Are families getting richer?

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Most studies about financial well-being focus on income. Some studies have examined the extent to which Canadian families live in straitened circumstances, or have difficulty making ends meet, using low-income data;[1] others have focussed on earnings inequality or inequality in family disposable income.[2] The after-tax income of families is certainly a key indicator of their ability to sustain a given standard of living. However, wealth is another important measure of financial well-being. Wealth provides resources that can be converted into cash to satisfy consumption needs. Furthermore, financial assets can allow a family to absorb the shock of economic stress, such as the loss of a job, sickness, or divorce.

Did changes occur in the wealth of Canadian families between 1984 and 1999? Did the rich continue to get richer? This study examines whether the gap between high-wealth families and low-wealth families increased during that 15-year period. Both wealth and financial wealth are used in the analysis. Wealth, or net worth, is defined as the difference between the value of a family's total current assets and the amount of its total debts. Financial wealth, a subset of total wealth, is defined as net worth minus net equity in housing and net business equity. It measures the assets a family could use relatively quickly to finance its consumption — without selling the house, the contents of the house, or the business — if family income fell substantially or the family encountered unexpected expenditures.

Has wealth inequality increased between 1984 and 1999?

Between 1984 and 1999, average wealth for all families rose 37%. Excluding the top 1% of family units from the total lowers the growth of average wealth to 31%, while excluding the top 5% of family units lowers it to 28%. The growth in average wealth occurred despite an increase in the percentage of families with zero or negative wealth (from 11% in 1984 to 13% in 1999, for all families).

1. Picot, G. and J. Myles. 1995. "Social transfers, changing family structure, and low income among children." Analytical Studies Branch Research Paper No. 82 (Statistics Canada Catalogue no. 11F0019MIE); and Myles, J. and G. Picot. 2000. "Social transfers, earnings, and low-income intensity among Canadian children, 1981-1996: Highlighting recent developments in low-income measurement." Analytical Studies Branch Research Paper No. 144 (Statistics Canada Catalogue no. 11F0019MIE).
2. Morissette, R., J. Myles and G. Picot. 1994. "Earnings inequality and the distribution of working time in Canada." *Canadian Business Economics*. 2, 3: 3-16; and Beach, C.M. and G.A. Slotsve. 1996. "Are we becoming two societies?" Toronto: C.D. Howe Institute.

CST What you should know about this study

Data used in the preparation of this article come from the Assets and Debts Survey of 1984 and the Survey of Financial Security of 1999. In both cases, the sample represents all families and individuals in the 10 provinces, except the following: members of households located on Indian reserves; full-time members of the Armed Forces; and inmates of institutions. Data were obtained for all members of a family aged 15 years and over. Family units consist of economic families[1] and unattached individuals. To make the concept of wealth comparable between the two surveys, the following items were excluded from the 1999 data because they were not collected in the 1984 survey: contents of the home, collectibles and valuables, annuities and registered retirement income funds (RRIFs). Wealth (net worth) is defined as the difference between the value of a family's total current assets and the amount of its total debts.

This report uses the concepts of both median and average to discuss wealth. Both concepts can be used to describe net worth, but each provides a different picture. Median net worth is determined by ranking all family units from highest to lowest. The net worth of the family unit in the middle of the range is the median net worth. Average net worth, on the other hand, is determined by dividing the total net worth of all family units by the number of family units. The more the average exceeds the median, the more the wealthiest family units in the country contribute to the increase in the average. All references to median and average wealth in the study refer to real wealth, that is, adjusted for inflation. For more information on concepts and definitions, see Appendices A and B of *The Assets and Debts of Canadians: An overview of the results of the Survey of Financial Security*, Statistics Canada Catalogue no. 13-595.

1. An economic family is defined as a group of two or more persons who live together in the same dwelling and are related to each other by blood, marriage, common-law or adoption.

Average financial wealth rose at a much faster pace than average net worth, growing 92% between 1984 and 1999. Excluding the top 1% and the top 5% of families, average financial wealth rose 73% and 53%, respectively. As a result, the relative importance of financial wealth as a component of overall net worth rose dramatically during the period. Average increases in wealth mask significant differences in the *distribution* of wealth, however. Between 1984 and 1999, median and average wealth evolved in dissimilar manners for different types of families. First, both rose much more among families whose major income recipient is a university graduate. Second, both increased among those whose major income recipient is aged 55 and over. Third, both increased among Canadian-born family units and among foreign-born families who have been living in Canada for 20 years or more but fell among foreign-born families who have been living in Canada for less than 10 years. Fourth, both increased faster among non-elderly couples with no children than among non-elderly couples with children under 18.

