WHERE HAVE ALL OUR NEST EGGS GONE?

There was a time, not very long ago, when Canadians were savers.

In 1982, we routinely set aside 20 per cent[1] of our yearly income for large household purchases, education, starting businesses, retirement or just plain rainy days. Having a savings 'nest egg' was accepted wisdom and the norm.

Then something changed…

In just over 20 years, we turned from savers into spenders, saving less than one per cent of our income by 2005.[2] Today, we still save just over four per cent of our yearly income.[3] We also borrow and carry more household debt than ever before – an average 167 per cent of our yearly income.

How did we, the proverbial 'ants' of Aesop's fable, become a nation of 'grasshoppers'?

Is rising income volatility the hidden culprit?

We have very little research in Canada to explain why households overall have moved closer to the financial edge. While many people talk about rising consumerism, it's hard to believe that this alone is responsible. Typically, when a societal shift is this large and fast, it's a sign that more structural causes are at work.

Sure enough, those who have looked at this question in the U.S. have identified increasing income volatility as a new and growing factor in changing household financial behaviour, driven largely by the rise of precarious unstable work. This is in addition to persistent income stagnation and high housing costs that also contribute to underlying financial insecurity. Given similar economic trends in Canada, it's reasonable to suspect that the rise of precarious work and income volatility may be driving large changes in our personal finances too.

If so, how big is the problem?

Precarious work typically comes with unpredictable hours and fluctuating paycheques that make it impossible for many families to accurately predict their monthly income.

In the U.S., recent research shows that a staggering 41 per cent of banked Americans experience monthly income changes of 30 per cent or more and that 53 per cent of this volatility is due to their jobs.[4] Volatility affects some groups more than others – in this case, 70 per cent of young adults and 74 per cent of earners in the bottom income quintile.[5]

In Canada, the PEPSO study in Southern Ontario found that about 44 per cent of working adults are affected by job precarity, with many having trouble getting ahead or moving into better jobs.[6] Nationally, 2014 Statistics Canada data indicates many Canadians are self-employed (15.3 per cent), involuntarily employed part time (5.3 per cent) or in a temporary job (11.3 per cent). [7] These numbers suggest that at least one third of working age Canadians may be affected by this problem. As in the U.S., young people and those with low incomes are most likely to be affected.

Without savings, financial security is an uphill (and largely losing) battle

Households affected by precarious work typically struggle to manage their money effectively in the face of unpredictable income flows. They are also more likely to have to borrow money to bridge income-expense "gaps," and find it very hard to plan and save for the future. This makes it challenging, if not impossible, to build financial security or to invest in the future.

Unpredictable income from precarious work makes budgeting and managing regular expenses challenging as our bills arrive monthly but our income may not. It also makes coping with even modest unexpected expenses (e.g. a car repair, prescription drugs for an illness) difficult, as there may be little or no slack in our family budget depending on when the expense occurs and how urgent it is. If it is urgent, households typically have to borrow, hoping they'll be able to pay it off soon.

Planning and putting money aside for the future under these circumstances is virtually impossible for many families with low or modest incomes, and even for some with middle and higher incomes who have high fixed monthly expenses. As a result, many of us are saving little or nothing at all, even though financial prudence requires that we have three to six months of income available in emergency savings should the need arise. 2015 survey data[8] show that one quarter of Canadians (24 per cent) report living paycheque to paycheque and 44 per cent say they have under $5,000 in emergency savings, with 21 per cent having less than $1,000.

Households with low or no household savings are much less resilient when life's big emergencies hit – illness, job loss, drops in income, and unexpected large expenses. According to the above survey,[9] having low or no savings takes a financial and emotional toll on families. Forty-six per cent of Canadians cite increased debt as a consequence of having no savings and 49 per cent report feelings of stress and lack of financial stability, even when they're not immediately faced with an emergency.

