HEALTH CHECK

Low-income Household Finances in Canada

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This report is based on research by:

Dr. Jennifer Robson
Assistant Professor
Kroeger College, Carleton University
Jennifer.Robson@carleton.ca

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Confused about how Canadian households are doing financially?

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Media, financial experts, policymakers tell a seemingly conflicting story

Best
of times?

"CIBC signals rising household debt no cause for concern"

BNN - Business News Network, Sept 2015

Media, financial experts, policymakers tell a seemingly conflicting story

Worst
of times?

> "Canada's household debt ratio hits record as what we owe grows faster than our incomes"

Financial Post, Sept 2015

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Media, financial experts, policymakers tell a seemingly conflicting story

Best
of times?

> Canadian households are getting richer, not poorer

National Post, Sept 2015

Media, financial experts, policymakers tell a seemingly conflicting story

Worst
of times?

> Almost half of workers are living paycheque to paycheque, survey finds

Globe and Mail, Sept 2015

Media, financial experts, policymakers tell a seemingly conflicting story

Best
of times?

> Is the income gap growing? It depends who you measure

Globe and Mail, July 2015

Media, financial experts, policymakers tell a seemingly conflicting story

Worst
of times?

> "Income inequality damaging Canadian economy"

CBC News, December 2014

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Media, financial experts, policymakers tell a seemingly conflicting story

Best of times?

> Canada Grew Richer, More Equal In 2014

Huffington Post Canada, August 2015

Media, financial experts, policymakers tell a seemingly conflicting story

Worst
of times?

"Wealth gap widens in Canada as richest see faster rise in net worth"

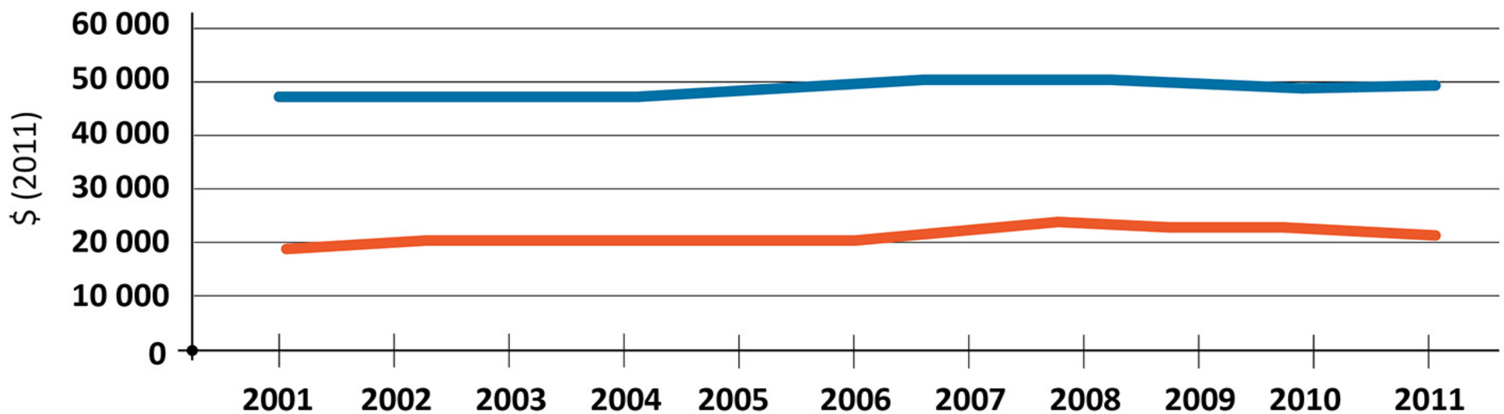
Global News, June 2015

What is really happening?

Income is a key factor in financial health, but market income was largely flat 2001 to 2011

Single adults are particularly vulnerable

Median market income, 2001-2011



Source: CANSIM Table 202-0203

Constant dollars (2011)

All family units
Unattached persons

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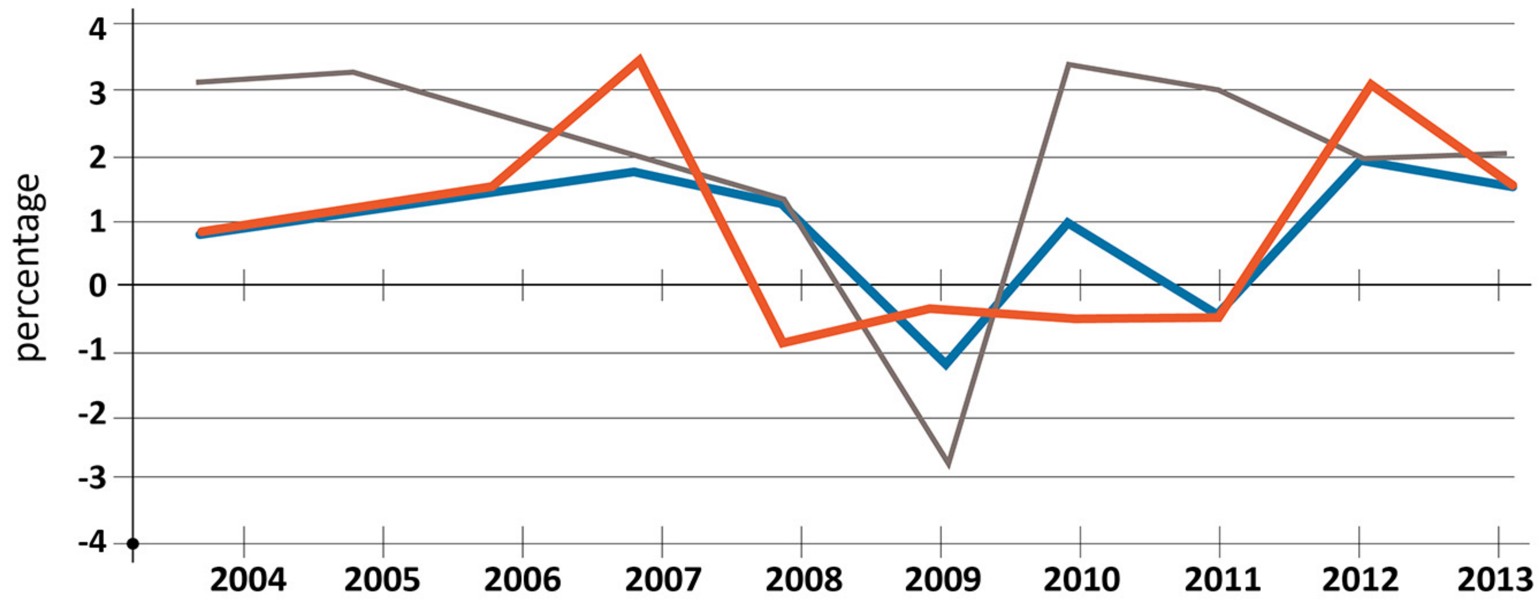
Total income began rising again in 2011, thanks in part to our tax and transfer system

But we can't count on economic growth to "lift all boats"

Annual change (%) in median employment and total income



Sources: CANSIM Table 111-0041 and Table 380-0101 Gross national income and gross domestic income, annual

