



## **Income volatility in Canada: Why it matters and what to do about it**

Aug 23, 2017



# Welcome!

Thank you for joining the webinar on **Income volatility in Canada: Why it matters and what to do about it** hosted by Prosper Canada.

The presentation will begin shortly. (Audio will begin when the presentation starts)

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# Prosper Canada – Who we are

**Founded in 1986, Prosper Canada is a national charity dedicated to expanding economic opportunity for Canadians living in poverty** through program and policy innovation.

As **Canada's leading champion of financial empowerment**, we work with governments, businesses and groups to develop and promote financial policies, programs and resources that transform lives and foster the prosperity of all Canadians.

**We help service systems and organizations in all sectors to build proven financial empowerment approaches into their businesses** in ways that:

- Are **sustainable**
- Help them **achieve their goals**
- Tangibly **increase the financial well-being of the low-income people** they serve.



# Today's presentation 1:00 pm-2:00 pm

1. What is income volatility?
2. Why does it matter?
3. How big is the problem in Canada?
4. What can we do about it?
5. Q&A
6. Resources to learn more

# 1. What is income volatility?

# Poll: What is income volatility?

## What do we mean by income volatility?

- Having very different income from month to month
- Having income that is unpredictable
- Having a lot of spikes and dips in income over time
- All of the above

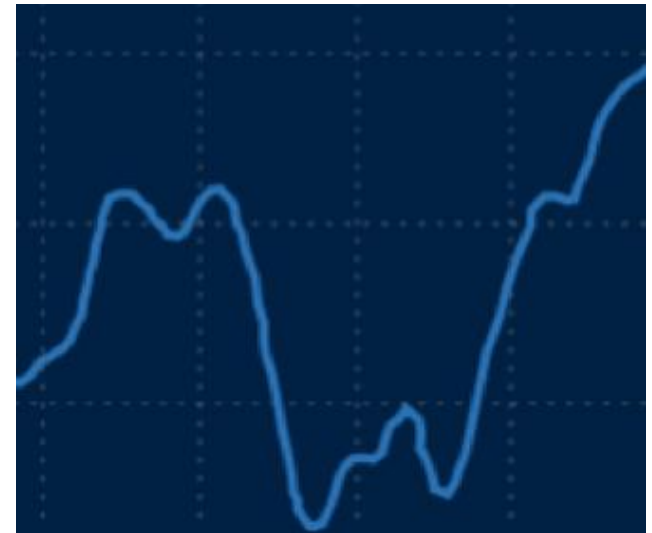
# Income volatility is an emerging critical issue for understanding financial security today

## Income volatility describes income which is:

- **Inconsistent** – Not received on a regular/predictable basis
- **Unstable** – Amount varies each time it is received
- **Fluctuating** – Varies month to month by a significant %

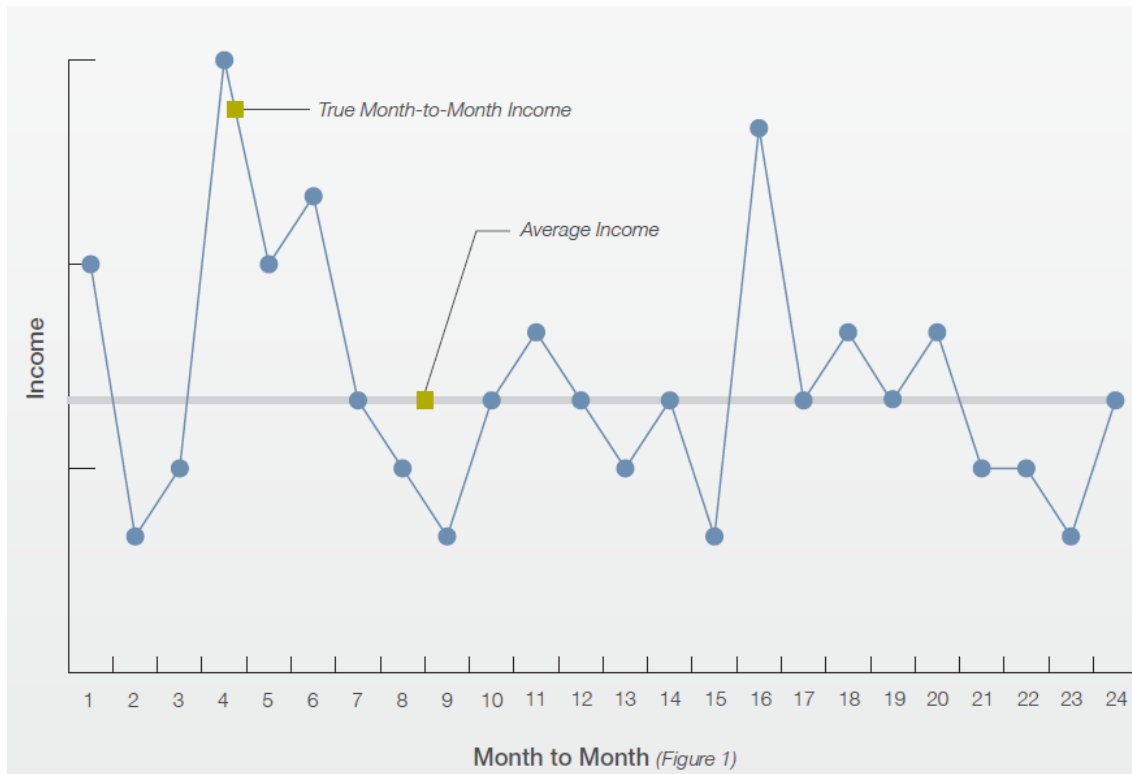
## How to measure income volatility:

