**How and When to Pay? Income Assistance (or Basic Income) as a System of Financial Transactions and Services**

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## Abstract

In this paper, we consider how the provincial Income Assistance (IA) program works as a financial system to pay benefits and provide some guidance on financial matters to clients. In addition to important questions about who qualifies for support and how adequate the support is, we argue that how and when clients receive their income payments is also critically important, particularly if imagining a change to current systems in a transition to a basic income. We draw on administrative data from the province of British Columbia to look at lump-sum adjustments to benefit amounts, friction in transactions, and volatility in monthly income benefit amounts. We also draw on information from the United Kingdom's experience in consolidating several benefits into the single Universal Credit program, again with a focus on how and when benefits are paid as determinants of the financial well-being of beneficiaries.

## Introduction

Social assistance programs such as British Columbia's Income Assistance (IA) are, in addition to social welfare programs, financial systems serving individuals. Like employer payroll or banking systems, IA systems involve thousands of transactions to credit and debit money to individual clients. Basic benefits for support and additional supplements are issued in multiple transactions, usually once per month, but sometimes more frequently. Each transaction must be logged and accounted for by program officials, but beneficiaries are also expected to track and report other income or resources that might impact benefit amounts. Case workers in IA have several and overlapping roles and responsibilities, including initiating or cancelling some transactions, notifying beneficiaries of changes to a future transaction, and providing guidance to beneficiaries on their finances within the program as well as finding other income and resources to improve their well-being. Seen from this perspective, as a system of financial transactions and financial services (including financial guidance), we can also begin to consider the role of individual as well as institutional factors in shaping how beneficiaries navigate and make use of social assistance programs like IA, and how clients might behave when faced with significant changes to the nature and mechanisms of payments they receive, as is imagined in any basic income design.

In this paper, we focus on IA as a system of financial transactions and ask whether patterns in these transactions are impairing or encouraging greater stability and well-being for clients. In Robson and Shaban (2020) we discuss individual differences in financial knowledge and financial behaviours, as well as access to free (and non-governmental) financial advice and financial problem-solving services to understand the individual and human services aspects that should inform basic income debates.

## Making Choices About Money When You Have Very Little of It

Public policy designs can shape the financial choices and decision-making of low-income households. The directions of the changes, and the preferences of low-income persons themselves may not, however, conform to expected economic models. The literature suggests that, separate from the value or level of the income support, when and how it is paid can exert a strong influence over low-income households' financial choices and decision-making.

For example, research by Richardson et al. (2019) have found that the timing of social assistance payments can significantly change drug-use behaviours and the incidence of violent and drug-related crime. Because drug activity is often a group or semi-social action, a standard model would expect that when communities of drug users all increase their available income at the same time, drug consumption and harm should increase, and that staggering payments to make available income more diffuse should lead to lower drug-related harm. Richardson et al.

found that drug use was less likely to surge around payment dates of government assistance when payments in the community were spread across the month, instead of all arriving on the same date. But the researchers also found that staggering payment dates actually increased some forms of violent crime and drug-related harms, contrary to the intent of the study.

Other research finds that uncertainty over the timing of income can alter the ways that low-income households manage their finances. For example, longitudinal and in-depth tracking of U.S. households by Murdoch and Schneider (2017) suggests that lower- and modest-income households, when they face swings or uncertainty in their monthly income, will tend to prioritize immediate financial pressures even when doing so raises overall long-run costs. This finding is supported by some early experimental research by Peetz and Robson (2019, 2020) that finds income volatility can reduce willingness to save and encourage workers to prefer immediate payment, even at lower amounts.

Rules that prohibit some forms of normal financial practices, like saving, might be intended to limit program eligibility, but they can also have perhaps unintended effects on financial decision-making among low-income households. Pirog et al. (2017), for example, study the interstate variation in the asset limits needed to qualify to receive certain U.S. welfare programs, Temporary Assistance for Needy Families (TANF) and the Supplemental Nutritional Assistance Program (SNAP). They find that states that relaxed or even eliminated asset limits in both programs saw no increase in the likelihood of program participation by low-income households in the very short term (one month) or medium term (one year). They also found some evidence that looser asset limits actually lowered the chances of re-entry into the program for past users. While they found no detectable effect in SNAP, the researchers did find that relaxed asset limits in TANF were associated with a five percentage point increase in the likelihood that program-eligible households had a deposit account and a USD$7,000 increase in mean net household net worth, but no discernable impact on the value of specific household assets, suggesting quite a bit of heterogeneity in the specific choice of assets low-income households might chose to invest in.

The research above suggests that institutional factors, namely the design and delivery of income benefits, can affect individual and household behaviours, quite apart from the effects of the level of support itself. Furthermore, low-income households may have preferences that differ in important ways from what might be expected using standard models of rational economic behaviour. For example, a robust body of research has demonstrated that, in contrast to life-cycle models, lower-income households are more likely to prefer shorter-term or utilitarian savings goals such as saving for large purchases of goods and services that could not be afforded out of income flows (Barr, 2012; Karlan et al., 2014; Leckie et al., 2010; Murdoch & Schneider, 2017; Nam et al., 2014; Robson, 2013; Sherraden, 2005). Research by Anderson et al. (2010) finds that low-income households do not seem to respond to competitive markets for utilities by changing providers to obtain a better price, but instead adjust their consumption of an essential good like home heating to try to align their spending with a notional budget for various household needs. Low-income households may prioritize a sense of control over expenses, even if it means higher total costs. For example, low-income families seem to be uncomfortable signing up for savings plans that demand regular, contractual obligations (Robson, 2016) and will choose paper billing over pre-authorized payments for regular bills, even if it leads to overall increase in the monthly expenses (Davies et al., 2016). These apparent preferences are likely a response to experiences of persistent financial strain and scarcity (Mullainathan & Shafir, 2013) and not necessarily due to lack of literacy or numeracy on financial topics. In another paper in this collection (Robson & Shaban, 2021), we examine evidence on the financial literacy and financial capability (financial behaviours and confidence) of adults relying on social assistance.

Given a tension between designing social programs that are very simple and designing those that are targeted, effective, and efficient, there is likely some irreducible level of complexity in social assistance systems, even under a basic income design. There are, however, choices in program design that can increase or decrease the likelihood of unintended negative effects on the financial management practices of the target population.

## The Current Study

In this paper, we ask:

- As a system of financial transactions, what are the ways in which the current IA program may be promoting or deterring financial capability among program users?
- In the context of thinking about program amendments or replacement with a basic income design, are there lessons to be learned from the experience of the United Kingdom's universal credit program—specifically, how the implementation of simplified and consolidated financial benefits might impact the financial management practices of clients?

The universal credit program has consolidated several in-work and out-of-work benefits into a single monthly income-tested benefit. We construct a brief case study of the program to better understand the effects for households when governments move toward something more like a basic income, with all of the attendant changes to systems for paying cash benefits.

Information on the United Kingdom's Universal Credit was gathered from peer-reviewed articles, official government reports, and program information published online on official government websites. To the best of our knowledge, the information in this paper is current to January 2020.

