



Income Statistics Division

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Statistics Canada's Survey of Financial Security: Update - July 1999

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July 1999



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Statistics Canada
Income Statistics Division

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Note of appreciation

Canada owes the success of its statistical system to a long-standing partnership between Statistics Canada, the citizens of Canada, its businesses, governments and other institutions. Accurate and timely statistical information could not be produced without their continued cooperation and goodwill.

EXECUTIVE SUMMARY

Although income and expenditure data provide an indication of current consumption and ability to purchase goods and services, they provide little information on the long-term ability of families to sustain themselves. The results of this survey will provide information on the net worth (wealth) of Canadian families, that is, the value of their assets less their debts.

This paper examines the objectives of the survey, how the survey has changed since 1984, the types of questions being asked and information that will be provided, as well as other survey background. An accompanying table outlines the content of the questionnaire. The intent of this paper is to describe the work done to date and the next steps for this important subject.

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What Is the Survey of Financial Security?

The Survey of Financial Security, scheduled to take place in 1999, will provide information on the net worth (wealth) of Canadian families, that is, the value of their assets less their debts.

Why Is It Needed?

Although income and expenditure data provide an indication of current consumption and ability to purchase goods and services, they provide little information on the long-term ability of families to sustain themselves. This can only be assessed with a more complete picture of their financial situation; a critical part of this picture is net worth.

The last Canadian asset and debt survey was conducted in 1984. Many changes have taken place in Canada since that time. Some of these changes include:

- an increase in the incidence of non-standard work arrangements;
- an ageing population, and changing retirement patterns;
- a flattening out in the growth of the number of dual-earner families;
- an expansion in the proportion of households now owning mutual funds and investing in registered retirement savings plans;
- interest and inflation rates at their lowest levels in decades;
- an increase in the proportion of lone-parent families;
- a recession in the early 1990s.

These events, taken together, signal that the distribution and composition of wealth in Canada must have changed, and perhaps quite dramatically, since 1984. As a result of the changes many important policy issues need to be addressed. Data from 1984 can no longer adequately serve this purpose.

What Are the Survey's Objectives?

The main objectives of the survey are to:

- (1) provide a description of the types of assets and debts held by Canadian individuals and families;

- (2) determine the manner in which wealth is distributed among the Canadian population;
- (3) develop a profile of Canadians holding different types of assets and debts;
- (4) examine the changes in asset and debt holdings over the life cycle;
- (5) assess the future consumption capabilities of Canadians and their potential financial vulnerability, particularly if facing unforeseen events such as a reduction in income;
- (6) assess the extent to which individuals' current assets will provide them with an income in retirement;
- (7) better understand the relationship between income and wealth;
- (8) provide information on the extent to which assets are being, or could be, transferred from one generation to the next.

Information from the survey will help to answer many questions about the financial well-being of Canadians. Whether people are able to save for retirement and to cope with the growing debt from student loans are just two examples.

What's New Relative to the Last Survey?

The 1984 survey included data on family and household characteristics, employment, income and wealth. The new Survey of Financial Security will expand on the wealth data collected in 1984 as follows:

- **Valuing pensions** - Although previous surveys have queried whether respondents participated in pension plans, to date no estimate has been made of the value of funds invested or benefit entitlements. Recognizing that pensions can be a key element of financial security, estimates of the value of these benefits will be generated by this survey.
- **High-income sample** - Studies have shown that asset and debt survey data drawn from an area sample frame can under-represent the upper end of the wealth distribution. To compensate for this, there will be additional sampling of high-income individuals. This will provide a more accurate picture of wealth distribution.

- **Attitudes and behaviours** - In addition to a profile of asset holdings and debt, respondents will be asked about approaches to financing assets and dealing with debt.

How Is Wealth Defined?

Wealth is one measure of a family's financial security. It provides a reserve for future consumption, whether for major purchases such as a vehicle, home, or education, or for regular living expenses during retirement. The Survey of Financial Security uses the following simple definition for wealth:

$$\text{wealth (net worth)} = \text{total assets} - \text{total debts}$$

All assets (such as savings, investments, property, vehicles, business equity and other assets) and all debts (such as mortgages, outstanding credit, loans -- including student loans -- and any other debt owed) will be included. The net worth, assets less debts, will represent the family's wealth.

In addition to assets and debts, family income is an important consideration in the analysis of accumulated wealth. Although one year of income is not necessarily representative of the long-term income stream which has been available to the family, or will be available in the future, income from the previous year will be collected and used as a basis for examining the dynamics of income and wealth.

What Types of Questions Will the Survey Answer?