The dramatic increase in median wealth and average wealth (56% and 51%, respectively) of families whose major income recipient is at least 65 years old most likely reflects a combination of factors that may have been present in 1999 but not in 1984: larger inheritances received by the 1999 cohort, compared to the 1984 cohort; higher income from private pensions; higher income from the Canada and Quebec Pension Plans and Old Age Security; an increase in the number of two-pension families; and appreciation of housing values over the 1984 to 1999 period.

Young families hit hardest

Although some people enjoyed increases in wealth over the 1984 to 1999 period, others did not. In many population sub-groups, median wealth grew much more slowly than average wealth, indicating increasing inequality within the sub-groups. For instance, among families whose major income recipient was aged 25 to 34, median wealth fell 36% while average wealth fell only 4%. Young couples with children — i.e. those whose major income earner is aged 25 to 34 — experienced drastic changes. Their median and average wealth fell 30% and 20%, respectively. This decline in net worth had considerable consequences: the percentage of these couples with zero or negative wealth rose from 10% in 1984 to 16% in 1999.

Increased wealth inequality — what caused it?

Several factors may have contributed to the growth in wealth inequality

Average family wealth increased by over one third between 1984 and 1999

All family units	1999 constant dollars 1984	1999	% change 1984–99
Net worth			
Median	58,400	64,600	11
Average	128,900	176,100	37
Percent with zero or negative net worth	11	13	23
Financial wealth			
Median	10,900	14,900	36
Average	34,600	66,500	92
Percent with zero or negative financial wealth	18	20	11

Sources: Statistics Canada, Assets and Debts Survey, 1984 and Survey of Financial Security, 1999.

that occurred between 1984 and 1999. First, during the 1990s, young people stayed in school longer before entering the labour market in full-time jobs, thus decreasing the number of years during which they had significant incomes. This, and the greater debt load of students,[3] probably account for part of the decrease in their median wealth. Second, the booming stock market of the 1990s likely contributed to the rapid upward revaluation of financial assets.[4] Since financial assets such as stocks and bonds are held predominantly by families at the top of the wealth distribution, this revaluation contributed to the growth of wealth inequality. Third, easier access to credit may have induced some low-wealth families to accumulate debt to finance expenditures, thereby decreasing their net worth. Fourth, increases in contributions to RRSPs made by families in the middle of the wealth distribution may have widened the gap between them and lower-income families.

The aging of the Canadian population between 1984 and 1999, however, partially offset the increase in wealth inequality. It reduced the relative importance of young families — who have lower than average wealth — and increased the relative importance of families in the middle of the wealth distribution. As a result, it made the distribution of wealth more equal. In the absence of the aging of the population, total wealth inequality would have increased more than it actually did.

Which wealth components contributed the most to wealth inequality?

The growth of wealth inequality occurred in conjunction with substantial changes in the wealth structure. Dramatic shifts in the relative importance of the various components of assets and debts took place between 1984 and 1999. The share of RRSPs as a proportion of wealth increased from 4% to 16%, reflecting the growing popularity of this financial asset. Similarly, the share of stocks, bonds and mutual funds rose from 6% to 11%.

On the debt side, the share of mortgages on principal residences increased to 14% in 1999, up from 10% in 1984, probably due in part to the easier access to mortgage loans by financial institutions. A marked drop in the relative importance of business equity (from 25% to 17%) and a more moderate decrease in the relative importance of deposits (from 11% to 8%) accompanied these changes.

When identifying which of these components of wealth are major sources of wealth inequality between groups, it is clear that principal residence made by far the biggest contribution, accounting for approximately 35% of overall inequality in both 1984 and 1999. However, the contribution of RRSPs to overall inequality rose from 4% to 15% and that of stocks, bonds and mutual funds from 6% to 13%. As discussed earlier, these types of assets are more easily available to higher-income families. In contrast, the contribution of business equity dropped dramatically, showing a decline from 32% to 21%. Over the same period, the contribution of deposits also fell, from 10% to 6%.

