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Work interruptions and financial vulnerability

by **Derek Messacar** and **René Morissette**

The COVID-19 pandemic has led to massive work interruptions in Canada and several other countries since mid-March 2020. The resulting economic lockdown has raised concerns about the ability of Canadian families to meet their financial obligations and essential needs.

To address these concerns and minimize job losses, the federal government has recently implemented several programs such as the Canada Emergency Response Benefit (CERB) and the Canada Emergency Wage Subsidy (CEWS).[1]

Since household savings rates in Canada have declined steadily over the past few decades, from an average of approximately 5.5% in 2000 to a low of 1.5% in 2018 (OECD 2020), some Canadian families likely have relatively few financial assets to go through the temporary work stoppages that have been implemented since mid-March 2020. These families would likely face significant income vulnerability **in the absence of the aforementioned programs**. In other words, these families would, in the absence of government transfers, be financially vulnerable during even a short period of joblessness. The goal of this article is to identify the types of families that are financially vulnerable with the aim of informing discussions regarding those most in need of immediate financial assistance.

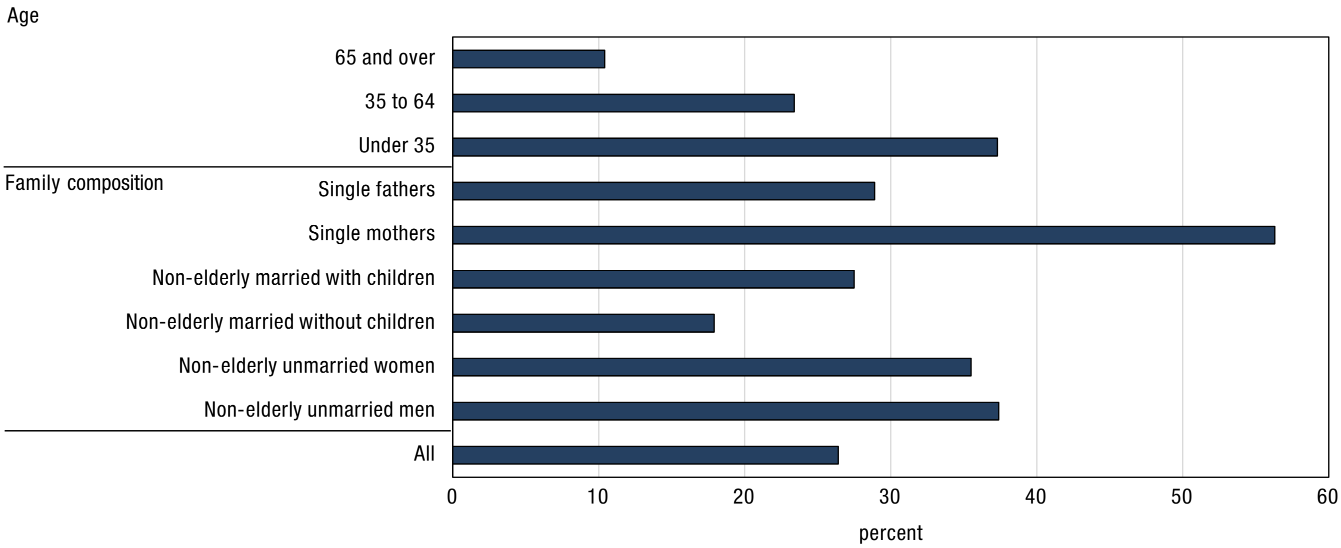
To that end, the article focuses on families who rely primarily on earnings—wages and salaries and self-employment income—to maintain their living standards.[2] Among this group, the study identifies families who would not have enough liquid assets and other private sources of income to make ends meet, i.e. to keep them out of low income during a two-month work stoppage **in the absence of government transfers or borrowing**.[3] This includes working Canadians and their dependents, such as children and spouses.

The study uses the Survey of Financial Security (SFS) of 2016. While this survey was carried out a few years ago, the distribution of wealth in an economy evolves slowly over time. The SFS 2016 provides the most up to date snapshot and is likely a reasonable approximation of the potential financial vulnerability of Canadian families going into the COVID-19 pandemic.[4]

Approximately **one in four** Canadians (26%) could be financially vulnerable to the economic lockdown based on the approach outlined above (Chart 1).[5] By comparison, Statistics Canada's March 2020 Canadian Perspectives Survey Series showed that nearly three in ten (28.9%) Canadians reported that the COVID-19 situation is having a moderate or major impact on their ability to meet financial obligations or essential needs (Statistics Canada 2020).[6]