In considering the current design and administration of IA, we focus on three key features where the literature suggests institutional factors can have particular effects on the financial behaviours and confidence of individuals:

- **Sporadic lump-sum payments and deductions, including the occurrence of both to the same benefit recipient:** Like other social assistance systems, B.C.'s IA program includes benefits that may be paid in cases of hardship, crisis, or emergency, in addition to regular basic support amounts. On the one hand, this design provides for flexibility in trying to target assistance as needed. On the other hand, the crisis payments make clear that IA recipients do not have sufficient resources to handle unexpected expenses. Similarly, reductions in benefits paid (referred to as "recaptured funds") may leave households struggling even more to make ends meet. If household who receive hardship payments (payable for short periods when regular benefits have not yet begun or have been suspended), also face periodic deductions from benefits in another period (whether for a benefit repayment or for non-exempt other forms of income), then the program design may be creating more complexity and financial challenges for beneficiaries. Some research suggests that this type of benefit payment and reduction can have negative effects on beneficiaries' ability to meet ongoing expenses (Millar & Bennett, 2017). In short, clawing-back benefits (for repayment or other income) at one point in time may be increasing the likelihood that beneficiaries will need short-term emergency help at some other time.
- **Ongoing volatility in the amount of benefits received from one month to the next:** While social assistance programs aim to respond in close to real time to changes in the circumstances of beneficiaries (for example, reducing benefits when other income exceeds exempt amounts), these adjustments might result in income benefits that are hard to predict from one month to the next. Research suggests that income volatility is associated with more missed bill payments (Farrell & Greig, 2015; TD Bank Group, 2017), poorer educational performance of children (Gennetian, Wolf, Hill, & Morris, 2015), poorer mental health (Prause et al., 2009), and deficits in both financial literacy and financial capability (Peetz & Robson, 2019).
- **Complexity and friction in the system of payments that will increase the level of difficulty for a beneficiary to keep track of their resources and increase transaction costs:** B.C. has strongly, and largely successfully, encouraged IA recipients to open deposit accounts and receive benefits as direct transfers. This reduces administrative and client-side costs associated with paper cheques (such as costs to travel to cash a cheque or extraordinary fees charged by fringe cheque-cashing outlets). It also serves to increase basic financial inclusion, which can enhance the financial well-being of low-income clients.

We draw on administrative records of the IA program, accessed through a secure remote access system and reviewed, prior to release, by officials with Population Data BC. We conducted analysis on both household-level and transaction-level data for the program years

2006 to 2017. We restrict our analysis of beneficiary households to those with at least three months of benefit income during a given calendar year to ensure some minimal attachment to the program in that year.[1] The final sample includes households receiving a wide range of benefits and status designations, and includes persons living with disabilities as well as those with employment participation requirements.[2] We also draw heavily on the policy manual of the IA program (Ministry of Social Development and Poverty Reduction, 2020) to provide greater context to the trends we see in the administrative data. We use the term "benefit unit" to describe a small group of people, often members of a family living together, who are all part of a single application to IA and collectively receive benefits. Benefit units can have one single member. We use the terms "beneficiary" or "client" to describe any one individual person in a benefit unit who is receiving income through IA.

We look at a series of indicators to understand how the system may be working to enhance, or conversely diminish, the financial capability of beneficiaries. Financial capability is informed by the broader capabilities framework advanced by Sen (1999). In the context of personal finances, we draw heavily on the model developed by Kempson et al. (2005) that conceives of financial capability in terms of multiple dimensions of personal financial management and where confidence in one's own ability to perform a task is as important as the behaviour itself. In this paper, we focus particularly on ability to make ends meet, to track money coming in and expenses due, and to be able to plan ahead for known and unexpected costs. Our focus is not on whether a given financial practice might be normatively good or bad, but instead on how IA itself, as a system of financial transactions, might make it easier or harder for IA clients to feel confident and complete certain financial practices that are, according to the model from Kempson et al. (2005), nearly universal among adults, even if their exact form may differ by context and according to the available financial resources. To be clear, our view is that IA clients ought to be able to have agency in handling their personal finances, but we do not presume that this agency should result in particular financial practices or outcomes.

The basis of payments, again separate from the amount of income support paid, might result in additional complexity and unpredictability for low-income households, increasing the difficulty of making financial choices. We caution that this analysis is descriptive and, while it is informed by the extant theory and literature on financial capability and financial behaviours of

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[1] This restriction on the sample was not applied to certain analyses of transactions, such as the frequency of payments to third parties instead of to benefit units directly. We excluded benefit units that had a "medical services only" designation, a subpopulation of former support recipients who continue to receive supplemental health benefits for a period of time. Also excluded are those households for which certain demographic information (gender or age of the household head) was missing.

[2] While the IA program distinguishes between persons with and without disabilities in several features of program design, including benefit levels, we were unable to identify a reliable way to differentiate clients by disability status in the administrative data. Readers should understand our results to include both persons with and without disabilities.

low-income households, we are not able to model causal relationships. However, we note that the results in both of our papers are internally consistent and complementary to other papers in this collection and that they provide some directional evidence for future policy design.

## Results

In this section, we consider how the current Income Assistance (IA) system works in British Columbia as a system of financial transactions for low-income beneficiaries in the province.

### Making Ends Meet on IA: How Does IA Handle Lump-Sum Costs and Gains?

Like all other provincial social assistance programs, B.C.'s IA program will adjust benefit amounts in response to one or more changes in the circumstances of the benefit unit. Such changes, according to the IA manual (Ministry of Social Development and Poverty Reduction, 2020),[3] include changes (even temporary) in the composition of the household, assets received and disposed of in excess of the applicable exemption, non-exempt income received, including income of other household members, employment participation requirements, and more. Beneficiaries are required to report such changes on a monthly basis. On one hand, this approach is intended to provide as close as possible to a real-time adjustment in benefits paid. On the other hand, for those beneficiaries who comply with the reporting requirement, changes in their circumstance can often mean that benefit cheques are suddenly reduced.

In addition to sudden decreases in benefit cheques, IA recipients may also experience sudden lump-sum expenses that they cannot afford out of their monthly benefit cheques alone. In some such cases, the IA system allows for one-time payments of crisis supplements on top of regular monthly support. According to the program manual (Ministry of Social Development and Poverty Reduction, 2020), these may be issued for essential needs only, such as paying a heating bill that has fallen into arrears and where the utility may be disconnected, sudden relocation or repair costs caused by a local emergency, or repairs to a home appliance needed for cooking.[4] Such exceptional payments for hardship can be temporarily issued but are repayable against future benefits as recaptured funds.[5] The practice of recapturing funds assumes that beneficiaries

[3] See also form HR0081-1, Monthly Report.

[4] The policy manual also cautions that case workers should monitor for a pattern of reliance on crisis supplements, which may result in taking control over the monthly budget and spending for the beneficiary unit.

