Financial Empowerment and Alleviating Poverty in Canada: A concept paper

Prepared for Prosper Canada
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Table of Contents

1.1. Purpose and scope of this paper

This paper has been commissioned by Prosper Canada to develop and present a working model of the relationships between financial empowerment and poverty in Canada.

I review published, international, English-language, academic and grey literature, as well as documents provided by Prosper Canada to develop a set of hypotheses about how financial empowerment may prevent, mitigate and reduce poverty in the context of an advanced industrialized economy like Canada. I use available evidence, recognizing that it has important limitations (these are noted throughout the paper) and draw on existing theory, particularly in the areas of asset-based policy, financial inclusion and financial capability. Sources in the literature have generally been limited to material published within the last 20 years. The literature review conducted for this paper was exploratory rather than exhaustive.

Readers should treat this conceptual paper as a working document whose contents reflect one effort to synthesize the available evidence at one point in time. As research, dialogue and theory continue to advance, the framework suggested in this paper should likewise be revised and improved.

Prosper Canada has also signaled its intent to build on this paper through a series of research briefs, each one taking a systematic look at the state of current knowledge on the outputs and effects of various aspects of financial empowerment interventions. No doubt, those future papers will provide a more robust review of the state of evidence for the hypotheses presented in this paper and, ideally, will point to gaps in the knowledge that should inform future research.

1.2. Defining key constructs: A multidimensional approach to poverty

There are some fundamental challenges faced in preparing this kind of discussion paper. Any conceptual paper will first need to present a definition of the basic constructs used. In this paper, this means providing a working definition of both poverty and of financial empowerment, before I can describe the relationships between these two.

Canada has no official poverty line and, while measures such as the low income measure (LIM) and low income cut-off (LICO) are frequently used as a proxy measure for poverty in Canada, a definition of poverty by income alone will risk misidentifying populations and/or restricting attention to particular instruments (Rothwell and Robson, in press; Corak, 2016; Notten, 2015).

Corak (2016) suggests that poverty should be understood as lacking "the minimum level of resources necessary to participate "normally" in society", recognizing that what is 'normal' will vary over time and from place to place. Here "resources" would seem to allow for attention to both income flows as well as pools of capital in the form of financial or tangible assets. In addition to inadequate financial resources, an important aspect of the experience of poverty seems to come from the constraints on individual choices or 'traps' that perpetuate economic exclusion and vulnerability (Mullainathan & Shafir, 2013; Carter & Barrett, 2006). Similarly, Sen (1999; 2009), argues that studies of inequality must consider not just the distribution of goods but also the distribution of individual capability to use these goods in one's own interest.

In short, for the purposes of this paper, I will be adopting this broader approach to understanding poverty. As appropriate, I will use the term "income poverty" when referring to income that falls below a threshold level.

Advocates of financial empowerment have argued that it is a set of interventions that are complementary to other poverty alleviation approaches, including income transfers and social services (Prosper Canada, n.d.). Redistribution through the income tax system alongside cash transfers to boost personal or household incomes are, without question, critical to effective anti-poverty policy. There is ample evidence that tax and transfer policy instruments have meaningful impacts on household wellbeing in Canada (Forget, 2011; Fortin, Green, Lemieux, Milligan, & Riddell, 2012). However, cash transfers, are only one intervention among many aimed at alleviating poverty. Within existing poverty reduction plans in Canada, affordable housing, early learning and care and access to post-secondary education are some of the other programs and services expected to alleviate poverty in Canada. In considering the relationships between financial empowerment and poverty, this paper proposes that financial empowerment interventions can have a direct effect on those minimum resources proposed by Corak, as well as mediated effects by changing outcomes in other targeted social programs such as reducing homelessness and boosting affordable housing, affordable education initiatives, and employment and self-employment training programs.

Finally, readers will note that poverty alleviation, in the framework advanced by this paper, is presented in three distinct forms:

- **Poverty prevention** refers to effects that appear to stop an incidence of poverty that would otherwise have been reasonably expected to occur. Because poverty in Canada is dynamic (Finnie & Sweetman, 2003; Valletta, 2006), robust evidence that a spell of poverty has been averted may be difficult to collect.

- **Poverty mitigation** refers to effects that seem to reduce the negative effects on well-being experienced by those living in poverty. When a threshold level of income (or assets) is used to define poverty, mitigation effects may not be sufficient to allow a client or family to cross that threshold line, but the hardship they experience (for example in financial strain, physical illness, or barriers to participation in social and economic life) may be reduced. This may also include increases to their income such that the "poverty gap" – the amount by which they fall below the poverty threshold – is reduced.

- **Poverty reduction** refers to effects that seem to reduce the incidence of poverty, whether by enabling a given individual to exit poverty or reducing the intergenerational transmission of poverty. When a threshold level of income (or assets) is used to define poverty, reduction effects will mean that the individual (or their child in the case of intergenerational poverty reduction) has resources above that threshold for some defined period of time. Like poverty prevention, the dynamic nature of poverty in Canada can make it difficult to provide evidence for long-run impacts.

1.3. Defining key constructs: Financial empowerment as a set of interventions

Advocates of financial empowerment in Canada have generally built on models first piloted in the United States, particularly through the Cities for Financial Empowerment Fund and the early work of the Office of Financial Empowerment in New York City. In Canada, Prosper has outlined five separate "pillars" of financial empowerment programming, all aimed at improving the financial security of low-income persons (Prosper Canada, n.d.). These are:

1) Financial information, education and guidance (coaching or counselling), which may include short-term advice and advocacy to resolve a financial crisis, personalized guidance to set and meet financial goals, individual counselling to resolve problem debts, or instruction in financial topics (often in a group setting). Some services are aimed at increasing the self-efficacy of participants, equipping them to take independent action following the intervention. Others are aimed at helping participants through an immediate crisis, whether or not this leads to a sustainable change in individual capabilities.