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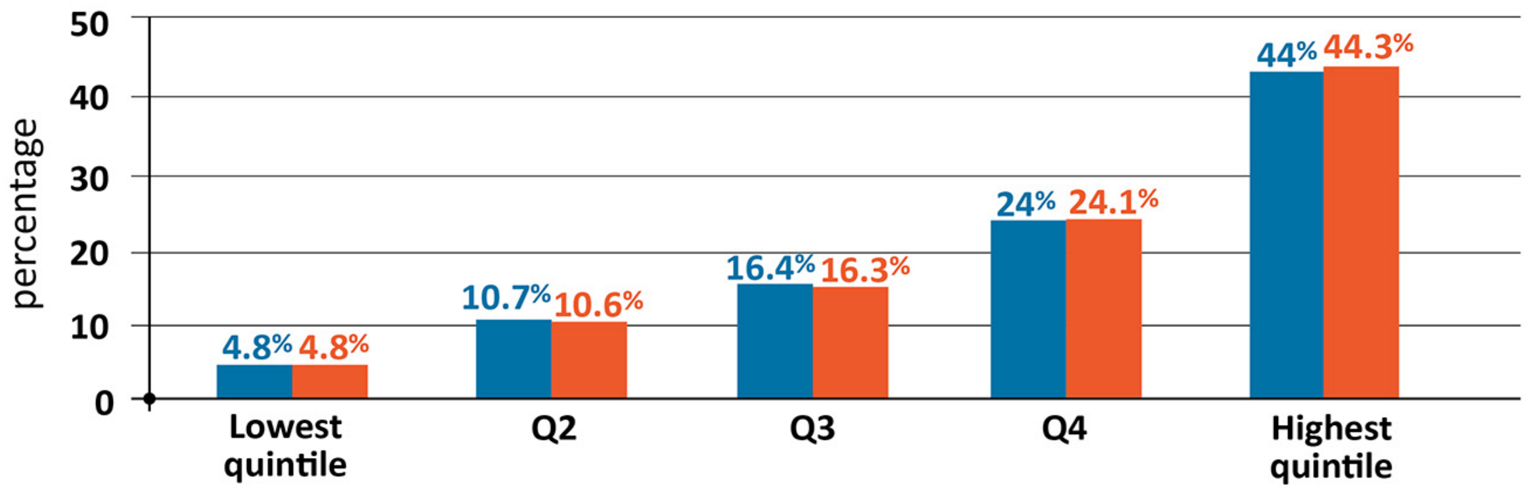
Income inequality is also on the rise (slightly)

Top income groups are the only ones gaining income share

Share of total income, after-tax, by household income quintile, 2001 vs. 2011



Source: CANSIM Table 202-0701, Survey of Labour and Income Dynamics

2001 2011

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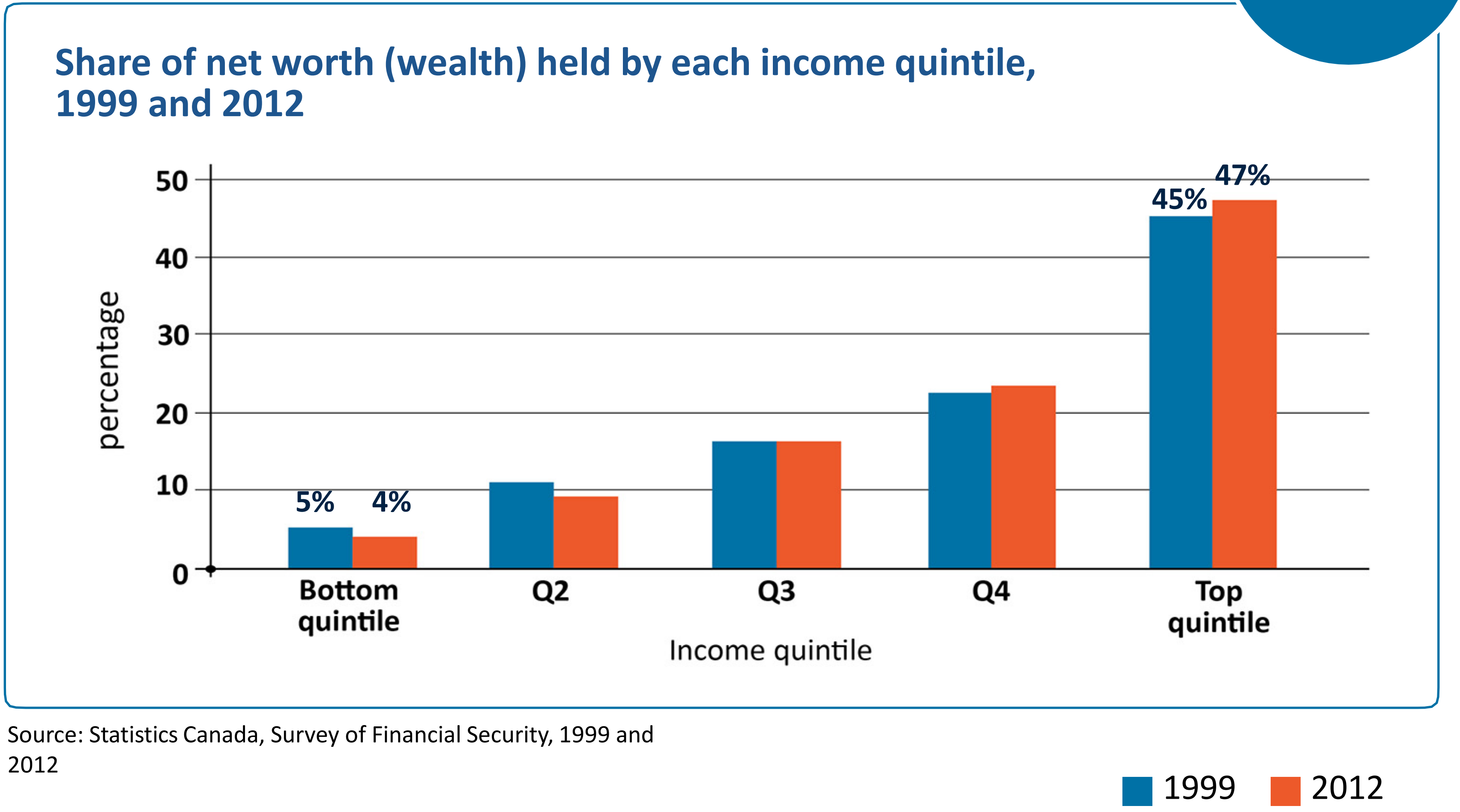
Wealth inequality is a bigger problem and growing