- As the **variance in household income from an average** over a specified period of time.
- By the **number of substantial spikes and dips in income** over time.





# Income volatility has historically been measured over years – month to month income volatility is new



Source: *Income Volatility: A Primer*, Aspen Institute, 2016.

**Month to month volatility has received less attention** (partly due to lack of data).

**U.S. evidence indicates it is:**

- **Increasing**
- Especially **high among low-income households**
- **Increasing most rapidly for low-income households.**

# Income volatility has many causes

## Labour market earnings

- Job loss
- Self-employment
- Seasonal and other changes in hours
- Variable shift work
- Multiple and changing sources of earnings
- Growth in 'on-demand' work
- '3 paycheque' months when pay is bi-weekly
- Performance pay/bonuses
- Wage theft (particularly for low-wage workers)

**Household income has 3 components.  
All are potentially unstable.**

## Non-labour transfers

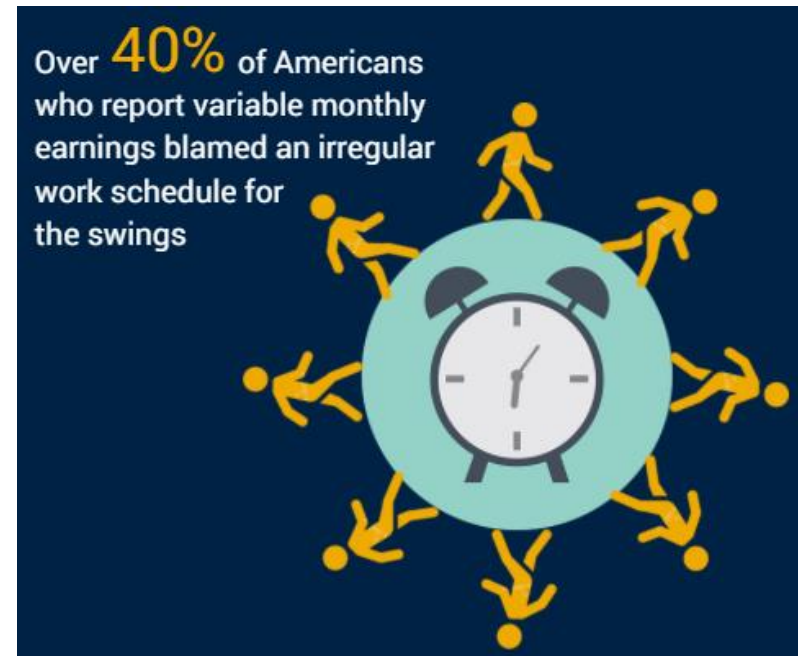
- Payments determined in relation to labor income
- Benefit programs unresponsive to short-duration shifts in earned income
- Eligibility criteria out of sync with current labour market
- Diminished EI coverage
- Benefit "cliffs"
- Annual lump-sum tax refunds

