

Transition



Keeping Afloat
Canadian Household Finances

Editor's Note

Given the amount of bad economic news over the past year, it was tempting to offer you something else to ponder in this issue – a reprieve of sorts – but we have resisted the temptation. There is an important story to be told about the health of Canadian household finances. Whether looked at in the context of rising household debt, unemployment and economic insecurity, or shrinking investment markets and dwindling household savings rates, most Canadians and their families are feeling the bite of this economic downturn in some shape or form.

This issue is intended to help us understand why so many families are vulnerable to these economic shifts, and in so doing, prompt us to reconsider how as individuals, as consumers, as citizens and as members of families and communities we have a role to play in ensuring a more economically sustainable, equitable future for all.

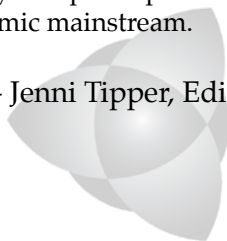
In the lead article, Clarence Lochhead, Executive Director of the Vanier Institute of the Family, and I attempt to answer the seemingly simple question: why are families, households, and individuals in Canada taking on more debt? With household spending and debt outpacing household income at an alarming rate, this piece examines some of the risks - those being borne to a greater extent by families today than in the past – of growing an economy and a culture dependent on the capacity of Canadians to continue spending.

The Certified General Accountants of Canada expand this inquiry by offering an interesting glimpse at some of the attitudes that Canadians have about indebtedness, wealth, spending and saving. Drawing from their own primary research, this piece highlights the economic insecurity felt by so many Canadians and emphasizes the need for building financial literacy to better support improved decision making when it comes to borrowing and spending at the individual and household level.

Michael Prince takes us on a different track with an interesting look at how Canada's three tiered pension system is working to support (or not) Canadians into and through their senior years. He cautions that Canada's aging population may be more economically vulnerable than previously thought and proposes a reconsideration of our collective responsibility to support all Canadians across the lifespan.

The issue concludes with a more practical look at the groundbreaking work being done by Social and Enterprise Development Innovations (SEDI) in the field of financial literacy research and capacity building across Canada. Their work reminds us that the life in the 21st Century requires multiple literacies and that having the capacity to manage savings and debt in an increasingly complex economic arena is critical to self sufficiency and participation in the economic mainstream.

- Jenni Tipper, Editor



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The Vision of the Vanier Institute of the Family is to make families as important to the life of Canadian society as they are to the lives of individual Canadians

What's UP with Household Debt?

by Clarence Lochhead & Jenni Tipper



It is an under-statement to say that the current recession has been hard on Canadian family finances. Mind you, not all families, and certainly not in the same ways. Older Canadians, for instance, who have managed to accumulate some savings, have seen the value of those investments fall – often by 20% or more. As a result, many pensioners have been left wondering whether their savings will support them as they age, while an equal number of “near-retirees” are rethinking their decisions about when to retire.

At the other end of the spectrum, many younger Canadians are looking to enter the job market while carrying heavy educational debt loads. Others are doing so without the necessary skills and experience required in an increasingly competitive knowledge economy.

On the job front, the recession has taken its toll. In the five months from October, 2008 to March, 2009, net job losses totaled 357,000 - already equivalent to all of the net job losses of the last recession in the early 1990s (see **Figure 1**).

And, although inflation has been low - running at just over 1% - food prices have bucked the trend, rising by 10% in the year ending March, 2009. Rising food prices in the midst of recession will likely result in an increase in the current number of households (13%) with children

under 6 years of age who already struggle with food insecurity.

As rough as recessions are on families, the impacts are even more jarring when so many families are already living on the edge of their monthly budgets. The Vanier

“Bank of Canada Governor Mark Carney is worried Canadian households are becoming overextended... Mr. Carney said the almost 10-per-cent increase in the level of consumer debt in 2008 is a growing concern for policy makers. After the global recession and turmoil in financial markets, the biggest risk facing the Canadian economy is household debt, he said.”

(Kevin Carmichael,
www.theglobeandmail.com)

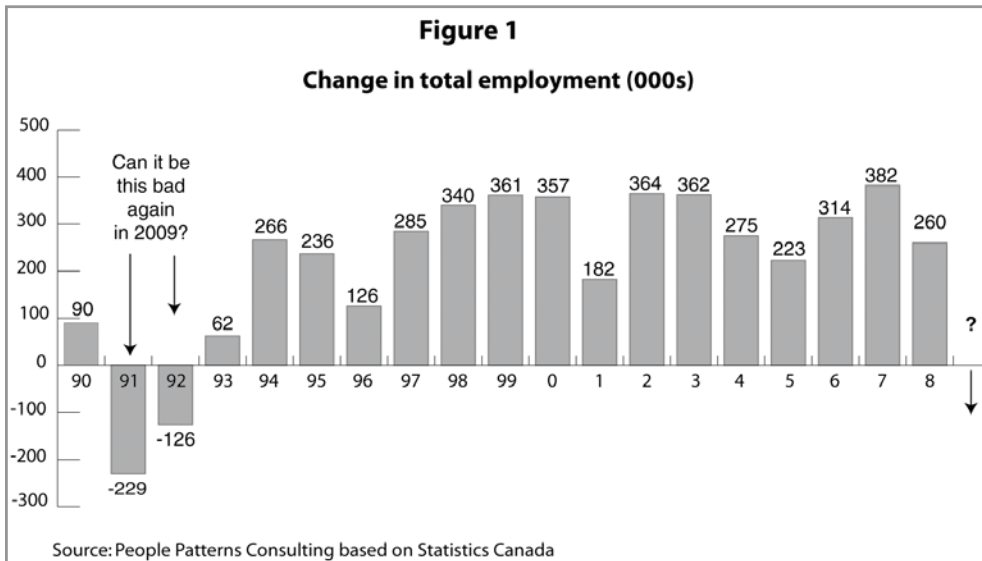
Institute’s latest report, *The Current State of Canadian Family Finances* (Sauvé, 2009) showed household savings rates are at all time lows and household debt levels are at all time highs. A second look at the employment numbers in **Figure 1** shows that prior to the onset of the current recession, Canada experienced 16 consecutive years

of net employment growth, what many would consider a pretty good run. So why are families, households, individuals taking on more debt?