2) Help with tax-filing and access to benefits, which may include seasonal volunteer income-tax clinics, year-round accessible tax-filing services for more complex cases, and information or free supports to enable clients to complete their own return or application for benefits either independently or with assistance. Interventions also include efforts to bolster awareness and improve take-up of income-tested benefits through information campaigns and integration of benefit screening tools. Services may also include case work to help individuals and families resolve problems with applications for benefits, compliance issues or appealing decisions of benefit administrators. .

3) Safe and affordable financial products and services, which includes, but isn't limited to, access to basic banking services like a deposit account and cheque cashing. There is a wider set of financial products and services that are now recognized as essential for full financial inclusion – such as affordable credit and insurance, as well as access to personalized guidance. Financial empowerment interventions may aim to change the behavior of vulnerable consumers, moving them away from high cost or even predatory fringe banking and towards mainstream services. Interventions may also work with mainstream financial institutions also make changes to their products and services to better meet the needs of vulnerable consumers. Finally, but more rarely, they may include working to establish local access to mainstream financial services in communities where this does not currently exist (e.g. in many rural, remote and First Nations communities).

4) Savings and asset-building, which includes interventions to build emergency or short-term savings towards a goal, matched savings programs such as Individual Development Accounts. Other intervention models may include prize-linked savings, savings circles and incentives to save lump sum tax returns. Asset-building efforts may also include work to increase access to and take-up of tax-prefered savings instruments that received public incentives such as Registered Education Savings Plans and Registered Disability Savings Plans. In some cases, savings incentives are explicitly tied to accumulating financial capital for investment in real assets (such as homeownership) or human capital (such as adult education, skills training or microenterprise start-up).

5) Consumer awareness and protection, which includes efforts to bolster financial consumers' awareness pf and willingness to exercise existing regulatory protections, as well as efforts to enhance local, provincial and federal policy and enforcement to protect financial consumers.

Readers will note that the above description is very flexible. Within each "pillar", there is a broad range of possible interventions imagined within the definition of financial empowerment. Furthermore, organizations that describe their work explicitly as a practice of financial empowerment will also offer different combinations of programs within these five "pillars". Sometimes the number and range of "pillars" implemented by an organization will depend on differences in mission, or local demand, on internal capacity or external funding. Finally, in many instances, financial empowerment programs are not delivered as standalone services, but are instead included as features of larger institutional programs. For example, an organization providing settlement services to newcomers may offer a service to help clients prepare taxes and apply for benefits as a way to ensure access to child benefits as a guaranteed income. The financial empowerment service is embedded in and secondary to the organization's larger focus on improving outcomes for newcomers to Canada. According to Prosper, this is referred to as "service system integration" when adopted horizontally across government programs (ie: across municipal services). Some practitionners believe that this is the most effective way to build sustainable and large scale capacity for financial empowerment.

1.4. Limits to the current state of evidence

Distinguishing financial empowerment programs from other social services isn't just a matter of semantics. Gathering evidence and drawing conclusions about the unique effects of financial empowerment for poverty alleviation is more challenging in these circumstances. Because the parameters of what is and is not recognized as financial empowerment are not well-defined, efforts to generate evidence about what works will inevitably run into difficulties in generalizing from specific cases or in isolating the unique contribution of financial empowerment alongside other social programming. To use the settlement example above, when clients of the settlement organization experience improved economic outcomes, should we attribute those to the tax-filing service, to the broader set of settlement services (such as language instruction or employment training), or to the interaction of the two? Without a strong counterfactual, empirical evidence for the margainal impacts of financial empowerment are difficult to generate. Ideally, a counterfactual for such service integration should evaluate each the standard social service (in this example, settlement services), the financial empowerment intervention (in this example, tax-filing) and the interactions of the two. Only then can we demonstrate how much more (referred to as the marginal impacts) financial empowerment adds to any positive outcomes experienced by clients of more traditional social services.

I raise the above considerations to both highlight important limitations to the evidence available and to raise issues for future evaluation design. There have been some published studies that have used empirical research designs that do allow for more robust conclusions, for example using random control trials. However, those studies can be difficult to design and implement, due to the additional costs, time and expertise required. As with many areas of social policy, we have to make best use of the information we have and try to come to some understanding based on the cumulative direction of the research. Going forward, I would strongly encourage Prosper, in its national leadership role, to pursue the following efforts to improve the state of research on financial empowerment:

- Prosper Canada should develop and disseminate a typology of financial empowerment programs that more clearly articulates the parameters of what is, and is not, included in the construct. I understand that some efforts are already underway and encourage Prosper staff to complete and share their framework to inform policy, practice and research.

- Prosper Canada, as a member of the National Steering Committee on Financial Literacy, should use the review of the Canadian Financial Capability Survey to call for better measurement of Canadians' access to and participation in financial empowerment services. A nationally representative survey would provide a new avenue to generate empirical evidence alongside local or regional projects and initiatives.

- Prosper Canada, as a funder and coordinator of several financial empowerment programs, should continue its efforts to improve evaluation in the Canadian field of practice. More specifically, Prosper should aggregate and make public its own program data for research. In the US, for example, the New York City Center for Economic Opportunity continues to publish program data annually and makes data available for academic research and use by other programs interested in research and evaluation.

In the next sections of the paper, I present working hypotheses on the poverty impacts, as well as a brief discussion of the published evidence, for each of the five "pillars" of financial empowerment. For each “pillar”, I begin with a set of working hypotheses about how it might alleviate poverty by preventing, mitigating and reducing poverty. Then I turn to the research literature and describe the available evidence, including a brief discussion of gaps in the research and some suggestions for future directions. Unlike more traditional research reports, this paper does not end with a summary conclusion since each section is intended to be used on its own and Prosper’s next steps and directions are already known.

