

Canadian Financial Diaries

Income volatility literature &
Early qualitative-quantitative insights



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Outline of presentation

- Literature related to the diaries method and results
- Pilot analysis of qualitative data
- Preliminary quantitative descriptive results



Literature review

Diaries projects

- Collins et al. (2009) *Portfolios of the Poor*: 250 diaries in Bangladesh, India, South Africa
- Incomes that were small, variable, and uncertain
- Diarists had to deal with risk and, from time to time, seek to raise useful lump sums
- They sometimes borrow at high interest rates when they have savings



Literature review

Diaries projects

- Morduch & Schneider (2017), Morduch (2009): USFD
- Earning volatility was highest among the poorest participants
- Spending was nearly as variable as income across the sample: 2.2 spending spikes and 2.6 spending dips per year, across the sample
- Identified how well participants were able to manage finances and found many participants were 'struggling' to get by



Literature review

Diaries projects

- Morduch & Siwicki (2017), USFD
- Episodic poverty and earnings volatility: households near the poverty line spent some months in the year below the poverty line (e.g., 95% households with incomes between 100 and 150% poverty line spent at least one month per year in poverty). Main source of earnings variation came from within-job variations.
- Income and spending volatility: although volatilities are high, frequent spending spikes that are uncorrelated with income spikes, demonstrates considerable consumption smoothing
- Volatility and the role of transfers: most transfers reduce income volatility



Literature review

Income volatility studies

- These studies primarily focus on volatility of annual or biennial income (e.g., PSID)
- Morissette & Ostrovsky (2005) 1986-2001, Canada Longitudinal Administrative Databank
- Family earning variability increased over period
- Variability higher for bottom-third of sample



Literature review

Income volatility studies

- Moffit and Zhang (2018), 50-year U.S. PSID sample, 3 phases: 1970s-1980s upward volatility; 1990s-early 2000s stable volatility; great recession upward volatility
- Hardy & Ziliak (2014), U.S. Current Population Survey, 1980-2009, find that Black and Female Headed families experience more volatility as compared with White and Married Families



Literature review

Income volatility studies

- Neveu (2015), Great Moderation (GM)(1980s-early 2000s) into the Great Recession (2007-2010), disaggregates idiosyncratic and aggregate income volatility for sub-sample of PSID
- During GM individual income volatility decreased but family volatility increased; During GR, income volatility increased
- Decline in income volatility for women; not for men



Literature review

Income volatility studies

- Nichols (2014) compares income risk from inequality, volatility, and mobility [variation in individual-specific income growth rates]
- “In the U.S., all forms of net income risk appear to be increasing sharply over time, and more modest growth in risk is observed in Canada and Germany (S113).” (See also Rohde et al. 2014.)
- “Canada and Great Britain are perhaps interesting comparison cases for the U.S., in that they have similar populations and economies and levels of market income risk, and had comparable increases in top income shares (OECD, 2011), yet had dramatically lower net income risk (S114).”



Literature review

Income volatility studies

- Pericoli et al. (2013), British Panel Survey found that social factors affect income volatility
- Civic participation (group participation) and neighbourhood attachment (identity with neighbourhood groups and friends) positively affect long run consumption smoothing



Literature review

Income volatility studies

- Gennetian and Shafir (2015) apply a behavioural perspective to income volatility research
- Use results from U.S. Survey of Income and Program Participation, people receiving government transfers (relatively lower income), in which lowest income participants have the greatest income volatility
- Apply concept of tunneling (Mullainathan and Shafir 2013) and argue that these factors: “absorb attention” and diminish one’s cognitive load (p.912)



Literature review

Income volatility studies

- Bartfield and Collins (2017), US data, study connection, among others, of income volatility and food security
- Find strong connection: “a large unexpected drop in income is associated with an 80% increase in the odds of food insecurity, and a reduction in hours or pay while still working is associated with a 73% increase in odds”
- Also, re financial coping, they find that higher levels of food security are associated with various types of financial coping such as borrowing from friends and payday loans



Objectives of research project

To understand the financial lives and finances of vulnerable Canadians

Adapt the methodology to include quantitative and qualitative components

Work with regulators and practitioners to advocate policies and practices that promote financial empowerment

Identify a useful app, curriculum, &/or coaching method that can assist Canadians



Why is it needed?

