

Financial Literacy and People Living on Low Incomes



Photo courtesy of WoodGreen Community Services, Toronto

This overview of financial literacy and people living on low incomes is based on insights from expert practitioners and TD Financial Literacy Grant Fund recipients serving people living on low incomes. Its purpose is to share knowledge on the financial literacy needs of people living on low incomes and how best to meet them.

According to the most recent National Household Survey, around 4.8 million Canadians live in low income households.¹ For these Canadians, living on very limited financial resources (low incomeⁱⁱ and few or no financial assets) requires them to make difficult financial decisions on a day-to-day basis, since they must spend a disproportionate amount of income to meet basic needs like food, shelter and clothing.

Most Canadians living on low incomes are able to improve their financial circumstances within one to three years. However, a small group of Canadians experience persistent low income. This can mean living in poor quality housing, having insufficient quality food, and reduced opportunities for children to participate in organized sport and recreation. Barriers such as lower levels of formal education, lower literacy and numeracy skills, unstable or low-wage employment, disability, or mental illness can make improving one's financial circumstances even more challenging.

Some groups of Canadians are more vulnerable to experiencing low income, such as unattached adults aged 45 to 64, people living with disabilities, single parents, Aboriginal peoples, and newcomers to Canada. Financial literacy is not a solution to poverty but it can help individuals and families' access relevant information and resources to improve their financial situation and learn how to make more informed financial choices to make progress against their life goals.

4,800,000

Approximate amount of Canadians living
in low income households

WHAT ARE THE FINANCIAL LITERACY NEEDS OF CANADIANS LIVING ON LOW INCOMES?

People living on low incomes have significant financial knowledge and skills. They are more likely to budget, and are highly resourceful in making the most out of a low income. But for many, it is difficult to balance obligations, such as childcare, work, and paying bills relative to people in middle- and higher-income brackets. This can have them living in “survival mode”, as emphasis is placed on meeting the day-to-day demands of their financial lives, with less time and energy available to plan for their financial futures.

When it comes to financial education, there is no ‘one-size-fits-all’ solution. Financial education content and delivery work best when adapted to specific participant needs. These are often influenced by demographic factors (age, gender, marital status), geography, education and literacy levels, employment status, and life stage and events. Participants are also likely to have a range of learning styles (e.g. visual, auditory, tactile) and preferred learning formats (e.g. workshops or one-on-one coaching). Financial education is most effective when it meets participants where they are at in their financial lives and tailors information and education to their needs.

Tailored information coupled with adequate support can help participants to overcome feelings of isolation and explore ways to address their financial challenges. Finances are a sensitive topic for many individuals and participants may be hesitant to open up about this aspect of their lives in a financial literacy program. A non-judgemental, safe learning environment where participants can develop trusting relationships with staff can help them feel supported. Grouping program participants with people who have similar backgrounds (e.g. socioeconomic or ethnic background, age, literacy level or financial challenge) can also help participants become more at ease by listening to similar challenges faced by their peers, and reduce stigmatization. Furthermore, engaging adult participants by incorporating adult learning principles into financial education programs is an effective starting point for learning that begins with the existing knowledge of each individual and uses it to further develop their financial skills, knowledge, and confidence.

Tailoring financial education to the target group can also enhance program accessibility. For example, providing financial education sessions in locations already frequented by the people in the target group, or online, to enhance access for people living in rural or remote communities. Offering sessions at times that are convenient for participants (e.g. evenings and weekends), and providing food, childcare, and/or transit fares to reduce some of the financial and logistical barriers that might inhibit potential participants from attending financial education sessions. Additionally, it is important to use plain language when facilitating a class or workshop and in any educational materials. To accommodate people with lower literacy levels, discussion-based, rather than written activities can encourage their participation. And for those with limited English or French language skills, translation services (facilitation and/or educational materials) can help reduce significant barriers to accessing financial education.

All too commonly, financial information and advice lacks relevance to the needs and circumstances of people living on low incomes. Financial services are generally designed to cater to the needs of middle- and high-income individuals. This can result in financial information and advice that is unintentionally ill suited or even harmful to people with low incomes, such as selling RRSPs to people nearing retirement age who would be better off using TFSAs.

