Financial Empowerment

What it is and how it helps to reduce poverty

ABLE
FINANCIAL EMPOWERMENT

September 2017

Financial Empowerment is an integrated set of interventions proven to measurably improve financial outcomes for people living in poverty:

Financial information, education and coaching to build financial capability

Tax filing and benefits assistance to increase incomes

Help accessing safe and affordable financial products and services to enhance financial inclusion

Connection to saving and asset building opportunities to build financial security

Consumer protection and education to reduce financial risk

Financial empowerment focuses on strengthening low-income people's financial inclusion, knowledge, behaviours, and opportunities, unlike many other poverty reduction approaches.

These are key determinants of economic security, but a critical gap in our current social support systems, because organizations lack the mandate, resources and capacity to address the financial dimensions of low-income Canadians' lives.

Financial empowerment solutions enable people with low incomes to build their financial stability and measurably improve their financial outcomes, such as credit scores and income, saving and debt levels.

This, in turn, enhances their access to proven routes out of poverty – education/training, employment, entrepreneurship, and asset and home ownership.

Financial empowerment is not a substitute for other poverty reduction strategies, but a critical missing piece that can significantly boost client outcomes when it is integrated into other programs and services, such as income assistance, employment programs, housing and homelessness services, and primary health care.

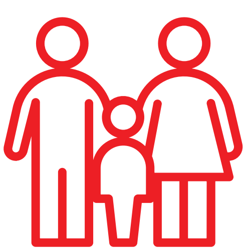
Table 1 on pages 5 to 6 sets out in more detail how each financial empowerment pillar helps to prevent, alleviate and/or reduce poverty.

Recommendations for Canadian Poverty Reduction Strategy

We recommend that the federal government build financial empowerment into Canada's National Poverty Reduction Strategy in the following ways:

1 Expand the government's definition of poverty to include asset poverty, as well as income poverty. Liquid asset poverty compounds the experience of income poverty by exposing households to increased financial stress due to their inability to manage any unexpected expense or income interruption. Conversely, assets are key gateways to opportunity – enabling people living in poverty to access proven paths to prosperity: education, training, employment, entrepreneurship and home ownership. Finally, savings and assets help prevent poverty by building the financial resilience of modest and middle-income households and enabling them to weather financial shocks that might otherwise trigger the onset of poverty.

2 Invest in research to monitor and report regularly on the financial inclusion and health of Canadian households and investigate related disparities, particularly those with respect to income and populations at high risk of poverty (e.g. Indigenous peoples, people with disabilities, newcomers). Research such as the U.S. Financial Diaries[1] and TD's recent released study on income volatility[2] are transforming our understanding of the financial challenges of Canadian households – particularly those with low and modest incomes, but middle and even upper income households as well. We need a sustained and coordinated national research effort though, to identify and address financial barriers that exacerbate poverty and prevent those with low incomes from moving from poverty to opportunity.



3 Invest in coordinated community outreach and support strategies to connect Canadians with low incomes to their benefits. Many people with low incomes do not tax file or have difficulty applying[3] for benefits. Consequently, they miss out on important income. As much as $1 billion in benefits may be going unclaimed annually by people with low incomes, newcomers, people living with a disability, and Indigenous peoples. Systematic benefit screening and hands-on help to tax file and apply for benefits are proven interventions that successfully connect vulnerable people to their benefits. Canadians with low incomes also need improved access to navigation supports within CRA. Finally, investment in coordinated national strategies can enable us to leverage national networks with reach into target populations and to mobilize new community, business and provincial/municipal partners to expand benefit take-up by at least $100M over the next few years. For more information, see Prosper Canada's 2017 Budget Submission.[4]

4 Build financial empowerment into federal policies and programs where there is evidence it can improve program outcomes, as well as measurably improve financial outcomes for participants with low incomes. There is strong evidence from the United States that building financial empowerment interventions, like financial coaching and tax filing assistance, into housing, employment and social assistance programs targeted to people with low incomes has a "*supervitamin*" effect[5] – improving program outcomes, as well as the financial outcomes of participants. Federal settlement, housing, homelessness, education financing, employment and indigenous programs all offer important opportunities to further help participants build their financial well-being. Integration should include, where relevant, investment in sustainable community capacity to deliver financial empowerment supports.