Net worth at bottom grew, but their share of wealth shrank



Source: Statistics Canada, Survey of Financial Security, 1999 and 2012

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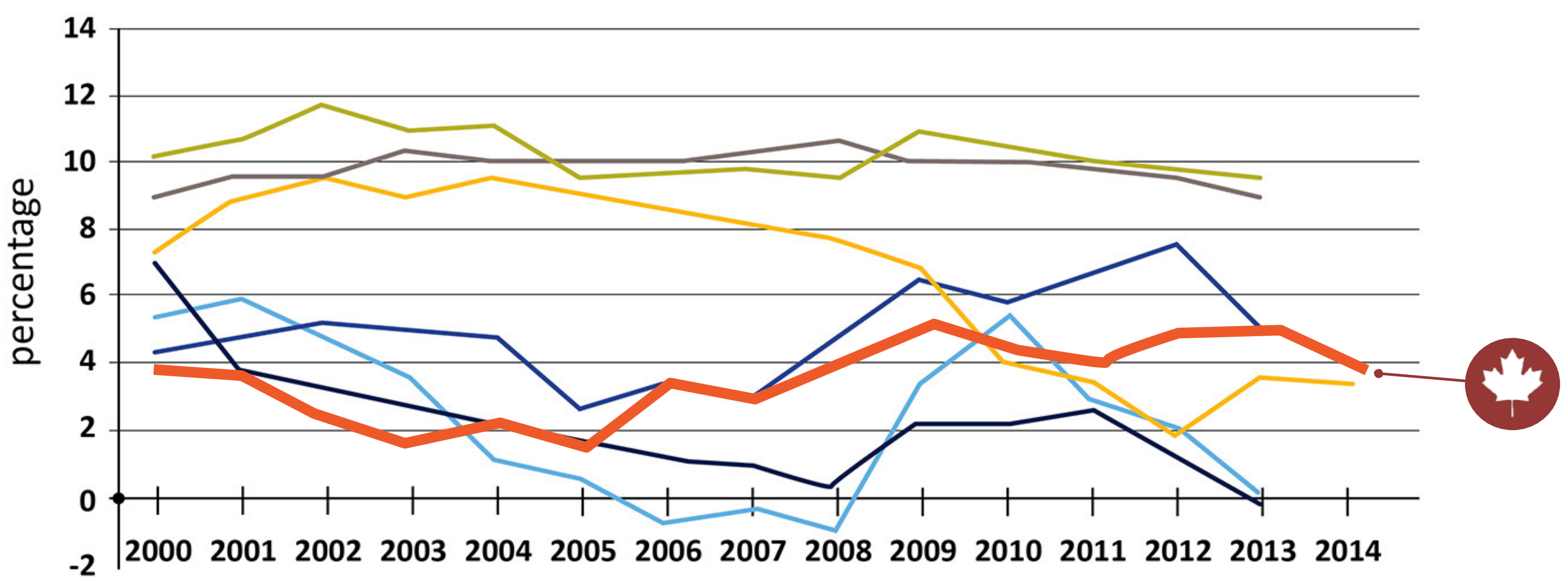
Saving is one way to gain wealth, but Canadians are no longer strong savers

Savings rate is 4% (down from 20% in 1982)

Annual savings rates, G-7 countries



Source: OECD, National Accounts at a Glance

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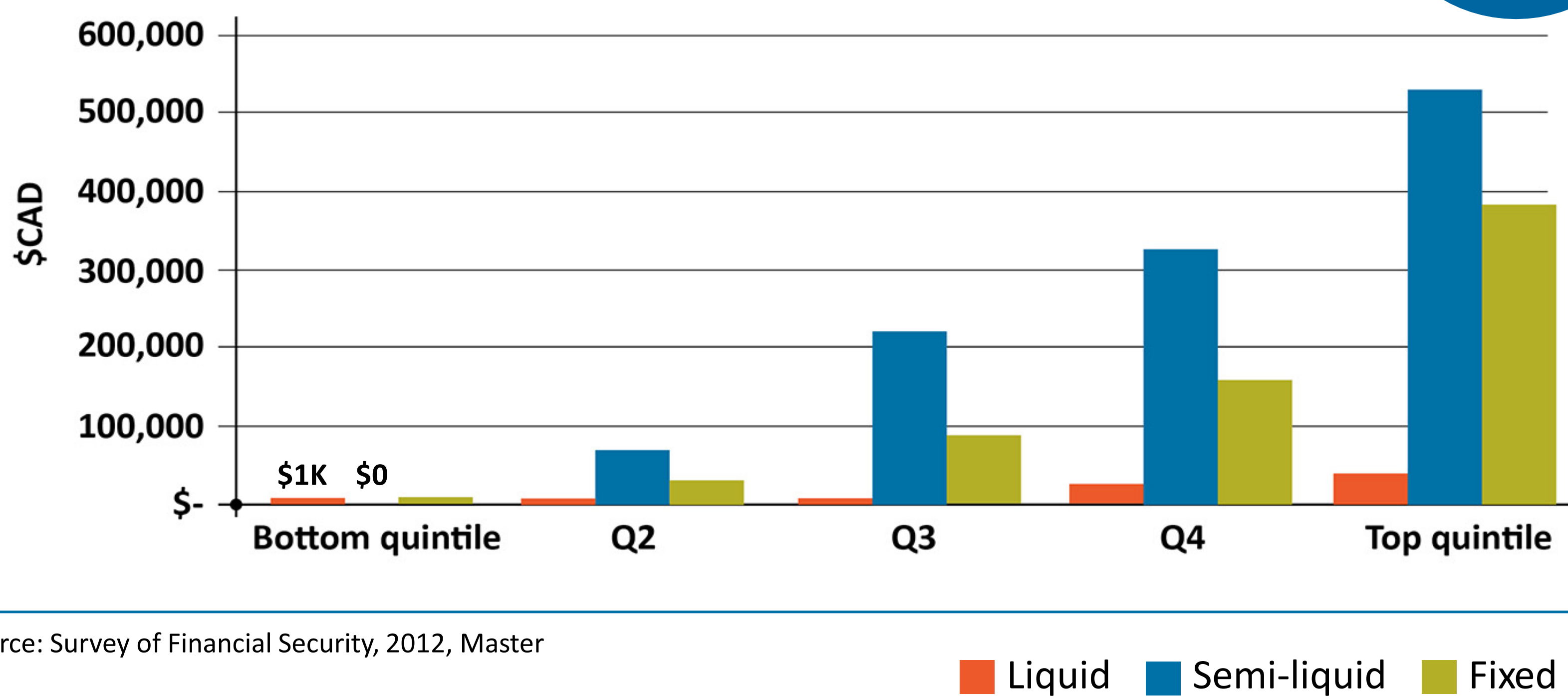
Assets are a key wealth indicator, but low-income households have almost none