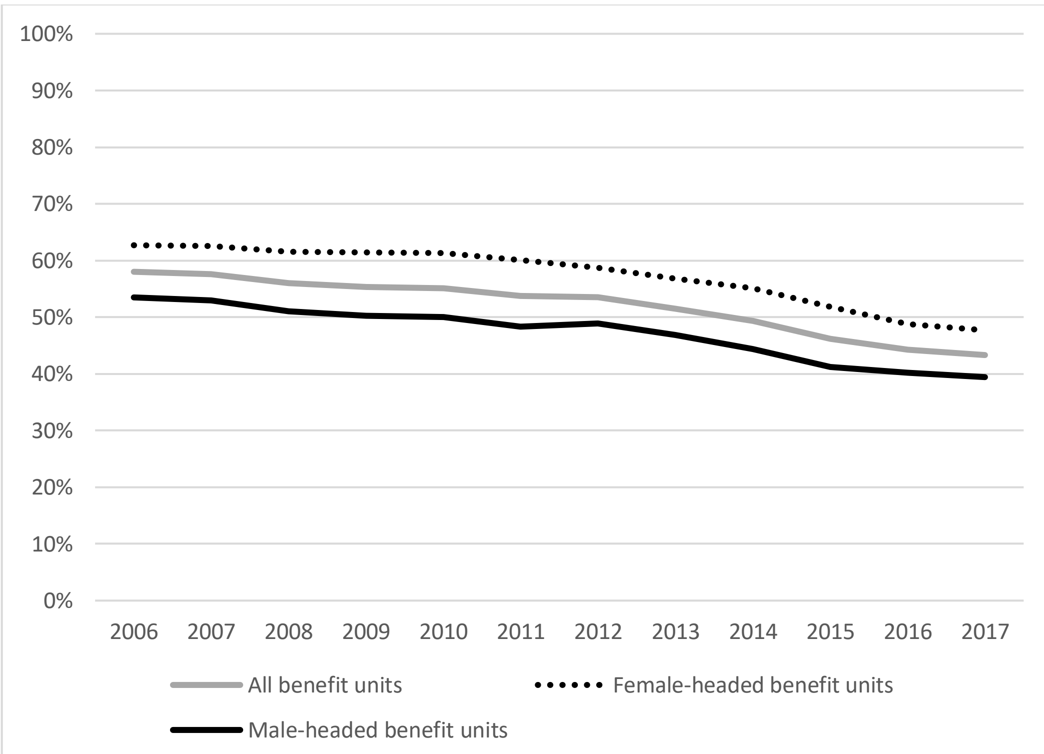
[5] We do note that the IA manual requires that case workers make best efforts to inform beneficiaries of changes to their payment amounts before a cheque is issued. However, if this information comes after a beneficiary has already spent down an asset or lump-sum income, it won't assist the household in making ends meet on a smaller IA cheque until regular benefit levels resume. We also note that case workers are, according to the policy manual, expected to confirm that beneficiaries understand information and can independently complete program forms. However, the guidance on comprehension appears to focus on linguistic barriers rather than literacy, numeracy, or financial knowledge as obstacles.

can and will make use of other resources to meet their needs until usual benefit levels are restored. This may be an overly strong policy assumption by government when applied to benefit units who are receiving, at the maximum, between 44% and 72% of Canada's poverty line (Tweddle & Aldridge, 2019).

In Figure 1, we illustrate the share of benefit units who experience any recapture of funds. We report the overall frequency as well as, separately, the shares of benefit units headed by men and women. While the frequency of funds recapture has declined a little since 2006, 40% of households on IA experience benefit recapture at least once in the year. This frequency is also higher among female-headed households (by 8% over male-headed households in 2017).[6]

**Figure 1**

*Share of All Benefit Units With Recaptured Funds*



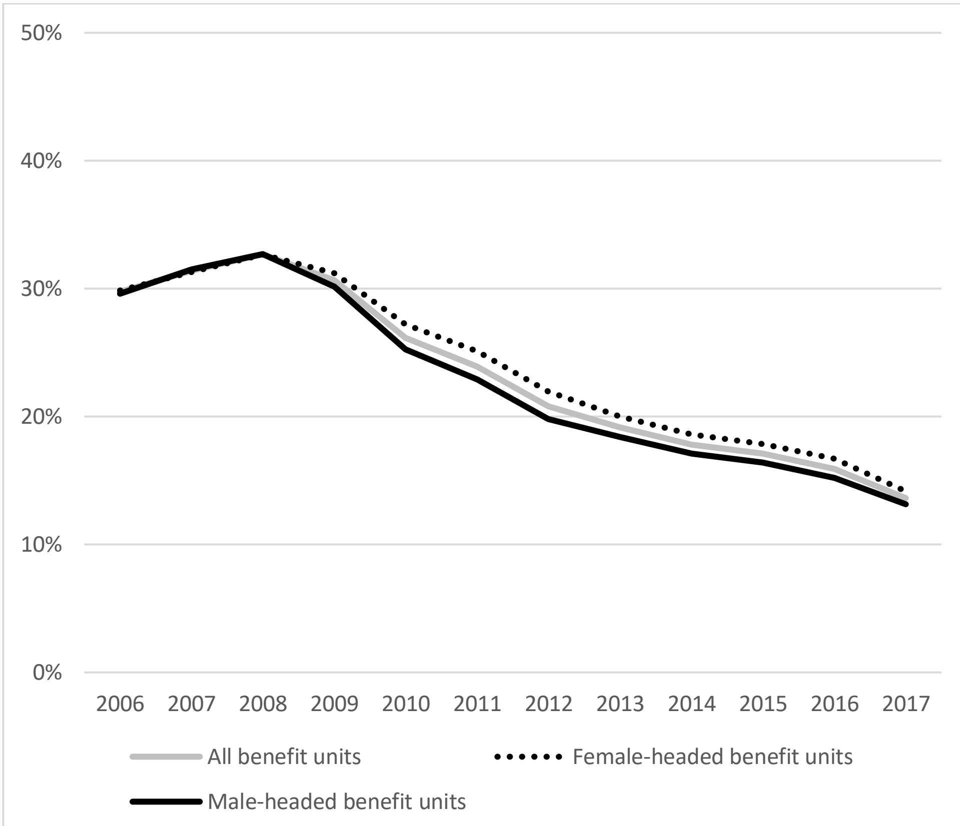

Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

[6] Male-headed households made up 53% of the IA caseload in 2017.

In Figure 2, we report on the share of benefit units, again overall and by the gender of the head of the benefit unit, who received crisis supplements in a year. Compared to the frequency of recaptured funds, we find a steeper downward trend (from a peak of 33% in 2008 to 13% in 2017), and a smaller but still visible gender gap.

**Figure 2**

*Share of Benefit Units Receiving Crisis Payments*



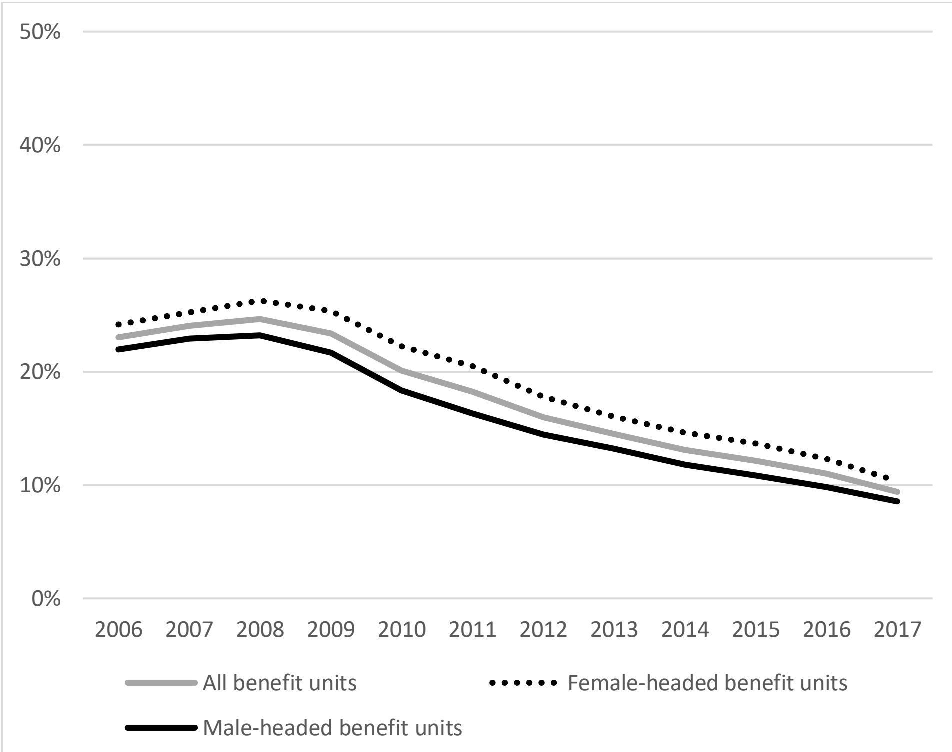

Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

Our data do not allow us to isolate the order of the crisis and recaptured funds. But if a substantial share of IA beneficiaries are both in need of crisis payments and must surrender part of their regular support, we think this is indicative of a system that is not helping households to meet their essential needs, likely discourages planning, and may diminish a beneficiary's sense of capability and control over household finances.

