Prosper Canada

Introduction

We are encouraged by the Government of British Columbia's decision to develop B.C.'s first provincial poverty reduction strategy. B.C. has shown real leadership in combatting poverty through its decision to raise income assistance and disability benefit rates and in lifting asset limits for people with disabilities. Despite these and other initiatives, poverty rates remain very high in B.C., and additional actions and innovation are needed to significantly improve levels of financial security. To this end, we respectfully submit the recommendations outlined below for the government's consideration.

Who we are

Founded in 1986, Prosper Canada is a national charity dedicated to expanding economic opportunity for Canadians living in poverty through program and policy innovation. As Canada's leading national champion of financial empowerment, we work with government, business, and community partners to develop and promote financial policies, programs, and resources that transform lives and foster the prosperity of all Canadians. We help service systems and organizations in all sectors to build proven financial empowerment approaches into their businesses in ways that are sustainable, help them achieve their goals, and tangibly increase the financial well-being of low-income people they serve.

Our impact

Over the period from January 2015 to December 2017, working with our delivery partners across Canada, we have:

- Trained **3,008** community financial educators
- Delivered financial education to **36,368** Canadians with low incomes
- Provided one-on-one financial coaching to **20,712** Canadians with low incomes
- Mobilized **1,168** tax-clinic volunteers assist individuals living on low incomes to file taxes
- Helped **53,156** Canadians with low incomes to tax file and **5,685** to apply for benefits, increasing their incomes by **$126.3 million**
- Helped low-income families to open **1,911** RESPs.

Financial Empowerment: What it is and how it helps reduce poverty

Financial empowerment is an integrated set of interventions shown to measurably improve financial outcomes for people living in poverty. These interventions include:

- **Financial information, education, and coaching to build financial capability**
- **Tax filing and benefits assistance to increase incomes**
- **Help accessing safe and affordable financial products and services to enhance financial inclusion**
- **Connection to saving and asset building opportunities to build financial security**
- **Consumer protection and education to reduce financial risk.**

Financial empowerment focuses on strengthening *financial inclusion, knowledge, behaviours, and opportunities* for people with low incomes, unlike many other poverty reduction approaches.

These are key determinants of economic security, but a critical gap in our current social support systems because organizations lack the mandate, resources, and capacity to address the financial dimensions of the lives of Canadians with low incomes.

Financial empowerment solutions enable Canadians with low incomes to build their financial stability and measurably improve their financial outcomes, such as credit scores and income, saving, and debt levels.

This, in turn, enhances their access to proven routes out of poverty – education and training, employment, entrepreneurship, and asset and home ownership.

Financial empowerment is not a substitute for other poverty reduction strategies, but a critical missing piece that can significantly boost client outcomes when it is integrated into other programs and services, such as income assistance, employment programs, housing and homelessness services, and primary healthcare.

Table 1 **below sets out in more detail how each financial empowerment 'pillar' helps to prevent, alleviate and/or reduce poverty.**

Recommendations for the B.C. poverty reduction strategy

We recommend that the Government of British Columbia build financial empowerment into its poverty reduction strategies and plans in the following ways to alleviate, reduce, and prevent poverty:

1. **Expand the definition of poverty to include asset poverty, as well as income poverty.** Liquid asset poverty compounds the experience of income poverty by exposing households to increased financial stress due to their inability to manage unexpected expenses, month-to-month income volatility, and income interruptions. Conversely, assets are key gateways to opportunity – enabling people living in poverty to access proven paths to prosperity: education, training, employment, entrepreneurship, and home ownership. Finally, savings and assets help prevent poverty by building the financial resilience of households with modest and mid-incomes, reducing their risk of financial hardship and enabling them to weather financial shocks that might otherwise trigger the onset of poverty.

2. **Invest in research to monitor and report regularly on the financial inclusion and health of households and investigate related disparities**, particularly those with respect to income and populations at high risk of poverty (for instance, Indigenous Peoples, people with disabilities, and newcomers). Research such as the U.S. Financial Diaries,[1] and TD's recently released study on income volatility,[2] are transforming our understanding of the financial challenges of Canadian households – particularly those with low and modest incomes, but also households with middle and even upper income (but often debt-saddled) as well. We need a sustained and coordinated research effort though, to identify and address financial barriers that exacerbate poverty and prevent those with low incomes from moving from poverty to opportunity.