Low-income families have virtually no financial safety cushion

Median assets by type, by income quintile



Source: Survey of Financial Security, 2012, Master File

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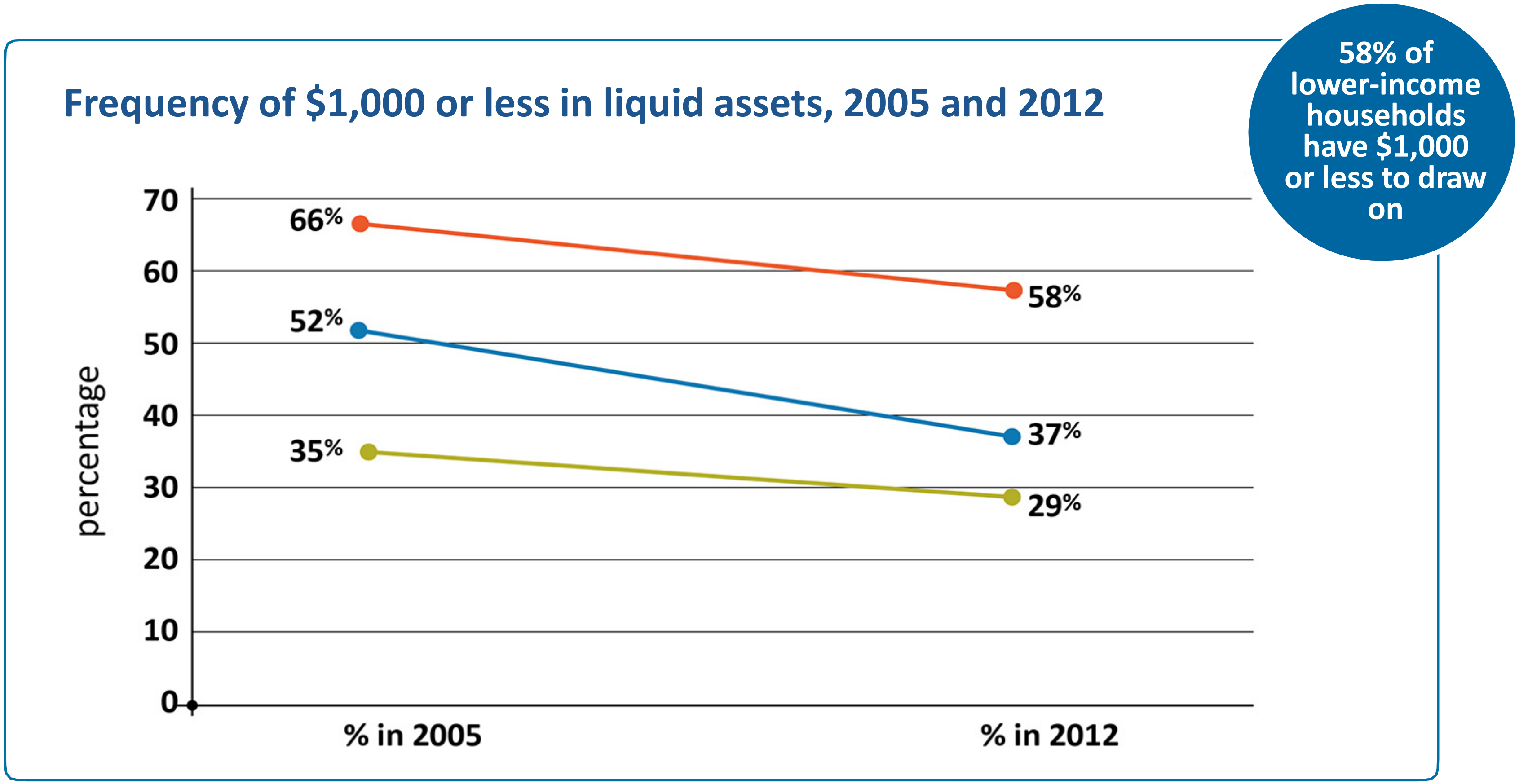
This shows in the high proportion of households with $1,000 or less in liquid assets



Source: Survey of Financial Security, 2005 and 2012, Master File

- Bottom income quintile working-age only
- Q2, working-age only
- All working-age households

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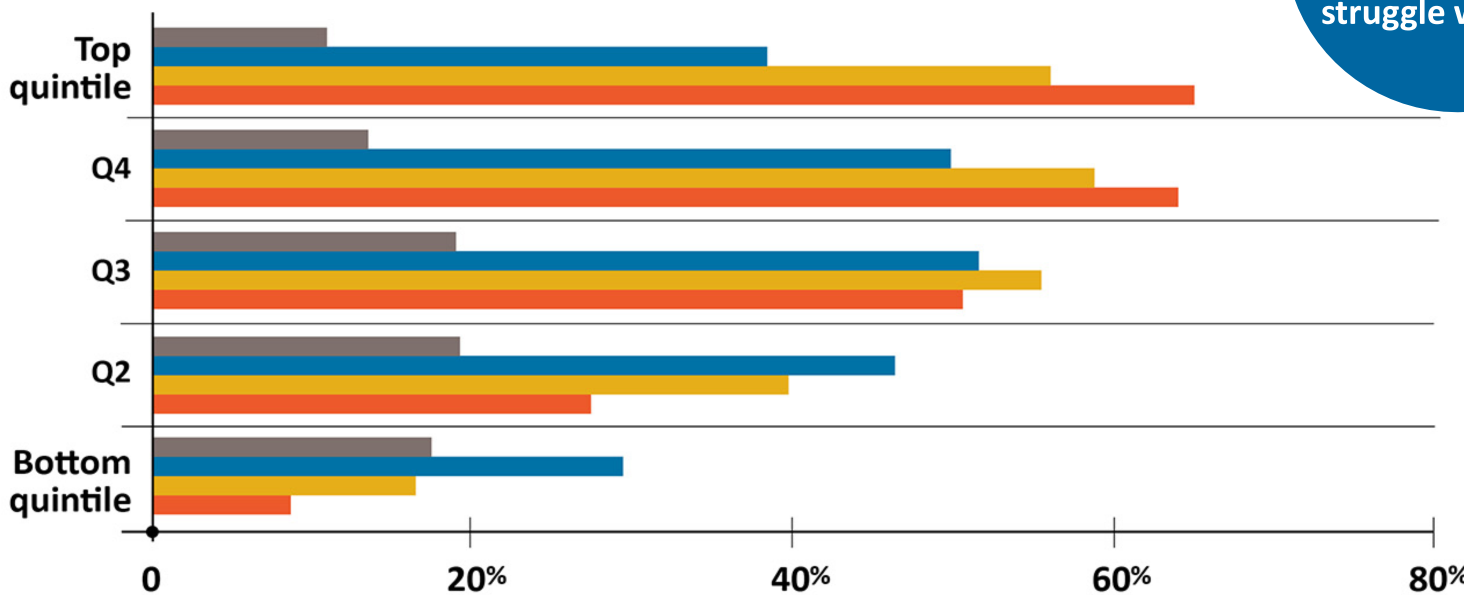
While household debt is at a record high, households with low incomes are the least likely to be indebted

This doesn't mean that some low-income households don't struggle with debt

Frequency (%) of ownership of selected debts by household income quintile for working-age households only, 2012