## Household composition

- Marriage
- Divorce
- Birth
- Death
- Adult children move out
- Parents age

...but evidence suggests rising rates of precarious, unstable work are a key driver

- Precarious employment is defined by **scheduling and wage irregularity and unpredictability**
- **Almost one third of working Canadians are engaged in non-standard work:**\*
  - **15.3%** self-employed
  - **5.3%** involuntarily employed part time
  - **11.3%** in a temporary job
- Most **self-employment means more fluctuation in hours worked and earnings per hour**



Source: Aspen Institute, *Income Volatility: A Primer*. 2016

## 2. Why does it matter?

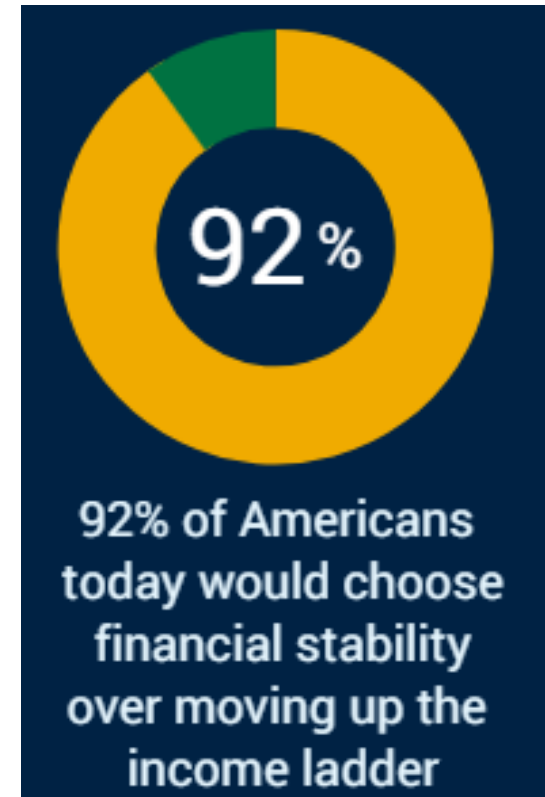
# Income volatility makes it harder for families to manage their finances and undermines their well-being

Because household income can 'spike' or 'dip' in any month, **households with high volatility find it very hard to plan financially** – for the near term or the future.

**Income volatility also makes it hard for them to save**, because they cannot take advantage of automated savings approaches (the most effective way to save)

In months when income dips, fixed monthly expenses still need to be paid. **Households without savings to 'smooth' income/expense gaps, often have to borrow** to close the gap.

**Households without access to mainstream sources of credit, may be forced to turn to payday loans** and other expensive and risky sources of credit.



Source : Pew Charitable Trust,  
*Survey of American Family  
Finances*, 2015.

# Income volatility is also often accompanied by expense volatility, leading to 'financial shocks'

JP Morgan Chase Institute: **Expense volatility 5-30% higher than income volatility**

As with income volatility, **expense volatility is highest at the top and bottom of the income distribution**

Pew Trust: **Risk of a financial shock drops 0.5% with every additional \$10K of income**

U.S. Financial Diaries: **Low- and moderate-income households averaged around 2 spending spikes and 2 spending dips over 12 months**

- **61% of the spending spikes not associated with an income spike**
- **33% of them occurred when income was below household average**

The **effect of shocks on financial security is greater for low-income households than high-income households**

# Income volatility has immediate and longer term consequences

**Reliance on unsafe financial products**



**Housing instability**



**Utility disruptions**



**Disrupted consumption**



**Complications accessing safety net programs**



**Increased risk of living in poverty and food insecurity**



**Difficulty getting and maintaining health care**



**Higher financial credit & transaction costs**

### 3. How big is the problem in Canada?



# TD study shows income volatility is an important issue for Canadians too

**In 2017, TD commissioned a national public opinion survey\* of Canadians to assess:**

- **Extent** of income volatility
- Its **causes**
- Its **impact** on Canadians' financial lives