3. **Invest in coordinated community outreach and support strategies, to connect people with low incomes to benefits they are eligible for.** Many people with low incomes do not tax file or have difficulty applying for benefits.[3] Consequently, they miss out on important income. As much as $1 billion in federal benefits alone may be going unclaimed annually across Canada by people with low incomes, especially newcomers, people living with a disability, and Indigenous Peoples. Systematic benefit screening and hands-on help to tax file and apply for benefits are proven interventions that successfully connect vulnerable people to their benefits. The B.C. government can improve take-up of the benefits they offer, and increase the flow of federal benefits into their communities, by investing in community tax filing and benefits assistance

programs, building benefit screening and assistance into provincial programs that serve people with low and modest incomes (e.g. social assistance, employment services, housing services, and community healthcare), and supporting coordinated provincial strategies that leverage networks with reach into target populations and that mobilize new community, business, and municipal partners.

4. **Build financial empowerment into policies and programs where there is evidence it can improve policy and program outcomes, as well as measurably improve financial outcomes for participants with low incomes.** There is strong evidence from the United States that building financial empowerment interventions, like financial coaching and tax filing assistance, into housing, employment, and social assistance programs targeted to people with low incomes has a "*supervitamin*" effect[4] – improving program outcomes, as well as the financial outcomes of participants. Social assistance, settlement, housing, homelessness, post-secondary education financing, employment, and Indigenous programs all offer important opportunities to help participants build their financial well-being. Integrating financial empowerment into these programs should include, where relevant, sustainable investment in community capacity to deliver these crucial financial empowerment supports.

5. **Implement proven solutions that help people with low incomes to save for emergencies as well as longer term goals.** Emergency savings provide a critical cushion against life's emergencies, reduce risk of financial hardship,[5] and help families with low incomes to smooth income expense gaps arising from financial shocks or ongoing income/expense volatility, which has been shown to affect almost 40% of working age Canadians.[6] Successful approaches include establishing tax-time savings accounts and incentives that make it easier for households to save a portion of their tax refund and reward them for doing so. Tax time is one of the few times people with low incomes receive a large lump sum of money: leveraging this moment can enable households to build their assets and open gateways out of poverty.

6. **Lift asset limits preventing people receiving social assistance from saving and building assets.** British Columbia has been a leader in Canada in this respect, significantly increasing asset limits for people with disabilities. There is an opportunity to expand asset exemptions for those without disabilities on the B.C. Employment and Assistance (BCEA) Program. Evidence from the U.S. shows that lifting or eliminating savings and asset restrictions associated with welfare programs does not lead to increased enrolment but, instead, reduces administrative costs by two percent.[7] Other provincial governments are beginning to move in this direction. For example, in its 2018 Budget,

the Ontario government proposed the following changes to its asset limits:

> *"Asset limits on savings in Tax-Free Savings Accounts (TFSAs) or Registered Retirement Savings Plans (RRSPs) will be eliminated, starting in September 2018. Limits on cash and other liquid assets will increase to $15,000 for singles and $20,000 for couples receiving Ontario Works and will be fully eliminated for those receiving Ontario Disability Support Program Benefits."*[8]

7. **Increase Registered Education Savings Plan (RESP)[9] and Canada Learning Bond (CLB)[10] take-up, by investing in active outreach to families to help them open their children's accounts and familiarize them with Canada Education Savings Grant (CESG) incentives.**[11] The CLB provides families with low incomes with a contribution of up to $2,000 toward the education of each eligible child. An emerging body of evidence shows that children from low-income households with education savings accounts are more likely to enrol in and successfully graduate from post-secondary education – the most effective way to prevent inter-generational poverty.[12]

8. **Increase Registered Disability Savings Plan (RDSP)[13] and Canada Disability Savings Grants (CDSGs) and Bonds (CDSBs)[14] take-up, by investing in active outreach to families and individuals to connect them to these accounts.** Through the RDSP and related grants and bonds, people with disabilities can access up to $90,000 in federal contributions toward their future financial security. B.C. is a national leader in this space and there is an opportunity to further advance this work through coordinated outreach and education strategies, and hands-on help to open RDSPs.

9. **Curb predatory financial services to protect consumers who currently rely on high cost, alternative financial services.** These products and services (cheque-cashing, payday loans, instalment loans, pawn loans, title loans, used car loans, and rent-to-own contracts): are typically extremely costly; can pose significant risk of rapidly escalating debt; exploit people's lack of financial literacy to overcharge for products and credit; do not clearly communicate interest, fees, and charges to consumers; and aggressively target low and modest income consumers who are least able to afford them. Improved regulation to: require standardized "financial facts labelling"[15] on all credit products; educate consumers on lower cost alternatives; prevent solicitation and roll-over/refinancing of high cost loans; reduce and cap prices, interest, and fees charged; establish reinstatement rights in rent-to-own and title loans; and require lenders to assess borrowers' ability to repay, are all ways the B.C. government can protect vulnerable consumers.