Need vs Greed

When we consider the various factors that contribute to rising household debt, we often think of it as a case of poor household management and budgeting; a problem of people simply living beyond their means, consuming beyond their income. The solution often touted is for people to be more prudent, to cut back. Interestingly, in step with this

While all Canadian households are feeling the effects of the current economic downturn, some Canadians are more exposed to income instability than others. For example, workers in the troubled manufacturing and resource sectors, self-employed workers and single income families are among those most at risk. In addition, the least wealthy 20 percent of Canadians are more vulnerable to the economic conditions because they have almost no housing equity to back up their mortgage debt and no other assets to support their rising debt load (Certified General Accountants Association of Canada (CGA- Canada), 2009).



message of frugality is the loud voice of political and commercial interests urging Canadians to 'spend, spend, spend'. Clearly, there is some mixed messaging going on. Is rising debt simply a question of "greed" and unabashed consumerism, or is it more than that? What is really going on in the homes of the nation?

To better understand some of these tensions, it is useful to begin with a look at longer term trends in earnings, which is the main source of income among working age families. **Figure 2** shows that despite notable gains over the past five years, average hourly earnings in 2008 were basically at the same level they were in the mid-1990s. Since that time, household incomes have increased somewhat, but mainly due to low unemployment rates and the fact that more families now send two wage earners out into the labour market. A recent study by Statistics Canada found that the number of dual earner couples continues to increase with women taking on more hours in the paid labour force (Marshall, 2009).

Earnings, of course, only offer part of the picture. Households also spend. And, if we look at **Figure 3**, we find that household income and spending follow divergent paths. Spending has risen much faster than incomes. While average household income rose 11.6% between 1990-2006, spending increased twice as fast (+24.4%) and total debt increased more than six times faster than incomes (+71%). Total debt is now equal to a record 140% of disposable household income... this compares to only 91% in 1990.

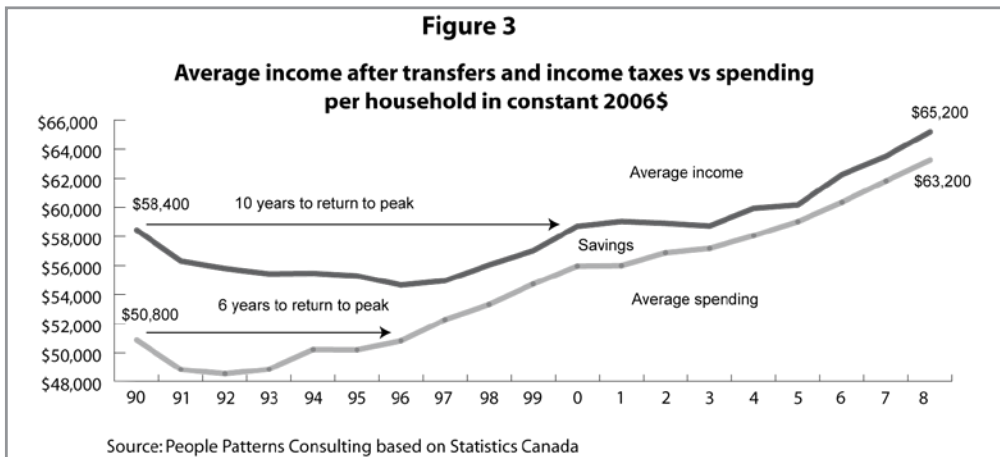
Perhaps not surprisingly, at this same time, annual savings shrank considerably: in 1990, the average Canadian household saved 13%

of their disposable income. This savings rate fell sharply during most of the 1990s and averaged just below 3% near the end of 2008 (see **Figure 4**).

If households are spending more and saving less, just what are they spending on? If we consider the broad categories of household expenditure shown in **Figure 5**, the answer is that they are spending more on, well, just about everything. Expenditures on education jumped 45% between 1999 and 2004 – with tuition accounting for a large part of this increase. Spending on health care insurance premiums increased 32%. More on personal care, recreation and household furnishings. And more on tobacco and alcohol, food, clothing and shelter. The only area in which spending was unchanged was "games of chance". Perhaps this isn't about gambling after all.

Although increased spending is certainly due in part to our personal decisions to "buy big screen televisions", the data shows that we spend more on education and health care, as well – what many would consider prudent, if not essential, expenditures. Exactly which factors people





consider when making their consumption decisions is not entirely clear. What is clear is that these factors are not just economic. Over the course of the last 100 years, we have witnessed profound cultural shifts in how consumption is practiced and perceived. We no longer make our exchanges, by and large, with cash – we use plastic cards. This was not the case a generation ago.