In Figure 3, we report on the share of all benefit units who had both recaptured funds and a crisis supplement, and find that it is about 10% in 2017, down from a peak of 23% in 2008 (25% among female-led benefit units). While not shown in our illustrations, the combined results from Figures 2 and 3 suggest that a large majority (83%) of benefit units who are making use of the crisis supplement portion of IA also, at some other time in the same year, saw their benefit reduced by recaptured funds. It is possible that some number of crisis payments made might be higher cost substitutes for previously recaptured funds.

**Figure 3**

*Share of All Benefit Units With Crisis Payments and Recaptured Funds*



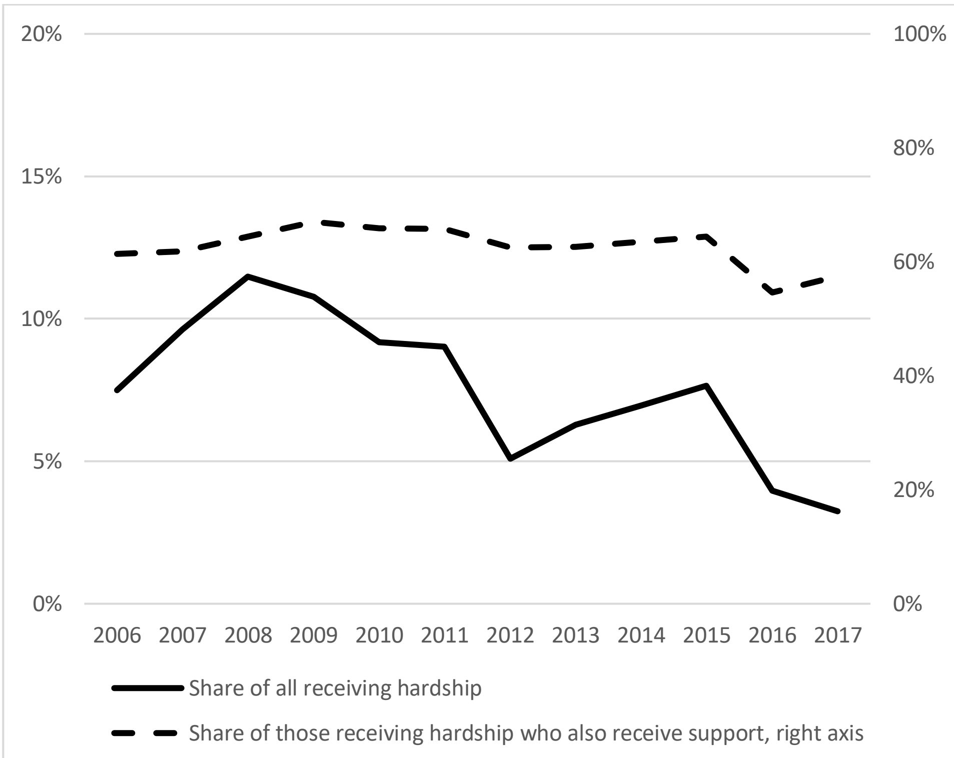

Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

According to the B.C. IA policy manual (Ministry of Social Development and Poverty Reduction, 2020), hardship assistance can be paid when a benefit unit does not qualify for regular support or when regular assistance has been suspended because, for example, income or assets are higher than the allowable limits. This is separate and distinct from the payment of crisis supplements to people receiving regular IA payments. Hardship assistance is generally established for just one month at a time. Depending on the nature of the reason for recourse to hardship assistance, an upper limit on the number of months may apply. For example, a limit of six months applies in cases where a beneficiary is trying to establish their identity in an application for regular benefits and three months when a beneficiary has assets that make them ineligible for regular IA benefits. Some hardship assistance is a repayable benefit, such as when assistance is paid while a benefit unit waits for employment insurance benefits or has income or assets in excess of the applicable limit.

In Figure 4, we show the share of all benefit units who received hardship assistance in a given year. We find that hardship assistance reaches a very small share of a benefit units in IA (just 3% in 2017). We also show the share of those receiving hardship assistance who also receive regular support during the same calendar year (noting that we limit our analysis here to units with at least three months of payments of any kind during the year). We find that a majority (58% in 2017) of units that receive hardship will also receive regular support.

**Figure 4**

*Share of Benefit Units Receiving Hardship Assistance*




Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

Like the relationship between crisis payments and recaptured funds, we believe that the current system of hardship assistance may not be functioning in a way that best supports the financial capability of beneficiaries. The significant overlap between both crisis payments and recaptured payments, as well as hardship and regular assistance, suggests that short-term payments intended to help beneficiaries cover immediate and pressing costs, while not "overpaying" relative to eligibility rules, may be simply shifting benefits from one time period to another without equipping benefit units to actually meet their ongoing costs. The issue of predictability of benefits is explored again in the discussion of volatility income benefits, below.

**Keeping Track of Money on IA: Does IA Create Transaction Frictions?**

Several sections of the IA policy manual (Ministry of Social Development and Poverty Reduction, 2020) either directly or indirectly suggest a responsibility on the part of beneficiary units to keep track of their household finances. For example, the monthly reporting by beneficiaries requires IA recipients to accurately track and report all income, including the source of the income, and assets received in a month. This detailed monthly reporting is arguably more onerous than the record-keeping habits imposed on users of other income-tested social programs such as child benefits, employment insurance, or Canada Pension Plan disability benefits. This monthly reporting also asks beneficiaries to report any changes to their shelter costs as this may impact the allowance payable for shelter that is separate from their basic support amounts and other supplements.