5 Implement proven solutions that help Canadians with low incomes to save for emergencies, as well as longer term goals. Emergency savings provide a critical cushion against life's emergencies, reduce financial stress, and help families with low incomes to smooth income expense gaps arising from financial shocks or ongoing income/expense volatility which has been shown to affect almost 40 per cent of working age Canadians.[6] Successful approaches include establishing tax-time savings accounts and incentives that make it easier for households to save a portion of their tax refund and reward them for doing so. Tax time is one of the few times people with low incomes receive a large lump sum of money. We should be leveraging this to build their assets and create gateways out of poverty.

6 Work with provinces to lift asset limits preventing people receiving social assistance (disability or welfare payments) from saving and building assets. Evidence from the U.S. shows that lifting or eliminating savings and asset restrictions associated with welfare programs does not lead to increased enrolments but, instead, reduces administrative costs by two per cent.[7] Some provincial governments have begun moving in this direction, but it's time for everyone to get on board.

7 Increase Registered Education Saving Plan (RESP) and Canada Learning Bond (CLB) take-up by making RESP and CLB enrolment automatic at birth and invest in active outreach to families to connect them to their children's accounts and familiarize them with Canada Education Savings Grant (CESG) incentive. An emerging body of evidence shows that children from low-income households with education savings accounts are more likely to enrol in and successfully graduate from post-secondary education – the most effective way to prevent inter-generational poverty.

8 Ensure that Canadians with low incomes have access to the financial products and advice they need to build their financial well-being. This can be achieved, in part, by expanding the role and resources of the Financial Consumer Agency of Canada (FCAC) to include financial empowerment of low-income and other vulnerable people. FCAC would assist low-income consumers to make informed financial decisions by providing tools and skill building opportunities directly and through community service partners, and by actively promoting a more inclusive and fair financial marketplace. The federal government should also take advantage of the upcoming Bank Act Review to explore what it takes to be fully financially included in today's financial marketplace and to work with banks and consumer stakeholders to update Canada's basic banking standards and related industry guidelines.

9 Curb predatory financial services to protect consumers who currently rely on high cost, alternative financial services. The federal government should review the current 60 per cent annual interest rate threshold for criminal usury with a view to lowering it. This would reduce harm to consumers and help discourage the continued proliferation of predatory alternative financial services that contribute to mounting and excessive household consumer debt loads, impose excessive costs on consumers who can least afford them, and generally undermine rather than build the financial well-being of Canadians. The federal government can further strengthen Canada's regulatory environment by expanding the mandate of the Financial Consumer Agency of Canada and providing it with the necessary resources to:

- investigate, monitor and report on the nature, extent and impact of predatory financial services across Canada;
- conduct research on effective regulatory and consumer education responses (including those used in other jurisdictions), and
- regularly convene meetings with provincial regulators, as well as consumer and community stakeholders, to exchange knowledge and build consensus on consumer education and protection solutions that can be implemented by provincial regulators and integrated into federal and community consumer education efforts.

Table 1: How financial empowerment interventions prevent, mitigate and reduce poverty*

Prevents poverty	Mitigates poverty and its impacts	Reduces poverty
Financial information, education and coaching		
N/A	• Increases disposable resources • Reduces financial stress and improves self-efficacy and wellness • Resolves immediate crises (e.g. threat of eviction) at lower cost and with fewer penalties • When integrated into relevant programs, can enhance employment, earnings, housing stability • Supports better outcomes with respect to: – Financial inclusion – Tax filing and access to benefits – Saving and asset building – Exercising consumer rights	• Indirectly, when it leads to: – saving and asset building – increased income through tax filing and accessing benefits
Tax-filing and benefits assistance		
• Increases income • Supports saving and asset building: – by establishing eligibility for federal savings bonds and incentives – through tax-time savings schemes	• Increases income • Reduces financial stress and improves self-efficacy • Helps resolve crises at lower cost and with fewer penalties (e.g. disputes over benefits eligibility)	• Increases income • Supports inter-generational economic mobility (e.g. through child benefits) • Indirectly, when it enables savings and asset building (e.g. RDSP, RESP)
Help accessing safe and affordable financial products and services		
• Appropriate savings and insurance products can enable people to protect against unexpected expenses, financial losses, or income interruptions • Safe and affordable credit can help people to bridge unexpected costs and income interruptions	• Lower financial costs leading to more disposable income • Reduced risk of high-cost problem debt • Greater access to saving and asset building opportunities through appropriate financial products • Enhanced social inclusion and self-efficacy when financial institutions provide vulnerable consumers with products and services that meet their needs and preferences	• Indirectly, to the extent people access saving and asset building opportunities

