



Pervasive and Profound: Impact of Income Volatility on Canadians

**A public opinion survey conducted on behalf of
TD Bank Group**

May 2017


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Objectives


- The objectives of the study:
- To measure the incidence of income volatility in Canada and who experiences it
 - To understand the main reasons for fluctuations in income
 - To better understand the impact of income volatility on...
 - Overall financial health, stress, and financial confidence
 - Ability to manage day to day finances and expenses
 - Use of debt and ability to save

Methodology

 An online survey was conducted among a representative, national sample of adult Canadians, 18 years+

 Sample size of n=3000, plus oversample to produce n=500 LICO (Low-Income Cut-Off ¹)
(the “credibility interval” for a sample of n=3000 is +/-2.0%, 95% of the time, n=500 +/-5.0%, 95% of the time)

Weighting was employed on region, age and gender to ensure that the sample’s composition reflects the overall adult population of Canada according to census information.

 Fieldwork was conducted by Ipsos between April 13-23, 2017



Income Volatility Index – Definition
In this study, Income Volatility is defined using 3 questions/variables.

- The extent to which one's income is consistent (received on a regular and predictable basis),
- The extent to which one's income is stable (similar amount each time it is received), and
- The % of income variation from month to month

¹ LICO <http://www.statcan.gc.ca/pub/75f0002m/2012002/lico-sfr-eng.htm>

What is the state of Income Volatility in Canada?

- Just under four-in-ten (37%) Canadians have experienced moderate to high Income Volatility (as defined by the Index in this study) over the past year. Of those, two-in-ten (18%) classify as high or very high.
- Extrapolating to the Canadian adult population, this equates to approximately 10 million adults who experience some level of Income Volatility
 - Approximately 5 million adults experience high/very high Income Volatility
 - Approximately 3.3 million adult Canadians say their monthly income can fluctuate by 25 percent or more

Who is experiencing Income Volatility?

- Income Volatility is more likely to be experienced by specific sub-groups of the population including:
 - The self-employed; those employed seasonally or can't find work; those working part-time and students
 - Millennials (particularly women and younger Millennials) (Millennials 18-34 years, younger Millennials 18-24 years),
 - Mature Gen X men (45-54 years),
 - LICO (low income cut off) and lower income Canadians (non-LICO but annual household income less than \$40K)
 - Those living in Alberta as well as the largest cities (1 million+)
- The study found that education level has a limited influence on whether someone will experience Income Volatility

What are the causes of income fluctuations?

- The main causes of income fluctuations from month to month are hourly pay with work hours that change from week to week, relying on multiple sources of income, self-employment and two-week pay periods.

What impact does Income Volatility have on Canadians?

- Canadians who experience high/very high Income Volatility also experience lower Financial Health overall (i.e., behaviours related to “spend,” “save,” “borrow,” and “plan”), are significantly more likely to see themselves falling behind and therefore are less confident about their finances and financial future, and are significantly more likely to report feeling stress about their finances.

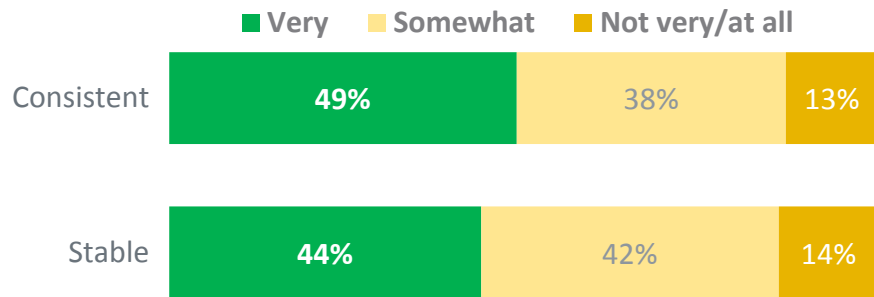
Income Volatility Index



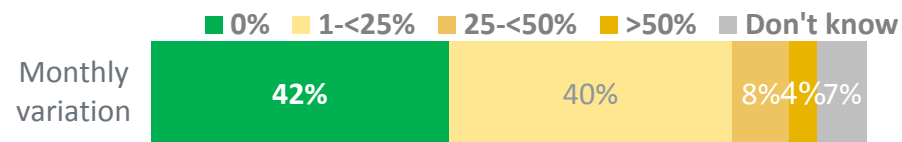
Almost forty percent (37%) of adult Canadians have experienced moderate to high Income Volatility (as defined in this study) in the past year. Of those, two-in-ten (18%) fall within the high or very high range.

Income Volatility is more likely to be experienced by specific sub-groups including: the self-employed (75%); those employed seasonally (68%) or can't find work (63%); those working part-time (57%) and students (57%); Millennials (47%) (particularly women (63%) and younger Millennials (59%)); Mature Gen X men (45-54 years (47%)); LICO (47%) and lower income Canadians (45%). It is also higher among those living in Alberta (44%) and country's largest cities (1 million +, 40%).

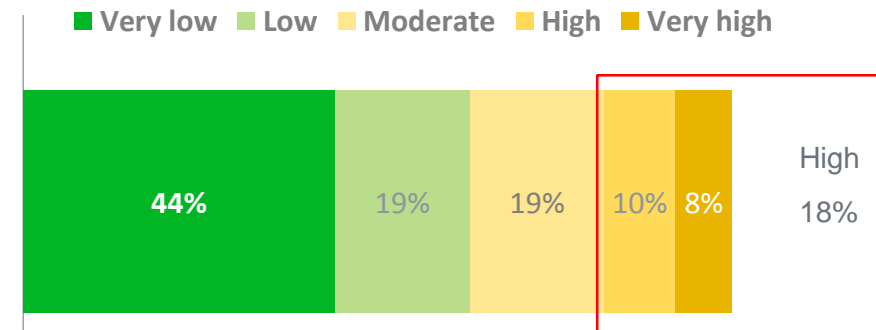
Thinking about your personal circumstance over the past year, to what extent would you say your income is...?



On average, how much does your income vary from month to month?