Source: Survey of Financial Security, 2012, Master File

Student loan debt · Credit card debt · Other bank debt · Mortgage debt

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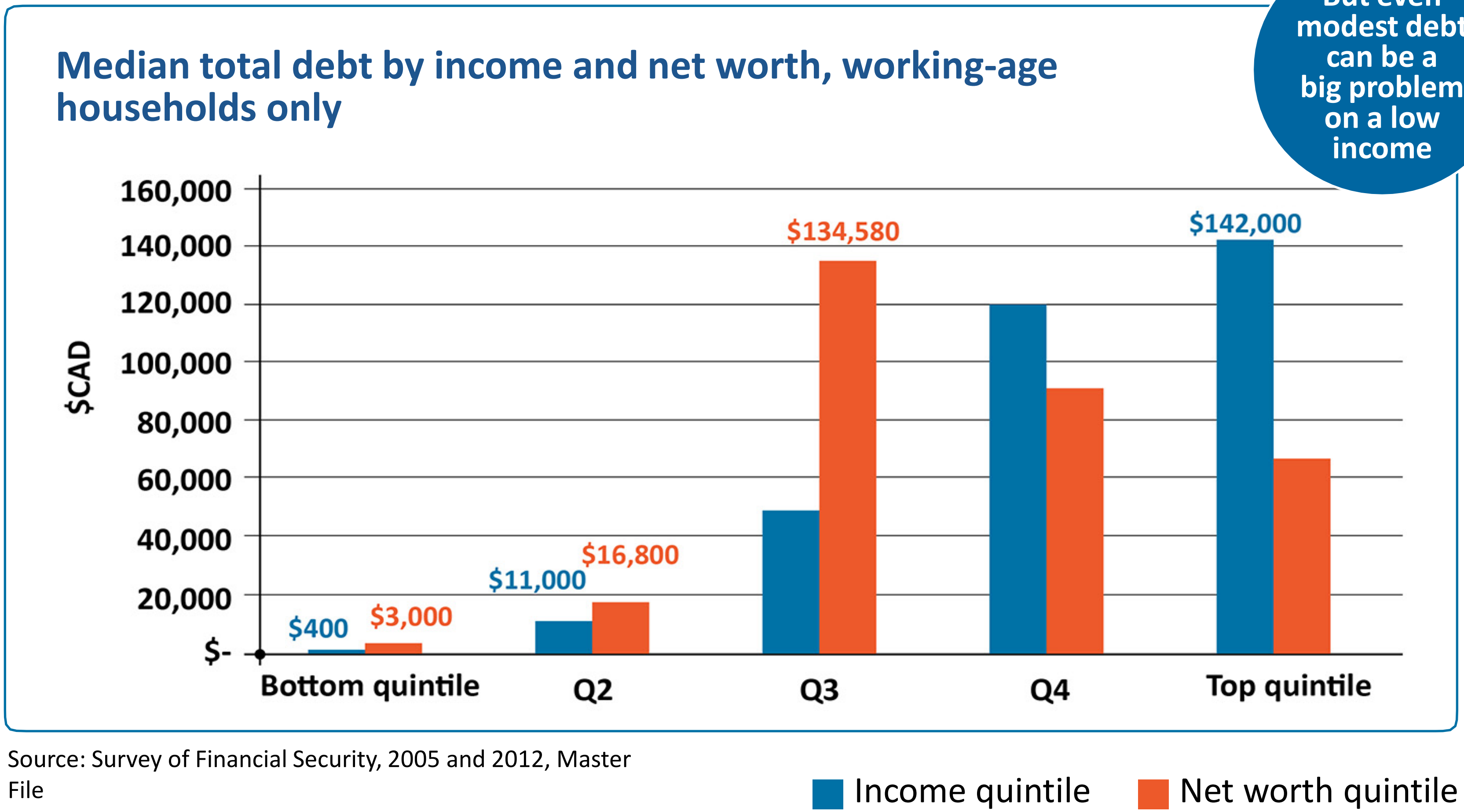
Households with low income and net worth also typically don't have large debt burdens

But even modest debt can be a big problem on a low income



Source: Survey of Financial Security, 2005 and 2012, Master File

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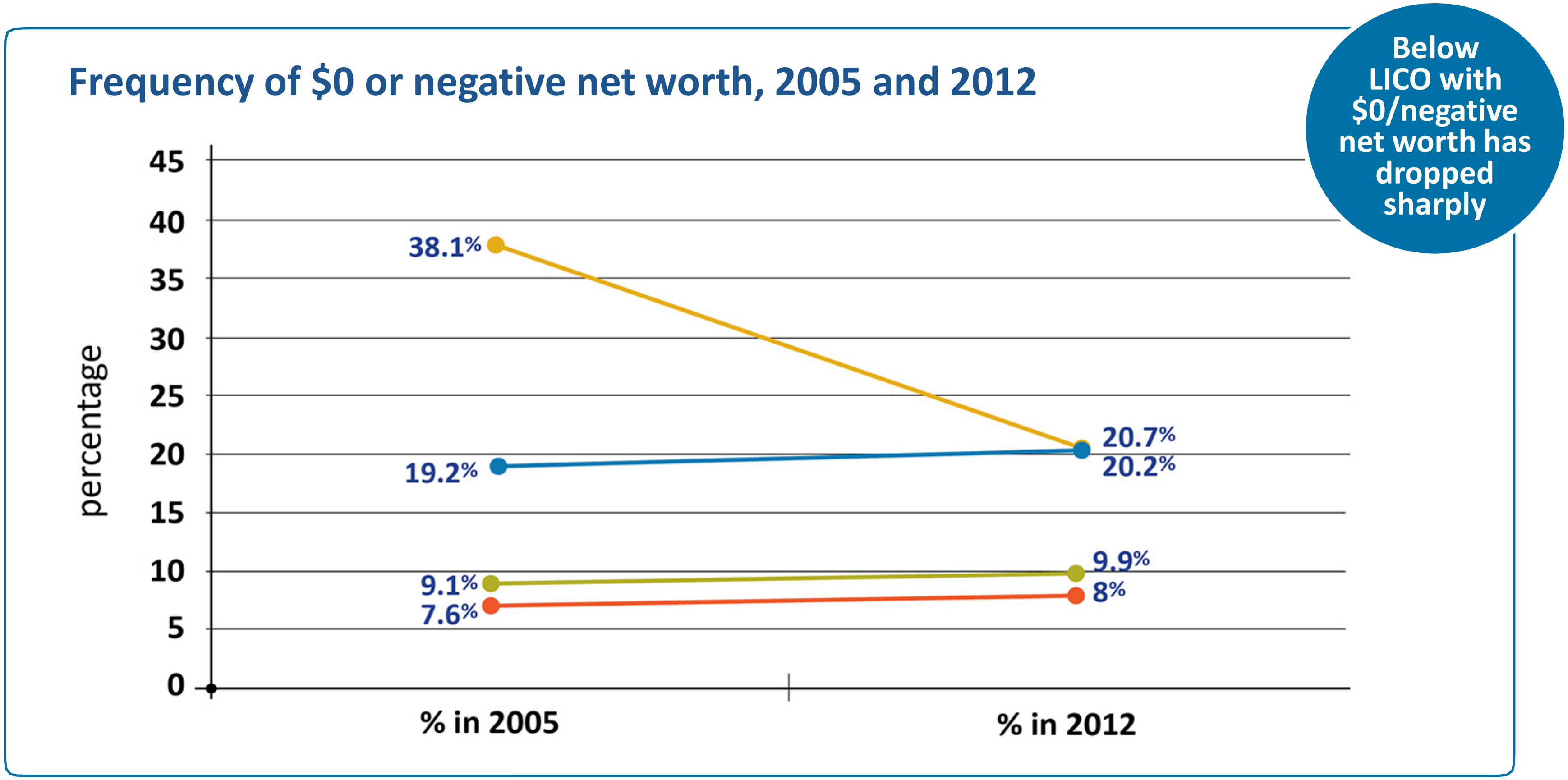
More households are likely to have $0 or negative net worth, except those below LICO