2.1 How do financial information, education and guidance alleviate poverty?

Working hypotheses:

Preventing poverty:

- Because the incidence of poverty is associated with either exogenous shocks (such as job loss or illness) or institutional factors (such as weak recognition of foreign credentials for new immigrants), there is no reason to expect that it can be prevented by bolstering individual financial capability.

Mitigating poverty:

- When it includes attention to budgeting, financial information, education and guidance may support clients in increasing their disposable resources. If the intervention helps participants to reduce consumption or better manage existing resources, this should result in an increase in disposable resources and reduced financial strain. However, there is good evidence that persons in income poverty are no less likely to practice household budgeting (Robson & Rothwell, 2016) and may actually be more likely to track resources than wealthier households (Atkinson, McKay, Kempson, & Collard, 2006).
- When it includes appropriate and personalized services from a trustworthy source, financial information, education and guidance can reduce psychological stress, enhance self-efficacy and alleviate stress-related health problems.
- When it includes efforts to resolve an immediate crisis, financial guidance can reduce transaction costs and increase resources. Clients in financial crisis may be ill-prepared to consider information or make decisions related to their medium or longer-term welfare, such as adjusting a household budget or saving towards a financial goal. However, support that leads to a resolution of the immediate crisis that is optimal or at least less punitive, can reduce hardship in the short and medium term. For example, advocacy that helps clients to resolve rent arrears with a landlord can improve housing stability and avoid the transaction costs associated with finding and moving to new (and potentially more expensive) accommodation.

There are also, potentially, second-order effects in which financial information, education and guidance improve outcomes related to other pillars of financial empowerment:

- Financial education and guidance focused on financial goal-setting may support saving and asset-building.
- Financial information, education and guidance focused on financial inclusion may promote awareness and use of existing consumer protection measures.
- Financial information, education and guidance focused on financial inclusion may support clients' access to safe and affordable financial products and services.
- Financial information, education and guidance may support clients' access to public benefits, which in turn has impacts on poverty.

Reducing poverty:

- There is no direct causal pathway for financial information, education and guidance to directly reduce poverty. However, it may indirectly reduce poverty by:

    - Supporting saving and asset-building; and by
    - Improving access to benefits and tax-filing.

What does the evidence say?

In a 2012 systematic review of the research literature, I conclude that financial information, education and guidance interventions have been shown to:

- increase the frequency and consistency of savings behavior and deposits, but not the net worth of participants;
- reduce psychological stress and enhance self-efficacy, with associated improvements in overall health and self-reported well-being;
- increase housing stability among low and modest-income owners, but not the rate of homeownership among the same target group; and to
- increase housing stability among low-income renters, although effects may be mediated by financial incentives attached to the education and guidance (Robson, 2012).

In that same review, I also concluded that there is some directional but inconclusive evidence that financial information, education and guidance can:

- improve immediate settlement outcomes for newcomers to Canada by supplementing other orientation services;
- improve access to mainstream banking services to the extent that programs promote financial inclusion.

Since that report was published, additional studies have been conducted.

In a rigorous study conducted for the US Consumer Financial Protection Bureau, Theodos and his colleagues (2015) used a random control design to test the impacts of financial coaching in two different US community-based programs. Eligible participants who expressed interest in the coaching services were random assigned into the treatment group (n= 479) that was offered the service, or the control group (n=466) that was not (Theodos et al., 2015). Using administrative data, repeated participant surveys and even credit report data, the researchers were able to look at the impact of financial coaching on financial security and behaviors. Over the two years of the research period, treatment group participants, as a whole, saw a significant increase in cash savings, a decline in debt and late payments and some, but uneven, declines in the use of alternative financial services like payday lending. Self-reported budgeting and other forms of financial planning behavior (such as a designated pool of emergency savings) also increased as a result of the financial coaching. Participants in the treatment group also reported lower levels of financial stress as a result of the coaching and expressed higher rates of comfort with their financial situation. Perhaps most interestingly, these results were significant using the intent-to-treat model, the more conservative approach to evaluation that includes the results for all participants in the treatment group, even though nearly half (44%) never made use of the coaching services offered. In other words, the results were even stronger when the treatment group was limited to those who had taken part in at least once coaching session.

In practice, some important share of the counselling offered in financial empowerment programs is aimed at helping clients manage problem debts. Hartfree and Collard (2015) consider the relationship between consumer debt and income poverty in the UK. The authors define problem debt as “inability to meet contractual payments on credit commitments or household bills (or both), resulting in arrears” (p.204). As the authors note, there has been very little research on the relationships between problem debt or consumer credit and income poverty. The paper by Hartfree and Collard tries to look at debt as both a cause and consequence of poverty. The researchers hypothesize that poverty leads to problem debt, as households are unable to make ends meet and fall into arrears or turn to higher costs debt to cope, creating a cycle of financial difficulty and material deprivation to service the debt. However, it’s important to note that lower income households are much less likely, compared to median households, to own mainstream consumer credit such as a credit card or line of credit (Hartfree & Collard, 2015; Robson & Rothwell, 2016). In their review of the literature, Hartfree and Collard find strong evidence that problem debt is more concentrated among lower income households and that a drop in income is the most frequent (self-reported) precursor to problem debt.

But longitudinal research suggests that it may not be one single shock to income that leads to problem debt. Rather it is sustained gaps between income and consumption that eventually culminate in problem debt (Dearden, Goode, Whitfield, & Cox, 2010). Without a financial cushion, even relatively normal life events, Dearden and colleagues note, can lead households to turn to credit to make ends meet, sometimes launching on a trajectory of long-term problem debt, with consequent financial and even psychological stress. However, even modest savings and financial counselling (while not widely used by participants in Dearden’s sample) did make a meaningful difference in resolving problem debt. Households who were able to reduce their problem debt and financial strain did so mainly by increasing their regular income.