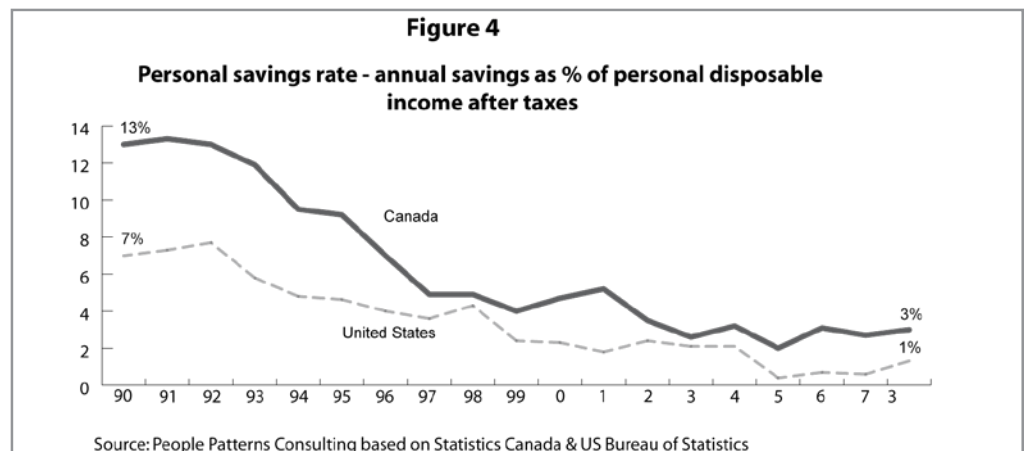
A new acceptance of credit and debt

It was U.S. President, Thomas Jefferson, who said: “Never spend your money before you have it.”. This type of wisdom is a far cry from today’s mantras of ‘no money down’ and ‘don’t pay a cent’. Canadians are now encouraged and enabled to make credit-based purchases at any time of day from anywhere there is an Internet or telephone hookup. We now have 24 hour access to spending.

As such, perhaps the simplest answer to the question “why more household debt?” is: because people can. Clearly, the lending institutions are more than willing to lend and Canadians are willing to spend on credit. According to Sauvé (2009), on average, Canadians carry

2.6 credit cards per person. Between 2002-2007, the number of Visa or MasterCard transactions jumped by 60%, and the value of those transactions soared by 77%. By 2007, the transactions were equal to 27% of total consumer spending compared to 20% in 2002.

Credit and credit cards and paperless electronic transactions are here to stay, and taking on debt can be a wise investment. But in this new environment, a few things seem clear: consumers need to better understand what they are buying when they go out and get a credit card; lending institutions need to exercise discretion when extending credit privileges, and policy makers must ensure adequate regulatory measures are in place, such as those which protect vulnerable consumers.



Shifting Debt Responsibility - Who is Vulnerable?

We should widen this discussion of household debt further by asking whether and to what extent changes in public/government spending have affected spending and debt patterns within households. If households are spending more on education, it is quite simply because governments are spending less. Did we really eliminate government deficit spending in the lead up to this recession, or did we simply “shift” it to the household level?

The extent to which Canadians are willing and able to incur debt at the household level is more than a question of choice: it is also a question of assets and income. Incurring debt is, arguably, only problematic if one does not have the means or the capacity to carry that debt. As such, it is vitally important to understand who is at greatest risk of not being able to service their debt.

According to Sauvé (2009): “the level of debt, as measured by the debt to income ratio is one of the best measures with which to gauge the ability of households to support the debt that they have” (p.13). The Bank of Canada

has constructed a Debt Service Ratio (DSR) which measures the percentage of gross income spent on interest on household debt plus payments on the principal. A DSR is considered 'dangerous' when it exceeds 40%. In Canada, the percentage of households, in the lowest third income bracket with a dangerously high DSR above 40% rose from 6.6% in 2004 to 7.8% in 2007. Undoubtedly, the recession will make it even more difficult for these vulnerable households.

Those Canadians at greatest risk of exceeding this threshold and experiencing debt vulnerability are:

- on a fixed income
- at the bottom of the income earnings ladder
- insecurely attached to the labour market, and
- unattached and between the ages 18-64

Although debt vulnerability is highest among lower income groups, a survey conducted in the fall of 2008 for the Canadian Centre for Policy Alternatives shows that managing debt is a struggle for many. The survey found that 62% of households with incomes under \$30,000 struggle to keep their personal debt under control. This ratio fell to 54% for those with incomes of \$30,000 to \$60,000, to 46% for those with incomes of \$60,000 to \$80,000, to 41% for those with incomes of \$80,000 to \$100,000 and to 31% for households with incomes of more than \$100,000 (Sauvé, 2009).

In stark fashion, the recession of 2009 has underlined, too often in red ink, the importance of credit in our global, national, local, and household economies – as well as the vulnerabilities it can create. The

Figure 5
Average household expenditures and % growth
by major category, 1999 to 2004

	\$ 2004	% 1999 to 2004		\$ 2004	% 1999 to 2004
Education	\$1,078	+45%	Household furniture & furnishings	\$1,870	+24%
Health care	\$1,690	+32%	Shelter	\$12,200	+21%
Insurance & pensions funds payments	\$3,645	+26%	Household operation	\$2,920	+20%
Personal Care	\$897	+26%	Food	\$6,910	+13%
Tobacco & alcohol	\$1,495	+26%	Clothing	\$2,506	+7%
Transportation	\$8,626	+24%	Reading materials	\$283	+2%
Recreation	\$3,678	+23%	Games of chance	\$264	0%

Source: people Patterns Consulting based on Statistics Canada

recession has also prompted many families in Canada to reflect on this question: Are we borrowing too much? It is a good and appropriate question, but it is not the only one that should be asked. If high levels of household expenditure and debt are to be a more or less permanent feature of our foreseeable economic future, we should also ask about the appropriate safeguards, policies and practices that will help mitigate the risks and vulnerabilities that come with it.