Low savings and high debt also mean that, when interest rates begin to rise (as they will inevitably), we are vulnerable financially. This fact was recently underscored by a Transunion report showing that a mere 0.25 per cent rise in interest rates would cause 718,000 Canadians to default on their debts, while an increase of just 1 per cent would push 971,000 Canadians over the financial edge.[10]

For those with precarious jobs and modest or low incomes, lack of savings means they are particularly vulnerable to life's curve balls. While national financial surveys have shown people with low incomes budget as well as Canadians overall[11] and are less likely to take on debt as a rule,[12] they are also more likely to have to rely on high-cost, risky payday and car title loans when urgent expenses outstrip their immediate income.[13] According to the payday lending industry association, nearly two million Canadians a year use their services, which can charge the equivalent of up to 600 per cent interest on an annualized basis.

It's time to help Canadian families rebuild their nest eggs

While headlines may proclaim the rising net worth of Canadians, the truth is these figures are driven largely by rising home values in cities – values that may prove illusory in the face of a market correction that most experts agree is long overdue. In reality, many Canadian households do not have a healthy household balance sheet and those whose incomes come largely from precarious work (the young and low-income particularly) are unlikely to get there without help.

While the time is certainly right for a larger societal conversation on who reaps the risks and rewards of "flexible" work, the growing number of Canadians currently caught up in precarious work need practical supports now to help them smooth their income flows, manage unexpected expenses, and build up emergency savings. The alternative is to watch more families slide inexorably toward the financial edge and right over it as soon as the economy turns down or interest rates go up.

Here are 10 things we can do right now to start reversing this trend:

1. **Make rebuilding the balance sheets of Canadian households a national priority** – The 2008 Great Recession was also known as the Balance Sheet Recession because weak household balance sheets were a major driver. The U.S. Federal Reserve has made rebuilding the financial health of American households a national economic priority because it believes America cannot achieve real economic growth without it. We should be doing the same.

2. **Invest in research on household financial stability –** We need to know more about the nature and scope of the financial challenges facing Canadian households if we're to develop effective solutions. Leading U.S. institutions from all sectors (e.g. U.S. Federal Reserve, U.S. Treasury, Aspen Institute, Pew Charitable Trusts, JP Morgan Chase, Citi Foundation) are vigorously investigating the financial challenges of American households (see resources below for just a small taste of the work underway). Our governments, regulators, financial institutions and leading foundations should be taking a page from their book with the Bank of Canada, Finance Canada, the Financial Consumer Agency of Canada, and Statistics Canada leading the way.

3. **Implement proven solutions that help people (particularly low- and modest-income) to save for emergencies –** Proven approaches used in other jurisdictions 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.) The innovative MyRA retirement account, piloted by the U.S. Treasury, doubles as an emergency savings fund, allowing users to withdraw money for short-term needs without penalties. MyRA accounts and contributions can be facilitated by any employer, but are fully portable and tied to the account holder, not the workplace.

4. **Offer low- and modest-income households savings vehicles and tax incentives that are as effective and generous as those available to middle and higher-income Canadians**. The current federal tax expenditure review is an ideal opportunity to assess whether we are investing tax dollars equitably in this respect. More generous immediate incentives for low- and modest-income families that open TFSAs and save would be a good start.

5. **Provide financial tools and products that help low- and modest-income people with precarious incomes to 'smooth' volatile income flows and save** – Fintech companies are beginning to innovate in this space, but mainstream financial institutions have a role to play in making innovative new products broadly available.

6. **Stop preventing people receiving disability income support and social assistance from saving and building assets –** Evidence from the U.S. shows that lifting or eliminating savings and asset restrictions associated with these programs does not lead to increased enrolments but, instead, reduces administrative costs by two per cent.[14] Some provincial governments have already dipped their toe in this water, but it's time for everyone to jump in.

