant benefit levels were in place.

3. Program Interactions: This program would provide a minimum income guarantee for all severely disabled persons and their dependents. It would remove virtually all severely disabled persons and their dependents from the current social assistance caseload, reducing the cost and caseloads of these programs to a major degree. Special provisions would have to be made so that continued eligibility for those various special services and benefits considered necessary, such as drugs etc., would be assured. Some changes to cost-sharing arrangements between levels of government might be necessary.

4. Overall Analysis

In addition to providing a significantly higher benefit and providing a higher income guarantee, individuals would not have to liquidate assets (e.g. a cottage which is not considered a primary residence). Also, because the reduction rate on family income is 50%, the financial incentives to enter or return to the workforce are greater than they would be under existing social assistance programs.

On the negative side, the design raises the greatest concerns about costs, alterations of political and fiscal roles of governments, impacts on remaining social assistance caseloads, effects on federal/provincial/municipal program staff levels etc.

This program model gives the widest assurance of uniform, adequate, income support for the low-income disabled on a nationwide basis. The income-tested program would involve a major restructuring of the income support system for the disabled. The restructuring would be most visible if the program were federally administered but results could be similar if a uniform system of provincial/territorial programs were to provide the modelled benefits.

B. ENRICHED SOCIAL ASSISTANCE

Program Description

This program would provide disabled persons on social assistance with a basic income guarantee at least equivalent to the OAS/GIS rate; the amount would be based on family size with eligibility determined by a needs test. The benefit rate would be increased in accordance with the Consumer Price Index. The existing provision providing additional benefits to cover disability-related expenses through social assistance could be retained. Thus, disabled persons would be in a distinct category with higher benefit rates but would continue to be part of the total social assistance caseload.

(i) DESIGN CONSIDERATIONS

1. Definition of Disability - The C/QPP definition was used for modelling purposes. It is assumed that, in practice, this same definition would be used.

2. Benefit Level - Under this model, a needs-tested benefit is paid in accordance with a minimum annual income scale for disabled persons. The maximum benefit would be set by each province/territory. Allowable exemption levels for earnings could be higher than those allowed to other social assistance recipients and could vary by province. It is assumed that all other family income would be deducted at 100%.

3. Administration/Funding - The program, including the determination of disability, would be provincially administered. Enhanced federal cost-sharing provisions, e.g. 75-25% sharing, would likely be necessary to assist provinces in meeting the cost of the enhancements. (There is a precedent for this in the Disabled Persons Program, a cost-sharing arrangement which preceded the Canada Assistance Plan.)

(ii) ANALYSIS

1. Cost - The enriched social assistance program, if cost-shared on a 75% - 25% basis would cost the

federal government somewhere in the order of $490 million and a further $160 million for the provincial/territorial governments.

2. Caseload/Administration - All persons who meet both the definition of disability and needs requirements would qualify for benefits. Approximately 225,000 recipients would receive enhanced benefits under this option. As well, there is a potential for a caseload increase in view of the higher guarantees.

3. Program Interaction - This program would be administered as part of the regular social assistance program. As a result, disabled persons could be perceived as a privileged group within social assistance programs. This could lead to greater demands for improved benefits by other disadvantaged groups such as single parents. The higher income guarantees under this option would tend to increase the number of persons, including the elderly, eligible not only for social assistance, but also for the various special benefits and allowances for individual needs now provided by provinces. In some cases provinces might reconsider the appropriateness of such special benefits and allowances in light of the higher direct income benefits.

4. Overall Analysis - Of the three options modelled, the enriched social assistance model is the only one which would have to be delivered entirely by the provincial/territorial governments, with the federal role limited to cost-sharing. Accordingly, some lack of uniformity, e.g., administration of disability determination, would be inevitable. The program would require some program restructuring - since it would involve the creation of a uniform income guarantee, a requirement for all provinces to identify and provide special income benefits to disabled persons, and a departure from the current 50-50 cost-sharing arrangements under the Canada Assistance Plan. The overall result would be that disabled persons would receive a substantial increase which would reflect more closely the level of benefit provided to the elderly. However, the benefit guarantee would in some cases be much more generous than provincial guarantees for other groups such as single mothers. At the same time, disabled persons would continue to receive less generous treatment than the elderly in terms of income and asset tests, although their minimum income guarantees would be comparable.