Data is ideally disaggregated by characteristics such as age, income, ethnicity, geography, etc.

National aggregate statistics shed little light on the *causes* of financial instability.

We know very little in Canada about low and modest income household financial dynamics

National aggregate statistics shed little light on the finances of vulnerable people.

Better knowledge is needed to advise better practice and policy.



Mixed methodology

Quantitative methods:
Household financial flows



Qualitative methods: Weekly
discussions & modules



Better understanding finances
and financial lives



Early insights

Phase 1

- 25 diarists completing full 12 months
- So far average participant involved > 40 weeks; > 8,400 transactions
- 18 low income & 7 modest income
- Average age 42 years old; 88% female
- 12% Indigenous Identity; 48% born outside Canada
- 72% internet at home; 96% smart phone / tablet / computer

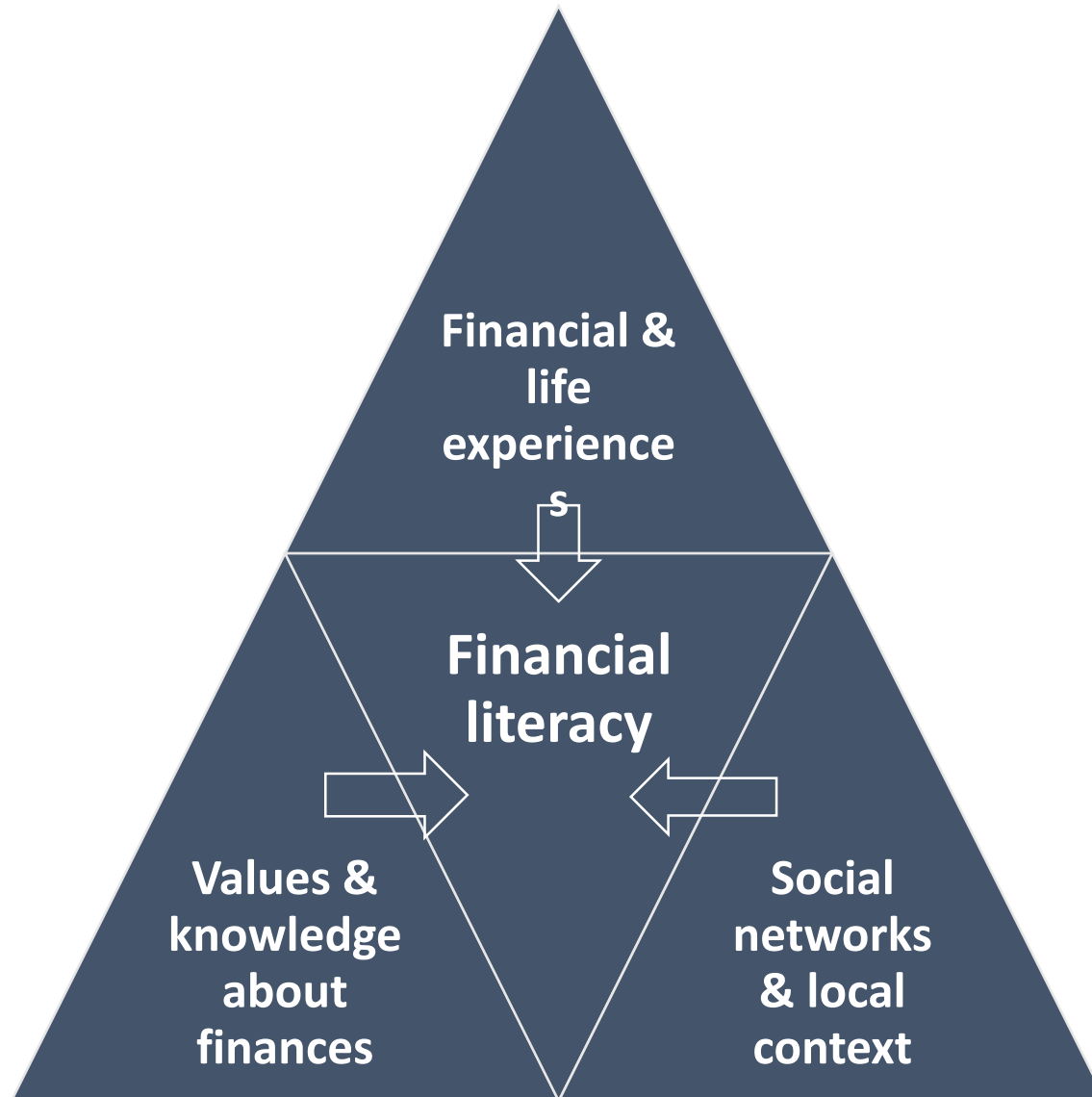


Pilot qualitative analysis of financial wellbeing and literacy survey

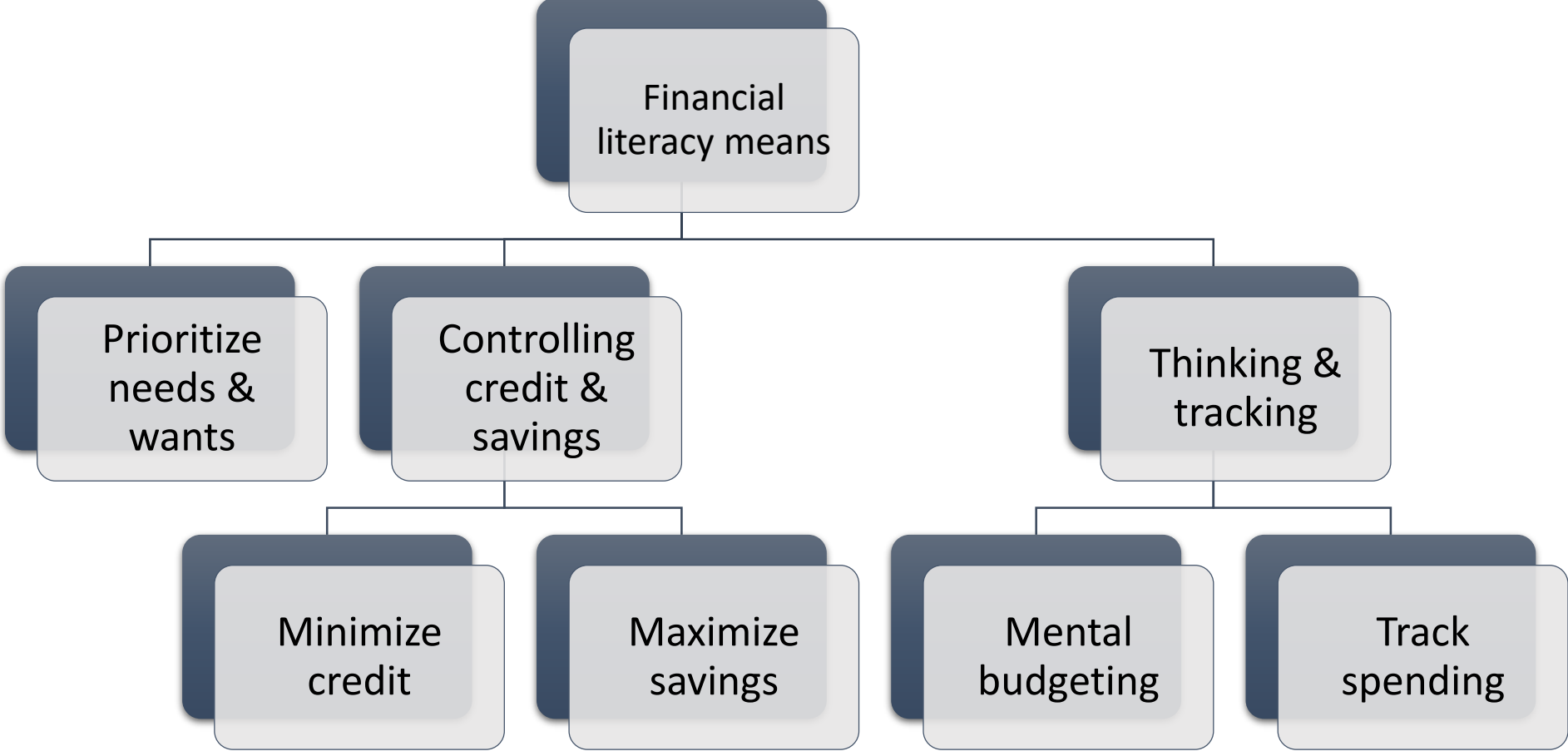
- Qualitative analysis of three participants' responses to our open-ended interview, Financial Wellbeing and Literacy
 - Transcribed
 - Used NVivo to assist analysis
- Socio-economic characteristics
 - 2 females & 1 male; All single
 - 2 < high school & 1 bachelors degree
 - 1 full-time employment & 2 casual / part-time employment
 - Avg reported annual income at start of diaries = \$9,233 (but since then one participant, the full-time one, has seen a rise in his income)