7. **Help people living on low incomes to access benefits they are entitled to so they have some money to save** –Many people with low incomes do not tax file or have difficulty applying for benefits. Consequently, they miss out on important income that could supplement precarious earnings and, in some cases, enable them to put aside some savings. Systematic benefit screening and hands-on help to tax file and apply for benefits are proven interventions that enable vulnerable people to access the benefits to which they are entitled. All large government and non-profit service providers working directly with people living on low incomes should be finding ways to build benefit screening and assistance into their services.

8. **Simplify and promote take-up of Registered Disability Savings Plans (RDSPs) –** Revisit the design of this program to make it easier for people with disabilities and their families to access this important savings vehicle and associated grants, and invest in more active outreach to low- and modest-income households who need and benefit most from accompanying savings grants and incentives.

9. **Ensure that low- and modest-income Canadians have access to relevant, unbiased, quality financial information and advice**. Free, non-profit, financial help centres in low-income neighbourhoods are a highly effective way to ensure people can get quality financial advice tailored to their needs and realities, and help setting up savings plans. Large U.S. cities are increasingly establishing these as a core municipal service in neighbourhoods targeted for revitalization. They are also weaving financial counselling and other financial empowerment supports into other municipal services based on evidence that it builds the financial security of clients and improves broader program outcomes like employment, earnings, housing stability and mental health.[15]

10. **Raise this issue in your workplace** – Are people employed precariously in your workplace? If so, is there a way to foster dialogue on the impact and to explore ways to minimize income volatility and support employees to achieve greater financial stability and security?

There are no magic bullets when it comes to building financial security, but we do know that savings are a bulwark against risk and repositories of hope for the future. There can be no better place to start.

RESOURCES

Income volatility and its impact on household financial behaviour

Aspen Institute research on income volatility and its impact on household financial security

- *Income Volatility: A Primer*
  http://static1.squarespace.com/static/56ba3fc540261d9363ecd2d1/t/57be0a80414fb54bce1ee80b/1472072324346/Income+Volatility+-+A+Primer+ percent28May percent29.pdf

- Reading and resources on income volatility
  http://www.aspenepic.org/whatweknow

JP Morgan Chase report on income volatility and the online economy

- *Paychecks, Paydays, and the Online Platform Economy: Big Data on Income Volatility*
  https://www.jpmorganchase.com/corporate/institute/report-paychecks-paydays-and-the-online-platform-economy.htm

U.S. Financial Diaries – Observational research study examining the financial lives and behavior of 300+ families with low or modest incomes over one year.
http://www.usfinancialdiaries.org/

- Jonathan Morduch of FAI and Rachel Schneider. *Spikes and Dips: How Income Uncertainty Affects Households.* 2013.
  http://www.usfinancialdiaries.org/issue1-spikes

Household balance sheets and why they matter

St. Louis Federal Reserve Center for Household Financial Stability
https://www.stlouisfed.org/household-financial-stability

- Shannon R. Smithers. *myRA: A New Way to Save for Retirement.* Jan 2016.
  https://research.stlouisfed.org/publications/page1-econ/2015/12/29/myra-a-new-way-to-save-for-retirement/

- Ray Boshara. *Thrivers and Strugglers: The Balance Sheets and Financial Health of U.S. Families* Presentation to Assets Funders Network 2015 Grantmaker Meeting, Dallas.
  https://www.stlouisfed.org/~/media/Files/PDFs/HFS/assets/Boshara-ANF-Dallas-2015.pdf

- Ray Boshara. *Policy Perspectives on Fostering Consumer Financial Health.* Presentation at EMERGE Conference Center for Financial Services Innovation June 4, 2014
  https://www.stlouisfed.org/~/media/Files/PDFs/HFS/assets/CFSI-remarks-Boshara-June2014.pdf

- William R. Emmons and Bryan J. Noeth. *The Nation's Wealth Recovery Since 2009 Conceals Vastly Different Balance-Sheet Realities among America's Families.* 2013.
  https://www.stlouisfed.org/publications/in-the-balance/issue3-2013