INCOME VOLATILITY INDEX (higher is more volatile)

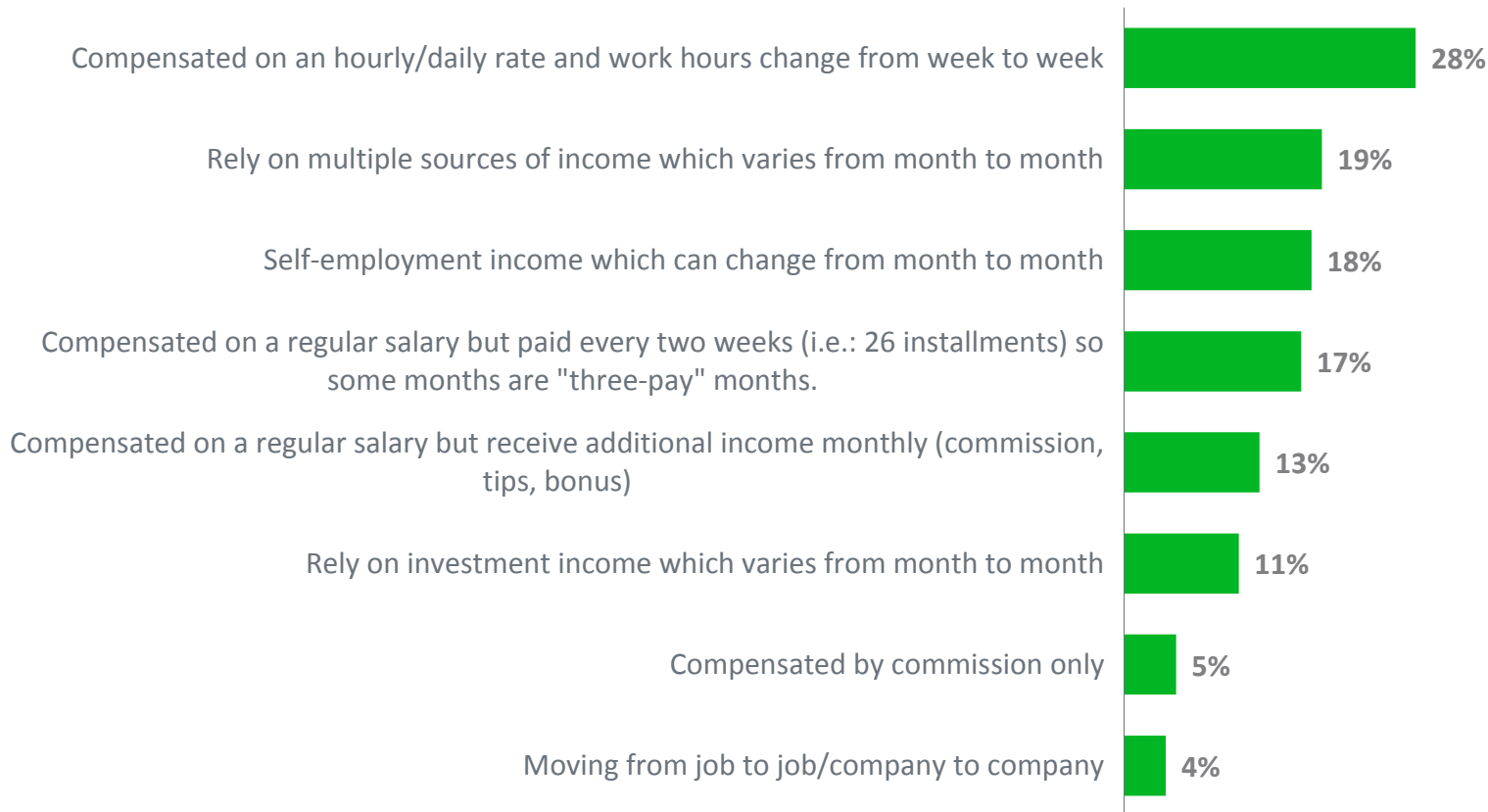


Main Reasons for Income Fluctuations



Hourly pay is the main reason why income fluctuates, followed by multiple sources of income, self-employment and two-week pay periods. Multiple sources of income and self-employed are higher among those who experience high income volatility.

REASONS FOR INCOME FLUCTUATIONS
(among the 52% who say their monthly income fluctuates)



INCOME VOLATILITY

| | Very Low | Low | Moderate | High | Very High |
|---|----------|-----|----------|------|-----------|
| Compensated on an hourly/daily rate and work hours change from week to week | 24% | 36% | 27% | 30% | 31% |
| Rely on multiple sources of income which varies from month to month | 15% | 18% | 19% | 21% | 25% |
| Self-employment income which can change from month to month | 9% | 8% | 14% | 27% | 39% |
| Compensated on a regular salary but paid every two weeks (i.e.: 26 installments) so some months are "three-pay" months. | 22% | 24% | 17% | 12% | 8% |
| Compensated on a regular salary but receive additional income monthly (commission, tips, bonus) | 17% | 18% | 14% | 10% | 5% |
| Rely on investment income which varies from month to month | 12% | 10% | 12% | 10% | 7% |
| Compensated by commission only | 1% | 3% | 5% | 8% | 9% |
| Moving from job to job/company to company | 1% | 1% | 4% | 8% | 8% |

Statistically significant difference

IF OTHER THAN 0% OR NOT SURE IN Q7 ASK Q8

8. What are the main reason(s) that your income fluctuates or changes from month to month? (Select all that apply)



Financial Health

Canadians' behaviours related to spending, saving, borrowing and planning

Financial Health – Spend



Overall, a significant majority (71%) of Canadians report positive “spending” characteristics (“high” + “very high”) but three-in-ten (29%) score low to moderate on the Spend Index.

On average over the past year, how would you describe your spending patterns? Do you spend...

More than income Same as income Less than income



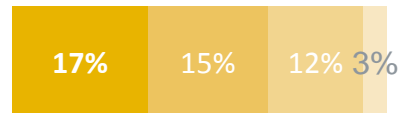
Which of the following statements best describes how well you are keeping up with your bills and credit commitments?

Some bills paid on time Most bills paid on time All bills paid on time



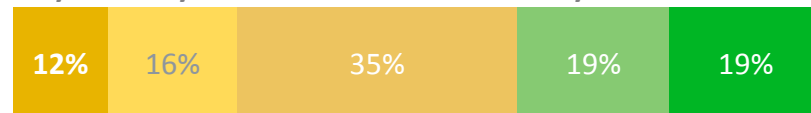
Have you had to access any of the following savings / investments in order to pay monthly expenses? % Yes

TFSA RRSP Other RDSP



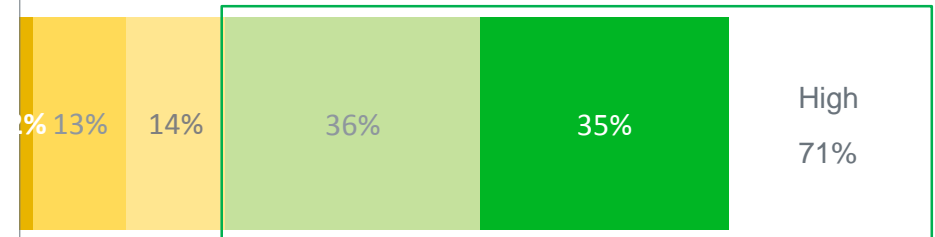
How well does this describes you or your situation... I am just getting by financially

Completely Very Well Somewhat Very Little Not at all



SPEND SUB-INDEX (higher is positive)

Very low Low Moderate High Very high

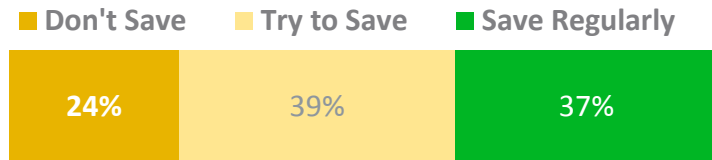


Financial Health – Save

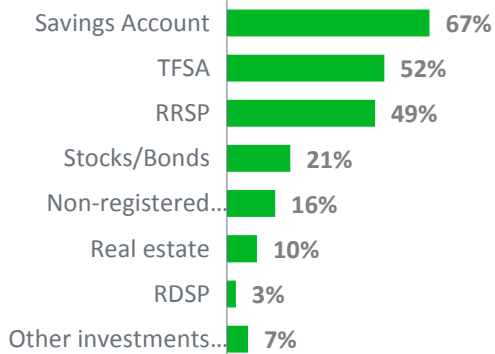


Just over half (56%) of Canadians report positive “saving” behaviours (“high” + “very high”), while 44% score low to moderate on the Save Index.