Source: Survey of Financial Security, 2005 and 2012, Master File

- All households
- All working-age households
- Working-age, bottom income quintile
- Working-age only, in low-income (AT)

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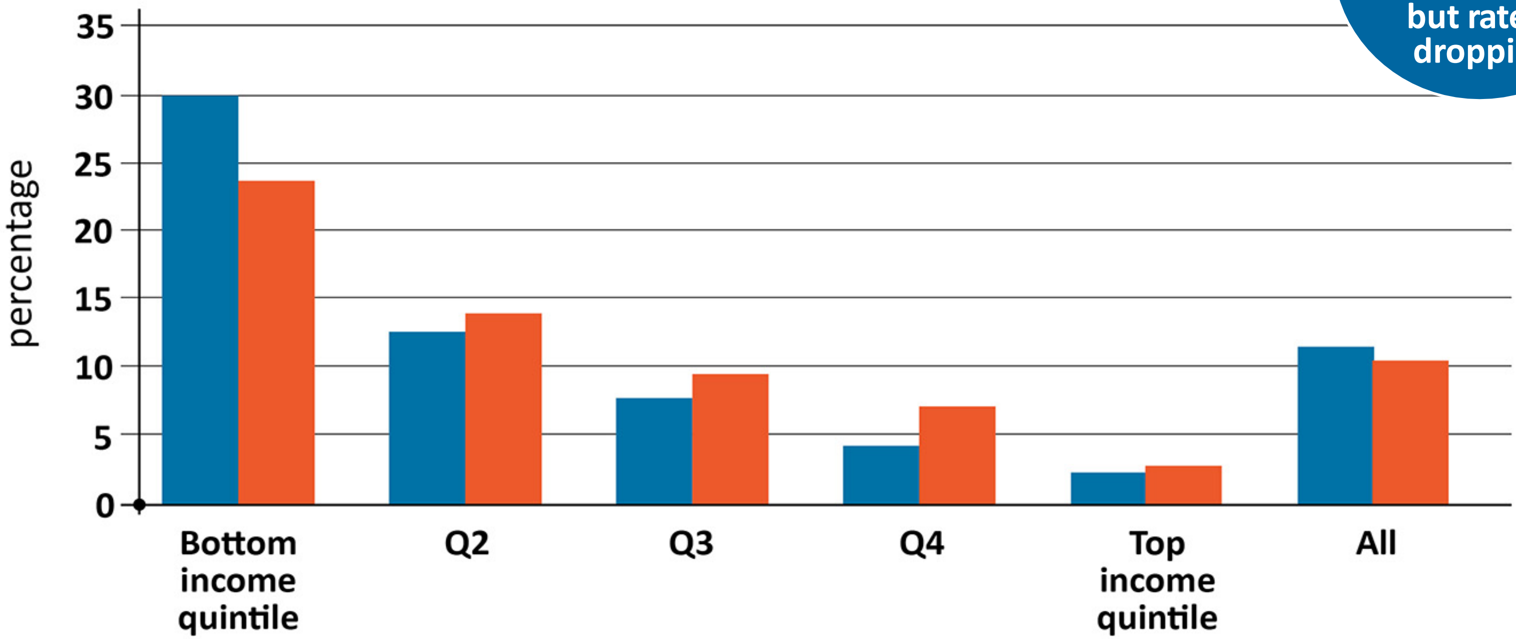
Very few Canadians are unbanked, but many with low income lack access to a credit card

No credit card, by income quintile



Low-income most likely to have no credit card but rate is dropping

Source: Canadian Survey of Financial Capability, 2008 and 2014, Public Use Microdata File

2008 2014

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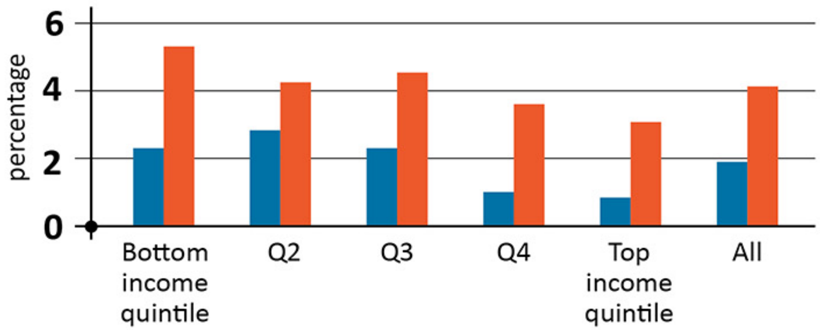
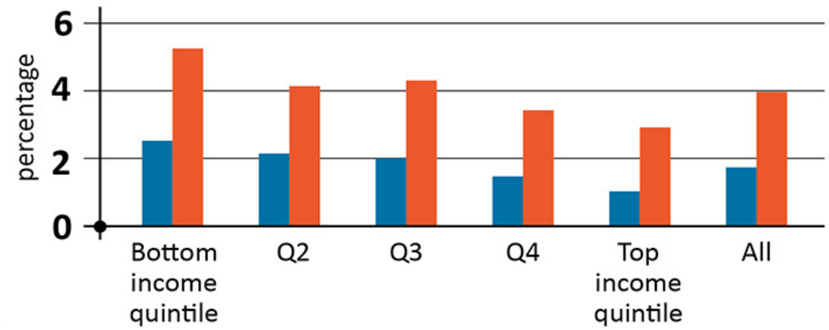
More Canadians from all income groups are using fringe financial services, however

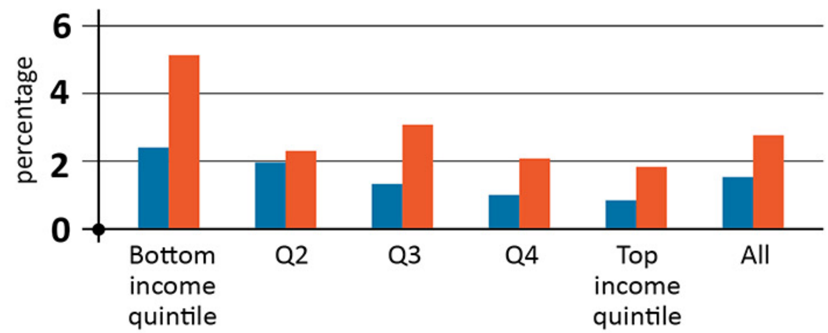
Reported use of payday lender in last 3 years, by income quintile