How did you develop your own financial literacy?



What does financial literacy mean to you?



What does financial wellbeing mean to you?

Financial literacy

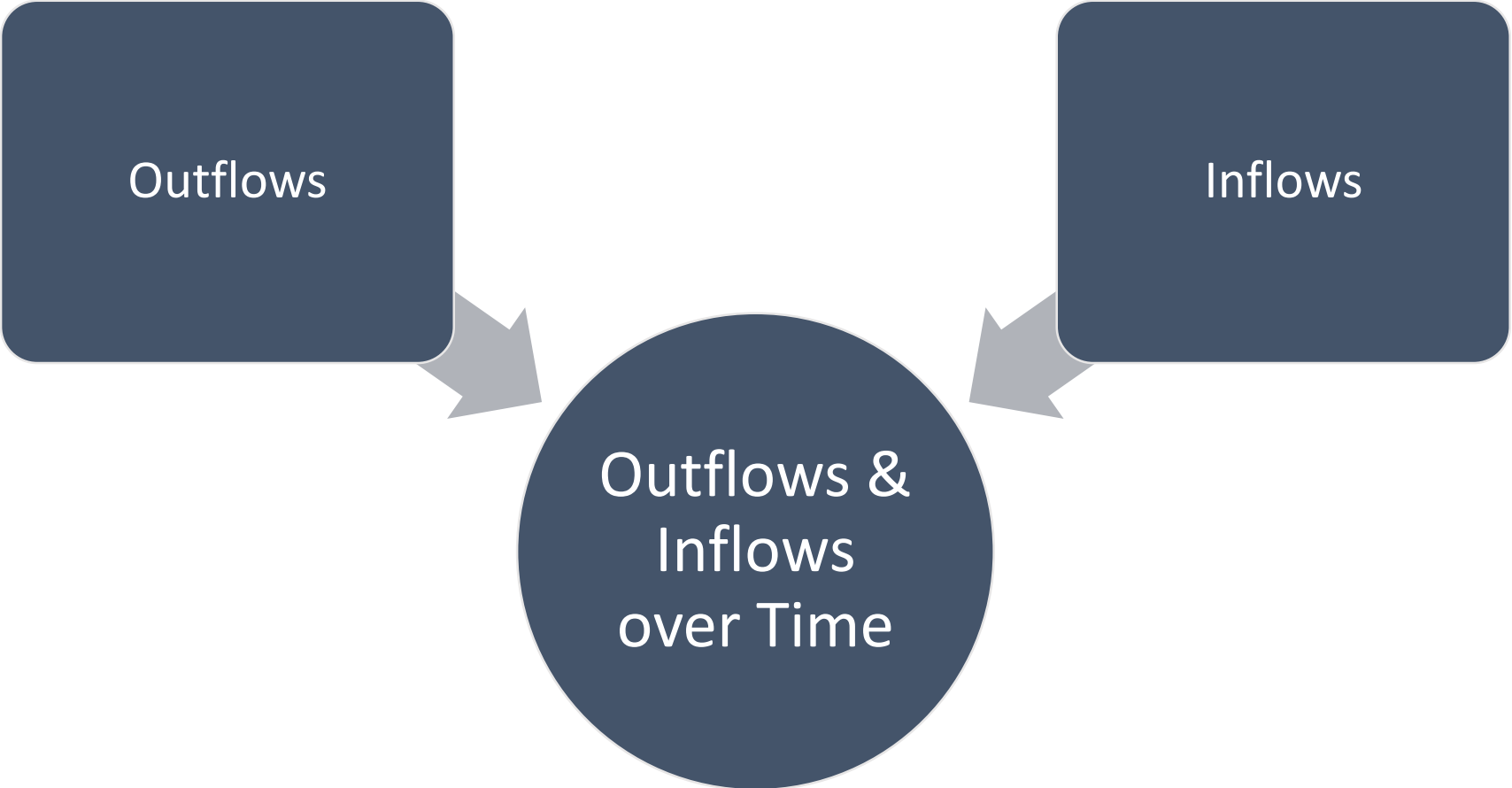
Value, knowledge, &
practice of financial
control

