

The financial stress, challenges and fragility of Canadians from low-income households

Insights from the 2017 Financial Health
Index Study – May 2018

Definitions

Financial Health: is about your ability to balance your financial needs for today with those of tomorrow and get through times of financial hardship.

Financial Resilience: speaks to your ability to weather unforeseen life events, financial stressors or 'shocks'.

Financial Wellness: speaks to your emotional peace of mind in terms of your financial situation (with the opposite being financial stress).

Definition and Sampling of Low Income Households – in line with Statistics Canada Low Income Rate and (Low Income Measure (LIM)

Based on Statistics Canada's latest release in July 2016, the Low -Income rate in Canada is 13%¹ and the Low Income Measure for 1 person is \$22,657 and \$45,314 for families of 4 persons, based on after-tax income.² For ease of classification, the FHI study assumes a household income of \$25,000 (before taxes and deductions) to be the low income cut off. In the 2017 FHI survey, low income households account for 15% of respondents (weighted).

1. Canada's Low income rate nationally based on Statistics Canada latest release is 13.0% <http://www.statcan.gc.ca/daily-quotidien/180313/t002a-eng.html> (July 8, 2016)

2. Canada's Low-Income Measure: <http://www5.statcan.gc.ca/cansim/a05?lang=eng&id=2060091>

Highlights:

According to the latest estimates from Statistics Canada, approximately 13% of Canadians live in low income households. Data from the **2017 Financial Health Index study**, conducted by Seymour Management Consulting, found that Canadians with lower household incomes are more financially stressed and vulnerable. Moreover, the study highlights financial stress as having a major negative impact on the emotional wellness and physical well-being of individuals and their families.

There is a need for increased and on-going support for our most vulnerable Canadians. This support can come through our financial and social ecosystem - including from the government, non-profit organizations, financial institutions, and other key stakeholders who play a part. More needs to be done to move the needle not just on financial literacy and access to financial products and services, but on financial health and resilience outcomes.

Respondents from Saskatchewan, Nova Scotia and Ontario were more likely to report lower incomes (under \$25,000 for their household) compared to those from other provinces in Canada (18% vs. 15%).

Female respondents and those age 18-34 years are significantly more likely to report themselves as being on low income. Divorced and widowed respondents are most likely to report low income (29% vs. 15%). Many of those who report low household income are also single or never married.

The strong connection between financial and overall personal well-being

The Financial Health Index study found that Canadians from low income households report higher levels of financial stress, and lower levels of personal well-being compared to the national average.

- In particular, low income individuals report 20% lower financial health and wellness and satisfaction with work ratings, compared to the national Canadian average. These two dimensions are likely correlated, and therefore not surprising.
- Low income respondents are also nearly twice as likely to agree that “Money worries make me physically unwell” and 78% more likely to agree that “Money worries cause me extreme emotional stress” compared to the average Canadian.

Making ends meet is the top stressor and makes it difficult to save for the unexpected

Not surprisingly, low income individuals are much more challenged to make ends meet and to cover their housing and basic living costs compared to the average Canadian.

- What is concerning is that low income respondents spend one-third more of their monthly income on rent or mortgage compared to the average Canadian (39% vs. 29%).

- Consequently, at the end of the month, low income respondents are able to save only half as much (5% vs. 10% of monthly household income) as the average Canadian. Indeed, one-third of low income respondents agree that “I have been struggling to pay for things,” more than twice as likely as the average Canadian.

Low income Canadians are approximately 50% more likely to stress more often about:

- Being able to pay my monthly bills and general living expenses (e.g., groceries, utilities, insurance, etc.)
- Being able to pay the minimum payment on a credit card or loan.
- Being able to pay my rent or mortgage.

Furthermore, low income Canadians are half as likely to have a financial cushion for unplanned expenses compared to the average Canadian (13% vs. 24%). Indeed, if/when confronted with an emergency need for funds, four in ten low income Canadians don't know how they would raise the money – significantly higher than the average Canadian. Nearly 5% of low income Canadians say they would take out a temporary or pay day loan to raise emergency funds.