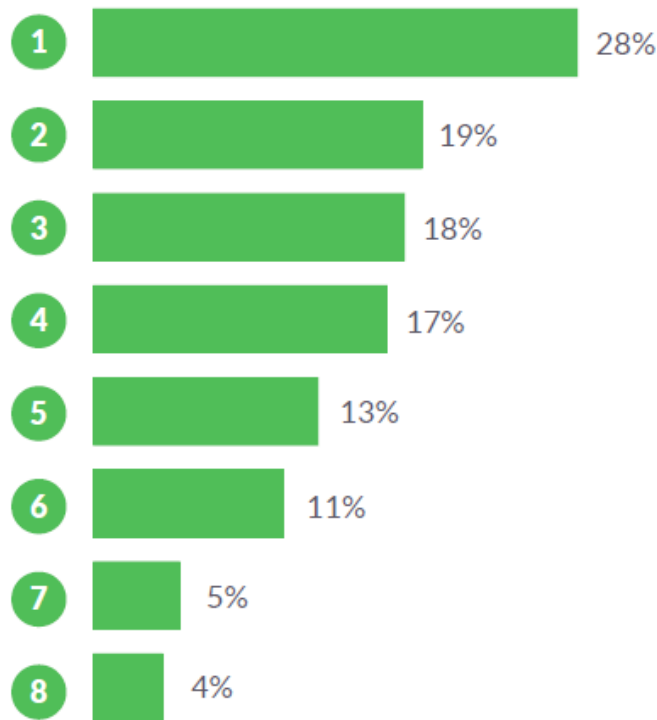
**5 million  
(18%)**  
Canadians  
report  
experiencing  
**high to very  
high** income  
volatility

*\*National representative sample of Canadians 18+ years. N=3,000, plus over sample to produce N=500 for below LICO.*

# Income volatility has multiple causes but irregular work is the most frequent

## REASONS FOR INCOME FLUCTUATIONS

(Among the 52% who say their monthly income fluctuates)



1. Paid **hourly/daily rate and work hours change** from week to week
2. Regular **salary but receive additional income** monthly (commission, tips, bonus)
3. **Multiple sources of income** which vary from month to month
4. **Rely on investment income** which varies from month to month
5. **Self-employment income** which can vary from month to month
6. **Commission income only**
7. Regular **salary paid every two weeks** (“three-pay” months)
8. **Switching jobs/companies**

# Income volatility is more likely to be experienced by specific sub-groups

## Employment status

- ✓ **Self-employed**
- ✓ Employed **seasonally**
- ✓ **Can't find work**
- ✓ Working **part-time**
- ✓ **Students**

## Geography

- ✓ Living in **Alberta**
- ✓ Living in **large cities** (1 million+)

## Income

- ✓ Annual household income **at or below LICO** (low income cut off)
- ✓ Annual household income **above LICO but below \$40K**

## Age

- ✓ **Millennials** (18-34)
- ✓ Particularly **female** and **younger** (18-24)
- ✓ **Mature Gen X men** (45-54)

Source: *Pervasive and Profound*, TD Bank Group, 2017.

# Low-income Canadians are at greater risk of income volatility and experience the most negative impact

SELECT MEASURES BY EXPERIENCE INCOME  
VOLATILITY WITHIN INCOME

	LICO CANADIANS	NON-LICO, BUT LOWER INCOME CANADIANS	MIDDLE- INCOME CANADIANS	HIGHER INCOME CANADIANS
	(experience very high, high or moderate Income Volatility)			
Overall Financial Health Index (high/very high)	17%	36%	45%	65%
Feel like falling behind	51%	37%	37%	26%
A lot of stress re finances	45%	39%	35%	19%
Confident will achieve future financial goals	40%	53%	60%	77%
Delayed buying groceries	49%	39%	35%	13%
Delayed paying utilities	41%	32%	28%	12%

▶ Statistically significant difference

Non-LICO but lower income = household income less \$50,000 per year

Middle income = \$50,000-\$99,999

Higher income = \$100,000+

Source: *Pervasive and Profound*, TD Bank Group, 2017.

Income volatility  
has a much more  
negative impact on  
lower income  
Canadians.

But all Canadians affected by volatility are more likely to have poorer overall financial health

**Canadians who report experiencing high/very high income volatility also experience lower financial health overall**, as measured by behaviours related to spending, saving, borrowing, and planning.

**They are also much more likely to:**

- **See themselves falling behind**
- **Be less confident about their finances and financial future,**
- **Be more likely to report feeling stress** about their finances.

