Intelligence MEMOS

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To: Finance Minister Chrystia Freeland

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Re: **FINANCIAL RESILIENCE INDEX: A NEW TOOL TO REFINE INCOME SUPPORT**

Governments were generous and broad in their financial support during the COVID-19 pandemic, but as the economy returns to a normal state – and fiscal positions remain under strain – it is imperative that any future stimulus be targeted. Understanding which groups face more severe financial vulnerability will be critical.

Pre-COVID, 22.7 percent of the Canadian households were 'Financially Resilient,' the designation for the highest segment in the Seymour Financial Resilience Index, a proprietary index based on 3,000 to 5,000 adult Canadians surveyed every four months and five years of longitudinal data. In the June 2020 Index, 37 percent of households reported receiving government COVID-19 financial support since the start of the pandemic. However, of this group, 22 percent was still the number of those households that were scored 'Financially Resilient' with a mean score of 70.01 to 100. An early sign of the understandable but overly broad nature of government support.

The good news, as recently shown in a Statistics Canada-Seymour Consulting report, which blends Index with government data, is that an improved 31.1 percent of the population are 'Financially Resilient' as of June 2021, as a result of changed consumer and financial behaviours amid lockdowns, and government COVID relief.

However, it appears that certain groups remain similarly, or even more, financially vulnerable compared to where they were pre-pandemic, despite receiving government financial relief. It is important to have measures that help us identify these groups, which is what the Index aims to do. Some of these household segments include:

Canadians with low incomes (households with income up to $49,999, excluding single person households): representing 26.1 percent of the population. Unsurprisingly, only 12 percent of these households fall into the 'Financially Resilient' segment as of June 2021. And fully half reported their household received COVID-19 government financial relief. Further exploration of low-income financial resilience can be found here.

These households had a low mean financial resilience score of 37.07 in February 2020, and still a low score of 41.05 as of last June. Overall, 55.3 percent of households that reported their household has received government COVID financial relief had a negative or zero household savings rate in June 2021.

Women, particularly those who are 'Extremely Vulnerable' and 'Financially Vulnerable': As of June 2021, women have a mean financial resilience score of 53.41 compared to 58.16 for men, a similar gap to that of February 2020. There are many nuances in this June 2021 number: millennial women took more steps to improve their financial resilience by changing their consumer and financial behaviours compared to Gen X and Baby Boomers, and women homeowners have a mean financial resilience score 34.4 percent higher than women renters. For single parent households, single mother households have a lower mean financial resilience score than single father households, regardless of whether their children are older or younger than 18.

Under-employed and those seeking more work: In February 2020, the mean financial resilience score of under-employed Canadians seeking more work or paid hours was 40.74, with only 6.9 percent of these households 'Financially Resilient.' As of June 2021, these households' mean financial resilience score was 37.62. In June 2021, just under 40 percent of under-employed households had a liquid savings buffer of less than three weeks. In contrast, part-time workers saw improvements: their mean financial resilience score increased from 40.57 in February 2020 to 53.84 in June 2021.

Households whose Index score has dropped by more than 10 percent: The Index also uses longitudinal analysis on specific tagged households to track changes in their individual households' financial resilience scores over specific time periods. Of 941 households tracked between February and June 2021, 14.8 percent of these slipped down at least one financial resilience segment, despite receiving COVID-19 government financial relief. Slightly more than a quarter experienced a drop in their financial resilience score by more than 10 percent over the same period. Conversely, 18.5 percent of households moved 'up' a financial resilience segment over the same period, thanks to changing their behaviours and other factors. For example, of those who improved their financial resilience significantly, 50.5 percent reported their household found new ways to earn money and 9.8 percent had moved to reduce their living expenses (rent or mortgage). Behaviours like these in turn affected levels of financial stress over current and future obligations and liquid savings buffers, two of the Index indicators.

In summary, using household financial resilience data analytics in advance – augmenting more traditional income and other data measurements, can help policymakers provide more targeted support to those who need it most. As Canada's income supports wind down, and we see household behaviours and the employment landscape continue to change, tracking household financial resilience at a granular level can support a sharpened policy aim.

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