The Pew Charitable Trusts research on household financial security

- *State of household balance sheets and financial security* http://www.pewtrusts.org/en/research-and-analysis/reports/2015/01/the-precarious-state-of-family-balance-sheets

Importance of savings and how to help families build them

BMO – 2015 Rainy Day Survey

- 2015 Rainy Day Survey news release with key findings https://newsroom.bmo.com/press-releases/average-emergency-savings-fund-up-18-per-cent-from-tsx-bmo-201509011023306001

Center for Social Development, Washington University

- Dana C. Perantie, Jane E. Oliphant, and Michal Grinstein-Weiss. *Support for a Tax-Time Savings Policy: Interest in Deferring Tax Refunds with Matched Incentives.* Jan 2016 https://csd.wustl.edu/Publications/Documents/RB16-03.pdf

Consumer Financial Protection Bureau

- CFPB Office of Financial Empowerment. *Increasing saving at tax time and promising practices for the field.* Aug 2015. http://www.consumerfinance.gov/data-research/research-reports/increasing-saving-at-tax-time-and-promising-practices-for-the-field/

The Pew Charitable Trusts research on household financial security

- *Role of emergency savings in family financial security* http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/10/the-role-of-emergency-savings-in-family-financial-security-how-do-families

- *Barriers to saving and policy opportunities* http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/01/barriers-to-saving-and-policy-opportunities

- *Impact of lifting welfare (TANF) asset limits* http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/07/do-limits-on-family-assets-affect-participation-in-costs-of-tanf

Urban Institute – Study examining the relationship of household financial health and stability to the economic health of cities. Includes findings on impact of nonretirement savings -- families with a savings cushion as little as $250 to $749 are less likely to be evicted, miss a housing or utility payment, or receive public benefits after a job loss, health issue, or large income drop.

- Signe-Mary McKernan, Caroline Ratcliffe, Breno Braga, and Emma Kalish. *Thriving Residents, Thriving Cities. Family Financial Security Matters for Cities.* April 2016. http://www.urban.org/research/publication/thriving-residents-thriving-cities-family-financial-security-matters-cities

U.S. Financial Diaries – Observational research study examining the financial lives and behavior of 300+ families with low or modest incomes over one year. http://www.usfinancialdiaries.org/

- **Blog and webinar series in partnership with Stanford Social Innovation Review** that looks at the financial lives of working Americans and offer insights for designing policies, programs, and products that can better meet their needs. http://www.financialaccess.org/blog/2016/2/10/lw0e0cmpf3kuck6mn0i32ofizogazo

- Jonathan Morduch, Rachel Schneider, Timothy Ogden, Anthony Hannagan, Julie Siwicki. *Emergency Savings*. June 2015. http://www.usfinancialdiaries.org/issue4-emersav

- Jonathan Morduch, Rachel Schneider, Timothy Ogden, Anthony Hannagan, Julie Siwicki. *Savings Horizons*. June 2015 http://www.usfinancialdiaries.org/issue5-savhoriz

Municipal financial empowerment

New York Office for Financial Empowerment 'Supervitamin' Reports on the integration of financial counselling and other financial empowerment supports into municipal social services.

- *Integrating professional financial counseling* http://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-SupervitaminReport1.pdf

- *Professionalizing the field of financial counseling* http://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-SupervitaminReport2.pdf

- *Integrating safe and affordable bank accounts* http://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-SupervitaminReport3.pdf

- *Targeting consumer financial protection powers* http://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-SupervitaminReport4.pdf

- *Integrating asset building* http://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-SupervitaminReport5.pdf

- *Building financial counseling into social service delivery* http://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-BuildingFinancialCounselingintoSocialServiceDelivery.pdf

