On the edge: Financially vulnerable families

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This article examines the extent to which Canadian families are financially vulnerable to adverse events such as a sudden loss of income or unexpected bills. Families with low income or little financial wealth have fewer resources and are more exposed than others to shocks such as permanent layoffs, unforeseen expenses, health problems and family break-up. This article first looks at families that have no financial wealth, then considers the most vulnerable families of all: low-income families with no or only modest financial wealth. This helps identify which families are likely to face short-term financial difficulties if sudden unfavourable events were to occur.

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 (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) 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). 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.

Assets: these include deposits in financial institutions, stocks, bonds, mutual funds, RRSPs, primary residence, other real estate, vehicles, and equity in business (the amount that would be received if the business were sold and any outstanding debts were paid).

Financial wealth: the stock of assets a family could use relatively quickly to finance consumption — without selling the house, the contents of the house or the business — following a substantial decrease in family income or unexpected expenditures.

CST Lone-parent families are most financially vulnerable

	% of persons in families with no financial wealth		% of persons in families with no financial wealth and low income	
	1984	1999	1984	1999
All family units[1]	**17**	**19**	**5**	**5**
Family type				
Unattached individuals – elderly	11	9	8	3
Unattached individuals – non elderly	28	30	15	17
Couples				
No children	14	14	2	2
Children under 18	18	19	4	4
Children 18 and over	9	17	1	1
Elderly couples, no children	3	4	1	0
Lone-parent families	34	40	21	24
Female lone-parent families	35	43	22	27
Other family types	17	18	6	4
Characteristics of main income recipient				
Age group				
24 or younger, all family types	27	43	13	23
24 or younger, families of two or more	24	40	10	16
25–34	24	30	6	9
35–44	18	19	4	5
45–54	12	16	3	3
55–64	11	10	3	3
65 or older	8	7	4	1
Education				
Not a university graduate	18	21	5	6
University graduate	13	13	3	3
Education by age group				
25–34				
Not a university graduate	25	33	7	11
University graduate	18	23	5	5
35–54				
Not a university graduate	17	20	4	4
University graduate	11	11	1	2
Immigration status				
Canadian-born	18	20	5	5
Immigrant residing in Canada	14	18	4	6
Less than 10 years	15	26	7	13
10 years or more	14	14	3	4
Age group of couples with children under 18				
25–34	24	28	5	6
35–44	17	16	3	3
45–54	12	13	3	2
Aged 25 to 54 with a long-term work disability				
Yes	...	31	...	13
No	...	20	...	4

... Not applicable.

1. Family units consist of economic families (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) and unattached individuals.

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

Which families have no financial wealth?

Financial wealth is the stock of assets a family could use relatively quickly to finance consumption — without selling the house, the contents of the house or the business — should they suddenly find themselves faced with a substantial drop in family income or large unanticipated expenditures. Between 1984 and 1999, the percentage of people living in families with no financial wealth increased from 17% to 19%. This small increase, however, masks substantial increases for some family types. In 1999, people living in families whose main income recipient was 25 to 54 years of age but had no earner were the most likely to be in families with no financial wealth (44%), closely followed by members of female lone-parent families (43%) and very young families (40%).

Also at a high risk of being in a family with no financial wealth — between one-quarter and one-third of family members in 1999 — were individuals in families whose main income recipient was aged 25 to 34 and had no university degree, whose major income recipient had a work limitation, unattached individuals under 65 years old, couples with children whose major income recipient was aged 25 to 34, and immigrant families who had been living in Canada for less than 10 years.

In contrast, people in elderly families where the major income recipient was aged 65 or over were the least likely to be members of a family with no financial wealth. This is not surprising since older families have had more time and opportunity than their younger counterparts to accumulate savings and equity.

Low-income families with no financial wealth

Low-income families with no financial wealth are more financially vulnerable to adverse events than other families; in addition to living in straitened circumstances, they also have no financial assets to draw on. Although comprising only a small proportion of the Canadian population in both 1984 and 1999 (5%), important changes occurred during this period. For example, the proportion of elderly unattached individuals having low income and no financial wealth fell from 8% to 3%, mainly due to the falling incidence of low income in this group.[1] In contrast, the proportion of people in very young families having low income and no financial wealth rose from 10% to 16%, and from 22% to 27% in female lone-parent families.