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Clarence Lochhead and Jenni Tipper both hang their hats at the Vanier Institute of the Family.

Weighing in on Household Debt and Consumption in Canada

Certified General Accountants Association of Canada (CGA – Canada)

In today's challenging economic climate, many Canadian families are experiencing the effects of living beyond their means during the economic good times. This is not surprising – according to a research report published in 2007 by the Certified General Accountants Association of Canada (CGA- Canada), household debt in Canada reached an unprecedented \$1 trillion as early as 2006. The report, entitled *Where Does the Money Go: The Increasing Reliance on Household Debt in Canada*, focused on the perspectives of Canadians on their indebtedness, wealth, and attitudes towards spending and savings, and offered many insights still applicable today.

Consuming debt

Since the early 1980s, Canadians' personal saving rates have been in decline, dropping from 20.2 percent in 1982 to 1.2 percent in 2005. If those numbers aren't enough to raise a red flag, household debt has been increasing annually by 4.7 percent for the past 20 years, outpacing gains in personal disposable income, assets and GDP. Consumption rather than asset accumulation is the primary cause of rising debt, however, many Canadians - 25 percent in fact - do not believe that changes in housing prices, wages or reduced access to credit negatively affect their financial being.

In the CGA-Canada report, almost half of Canadians surveyed believe that debt holds them back from their ability to reach goals in the area of financial security for unexpected events. One in five people surveyed said they couldn't handle an unforeseen expense of \$5,000; one in 10 said they would have difficulty coping with an unanticipated cost of \$500. They could not meet these expenses by paying with a credit card or line of credit, couldn't turn to savings, borrow from a friend or relative or sell an asset.

With the current economic climate, the idea of saving rather than spending should be top of mind for Canadian families. However, Canadians are not using their investment savings options such as RRSPs or TSFAs. Twenty-five percent of Canadians are not committing to any type of savings and an almost equal amount are tapping into their RRSP savings before retiring and using funds primarily for day-to-day living purposes.

Lack of financial literacy

It appears that many borrowers aren't aware of the harmful long-term consequences of accumulating debt and lack the financial literacy to make informed decisions. To survive and prosper in the modern financial world, Canadian families need to have financial capabilities to make informed decisions about borrowing and spending.

CGA-Canada believes government and the academic community have a role to play in encouraging financial literacy. While business schools and government-sponsored programs do a good job of shaping aspiring entrepreneurs and business people, there is strikingly little to shape objectivity in consumer behavior. More is needed in the way of publicly accessible programs on money management, spending and shopping habits, warning signs of financial difficulties and obtaining and using credit.

Here are some debt trimming tips offered by CGA-Canada:

- Debt is a complex concept and not all of it is bad. When used intelligently, debt can be of tremendous assistance in building wealth. There is good debt and there is bad debt. Good debt is investment debt that creates value such as student loans, real-estate loans,

home mortgages and business loans. Bad debt is purchasing consumer items using high-interest credit cards and not paying the balance in full.

- Lower interest rates should not be interpreted as a green light to take on even more debt. In fact consumers should see the recent rate cutting as a clear signal that the economy is in trouble.
- The cost of credit can vary enormously from one product to another and from one lender to another. Take the time to comparison shop and read the fine print.
- Families should consider their individual circumstances and not the global economic outlook or their credit limit when deciding how much debt they can assume.
- Resist pressure to buy happiness, particularly if it comes from a friend or colleague who appears to have it all. Focus exclusively on your household's current financial situation and mid-to-long term goals. The debt you take on is just that – yours.

For more information on CGA-Canada's report on household debt and consumption, visit www.cga-canada.org

NB In May 2009, a new report on household debt and consumption was released by the Research & Standards Department at CGA-Canada. This report highlights key findings on the topic after 2007 and will provide more current information.

Retirement (in)Security for Canadians

by Michael J. Prince



What are the economic realities and financial prospects facing retired or near to retired Canadians?

We know from trends that average annual household income (after taxes) notably declines for people in the 55 to 64 age group after peaking between ages 45 to 54. And, we know that all but the poorest fifth of households (that is, the other 80% of households in the country) experience a drop in their annual income when they move into the age 65 and over group. If these are the “golden years,” they certainly lack some of the sparkle of earlier times.

From the vantage point of a serious economic recession, troubling signs point to greater old age poverty in the coming years and decade. Many middle-aged and older Canadians are grappling with depleted savings, dwindling household assets (real estate, shares and pension investments) and rising debt loads. Under financial stress, many aging baby boomers face diminishing prospects for a secure retirement, placing them at increasing risk of economic insecurity.

This stress is evident in the troubling rise in bankruptcies among the 55 and over age group. In the recession of the early 1990s in Canada, the number of bankruptcies among the general population more than doubled. The latest Vanier Institute report on family finances shows a gradual climb in bankruptcies for the near to retired age group over the 1990 to 2007 period; culminating in a staggering 541% increase (Sauvé, 2009).

Still another disquieting development is the rise in the percentage of unattached individuals living in poverty (low income after taxes) since 2001, despite a growing economy. This trend will undoubtedly continue to rise during the current recession. Senior citizens will be among those impacted. Recent estimates indicate that one in seven men and one in five women aged 65 and over lives in poverty. For women who are unattached, the rate is closer to one in two living in poverty – today, in Canada (OECD, 2007).

