Financial Vulnerability

Session Moderator: Brenda Spotton Visano, PhD
York University, Toronto Canada
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Our focus

- To strengthen the financial well-being of Canadians and their families, we need to better understand the financial situation of Canadian households

- To support households in managing their money and debt, and planning and saving for the future, we need to better understand the financial challenges of Canadians who are financially insecure

- To support Canada's National Financial Literacy Strategy, we need to better understand the **financial vulnerabilities** of Canadians

We know financial stress matters to well-being

- High financial stress swamps other determinants of life satisfaction for Canadians *(Brzozowski & Spotton Visano, 2017)*
  - 60% of Canadians reported high levels of stress in 2005, 2010 GSS. Financial stress was the primary source of stress for 13% of all Canadians *(op cit)*
  - 42% rank money as their leading source of stress in a recent smaller study *(Financial Standards Planning Council, 2014)*
  - 32% with incomes > $100K experience financial stress *(Duncan & Lo, 2018)*
- Financial stress can inhibit an individual's ability to take action when needed *(FCAC, 2015 citing Shapiro & Burchell, 2012)*

We know financially vulnerable households…

- feel stressed and worried about finances
- struggle financially
- are at risk of bankruptcy and debt default
- are at risk of having their financial situation disrupted by a unexpected expenditure or a sudden loss of income

But … just *what is* financial vulnerability?

- A situation in which the household finances are fragile, precarious, tenuous
- Means different things to different people/researchers
- Often is easier to recognize than to define operationally
- A concept that “remains vague and there is a lack of consensus on operative definitions” *(Leika & Marchettini, 2017)*

Clarifying the Financial Vulnerability construct

- The inability to meet financial obligations arises for different reasons in different circumstances
- May be constructed as a **solvency** concept where the focus is on risks associated with household assets relative to liabilities
- May be constructed as a **liquidity** concept where the focus is on the ability to make payments, including loan payments, out of current income

Financial vulnerability as risk of insolvency

- **Insolvency** is a balance sheet problem, when

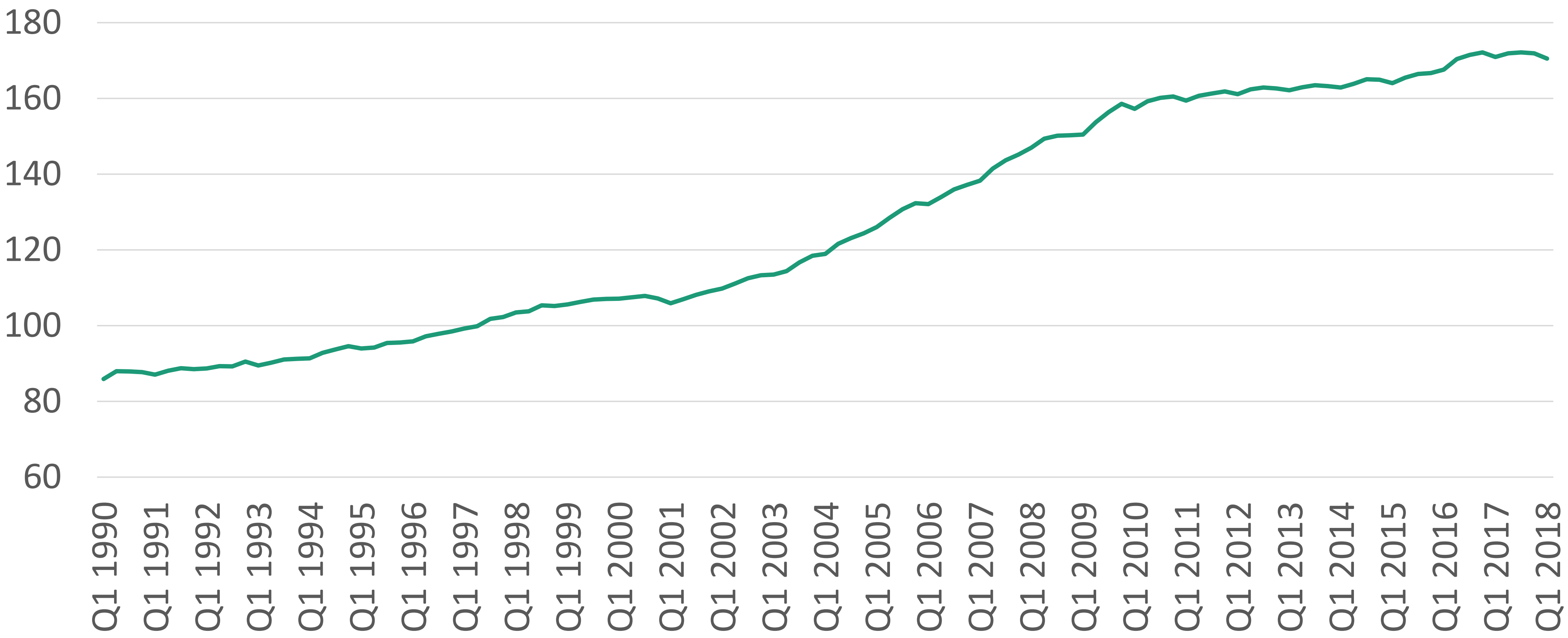
  Net Wealth = Assets – Liabilities < 0

- The larger a household's debt load, the more the debt service payments increase when interest rates rise

- *Households with higher debt relative to income are more financially vulnerable to interest rate increases*

HH Leverage: Debt to disposable income (%) 1990-2018

Statistics Canada Table 38-10-0235-01



Household debt composition

(Statistics Canada, Catalogue 11-001-X; September 14, 2018; Author's calculations)