During this period, self-employment in very small businesses without paid help grew tremendously. The move towards self-employed jobs without paid help and with very small assets (e.g. self-employed persons operating a consulting business with a micro-computer and some other electronic equipment at home) decreased the relative importance of business equity and thus its contribution to overall inequality. Since the contribution of RRSPs and stocks, bonds and mutual funds to overall inequality increased between 1984 and 1999, while the contribution of business equity and deposits fell, these four components appear to account for much of the

3. Finnie, R. 2001. "Student loans: The empirical record." *The Canadian Journal of Higher Education*. Vol. XXXI, No. 3.

4. Yan, X. 2001. "Understanding saving and wealth accumulation." Income and Expenditure Accounts Division, Statistics Canada. Mimeograph.

CST A family's wealth is profoundly affected by the characteristics of its major income earner

Characteristics of major income recipient	Median wealth 1984 $	Median wealth 1999 $	% change 1984-99	Average wealth 1984 $	Average wealth 1999 $	% change 1984-99
Education level						
Not a university graduate	52,800	54,100	2	119,300	145,300	22
University graduate	99,600	118,000	18	189,300	289,500	53
Age						
24 or younger	3,100	200	-95	32,300	32,900	2
25-34	23,400	15,100	-36	69,900	67,300	-4
35-44	73,000	60,000	-18	137,600	151,900	10
45-54	124,000	115,200	-7	202,400	247,800	22
55-64	129,100	154,100	19	210,300	303,900	45
65 or older	81,000	126,000	56	140,700	211,900	51
Education by age group						
25-34						
Not a university graduate	21,200	11,100	-48	62,600	49,800	-20
University graduate	41,200	30,900	-25	102,100	112,100	10
35-54						
Not a university graduate	80,500	65,800	-18	153,200	156,000	2
University graduate	130,300	144,700	11	218,700	312,300	43
Immigration status of major income recipient						
Canadian-born	53,900	60,500	12	122,900	168,700	37
Immigrant residing in Canada						
20 years or more	120,000	171,300	43	194,800	285,600	47
10–19 years	68,000	44,500	-35	114,400	140,800	23
Less than 10 years	17,600	13,100	-26	90,100	75,700	-16
Family type						
Unattached individuals — elderly	41,400	70,000	69	78,700	138,100	76
Unattached individuals — non-elderly	5,800	6,000	4	47,200	63,900	35
Couples						
No children	71,500	101,600	42	151,200	244,200	62
Children under 18	77,900	77,800	0	149,300	195,900	31
Children 18 and over	155,800	167,400	8	251,500	312,500	24
Elderly couples, no children	121,100	177,500	47	198,500	280,500	41
Lone-parent families	1,900	3,700	96	39,400	63,800	62
Other family types	74,200	112,700	52	145,100	210,200	45

Note: All dollar values are expressed in 1999 constant dollars.

Sources: Statistics Canada, Assets and Debts Survey, 1984 and Survey of Financial Security, 1999.

Principal residence is the single biggest contributor to wealth inequality

Wealth component	Share of total net worth 1984	Share of total net worth 1999	Contribution to inequality 1984	Contribution to inequality 1999
	%			
Assets				
Deposits, non-RRSP	11	8	10	6
Stocks, bonds and mutual funds, non-RRSP	6	11	6	13
RRSPs	4	16	4	15
Other investments or financial assets, non-RRSP	3	2	3	2
Principal residence	49	51	36	34
Real estate other than principal residence	12	11	11	11
Vehicles	7	6	3	3
Business equity	25	17	32	21
Debts				
Mortgage on principal residence	-10	-14	-3	-4
Other debt	-7	-7	-3	-2
Total	**100**	**100**	**100**	**100**

Source: Authors' calculations from the Assets and Debts Survey, 1984 and the Survey of Financial Security, 1999.

growth in wealth inequality during the period.

Summary

Although some segments of the population enjoyed increases in wealth, others did not, with the result that between 1984 and 1999, wealth distribution became more unequal. Some groups, such as young couples with children and recent immigrants, have suffered substantial declines. The growing proportion of young couples with children who have zero or negative wealth suggests that a non-negligible fraction of today's young families may be vulnerable to negative shocks, having no accumulated savings that can provide liquidity in periods of economic stress.

Median wealth and average wealth rose much more among family units whose major income recipient is a university graduate; they both fell among family units whose major income recipient is aged 25 to 34 and increased among those whose major income recipient is aged 55 and over. While principal residence was the biggest contributor to wealth inequality in both 1984 and 1999, RRSPs contributed the most to the *increase* in wealth inequality. The aging of the Canadian population between 1984 and 1999, on the other hand, made the distribution of wealth more equal.

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