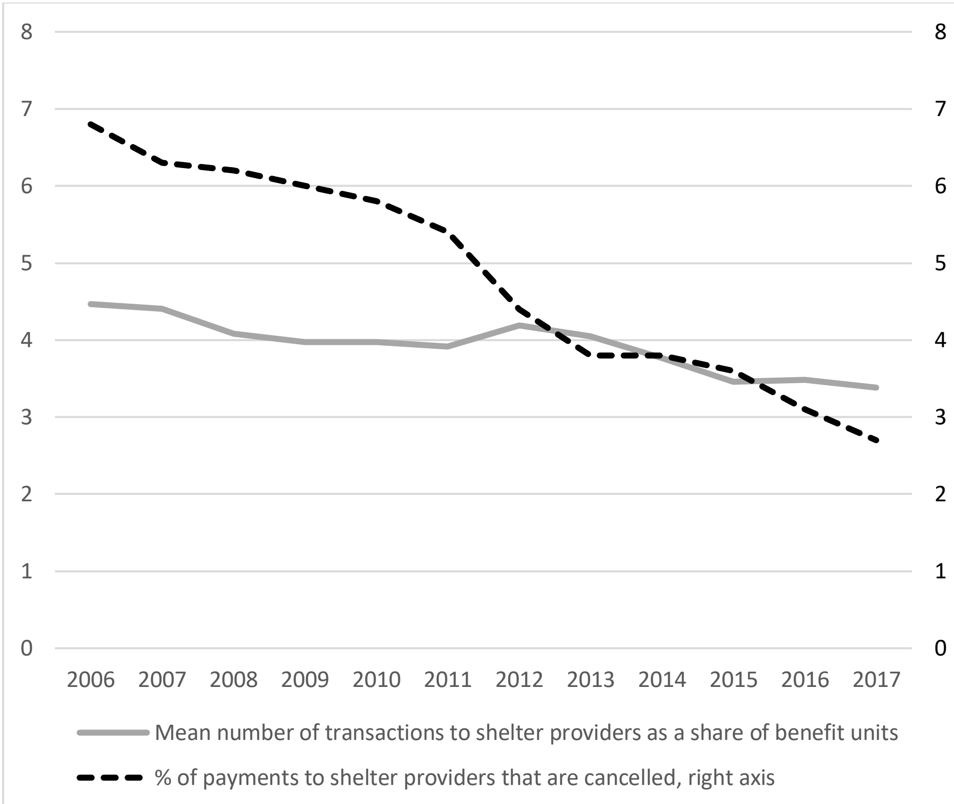
Next to the support amount, the shelter portion of total monthly income support is the largest and arguably most important portion of the income benefits received by a benefit unit. In some cases, IA policy permits payment of the shelter portion directly to a landlord or other housing provider. This might reduce the requirement for a benefit unit to keep track of funds and manage mental accounts for housing versus other costs. But when there are frictions in those payments to third parties, outside of the control of the beneficiary, this may impede their capacity to track and manage an important portion of their monthly expenses. Our indicator of friction in transactions is the frequency of cancelled payments or payments deemed "write-offs."[7]

In Figure 5, we report on the frequency of payment of shelter amounts directly to third-party shelter providers. We show that the average number, per benefit unit, of direct payment transactions to shelter providers has decreased somewhat from a mean 4.5 payments per year in 2006 to just under 4 payments in 2017. This suggests that, as a share of transactions per benefit unit, beneficiaries themselves are somewhat more likely to be in direct receipt of the payments for housing. Given that results from the Canadian Financial Capability Survey (Robson & Shaban, 2021) do not suggest that IA recipients are, as a group, particularly at a disadvantage in their ability to keep track of funds, we see this as a reasonable approach to ask most IA recipients to track and manage housing as well as support payments. However, this result at the mean will include some number of beneficiaries for whom direct payment to a shelter provider is a preferred or even necessary financial management strategy. Figure 5 also shows that direct payments to shelter providers have shown a decrease in friction, as measured by the percentage of payments that are cancelled, which declined from nearly 7% of all shelter payments to shelter providers in 2006 to 3% in 2017.

[7] According to the B.C. IA manual, these are amounts that could not be reconciled relative to program rules and were not recovered as debts. In the program ledger, these are recorded as outstanding debts written off by the B.C. government.

**Figure 5**

*Friction in Shelter Payments to Third Parties*



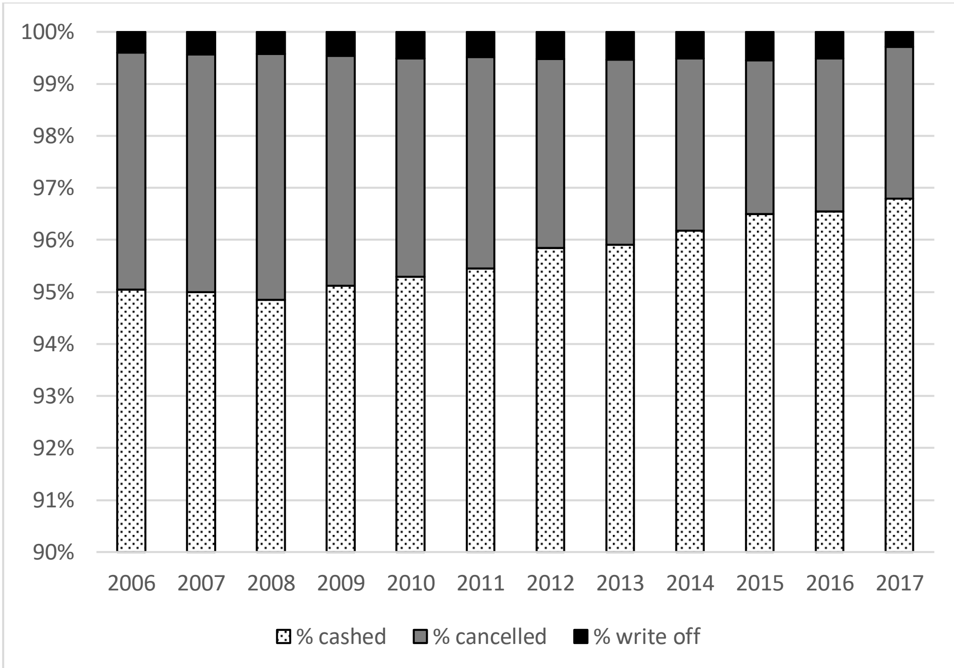

Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

We also consider frictions in the payments directly to benefit units. The IA system strongly encourages benefit units to receive payments through electronic funds transfer to a bank account, and IA recipients enjoy a high level of access to bank accounts (Robson & Shaban, 2021). This should, in theory, result in lower administrative costs and less friction in the payment of benefits. It should also make it easier for beneficiaries to keep track of actual amounts of assistance received, and other transactions made using the same account.

In Figure 6, we show that a very small and declining share of all payments to IA beneficiaries are not cashed (that is, where deposit into a bank account or cashing of a paper cheque is not confirmed). This measure of friction is at a systems level, looking at all transactions payable to beneficiaries in a given year.

**Figure 6**

*Closing Status of Transactions as a Share of All Annual Payments to Beneficiaries*




Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

In Figure 7, we look at the same measure of friction (cancelled payments to beneficiaries), but we divide the total transactions by the number of beneficiary units to get a unit-level average.[8] We show that the average number of transactions payable to a benefit unit has not changed substantially at approximately one payment per month. On a per benefit unit basis, there is an average of three cancelled payments per year (payable to the benefit unit, not a third party), a slight increase from a mean of two cancelled payments per year from 2006 to 2013. But given that benefit units receive a mean of just under 12 payments per year, our results suggest that a typical benefit unit will experience a cancellation in one out of four payments they receive in a year.

From a system-wide perspective, the very large total number of transactions to beneficiaries makes cancellations appear very rare. But when transactions are considered on a per benefit unit level, the frequency of cancelled payments looks much more problematic. When payments are cancelled, even if for valid reasons and even if they are later replaced, this increases the frictions in the financial transaction between the IA program and program beneficiaries. In turn, this raises the difficulty of the task of keeping track of payments received and not received for individual beneficiaries.