But there does not appear to be evidence that high levels of debt lead to greater income poverty (Hartfree & Collard, 2015). Instead, problem debt does reduce material well-being (diverting resources towards servicing costs rather than meeting consumption needs) and may deepen or prolong income poverty. While the authors note that there is no evidence that debt counselling can prevent or reduce poverty, they argue that there is evidence for a "a range of positive outcomes that may help mitigate the impacts of poverty" (p.211). This conclusion does find some support in the international literature (Kempson, 2002; Dearden et al, 2010). But at least one empirical review of the credit counselling ecosystem in Canada points out that options for low-income clients are far too limited and that accountability and regulation of the counselling providers is in need of improvement (Ben-Ishai & Schwartz, 2014). In addition to better public accountability and regulation of credit counselling providers, Ben-Ishai and Schwartz have called for public funding to support community-based credit counselling options coordinated with existing support for financial literacy programming.

Franz (2016) concludes that financial empowerment may improve mental health outcomes for program participants. Participants in the study took part in a multi-faceted intervention for single parents, including financial empowerment counselling aimed at increasing personal financial stability and security. Results, according to the author, suggest that integrating financial empowerment in more traditional social services can lead to reduced stress and improve mental health, primarily by reducing financial stress (Franz, 2016).

Similarly, a study of financial empowerment embedded in job training (included job search, application help, budgeting, credit counselling) leads to greater self-efficacy among single parent mothers on social assistance in the United States (Ferrari, Gracia, & Morales, 2002). In many cases, the researchers found that impacts did not emerge for participants until they had actually started employment, suggesting that effects from financial information, education and guidance can be latent, emerging only when needed in practice.

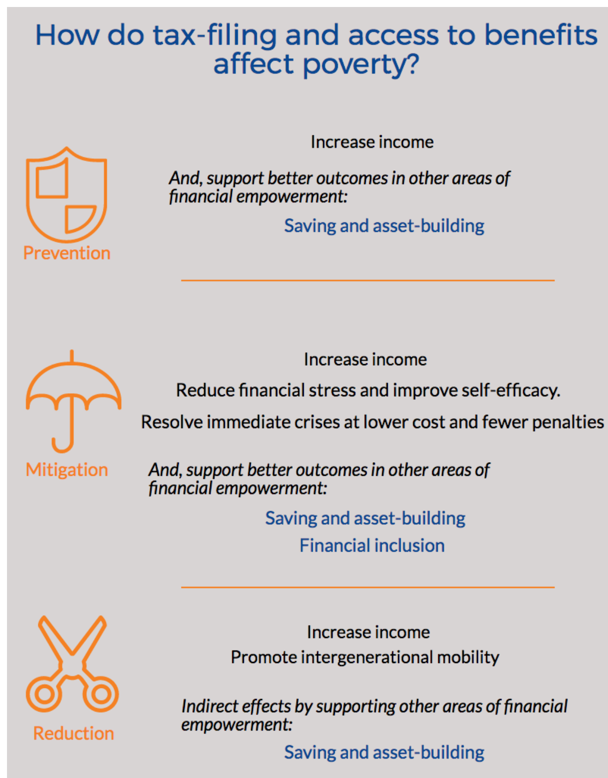
Finally, a recent third-party evaluation of the Financial Empowerment and Problem Solving program in five delivery sites in Ontario did identify several positive outcomes related to poverty alleviation through financial inclusion, access to benefits, reducing financial stress and improving self-efficacy (Goss Gilroy Inc, 2017). Program participants had access to a range of financial empowerment services, although financial guidance to deal with an immediate crisis was the most common (79% of all participants). An majority (65%) of the one on one sessions were related to a client's income tax. Program administrative data show that:

- 60% of participants received income tax benefits (such as a return or refundable tax credits);
- 12% of participants accessed other benefits (such as social assistance);
- 48% of participants reported a stronger understanding of government benefits as a result of the service received; and

- between 8 and 12% of participants reported that they had obtained a new mainstream financial product or service as a result of the financial information, education and guidance provided by FEPS.

These results are promising and suggest that financial information, education and guidance can have indirect impacts on poverty by reinforcing outcomes in other areas of financial empowerment programming. However, the evaluation results should be interpreted with some caution as there was no control group, client access to other services could not be measured and the evaluation report contains limited information.

2.2 How does help with tax-filing and access to benefits alleviate poverty?



Working hypotheses:

Preventing poverty:

- Services to support tax-filing and access to benefits promotes take-up of income transfers that increase resources to meet household needs and protect against poverty.
- Similarly, tax-filing and help to access benefits also promotes take-up of incentives to acquire and maintain productive personal financial, tangible or human capital assets that protect against poverty. This includes indirect effects by improving saving and asset-building that are another pillar of financial empowerment.

Mitigating poverty:

- Tax-filing and support in accessing benefits also promotes take-up of income transfers that increase resources to meet essential needs. While these may not be sufficient to raise household income above a threshold measure of poverty, the additional income can substantially improve individual and family welfare.
- In addition to raising incomes, tax-filing and access to benefits services also promotes take-up of income-tested benefits that improve welfare, such as income-tested access to extended health care coverage, childcare subsidies and housing benefits. These additional resources are in turn expected to have important effects for their target

populations such as reducing financial strain, improving health outcomes and enhancing social and economic participation.