10. **Invest in community financial empowerment services that offer people with low and modest incomes free, unbiased, and high-quality financial empowerment supports, tailored to their needs and financial context.** Evidence shows services like free financial help measurably improve financial outcomes for people with low and modest incomes – increasing financial capability, credit scores, incomes and savings, and reducing debt.[16] By building financial well-being, the B.C government can help individuals and families to reduce their risk of falling into poverty and enable more people living in poverty to build the skills and assets they need to pursue proven pathways to opportunity – including education, training, entrepreneurship, and home ownership.

Table 1: How financial empowerment interventions prevent, mitigate, and reduce poverty

Prevents poverty	Mitigates poverty and its impacts	Reduces poverty
Financial information, education, and coaching		
(Does not directly prevent poverty.)	✓ Increases disposable resources ✓ Reduces financial stress and improves self-efficacy and wellness ✓ Resolves immediate crises (e.g. threat of eviction) at lower cost and with fewer penalties ✓ When integrated into relevant programs, can enhance employment, earnings, housing stability ✓ Supports better outcomes with respect to: • Financial inclusion • Tax filing and access to benefits • Saving and asset building • Exercising consumer rights.	✓ Indirectly, when it leads to: • saving and asset building • increased income through tax filing and accessing benefits
Tax filing and benefits assistance		
✓ Increases income ✓ Supports saving and asset building: • by establishing eligibility for federal savings bonds and incentives through tax-time savings schemes • by providing some savings through tax credits and refunds	✓ Increases income ✓ Reduces financial stress and improves self-efficacy ✓ Helps resolve crises at lower cost and with fewer penalties (e.g. disputes over benefits eligibility)	✓ Increases income ✓ Supports inter-generational economic mobility (e.g. through child benefits) ✓ Indirectly, when it enables savings and asset building (e.g. RDSP, RESP)

Prevents poverty	Mitigates poverty and its impacts	Reduces poverty
Help accessing safe and affordable financial products and services		
✓ Appropriate savings and insurance products can enable people to protect against unexpected expenses, financial losses, or income interruptions. ✓ Safe and affordable credit can help people to bridge unexpected costs and income interruptions.	✓ Lower financial costs leading to more disposable income ✓ Reduced risk of high cost problem debt ✓ Greater access to saving and asset building opportunities through appropriate financial products ✓ Enhanced social inclusion and self-efficacy when financial institutions provide vulnerable consumers with products and services that meet their needs and preferences.	✓ Indirectly, to the extent people access saving and asset building opportunities
Connection to saving and asset building opportunities		
✓ Enables households to smooth consumption and absorb financial shocks that can otherwise trigger onset of income poverty ✓ When sufficient, can prevent asset poverty ✓ Help households to self-insure against or manage risks that can trigger poverty (e.g. changes in family structure or employment, demand for unpaid care) ✓ Enable productive risk-taking that can build future earnings or wealth – e.g. investments in education, training, self-employment or home ownership ✓ Financial and real assets can generate earnings that increase income	✓ Provide important resource to manage “lumpy” expenses or emergencies that can’t be paid from regular income flow. ✓ Stored income helps sustain consumption and wellbeing during income interruptions (e.g. benefit suspension) ✓ Asset ownership can improve material wellbeing and/or earning opportunities (e.g. an inherited home in a high cost housing market, a car that enables access to employment where transit is lacking) ✓ Assets can prevent financial stress and associated negative mental health/cognitive ✓ impacts, and promote self-efficacy and a hopeful, future orientation ✓ Formal saving and asset building require a mainstream financial product and can, therefore, promote financial inclusion	✓ Use of savings/assets to support a productive risk or investment (e.g. education, training, entrepreneurship) can generate new household income ✓ Use of savings assets for dependent offspring (e.g. education savings) can support an inter-generational exit from poverty ✓ In rare cases, capital returns (e.g. sale of a house) or windfalls (e.g. a lump sum award or inheritance) may be enough to lift them out of poverty.

Prevents poverty	Mitigates poverty and its impacts	Reduces poverty
Consumer education and protection		
✓ Consumer education and protection can reduce consumer exposure to and/or risk from title and payday loans that can lead to downward financial spiral (e.g. car repossessions leading to job loss) and promote financial inclusion.	✓ Consumer awareness and exercise of their rights can improve material well-being by: • Lowering financial transaction costs • Preventing/reducing financial losses due to fraud or wrongdoing • Building self-efficacy and equipping consumers to take action in their own self-interest	(Does not directly reduce poverty.)