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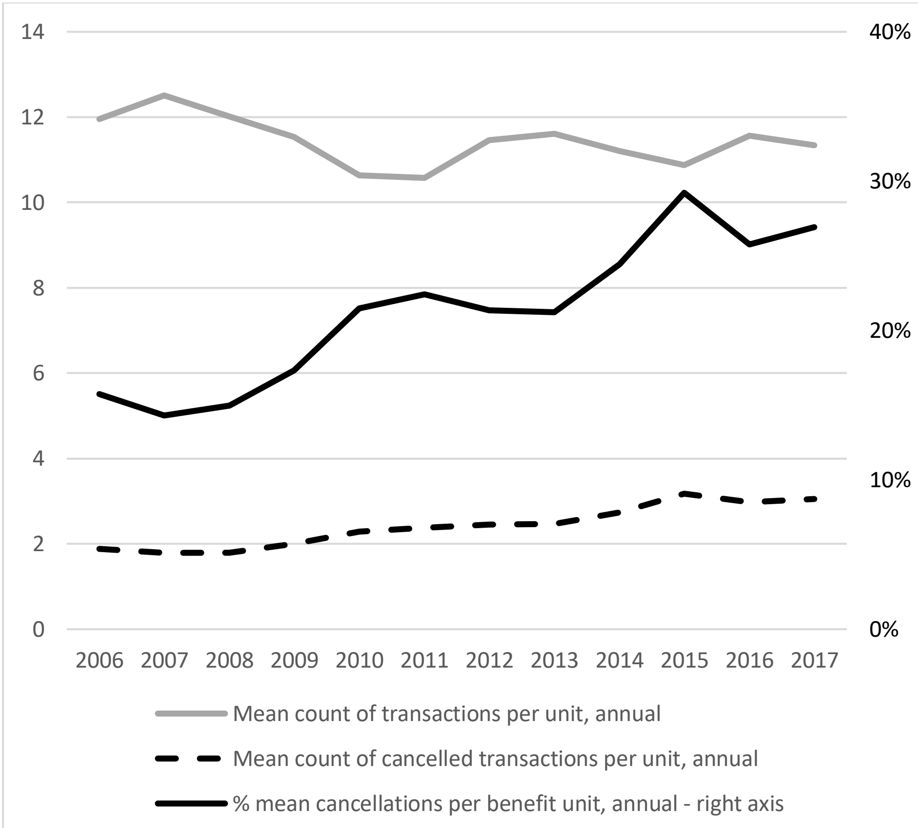
[8] The difference between Figures 6 and 7 is related to the unit of analysis. Figure 6 reports on the share of all transactions to all benefit units. Figure 7 reports on the mean count and share per benefit unit.

**Figure 7**

*Mean Transaction Volume and Cancellations per Benefit Unit*




Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

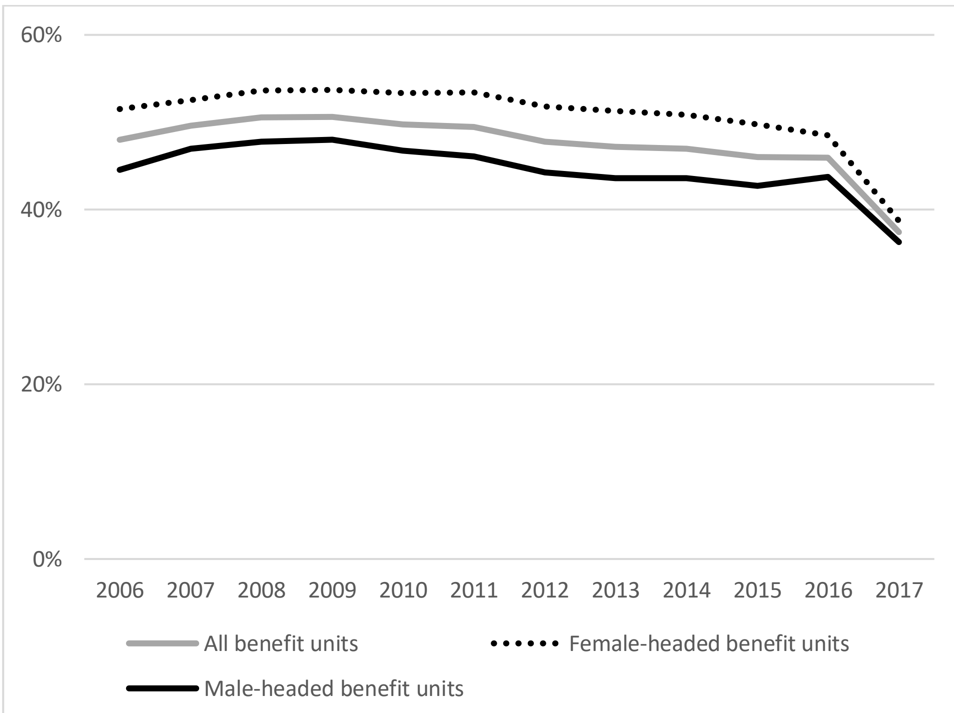
**Monthly Volatility: Does IA Make It Harder to Plan Ahead?**

When household income varies significantly from one month to the next, planning ahead for known and unknown emergency expenses can be more difficult as a cognitive task. For example, assuming rational self-interested economic behaviour, if the goal of saving (however modest) is to smooth consumption, how much income should you save at time one if your future income in time two is unknown and very difficult to project? Furthermore, many other financial product purchases, from cellphone contracts to agreements to open a Registered Education Savings Plan, may emphasize or even require regular monthly payments for the duration of the contract. As we noted in our review of the literature above, several studies demonstrate that people with low income can tend to focus on immediate financial concerns and a higher discounting rates for the future. The literature also suggests that, separate from the level of income, uncertainty about income from one month to the next appears to be related to lower financial capability and general difficulties with financial management.

Here we define income volatility as a change in benefit income equal to or greater than 25% relative to the previous month. We include both increases as well as decreases in benefit amounts, and we exclude months that appear as the first month of benefits for the unit in a given year. In Figures 8 and 9, we report the share of all benefit units with at least three months of payments in a year, who experienced one and three months of volatility in the monthly total payments received for the year.