For millions of Canadians living in or approaching this increasingly precarious situation, Canada’s public and private savings programs for retirement are not adequately providing the needed economic security

Canada’s retirement pension system contains three pillars. Pillar one comprises compulsory state-run pension plans aimed at alleviating poverty and providing a

modicum of income support. Pillar two involves social insurance based public programs, also compulsory for a segment of the population, aimed at providing a level of earnings replacement. Pillar three includes so-called supplementary and voluntary arrangements found in occupational pensions and individual retirement savings plans.

What about the newly introduced Tax Free Savings Accounts?

How does the Tax Free Savings Accounts (TFSA), recently introduced by the federal government, relate to Canada’s multi-pillar pension system? The quick answer is, not specifically and indirectly; and the consequences for the national savings rate are unknown. As a tax-sheltered savings plan, the TFSA has some of the features of a defined contribution individual account. It has the aim of accumulating assets for future uses, although not specifically for retirement, and assigns accrual risk to the individual contributor, with no promise of a certain level of retirement benefits. As well, contributions to the TFSA are not conditional on a worker’s earnings history. A larger policy and analytical question needs to be addressed with respect to the impact of TFSA’s on total private savings rates.

Canada's retirement income system is like Goldilocks: not too cold, but not too hot

In terms of adequacy of benefits, the Canadian system is below the OECD average. As a percentage of household disposable income among the older population, Canada's public pensions provide 49% in contrast to the OECD average of 66%, as measured around the year 2000. The Canadian level is better than that of the United States and comparable to that of Japan, Ireland, Australia and the UK, but well below that of many European countries (e.g., France and Germany) (OECD, 2007).

Canada's public pension system is one of the more progressive redistributive systems. With respect to the proportion of benefits available to the lowest quintile (poorest 20% of the older population) compared to the highest quintile (the richest 20%), the Canadian ratio is 1.04, compared to the OECD average of 0.61. In other words, the poorest 20% of Canadians receive \$1.04 in public pension benefits for every \$1.00 received by the richest 20%. Research also shows that the replacement rates from Canada's public pension programs from pillars one and two are more favourable for low-income workers (half the average earnings) than for those at higher pre-retirement earnings (those at twice the average earnings).

Another feature of the Canadian system is that the provision of occupational plans (pillar three), is not mandated by provincial or federal government, but done

Canada's Retirement Income System			
Pillar	Programs	Objectives	Financing
One: governmental	<ol style="list-style-type: none"> 1. Old Age Security 2. Guaranteed Income Supplement 3. Spouse's Allowance 4. Provincial and Territorial Supplements to seniors 	Poverty reduction through basic support	General taxation from the Consolidated Revenue Fund
Two: social insurance	<ol style="list-style-type: none"> 5. Canada Pension Plan 6. Quebec Pension Plan 	Income maintenance through earnings replacement	Payroll contributions from employees and employers
Three: personal	<ol style="list-style-type: none"> 7. Occupational Pension Plans 8. Registered Retirement Savings Plans 9. Registered Retirement Income Funds 10. Other Private Investments 	Asset accumulation through savings and investments	Tax breaks for retirement savings and income investments

voluntarily through workplaces. Canadian authorities do not use legislation to require private pensions either as a supplement to or substitute for public pension provisions through OAS/GIS and the CPP/QPP. Recent estimates show that about 39% of the workforce in the country has an occupational plan. In international comparisons, that places Canada at the upper end of coverage among those countries with voluntary systems of occupational pension plans (OECD, 2007).

The "pension effort" of a nation is the total expenditures on public and private plans as a percentage of

the gross domestic product (GDP) of the country. Among OECD countries, with respect to pension spending, Canada is neither a leader nor a laggard. In 2003, Canadian expenditures on public and private pensions represented 8.2% of GDP, close to the OECD average of 8.0%; and less than that for other major economies (the United States, 9.2; the UK, 10.0; Japan, 10.1; France, 10.3; Germany, 10.8; Italy, 12.6) (OECD, 2007).

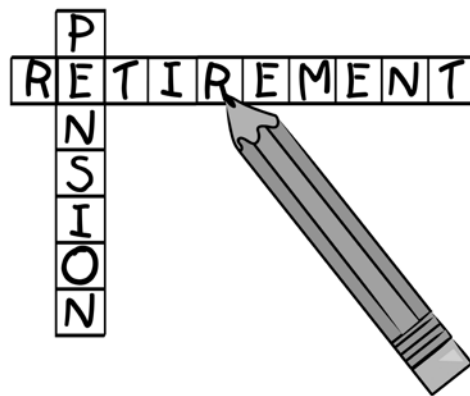
In terms of the relative roles of public and private pension provisions within industrialized countries, Canada's pension system is defined by:

- public pension spending below the international average (4.0% compared to 6.4%) and below that of other major economies;
- a relatively high share of private pension spending (4.2 per cent of GDP compared to the OECD average of 1.6%, in 2003);
- one of the highest levels of use of tax expenditures for pensions and retirement savings (1.7 per cent of GDP compared to the OECD average of 0.6%).

The question of pension mix is not only about public and private. It is about the institutions of federalism, the market economy, and households; mandatory and voluntary measures; current retirees and future pensioners; the objectives of income support, earnings replacement, and asset accumulation; and variations on uses of tax, expenditures and legislative instruments. For example, the legislative instrument is evident in pension policy enacted by federal and provincial governments, whereas, legislation governing approximately 90 per cent of occupational plans is at the provincial level. The third pillar of the pension system also supports activities that may or may not lie outside public policy, such as transfers of assets and benefits in cash and in kind within households and across generations.

