

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

## Executive Summary

Financial empowerment creates opportunities to improve the financial outcomes of people living on low-incomes, such as their credit scores, saving and debt levels. Improved financial knowledge, inclusion and stability can result in enhanced access to demonstrated routes out of poverty, such as education and training, employment and entrepreneurship, and asset building.

Financial empowerment is not a substitute for other poverty reduction activities, but a critical component that is often missing or underutilized. Financial empowerment interventions 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 health care.

### **Financial Empowerment strategies focus on:**

- Financial information, education and coaching to build financial capability and confidence
- 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.

The Government of Alberta has been a consumer protection leader in Canada through the legislation and regulation of payday and other high-cost credit lending businesses. Provincial governments in Ontario, Manitoba and New Brunswick have supported the scaling up and sustainment of financial empowerment programs including financial education and coaching, matched savings and asset building opportunities, and access to benefits through tax filing.

Community organizations in Calgary and Edmonton have spearheaded the development of financial empowerment initiatives in Alberta in recent years. Further government support can expand these proven strategies across Alberta, allowing this work to have greater impact in our province, specifically by:

1. **Establishing a Financial Empowerment Secretariat** in the Ministry of Community and Social Services.
2. **Building financial empowerment into Alberta Supports** policies and programs targeted at Albertans with low incomes.
3. **Establishing a Financial Empowerment Fund** to scale up and sustain community capacity to deliver financial empowerment initiatives, such as financial coaching, savings program and tax filing assistance.
4. **Lifting asset limits for people receiving social assistance** through Alberta Works and AISH to enable greater resiliency through savings and asset building.
5. **Enforcing and enhancing regulations** on high-cost financial services to better protect consumers who currently rely on fringe financial services.

## Provincial Government Action on Financial Empowerment

Financial Empowerment can save government money over the long term by reducing people's need to access ongoing government services as their financial situation improves. Governments across Canada are embracing financial empowerment strategies to support the financial outcomes for people living on low incomes.

The **Government of Alberta** has taken important steps to reduce the financial risk of vulnerable consumers by passing legislation to **regulate high cost lenders** offering products and services such as payday loans, instalment loans, pawn loans, title loans, used car loans and rent-to-own contracts. Alberta's leadership on this issue has inspired other provinces to make changes to the legislation and regulation governing high cost lenders.

The government's 2016 decision to **exempt RDSP and RESP savings from asset calculations** for social housing eligibility, followed by the increase in these asset limits as part of the Provincial Affordable Housing Strategy will allow Albertans to maintain savings and build economic resiliency.

The **Government of Ontario** has provided \$8 million over four years to **fund the Financial Empowerment and Problem Solving project**, expanding proven financial empowerment interventions to at least 50,000 Ontarians living on low incomes. This work is being led by the Ontario Financial Empowerment Champions network and includes activities like financial coaching, assistance with tax filing, accessing mainstream banking services and increasing enrollment in RESPs and access to Canada Learning Bonds.

Additional work is underway by Toronto Employment and Social Services (TESS), as the administrator of Ontario Works programs in the city, to **increase RESP enrollment and take-up rates of the Canada Learning Bond**. TESS estimates that 35,000 eligible children whose families are receiving Ontario Works assistance are not accessing the CLB, resulting in up to \$70 million in unclaimed benefits.

The **Government of Manitoba** was an early leader in supporting Manitobans with low-incomes to build their financial security through Manitoba Saves, an initiative that combined financial **literacy training with two distinct matched savings programs**. These programs offered individuals and families a matching grant of three dollars for every dollar they saved to be put towards assets like education savings or tuition, job-related training, tools or equipment, or emergency savings.

Between 2000 and 2008, the Province directly contributed close to \$570,000 to matched savings programs, of which \$141,000 directly went towards home purchases by 71 participants in Winnipeg. Manitoba Saves also led the Government of Manitoba to **raise the exempted asset limits** used to determine eligibility for social assistance in 2008.

The **Government of New Brunswick** invested in local community partners to help individuals and families on low incomes **file their annual income tax returns** to access more than \$38.8 million in federal and provincial benefits in 2016 – resulting in a 72% increase from 2011.