1. Increases to the Canada Child Benefit and the Goods and Services Tax Credit have also been implemented.
2. Considering all families and unattached individuals, 63.8% relied primarily on employment income in 2016. By comparison, 14.4% relied on employment income as a secondary source and 21.8% relied exclusively on government transfers and other sources of income.
3. Details are provided in the Data and Methods section.
4. Data from the Survey of Financial Security of 2019 are currently being processed and thus, are not available for analysis.
5. The corresponding percentage equals 32% when a three-month work interruption is considered.
6. In this survey, respondents provided a subjective assessment of the impact of COVID-19 on their finances. In contrast, this article uses Canadian families' actual balance sheets to assess financial vulnerability. This allows an assessment of how far vulnerable families are from the low income lines, an information that cannot be drawn from the March 2020 survey.

Chart 1
Financial vulnerability, by age and family type

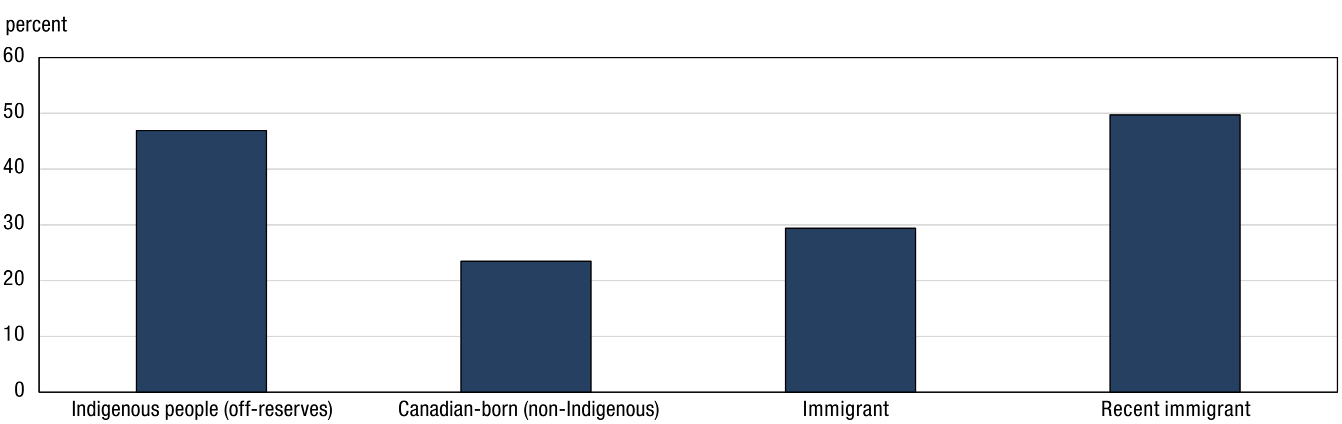


Source: Statistics Canada, Survey of Financial Security, 2016.

Of all groups considered in this study, single mothers and their children are among the most financially vulnerable during a short period of joblessness: more than half of them (56%) are at-risk of not being able to make ends meet even after selling their liquid assets and using other private sources of income.

Individuals living in families in which the main income earner is under 35 years of age and does not have a high school diploma also face a high risk of financial vulnerability: 67% of them are financially vulnerable to a two-month work stoppage (Table 1). The corresponding percentage for older families in which the main income earner has no high school diploma is 45%.

Chart 2
Financial vulnerability for selected groups



Note: Indigenous people include First Nations people living off-reserve, Métis and Inuit.
Source: Statistics Canada, Survey of Financial Security, 2016.

Financial vulnerability is also relatively high in two other groups. Of all individuals living in families headed by an Indigenous person (including First Nations people living off-reserve, Métis and Inuit), 47% are unlikely to have enough liquid assets and other private sources of income to sustain themselves for a period of two months without employment income (Chart 2).[7] The same is true for 50% of persons living in a family where the major income earner is a recent immigrant, i.e. immigrated to Canada between 2011 and 2016.

How far off are financially vulnerable Canadians from low income lines? On average, the liquid assets they hold and the other private sources of income they receive cover only one-third of what is needed to raise them out of low income for two months without a family member working, borrowing or receiving government transfers (Table 1).[8] Put differently, these individuals would, in the absence of government transfers and borrowing, not have enough resources to make ends meet for even one complete month of joblessness. This is true regardless of the groups of families considered.

In absolute terms, financially vulnerable families would, in the absence of government transfers, lack $3,489 (in 2016 dollars), on average, to keep them out of low income during a two-month work interruption (Table 1). In other words, these families would lack about $1,745 per month, on average, to make ends meet, if they did not receive any government transfers.