Moreover, these pillars in the pension mix are not separate, stand alone columns; and are not of equal stature or strength in providing for the retirement income security of Canadians. For example, occupational pension plans are relatively uncommon in

small and medium size enterprises but constitute standard practice for many employees and employers in Canada's public sector. Many of these plans are non-voluntary and are tied to longstanding collective agreements or employer-employee contracts. Personal savings plans for retirement (such as RRSPs), on the other hand, are regulated and subsidized through tax relief measures and entirely dependent on an individual's capacity to contribute. As such, every citizen's 'pension profile' is variable and unique.



What happens in a recession, doesn't stay in a recession

Recent analysis shows that it takes many years, at times a decade or longer, for many households to recover from the financial disruptions and costs of a recession (Sauvé, 2009). We know, for example, that a recession produces more poverty, in general, and more for certain types of households, in particular, such as unattached persons, families with children under 18 years of age, and lone parents.

This we may well expect. What is more troublingly is that before the current recession hit Canada, the poverty rate of unattached

individuals aged 45 to 64 was already 34% (Sauvé, 2009). These are the people expected to be contributing to occupational pension plans, saving for retirement through tax plans, and so forth.

It is equally disturbing to note that prior to the current recession, fewer Canadians had been contributing to RRSPs and those who did made smaller contributions. Over the 1997 to 2007 period, the share of tax filers who made RRSP contributions declined from 30% in 1997 to 27% in 2007. And, the median RRSP contribution declined 13% in real terms over that same period, a time of steady economic growth and low unemployment.

Related long term trends in Canada of serious concern are the decline of the annual household savings rate, the relatively flat trend in earnings, the increase in average spending per household, and increase in household debt loads.

Canadians now have one of the lowest savings rates among industrial nations: we are hovering around 3% compared to 12% in France and 11% in Germany (Sauvé, 2009 & OECD, 2007). In 2005, among households where the main income recipient was in the 55 to 64 age group, those in the lowest 40% of the income distribution had an average annual shortfall of \$3,900. For seniors, the comparable shortfall averaged \$1,400 a year (Sauvé, 2009).

As more individuals and families struggle to make ends meet in the current economic downturn, many will curtail spending, of course, but also saving; many will also likely borrow money (increasing their

debt load) and, perhaps, dispose of assets such as RRSPs and other funds set aside for the retirement years.



Pension reform in Canada: what should we do?

What mix of public and private programs should be in place to address most effectively the policy objectives of this system?

As the first wave of the “baby boom” generation retires in large numbers over the next five years, what will be the rate and the depth of income decline from pre-retirement to post-retirement? Will this income drop phenomenon, depending on its scale and interpretation politically, generate pressures to address deficiencies in public and/or private pension programs?

There is strong public support for the continuance of the pillar one programs of OAS, GIS and other income supplements for the current elderly population. If the poverty rate for women aged 65 and over living alone persists at relatively high levels, then the need for action will increase. The federal government must make every

effort to ensure that all eligible people receive the income-tested Guaranteed Income Supplement for low-income seniors; consideration should also be given to raising the basic amount.

Another reform idea is to convert the Disability Tax Credit – a program that ostensibly lies outside the retirement income system but mainly benefits older people – into a refundable tax credit. This conversion would provide a modest measure of direct income support to people with impairments and mobility limitations who have little or no taxable income.

Having a relatively modest replacement rate for average earners from public pension plans (OAS/GIS, and CPP/QPP) – which is, in fact, a feature of the Canadian system - generates the need and the space for private provisions for retirement. The challenge here, in the Canadian context, is that we already have a high level of voluntary private pension coverage compared to other nations with similar pillar three systems.

Little more is achievable through public policy instruments to enhance voluntary coverage. This suggests the need for a mandated system of private pension provisions as applied in many other democratic industrialized countries. Under our constitutional division of powers, responsibility for such action in Canada is primarily provincial.

In the case of pension reform, there are real gaps and valid issues regarding retirement and old age security that warrant attention and

action. Despite impressive gains in alleviating seniors’ poverty rates over the past 40 years, recent trends and the current economic crisis reveal both a continued level of insecurity and a likely growing vulnerability for many of today’s and tomorrow’s senior citizens.

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Michael J. Prince is the Lansdowne Professor of Social Policy at the University of Victoria. He has written about retirement income and pension policy issues over many years and, as an aging boomer, with ever increasing personal interest.

Making Sense of Money

by Peter Nares

A financially literate person is someone who understands the basics of money management, knows when they need financial advice and where to get it, and is able to make informed financial decisions with confidence.

According to available and considerable anecdotal data, Canadians have low levels of financial literacy. This is presenting a growing challenge for consumers of financial services and for governments who want citizens to save for a first home, for retirement and for their children's education, to spend wisely, and to build wealth. Financial literacy could well be an important tool in achieving these goals. At the very least, it stimulates people to think about the future and their finances.

There are very real questions about the extent to which low financial literacy levels contributed to the current global financial meltdown. In seeking to answer these questions, however, we must move beyond the "blame the victim" paradigm and take a closer look at consumers to help explain why so many became victims themselves of a much larger global crisis.