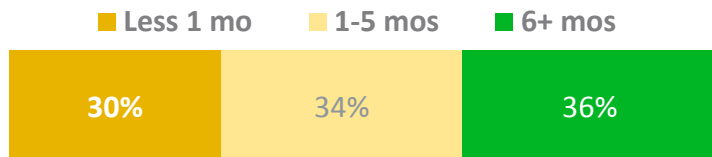
Which of the following comes closest to your current saving habits?



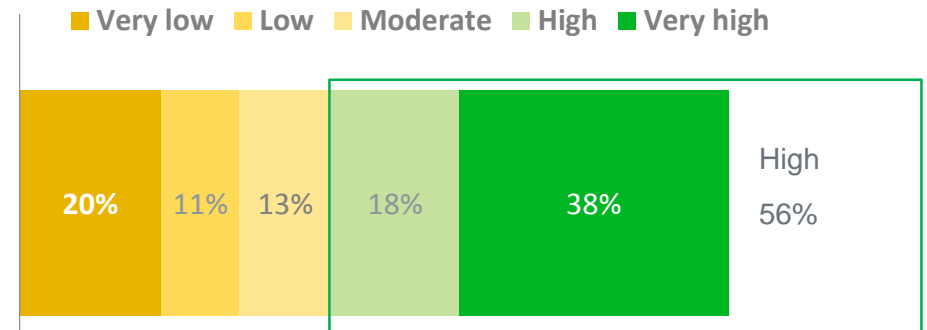
What are the different ways you are currently saving?



Approximately how many months of living expenses do you have in liquid account balances?



SAVE SUB-INDEX (higher is positive)

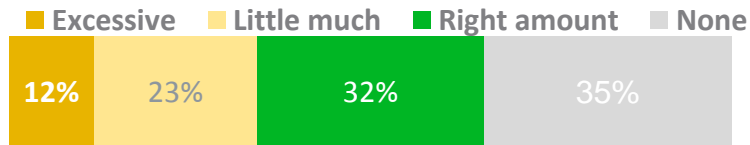


Financial Health – Borrow



Of the four areas examined, Canadians report the highest positive characteristics on “borrow” (“high” + “very high”), though one-quarter (24%) score low to moderate on the Borrow Index.

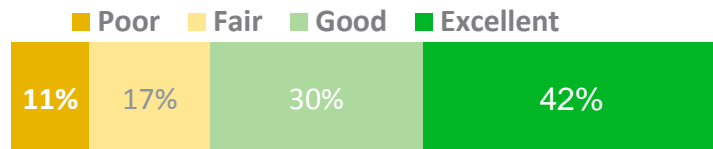
How would you describe how much debt you have right now?



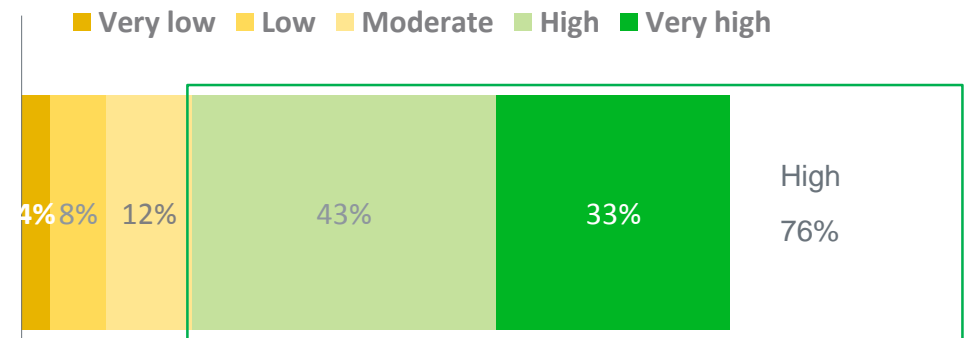
How would you describe your payment experience with credit cards?



Based on everything you know, do you think your credit score is / would be...?



BORROW SUB-INDEX (higher is positive)

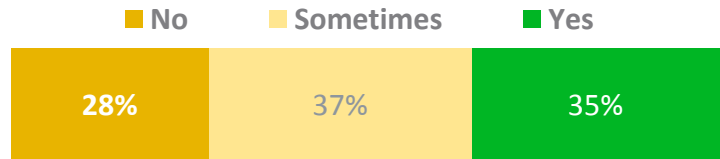


Financial Health – Plan



Six-in-ten (61%) Canadians report positive behaviours on “plan” (“high” + “very high”), however four-in-ten (40%) score low to moderate on the Plan Index.

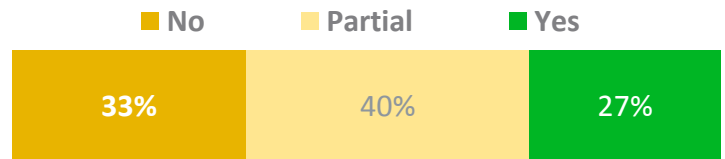
Do you have a budget, spending plan, or financial plan that you use to guide how your money gets spent each month?



Do you generally plan ahead to pay for large, irregular expenses?



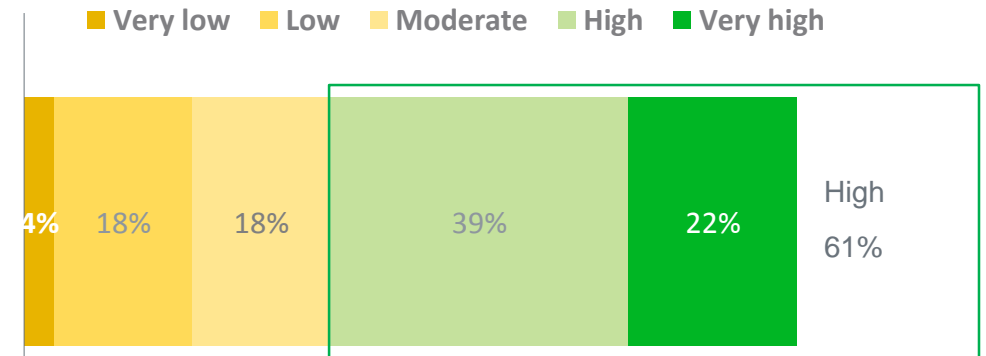
Do you have a plan to achieve your longer term financial goals?