- Assistance with tax-filing may also reduce stress related to tax compliance, with associated effects from stress reduction. When the intervention includes some measure of agency for participants, it may also enhance self-efficacy.
- When there is an immediate crisis or problem related to tax or benefit compliance, community-based services can help vulnerable participants find resolutions at lower-cost than for-profit alternatives.
- Indirectly, tax-filing and support in accessing benefits may also support better outcomes in two other areas of financial empowerment:
    - Access to safe financial products and services, when governments encourage or require payments to be made through direct deposit to a bank account or require the use of certain regulated instruments (such as Registered Education Savings Plans) to receive a financial incentive.
    - Savings and asset-building, when improved access to benefits includes incentives to participate in asset-building programs such as education savings (e.g. Registered Education Savings Plans) or future savings for people with disabilities (e.g. Registered Disability Savings Plans).

Reducing poverty:

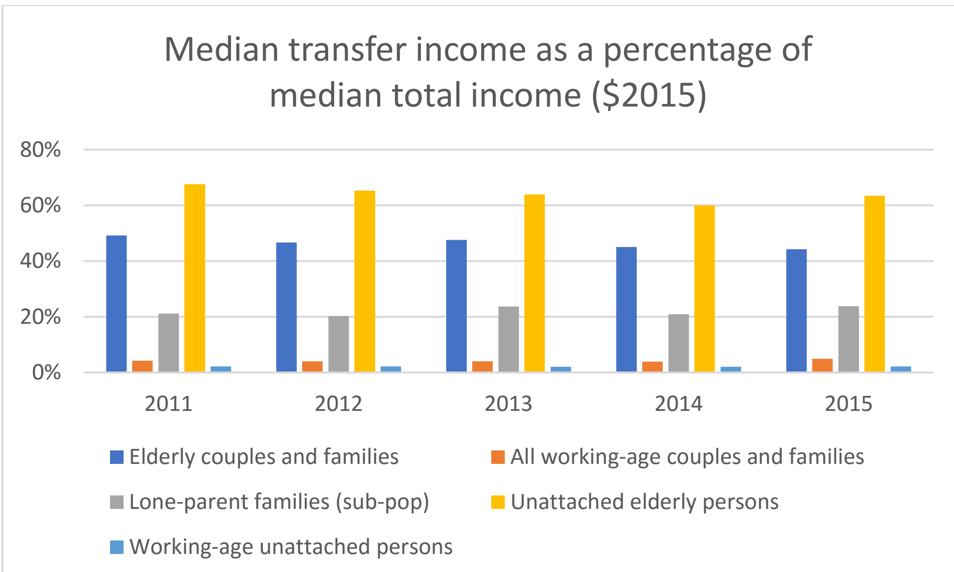
- In some cases, the value of benefits received as a result of tax-filing and help applying for benefits, may be sufficient to allow participants to leave income-poverty, depending on the threshold measure used.
- Because many benefits are targeted towards families with children, improving access to benefits may also reduce the intergenerational transmission of poverty by improving the welfare of children as they grow and creating (for example through education savings) new trajectories for better life-long economic and social outcomes.
- Indirectly, when improved access to benefits includes incentives to participate in asset-building programs, new productive assets may also facilitate transitions out of poverty.

What does the evidence say?

The impact of tax-filing services and assistance in accessing benefits in financial empowerment programming has not been the focus of research. To be clear, the key research challenge is isolating the impact of the intervention of free (or low-cost) tax filing and benefit application assistance, not the impact of the tax return and benefit itself.

There is ample evidence that income-tested benefits and lump-sum annual refunds can make an important difference in the resources of households. For example, in a review of the research, the US Consumer Financial Protection Bureau concludes that lump sum annual returns are the best occasion for low- and modest-income households to build emergency savings (CFPB, 2015). Based on a review of volunteer income tax clinics in the US, the same report concludes that interventions that include behavioral "nudges", financial incentives and repeated interactions with clients are more likely to lead to asset accumulation out of tax refunds. Similar positive savings outcomes from volunteer tax clinics have been documented by Key, Tucker, Grinstein-Weiss, and Comer (2015), and by Porto and Collins (2017).

In Canada, government transfers make up an important share of total household income for many Canadians, particularly elderly Canadians and single parents.



Source: Author's calculations using Statistics Canada CANSIM Table 206-0011.

If financial empowerment interventions improve access to these transfers, then we should expect total resources to be substantially improved for many otherwise vulnerable households.

There's also ample program data to demonstrate that participants in volunteer income tax clinics receive substantial returns. For example:

- In the 2015 tax year, the United Way of Greater Philadelphia and Southern New Jersey reports that 28,490 clients received income tax returns and benefits totalling USD$41.5 million (United Way, n.d.);

- Evaluators of the Financial Empowerment and Problem Solving program in Ontario report that 14,434 clients took part in income tax filing clinics or one-on-one coaching and received or applied for $39.6 million in benefits (Goss Gilroy Inc, 2017). At an average of $2,744 per participant, this amount may significantly improve household resources, even if it does not lift participants above a threshold for income poverty;

- A study of a 2003 door-to-door campaign by ACORN in several US communities concluded that the outreach encouraged 3,850 families to file taxes, resulting in USD$4 million in benefits, particularly the Earned Income Tax Credit (Brooks, Russell, & Fisher, 2006).

The above results are promising. But to empirically measure the true impacts of financial empowerment, we would need to understand what participants in tax-filing and benefit application interventions would otherwise do. For example, would they simply not file taxes or apply for benefits, would they delay doing so or would they use an alternative (if higher cost) approach? This is, based on my review, an important gap in the literature. Without understanding the baseline or alternative choices in the tax-filing and benefit access behavior of vulnerable consumers, it is impossible to measure, with any certainty, the net contribution of this "pillar" of financial empowerment programming.

However, there is very good evidence that the additional resources received as a result of filing a return and applying for benefits do have important impacts on poverty alleviation.