The Economic and Social Inclusion Corporation, created to develop, coordinate and implement provincial poverty reduction initiatives, has also set a priority of increasing access to the Canada Learning Bond. With over 33% of eligible children having direct contact with the Ministry of Social Development, they are **prioritizing CLB enrollment for children in permanent or temporary care**, and those covered under the province's social assistance programs.

## **Financial Empowerment to enhance provincial poverty reduction activities**

In keeping with these goals and our overarching objective of preventing, alleviating and reducing poverty, we recommend that the Government of Alberta build financial empowerment into their poverty reduction activities in the following ways:

- 1. Establish a Financial Empowerment Secretariat in the Ministry of Community and Social Services.** The Financial Empowerment Secretariat would steward the integration of financial empowerment strategies into Alberta Supports policies and programs. Working collaboratively with Alberta Supports staff and community partners, the secretariat would ensure Albertans with low incomes have access to an effective system of supports to enhance their financial stability, reduce their risk of poverty and build the skills and assets they need to pursue proven pathways to opportunity: education, training, entrepreneurship, and home ownership.
- 2. Build financial empowerment into Alberta Supports policies and programs targeted at Albertans with low incomes.** Evidence shows that building financial empowerment interventions, like financial coaching, benefits screening, and tax filing assistance, into housing, employment and social assistance programs has a “supervitamin” effect – improving program outcomes, as well as the financial outcomes of participants. For example, people living with a disability can access up to \$90,000 in federal grants and savings incentives through the Registered Disability Savings Program and the Canada Disability Savings Bond (CDSB), but only a fraction of those eligible are currently enrolled. Coordinated outreach and education strategies from knowledgeable practitioners, and hands-on help to AISH and PDD support recipients, can dramatically improve take-up of these federal benefits and significantly improve the future financial security of people living with disabilities.
- 3. Establish a Financial Empowerment Fund to scale up and sustain community capacity to deliver financial empowerment supports.** People with low and modest incomes benefit from free, unbiased and high-quality financial empowerment supports tailored to their needs and financial context. Services like free financial help centres measurably improve their financial outcomes – increasing financial capability, incomes and savings, while reducing debt. Dozens of community-based organizations are currently offering financial empowerment supports in Alberta. With an investment of \$2.5 million over 4 years, these programs can be replicated in other regions of the province, scaling up the program models and tools that early adopters of financial empowerment have developed.
- 4. Lift asset limits preventing people receiving social assistance through Alberta Works and AISH from saving and building assets.** 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. Ontario and Manitoba have adjusted their asset limits in recent years offering a model for Alberta to follow, building on the changes already implemented with respect to social housing eligibility.

- 5. Enforce and enhance regulations on high-cost financial services to better protect consumers who currently rely on fringe financial services.** New provincial regulations for both payday and other high-cost credit lenders mark a significant step forward in protecting vulnerable consumers from products and services that pose significant risk of rapidly escalating debt. The provincial government has a key role to play allocating sufficient resources to proactively monitor and enforce compliance with these regulations while considering future legislative and regulatory enhancements to:
- a. reduce and cap prices, interest, and fees charged;
  - b. establish reinstatement rights in rent-to-own and title loans; and
  - c. require lenders to assess borrowers' ability to repay.

## **Spotlight on Financial Empowerment in Alberta**

### **Financial Education and Coaching**

The Financial Pathways Collaborative (FPC) is a one-of-a-kind partnership led by eight financial institutions together with United Way of the Alberta Capital Region, The City of Edmonton and e4c. Through community workshops, the banking volunteers provide agencies and people living with low income access to tools, resources and expertise to assist them in building their financial stability. **In the first 2 years, the FPC has trained over 70 volunteers from financial institutions, delivered over 170 financial literacy workshops to nearly 2,000 community members.**

In Calgary, Momentum has offered Money Management workshops to over 20,900 Calgarians living on low-incomes since 1999. Additionally, **over the past nine years 580 staff members at 180 community agencies have been trained to deliver the program curriculum, extending financial literacy training to over 14,000 individuals.** One-on-one financial coaching has been added to the services offered by agency partners of the Financial Empowerment Collaborative to further assist individuals and families living on low incomes to learn strategies to reduce debt, increase savings, and build assets. In 2017, 71 agency staff were trained as financial coaches, adding this important skill to the services they offer and reaching over 300 people in Calgary.