Do you have or are you covered by...life insurance, disability insurance, home or tenant insurance



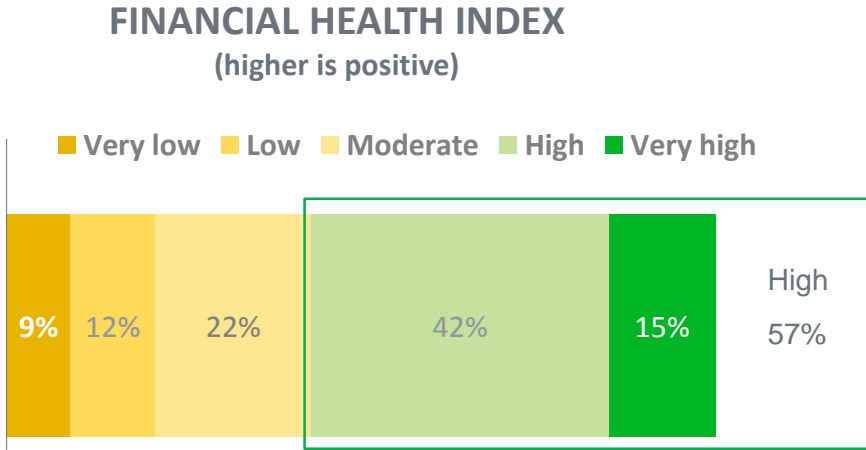
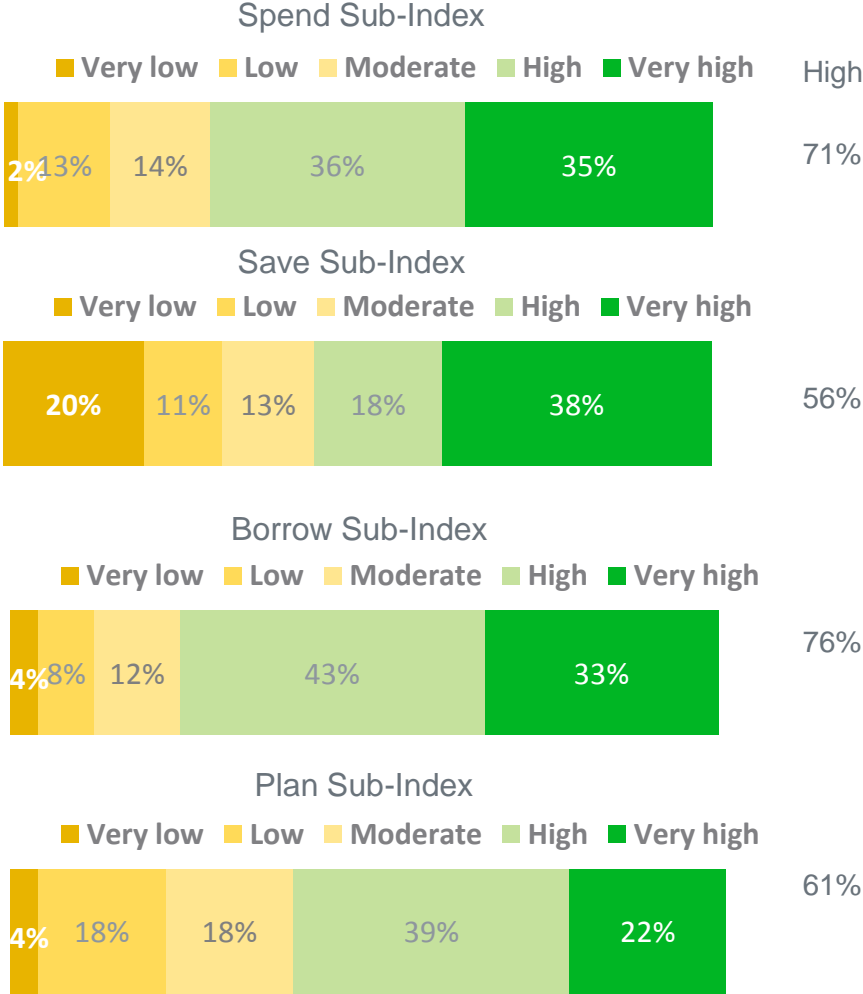
PLAN SUB-INDEX (higher is positive)



Financial Health Index -- Overall



On the combined Financial Health Index, almost six-in-ten (57%) Canadians report positive financial health (“high” + “very high”), while four-in-ten (43%) have low to moderate financial health.



Financial Health by Income Volatility – Sub-Indexes

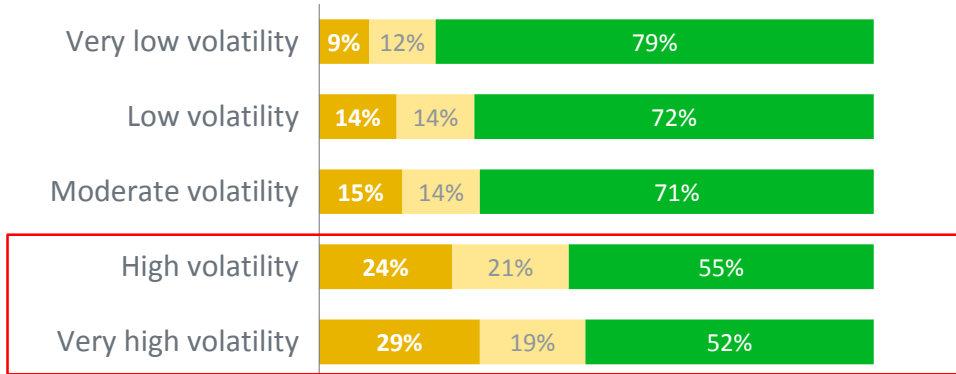


Those with higher Income Volatility tend to score lower across all four categories of Financial Health, with the areas of “saving” and “planning” being the most impacted.

