SEDI Where Innovation Creates Action.

BRIEF TO HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE
Study of Income Inequality in Canada 2013

Introduction

Social and Enterprise Development Innovations (SEDI) is a national charity dedicated to expanding economic opportunity for Canadians living in poverty through program and policy innovation. Since 1986, we have worked with businesses, governments and community groups across Canada to turn transformative ideas into large-scale opportunities to improve the self-sufficiency of low-income Canadians.

SEDI's work is currently focused on financial literacy and enabling low-income people to build savings and assets as a route out of poverty. We operate the TD Financial Literacy Grant Fund and the Canadian Centre for Financial Literacy, which conducts training, research, and policy development with respect to financial education for low-income Canadians. In the area of savings and asset building, we are currently testing a range of programs to enable youth in care, social housing residents, and homeless shelter residents to improve their financial capability and access to education, employment and improved housing.

Focus of this brief

We are pleased to provide input into the House of Commons study on income inequality in Canada and to offer practical recommendations on how the Government of Canada can address this issue.

Inequality brings with it a host of risks to social cohesion and outcomes that affect all of us, rich or poor.

While low-income rates have declined for Canadians overall since 1996, especially for seniors, this decline ended in 2007 and has been stalled ever since. We, therefore, applaud the Committee's intention to systematically review Canada's tax and transfer system for opportunities to reduce income inequality and barriers to employment.

Historically, the tax and transfer system has been an effective means of redistributing income and balancing the effects of the market. In more recent years though, while it has done much to address absolute poverty among some groups, it has been less effective in reducing income inequality.

Renewal of our tax and transfer system must, therefore, be a key pillar of any strategy to reduce inequality and is overdue as, among 30 high-income countries,[1] only the US' tax and transfer system does less than Canada's to reduce poverty.[2]

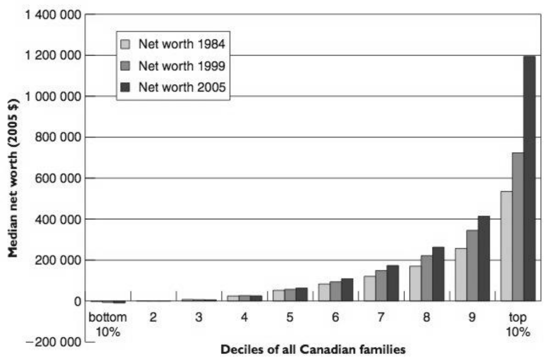
For the purposes of our brief, however, we would like to concentrate on complementary strategies to tax and transfer reform, specifically:

1) **The importance of looking at wealth, as well as income, inequality** in Canada
2) **Innovative financial empowerment strategies** that can help address asset and income inequality.
3) **Practical recommendations for action** that build on existing federal priorities and programs.

Economic inequality is about assets, as well as income

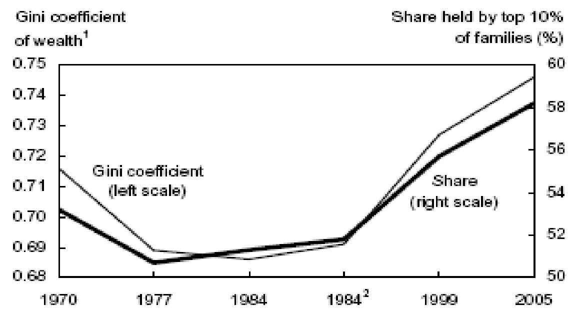
When it comes to economic inequality, income is only half the story. Wealth or asset inequality, which began growing in Canada in 1977, now significantly exceeds income inequality and continues to grow, fueled by changes in wealth at both ends of the scale – poorer Canadians continuing to lose ground while the top 50% do better. Between 1984 and 2005, almost two-thirds of total gains in net worth accrued to the top 10% of Canadians by wealth (Fig.1). Using the most recent estimates (2005), the richest 10% of Canadians now own nearly 60% of all personal wealth in Canada (Fig.2).

Fig. 1 Net worth of Canadians, 1984, 1999, 2005



Source: Osberg, 2012[3]

Fig. 2 Change in wealth inequality 1970-2005



Source: Morissette and Zhang, 2006[4]

Asset inequality is being aggravated by record household debt and declining savings

Among G-7 countries,[5] Canada is surpassed only by Italy in the decline of its household savings rate over the past decade. We also have the second highest household debt-to-income ratio and are the only G7 country whose ratio is *both high and rising*. If household debt were spread evenly in Canada, we would each owe just over $44,000 but, according to a national 2011 survey by the Certified General Accountants, nearly half (46%) of modest income Canadians said their debt was growing, but fewer than a third of higher-income Canadians said the same thing.[6] Young people and families with children also report increasing debt.

When we examine the true state of household savings and debt in Canada, a picture of deep and growing financial vulnerability emerges:[7]

- Fully **1 in 3 Canadian households have no retirement assets** at all.
- **Nearly 1 in 4 Canadians have no financial wealth** at all –e.g. stocks, bonds, RRSPs or even locked-in savings accounts – that could be used in an emergency.
- **Nearly 1 in 6 Canadian families currently have a net worth that is either $0 or negative**. If their income were interrupted, they would be financially underwater, even after selling their assets.