[1] Q1 1982 household saving rate for Canada
[2] Q1 2005 household saving rate for Canada
[3] Q2 2016 household saving rate for Canada
[4] Farrell, D. and Greig, F. (2015) *Weathering Volatility: Big Data ion the Ups and Downs of U.S. Individuals*. JPMorgan Chase Institute.
[5] Farrell and Grieg (2015)
[6] *The Precarity Penalty The impact of employment precarity on individuals, households and communities —and what to do about it*. Executive Summary. May 2015. McMaster University and United Way Toronto. https://pepsouwt.files.wordpress.com/2015/05/precarity-penalty-summary_final-hires_trimmed.pdf
[7] Fleury (2016)
[8] BMO, *Average Emergency Savings Fund up 18 percent from 2014; One Quarter Living Paycheque to Paycheque*: BMO Rainy Day Survey. News release Sept 1, 2015. https://newsroom.bmo.com/press-releases/average-emergency-savings-fund-up-18-per-cent-from-tsx-bmo-201509011023306001
[9] *Ibid*
[10] Garry Marr, "It won't take much to drive Canadian borrowers over the edge, new study says." *Globe and Mail*, September 13, 2016. http://business.financialpost.com/personal-finance/debt/it-wont-take-much-to-drive-canadian-borrowers-over-the-edge-new-study-says
[11] *Managing Money and Planning for the Future: Key Findings from the 2014 Canadian Financial Capability Survey*. FCAC Research and Policy, Nov 2015. http://www.fcac-acfc.gc.ca/Eng/resources/researchSurveys/Documents/managing-money-key-findings.pdf
[12] Prosper Canada. *Health Check: Low-Income Household Finances in Canada*. Presentation to ABLE Financial Empowerment Conference, Toronto, Nov 2, 2015. http://www.prospercanada.org/prospercanada/media/PDF/ABLE percent202015 percent20Presentations/Plenary_Day1/Plenary_Health-Check-Liz-Mulholland.pdf
[13] *Ibid*.
[14] The Pew Charitable Trusts. *Do Limits on Family Assets Affect Participation in, Costs of TANF? Restricting holdings has minimal impact on program caseloads, expenses*. July 2016. http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/07/do-limits-on-family-assets-affect-participation-in-costs-of-tanf
[15]

- New York Office of Financial Empowerment. *Building financial counseling into social service delivery* http://www.nyc.gov/html/ofe/downloads/pdf/Research_BuildingFinancialCounselingintoSocialServiceDelivery.pdf
- Corporation for Enterprise Development. *FINANCIAL COUNSELING & ACCESS FOR THE FINANCIALLY VULNERABLE. Findings from the Assessing Financial Capability Outcomes (AFCO) Adult Pilot*. https://www.treasury.gov/resource-center/financial-education/Documents/Financial percent20Counseling percent20and percent20Access percent20for percent20the percent20Financially percent20Vulnerable percent20- percent20Findings percent20from percent20the percent20Assessing percent20Financial percent20Capability percent20Outcomes percent20 percentE2 percent80 percentA6.pdf
- City of San Antonio. *San Antonio Uses HPRP to Emphasize Financial Literacy* https://www.hudexchange.info/onecpd/assets/File/San-Antonio-TX-Uses-HPRP-to-Emphasize-Financial-Literacy.pdf
- New York Office of Financial Empowerment. *Municipal Financial Empowerment: A Supervitamin for Public Programs. Strategy#1 – Integrating Professional Financial Counseling* http://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-SupervitaminReport1.pdf
- NY Department of Consumer Affairs. *Building Financial Counseling into Social Service Delivery: Research and Implementation Findings for Social Service Programs* http://www1.nyc.gov/assets/dca/downloads/pdf/partners/Research-BuildingFinancialCounselingintoSocialServiceDelivery.pdf
- Elizabeth Sweet, Arijit Nandi, Emma K. Adam, Thomas W. McDade."The high price of debt: Household financial debt and its impact on mental and physical health." *Social Science and Medicine*, Volume 91, August 2013, Pages 94–100.http://www.sciencedirect.com/science/article/pii/S0277953613002839