**Figure 8**

*Share With One Month of Volatility*

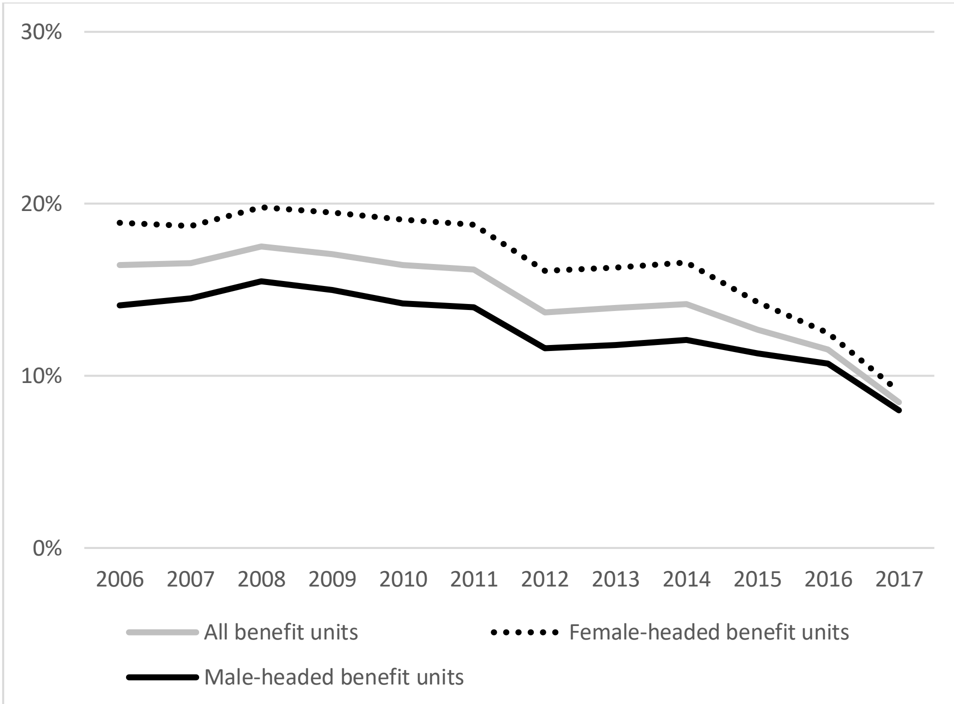



Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

We find that a large share (nearly 40%) of benefit units experience at least one month (Figure 8) where benefit amounts are 25% greater or smaller than the previous month. This is more than three times higher than the incidence of income volatility (12%, using the same definition) reported in the general Canadian population (TD Bank, 2017). Looking at the share of benefit units that experience at least three months of volatility (Figure 9), we find that fewer than 10% of benefit units have frequent volatility in their monthly income benefits. These findings are broadly consistent with the evidence (in Figures 3 and 4) that the same benefit unit can experience lump-sum recaptures but also lump-sum supplements as part of their total benefit amounts. This volatility in income will make it harder for IA beneficiaries to use some mainstream financial products (such as cellphone contracts with monthly payment obligations), exacerbating financial stress for IA clients.

**Figure 9**

*Share with Three Months of Volatility*




Source: British Columbia Ministry of Social Development and Poverty Reduction, 2018.

## Getting Help on IA: Does IA Provide Guidance on Financial Issues?

The administrative data presented above describe a system of financial transactions that is very complex, where elements of the program design may be discouraging financial capability among B.C.'s lowest-income residents. By this, we mean that the current system encourages choices that do not improve the well-being of IA clients and may, in fact, promote ongoing program dependency by discouraging a sense of choice or control over personal financial matters and reinforcing preferences for very short time horizons in decision-making.

There is another key program element that cannot be directly observed in the administrative data made available for this study. This is the degree to which IA beneficiaries receive a form of financial guidance or coaching from their case worker. For example, according to the policy manual (Ministry of Social Development and Poverty Reduction, 2020), case workers are expected to help program applicants understand and complete application forms. They are expected to review other forms of financial assistance (including tax credits, spousal support, and social insurance programs) that may be available to program applicants and beneficiaries. They are permitted to provide additional assistance, both with the application task and the administrative fees, for clients who need to obtain identification documents for themselves or a member of their family. These are just a few examples of the ways in which the individual case support, which is essential but ancillary to the payment of financial assistance in

IA, resembles a form of financial advice and guidance that higher-income consumers purchase in financial services markets.[9]

The amount and quality of the financial guidance provided by the individual case worker may vary. The policy manual for IA (Ministry of Social Development and Poverty Reduction, 2020) leaves a good deal of discretion to individual case workers and has several gaps. For example, while a benefit unit will be required to report receipt of the GST/HST credit, there does not appear to be an obligation for case workers to ensure that eligible units are receiving this or other refundable tax credits to which they might be entitled. Nor are case workers required to help clients file an income tax return to qualify for such refundable assistance. But whatever the limitations case workers in their role as providers of financial guidance, they are at least a source available, at no cost, to IA applicants and beneficiaries. As discussed in Robson and Shabban (2021), B.C.'s voluntary sector might also be a provider of financial guidance and other services for IA and other low-income clients. Whether such guidance is provided by provincial case workers or by community organizations, it is clear that this is a critical but under-resourced part of income support programming and would continue to be so even if the IA system were replaced by a basic income.

### What Can We Learn from the U.K. Transition to Universal Credit?

In 2013, the United Kingdom consolidated six different means-tested benefits and tax credits into one single means-tested program of Universal Credit. The program was launched following a three-year-long design period. It is gradually being introduced across the U.K. with full roll-out expected in 2021 (Millar & Bennett, 2017). Universal Credit, while not a true universal basic income, provides useful lessons for thinking about the design of payments when consolidating multiple income support programs into just one. In this section, we discuss the impact of changing the timing of payments made to beneficiaries, redirecting payments to beneficiaries and away from third-party housing providers, and finally, access to personalized information or advice.

Like BC's IA, The U.K. universal credit is paid monthly. However, it has replaced programs that were often paid biweekly, meaning that beneficiaries have to adjust to less frequent payments. Universal credit also moved to a system of payments one month in arrears, rather than a prospective basis. This allows the payment amounts to be based on a monthly, rather than annual, assessment of a family's circumstances and eligibility, drawing heavily on regular flows of administrative data from the national tax-collection agency, HM Revenue and Customs. However, as Millar and Bennett (2017) note, "low-income families tend to experience

[9] The market-based system of fee-based services is out of reach of low-income persons and can be dangerously incorrect when applied to low-income consumers who rely on public income transfers.

frequent changes in other circumstances such as housing costs and number of people in the household" (p. 172). The more frequent and monthly adjustments to benefit amounts, Millar and Bennet (2017) argue, "make it more difficult to, for example, budget money on a monthly basis, [or] set up direct debits" (p. 173). This finding was confirmed in qualitative research by Cheetham et al. (2019) who found that universal credit recipients in their sample reported difficult managing on monthly benefits "that fluctuated unpredictably and were affected by administrative errors and delays, punitive deductions and sanctions" (p.4).

The payment as arrears has had important implications for the money management strategies used by families receiving benefits. Under normal circumstances, no benefits can be paid until the end of the first month in which an application is received, meaning that a family or single person will generally wait five weeks before receiving any assistance. These applicants have the option of requesting some of their first month of benefits as a repayable advance that is deducted from subsequent payments under the program. Program staff appear to be directed to encourage clients to agree to accelerated repayment plans, leading to substantial reductions in actual benefits received in the first few months. "The design of Universal Credit is too far removed from the realities of life on a low income" (Millar & Bennet, 2017, p.179). In short, low-income families can be adversely impacted by decisions that reduce the frequency and reliability of income support. Just as other consumers would be, low-income households that have developed financial management strategies for one frequency of payments will have difficulty when their income flows are slowed, delayed, or made more unpredictable.

Another important change in the transition to universal credit has been that all benefits are generally paid to claimants. This includes amounts for housing that previously, under the standalone housing benefit, were paid directly to a landlord. The switch to direct payment to beneficiaries may have been motivated by a desire to give greater responsibility and control to individual beneficiaries to manage their monthly benefits and costs (Hickman et al., 2017). It also permits a reduced role for program administrators who do not need to track (or correct, as appears to be the case in some IA caseloads), payments to third-party housing providers. Universal credit does allow beneficiaries to request an alternative payment arrangement to permit payments of housing amounts directly to a landlord or to request more frequent payments (U.K. Department for Work and Pensions, 2014). These arrangements are intended to be available at any time while a beneficiary is on benefits, and case workers, despite the reduced role in administering housing payments, are expected to identify claimants who may benefit from an alternative payment arrangement. However, just 20% of beneficiaries are enrolled in an alternative payment arrangement (U.K. Department for Work and Pensions, 2018).

Because housing costs are generally the largest cost centre in the household budget, and housing loss is in turn associated with such negative impacts on well-being, there may be merit in ensuring that a benefit unit has their housing costs met by paying a landlord directly. On the other hand, an advantage of a basic income approach that merges multiple benefits is that recipients might have more control and choice in reallocating money between housing, food, and other essential costs to better reflect their own unique needs and preferences, rather than standardized estimates of a household budget.