In the US, the Earned Income Tax Credit (EITC) is a key income transfer that can only be accessed by filing a tax return. By best estimates, the ETIC was responsible for a reduction in the US income poverty rate from 57% to 49% among benefit recipients between 2002 and 2004 (Simpson, Tiefenthaler, & Hyde, 2010). Reductions in poverty associated with EITC receipt have been found to be larger than the effects of state or federal minimum wage legislation (Neumark & Wascher, 2001). Where states attached their own refundable credit to the ETC, researchers have found a 40% reduction in local rates of child poverty, holding other variables constant (Lim, 2009). The impacts of the program, available only on condition of filing an annual income tax return, have been described as the largest among all anti-poverty programs in the US (Greenstein, 2005).

In Canada, the parallel refundable benefit linked to an annual income tax return is the Working Income Tax Benefit (WITB). It has not yet received the same decree of research attention as the EITC in the US. In 2016, the Department of Finance released an evaluation of the WITB (Department of Finance, 2016) using tax data for the years 2009 through 2012. The evaluation finds an association between filing method and the likelihood of applying for the benefit – eligible filers are substantially more likely to apply for the benefit when they use tax-filing software or a tax-preparer to complete their return (over 90% take-up vs 49% for individual paper returns completed by the taxpayer). There is also substantial churn in WITB take-up, with roughly half of WITB claimants in one year receiving it again in the subsequent year. In most cases, exit from the WITB is related to an increase in other income above the eligibility test, which is good news in terms of the policy's original intent. However, nearly 10% who did not receive the WITB in 2012 after receiving it in 2011 did not file an income tax return and were therefore unable to apply for the benefit. This suggests that services to support tax filing could improve take-up of the WITB. The government's evaluation did not, however, estimate the poverty impacts of the benefit.

Based on my review, the only study of the poverty reduction effects of the WITB was done by (Annabi, Boudribila, & Harvey, 2013) who construct a microsimulation. They find small but important reductions in the rate of income poverty (using the low income measure), ranging from -.86 to -1.64, and significant reductions in the low-income gap (defined as the amount by which a household falls below the relevant threshold cut-off).

Perhaps the better evidence for the anti-poverty effect of income-tested transfers linked to tax filing has been from studies of child benefits. There is strong evidence that income-tested child benefits administered through the income tax system lead to improved outcomes for children (Milligan & Stabile, 2011) and substantially reduce dependence on provincial social assistance (Milligan & Stabile, 2007). According to the 2016 federal budget, the redesigned federal Canada Child Benefit is projected to reduce child income poverty in Canada by lifting household income for 300,000 Canadian children across the low income cut off (LICO).

2.3 How do safe and affordable financial products and services alleviate poverty?

Working hypotheses:

Preventing poverty:

- When the range of products includes safe vehicles to maintain emergency or long-term savings, access to affordable credit and opportunities to purchase affordable and suitable insurance coverage, greater financial inclusion may reduce the onset of poverty by enabling individuals and families to self-insure (financially) against risks such as unexpected losses or earnings interruptions.
- Similarly, suitable financial products that include storing income and affordable credit can help consumers to maintain greater financial stability, even in cases of exogenous shocks.
- When the range of products includes vehicles to save and build productive assets, this will improve outcomes in another “pillar” of financial empowerment with its own poverty effects.

Mitigating poverty:

- When access to suitable financial products and services also allows consumers to avoid higher cost alternatives (such as cheque cashers and payday lenders), then financial empowerment may reduce their costs for financial transactions, generating additional disposable income, compared to alternative scenarios.
- More specifically on debt or access to affordable credit, measures to enhance financial inclusion can offer vulnerable consumers more affordable options to smooth consumption and avoid cycles of high cost and problem debts.
- Because higher cost alternatives do not permit households to accumulate assets or even emergency savings, attachment to mainstream financial services can also bolster outcomes in another financial empowerment "pillar", savings and asset-building.
- To the degree that financial empowerment initiatives also work to better align the supply of mainstream financial products and customer service with the needs and preferences of vulnerable consumers, they may also improve the social inclusion of and self-efficacy of vulnerable participants.

Reducing poverty:

- Increases on financial inclusion are unlikely, on their own, to lead to decreases in poverty. However, they may improve outcomes in the "pillar" of saving and asset-building which may have poverty reduction effects.

What does the evidence say?

There is ample evidence, in Canada and internationally, for a strong association between financial exclusion and poverty. Although Canada enjoys nearly universal access to basic bank accounts, there is a wider array of products and services that are recognized as essential for full financial inclusion, including access to emergency savings, access to affordable small credit, basic insurance coverage and access to personalized financial advice (Regan & Paxton, 2003; Buckland & Dong, 2008; Conolly, Georgouras, Hems, & Wolfson, 2011; Parker, Castillo, Garon, & Levy, 2016).

Use of fringe financial services, such as cheque cashing and payday lending services are also used as an indication of financial exclusion (Buckland & Dong, 2008; Simpson & Buckland, 2009; Buckland, 2012). Lower income and lower assets have been found to be strong predictors of use of fringe financial services (Buckland & Dong, 2008; Simpson & Buckland, 2009; Buckland, 2012; Robson & Rothwell, 2016). Lower income and assets are also associated with reduced household access to mainstream consumer credit and small savings (Robson & Rothwell, 2016). International studies, where developing nations are included, do find a relationship between access to basic banking and poverty reduction (World Bank, 2015; Ben Naceur & Zhang, 2016). However, it isn't clear whether or how these results should be interpreted for an economically advanced country like Canada.

As Barr (2012) has argued, exclusion from a mix of financial services leaves households more vulnerable to financial shocks like an interruption in earnings or volatility in their income flows. Affordable credit, insurance and small savings allow households to manage risk, smoothing consumption and providing "slack" in their budgets (Barr, 2012). While there is good theoretical reason to believe that financial exclusion can leave a household more vulnerable to a spell of poverty (however defined), this review has not found any evidence for a causal role played by financial exclusion in either entry or exit from poverty. Indirectly, studies suggest that improved attachment to financial institutions are a necessary but not sufficient condition for success in asset-building programs (Barr & Sherraden, 2005; Leckie et al., 2010).