Of all individuals in families with no financial wealth, approximately 30% in both 1984 and 1999 belonged to families whose after-tax income was below Statistics Canada's low-income cut-offs. In 1999, for families with no financial wealth, the chances of living in low income were greatest for members of female lone-parent families, very young families, families of recent immigrants and non-elderly unattached individuals. The chances of being in low income were fairly low for non-elderly couples, whether they had children or not.

While very young families are relatively vulnerable, it is likely that their earnings will increase with more labour market experience, meaning that many of them will be in straitened circumstances for a relatively short time. This may not be true, however, for female lone-parent families. Previous research has shown that lone-parent families are by far the most likely to suffer persistent low income.[2] This severely limits their ability to build up savings and increase their financial wealth. The absence of a second earner poses a severe problem for these families where the parent, most often a woman, may be constrained to choose a job with shorter hours or located close to schools. Taken together, these findings

CST **About one in four families with no financial wealth also have low income**

	% of persons in low income among families with no financial wealth	
	1984	**1999**
All family units[1]	**29**	**28**
Family type		
Unattached individuals – elderly	76	39
Unattached individuals – non elderly	53	56
Couples		
No children	13	13
Children under 18	21	19
Lone-parent families	60	60
Female lone-parent families	62	63
Characteristics of main income recipient		
Age group		
24 or younger, all family types	50	53
24 or younger, families of two or more	42	39
25–34	26	31
35–44	21	26
45–54	26	16
55–64	30	31
65 or older	50	19
Education		
Not a university graduate	30	29
University graduate	20	23
Education by age group		
25–34		
Not a university graduate	26	33
University graduate	26	22
35–54		
Not a university graduate	24	22
University graduate	12	22
Immigration status		
Canadian-born	29	26
Immigrant residing in Canada	30	35
Less than 10 years	48	49
10 years or more	25	26

1. Family units consist of economic families (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) and unattached individuals.

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

1. The drop likely reflects enhancements to Old Age Security, Guaranteed Income Supplement and Provincial Income Supplements which took place during the period and led to a substantial reduction of low-income rates among the elderly.

2. Morissette, R. and X. Zhang. Summer 2001. "Experiencing low income for several years." *Perspectives on Labour and Income* (Statistics Canada Catalogue no. 75-001-XPE) 13, 2: 25-35.

CST Some families with no financial wealth are not financially vulnerable

Some families may have no financial wealth but earn substantial income and, therefore, may not be financially vulnerable. For example, many young families with children may have had little time to accumulate savings since their major income recipient entered the labour market full-time. This is likely to be true especially at the end of the 1990s because young people at that time stayed in school longer than their counterparts in the mid-1980s before holding their first full-time job. Also, some families earning substantial income may have decided to make high consumption expenditures and, as a result, may have chosen to accumulate little or no financial assets for a significant period. Some other families may have had to sell all their financial assets in the past to face income interruptions occasioned by a permanent layoff or unexpected expenditures such as major repairs on the house. Still other families may have opted to put their savings into their home.[1]

1. Of all persons living in families with no financial wealth in 1984 (1999), 51% (44%) belonged to families who owned a principal residence. The corresponding percentages for persons living in families with positive financial wealth are 72% (75%).

suggest that the high financial vulnerability of many lone-parent families may be more than a temporary state.

Low-income families with modest amounts of financial wealth

While 5% of Canadians lived in low-income families with no financial wealth in 1999, an additional 5% were in low-income families with modest amounts of financial wealth. “Modest amounts” means these families would have remained in a low-income situation even if they had liquidated all their financial assets in an attempt to improve their after-tax income. Using this yardstick (low income and no or little financial wealth), the percentage of individuals in financially vulnerable families remained virtually unchanged at 10% in both 1984 and 1999.