Notes

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[1] See: Schneider, Rachel, and Jonathan Morduch. 2017. *The Financial Diaries: How American families cope in a world of uncertainty.* Princeton, N.J.: Princeton University Press. http://www.usfinancialdiaries.org/
[2] TD Bank. 2017. *Pervasive and profound: The impact of income volatility on Canadians.* Toronto: TD Bank Group and Ipsos Reid. Accessed March 29, 2018. https://td-capa.s3.amazonaws.com/prod/default/0001/01/2ed95a1a680ea5b78ab53646f1f432f51405bc02.pdf
[3] Prosper Canada. 2016. *Breaking down barriers to tax filing for people living on low incomes.* Toronto: Prosper Canada, with support from Intuit. Accessed March 29, 2018. http://prospercanada.org/getattachment/877cb75f-4f8f-44ff-b762-af726c3afce7/Breaking-down-barriers-to-tax-filing.aspx
[4] Office of Financial Empowerment. 2012. Municipal Financial Empowerment: A Supervitamin for Public Programs. New York City, NY: New York City, Department of Consumer Affairs.
This report series builds the case that fully integrating financial empowerment and asset building strategies into public programs will lead to more effective service delivery, improving outcomes while potentially saving money.

- Strategy #1: Integrating Professional Financial Counseling
- Strategy #2: Professionalizing the Field of Financial Education and Counseling
- Strategy #3: Integrating Safe and Affordable Bank Accounts
- Strategy #4: Targeting Consumer Financial Protection Powers
- Strategy #5: Integrating Asset Building

[5] Gallagher, Emily, and Jorge Sabat. 2017. **"**Cash on Hand is Critical for Avoiding Hardship." *In the Balance*: *Perspectives on Household Balance Sheets* 18 (November 2017). St. Louis Federal Reserve, Center for Household Financial Stability. Accessed March 29, 2018. https://www.stlouisfed.org/publications/in-the-balance/issue18-2017/cash-on-hand-is-critical-for-avoiding-hardship
[6] TD Bank, *Pervasive and profound: The impact of income volatility on Canadians*, *ibid.*
[7] The Pew Charitable Trusts. 2016. Do limits on family assets affect participation in, costs of TANF? Restricting holdings has minimal impact on program caseloads, expenses. Philadelphia, PA: The Pew Charitable Trusts Financial Security and Mobility Program. Accessed March 29, 2018. http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/07/do-limits-on-family-assets-affect-participation-in-costs-of-tanf
[8] Queen's Printer for Ontario. 2018. *A Plan for Care and Opportunity: 2018 Ontario Budget*. Toronto: Government of Ontario. Accessed March 29, 2018. http://budget.ontario.ca/2018/budget2018-en.pdf at p.40.
[9] Government of Canada. "Registered Education Savings Program (overview)." Accessed March 29, 2018. https://www.canada.ca/en/employment-social-development/services/student-financial-aid/education-savings/resp.html
[10] Government of Canada. "Canada Learning Bond (overview)." Accessed March 29, 2018. https://www.canada.ca/en/employment-social-development/services/learning-bond.html
[11] Government of Canada. "Canada Education Savings Grant (overview)." Accessed March 29, 2018. https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/registered-education-savings-plans-resps/canada-education-savings-programs-cesp/canada-education-savings-grant-cesg.html
[12] See: Prosperity Now. 2016. *Scholarly Research on Children's Savings*. Fact file, September 2016. Accessed March 29, 2018. https://prosperitynow.org/files/resources/CSA_research_fact_file_08-2016.pdf
[13] Government of Canada. "Registered Disability Savings Program (overview)." Accessed March 29, 2018. https://www.canada.ca/en/employment-social-development/programs/disability/savings.html
[14] Government of Canada. "Canada Disability Savings Grants and Bonds (overview)." Accessed March 29, 2018. https://www.canada.ca/en/employment-social-development/programs/disability/savings/grants-bonds.html
[15] Quinonez, J., V. Pacheco, and E. Orbuch. 2010. *Just the financial facts, please!* San Francisco, CA: Mission Asset Fund. Accessed March 29, 2018. http://policylinkcontent.s3.amazonaws.com/JustTheFinancialFactsPlease_MissionAssetFund_0.pdf

[16] Prosper Canada. 2012. Highlights of the case for financial literacy: Assessing the effects of financial literacy interventions for low income and vulnerable groups in Canada. Toronto: Prosper Canada (Canadian Centre for Financial Literacy). Accessed March 29, 2018. http://prospercanada.org/getattachment/754d04fa-d170-4cc2-a3d1-7007176c708f/The-Case-for-Financial-Literacy-Report-Highlights.aspx