- **Total household (credit market) debt ~ $2.1 trillion**
  - Average total debt as a proportion of disposable income = 169%
  - 8% of the all households are leveraged > 350% and hold 20% total debt

- **Mortgages + HELOCs ~ $1.5 trillion**
  - Average loans-to-income = 120%
  - 15% of households have loans-to-income ratio > 450% … tend to be younger or low income (<$58K) or in Toronto/Vancouver markets

- **Consumer debt ~ $600 billion**
  - Average consumer debt-to-income = 49% or $0.49 for every $1 of income

Financial vulnerability as a risk of illiquidity

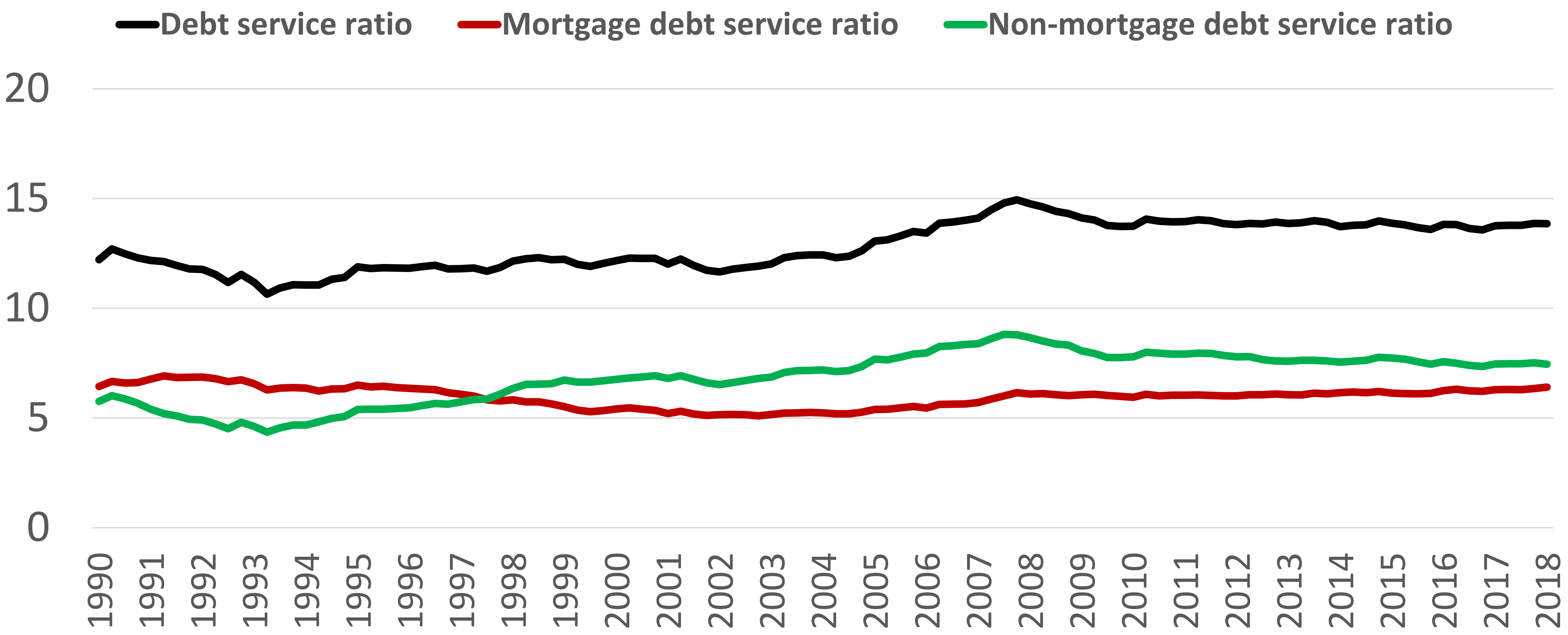
- **Illiquidity** is a cash-flow problem = current income is inadequate to cover current expenditures

- Risk of illiquidity is an indicator of financial vulnerability WHEN households have no savings or cannot access their assets easily

- *Households with no savings are more financially vulnerable to unexpected decreases in income or increases in payments, including loan payments*

Debt Service to Disposable Income (%)

Statistics Canada Table 36-10-0435-01



Financial vulnerability as <u>today's illiquidity</u> problem

- 31% Canadians report struggling or not keeping up with bills and payments *(FCAC, 2015)*

- 45% of payday loan borrowers use high-cost loans to pay for unexpected, necessary expenses *(FCAC, 2016)*

- 36% of Canadians experience income variability month over month *(Duncan & Lo, 2018)*

Financial vulnerability as a risk of illiquidity tomorrow

- 56% of Canadians could not cover at least 6 months of living expenses *(FCAC, 2016 [OECD 2015])*

- 38% of Canadians have only enough savings buffer to last 1-2 months *or less* *(Duncan & Lo, 2018)*

- 43% of Canadians would not draw on savings or emergency funds to cover an unexpected $500 expense *(FCAC, 2016)*

(Some of) our questions

- Who is financially vulnerable?
- How does financial vulnerability present itself?
- Where are the financial pressure points?
- How volatile are income and expenditure flows?
- How do consumers cope?
- What behaviours lessen vulnerability?

Our Panelists

David Rothwell, Oregon State University

Eloise Duncan, Seymour Consulting

Andrea Hasler, George Washington University

Jerry Buckland, Menno Simons College

We welcome your questions…

Merci… Miigwetch…Thank you

- our panelists
- Rebecca Kong, PhD
- Marcie McLean-McKay
- the FCAC Research Symposium team
- and our audience