Families in Canada have experienced gains in earnings and wealth, but also in expenditures and debt. Examining these different aspects of household finances through a family lens can provide a more holistic understanding of how families manage resources to provide support.

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Canadian Family Finances

Summary of the 2013–2014 Report

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Family finances reveal the complexity of family life in Canada, just as examining family life reveals the complexity of finances. The two intersect and influence each other, reacting to (and interacting with) changing social and economic conditions while shaping families and family life, experiences, expectations and aspirations.

In part, the complexity of family finances is due to the number of variables that can be used to measure it. Accordingly, the Vanier Institute of the Family's 15th annual *Current State of Canadian Family Finances* report focuses on a range of financial measurement categories, including income and expenses, savings and debt, and wealth and net worth. Examining household finances from multiple angles allows for a more thorough understanding of how families manage resources to provide support.

Wage gains have picked up, particularly for women

Paid employment is the primary source of income for most Canadians, with nearly 70% of those aged 15 and over reported earning income from paid employment in 2011. Families in Canada have seen increases in earnings since 2000, particularly for women. Average real hourly earnings grew by 11.8% during this period for all Canadians, but the increases were higher for women (+17%) than men (+9.7%).

Income is unevenly distributed among Canadian households: families in the highest-earning fifth of households took home 44% of all income in 2011, compared with less than 5% among families in the lowest-earning fifth. This inequality has increased since 1999: among all income quintiles, only households in the *highest-earning group* took home a larger share of the "income pie" in 2011 than in 1999, while all others saw their share remain the same or decline.

Paid employment is not the only source of income for families in Canada, as many people also reported receiving income from investments (29% of respondents), private retirement income (13.2%) and other private income sources, such as child support payments and severance pay (14.5%). Together, these non-employment income sources accounted for 12.9% of all income reported by Canadians, reflecting the diversity of resources families use to manage life expenses.

Most parents share household expenses equally

Families manage household expenses in a variety of ways, depending on their particular needs and the


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Families in Canada have seen increases in earnings since 2000, particularly for women.

resources available to them. Living costs are rising and the proportion of households containing two earners has been continually increasing for decades as families adapt to help manage costs – rising from 58.4% of families in 1994 to 63.8% in 2011. In this context, it is perhaps not surprising that most couples share household expenses.

According to the *2011 General Social Survey*, which examines how parents aged 20–64 in "intact"[1] and blended families manage expenditures, "50/50" is the most common arrangement. However, this may not be the most popular approach for couples whose incomes differ substantially, as the second most common arrangement among intact and blended families was to divide expenses based on each partner's income (28% and 29%, respectively). Some take a more ad hoc approach, either by choice or financial necessity: household expenses were managed by "whoever has the money at the moment" in 15% of blended families and 13% of intact families.

Half of caregivers who provide care to a son or daughter pay $2,000 per year

Spending strategies help families to provide the basic necessities for life, such as shelter, food and clothing. But many people – such as those providing care to family members with a long-term health condition, disability or aging-related need – often take on additional costs that require further planning. This is significant considering that nearly three in ten (28%) Canadians aged 15 and older were family caregivers in 2012, many of whom incur out-of-pocket expenses as a result of their responsibilities.

The amount spent on caregiving depended on who the care recipient was. Nearly half (47%) of caregivers providing care to a chronically ill or disabled son or daughter, 38% providing care to a spouse, 18% providing care to a parent and 5% providing care to a grandparent reported spending $2,000 or more in out-of-pocket expenses in 2012. As the population continues to age and disability rates increase (among seniors and non-seniors), these caregiving expenditures are likely to become an increasingly important aspect of family finances.

Households are spending more of their income on health care expenditures

For all Canadians, whether they're providing caregiving or not, out-of-pocket health expenditures are taking a bigger bite out of family income, with the proportion of households spending more than 10% of their total income on health costs increasing by 56% between 1998 and 2009. The top three expenditures were dental services, prescription medications and insurance premiums, which accounted for a combined 60% of out-of-pocket expenditures during this period.