C. SOCIAL ASSISTANCE TOP-UP PROGRAM

Program Description

This option would improve the income level of severely disabled persons receiving social assistance. The benefit would be a flat-rate monthly benefit added to the regular provincial social assistance that disabled persons would normally receive. Persons not qualifying for social assistance for any reason, would not qualify for the top-up.

(i) DESIGN CHARACTERISTICS

1. Definition of Disability - As in the other options, the C/QPP definition was used for modelling purposes. It is assumed that in practice, this definition could be used in each of the provinces/ territories.

2. Benefit Level - For analytical purposes, the level of the top-up was set at $175.00 per month per person, (which is equivalent to the flat-rate allowance for disabled persons and senior citizens under the Canada Assistance Plan), although other amounts could be considered.

3. Administration/Funding - For modelling purposes, it has been assumed that the top-up would be federally funded and administered. Determination of eligibility could be at either the federal or provincial/territorial level. Alternatively, the program could be cost shared with the provinces and/or provincially administered.

(ii) ANALYSIS

1. Cost - If the top-up were $175 per person per month total annual program expenditures are estimated to be in the order of $475 million in 1986. Including institutionalized disabled persons would add an additional $50 million to program costs.

2. Caseload/Administration - All persons who meet the definition of disability and qualify for social assistance benefits would be eligible for the top-up. Currently, about 225,000 non-institutionalized social assistance recipients would qualify. If the benefit were extended to long-term institutionalized disabled persons, a further 25,000 individuals would qualify.

3. Program Interactions - Such a benefit would have to be harmonized with current social assistance programs so that disabled persons would benefit to the fullest extent. The need for meeting certain disability-related expenses such as special diets, etc. on an individual basis might no longer be necessary. Freed up provincial funds could then be redirected toward providing for larger disability-related expenses.

   If such a program were adopted, one of the design issues would be whether to provide a benefit to institutionalized persons. The benefit could not simply be 'passed-on' directly to institutionalized persons, because this would put them in an advantaged position relative to both non-institutionalized disabled persons and persons in institutions not receiving social assistance, including the elderly.

   The introduction of a top-up type of benefit would involve both policy and administrative changes for some provinces. For example, some provinces already provide more generous benefits to low-income disabled persons than to the general assistance caseload and an appropriate integration of these programs would have to be assured. Other provinces do not differentiate between disabled and non-disabled caseloads and would have to develop mechanisms to ensure that potentially eligible persons would be identified to determine if they qualify. As well, current cost sharing provisions would have to be modified to allow provinces to pass on the benefit.

4. Overall Analysis - Of the three options modelled, the top-up approach could be regarded as the least disruptive of the provincial/territorial programs. That is, if it were possible for all provinces to pass on the top-up benefit to disabled persons by not considering the benefit as part of income, there would be no change in provincial benefit caseloads or programs.

   This option is also the most potentially responsive to fiscal restrictions since the dollar amount could be fixed at any specified amount. For example, if the $175 amount were reduced to $50 a month, the cost would be $150 million. At the same time, the limitations of such an approach must be clearly understood. For example, there would be no account

taken of family circumstances or conditions of individual disabilities in providing the top-up (although such factors would influence basic social assistance eligibility). As well, persons just failing to qualify for social assistance would also lose the top-up. In practice, it would be technically feasible to devise a mechanism to avoid this problem. It would, however, increase the potential caseload and the costing has not been incorporated into this modelling exercise.
Provincial/territorial administration of the determination of disability could raise questions of uniformity and could cause administrative problems for those provinces which do not differentiate disabled persons from other social assistance cases.
There would be no uniform income guarantee for disabled persons; rather the guarantees for low-income disabled persons would continue to reflect the wide differences in social assistance guarantees from province to province. However, if the definition of disability were to be determined federally but the administration remained a provincial/territorial responsibility, confusion and administrative complexities could lead to program inefficiencies.