FINANCIAL HEALTH INDEX -- SPEND

(higher is positive)

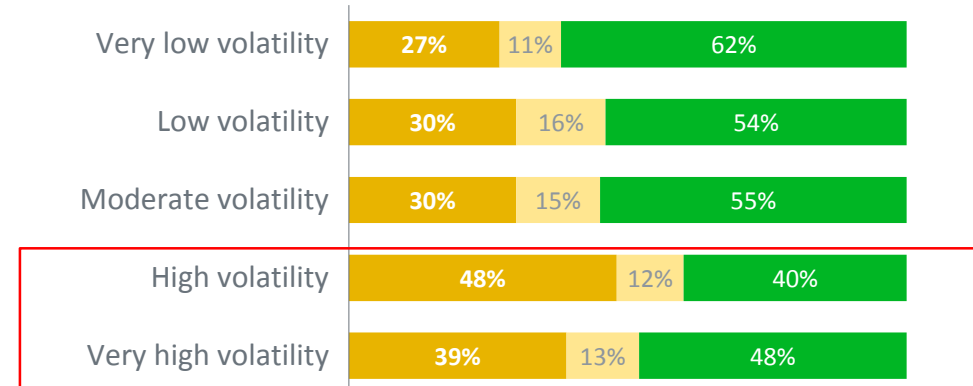
■ Low ■ Moderate ■ High



FINANCIAL HEALTH INDEX -- SAVE

(higher is positive)

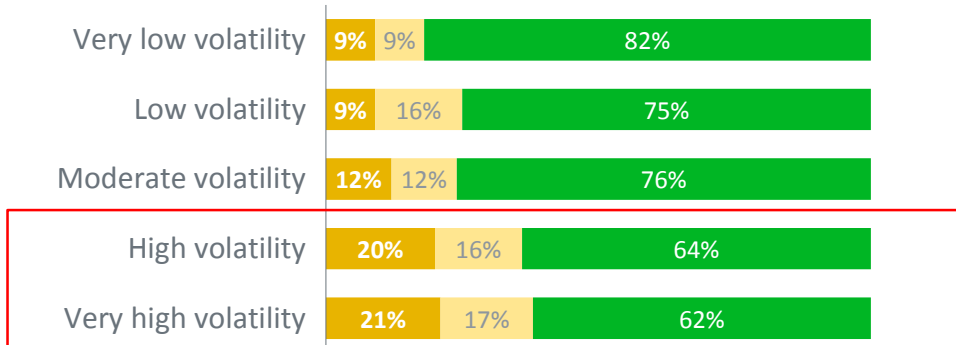
■ Low ■ Moderate ■ High



FINANCIAL HEALTH INDEX -- BORROW

(higher is positive)

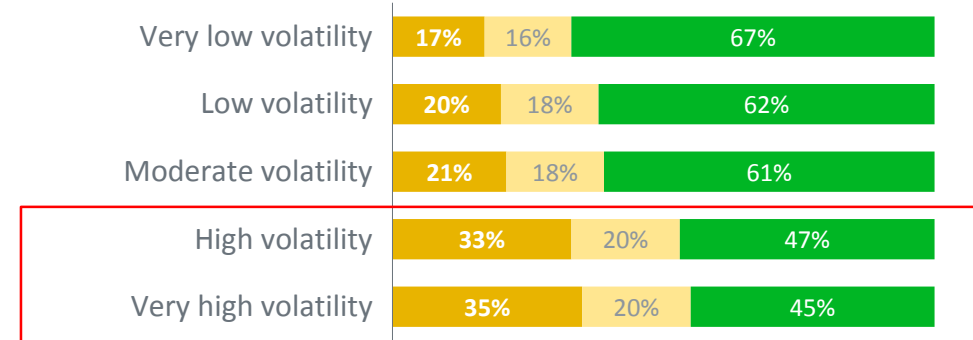
■ Low ■ Moderate ■ High



FINANCIAL HEALTH INDEX -- PLAN

(higher is positive)

■ Low ■ Moderate ■ High





The Impact of Income Volatility

Ability to pay bills, perceptions of financial future, feelings of stress, and financial confidence

Monthly Expenses by Income Volatility

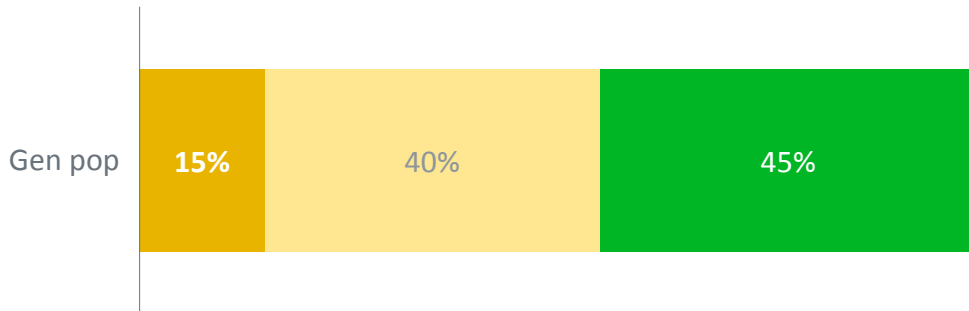


A majority of Canadians report that their monthly expenses vary to some extent. However, those with higher Income Volatility are significantly more likely to report expense variability.

MONTHLY EXPENSES

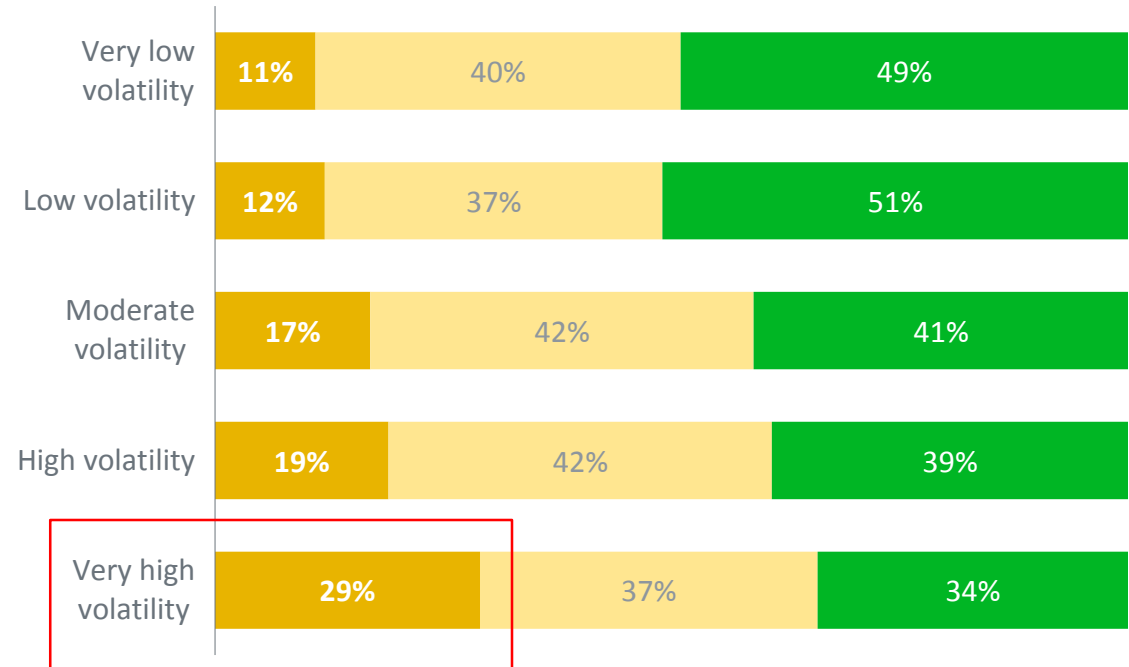
GEN POP

- Often vary quite a bit
- Roughly same most months, but some unusually high or low
- Roughly same amount each month



