HEALTH CHECK
Low-income Household Finances in Canada
This report is based on research by:

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With funding support from Prosper Canada
Confused about how Canadian households are doing financially?
Best of times?

CIBC signals rising household debt no cause for concern

“...”

BNN - Business News Network, Sept 2015
Worst of times?

“Canada’s household debt ratio hits record as what we owe grows faster than our incomes.”

Financial Post, Sept 2015
Best of times?

Canadian households are getting richer, not poorer

National Post, Sept 2015
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

“Is the income gap growing? It depends who you measure.”

Globe and Mail, July 2015
Worst of times?

Income inequality damaging Canadian economy

CBC News, December 2014
Media, financial experts, policymakers tell a seemingly conflicting story

“Best of times?

Canada Grew Richer, More Equal In 2014

Huffington Post Canada, August 2015
Worst of times?

“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

Median market income, 2001-2011

Source: CANSIM Table 202-0203

Single adults are particularly vulnerable

Constant dollars (2011)

- All family units
- Unattached persons
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”.

Sources: CANSIM Table 111-0041 and Table 380-0101 Gross national income and gross domestic income, annual.
Income inequality is also on the rise (slightly)

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

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

Top income groups are the only ones gaining income share
Wealth inequality is a bigger problem and growing.

Share of net worth (wealth) held by each income quintile, 1999 and 2012

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

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

Annual savings rates, G-7 countries

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

Source: OECD, National Accounts at a Glance
Assets are a key wealth indicator, but low-income households have almost none.


Low-income families have virtually no financial safety cushion.
This shows in the high proportion of households with $1,000 or less in liquid assets.
While household debt is at a record high, households with low incomes are the least likely to be indebted.

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

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

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

Median total debt by income and net worth, working-age households only

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

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

Frequency of $0 or negative net worth, 2005 and 2012


All households: 38.1% in 2005, 19.2% in 2012
All working-age households: 9.1% in 2005, 7.6% in 2012
Working-age, bottom income quintile: 20.7% in 2005, 20.2% in 2012
Working-age only, in low-income (AT): 9.9% in 2005, 8% in 2012

Below LICO with $0/negative net worth has dropped sharply.
Very few Canadians are unbanked, but many with low income lack access to a credit card

No credit card, by income quintile

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

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

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.

Real problems keeping up with regular bills, by income quintile

Source: Canadian Survey of Financial Capability, 2008 and 2014, Public Use Microdata File
But 11% of households in the lowest income bracket would have trouble covering an unexpected $500 cost.

Unable to cover unexpected $500 cost, by income quintile

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

Unclear if drop to 11% is good news or more people are turning to payday loans.

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.
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? |
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?
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?
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?
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?
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<td>Do we have the knowledge we need to develop effective alternative products/services and regulation?</td>
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### Key take-away #7

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