The results of this survey will enable analysts to examine the current financial holdings of families. They will provide factual information on issues of increasing public interest, such as:

- **Are Canadians prepared for retirement?** The survey will provide information on the amounts Canadians have accumulated in employer-sponsored registered pension plans, registered retirement savings plans (RRSPs), registered retirement income funds and annuities. Such a complete sketch of the extent to which individuals are participating in these retirement income programs has not previously been available. The information is particularly timely given the aging of the population and the current level of interest in the health of the Canada and Quebec Pension Plans.
- **Why have savings rates declined?** Financial security can be viewed as a family's ability to put aside a reserve of funds and to control debt load. The 1984 survey showed that debts as a proportion of assets had

declined since 1977. However, more recent data from the System of National Accounts show a substantial decline in the rate of savings. With other data showing increases in consumer spending, accompanied by only modest increases in wages, there are many unanswered questions about the nature and implications of changes in savings.

- **Why do we borrow?** For Canadians whose debts exceed their assets, the relationship between income, family size, and other factors influencing consumption can reveal much about the reasons for debt.
- **How is wealth distributed?** Although there has been an increase in the amount of money invested in the market (through stocks, mutual funds, and RRSPs), this wealth is not distributed equally. How wealth is distributed among Canadians, whether this distribution has changed in recent years and how various types of families and individuals choose to invest/spend their money are questions to which comprehensive answers are not now available.
- **Are certain groups particularly at risk of being unable to make ends meet?** Data from this survey will make it possible to examine the circumstances of groups such as lone-parent families, low-income families, seniors and the disabled.
- **Are student loans creating a debt load that many cannot manage?** Student loans represent a growing debt for many of those who are making the transition from school to employment. This survey will help us to understand the effect this debt has on families' finances and to identify factors that might make it difficult for certain people to repay this debt.

How and when Will the Survey Be Conducted?

- **Timing of the survey**

Collection for the survey is planned for May and June of 1999.

- **Survey to be voluntary**

Participation in the Survey of Financial Security will be voluntary. Statistics Canada will seek the cooperation of respondents by explaining the need for the information and the importance of their participation.

- **Sample size**

It is neither feasible nor desirable to attach the collection of these data to another survey conducted by Statistics Canada, even though they may

share common elements such as income and employment data. The reason is response burden.

Therefore, the sample selected for the survey will be drawn only from those who have not recently participated in another Statistics Canada survey. Current plans are to select approximately 23,000 dwellings, most from the Labour Force Survey area frame. Of the 23,000, about 2,000 will be selected based on income criteria (i.e. high income).

- **Method of collecting data**

Data will be collected by personal interviews, although respondents can, if they wish to do so, complete the questionnaire by themselves. Interviewers will receive special training in the collection of this type of information. Introductory material will be sent to respondents prior to the first contact by the interviewer.

- **Use of administrative data**

In order to reduce response burden, respondents will have the option of authorizing linkage to their tax file, rather than answering a series of questions on their income. As well, respondents will be asked for authorization to use their Canada and/or Quebec Pension Plan (C/QPP) data. This will provide invaluable information on work history and expected benefits from these programs, both important factors in understanding and analyzing a family's financial situation. Linkage to the C/QPP data is dependent on Statistics Canada being able to acquire the necessary administrative files.

What Information Will Be Provided?

Net worth (i.e. wealth) information will be calculated for **families** (as a whole) and for **unattached individuals**.

The concept used is the **economic family**, defined as the group of individuals sharing a common dwelling and related by blood, marriage, common-law union or adoption. Unattached individuals are persons living alone or with persons to whom they are not related.

The question of who within the family has actual ownership of assets and debts, who has responsibility for the payment of debts and who benefits from the accumulation of wealth can be very complex. For this reason, wealth data will be produced for the family rather than individuals within a family.

Information will be provided on:

- the demographic characteristics of all members of the family;
- the sociocultural characteristics, employment, income and employer pension plan participation of all family members 15 years and over;
- the assets, debts and selected ongoing expenses of the family as a whole.

Refer to the Appendix for a more detailed list of the information to be collected.

What Work Has Been Done to Date?

● User consultation

The development of the survey began with the preparation of a paper entitled *Towards a New Asset and Debt Survey: A Content Discussion Paper*. This paper was first presented at the Intergenerational Equity Conference held at Statistics Canada in February 1997. Following that conference, approximately 350 copies of the paper were sent to various persons or organizations thought to be interested in the survey.

Over 30 persons or organizations provided written responses to the discussion paper. This consultation process was most worthwhile, as it served as a checkpoint for the completeness of the information to be collected. It also highlighted issues of importance to data users and analysts. The feedback also demonstrated strong support for the project. Wherever possible, suggestions made by those who commented were incorporated.

● Preparation of survey proposal

A document entitled *Proposal for an Asset and Debt Survey* was completed in September 1997. This document describes in some detail the reasons why this type of information is needed and also outlines the anticipated content of the survey. The name of the survey has since been changed to the Survey of Financial Security. This was done to better reflect the fact that it is intended to provide much more than a valuation of the net worth of Canadians. It is also intended as a vehicle for assessing the extent to which particular groups in the country may be financially vulnerable, either now or in the future.