Conclusion

In the absence of government transfers, lone-mothers, recent immigrants, Indigenous people living off-reserves and individuals living in families where the main income earner has little education would be highly vulnerable financially during temporary work interruptions. For many of these families, liquid assets and private sources of income other than earnings would not be sufficient to keep them out of low income during a two-month work stoppage.

An important question then is the degree to which the current set of government transfers (e.g. Employment Insurance benefits, child tax benefits, goods and services tax credit payment, CERB) help these financially vulnerable families meet their financial obligations and essential needs. While some of these programs---such as CERB--- may address financial vulnerability for many families[9], the degree to which the **whole set of government transfers** reduces financial vulnerability is currently unknown and should be investigated in future research.

One limitation of the study is that some adults living in families that are financially vulnerable during work stoppages have not actually experienced work interruptions since mid-March 2020. This is the case, for example, of grocery stores employees living in financially vulnerable families. Identifying which families have experienced work interruptions (i.e. have been laid-off or have not worked any hours while being still employed) in the two months following Mid-March 2020 will be possible shortly as new data from the Labour Force Survey becomes available.

7. The Survey of Financial Security of 2016 did not sample people living on reserves. Small samples sizes do not allow for analysis of First Nations people, Métis and Inuit separately.
8. This finding holds when a three-month work interruption is considered.
9. For example, in a city of 500,000 individuals or more, the before-tax low income cut-off in 2016 for an unattached individual was about $25,000, or $2,083 per month (Statistics Canada: Table: 11-10-0241-01). By providing slightly more than $2,000 a month, the Canada Emergency Response Benefit effectively guarantees that unattached individuals who lose their job will not be in low income.

Table 1
Financial vulnerability in 2016 — families whose earnings are their main source of income

	Percentage of persons living in financially vulnerable families	Funds available as a percentage of low income cutoffs over 2 months (financially vulnerable families)	Shortage of funds to meet low income cutoffs over 2 months (financially vulnerable families)
	percent		2016 dollars
All family units	**26.4**	**33.0**	**3,489**
Non-elderly unattached men	37.4	26.5	2,816
Non-elderly unattached women	35.5	28.1	2,752
Non-elderly married couple with no children	17.9	36.9	2,913
Non-elderly married couple with children	27.5	35.6	4,554
Lone mothers	56.3	36.2	3,908
Lone fathers	28.9	34.7	3,617
Major income earner is:			
Under 35	37.3	33.4	3,224
Aged 35 to 64	23.4	32.5	3,696
Aged 65 and over	10.4	41.0	2,778
Indigenous people (off-reserves)	46.9	27.9	3,438
Canadian-born (non-Indigenous)	23.5	32.0	3,314
Immigrant	29.4	36.8	4,003
Recent immigrant	49.7	31.3	4,134
Under 35: Less than high school	67.2	24.3	3,860
Under 35: High school diploma	45.8	27.3	3,421
Under 35: Post-secondary education	43.6	36.4	3,197
Under 35: University degree	22.1	40.5	2,783
35 to 64: Less than high school	45.0	23.6	3,944
35 to 64: High school diploma	30.6	30.7	3,819
35 to 64: Post-secondary education	26.0	34.1	3,608
35 to 64: University degree	13.5	37.6	3,544

Notes: Assuming a 2-month interruption in earnings, financially vulnerable family units would have difficulty making ends meet if they used all the funds available to them, i.e. liquidated all their financial assets and added the proceeds to their other private sources of income received over two months. Low income cutoffs are before tax. Family units include both economic families and unattached individuals.
Source: Statistics Canada, Survey of Financial Security of 2016.

Data and Methods

The focus of the study is on families (and unattached individuals) whose employment income represents 50% or more of the total family income before tax. Liquid financial assets are defined as all assets held in chequing and saving accounts, term deposits, treasury bills, tax-free savings accounts, stocks and bonds (in mutual funds or not), and registered retirement savings plans.[10] If the combined sum of the total value of these liquid financial assets and other (non-employment) private sources of family income expressed on a two-month basis falls below the low income cut-off (LICO) before tax for 2016 expressed on a two-month basis, then individuals in this family are identified as financially vulnerable.[11] For these individuals, asset liquidation cannot keep them out of low income for the duration of a two-month work stoppage.

10. The value of registered retirement savings plans is multiplied by 0.9 in order to account for the minimum 10% tax withholding that financial institutions must deduct from withdrawals for income tax purposes.
11. LICOs are used because indicators of low income based on the market basket measure are not available in SFS 2016.

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