D. DESIGN COMPARISONS AND ALTERNATIVES

All the income support models described in this report are targetted to low-income disabled persons. A flat-rate benefit along the lines of the OAS program was described in the previous report of the Task Force. However, such a program would be extremely costly if it were to provide significant benefit levels. Furthermore, unless the amount of the demogrant were set very high, a need would continue to exist for other programs of income support.

1. Definition of Disability - For modelling purposes, all provincial/territorial authorities were asked to use the CPP definition of severe and prolonged disability. In practice, however, this definition, based on capacity for gainful employment, could be difficult to administer to a non-earner population. Some combination of this definition with a definition based on capacity for activities of daily living, such as proposed for the new income tax disability deduction, would likely be preferable. The differences in these definitions, although administratively important, would not be expected to significantly alter the cost estimates provided in this report.

2. Benefit Level - In the income-tested program and enriched social assistance options, an attempt is made to define a uniform income support level for totally disabled individuals. In the second option, the "top-up" program, the income support level would vary by province/territory but would be greater than the general social assistance benefit and as high as the income guarantee for the aged in each province.

   A further benchmark has been that the basic income needs of disabled persons can be assumed to be at least equal to those of the aged. If the guarantee for disabled persons were to exceed that provided to the elderly as may be the case with the top-up benefit, disabled persons would suffer a drop in income at age 65. Alternatively, the guarantee to disabled aged persons would have to be raised to the level of those younger than age 65; this could mean a significant cost increase to the disability program.

3. <u>Administration/Funding</u> - The option chosen may involve a shift in responsibility between levels of government. However, unless an elaborate administration were put in place, the federal government could not administer an asset-tested program. An income-tested program could be federally administered as could a top-up benefit to provincial social assistance. The top-up program would be more complex to administer since harmonization with existing provincial programs would be required. The enriched social assistance model would require some modification to a system which is already considered to have a very complex administration.

   All options imply additional federal funding. Even though some provinces already have higher income guarantees for disabled persons, not all provinces are in a position to put higher guarantees in place without additional federal support.

4. <u>Program Interactions</u> - All federally administered options imply close cooperation with provincial/territorial social assistance administrations. The income-tested benefit would have to harmonize with provincial/territorial social assistance programs in order to assure that disability related expenses are met. On the other hand, the asset-tested social assistance options are highly adaptable to meeting individual needs. Further, the design parameters of an income replacement program for disabled persons will have an impact on any income support program in terms of cost and caseload.

   The benefits provided by this program must be seen as providing for basic needs only. In addition to improved benefit levels, disability-related expenses must be appropriately recognized on an individual basis. The Task Force concluded that in order to be equitable, the benefit level in all three options would be based on family income. If only individual income were considered, the result would be that some persons in high income families could receive larger benefits than many low-income persons.

IV. REHABILITATION AND DISABILITY-RELATED EXPENSES

(I) Rehabilitation

The Task Force accepts, in principle, the United Nations definition of disability which defines rehabilitation as "a goal-oriented and time-limited process aimed at enabling an impaired person to reach an optimal mental, physical and/or social functional level, thus providing her or him with the tools to change her or his own life."

Specifically, rehabilitation can be viewed as comprising three major types, each overlapping with the other and, of necessity, not clearly distinct. These types include medical, psycho/social and vocational rehabilitation. Under the existing system of programs, not all levels of rehabilitation services are equally accessible to all individuals. The C/QPP, for example, provides no rehabilitation services whatsoever, while provincial WC programs attempt to address all rehabilitation needs.

The Task Force is of the opinion that rehabilitation is an integral component of a disability protection system. It is considered desirable because of its direct impact on lowering benefit costs while at the same time improving the quality of life for beneficiaries. Within the context of this study, however, only vocational rehabilitation was considered, the objective being generally to enable a person to secure, retain and advance in suitable employment. This does not mean that medical and social rehabilitation are unrelated to an income replacement system. To the contrary, in many cases both medical and vocational rehabilitation measures are necessary to achieve social adjustment.

Within the context of the Task Force Study it was realized that the nature of an appropriate vocational rehabilitation process would be influenced by the design parameters of the income protection models. That is, factors such as the definition of disability, the income replacement ratio, the availability of ongoing income supplementation, etc., will determine the degree of rehabilitation potential. Therefore, once an income model has been decided upon, fundamental decisions would be required as to what extent a particular mechanism should design and undertake its own rehabilitation program as opposed to purchasing such services from governments or elsewhere.