Those with higher Income Volatility tend to score lower across all four categories of Financial Health, with the areas of **“saving” and “planning” being the most impacted.**

Source: *Pervasive and Profound*, TD Bank Group, 2017.

# Canadians with high income volatility also experience higher expense volatility

Most Canadians report that their monthly expenses vary to some extent.

However, those with higher income volatility are significantly more likely to report expense variability.



This makes it doubly difficult for households to budget, plan and manage financially

Source: *Pervasive and Profound*, TD Bank Group, 2017.

# Income volatility appears to negatively impact people's ability to make ends meet

In the past 12 months, have you ever done the following because you did not think you had enough money to cover it:

**Delayed buying groceries or food**

**Delayed paying something on credit card bill** (at least minimum)

**Delayed paying a monthly bill** like utilities, water, etc.

**Delayed a rent or mortgage payment**

**Delayed a student loan payment**

## By income volatility level

	VERY LOW	LOW	MODERATE	HIGH	VERY HIGH
Delayed buying groceries or food	16%	22%	26%	38%	39%
Delayed paying something on credit card bill (at least minimum)	14%	23%	24%	31%	38%
Delayed paying a monthly bill like utilities, water, etc.	11%	18%	22%	27%	34%
Delayed a rent or mortgage payment	5%	9%	11%	18%	23%
Delayed a student loan payment	1%	6%	8%	11%	13%

▶ Statistically significant difference

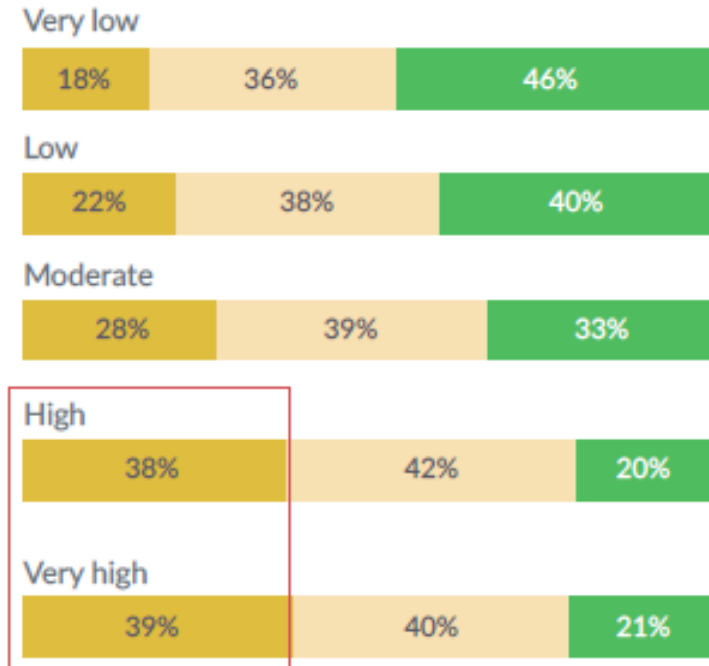
38/39% of Canadians with **high/very high** income volatility have had to **delay buying food or groceries** because they could not afford it.

# Financial stress is much higher among Canadians with higher income volatility

■ Often   ■ Somewhat   ■ Rarely/Never

Do you feel  
stressed about  
personal finances?

## Income volatility level



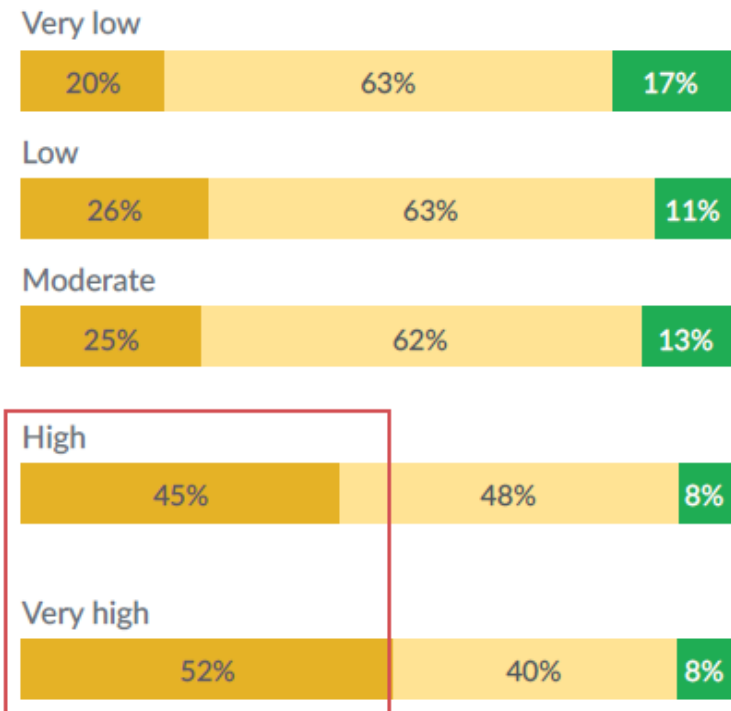
Source: *Pervasive and Profound*, TD Bank Group, 2017.