- **One in 10 Canadians are low-income and, even if they sold all their assets, would not be able to lift themselves above the Low-Income Cut-Off**.[8]

- **One in 20 Canadians are low-income and have no financial savings**. Even a modest shock – a repair to a car or home, uninsured drug costs, or lost income due to illness – could leave them devastated.

Young adults, single working-age adults, lone parents and recent immigrants are most vulnerable.

Asset inequality matters because savings and assets are pathways to self-sufficiency

The facts above are disturbing because savings and assets are both a safety cushion during critical life events and emergencies and pathways to longer term opportunity.

This is true for all Canadians, but even more so for those with low-incomes and little or no net worth. Modest savings can help protect against unforeseen events that might otherwise drive a family deeper into poverty. They can also enable people to access education, find a job, or start their own business – all pathways to increased income, self-sufficiency and a better future.

A growing body of evidence shows that low-income individuals can and do save with appropriate financial education, incentives and supports and that savings improve their economic chances. Canada's *Learn*$ave program,[9] led by SEDI and funded by HRSDC, showed that low-income participants were 23% more likely than non-participants to attain post-secondary education and 60% more likely to successfully form a small business. As a result of similarly successful pilots in other jurisdictions, policies and programs aimed at enabling saving and asset-building by low-income people are increasingly seen as an innovative and effective approach to fostering self-sufficiency in a growing number of countries (the US, the UK, South Africa, South Korea, Sweden, Australia and Taiwan).

Canada invests heavily to help people save, but few low-income Canadians currently benefit

The Government of Canada currently invests over $20 billion annually in a range of programs that promote saving and asset accumulation for such purposes as education, home ownership, retirement, and supporting people with disabilities.[10]

However, these programs primarily benefit middle and upper income earners who face fewer personal and systemic barriers to access, benefit from non-refundable tax credits due to higher tax liabilities, and are already well connected to mainstream financial institutions and services that support their asset building efforts.[11]

Low-income Canadians, on the other hand, often lack access to reliable and relevant financial information,[12] cannot afford professional financial counselling or advice,[13] have trouble accessing affordable and safe financial products and saving vehicles, or programs and policies that meet their needs and are effective at helping them save to reach their life goals[14] – whether that means furthering their education, getting job training, starting a business, or buying a home.

More work is needed to ensure low-income people enjoy the same access that wealthier Canadians do to publicly supported incentives and opportunities to save and build the assets they need to strengthen their economic future.

Innovative strategies are emerging to improve financial outcomes for low-income households

Canada's financial empowerment field has grown rapidly over the past 5 years, in tandem with the increasing financial vulnerability of Canadian families and the federal government's leadership in support of financial literacy education, consumer protection, and education and retirement savings.

Over this period, a community-level consensus has grown across the country in favour of a more comprehensive approach to meeting the financial needs of low-income Canadians – one that goes beyond financial literacy alone to offer a broader suite of financial services and supports that, together, can tangibly improve the finances and self-sufficiency of low-income households. These include:

- **Financial information, education and counselling**
- **Help accessing income boosting benefits** and tax credits
- Access to **safe and affordable financial products and services**
- **Opportunities to build savings** and assets
- **Consumer protection** and empowerment.

Community organizations and their partners across Canada have been experimenting locally with combinations of these supports, often building them into other programs and services to make them more effective. While anecdotal evidence suggests many of these efforts have been successful, efforts to turn them into scalable programs have been hampered by a lack of resources for rigorous program piloting and development.

US cities, in contract, have used this same framework to develop an array of highly successful, city-wide programs and strategies. Rigorous impact evidence shows that these initiatives are tangibly improving financial outcomes – moving families from financial crisis to stability, boosting incomes, and increasing the impact of other social services aimed at building self-sufficiency.[15] These new approaches[16] and offer important opportunities for our practitioners and policy makers to learn from their efforts and to adapt the most successful approaches for use here in Canada. Outreach and cooperation to this end has already begun.

Recommendations for federal government action

SEDI recommends that the Government of Canada take the following practical actions, in addition to renewal of our tax and transfer system, to ameliorate economic inequality in Canada:

Financial information, education and counselling

1. **Ensure Canada's *Financial Literacy Strategy* involves targeted approaches and investments to address the specific needs of low-income Canadians and other vulnerable populations.**

2. **Build appropriate financial information and education into the *Canada Student Loan* program**, to enable students and their families to make more informed financial and education decisions and to help graduates better manage their loan obligations.

3. Building on models with documented successes,[17] **invest in targeted pilot programs to integrate financial counselling into other federally funded services** (e.g. youth employment, employment for

4. people with disabilities, newcomer settlement, Aboriginal education, Housing First) as a means of increasing their success rates.