INCOME VOLATILITY

- Often vary quite a bit
- Roughly same most months, but some unusually high or low
- Roughly same amount each month



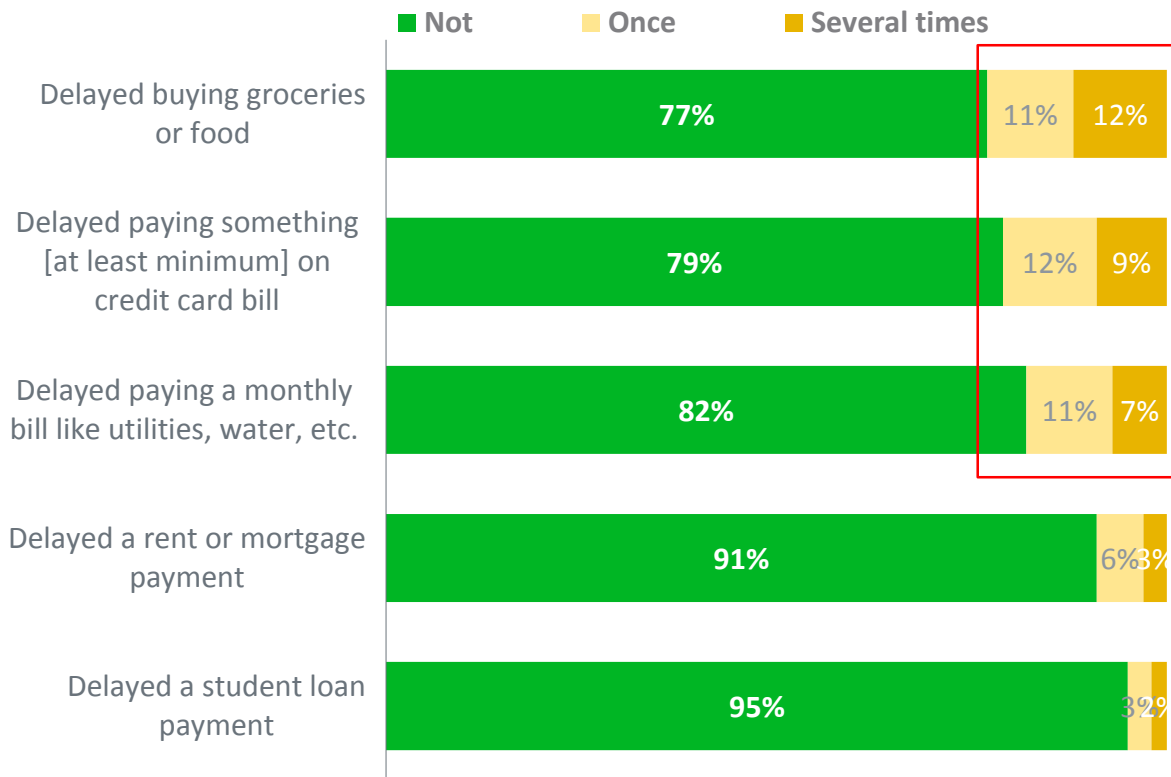
q11. In the past year, which one of the following best describes how your expenses change from month to month, if at all?

Paying Bills



A notable proportion of Canadians have delayed buying groceries, paying credit cards, paying utilities and paying rent/mortgage given their financial situation. This is especially acute among those experiencing higher Income Volatility.

In the past 12 months, have you ever done the following...because you did not think you had enough money to cover it, you...



INCOME VOLATILITY (% delayed)

| | Very Low | Low | Moderate | High | Very High |
|---|----------|-----|----------|------|-----------|
| Delayed buying groceries or food | 16% | 22% | 26% | 38% | 39% |
| Delayed paying something [at least minimum] on credit card bill | 14% | 23% | 24% | 31% | 38% |
| Delayed paying a monthly bill like utilities, water, etc. | 11% | 18% | 22% | 27% | 34% |
| Delayed a rent or mortgage payment | 5% | 9% | 11% | 18% | 23% |
| Delayed a student loan payment | 1% | 6% | 8% | 11% | 13% |

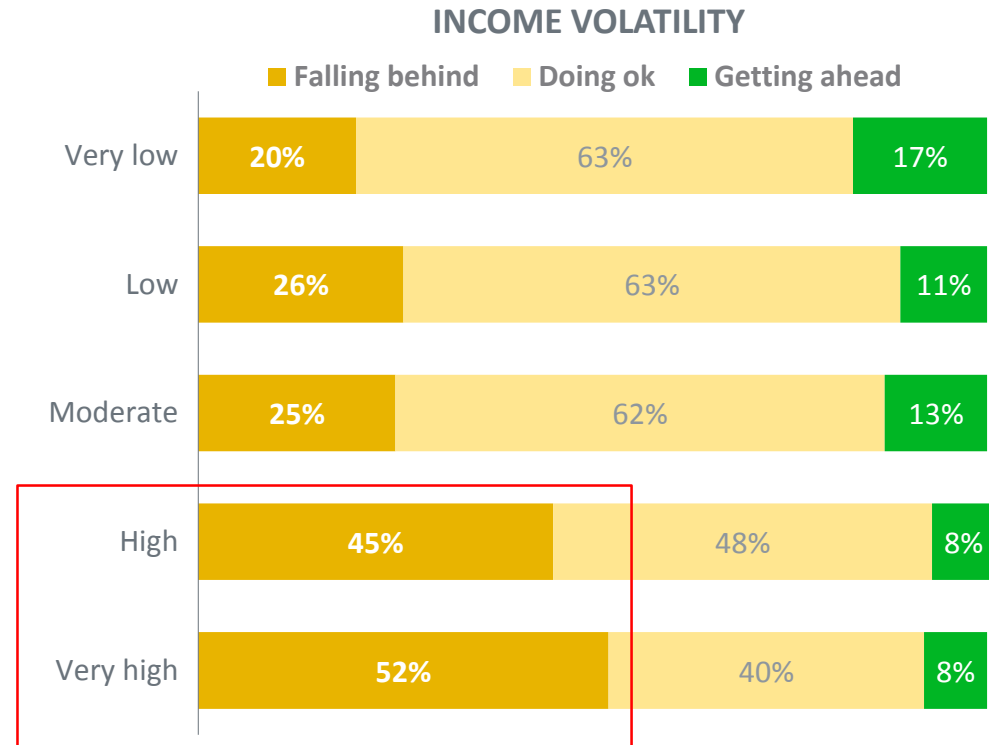
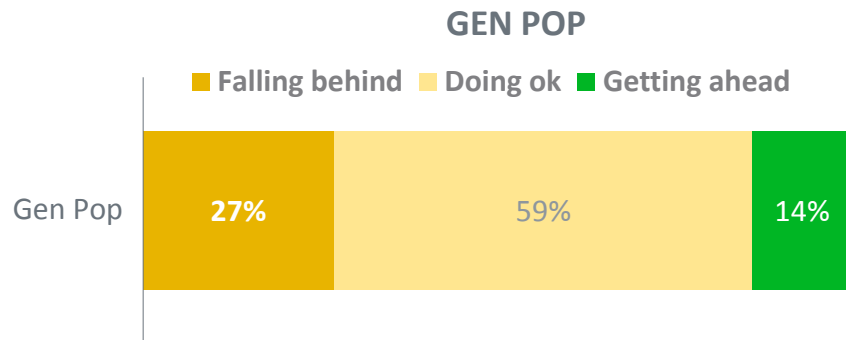
Statistically significant difference