# Canadians experiencing higher income volatility are much more likely to believe that they are falling behind

■ Falling behind   ■ Doing OK  
■ Getting ahead

## Self-perception of current financial situation




Source: *Pervasive and Profound*, TD Bank Group, 2017.

# Canadians experiencing higher income volatility are more pessimistic than average

**I am concerned that the money I have or will save won't last.**

This statement describes me...		VERY LOW	LOW	MODERATE	HIGH	VERY HIGH
	Completely/Well	24%	31%	30%	39%	43%
	Somewhat	32%	40%	44%	40%	38%
	Very little/Not	45%	29%	27%	21%	19%

 Statistically significant difference

**39/43% of Canadians with high/very high income volatility are at least somewhat concerned that their money won't last.**

Source: *Pervasive and Profound*, TD Bank Group, 2017.

**Summary:** Almost 40% of Canadians are experiencing income volatility levels associated with lower overall financial health

## Canadians with high or very high income volatility:

- Also **experience lower financial health overall** (as measured by spending, saving, borrowing and planning behaviour)
- Are significantly more likely to **see themselves falling behind**
- Are **less confident** about their finances and financial future
- Are significantly more likely to **report feeling stress** about their finances.

“Those with higher Income Volatility tend to score lower across all four categories of Financial Health, with “**saving**” and “**planning**” being the most impacted.”

-- TD, *Pervasive and Profound*, 2017

Source: *Pervasive and Profound*, TD Bank Group, 2017.