Greater challenges in accessing financial services

The Financial Health Index study found that Canadians with low incomes are **not necessarily less confident** in their decisions when it comes to managing their money. Moreover, they are also just as likely as the average Canadian to feel they have the **skills and knowledge** to manage their household finances well. However, Canadians from low income households are much more challenged in terms of their financial resilience. As highlighted through other research, this leaves them more vulnerable to predatory financial practices, such as taking out payday loans. This is a particularly interesting finding for financial services innovators focused on financial literacy.

Indeed, low income respondents are nearly twice as likely to report having had difficulties accessing financial services over the past 12 months compared to the average Canadian (14% vs. 7%).

As a result, low income Canadians are somewhat more likely to use alternative financial services, such as pre-paid debit/credit cards (20%), cheque cashing services (6%), and payday or short-term loans with alternative financial providers (5%).

Great work is already happening across the country to support the financial stress and vulnerability of the underserved (including low income Canadians) including through financial institutions, the Government/FCAC, non-profit organizations, Credit Counselling agencies, social enterprises and other organizations and stakeholders. Still, on-going engagement, programs, help and support needs to continue to support the financial well-being and resilience of more vulnerable Canadians.

Focusing on Underserved Segments of our Population

As outlined in 2017 Financial Health Index white papers, examining the current state of the financial stress of Canadians helps to shine a light on the challenges of key segments of our population, including more vulnerable groups.

We know that certain segments of our population are more vulnerable and less financially secure than others. For example, some Canadians have little to no financial cushion in case of an unexpected need or emergency. Others may be over-leveraged from a debt perspective, and/or have a higher likelihood to take out high-interest credit or payday loans. The Financial Health Index study found that more vulnerable groups within our population include but are not limited to:

- Low income individuals (with household incomes under \$25,000);
- Underbanked individuals (who use non-traditional financial services e.g., cheque cashing/ payday loans);
- Unbanked Canadians (with no bank account or financial products or services);
- Women; and
- People who are underemployed in general and/or unemployed owing to a disability.

This annual tracking study provides financial health indicators, tracking and rich insights on the financial health, resilience and well-being of Canadians, including the underserved.

Extensive data insights and financial health, wellness and resilience benchmarks are available to the sector and to organizations committed to supporting the financial well-being of underserved and vulnerable Canadians. Data analysis is available for various provinces and can delve into key demographics and their financial services usage, financial knowledge, confidence, financial health consumer practices or behaviours, financial stress and wellness and financial resilience.

For more information, please contact eloise@seymourconsulting.ca or visit www.finhealthindex.ca

About the Financial Health Index study

Created by Seymour Consulting

Seymour Management Consulting Inc. is a Canadian strategic management consultancy with an established financial wellness strategy consulting practice.

We strive to help the financial services sector, government and other partners to support the financial health and resilience of Canadians, including the underserved. Our goal is to help leading Canadian organizations, and specifically financial services organizations, better understand and measurably improve the financial health of their customers, at scale.

We believe impactful strategy begins with solid data and insights. That's why we've invested in the **annual Canadian Financial Health Index study**. First launched in 2017, the Financial Health Index study is Canada's most comprehensive investigation into consumer financial health and wellness, and the role financial institutions can play to improve the financial well-being and resilience of Canadians.

The FHI study is an **online survey of over 5,200 respondents across each of Canada's provinces**, excluding Quebec and Canada's three Territories (Yukon, Northwest Territories, Nunavut).

A boost sample of low income households to support analysis through this study was also conducted to support analysis, innovation and program support for underserved and vulnerable segments of our population.

The study is informed by our Financial Health Index framework and numerous indicators: an extensive review of robust financial capability, financial health, financial resiliency and other money-related studies from the US, Canada, Australia, South Africa and other countries³. In addition, the study includes CFSI's eight financial health indicators included with the permission of (and collaboration with) CFSI in the US.

The survey was conducted between March 14 and April 30 of 2017. Respondents were recruited through the Angus Reid Forum market research community offered by Maru Group Canada Inc. In general, the composition of panelists on the Angus Reid Forum mirrors that of the national census well.

The Financial Health Index study is an annual study collecting insights, tracking and benchmarks on the financial health, wellness and resilience of Canadians. The 2018 FHI study will be launched in May 2018.

3. CFSI *Eight Ways to Measure Financial Health* (2016). <http://cfsinnovation.org/research/eight-ways-to-measure-financial-health/>

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