Managing income
from employment,
public assistance, &
family/social support

**Financial
wellbeing:**
grounded, don't
worry, & needs+

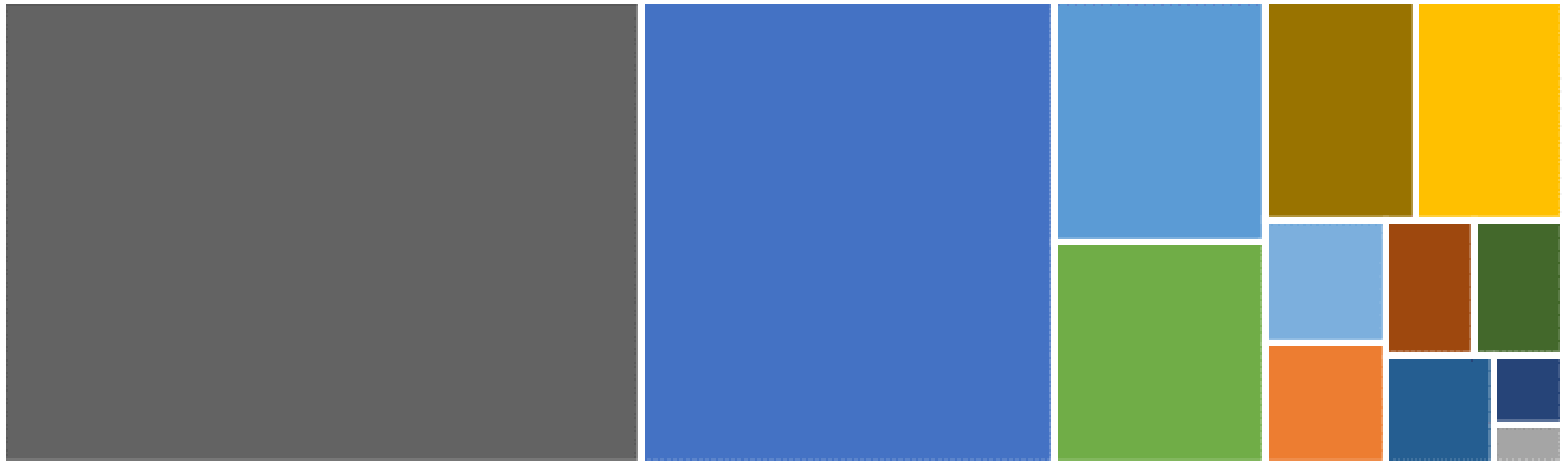


Cynthia



Major Categories	Percentage %
+ Clothing & Accessories	7.02%
+ Communications	1.98%
+ Employment	0.37%
+ Financial	4.49%
+ Food	26.46%
+ Gift	6.50%
+ Health	1.62%
+ Household items	1.69%
+ Housing	41.01%
+ Leisure and Pets	4.50%
+ Miscellaneous	0.65%
+ Transport	1.68%
+ Utilities	2.04%
	100.00%