Very Few Feel They Are "Getting Ahead"



Twice as many Canadians feel they are falling behind as feel they are getting ahead financially. Those experiencing higher Income Volatility are significantly more likely to believe that they are falling behind.

SELF-PERCEPTION CURRENT FINANCIAL SITUATION



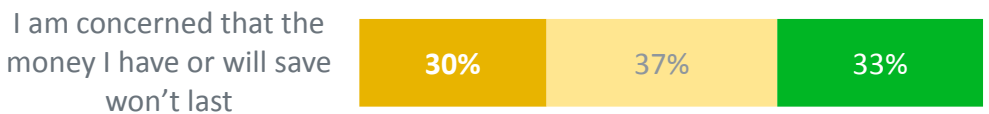
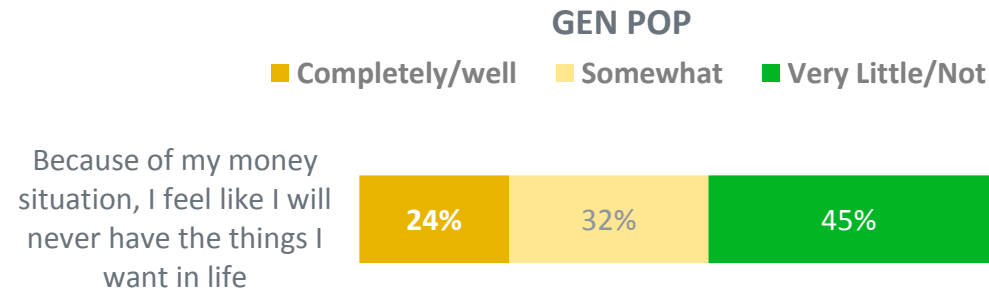
1. All things considered, how would you describe your personal financial situation these days? I feel that I am...?

Income Volatility also impacts perceptions of quality of life



A majority of Canadians are pessimistic about their ability to have the things they want in life because of their money situation. A majority are also at least somewhat concerned that the money they have or will save won't last. Canadians experiencing higher Income Volatility are more pessimistic than average.

ATTITUDES TOWARD PERSONAL FINANCES (DESCRIBES ME...)



INCOME VOLATILITY

| | Very Low | Low | Moderate | High | Very High |
|-----------------|----------|-----|----------|------|-----------|
| Completely/well | 19% | 25% | 23% | 35% | 33% |
| Somewhat | 25% | 36% | 37% | 38% | 35% |
| Little/Not | 56% | 39% | 40% | 27% | 33% |

| | Very Low | Low | Moderate | High | Very High |
|-----------------|----------|-----|----------|------|-----------|
| Completely/well | 24% | 31% | 30% | 39% | 43% |
| Somewhat | 32% | 40% | 44% | 40% | 38% |
| Little/Not | 45% | 29% | 27% | 21% | 19% |

33. How well do these statements describe you or your situation?

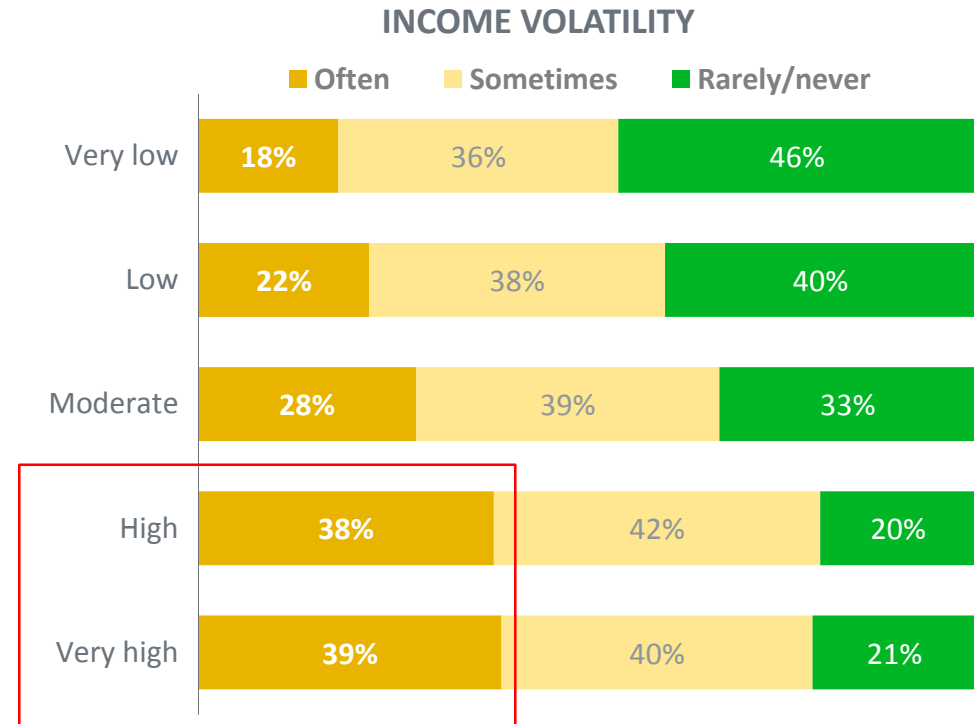
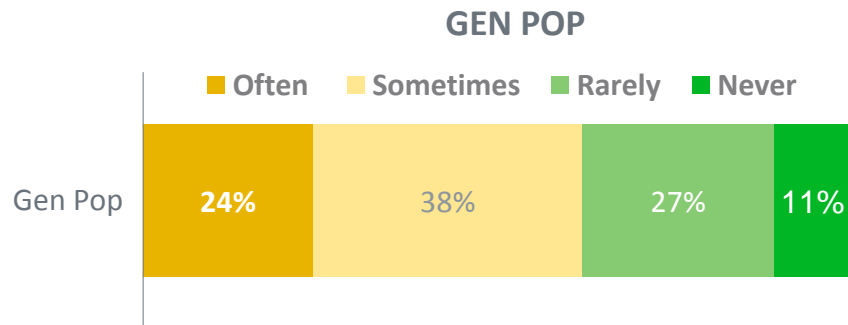
■ Statistically significant difference

Canadians Are Stressed About Their Personal Finances



Most Canadians feel some level of stress regarding their personal finances. Stress is significantly higher among higher Income Volatility Canadians.