## 4. What can we do about it?

# There are multiple strategies individuals can use to prevent or mitigate income volatility

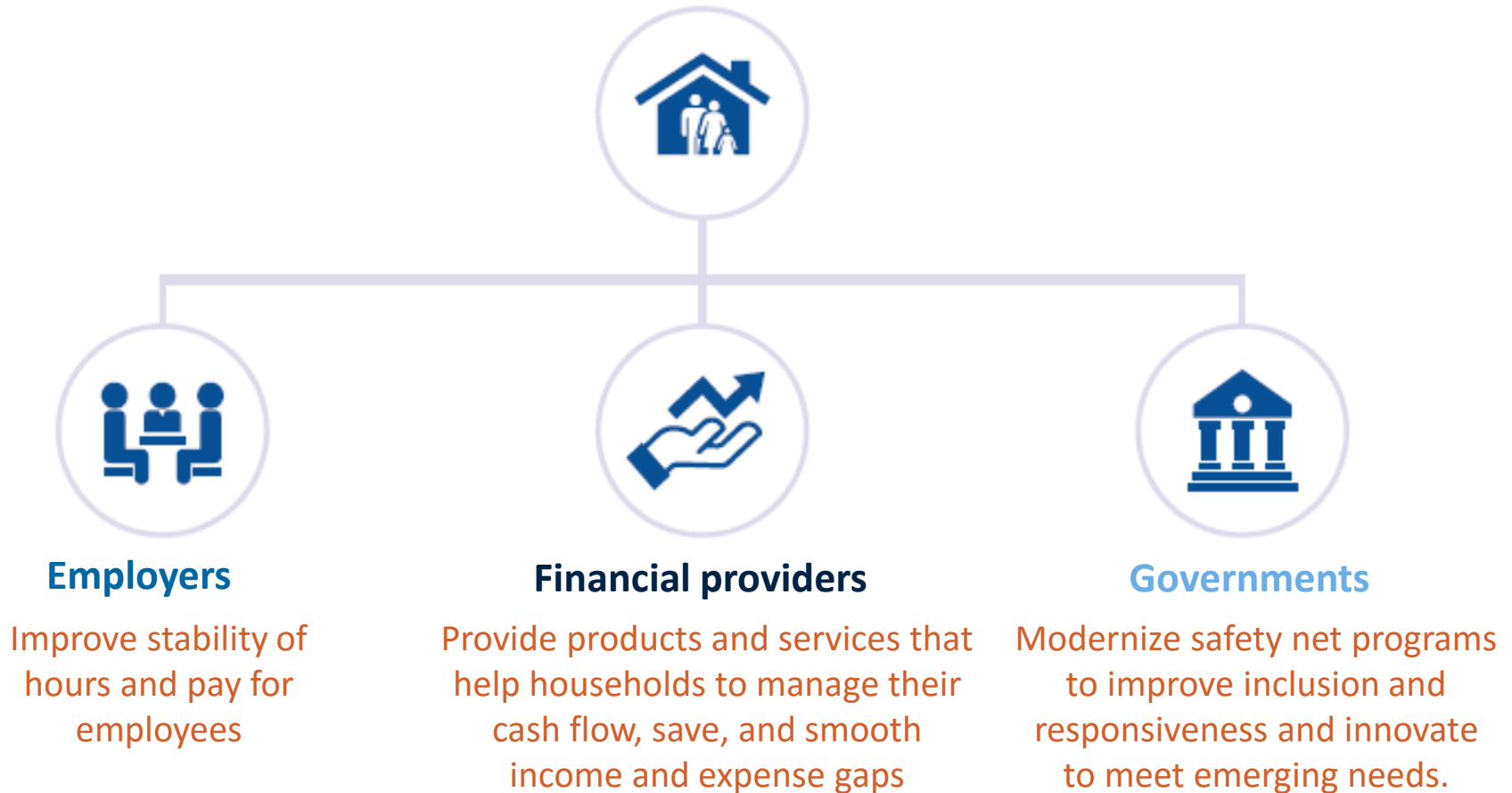
- ✓ Workers can seek **jobs with more consistent hours/pay**.
- ✓ A **secondary earner** can move in and out of the labor force as needed.
- ✓ **Employment insurance** can cushion the blow of a layoff
- ✓ **Other insurance** can protect against large, unpredictable expenses such as drug costs or personal care for an illness or disability
- ✓ **Savings** built up during good times can help households meet expenses when times are tough.
- ✓ **Borrowing** can bridge a gap: credit cards, home equity, retirement account withdrawals, delaying bill payments, incurring overdrafts, or leaning on family and friends.



**...But we know not all of these strategies are available to everyone, particularly Canadians with low incomes.**

# Income volatility requires a mix of more comprehensive solutions that involve all sectors

## Households in need of institutional support



# Stable employment and pay are the best way to prevent income volatility

Prevention



Strategies	Goals	Potential for		
		Employers	Government	Financial providers
<b>Stable employment</b>	<b>Regular hours</b>  <b>Predictable earnings</b>  <b>Generous benefits</b>	<b>Give part-time employees more hours</b> before hiring more workers  Provide <b>advance notice of schedule changes</b>  <b>Offer benefits</b> like paid time off	<b>Enforce</b> existing labor laws  Require <b>advanced notice of schedules</b> or fair <b>compensation for last-minute changes</b>  Require <b>paid time off</b>  Strengthen workers' bargaining power by <b>making it easier to unionize</b>	Provide employers with <b>products that allow more regular pay</b>  Offer <b>small-dollar loans</b> for proven worker training programs

Source: *Managing the Swings*, Aspen Institute, 2016.

# Modernizing our social safety net can both prevent and mitigate the negative impacts of volatility




Strategies	Goals	Potential for		
		Employers	Government	Financial providers
<b>Safety net</b>	<b>Easily accessible social programs that are designed for volatile incomes</b>	<b>Ensure workers have access to legally mandated benefits</b> like workers' compensation and unemployment insurance by classifying them as "employees" and not "independent contractors" when appropriate.  <b>Help workers enroll in public benefit programs</b>	<b>Expand access to social insurance</b> like unemployment compensation or work-share arrangements  Provide <b>alternative disbursement options for lump-sum benefits</b> such as the EITC*  <b>Take volatility into account in design of safety net eligibility criteria and certification processes</b>  Consider <b>universal cash transfers</b>	Make public transfers more efficient by <b>streamlining application processes</b>  Develop savings or payment <b>products that pair with government benefits</b>

\*EITC is U.S. equivalent of Canada's *Working Income Tax Benefit*

Source: *Managing the Swings*, Aspen Institute, 2016.