For example, through a designated percentage of pooled monies it may be feasible to finance a vocational rehabilitation function, much the same way as it was done in the United States until the early 1980's. Under that system, the cost of rehabilitating beneficiaries was covered by a trust fund of up to 1.5% of the total amount of disability benefits paid in the previous year. However, individual rehabilitation programs were operated throughout the country at the state level.

These are specific design features which can only be addressed once specific income program designs have been chosen. It should be noted that no attempt has been made to assess the cost savings to government programs. Given the importance of a major restructuring of the disability income protection system and its impact on the current system, it would be advisable to establish a separate study to design a comprehensive and complementary rehabilitation system.

(II) Disability-Related Expenses

The Task Force agreed that the issues related to disability-related expenses merited analysis. A working group of the Task Force established that in the current system, there is no consistent, common perspective or philosophy in the manner in which expenses are defined, that is, those disability-related expenses and services which go beyond the time limited rehabilitation process.

The Task Force accepts that disability-related expenses are a reality, relating to ongoing needs and must be addressed. They are the equalizing factors which enable the disabled individual to live independently in the community after rehabilitation. More specifically disability-related expenses may relate to goods or services including money to purchase particular goods and services depending on the individual's unique needs. Currently, these needs are addressed through more than one system. All disabled Canadians, including those persons not in receipt of income replacement or income support benefits, have disability-related expenses. Therefore, there are a number of ways in which these varied expenses can be costed including ways independent of income protection and support programs. One possible alternative would be to compare the treatment of disabled persons to that of the elderly with respect to both income needs and other special needs. The larger base benefit provided to elderly persons in need through the federal OAS/GIS program, is expected to cover the cost of many of their less obvious special needs (i.e., higher transportation costs). In doing so, the provinces have been able to develop specific higher cost programs tailored to specific circumstances (i.e., homemaking services). It is feasible that disability-related expenses for disabled persons could be approached in the same manner.

Alternatively, an income protection program may wish to provide for disability-related expenses on an itemized basis. This type of approach would guarantee disabled persons receiving income support a base benefit equal to others in need and less than the amount currently guaranteed to the elderly. However, all disability-related expenses would be costed and provided separately and independent to the income benefit. Further, the benefit guaranteed through an income replacement program would not reflect disability-related expenses. Rather, these amounts would be costed separately, and not necessarily through the income protection program. Whichever approach might be agreed to, the cost savings to an income-protection program could be significant.

Accordingly, disability-related expenses are considered to be deserving of their own broader study. An exploration of current and proposed delivery systems, as well as a determination of the level and extent to which services and benefits ought to be provided, is required as soon as possible. However, such a study need not delay Ministers in taking decisions now to improve the income protection system. In fact, decisions taken on the income protection system, may help to focus other specific studies on both disability-related expenses and rehabilitation.

V. CONCLUSIONS

The Task Force focussed its analysis on options for meeting the income protection needs of disabled persons. These were seen to fall into two categories. One is for the replacement of a major portion of earnings lost when an earner becomes disabled; the second is the provision of a level of income support sufficient to assure a basic living standard for those disabled persons whose basic income needs would not be met by an earnings-replacement program. A summary of the program design and cost consideration relating to each of these follows.

A. Earnings Replacement Options

1. It would be technically possible to institute a mandatory program for long-term, severely disabling conditions. Such a program could replace a significant percentage of pre-disability earnings (e.g., 60%), up to the average wage with a strong degree of protection against inflation. Depending on the detailed mechanism chosen, the projected combined (average) employer-employee premium cost would be in the order of 1.1 to 2% of insured payroll. This cost does not take into account the cost of programs which could become redundant, or the premium reduction if the new program were "stacked" upon existing programs (in the C/QPP).

2. A mandatory long-term disability income program, if operated through the private sector, would basically enlarge the current system of voluntary private long-term disability insurance plans. It could, in theory, replace the existing C/QPP benefits (rather than "stacking" upon them). However, in this case there would be concern about loss of coverage for some persons if mandatory protection were not required for self-employed persons.