The impact of health expenditures on family budgets is felt more acutely by those in the lowest-earning fifth of households. In 2009, this group spent 5.7% of their after-tax income on these expenditures, compared with only 2.6% among those in the highest-earning fifth of households. This difference has consequences for the well-being of families living in lower-income households, as this cost burden often leads to reduced use of health services.

Saving has increased since the 2008 recession

Life expenditures, if not balanced with sufficient income, can make it difficult to build savings. Despite this, Canadian households have been saving more money since the 2008 recession, with the dollar amount of new saving during each of the last five years (the "recession and recovery period") being larger than in any year from 2000 to 2008 (the "pre-recession period"). In 2013, the savings rate in Canadian households was of 5.2% of disposable income. While saving has improved, it is still much lower than during the early 1990s, when the rate never fell below 11% between 1990 and 1994.

The 2014 *BMO Household Savings Report* suggests that the importance of saving is not being lost on Canadians, with the proportion reporting that they *didn't* save money falling from 28% in 2012 to 17% in 2013. However, those who didn't save money weren't necessarily ignoring the importance of saving, as the most commonly cited barrier was insufficient income to save (69%).

The *24th Annual RBC RRSP Poll* shed some light on what people are saving for, finding that retirement savings topped the priority list of Canadians surveyed in 2013, with 52% reporting it as their main financial focus for 2014. This is a change from the previous year's survey, in which debt payment topped the list of financial priorities.

Older Canadians have seen biggest increases in debt

While families in Canada are seeing increases in earnings, debt levels have also been growing. Debt per household increased by 75% between 2000 and 2013, and total debt as a percentage of disposable income averaged 165.5% in 2013 – up from 110% in 2000. This ratio is a useful measurement for assessing the ability of households to manage their debt through current income (the lower the ratio, the greater the capacity for managing debt).

Despite overall increases in debt levels, debt did not increase for *all* age groups between 1999 and 2012. The percentage of Canadians under age 35 reporting outstanding debt of any kind *declined* from 79.6% in 1999 to 78.6% in 2012. However, the next two age groups experienced slight increases: the proportion of those aged 35–44 with debt increased from 80% to 84.7% and a similar increase occurred for those aged 45–54 (from 76.3% to 80.7%).

The biggest increases, however, were in the two oldest age groups. For those aged 55–64, the percentage reporting debt of any kind jumped from 60.9% in 1999 to 70.2% in 2012. It was even higher for seniors: the proportion of Canadians aged 65 and older reporting debt nearly doubled in this period, from 27% to 43%.

Real estate now accounts for half of net worth

As with earnings, overall wealth (net worth) among families in Canada has also increased since 2000, growing by 35%. Those who are involved in the real estate market have generally done well during this period, since it has played a large part in this growth. The value of real estate has increased in value by 79% since 2000, now accounting for nearly half (49%) of net worth – up from 37% in 2000.

As with income, wealth is unevenly distributed among families in Canada, with 67% of this net worth belonging to the top quintile in 2012 with an average net worth of $1.9 million. Households in the *bottom* wealth quintile, having more debt than assets on average, had an approximate net worth of *negative* $3,700 the same year – accounting for *negative* 0.1% of the total "wealth pie." Since families in this quintile are the *least* likely to either own real estate or be able to enter the real estate market, they are disproportionately disadvantaged and are less likely to have benefited from recent gains in wealth.

Family finances: a story of complexity

Family finances is a complex topic because it can be measured with many variables. On their own, each one only tells one part of the story; no measurement exists in isolation, and all are interconnected. If income is too low, then it may be impossible to build savings; if expenses are too high, debt may be just around the corner; if debt is too high, it can reduce net worth. A holistic perspective is important for a more thorough understanding of family finances.

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[1] Statistics Canada defines an "intact" family as "A couple family in which all children in the household are the biological and/or adopted children of both members of the couple."

For the full report: The Vanier Institute of the Family, *The Current State of Canadian Family Finances: 2013–2014 Report,* http://bit.ly/1jMH8j0

Real estate now accounts for nearly half of net worth.