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PROVINCIAL CHILD CARE FEE SUBSIDY POLICY CHANGE: TREATMENT OF RRSPs AND RESPs

The Community Services and Housing Committee recommends adoption of the recommendations contained in the following report, March 18, 2005, from the Commissioner of Community Services and Housing:

1. RECOMMENDATIONS

It is recommended that:

1. Council be informed of a provincial policy change to the eligibility criteria for child care fee assistance to exempt Registered Retirement Savings Plans (RRSPs) and Registered Education Savings Plans (RESPs) as liquid assets and to treat all parental contributions to RRSPs and RESPs as allowable monthly budgetary expenses under the child care needs test.

2. The impact of this policy change on the parental contribution revenue and service levels in 2005 be reviewed and reported to Council in early 2006.

2. PURPOSE

The purpose of this report is to inform Regional Council of a provincial child care fee subsidy policy change concerning the treatment of RRSPs and RESPs and the intent to report back to Council in 2006 on the impact of this policy change on revenue and service levels.

3. BACKGROUND

The amount that a family, applying for child care fee assistance, can afford to pay for child care, is determined through a provincially legislated needs test *Determination of Available Income – Form 1.* The first step in determining need is an assessment of the family's liquid asset level based on family composition *(see Attachment 1).* Prior to December 1, 2004, RRSPs and RESPs were considered as liquid assets when determining eligibility for fee subsidy. The Province established a limit to liquid assets above which families were not eligible for child care fee subsidy.

Families with liquid assets above the maximum allowed, were required to liquidate those assets to a level at or below the liquid asset level in order to qualify for child care fee subsidy.

If a family meets liquid asset criteria, the next step to determining eligibility is to assess their allowable monthly expenses against their net monthly income to determine a daily parental contribution to the cost of child care.

The province determines mandatory limits for the majority of allowable monthly expenses and gives Consolidated Municipal Service Managers (CMSMs) discretion to set limits on the few remaining allowable monthly expenses.

3.1 New Provincial Policy

On November 25, 2004, the Ministry of Children and Youth Services announced that, effective December 1, 2004, RRSPs and RESPs will no longer be considered as liquid assets when determining eligibility for fee assistance through policy statement *"Improving Access to Subsidized Child Care"* as prescribed under Ontario Regulation 366/04. Families will not have to liquidate RRSPs or RESPs in order to be eligible for child care fee subsidy.

In addition, the Ministry announced that families will be able to claim contributions made to an RRSP and/or RESP as an allowable monthly budgetary expense when eligibility for child care fee assistance is being determined, as per the following Provincial Direction:

- Documented contribution to an RRSP, up to the Federal deduction limit, can be claimed as a monthly budgetary need on Line 25 of Form 1.

- Where a parent contributes annually to an RRSP [or RESP], the annual contribution may be divided by 12 and the resultant amount, up to the Federal deduction limit, claimed as a monthly budgetary need on Line 25 of the Form 1.

Families with liquid assets other than RRSPs and RESPs continue to be subject to the provincially established liquid asset maximums, e.g. $5,000 plus $500 for each additional family member *(see Attachment 1)*.

The policy also directs CMSMs to:
- Notify families currently receiving fee assistance of this new policy direction.
- Review all files of families in receipt of child care fee assistance in accordance with the new policy by May 31, 2005 and make appropriate adjustments to parental contributions effective, retroactively, to December 1, 2004.

3.2 Federal Deduction Limits for RRSP and RESP

York Region families accessing child care fee assistance will be required to submit their income tax Notice of Assessment (NOA) and/or their Notice of Reassessment (NOR) on an annual basis.

The annual deduction limit for RRSPs identified by the federal government on the NOA/NOR, includes 18% of earned income from the previous tax year minus any pension adjustment for that year plus any past unused RRSP deduction limit.

The maximum contribution to an RESP is $334 per month, per child, to a maximum of $4,000 per year.

4. ANALYSIS AND OPTIONS

4.1 Provincial Context

Registered Education Savings Plan (RESP)
Post-secondary education provides an opportunity to help students realize their full potential and is a significant factor in breaking the cycle of poverty.

Registered Retirement Savings Plan (RRSP)
Enabling families to save for their retirement, results in greater stability for families later in life.

4.2 Household Profile

In December 2004, 34% of applicants currently receiving child care fee assistance, held RRSPs and/or RESPs within their maximum liquid asset level (Source: OCCMS Custom Report, February 2005). Since applicants for child care fee subsidy can now hold RRSPs and/or RESPs outside liquid asset level limits, it is expected that there will be an increase in the number of households eligible to receive child care fee subsidy.

4.3 Impact on Service Delivery and Parental Contribution

Treating contributions to an RRSP and/or RESP as an allowable monthly budgetary expense, can reduce the amount a family has available to contribute to the cost of child care, thereby reducing the amount the family is required to pay.

While the amount the family is required to pay for a space is reduced, the cost to York Region and the Province for each subsidized space is increased so that the current provincially approved budget will purchase fewer spaces, resulting in a reduction in service levels.

The parental contribution is currently about 15% of the gross cost of a space. It is expected that the new policy direction could result in a reduction in parental contribution. A reduction in revenue from parental contributions from 15% to 10% of gross cost will result in a reduction in service levels, of up to 120 spaces.

The Province is not providing additional funding to offset potential reduction in revenue as a result of allowing families to claim RRSP and RESP contributions as an allowable monthly expense.

York Region staff are preparing a report to Council which recommends changes to priority criteria to ensure Fee Subsidy funding goes to those families in most financial need.

4.4 Implementation

All families in receipt of child care fee assistance were notified, by letter, of the provincial announcement in December 2004.

A second letter will be sent to all families who have RRSPs and/or RESPs inviting them for a reassessment of their eligibility. Their parental contribution will be reassessed and adjusted retroactively to December 1, 2004, as necessary.

NOAs and/or NORs will be used to ensure that only contributions related to the previous tax year will be allowed and that contributions to a company pension plan are also considered.

The impact of allowing this additional monthly expense will be reviewed in January 2006 to assess the impact on parental contribution and service levels.

4.5 Relationship to Vision 2026

This initiative supports the following action areas of Vision 2026:

- Responding to children in need.
- Enabling access to services that aid in early child development.
- Working with federal and provincial government partners.

5. FINANCIAL IMPLICATIONS

No additional funding has been provided to offset any reduction in parental contribution. The parental contribution currently averages about 15% of gross expenditure on fee subsidy. The implementation of the provincial directive could result in an increase to the Region for each subsidized space, resulting in a reduction in service levels. These changes will be managed within the approved 2005 Budget.

6. LOCAL MUNICIPAL IMPACT

The policy change regarding RESPs, supports the government’s commitment to help reduce child poverty and to increase opportunities for further education in the future.

The policy change regarding RRSPs, will provide additional supports to families who do not have a company pension plan or who do not have a locked-in RRSP.

7. CONCLUSION

Enabling families to save for their children’s post-secondary education through RESPs, provides an opportunity to help students realize their full potential and may be a factor in breaking the cycle of poverty. Enabling families to save for their retirement through RRSPs, results in greater stability for families later in life.

However, treating contributions to an RRSP and/or RESP as an allowable monthly expense can reduce the amount a family has available to contribute to the cost of a child care space. It can therefore, result in an increase in subsidy cost to York Region and the Province for each subsidized space so that the current approved budget will purchase fewer spaces resulting in a reduction in service levels and an increase in the wait list.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause is attached to this report.)