Once again, elderly unattached individuals became less financially exposed to adverse events during the period, while the opposite was true for families of recent immigrants. In 1999, the chances of being in a family with low income and modest amounts of financial wealth were four times higher than the national average for members of female lone-parent families and seven times higher for those in prime-aged families[3] with no earner. In contrast, the chances were only 4% for persons living in families with an elderly major income recipient and only 5% for those families where the main earner was a university graduate aged 35 to 54.

The distribution of wealth of low-income families

While many would agree that financial wealth is a good indicator of financial vulnerability, most previous studies looking at Canadian families who struggle financially or live in straitened circumstances used data on low income. To what extent do low-income families also have low financial wealth? In 1999, the “typical” low-income family had a $300 “cushion” to buffer income interruptions or deal with unexpected expenditures. This is negligible compared to the median of $21,500 that was available to families not in low-income. Both in 1984 and 1999, 75% of low-income families had less than $5,900 in potentially liquid assets to help them face adverse events. Others were more fortunate — 10% of low-income families had $32,000 or more.[4]

How did the financial vulnerability of low-income families change during this period? Between 1984 and 1999 the percentage of low-income families with no financial wealth rose from 35% to 40%. At the same time, the average financial wealth of low-income families in the bottom three quartiles of the financial wealth distribution dropped by about $800 (in 1999 constant dollars). Many low-income families of the late 1990s were no better off than their counterparts in the mid-1980s, neither being closer to the low-income cutoffs nor having more financial assets.[5]

The financial vulnerability of the unemployed

One would expect families who have experienced unemployment in the

3. Prime-aged families are those in which the main income recipient is aged 24 to 54.
4. For low-income families without businesses, the corresponding amount is $19,600.
5. However, the opposite is true for the 10% richest low-income families: financial wealth rose at the 90th percentile. As a result, the proportion of low-income families with financial wealth of $50,000 or more rose from 4% in 1984 to 7% in 1999.

recent past to be more financially vulnerable than families whose major breadwinner has been steadily employed. First, workers who suffer from unemployment are generally less educated and have a lower earnings potential and, therefore, are less able to accumulate substantial savings. Second, unemployment may force a family to liquidate some of its financial assets, thereby reducing financial wealth in subsequent periods.

The data confirm this view. In 1999, more than 30% of all individuals living in families whose major income recipient had been unemployed for some time during the preceding year belonged to families with no financial wealth. This proportion is twice as high as that of individuals living in families whose major income recipient had been working full year, full-time.

Furthermore, low-income rates were roughly 10 times higher among families with substantial unemployment (six to 12 months of unemployment) than among those with no unemployment. The implication is obvious: of all individuals living in families whose major income recipient had worked full year full-time, almost none were financially vulnerable. In contrast, of all individuals living in families whose major income recipient was unemployed for at least six months in 1998, one-fifth belonged to low-income families with no financial wealth and fully one-third belonged to low-income families with modest amounts of financial wealth.

Summary

The percentage of individuals living in families with low income and little financial wealth remained virtually constant between 1984 and 1999. Nevertheless, some groups became more financially vulnerable to income interruptions and unexpected expenditures while others improved their economic position. Although the financial wealth of other families rose substantially between 1984 and 1999, the median financial wealth of low-income families did not increase; therefore, the wealth gap between low-income families and other families rose during the period. Compared to their counterparts in the mid-1980s, the vast majority of low-income families at the end of the 1990s had no more savings with which to protect themselves against adverse events.

Of all families, female lone-parent families were by far the most likely to suffer persistent low income. The most financially vulnerable families were prime-aged families with no earner. The lack of a decline in the percentage of persons living in families with no financial wealth is somewhat surprising since the Canadian population was older at the end of the 1990s than during the mid-1980s and thus, had more time to accumulative savings. Other factors that may have played an offsetting role in this phenomenon include: the growing importance of lone-parent families and unattached individuals, the increase in the length of time young people stay in school before entering the labour market, the decline in real earnings of young men, and easier access to credit. These factors may have restricted some families' savings, increased their indebtedness, or both, thereby reducing their financial wealth.

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