Reported use of cheque casher in last 3 years, by income quintile



Reported use of pawnbroker in last 3 years, by income quintile



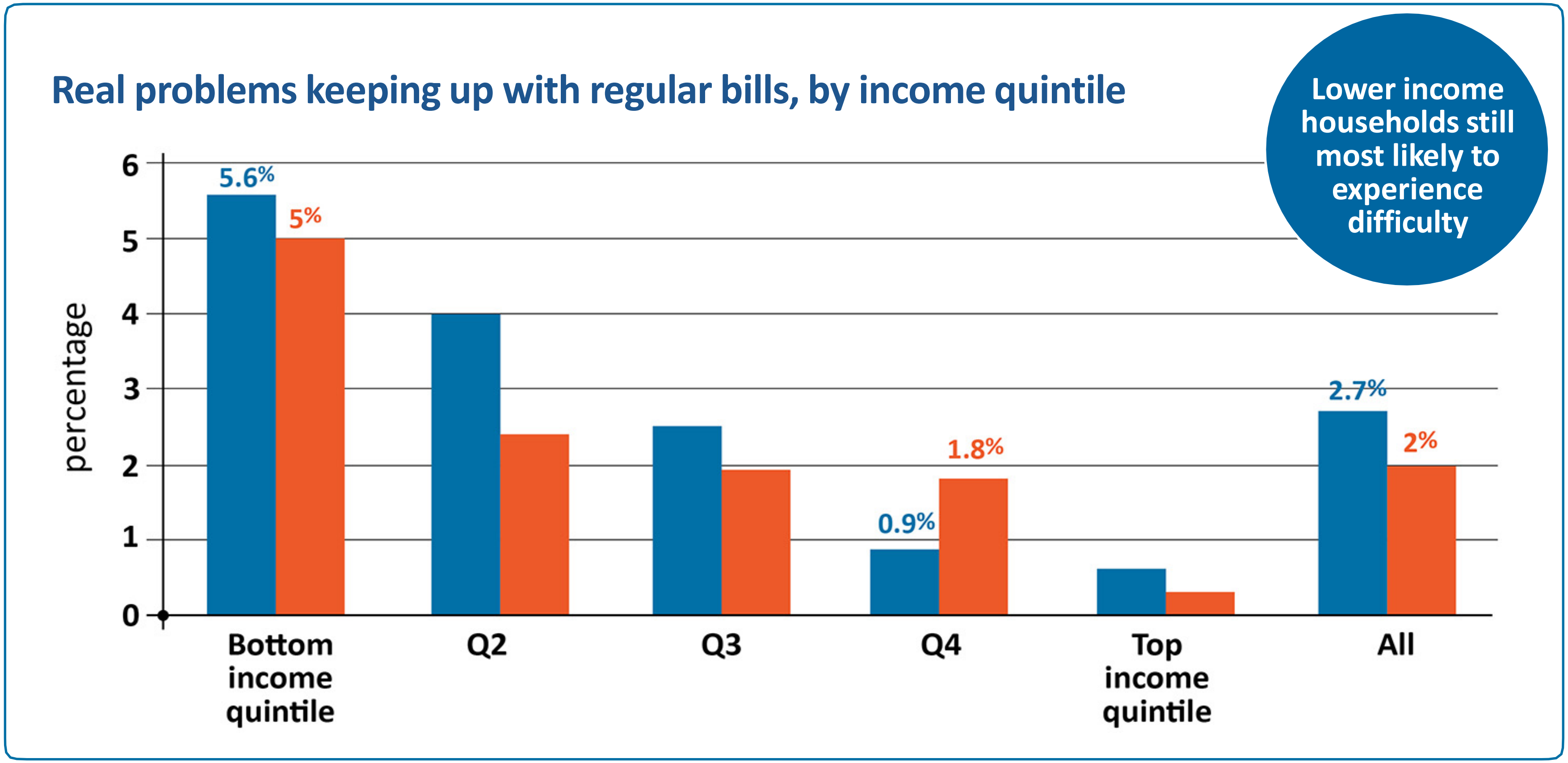
2008

2014

Source: Canadian Survey of Financial Capability, 2008 and 2014, Public Use Microdata File

Low-income still most likely to use all fringe financial services

Fewer households are having trouble paying regular bills except (interestingly) upper-middle income households



Source: Canadian Survey of Financial Capability, 2008 and 2014, Public Use Microdata File