Research on the implementation of universal credit suggests that moving housing costs into a single monthly payment might have negative effects for an important share of recipients. Among those claimants receiving benefits for their housing costs paid directly to them, one-third were in arrears on their rental payments (U.K. Department for Work and Pensions, 2018). Of those in arrears, 71% were still in arrears on their rent after eight and nine months on benefits. Similarly bivariate analysis by Hickman et al. (2017) found that paying all benefits to clients, instead of directing housing amounts to a landlord, was associated with a significant increase in rental arrears. These results were not confirmed in the multivariate models, which found no relationship between rent arrears and direct payment when controlling for other characteristics such as gender, age, ethnicity, and disability. However, Hickman et al. (2017) noted that this reflects a selection bias in that claimants on an alternative payment arrangement were likely to have elected into it after already falling into arrears on their rent. It seems that paying housing amounts directly to landlords might benefit a larger share of people on universal credit than those who actually receive it. While a basic income approach to redesigning income supports can offer many beneficiaries more choice and control over their resources, some share of recipients will need a greater level of active support to make financial choices within their budget constraints.

As we alluded to earlier, one of the rationales for collapsing benefits into a single system is the opportunity to save resources on the administrative side. In the U.K., the transition to universal credit has included a move toward online applications completed by individuals instead of face-to-face meetings with a case worker. During the initial pilot phase, local administrators provided help to recipients to set up direct payments for rent and with money management (Millar & Bennett, 2017), but this support has not been part of the larger roll-out of the project.

In 2018, the U.K. Department for Work and Pensions released a study of the implementation of the universal credit program which found that 46% of applicants were not able to complete their online claim without help. The process of verifying identity online was seen as particularly difficult. One-third of claimants reported needing more help than they were able to get in completing their claim for benefits. Claimants showed gaps in their knowledge or understanding about the program features. For example, a third of claimants did not know that their benefits were not affected by the number of hours they worked while on universal credit. Another third reported that they had difficulty understanding how their benefit amount was calculated. A third again of claimants reported they did not feel confident in managing their money while on universal credit. Cheetham et al. (2019) interviewed claimants and found that many reported that the application process for benefits was complicated, difficult, and demeaning. In particular, they cited the absence of face-to-face contact with program staff and the requirement to apply online as particularly problematic. This appears to be related to the process used online to confirm the applicant's identity through a lengthy and difficult series of steps. Any errors in the application process are generally treated as the responsibility of the applicant to correct with limited and delayed responses to inquiries to the program helpline.

A basic income approach, like that pursued by the United Kingdom in consolidating several programs into the universal credit, can simplify program rules and administration. But the choices of when and how to pay benefits will have significant impacts on program participants, many of whom will have difficulty adapting to the new program rules and who may need additional help to apply and then be able to use the income support available. The experience from the U.K. suggests that default settings in a program, such as having monthly over biweekly payments, should always be accompanied by some flexibility for individual needs and circumstances. Likewise, payment by arrears, instead of in advance, causes interruptions and delays that can have persistent ripple effects on low-income households. Instead, continuity and reliability of payments is more likely to help households gain stability in their housing, employability and other aspects of their lives. This last does not necessarily have to come from a new guaranteed income, but instead could be achieved by making an existing social assistance program more like a basic income through more stable payments without delays and with fewer frictions.

Finally, the last lesson to take from the British experience is that there is an irreducible need to provide case management and problem-solving support for beneficiaries. This includes help with completing benefit applications, understanding benefit rules (however simplified policy-makers might think these are), and solving financial problems while on benefits such as making housing payments directly to a housing provider when budgeting is difficult. But these services should be delivered in a way that empowers beneficiaries and gives them choice and a greater sense of control.

## Conclusion

Our review of the administrative data leads us to conclude that the IA system, as a system of financial transactions and services, was not set up to pay beneficiaries in a way that helps them rebuild and retain a sense of control over their financial lives. Many of the features that will clearly make it more difficult for IA beneficiaries to practise good financial management seem to have been policy choices motivated by other concerns. For example, the volatility in the monthly incomes of IA beneficiaries that we see in the data appears to be in B.C., as in other provinces, a "feature," not a "bug" of the current design of IA. The objective of the system of monthly reporting and adjustment of benefits could be understood as an effort to be responsive, in nearly real time, to the changing circumstances of low-income households. But it can conversely also be understood, in a more punitive manner, as a desire to maintain payments at a minimum and residual level, even when real dollar values per benefit unit are not large but may be meaningful to a low-income family or single adult on benefits.

To state it more bluntly, the way that IA now works as a system of financial payments and services to beneficiaries reflects a policy choice to prioritize limiting access to help over providing help in a way that can best stabilize household or individuals in need. Replacing the IA system with a basic income might not address these same problems unless the system is structured in a way to provide greater certainty on resources from month to month, to remove frictions in the payments to beneficiaries, and to ensure that beneficiaries don't lurch from emergency and crisis payments to deductions from their basic amounts. Without attention to the stability and accessibility of payments, a basic income system could easily replicate many of the same problems we see in the current IA program. Conversely, and setting aside the question of a transition to a basic income, changes could be made to the IA system now that would improve how it functions as a financial payments and services system with the best interests of clients in mind.

We make three recommendations informed both by the review of the administrative data from B.C., as well as our case study of the universal credit program in the U.K.

First, policy-makers should limit the volatility and frictions in monthly incomes to clients. This would mean a significant effort to scale back on recapturing funds out of IA benefits and instead aiming to provide a more reliable benefit amount even if other resources become periodically available. Our results suggest that an important share of beneficiaries give up some part of their IA benefits in one month but need a crisis supplement in another. Instead, payments could be kept at a more stable and predictable level. Supplements can be made available for large unexpected costs that cannot be paid out of income flows, but demand for these might be reduced if clients did not so frequently see their monthly income benefits clawed back. In practical terms, this means reducing the number of variables that are used to determine the benefits level so that changes in any one variable will have less impact on overall financial flows to the household.

Second, make financial guidance more explicitly part of the suite of tools the IA system, or a replacement basic income, must deliver. This should include an important role for case workers in providing personalized help and referrals to other community resources to meet household needs and sources for financial empowerment. It should also include close partnerships with community-based organizations that have appropriate skills and enjoy the trust of low-income clients. Part of the guidance provided to clients should be to ensure that they are receiving any refundable tax credits (such as child benefits and the GST credit) to which they might be entitled. Finally, case workers should be resources to help beneficiaries complete program applications and understand program rules with the goal of improving household financial stability. This would be a shift away from their role of policing program compliance and determining access to discretionary help.

Third, while the overall program should aim to empower beneficiaries to handle their own financial matters, income support should allow for flexibility for direct payment of housing to third-party providers. Just as middle- and upper-income consumers often rely on pre-authorized payments to simplify the management of ongoing obligations, low-income households who receive IA, or any potential basic income replacement program, should have the option to automatically direct the housing portion of their benefit to their housing provider or landlord. This option should, however, require the consent of the beneficiary and not be imposed by either landlords or government officials. Should a new portable housing benefit become available through federal and provincial agreement, the option to direct the payment to the housing provider or landlord may likewise be important for beneficiaries. But this option should be offered as a choice to households, allowing them the same dignity and sense of control that middle- and upper-income earners have in using pre-authorized payment systems to manage ongoing expenses.

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