# Helping households maintain their liquidity is the last line of defence in mitigating volatility

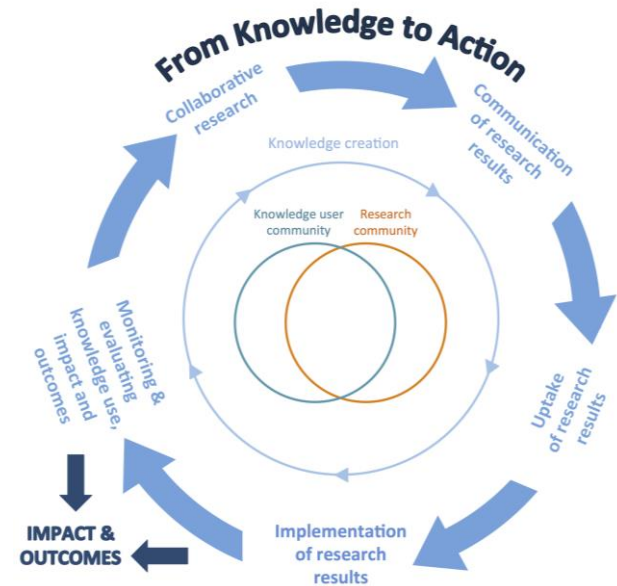


Strategies	Goals	Potential for		
		Employers	Government	Financial providers
<b>Liquidity</b>	High-quality cash management tools (e.g. savings, credit, and insurance) for smoothing income and consumption	<p>Pay workers more frequently</p> <p>Smooth bonuses across pay periods</p> <p>Allow for customizable withholdings from paycheck</p> <p>Automatically enroll workers in savings accounts via payroll deduction</p>	<p>Write regulations that ensure safe, high-quality financial services while encouraging innovation</p> <p>Build infrastructure for emergency savings</p> <p>Provide savings match</p> <p>Require automatic enrollment in savings accounts via payroll deduction</p>	<p>Develop short-term savings products informed by behavioral science</p> <p>Develop affordable small-dollar credit as alternative to payday lenders</p> <p>Provide channels for improved credit reporting</p> <p>Develop hybrid products that meet savings, credit, and transactional needs</p> <p>Allow for faster bill payments and bank transfers</p>

Source: *Managing the Swings*, Aspen Institute, 2016.

# Prosper Canada is working with partners to engage, inform, and advance solutions

- ✓ **Working with partners (e.g. TD, IIROC) to catalyse and undertake new research** on income volatility, changes in the traditional pathways to financial security, and their impact on the financial lives of people with low incomes
- ✓ **Fostering knowledge exchange** and working to catalyse efforts in Canada to better monitor income volatility and its impacts.
- ✓ **Engaging federal/provincial policy makers and the media** to raise awareness, encourage action, and provide input on solutions (e.g. Basic income)
- ✓ **Reviewing implications for financial education and updating our curriculum**, training and resources
- ✓ **Working to sustainably scale tax filing and benefits assistance** to boost incomes and opportunities to save for low income households.



Questions?

Questions?



## 5. Resources to learn more

# Resources to learn more

- ❖ TD Bank Group. *Pervasive and Profound: The Impact of Income Volatility on Canadians*. May 2017 ([PDF online](#))
- ❖ The Aspen Institute:
  - ❖ *Income Volatility: A Primer*. May 2016 ([PDF online](#))
  - ❖ *Income Volatility: Managing the Swings*. August 2016 ([PDF online](#))
- ❖ J.P Morgan Chase. *Weathering Volatility: Big Data on the Financial Ups and Downs of U.S. Individuals*. May 2015 ([PDF online](#))
- ❖ U.S. Financial Diaries <http://www.usfinancialdiaries.org/>
- ❖ PEW Charitable Trusts. *How Income Volatility Interacts with American Families Financial Security* ([PDF online](#))

# Thank you for joining us!

We will be sending you an email soon with:

- Slides from today's webinar
- Link to webinar recording
- Link to post webinar survey

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