Banking can be a particular challenge for people that have become marginalized from mainstream financial institutions because they feel intimidated, unwelcome, or that products and services do not meet their needs. Moreover, people living in rural or remote areas may have few or no local financial institutions they can turn to. These experiences can leave people reliant on informal financial advice and/or fringe financial services that are risky and typically higher cost. Financial literacy initiatives can bridge this gap by helping people to compare, evaluate, and access appropriate banking products and services, and support financial institutions to better understand the diverse needs and challenges faced by people living on low incomes.



There is no one-size-fits-all approach.

Financial education content and delivery work best when adapted to specific participant needs.





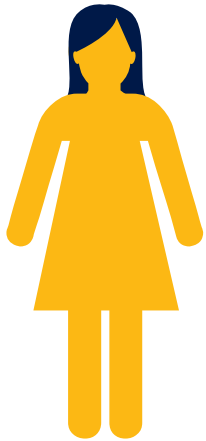
In the context of rising costs for housing, transportation and basic necessities, building emergency savings and assets is essential to reduce financial vulnerability. It is difficult to save for the future, though, when a disproportionate amount of one's earnings go to pay day-to-day expenses. Safer options for emergency loans (e.g. rent bank loans for people at risk of eviction or loss of utilities) can help reduce reliance on risky payday loans though, until families have emergency savings in place. Greater access to saving and asset building programs (e.g. Individual development accounts, RESPs, and RDSPs) can help families to make investments in their future like education, training, starting a business or improving their housing.

Connecting people with low incomes to income tax clinics and supports to access the tax credits and benefits they are entitled to, but not yet claiming, is an important way to boost incomes. Public awareness campaigns, help and referrals through community-based services and by increasing the number of free income tax clinics in high-needs communities, and more broadly across Canada, are just a few of the ways that access to tax credits and benefits can be enhanced. Simplifying the language and structure of application forms for government programs would also help to reduce barriers. However, some individuals will still need personalized support to help them understand complex government forms, procedures, and/or how to obtain supporting documents and identification related to tax filing and applying for benefits.

People with low incomes and low or no assets and/or poor credit histories experience barriers to obtaining credit. Financial education enhances understanding about the legal and financial responsibilities of using credit, how to repair or build a credit history for the first time, and access a credit score. But access to small loans or secured credit cards can also be important to building credit history and learning to manage debt more effectively if it has been a challenge in the past.

Addressing financial issues related to debt can involve financial information or supports to help participants to create a plan to reduce overall debt levels, understand one's rights when dealing with debt collectors and the pros and cons of bankruptcy. It can also help them to address certain anxiety-driven behaviours that can exacerbate the risk of accumulating debt (e.g. gambling, hoarding) and learn more about the drawbacks of high-risk loans and credit cards.

Consumerism is invaluable knowledge to all Canadians, but for people living on low incomes, the risks from unsafe products, misleading advertising, and overpriced goods and services is perhaps even higher. Without knowledge about their rights as consumers, low income individuals may end up overpaying for items or finding themselves bound by unfair contracts. Financial education can help them protect their interests as consumers by making informed choices and using self-advocacy to renegotiate unfair phone contracts, correct misreported bills and avoid unnecessary bank fees. It is also important to build understanding about the types of scams and fraud that occur in the marketplace, how to protect oneself, and where to report a problem if it occurs.

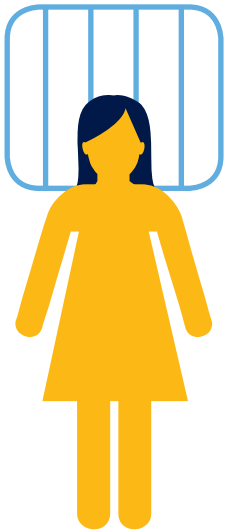


Women

Although the gap between the rates of women living in low income compared to men is narrowing overall, there are benefits to providing financial education tailored to the needs of women. Women make up a high percentage of single parents (nine out of ten), a group that experiences higher rates of low income compared to Canadians in general. Women also tend to live longer, have had fewer years in paid work, and have lower average earnings than men, often leaving them with less saved for retirement. Widowed senior women are particularly vulnerable to low income.

Creating a safe learning space for women allows them to share experiences more openly, learn from each other's experiences, and explore their relationship with money during key life transitions, such as: managing household finances after separation, divorce or the death of a spouse; recovery from addiction; teen pregnancy and motherhood; leaving abusive relationships; tackling financial abuse; and transitioning to independent living and/or employment.

