

“Addressing Poverty in Calgary: Issues, Challenges, Strategies”
Chair of Christian Thought Iwaasa Lecture on Urban Theology
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Poverty is not only about money...

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Poverty is Not only about money, but it is always about money.

Question: Who has a monthly or annual budget? Who has a chequing account? How many people have a RRSP or TFSA? How many people have savings be easily accessed and last 3 months in case of emergency?

Introduce myself and *Momentum*

- Personally a pretty stereotypical WASP. Benefited greatly from opportunities. Sacrifice of grandparents – two generations removed from poverty. Pragmatically optimistic that it is possible to develop a community with less poverty.
- *Momentum* – I work at an organization committed to working with people living on lower-incomes to increase their prosperity and creating opportunities for everyone to thrive. We use economic development tools, like microloans, to reduce poverty. We believe that poverty involves a lack of both income AND Assets.

Momentum key stats

- Work 4,000 Calgarians a year
- Started in 1991
- Staff of 50 – supported by all 3 levels of gov't, United Way, local businesses and many generous donors

Key Messages

- Reducing poverty requires a focus on both Income and Assets
- Scarcity makes it very difficult for people living in poverty to avoid debt and save for the future
- Identify opportunities for people living in poverty to become financially empowered (build their savings and reduce debt)

Provide you ideas of what you can do?

All of us want to live a good life and have hope for our future and for those we love. Building financial assets like savings, RESPs, RRSPs, or home ownership can have a big impact on our path through life. Use QUOTE – ***“Without an income we can’t get by, but without assets we can’t get ahead.”***

We believe that to address poverty in a sustainable way we have to think about how everyone can build assets.

“Without an income we can’t get by, but without assets we can’t get ahead.”

- Ray Boshara

Vice President, New America Foundation

Reflect on quote - What is the first problem?

A lack of income

- Too many people do not earn enough money (from a job or a benefit – such as AISH) to get by. Over the last 20+ years, the % of people in Alberta living below the Low Income Cut Off (\$23 for a single person & \$43K for family of 4) has remained consistent at 12% despite periods of significant economic growth.
- An Albertan earning the minimum wage working 40hrs/week for 50 weeks/year, earns \$19,500 - \$2,600 below LICO.
- In Alberta, 35% of all people b/w 25-44 years old (prime working age) are earning \$15/hour or less.
- We need to remember that living in poverty is not only about getting a job. It is about having a job that enables someone to earn money to pay their basic living expenses, stay out of debt and save for the future.

What is the second big problem?

Canadians have a lot of debt, more than ever before.

- Our debt to income ratio has risen to over 150% (August 2012) – one of the highest in G7 countries
- Regardless of income, many of us still have little to no savings or assets. Nearly 1 in 4 Canadians have no financial wealth at all including savings, stocks, bonds or RRSPs.
- Over 50% of Canadians are asset poor (David Rothwell, 2013). Asset Poor means you do not have enough to survive at the poverty line for three months without employment or another source of income. The lowest income people are most susceptible to paying more on expenses than their income.

Asset poverty in Canada is alarming to say the least. A lack of assets contributes to the cycle of poverty, while saving or growing assets can help people escape it. Asset Poverty puts us in a precarious and vulnerable position. Just one little thing could send us into a downward spiral. Events like losing a job or having a mental health crisis can be very difficult to recover from financially. Often those who live on a low income are most vulnerable; they have difficulty accessing asset building tools like RESPs and RRSPs. (*Asset Poverty: do not have sufficient financial resources to survive at the low income cut off for three months*).

One particular example of people struggling with bad debt is the issue of pay day loans.

- Pay day loan is a small (usually under \$1000), short-term loan to cover expenses
- Majority of payday loan customers are those employed full-time (most common men 18-34 earning less than \$30K) – the working poor
- Pay day loans typically cost 400% when annualized – arguably it is modern day usury

- Repeat business – there are 15 return customers for every new customer – average customer takes 8-12 loans/year and evidence that 75% of loan taken to pay previous loan – A DEBT Trap
- Growth of fringe finance – eg # of Money Marts almost doubled - 311 to 480 in 4 years (04-08) – more payday loan outlets than McDonalds and Burger King combined in US

Why?

- Limited customer **awareness/knowledge** of limitations of fringe financial services and benefits of mainstream banks
- **Bank products and services do not always work well for people on low-incomes** (eg holds and minimum account requirements)
- The ‘shopping’ experience - Bank staff do not also treat people on lower-incomes with **respect** (not target market to meet sales #s)
- Banks are often not as convenient and **accessible** while fringe banks are prominent in lower-income areas and open at flexible hours

Biggest reason

- Its easy money to get - Many pay day loan customers **need money quickly** (ie. live pay cheque to pay cheque)
- Psychology of Scarcity (Scarcity by Shafir & Mullainathan) demonstrates that living in poverty makes it much harder to make decisions (greater stress, more distractions, mentally depleted by challenges). All people (regardless of culture, background, education) would have less cognitive capacity if living in poverty – The condition of scarcity actually changes the way people think - the issues of poverty are not about the faults or lack or responsibilities of individuals
- Reference TedX talk – Living under Scarcity by Eldar Shafir

What can we do about it? How can create opportunities to overcome scarcity?