FEEL STRESSED ABOUT PERSONAL FINANCES

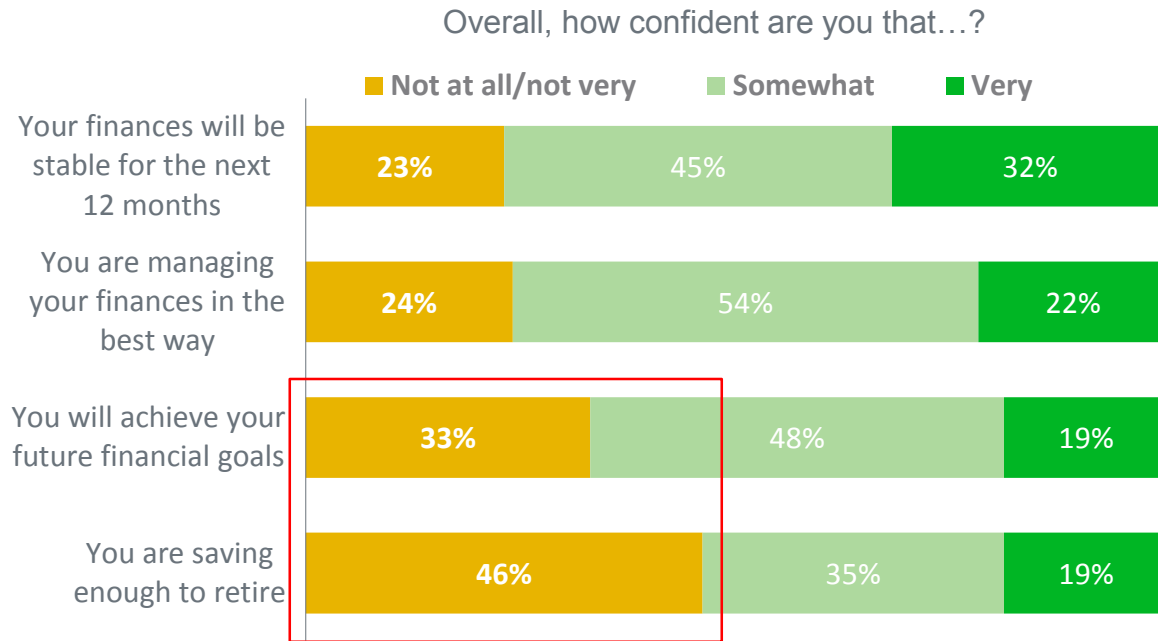


32. To what extent do you feel stressed about your finances

Confidence About Personal Finances Is Not High



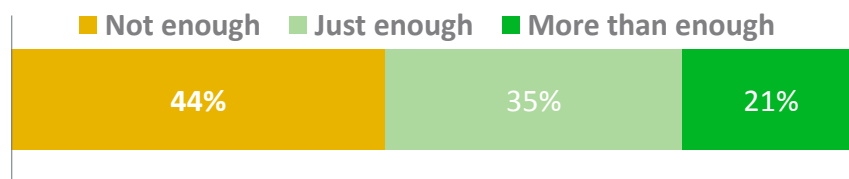
Canadians are not decidedly confident about their financial future, especially when it comes to saving for retirement. Higher Income Volatility Canadians have significantly lower financial confidence across the board than those with lower Income Volatility.



INCOME VOLATILITY (% confident)

| | Very Low | Low | Moderate | High | Very High |
|----------|----------|-----|----------|------|-----------|
| Very Low | 88% | 77% | 76% | 55% | 48% |
| Low | 83% | 79% | 75% | 60% | 57% |
| Moderate | 73% | 67% | 67% | 52% | 51% |
| High | 64% | 64% | 50% | 34% | 30% |

Generally speaking, do you feel that you will have...funds to cover retirement?



(% enough/more than enough)

| | | | | | |
|----------|-----|-----|-----|-----|-----|
| Very Low | 65% | 54% | 55% | 38% | 35% |
|----------|-----|-----|-----|-----|-----|

Statistically significant difference

Income Volatility impacts lower income Canadians most



The impact of Income Volatility varies by the income level. Income Volatility has a much more negative impact among lower income Canadians.

SELECT MEASURES BY EXPERIENCE INCOME VOLATILITY WITHIN INCOME

| | Experience very high, high or moderate Income Volatility | | | |
|---|--|-------------------------------------|-------------------------|-------------------------|
| | LICO Canadians | Non-LICO but Lower Income Canadians | Middle-Income Canadians | Higher Income Canadians |
| Overall Financial Health Index (high/very high) | 17% | 36% | 45% | 65% |
| Feel like falling behind | 51% | 37% | 37% | 26% |
| A lot of stress re finances | 45% | 39% | 35% | 19% |
| Confident will achieve future financial goals | 40% | 53% | 60% | 77% |
| Delayed buying groceries | 49% | 39% | 35% | 13% |
| Delayed paying utilities | 41% | 32% | 28% | 12% |

LICO = LICO, Non-LICO but lower income = household income less \$50,000 per year, Middle-income = \$50,000-\$99,999 per year, Higher Income = \$100,000+ per year

 Statistically significant difference



Income Volatility in Canada

Appendix

Financial Health was measured by utilizing many of the metrics employed by CFSI's (The Centre for the Study of Financial Innovation), report on "Eight Ways to Measure Financial Health" with a few additional custom metrics.

Four sub-themes were explored -- Spend, Save, Borrow, Plan and a Financial Health Index was created by first creating sub-indices for each of the four themes and then combining the results of the sub-indices into an overall index.

Note: Spend Sub-Index + Save Sub-Index + Borrow Sub-Index + Plan Sub-index = Overall Financial Health Index

Spend

12. On average over the past year, how would you describe your spending patterns?

14. Which of the following statements best describes how well you are keeping up with your bills and credit commitments?

25. Have you had to access any of the following savings / investments in order to pay monthly expenses?

33. How well do these statements describe you or your situation? This statement describes me...?

Save

22. Which of the following comes closest to your current saving habits?

23. What are the different ways you are currently saving?

24. Approximately how many months of living expenses do you have in liquid account balances?

Borrow

15. How would you describe how much debt you have right now?

17. How would you describe your payment experience with credit cards?

19. Based on everything you know, do you think your credit score is / would be...?

Plan

13. Do you have a budget, spending plan, or financial plan that you use to guide how your money gets spent each month?

18. Do you generally plan ahead to pay for large, irregular expenses?

27. Do you have a plan to achieve your longer term financial goals?

28. Do you have or are you covered by...?