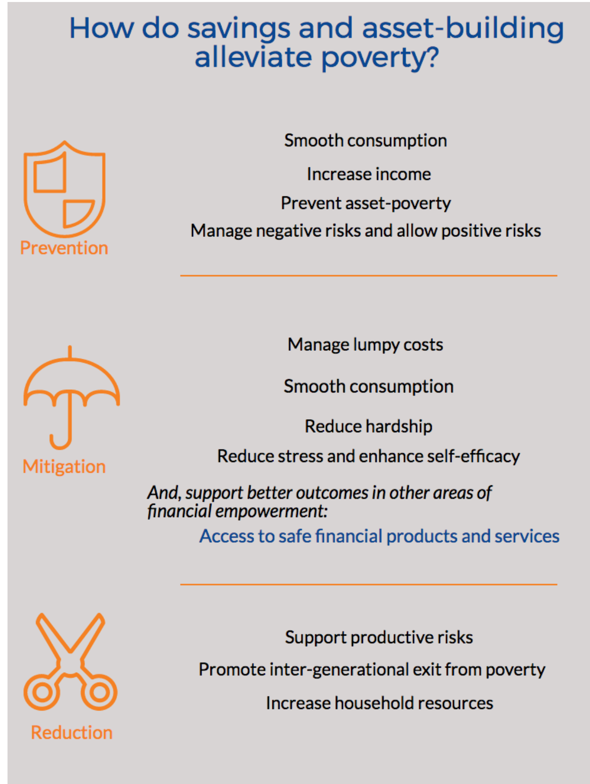
There is stronger evidence that weak attachment to mainstream financial services significantly increases the costs of many basic transactions like cashing a cheque, paying a bill or sending money (Buckland, 2012; Barr, 2012). Qualitative studies on the financial behavior and preferences of low income groups often find that choices to not use mainstream banks may reflect an underlying feeling of being unwelcome or socially excluded from those institutions (Kempson, 2002; Buckland, 2012; Robson, 2013).

Finally, in a recent study using US and European data, Ampudia and Ehrmann (2016) were able to derive a point estimate of the costs of being unbanked (rather than a lifetime cumulative cost). Using a propensity score matching (a method that aims to hold constant selected independent factors such as age and education to generate comparable groups), they conclude that being unbanked results in a net worth loss of €74,000 for the Euro area and USD $42,000 in the US. Much of the impact appears to be mediated by the link between homeownership and attachment to mainstream financial services.

2.4 How do savings and asset-building alleviate poverty?

Working hypotheses:

Preventing poverty:



- Financial savings can be used to smooth consumption when regular flows of income are interrupted due to an exogenous shock (often the precursor to the onset of income poverty).
- By definition, households are able to avoid asset-poverty if they maintain a threshold level of assets (either liquid or total assets). In contrast with income poverty, asset poverty is actually more frequent and includes some differences in the subpopulations more traditionally known to be at risk of income poverty (Rothwell & Robson, forthcoming).
- Assets can enable households to better self-insure against or manage risks (such as changes to family structure, changes in employment, or demands for unpaid care). This also includes managing lump sum costs that cannot be handled out of income flows alone (such as out of pocket medical costs).
- Assets can provide a platform for productive risks that generate future streams of resources. For example, financial assets are essential for homeownership which in turn generates medium and long-term financial benefits. Likewise savings earmarked for education seem to increase the likelihood that a beneficiary will participate in advanced education, gaining new human capital that leads to higher earnings over the life course.
- Financial and real assets can also generate flows of income that increase total household resources.

Mitigating poverty:

- Even if assets are insufficient to allow a household to cross a threshold for asset or income poverty, they can provide an important resource to manage emergency expenses or lumpy costs that cannot be paid for out of existing income flows.
- Similarly, assets also provide stored income that can be used to maintain consumption and wellbeing during interruptions of regular flows of income (for example unexpected interruptions in public benefits).
- In some circumstances, ownership of a financial or tangible asset can also directly improve material well-being and reduce hardship. For example, in many communities a

home that has been inherited may provide housing at a lower cost than available market rental housing. Similarly, ownership of a car may improve access to employment, leading to higher earnings when public transit alternatives are unavailable or inadequate.

- To the extent that prolonged financial stress leads to changes in (and sometimes deficits in) physical and mental health, assets may provide some relief by promoting self-efficacy and an internalized locus of control and encouraging planning and a more future oriented time-perspective.
- Secondarily, participation in savings and asset-building also seems to promote another "pillar" of financial empowerment: access to safe financial products and services. Because most formal savings require the use of a mainstream financial instrument (whether a bank account or investment product), asset-building may also result in greater financial inclusion.

Reducing poverty:

- When savings and assets can be used to support a productive risk (such as education, training, starting a new business), this can generate new household resources, sometimes sufficient to cross a threshold level of income poverty.
- When savings and assets are transmitted to dependent children, in the case of education savings, this may lead to an intergenerational exit from poverty.
- Finally, in rare instances, returns to capital may be large enough to propel an owner out of poverty. For example, lump sum awards, inheritances or market returns (for example returns on the sale of a house) can be windfalls that are large enough to exit poverty.

What does the evidence say?

There is a large body of evidence to demonstrate positive associations between ownership of assets and positive economic, social and psychological outcomes.

Economists recognize that financial assets allow households to manage future risks or earnings interruptions that would otherwise reduce their standard of living, to plan ahead for older age when earned income declines, and/or to transfer resources to loved ones through an inheritance (Modigliani, 1986). However, these approaches all treat savings and assets only as stored income, where the impacts on wellbeing are expected to take place once the asset is spent down.