■ Clothing & Accessories

■ Communications

■ Employment

■ Financial

■ Food

■ Gift

■ Health

■ Household items

■ Housing


■ Leisure and Pets

■ Miscellaneous

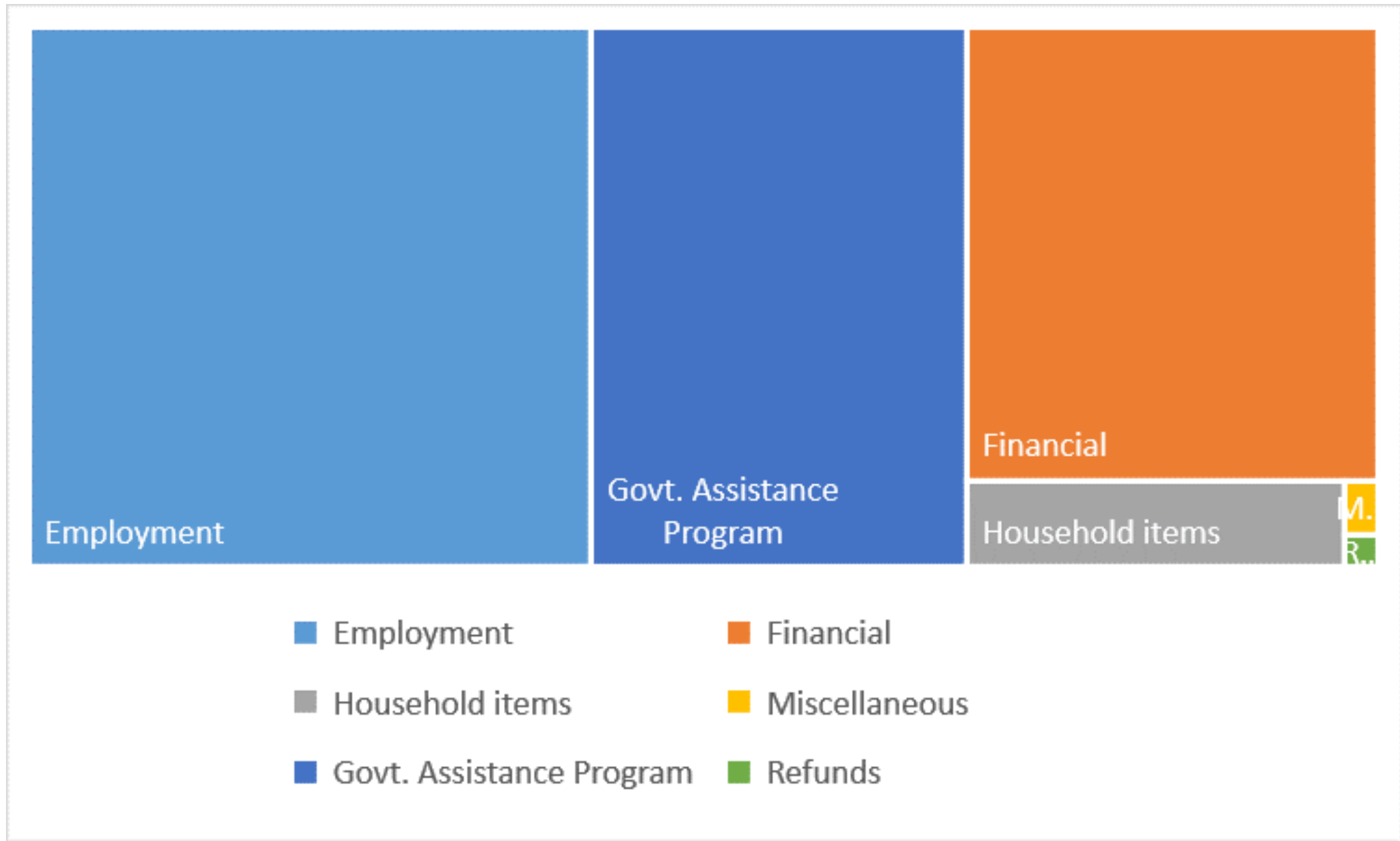
■ Transport