2008 2014

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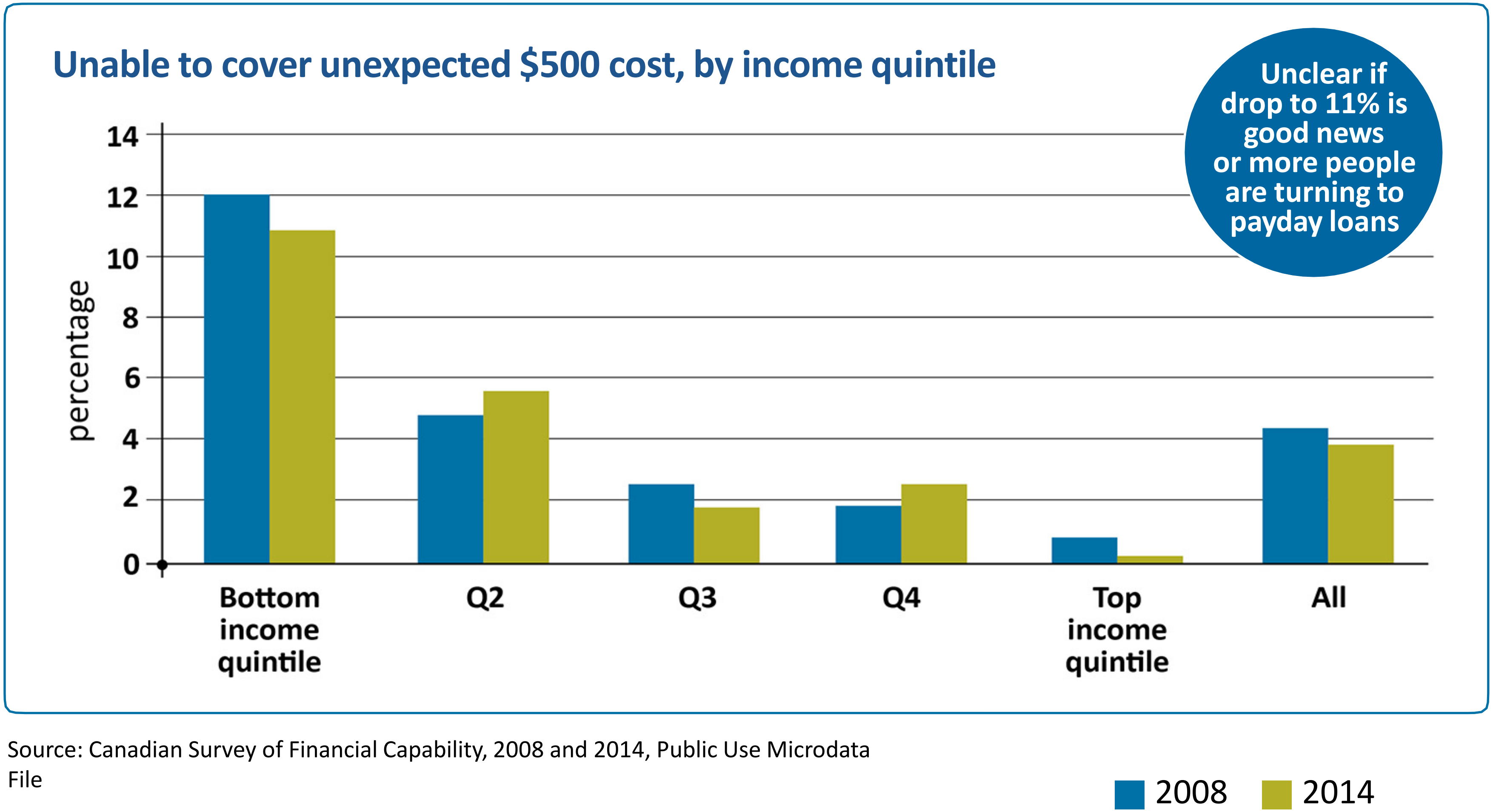
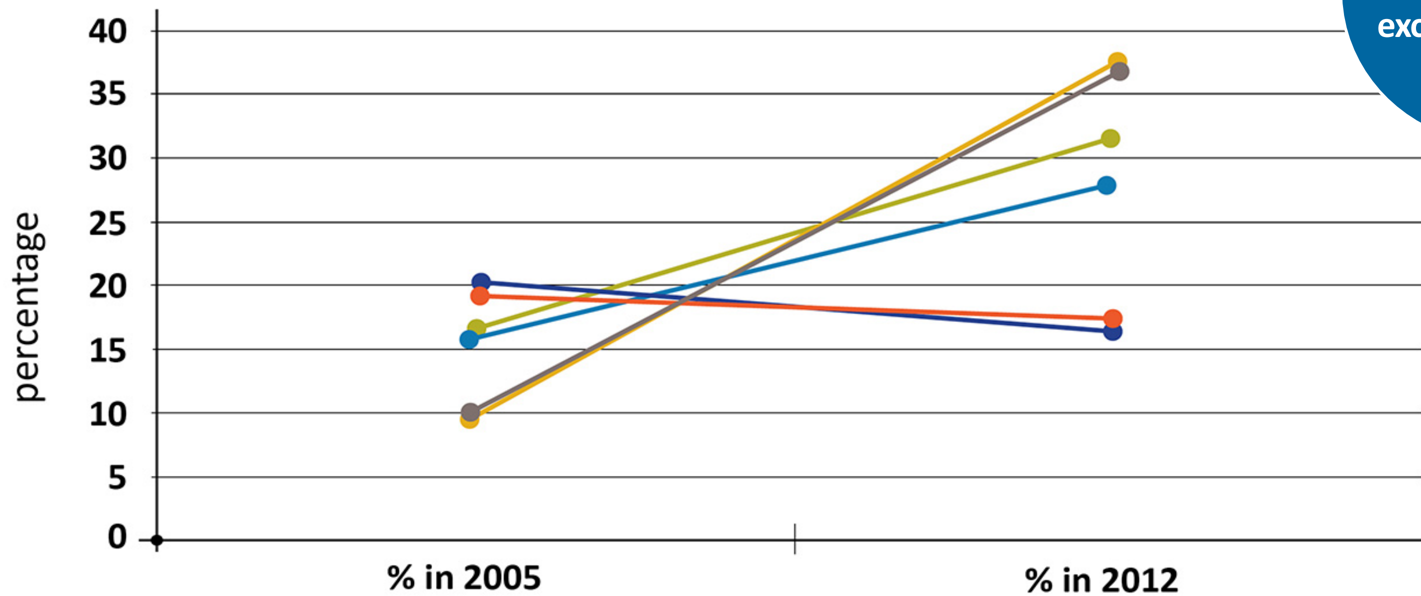
But 11% of households in the lowest income bracket would have trouble covering an unexpected $500 cost



Source: Canadian Survey of Financial Capability, 2008 and 2014, Public Use Microdata File

RRSPs are increasingly being used as multipurpose savings accounts to help families 'smooth' income and expenses

Frequency (%) of emergency RRSP withdrawal, working-age households only



Emergency withdrawals have increased sharply except for higher income

Source: Source: Survey of Financial Security, 2005 and 2012, Master File and Public Use Microdata File

- Top income quintile
- Q2 income
- Bottom income quintile
- Top net worth quintile
- Q2 net worth
- Bottom net worth quintile

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What can we take away from all this?

Key take-away #1

Our tax and transfer system continues to help boost incomes for Canadians in poverty, but is weaker as a bulwark against growing income inequality

Is it time to "retool" income support programs designed for the 20th century, not the 21st?

Simplify and tighten up our income tax system?

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Key take-away #2

Wealth inequality is even greater than income inequality and rising too

Are we fairly incentivizing savings and wealth building for all Canadians or for some groups more than others?

Do we have conflicting policy goals that work against low-income Canadians who save and acquire assets?

Key take-away #3

Low-income households have almost no liquid or semi-liquid assets to serve as a financial cushion in the face of emergencies

How can we support these families to build emergency savings?

How can we ensure fair access to longer-term savings options that meet their needs?

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Key take-away #4

Low-income households are less likely to take on debt and carry much less of it than other households, but those with debt may need more help

Are we doing enough to give households an 'off ramp' from debt?

To regulate and provide low-cost, low-risk alternatives to predatory loans?

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Key take-away #5

Financial exclusion still affects low-income Canadians disproportionately, even though most are banked	Can we build a new consensus on what people need to be fully included in today's financial marketplace – even as we work to address barriers we already know about?

Key take-away #6

Low-income households are still the most vulnerable when it comes to fringe financial services, but these are increasingly popular with households of all income levels

What is driving this?

Do we have the knowledge we need to develop effective alternative products/services and regulation?

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Key take-away #7

Low-income households experience the most financial strain, but households at other income levels are also showing signs of increased vulnerability	Why is this? Is growing precarity a factor? High household debt?

These facts tell us what's happening, but not why

We need a better window on the financial lives of Canadians with low-incomes

Only then will we understand the causes of financial vulnerability and find effective ways to help families build their financial health

Prosper Canada

60 St. Clair Avenue East, Suite 700
Toronto, Ontario
M4T 1N5

Tel: 416-665-2828
Toll Free: 1-877-568-1571
Fax: 416-665-1661
info@prospercanada.org
www.prospercanada.org

Data sources

Based on analysis of surveys conducted by Statistics Canada:

- **Survey of Financial Security** 2005 and 2012 cycles
- **Canadian Financial Capability Survey** 2008 and 2014 cycles
- **Survey of Labour and Income Dynamics** final cycle (2011)
- **Administrative data** from income tax returns

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Data limitations

Vulnerable Canadians are under-represented in the survey data used.

Surveys used are subject to standard collection and coding errors. Micro-data on household assets, debts and behaviors is hard to collect.

Data used are cross-sectional – not panels, except for tables on income trends. The samples were considered representative of the Canadian population at each collection time but changes to sampling and real-world changes make it difficult to make inferential statements about trends based on two point-in-time collections.

No hypothesis-testing was undertaken because the data tables produced were all bivariate and descriptive. Because of the large sample sizes, however, it is very likely that almost all inter-quintile or inter-temporal differences noted are statistically significant.

Bootstrap weighting was not available for SPSS, the statistical software package used for the SFS analysis. The CFSC analysis was done using the PUMF files where bootstrap weights are produced by Statistics Canada. All results are reported based on the survey weights provided by Statistics Canada.

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