### **Affordable and Accessible Financial Products**

Unbanked and underbanked Albertans now have **access to new mainstream banking and credit options** that have been developed as alternatives to payday and other high-cost lending services. These include Connect First Credit Union's Cash Crunch Loan and Servus Credit Union's Fast Forward Small Loan that offer loans to eligible borrowers at lower interest rates and without the fees and penalties charged by non-mainstream lenders.

Four Directions Financial, an innovative partnership between ATB Financial and Boyle Street Community Services offers **standard banking products and services to Edmontonians who are homeless or living in poverty.** Unique supports such as biometric customer identification, low fee account and cheque cashing services, and free financial literacy workshops are provided to remove some of the barriers faced by people who struggle to access basic banking services.

## Education Savings

In Calgary, 143 front-line staff were trained as Community Champions in 2017 to help Calgarians living on low incomes to open RESPs for their children. During Education Savings week in November 2017, 17 partner agencies assisted families in Calgary to open 961 new RESPs, representing 22% of all RESPs opened across Canada. **Calgary is now a national leader in education savings with one of the highest uptake levels of the Canada Learning Bond.**

## Taxation and Government Benefits

Over 2016 and 2017 more than 6,300 Edmonton households, including over 400 newcomers paying Canadian taxes for the first time, received help from e4c Make Tax Time Pay. This program works with partners at 29 different sites across Edmonton, where over 275 volunteers help people file their income taxes. **In 2017, this resulted in households receiving \$10.19 million in tax refunds, credits and child tax benefit payments.**

Agency partners of Calgary's Financial Empowerment Collaborative coordinated 587 tax clinics in 2017. With the support of 857 trained volunteers, 8,445 Calgarians filed their tax returns resulting in \$3.7 million in tax refunds. Many of these tax filers will also be **eligible to receive additional provincial tax credits and benefits like the Alberta Child Benefit, Alberta Family Employment Tax Credit and the carbon levy rebate.**

## Matched Savings

Over 2,300 Calgarians have saved close to \$4.25 million since 1999 through Momentum's matched savings programs. Over the years, participants have used these savings towards home ownership and other housing stability costs, tuition and education-related materials, and emergency and long-term savings among other assets. In 2017, an additional 311 people participated in a matched savings program through the Financial Empowerment Collaborative, **earning \$403,542 to put towards the purchase of over 100 assets.**

Participants in Edmonton's Empower U attend financial literacy workshops and save for an asset that will move them ahead financially. For every dollar a participant saves, they receive two dollars as part of the matched savings program. **In its first seven years, over 1,700 people have participated in the Empower U program and have saved close to \$575,000** by combining their own savings and matched savings. To date 740 assets have been purchased to assist participants in improving their education, employment prospects and housing stability.

## Financial Empowerment Leaders in Alberta

Both **Edmonton and Calgary have established Financial Empowerment Collaboratives (FEC)**, consisting of dozens of partners from all sectors that contribute to tangible financial empowerment outcomes. The two cities are also part of a **National Financial Empowerment Champions project, supported by Prosper Canada and funded by the Federal Government.**

In Edmonton the FEC is co-chaired by **City of Edmonton and United Way of the Alberta Capital Region**, while **e4c** leads the work of the National Financial Empowerment Champions project in partnership with the **Bissell Centre** and the **Institute for the Advancement of Aboriginal Women**. In Calgary, **Momentum** is the lead organization for both initiatives with important contributions from **Bow Valley College, The City of Calgary, Sunrise Community Resource Centre and United Way of Calgary and Area.**

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## As well as support from the ABE Financial Empowerment Network

The ABE Financial Empowerment Network is national coalition of community practitioners, financial institutions, researchers, academics, policymakers and funders dedicated to reducing poverty through financial empowerment initiatives that improve the financial security of vulnerable, low-income, community members. Supported by Prosper Canada, ABE has a national Steering Committee, established to develop and actively promote public policies and regulation that help Canadians with low incomes to build their financial wellbeing.