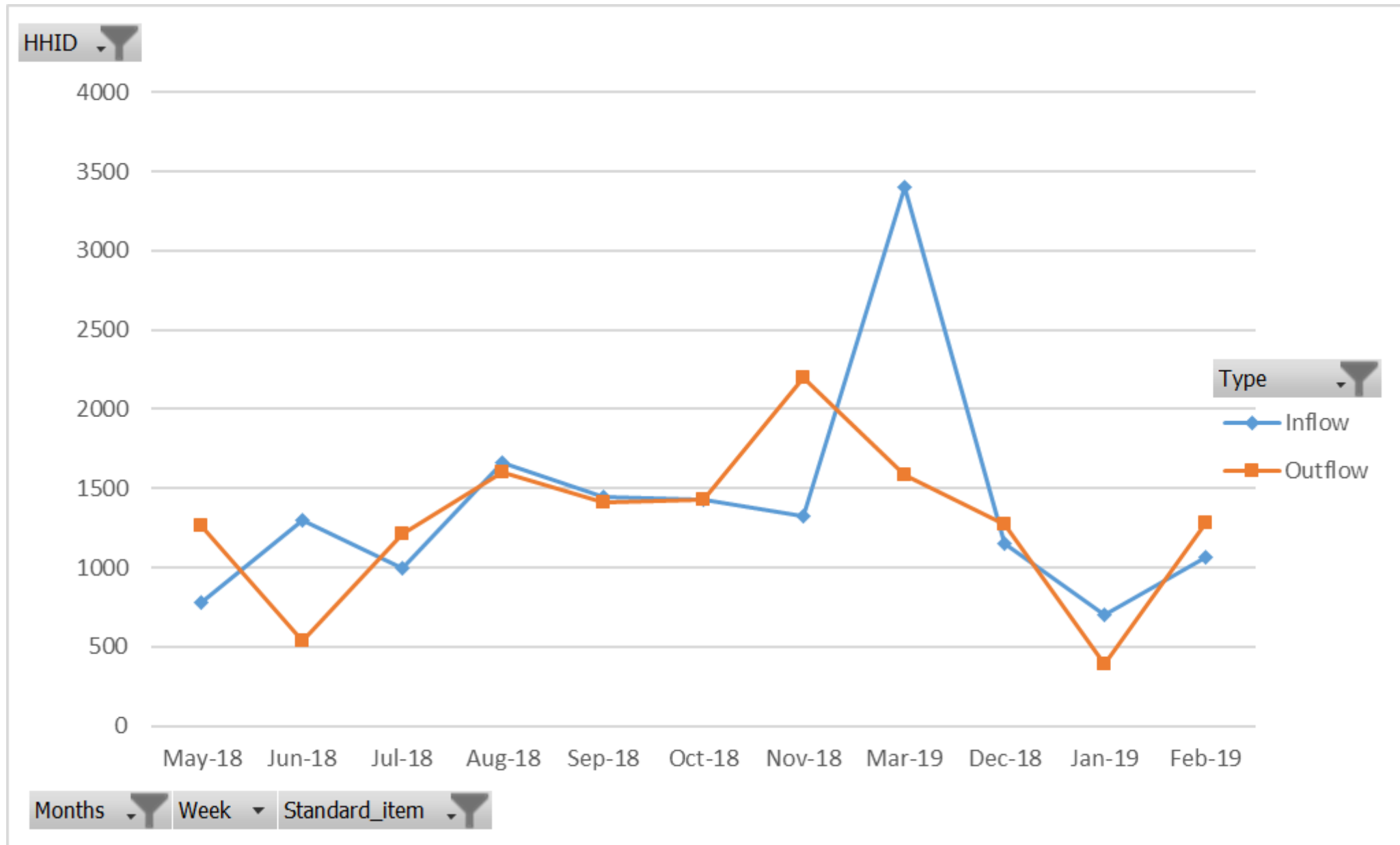
■ Utilities



Major Categories	 Percentage
+ Employment	41.64%
+ Financial	25.64%
+ Household items	4.52%
+ Miscellaneous	0.26%
+ Govt. Assistance Program	27.80%
+ Refunds	0.15%
100.00%	