3. If provided through a public plan, an income replacement program could provide much higher benefits to those who currently have C/QPP coverage. The program could entirely replace the current C/QPP disability benefits, and would be expected to lead to the virtual elimination of most existing private disability insurance programs. This could also adversely affect the viability of other employee benefit plans delivered through the insurance industry.

4. A critical factor, potentially affecting program cost, administration, and feasibility in general, is the degree of protection afforded in cases of partial disability. In particular, while there is limited data available on which to base a firm analysis, actuarial evaluation of the "full and partial benefit" option, which provides partial benefits for partially disabling conditions, indicates a much higher potential cost and caseload than the other options.

5. An income replacement program need not displace the current system of Workers' Compensation programs. Rather, Workers' Compensation should be seen as a 'first payer' in disability protection. It should be noted that Workers' Compensation provides higher benefits than suggested by the basic models, and in a broader range of circumstances (e.g., short-term and partial disabilities) and would have only a small overlap with the illustrated options. Accordingly, for design modelling purposes, it was assumed that the Workers' Compensation programs would not be affected by the introduction of a new mandatory scheme.

B. Income Support Options

1. The income support options modelled in this paper would all result in better general income protection (in terms of guarantee levels and/or strictness of tests) for low-income disabled persons than for other low-income persons under age 65. Thus, the institution of such programs would reflect a policy decision that such approach is justifiable in light

of the "special circumstances" of disabled persons. An alternate approach would be to provide no extra income and attempt to meet the extra needs of the disabled beneficiary through the provision of comprehensive benefits-in-kind (e.g., clothing, prosthesis, drug programs, etc.). The Task Force did not seek to draw a final conclusion as to the relative merits of these approaches, both of which are evident in current provincial systems.

2. For all the design models the Task Force agreed that extra income benefits would be targetted to those disabled persons whose impairment is severe enough to virtually preclude them from supporting themselves through regular employment.

3. The most extensive restructuring of income support for disabled persons which was modelled would involve the introduction of a guaranteed income program (or system of programs) for the disabled, similar to current income-tested benefits for the elderly. Such a scheme would add approximately $800 million to the estimated $1 billion of public money now expended on income support for disabled persons. Key design concerns here relate to the size of the beneficiary population, the integration of this program with existing disability-related expense benefits, and the potential continuing dependence on social assistance for families with a disabled family member.

4. Less restructuring is implied by options which either provide higher social assistance benefits to disabled persons or a "top-up" to existing social assistance. The approaches modelled here would add from approximately $150 million to $525 million to existing program costs. Design concerns with these approaches relate to the probable disparities in levels of income protection and in approach to determination of disability which would be implied by delivery through the social assistance systems of 10 provincial and 2 territorial administrations. There was also concern regarding the potential administrative burden to those social assistance systems which do not at present distinguish disabled persons from other recipients.

C. Program Interactions

While definitive figures could not be produced, the Task Force finds that the implementation of mandatory earnings-replacement schemes for the severely disabled would have a direct impact on social assistance costs. Savings would occur in the first year of the new earnings-replacement program and would build up to a considerably higher level within 5 to 10 years as the program matured. For example, it is conservatively estimated that a fully mature C/QPP model (using the QPP disability definition), if it were in place in 1987, would reduce social assistance costs by about $85 million. These savings would be proportionately higher with the enhanced income support options discussed in this report. These savings could be redirected to help meet the cost of providing one of the enriched income support options described in B.

D. Rehabilitation and Disability-Related Expenses

1. The Task Force finds that certain forms of rehabilitation - specifically those related to vocational rehabilitation - could and should be built into any mandatory earnings-replacement scheme as a means of both controlling program costs and maximizing the well-being of beneficiaries. An investigation should be made as to the feasibility of dedicating a percentage (e.g. 1½%) of benefits paid out in the previous year in order to finance this provision. However, this should be understood to represent only a small part of potential efforts to maximize the potential of the disabled person to function both as an individual and as a member of society in all areas of life.

2. The existence of earnings-related and income support programs for disabled persons would not eliminate the need for the continuance of programs to meet the disability related expenses, of individual disabled persons, which in some cases exceed their direct income needs.