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

Prevent poverty	Mitigates poverty and its impact	Reduces poverty
<b>Financial information, education and coaching</b>		
<ul style="list-style-type: none"> <li>• Enables people to identify debt traps such as high-cost credit products</li> <li>• Resolves immediate crises (e.g. threat of eviction) at lower cost and with fewer penalties</li> </ul>	<ul style="list-style-type: none"> <li>• Reduces financial stress and improves self-efficacy and wellness leading to better outcomes with respect to:               <ul style="list-style-type: none"> <li>- Financial inclusion</li> <li>- Tax filing and access to benefits</li> <li>- Saving and asset building</li> <li>- Exercising consumer rights</li> </ul> </li> <li>• When integrated into relevant programs, can enhance employment, earnings, housing stability</li> </ul>	<ul style="list-style-type: none"> <li>• Indirectly, when it leads to:               <ul style="list-style-type: none"> <li>- building savings and assets</li> <li>- increased income through tax filing and accessing benefits</li> </ul> </li> </ul>
<b>Tax-filing and benefits assistance</b>		
<ul style="list-style-type: none"> <li>• Increases income</li> <li>• Supports saving and asset building</li> </ul>	<ul style="list-style-type: none"> <li>• Increases income</li> <li>• Reduces financial stress and improves self-efficacy</li> <li>• Helps resolve crises at lower cost and with fewer penalties (e.g. disputes over benefits eligibility)</li> </ul>	<ul style="list-style-type: none"> <li>• Increases income</li> <li>• Supports inter-generational economic mobility (e.g. through child benefits)</li> <li>• Indirectly, when it enables savings and asset building (e.g. RDSP, RESP)</li> </ul>
<b>Consumer education and protection</b>		
<ul style="list-style-type: none"> <li>• Consumer education and protection reduce consumer exposure to and/or risk from financial products like high-interest loans and can promote financial inclusion</li> </ul>	<ul style="list-style-type: none"> <li>• Education and awareness can protect consumers from high financial transaction costs and financial loss due to fraud, as well as build self-efficacy by equipping consumers to act in their own self-interest.</li> </ul>	

Prevent poverty	Mitigates poverty and its impact	Reduces poverty
<b>Help accessing affordable and accessible financial products and services</b>		
<ul style="list-style-type: none"> <li>• Appropriate savings, credit and insurance products can enable people to protect against unexpected expenses, financial losses, or income interruptions</li> </ul>	<ul style="list-style-type: none"> <li>• Lower financial costs leading to more disposable income</li> <li>• Reduced risk of high cost problem debt</li> <li>• Greater access to saving and asset building opportunities through appropriate financial products</li> <li>• Enhanced social inclusion and self-efficacy when financial institutions provide vulnerable consumers with products and services that meet their needs and preferences</li> </ul>	<ul style="list-style-type: none"> <li>• Indirectly, to the extent people access saving and asset building opportunities</li> </ul>
<b>Connection to saving and asset building opportunities</b>		
<ul style="list-style-type: none"> <li>• Enables households to absorb financial shocks and manage risks that can otherwise trigger onset of income poverty</li> <li>• Enable productive risk-taking that can build future earnings or wealth – e.g. investments in education, training, self-employment or home ownership</li> <li>• Financial and real assets can generate earnings that increase income</li> </ul>	<ul style="list-style-type: none"> <li>• Provide important resource to manage income interruptions, “lumpy” expenses or emergencies that can’t be paid for out of regular income.</li> <li>• 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)</li> <li>• Assets can prevent financial stress and associated negative mental health/cognitive impacts, and promote self-efficacy and a hopeful, future orientation</li> </ul>	<ul style="list-style-type: none"> <li>• Use of savings/assets to support a productive risk or investment (e.g. education, training, entrepreneurship) can generate new household income</li> <li>• Use of savings assets for dependent offspring (e.g. education savings) can support an inter-generational exit from poverty</li> <li>• 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.</li> </ul>