Facilitate access to income boosting benefits and tax credits

5. **Invest in community tax clinics to enable more low-income people to access the tax benefits they are entitled to but currently do not collect**, like the GST/HST Tax Credit, GIS, Working Income Tax Credit, Canada Child Tax Benefit, National Child Benefit Supplement etc.[18]

6. **Work with the community sector to assess the impact on low-income Canadians of proposed changes in how the government communicates with and transfers money to citizens.** Develop strategies where necessary to ensure these changes do not create barriers to low-income Canadians accessing benefits.

Enhance access to safe and affordable financial products and services

7. **Invest in the creation of online tools to enable low-income consumers to easily identify and select and the most appropriate, affordable, and accessible registered savings and investments products** (e.g. RDSP, RESP, TFSA) for themselves and their families –similar to the credit card selector currently available to consumers on FCAC's website.

8. **Work with financial institutions to ensure that front line staff have sufficient training and information supports to provide low-income customers with accurate and beneficial information and advice**, as per their obligations under the *Bank Act.*

9. **Work with interested stakeholders to explore cooperative and other models of ensuring access to basic financial services in rural and remote communities, including First Nations reserves.**[19]

Expand opportunities to build savings and assets

10. **Develop online financial information tools to enable community organizations and financial institutions to better promote education and savings supports** like the RESP and RDSP which contain federal grants/bonds designed to 'kick-start' and encourage low-income family savings.

11. **Convene key public, private and community stakeholders to work collaboratively on improving the promotion, delivery and, if necessary, design of existing savings programs (like the RESP and RDSP)** to make them more accessible and effective for low-income Canadians.

12. **Support the expansion of successful community-based savings programs that help low-income people to build their financial literacy, access mainstream financial services and save** toward goals like going to school, starting a business, or improving their housing.

Empower and protect consumers

13. **Invest in targeted online financial information tools aimed at protecting seniors from common forms of financial fraud and abuse** and equipping community organizations working directly with seniors to be effective channels for this information.

[1] From the Luxembourg Income Study which examined data from: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Luxembourg, Mexico, Netherlands, Norway, OECD, Poland, ROC Taiwan, Romania, Russia, Slovakia, Slovenia, Spain, Sweden, Switzerland. United Kingdom, United States.

[2] Gornick, J. and M. Jäntii, *Child Poverty in Upper-Income Countries: Lessons from the Luxembourg Income Study*. Revised May 2009. http://www.lisdatacenter.org/wps/liswps/509.pdf

[3] Osberg, L. from Frank, R., B. Bernake, L. Osberg, M. Cross and B. Maclean (2012) *Principles of Microeconomics*, McGraw-Hill Ryerson, Toronto.

[4] Morisette, R. and X. Zhang (2006) "Revisiting Wealth Inequality in Canada," Statistics Canada, Ottawa. http://www.statcan.gc.ca/pub/75-001-x/11206/9543-eng.htm

[5] For which comparable data is available.

[6] Certified General Accountants Association of Canada, *A Driving Force No More: Have Canadian Consumers Reached Their Limits?* 2011. http://www.cga-canada.org/en-ca/ResearchReports/ca_rep_2011-06_debt-consumption.pdf

[7] Morisette, R. and X. Zhang

[8] LICO - An estimate of the income level below which a person or household is likely to spend substantially more of their resources on basic needs (adequate food, clothing, shelter) than the national average.

[9] Social Research and Demonstration Corporation, *Learn$ave Individual Development Accounts Project – Final Report*. 2010. http://www.sedi.org/DataRegV2-unified/sedi-Publications/learnSave%20final%20report%20English.pdf

[10] Nares, Peter and B. Gosse. *Submission to the Ontario Poverty Reduction Committee*. 2008.

[11] Nares, Peter. *Contributing to the International Asset-Building Field: Opportunities for learning and innovation in Canada*. Submission to the Ford Foundation. Prepared by Social and Enterprise Development Innovations. 2002.

[12] Robson, Jennifer. *The Case for Financial Literacy – Assessing the effects of financial literacy interventions for low income and vulnerable groups in Canada*, Social and Enterprise Development Innovations, 2012, p.2. http://www.sedi.org/DataRegV2-unified/sedi-Publications/The%20Case%20for%20Financial%20Literacy%20EN.pdf

[13] *ibid*

[14] Nares 2002

[x] Corporation for Economic Development, *Building Economic Security in America's Cities*, 2011. http://cfed.org/assets/pdfs/BuildingEconomicSecurityInAmericasCities.pdf

[16] Developed and shared with the support of the *Cities for Financial Empowerment Fund*. For information on the Fund, please visit: http://www.cfefund.org/

[17] See New York City's 'Supervitamin' reports on the integration of financial empowerment into employment, housing and other social services to improve program results, available at: http://www.nyc.gov/html/ofe/html/publications/research.shtml

[18] See for example the *Financial Advocacy and Problem Solving* program delivered by St. Christopher House in Toronto (http://www.stchrishouse.org/adults/financial-advocacy/) and the *Make Tax Time Pay* program delivered by E4C in Edmonton http://e4calberta.org/programs-services/nutrition-community/make-tax-time- pay-snack-program/

[19] See, for example, Desjardin's successful initiative to provide financial service to Nunavik in Northern Quebec: http://www.caissesolidaire.coop/qui-nous-sommes/nunavik.html