For these reasons, it is important to ground financial literacy topics and activities in the real context of women's lives. To this end, it is useful to consider the life stage, culture, educational background, and other contextual factors. Finally, the provision of supportive resources, such as childcare, transit fares, food, and free resource materials can help to make financial education more accessible to women.



Criminalized women

Criminalized women are a particularly financially vulnerable group, as many face multiple complex barriers to financial inclusion stemming from past experiences in combination with institutional and systemic barriers, including gender inequity. Exploring relationship with money is sometimes a journey that unpacks trauma from being trafficked, involvement in the sex trade, and physical and/or psychological abuse. Past experiences may also involve financial challenges arising from addictions or accrued debts. -- Many of these factors may also be tied to actions that brought them into conflict with the law.

Given the complexity of challenges these women face, financial education delivered in concert with wrap-around supports often proves essential to creating opportunities for criminalized women. Financial education can help them to realize that even a modest income managed effectively can provide enough security to make illegal work, with all its risks, less appealing. However, knowledge of, and connections to, community resources and relevant support agencies are important protective factors to balance negative influences that impede progress towards a more stable and secure life. This includes opportunities to obtain education or training, employment and secure housing, all of which are key needs for this population.

TOOLS AND RESOURCES

The **SmartSAVER** online tool created by The Omega Foundation walks users through the necessary steps to apply for a Registered Education Savings Plan, the Canada Education Savings Grant, and the Canada Learning Bond to help simplify the process.

The **Benefits Navigator** developed by United Way Calgary is an online tool that identifies which benefits a user may be eligible for by asking them a series of questions to provide them with direct access to relevant application forms and websites.

Money and Making It on Your Own, created by K-W Counselling Services in Kitchener, Ontario is an 86-page guide to financial independence for women. The guide applies a gendered lens to financial information to cover topics such as financial abuse, housing, employment, dealing with the justice system, and provides a comprehensive list of direct resources.

WoodGreen developed the **Debt Management Guide: A Resource for Social Services Professionals** for community-based agencies that work with clients with debt and collections issues to inform them of their rights and the options available to them.

ENDNOTES

ⁱ 2011 National Household Survey data is based on the after-tax Low-Income Measure (LIM-AT). See Canada. Statistics Canada. *Persons living in low-income neighbourhoods*. National Household Survey (NHS), 2011. Ottawa, 2013. http://www12.statcan.gc.ca/nhs-enm/2011/as-sa/99-014-x/99-014-x2011003_3-eng.pdf

ⁱⁱ Low-income is defined as incomes that fall below the after-tax Low-Income Cut-Off (LICO-AT).

ⁱⁱⁱ Canada. Statistics Canada. *Survey of Labour and Income Dynamics*. Ottawa, 2013. <http://well-being.esdc.gc.ca/misme-iowb/3ndic.1t.4r@-eng.jsp?iid=23>

^{iv} Canada. Statistics Canada. Canadian Financial Capability Survey. Ottawa, 2010.

^v For examples of rent bank loan programs, see The Ontario Rent Bank Network <http://ontariorentbank.net/>; and Network of Inner City Community Services Society (NICCSS) <http://www.niccss.ca/VRB>

^{vi} Canada. Statistics Canada. *Survey of Labour and Income Dynamics*. Ottawa, 2013.

^{vii} Canada. Status of Woman Canada. *Fact sheet: Economic Security*. Ottawa, 2015. <http://www.swc-cfc.gc.ca/initiatives/wesp-sepf/fs-fi/es-se-eng.html>

^{viii} Canada. Status of Women Canada. *Women in Canada at a Glance*. Statistical Highlights. Ottawa, 2012. <http://www.swc-cfc.gc.ca/rc-cr/stat/wic-fac-2012/glance-statistical-eng.pdf>

The Prosper Canada Centre for Financial Literacy works with business, government, and non-profit partners to increase access to high quality, unbiased, and free financial information, education and counselling for Canadians living on low-incomes. Since 2008, the Centre has trained more than 2,000 front-line community workers from 800 organizations

and First Nations communities nationwide to deliver high quality, community financial education tailored to the needs of low-income and vulnerable Canadians. Today, these individuals are equipped to provide financial education to thousands of Canadians annually in over 150 cities across Canada.

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Co-founder and supporter of the
Prosper Canada Centre for Financial Literacy