The need to generate a better understanding of the role of

financial literacy in the lives of Canadians is supported by the facts. Current per-capita debt load in Canada is at a record high. The rate of personal bankruptcies is increasing. The use of fringe financial services such as payday lenders is rising and personal savings rates for retirement and children's post secondary education remain low. The national survey Statistics Canada is undertaking this year will provide us with valuable information on Canadians' financial literacy levels.

Key decision makers are starting to understand that building financial literacy is not just a matter of distributing brochures in the hope that they will be read. Financial literacy entails developing skill sets people will use every day to make better decisions throughout their lives.

Having the capacity to manage savings and debt is critical to self sufficiency and participation in the economic mainstream. However, navigating with the right information and confidence is a major challenge for many consumers, particularly for those who cannot afford the services of a financial advisor. In addition, financial services and products are getting more sophisticated, confusing and difficult to navigate and the range of choices



can be overwhelming. There is an increasingly wide range of financial advice type products and services available but they are uncoordinated, not always subject to unbiased scrutiny and may be unaffordable to low income people.

Lack of money knowledge can have devastating consequences on our lives, particularly in tough times such as these. Whether you are a single parent handling personal finances for the first time, an autoworker who has lost his job, or a newcomer to Canada, not knowing how to do a proper budget can impair our ability to meet everyday expenses, to access benefits to which we are entitled

and to survive. Careless credit card usage leads to snowballing debt that has far reaching consequences for individuals. The absence of an emergency savings fund can compromise the future of a family.

There is also likely a link between financial literacy and worker productivity. For example, consider the employee who is so preoccupied with personal debt issues that their day to day work outputs suffer.

How we think of an issue can frame how we respond. It is important not to think of financial literacy as a silver bullet that will fix all the issues associated with seemingly poor consumer financial choices. As we know, there is no one simple answer to these issues. Rather, we should think of financial literacy as a basic skill and as the intellectual backbone of saving, planning and investing. It is a precondition of successful saving and asset building.

Social and Enterprise Development Innovations (SEDI) has been involved in financial literacy research and capacity building across Canada for the past ten years. Financial literacy has also been a key component of our asset building, youth and self employment work. SEDI has researched and published on the topic of financial literacy both at home and abroad. Through this work in financial literacy, SEDI saw the need to grow the field of financial literacy in community

organizations on a national scale. In our view, there are two critical components to growing financial literacy in Canada. We need an enabled policy environment and we need to increase the supply of and the demand for financial literacy services in communities and in schools. To achieve the policy objective, SEDI called for the creation of a national task force to develop a financial literacy strategy for Canada. The federal government announced such a task force in its January 2009 budget.

To contribute to increasing both the supply and demand for financial literacy supports, SEDI launched the Canadian Centre for Financial Literacy in November, 2008. The first of its kind in the country, the Centre seeks to bring together the private, public and voluntary sectors to expand opportunities for low-income Canadians to increase their financial literacy. With over 4.7 million Canadians living on a low-income, there is no shortage of work to do.

The mandate of the Centre is to increase the supply of community based financial literacy supports in all regions of the country. The Centre is targeting the following vulnerable groups of Canadians: Youth, Aboriginal Peoples, Newcomers to Canada, Families with Children and Women. The Centre is expected to reach more than 230,000 low-income Canadians with financial literacy supports over the next five years.

Fast Facts

Seven in 10 Canadians don't have a budget, according to a 2008 Bank of Montreal national survey. Eighty per cent of respondents said the current economic downturn is not enough incentive to create a budget.

Consumer credit-card debt in Canada totals \$80 billion, a 40% increase from 2004, according to a report released by Deloitte in February 2009.

The Centre has three primary areas of activity:

- Capacity building – Increasing the capability of community organizations across Canada to deliver effective financial literacy supports to their clients.
- Research and information-sharing - Increasing accessibility for practitioners to relevant research and information through an interactive website.
- Consulting - Providing consultancy services on financial literacy and related policy.

Capacity building activities have been the focus of the first few months of operations. Train-the-trainer sessions have been held

through community organizations serving Aboriginal peoples, newcomers to Canada and youth. The Centre's financial literacy training is comprised of modules on topics such as consumerism, debt and credit issues, and budgeting.

Trained practitioners have been eager to deliver the financial education training to their clients as well as to share their experience with us. Below are some of the 'aha moments' clients have experienced as a result of participation in the training activities:

- One participant first determined that one third of their income was being spent on a car and that paying for rent on top of car payments was not affordable. As a result, this individual changed job search strategies and reconsidered the timing of moving out of the parental home.
- Another young person, after examining the items he most often purchases, was astounded to see how much money he spent on cigarettes. He is now trying to quit smoking.
- One client shared how debt issues from her youth continue to plague her today. At the end of the first session, she said she looked forward to finding new ways to think, feel, react and relate to finances.

As the Centre continues its work through community organizations across Canada, our hope is to make a positive impact on individual's and families' financial well-being.

Peter Nares is founder and executive director of Social and Enterprise Development Innovations (SEDI) and an Ashoka Senior Fellow. SEDI is a national charitable organization that uses innovative approaches to help low-income Canadians gain financial independence. For over 22 years, SEDI has worked with businesses, governments and more than 800 not-for-profit organizations across Canada on financial literacy, asset building and entrepreneurship initiatives. The organization's expertise allows it to influence public policy, opening the way for Canadians to enter the social and economic mainstream. Visit www.sedi.org for more information.

Fascinating Families



Fascinating Families is a web feature that builds on VIF's expertise in monitoring family trends and uses a "family lens" to frame a brief discussion of the implications for families in Canada.