● Development of survey questionnaire and focus group testing

The first draft of the questionnaire was prepared over the summer of 1997. It underwent focus group testing, with about 100 people in seven sites across the country, in the fall of 1997. For this test, the selected individuals were interviewed, using the draft questionnaire, and they then participated in focus group sessions to discuss their reaction to the survey. This process was invaluable as it allowed the identification of areas of the questionnaire requiring additional work, and an assessment of respondent reaction to the collection of

this type of information. One of the main recommendations stemming from this testing was the need to further develop the respondent relations material for the survey, that is, material that will “sell” the survey to respondents.

● **Field test**

Following the focus group testing, the survey questionnaire and related material were refined. A further test of the training material, respondent material and the questionnaire took place in May and June of 1998. For this test 1,000 households were selected in two areas of the country, areas around Toronto and Montréal. This test was intended primarily to identify any remaining problems with data collection, but the collected data also will serve to test the data processing system, thereby reducing the time required for this activity when the actual survey is done.

At the time of writing of this document, analysis of the test results had not been completed. However, a preliminary assessment reveals that:

- interviewers enjoyed working on the survey and were pleasantly surprised at how well it went;
- the overall response rate was in excess of 70%;
- response rates were lower (slightly over 60%) for high income households;
- the voluntary nature of the survey contributed to a relatively high refusal rate (in excess of 20%); refusals were generally very firm and the conversion rate was quite low;
- more interviewer training is needed, with additional emphasis on selling the survey, converting refusals and dealing with complex situations;
- more work needs to be done on selling the survey to the high-income group;
- none of the interviewers felt that incentives would have improved response rates;
- the questionnaire content created few problems – the sequence of questions was considered to be very good and the flow smooth;
- it took an average of 49 minutes to conduct an interview;
- approximately 4 out of 5 respondents gave permission to access their income tax and pension files;

- on first examination, the reported information on assets and debts seems reasonable.

- **Collection of 1999 survey data**

Information collection began early in May 1999 and was for the most part complete by the end of June. Current indications are that the response rate is approximately 73% overall, and 55% for the high-income sample. The latter was selected from geographic areas (i.e. postal codes) with a concentration of high-income households; the sample may therefore contain some household that would not meet the high-income criterion. That criterion was set at \$200,000 household income or \$50,000 investment income.

This response rate is very much in line with that received for earlier asset and debt surveys done by Statistics Canada and for the Survey of Consumer Finances done by the United States Federal Reserve Board.

Next steps

Processing of the data, including linkage to tax data and pension plan information, will take place throughout the remainder of 1999 and early 2000, with the first release of survey results planned for late summer of 2000. A public use microdata file will be available, as well as a number of analytical articles and reports. Some of these will be produced in the following months the initial release. Consideration will also be given to the conduct of further such surveys, including the possibility of a follow-up (longitudinal) survey of households in the 1999 sample.

Appendix
Content of Questionnaire

Content of the Survey of Financial Security	
<i>For each person 15 years and over in the selected economic family:</i>	
Demographic Information	<ul style="list-style-type: none"> ✓ age, sex, marital status, family composition (for every person in household) ✓ citizenship, immigration status, mother tongue ✓ education
Labour Market Characteristics	<ul style="list-style-type: none"> ✓ current employment ✓ 1998 employment
Registered Pension Plan (RPP) - Accumulated value	<ul style="list-style-type: none"> ✓ accrued RPP benefits from current and prior employment ✓ RPP benefits in pay ✓ RPP credits split following divorce/separation
Income (1998)	<ul style="list-style-type: none"> ✓ employment earnings ✓ investment income ✓ government transfers ✓ pension income ✓ other income ✓ total income ✓ other tax form data (income tax paid, pension adjustment, RPP contributions, and RRSP contributions)
<i>For the economic family as a whole:</i>	
Household Transfers	<ul style="list-style-type: none"> ✓ financial support provided to persons outside the household ✓ financial support received from persons outside the household
Behaviours and Attitudes	<ul style="list-style-type: none"> ✓ use of credit ✓ payment of debts ✓ method of financing purchases ✓ bankruptcy, financial assistance
Assets (Current value, at time of survey)	<ul style="list-style-type: none"> ✓ savings and investments (in bank accounts, term deposits, mutual funds, stocks, bonds, RRSPs, RRIFs, RESPs, DPSPs, annuities, etc.) ✓ property, vehicles, household contents ✓ equity in business ✓ life insurance
Debts (Amount owing at time of survey)	<ul style="list-style-type: none"> ✓ mortgages ✓ credit card balances, charge accounts, and lines of credit ✓ loans (including student loans)
Selected Expenses	<ul style="list-style-type: none"> ✓ related to principal residence (rent, condominium fees, property taxes, insurance, home fuels, and electricity) ✓ alimony, child support, childcare ✓ vehicle lease payments