First – create opportunities for people to have more \$. Ideas like Guaranteed Annual Income. Pay a living wage. Ensure that people who are unable to work receive adequate benefits.

Second – we need to provide opportunities to avoid bad debt and build savings. Even when people do not have enough money – they can and do save when provided an opportunity.

Building assets can help overcome scarcity. Assets are a powerful tool to reduce poverty in the long-term.

Research on assets suggests there is a “trampoline effect”. Assets provide a soft cushion to land on in times of crisis, and they also are a foundation that help us “jump” back up again. For example, emergency savings play a vital role if you have a tight budget and have an unexpected expense come up.

Assets are more than just stored income, people behave and think differently when they have assets. Building Assets increases our ability to think about and plan for the future, this includes taking risks that could pay off – like starting a small business or investing for a secure retirement.

Building financial assets provides a lot of other emotional benefits. When we build assets, we increase our confidence and worry less about money. These benefits free us up to dream about and achieve our potential.

How can we work with people living in poverty build assets?

Financial Empowerment – A promising idea identified in the Calgary Poverty Reduction Initiative strategy – At *Momentum*, we are exploring with partners the Financial Empowerment model developed in United States is an effective and practical approach to provide opportunities for people living on low-incomes to build assets. The Financial Empowerment model is aligned to and builds on work we have done at *Momentum* over the last 15 years.

Financial empowerment is an integrated and comprehensive approach to improve financial security for people living in poverty. The approach is proven through demonstrated results to measurably improve financial outcomes (income, credit score, savings and debt levels) through access to savings and asset building opportunities. The model was first developed in New York City and is now being implemented in 12 cities across the US. In NYC, over 25,000 people participated in a Financial Empowerment initiative b/w 2010 – 2013, resulting in \$2.4M in savings and \$14.7M in reduced debt.

The Financial Empowerment model also addresses systemic barriers for people in poverty to save and build assets. The model includes action to increase *financial inclusion*. The model is scalable and sustainable by being built into public, community and private sector service systems. For example, integrating high quality financial education and counseling into the social services like the ‘welfare system’.

The Financial Empowerment approach has 5 pillars of intervention:

- Financial education and counseling
- Access to income boosting benefits and tax credits
- Consumer protection
- Safe and affordable financial products
- Access to savings

Today we are going to focus on the last two Financial Empowerment pillars.

Access to Safe and Affordable Financial products

- Establish basic financial services and affordable credit products to provide alternative to fringe financial institutions
- Encouraging employers to use direct deposit

Result

- Payday Plus San Francisco disburses more than 300 safe, low-cost loans annually as an alternative to a pay day loan

In Canada

- VanCity Credit Union launched the ‘Fair and Fast’ loan as an alternative to a pay day loan. *Momentum* is currently working with First Calgary Financial to pilot a short-term loan alternative.

Opportunities to build savings and assets

- Incentivized savings accounts (matched savings)
- Promotion of registered savings vehicles (eg RESPs, RDSPs)

Results

- Save USA is a tax-time matched savings program in 4 US cities – in 2012, 1,664 people opened a savings account and saved over \$1M

In Canada

- One of *Momentum*’s primary programs is working with people in poverty to manage and save their money. We are a national leader in Financial Literacy programs. We have provided matched savings programs since 2000. Our matched savings programs are very aligned with the Financial Empowerment model.

Matched savings programs are based on the premise of ‘earn money, while you learn about money’. The program participants own savings is matched to go towards the purchase of a productive asset (education, tools for work, a business and homeownership). The match (usually 3:1) creates an incentive to save and acts like a power boost to the limited savings people living on lower-incomes can afford. Research indicates that matches savings programs can result in longer-term savings behaviour.

Since 2000, over 1,600 *Momentum* participants have:

- Earned over \$2.5M in matches savings.
- Used matched savings to purchase over 2,000 assets, including 125 homes.
- Also worked with people to open RESPs. Over 1,000 RESPs opened in the last 5 years - \$800K in value in gov’t grant money to save towards child’s education

Significant opportunities exist to advance the Financial Empowerment model provincially and locally.

- Locally – the Calgary Poverty Reduction Initiative (CPRI) strategy recommended Financial Empowerment as a key action to meet a goal of all Calgarians having the income and assets necessary to thrive.

Timothy’s Story illustrates both the challenges of scarcity and the possibility of financial empowerment approaches

- New Canadian from Africa
- Living in Calgary – working in retail to try and get by – made the fancy juice I may have bought at one time at Market Mall
- Experienced homelessness and couch surfing – girlfriends of his friends didn’t let him stay forever
- Took out a pay day loan to help pay for mother’s hospital bill in Africa – Over a period of 10 months, paid \$2500 to pay off an original \$600 loan
- Participated in one of *Momentum*’s matched savings programs – learned why & how of putting a little aside for savings each month. Used matched savings for his

education. Now has a better job and has also opened up a RESP for his child. His story is an example that Financial Empowerment is possible.

What can you do?

- City Council to decide on Notice of Motion on payday lending in March – let your councillor know you care about this issue
- Provincial pay day lending regulation up for review this year – let your MLA know you think the GOA should reduce the allowable interest rate
- Buy from a business that pays a living wage (eg Community Natural Foods)

Remember that ***“Without an income we can’t get by, but without assets we can’t get ahead.”***