Another body of research has looked at the association between owning certain forms of assets and positive outcomes. For example, homeownership is associated with enhanced civic engagement (Rohe & Basolo, 1997; Mireles, 2017), with better educational outcomes for children in lower and modest income households (Harkness & Newman, 2003; Bramley &

Karley, 2007) and with higher savings and higher net worth (Engeland, Lewis, & Shillington, 2006; Turner & Luea, 2009; Bostic, Gabriel, & Painter, 2009; Toussaint, 2011). Similarly, financial assets seem to have a positive impact on household well-being that is distinct from their value in smoothing consumption (as in the case of precautionary or retirement savings) or permitting the purchase of some other asset (such as saving to buy a house or pay for higher education). Reviews by Scanlon and Page-Adams (2001), by Headey, Marks and Wooden (2005), and by Lerman and McKernan (2008) find a wide range of effects associated with financial wealth including improvements to physical health, psychological well-being, family well-being, child development, household earned income, individual coping with transitions, and education outcomes of children. However, the vast majority of studies have not been able to show a causal relationship between the ownership of the asset and the positive outcome where other variables can be held constant.

In a similar vein, there may also be a relationship between asset accumulation and financial knowledge, related to the financial empowerment "pillar" of financial education, information and guidance. People with higher levels of financial knowledge are more likely to have savings and assets, compared to those with lower levels of knowledge (Van Rooij, Lusardi, & Alessie, 2011; 2012). But these studies haven't been able to show a causal relationship. It may be that better financial knowledge leads to so-called better financial behavior but the research on translating knowledge into behavior is not promising (Hilgert, Hogarth, & Beverly, 2003; Atkinson et al., 2006; Mandell & Klein, 2009).

As Lerman and McKernan (2008) and Gregory (2014) note, there is a substantial problem of endogeneity—the ownership of an asset (financial or tangible) may be the result or cause of the observed outcomes that seem to be related to that ownership. For example, does homeownership lead to increases in civic participation? Is there some third variable, such as education, that may be driving the observed differences in both housing and civic engagement? Or are people who are already more civically-minded just more likely to buy rather than rent a home? So far, just two studies appear to have used more advanced methodological approaches to try to isolate an independent effect of holding financial assets. Both Bynner and Despotidou (2001), and McKnight (2011) found significant positive effects from even small amounts of financial wealth on future outcomes in education, employment and even physical health. Unfortunately, the data to replicate their studies is not collected in Canada.

Other questions about the impacts of this "pillar" of financial empowerment have to do with the effects of programs for low and modest income families to help them save and build productive assets. There have been several rigorous studies of targeted Individual Development Account (IDA) programs. In Canada, the most rigorous study concluded that the financial incentive of the IDA did increase the frequency and regularity of making deposits in a savings account without evidence of immediate hardship for households, but found no impact on the net worth or hopefulness of participants (Leckie, Shek-Wai Hui, Tattrie, Robson, & Voyer, 2010). One recent review of the literature on IDAs concluded that the evidence is very mixed and that the poverty-reduction impact of IDAs may be over-estimated by advocates (Feldman, 2017). Other studies, using longer data sets, have suggested that IDA participants see some better long-term outcomes compared to similar non-participants (Grinstein-Weiss et al., 2013; Huang, Lombe, Putnam, Grinstein-Weiss, & Sherraden, 2016; Rohe, Key, Grinstein-Weiss, Schreiner, & Sherraden, 2017).

IDAs are, however, only one form of program intervention. There have been positive results from research on efforts to boost emergency savings out of income tax refunds (Key et al., 2015), from financial incentives for education among low-income students (Ford et al., 2012) and from incentives to maintain savings in a pre-paid credit card account (Cooper, Knoll, Sieminski, & Zimmerman, 2016).

2.5 How do consumer education and protection affect poverty?

Working hypotheses:

Preventing poverty:

- There isn't good reason to expect that this aspect of financial empowerment can prevent most instances of poverty. In more rare or extreme circumstances, consumer education and protection measures may help consumers of modest means to prevent or more quickly address instances of financial fraud or abuse. This may, in turn, reduce financial losses and hardship.
- Indirectly, consumer awareness and protection may support outcomes related to financial inclusion and access to safe financial products and services.

Mitigating poverty:

- When consumers are aware of their rights, exercise them and make use of existing protections, this may improve material well-being by:
  - Lowering their transaction costs, allowing them to obtain financial goods and services at lower cost and avoiding higher cost alternatives.
  - Preventing and reducing financial losses related to fraud or malfeasance, by protecting consumers against predatory or fraudulent products and services.

- Enhancing self-efficacy by equipping consumers to take action in their own self-interest and maintain an internal locus of control.

Reducing poverty:

- In a direct relationship, there isn't good reason to expect that this aspect of financial empowerment can lead to a reduction in poverty.
- Indirectly, consumer awareness and protection may support outcomes related to financial inclusion and access to safe financial products and services.

What does the evidence say?

The review of the literature was not able to find any studies that support a direct link between consumer protection policy and poverty alleviation. It is also unclear whether and how consumers living in poverty will exercise their consumer rights and make use of formal mechanisms to resolve complaints or difficulties. Recent media attention and testimony to the House of Commons Standing Committee on Finance have suggested that retail interactions with financial consumers are not always compliant with regulation, with industry standards or operating in the consumers' interests. However, I have not even been able to locate data in Canada on the rates of consumer complaints by household income or wealth.

I suggest that this "pillar" of financial empowerment is best understood as a complementary approach that aims to improve the outcomes for vulnerable consumers by changing the broader institutional conditions that shape financial choices and resources.

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