Prevents poverty	Mitigates poverty and its impacts	Reduces poverty
Connection to saving and asset building opportunities		
• Enables households to smooth consumption and absorb financial shocks that can otherwise trigger onset of income poverty • When sufficient, can prevent asset poverty • Helps households to self-insure against or manage risks that can trigger poverty (e.g. changes in family structure or employment, demand for unpaid care) • Enables productive risk-taking that can build future earnings or wealth – e.g. investments in education, training, self-employment or home ownership • Financial and real assets can generate earnings that increase income	• Provides important resources to manage "lumpy" expenses or emergencies that can't be paid for out of regular income flow • Stored income helps sustain consumption and well-being during income interruptions (e.g. benefit suspension) • Asset ownership can improve material well-being and/or earning opportunities (e.g. an inherited home in a high cost housing market, a car that enables access to employment where transit is lacking) • Assets can prevent financial stress and associated negative mental health/cognitive impacts, and promote self-efficacy and a hopeful, future orientation • Formal saving and asset building require a mainstream financial product and can, therefore, promote financial inclusion	• Use of savings/assets to support a productive risk or investment (e.g. education, training, entrepreneurship) can generate new household income • Use of savings assets for dependent offspring (e.g. education savings) can support an inter-generational exit from poverty • In rare cases, capital returns (e.g. sale of a house) or windfalls (e.g. a lump sum award or inheritance) may be enough to lift people out of poverty
Consumer education and protection		
• Consumer education and protection can reduce consumer exposure to and/or risk from title and payday loans that can lead to downward financial spiral (e.g. car repossessions leading to job loss) and promote financial inclusion	• Consumer awareness and exercise of their rights can improve material well-being by: – Lowering financial transaction costs – Preventing/reducing financial losses due to fraud or wrongdoing – Building self-efficacy and equipping consumers to take action in their own self-interest	N/A

* Source: Financial Empowerment and Alleviating Poverty in Canada: A concept paper prepared by Dr. Jennifer Robson, Carleton University for Prosper Canada. June, 2017.

ABLE Financial Empowerment Network: Who we are

The ABLE Financial Empowerment Network is a national coalition of community practitioners, financial institutions, researchers, academics, policymakers and funders dedicated to reducing poverty through financial empowerment initiatives that improve the financial security of vulnerable, low-income, community members. ABLE has a national Steering Committee,[8] established to develop and actively promote public policies and regulation that help Canadians with low incomes to build their financial well-being.

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Notes

1 http://www.usfinancialdiaries.org/

2 https://td-capa.s3.amazonaws.com/prod/default/0001/01/2ed95a1a680ea5b78ab53646f1f432f51405bc02.pdf

3 http://prospercanada.org/getattachment/877cb75f-4f8f-44ff-b762-af726c3afce7/Breaking-down-barriers-to-tax-filing.aspx

4 http://prospercanada.org/prospercanada/media/PDF/News/2017Fed_Budget_Subm_Summary_Jan_-27_2017.pdf

5 Municipal Financial Empowerment: A Supervitamin for Public Programs

This report series builds the case that fully integrating financial empowerment and asset building strategies into public programs will lead to more effective service delivery, improving outcomes while potentially saving money.

Download Strategy #1: Integrating Professional Financial Counseling
Download Strategy #2: Professionalizing the Field of Financial Education and Counseling
Download Strategy #3: Integrating Safe and Affordable Bank Accounts
Download Strategy #4: Targeting Consumer Financial Protection Powers
Download Strategy #5: Integrating Asset Building

6 TD Bank Group, *Pervasive and Profound: The Impact of Income Volatility on Canadians*, May 2017.

7 The Pew Charitable Trusts (2016). *Do Limits on Family Assets Affect Participation in, Costs of TANF? Restricting holdings has minimal impact on program caseloads, expenses*. http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/07/do-limits-on-family-assets-affect-participation-in-costs-of-tanf

8 ABLE Steering Committee

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