This new feature is published on the 15th of the month. Hyperlinks to related resources and research are provided whenever possible.

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Families Count – Profiling Canada’s Families, 4th Edition

Watch out for **Families Count** next winter – the new edition of the Vanier Institute’s popular data book on families in Canada. The Vanier Institute of the Family has been producing this essential resource since 1994. The name has changed but readers will still find a wealth of information on families in Canada - in all of their diversity - and on the range of factors influencing their well-being. Through the use of easy-to-read charts and tables and commentary, **Families Count** will identify trends, successes, and challenges facing Canada’s families today. A new electronic format will ensure broad accessibility for all those with an interest in families. Stay tuned.



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The Vanier Institute of the Family presents:

The Family as a Political Institution



A Public Lecture by Daniel Weinstock, PhD
Director, Centre de recherche en éthique
de l’Université de Montréal
(In French, with simultaneous English translation)

Thursday, October 22nd, 2009, 7:00 p.m.
Maxwell Cummings Auditorium,
Montreal Museum of Fine Arts
1379 Sherbrooke St. West, Montreal, QC

Seating for this free lecture is limited. Please reserve by contacting
Sara at 613-228-8500/1-800-331-4937/smactnaull@vifamily.ca
www.vifamily.ca

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Name for membership: _____

Address: _____

Town: _____ Province/Territory: _____

Postal Code: _____

E-mail: _____

Signature: _____ Phone: _____

Please mail or fax 613-228-8007 to the Vanier Institute of Family

Partnership Matters

Final Report of the Special Senate Committee on Aging

In November 2006, the Special Senate Committee on Aging was created to review a wide range of complex issues to determine if Canada is providing the right mix of programs and services at the right time to the seniors who need them. The committee's findings are presented in their final report, *Canada's Aging Population: Seizing the Opportunity*, released in April, 2009. For a copy of the report: <http://www.parl.gc.ca/40/2/parlbus/commbus/senate/com-e/agei-e/rep-e/AgingFinalReport-e.pdf>

Dignity for All - The Campaign for a Poverty-Free Canada 2009 – 2020

A life free from the chains and pains of poverty. Greater equality among citizens. Dependable and genuine social security through hard economic times. In support of these aspirations, CANADA WITHOUT POVERTY and CITIZENS FOR PUBLIC JUSTICE are mobilizing a multi-year, multi-partner, non-partisan Dignity for All Campaign. This campaign's vision is to make a poverty-free and more socially secure and cohesive Canada a reality by 2020. The conviction behind this campaign is that Canadians must respect and defend the right of every person to dignity and security. Info: www.kellylaw.ca @ kelly@cwpcsp.ca or karri@cpj.ca

2008 Survey of Canadian Attitudes toward Learning (SCAL)

Now in its third year, the SCAL - designed by the Canadian Council on Learning (CCL) in consultation with Statistics Canada - provides a unique opportunity to gauge the opinions, perceptions, and beliefs of Canadians about various aspects of learning in Canada. SCAL data were collected in April and May, 2008 in four areas: Early childhood learning, Schools: quality, access and mobility, Work-related adult learning and, Health-related learning. Results are based on telephone interviews with 5,488 Canadians aged 18 to 74. Results can be found at www.ccl-cca.ca/scal/.



La Paternité au XX1e siècle (2009), edited by Diane Dubeau, Annie Devault and Gilles Forget. Les presses de l'université Laval.

This compilation of essays makes a significant contribution to our understanding of 'fatherhood' in all of its many dimensions in Canada. It asks the reader to consider how we construct fatherhood today; how and why fathers need support; and, what value we accord them in their diverse roles. Written in French, this book will capture the attention of anyone interested in the changing face of families in Canada.

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Networks

JULY 2-5: Exploring Cultural Perspectives, Calgary, AB. Hosts: University of Calgary / International Cultural Research Network.

The theme, *Interconnecting Cultures in a Global Society*, invites unique ways to think about interconnections and cultures not as things but as processes, actions, relationships. Info: www.icrn.ca

JULY 5-9: Second International Youth Symposium for Biodiversity: Ottawa, ON Canada. Bringing youth together to share biodiversity projects.

Info: www.biodiversitymatters.org

JULY 11 – 16: 14th International Congress on Circumpolar Health, Yellowknife, NWT.

Focuses on the exchange of health-related knowledge and research amongst scientists, health care professionals, policy analysts, government agencies, and community leaders. Info: www.icch2009.com

SEPTEMBER 14 - 18: 14th Int'l Metropolis Conference. MIGRATION AND MOBILITY National Responses To Cultural Diversity, Copenhagen, Denmark.

This conference is intended for policy makers, administrators and representatives from non-governmental organizations (NGOs) as well as academic researchers with a professional interest in international migration and urban management issues. Info: www.metropolis2009.org

OCTOBER 1-3: 5th Canadian Conference on Dementia (CCD), Toronto, ON. A group of national and international scholars share developments in dementia research. Info:

www.ccd2009.ca

OCTOBER 20-22: CANSEE 2009 Conference - Ecological Economics: Prosperity for a Sustainable Society, Vancouver, BC. Info: www.cansee.org

OCTOBER 25-28: 16th Annual Canadian Conference on International Health (CCIH), Ottawa, ON. Theme: Health Equity: Our Global Responsibility. Info: www.csih.org

Networks lists events in support of families, especially major events of interest to many readers across Canada. For a free listing, please give the Editor ample notice, and state in what language(s) your event will be conducted. Provide written information in English and French, if available.