Leslie

Outflows

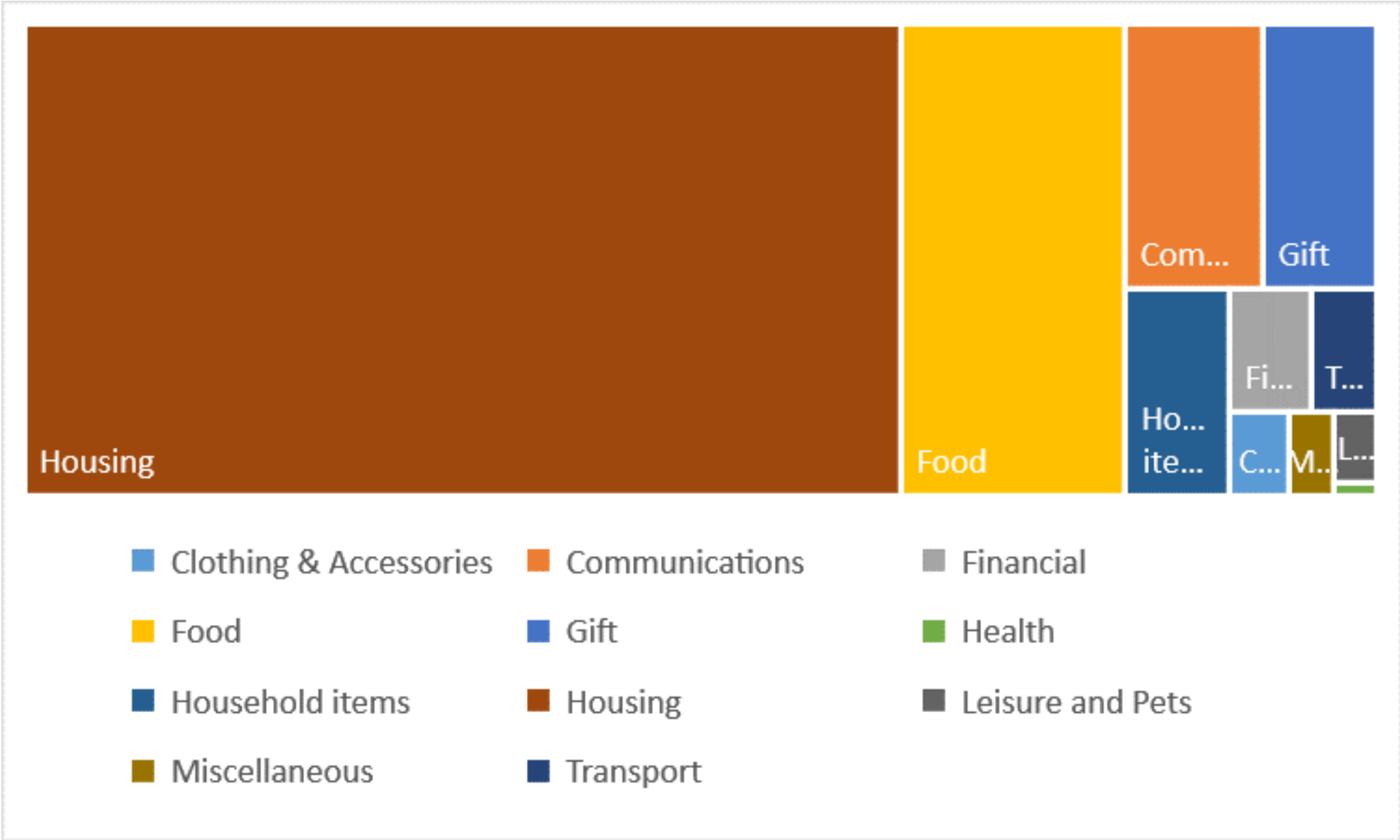
Inflows


Outflows &
Inflows
over Time



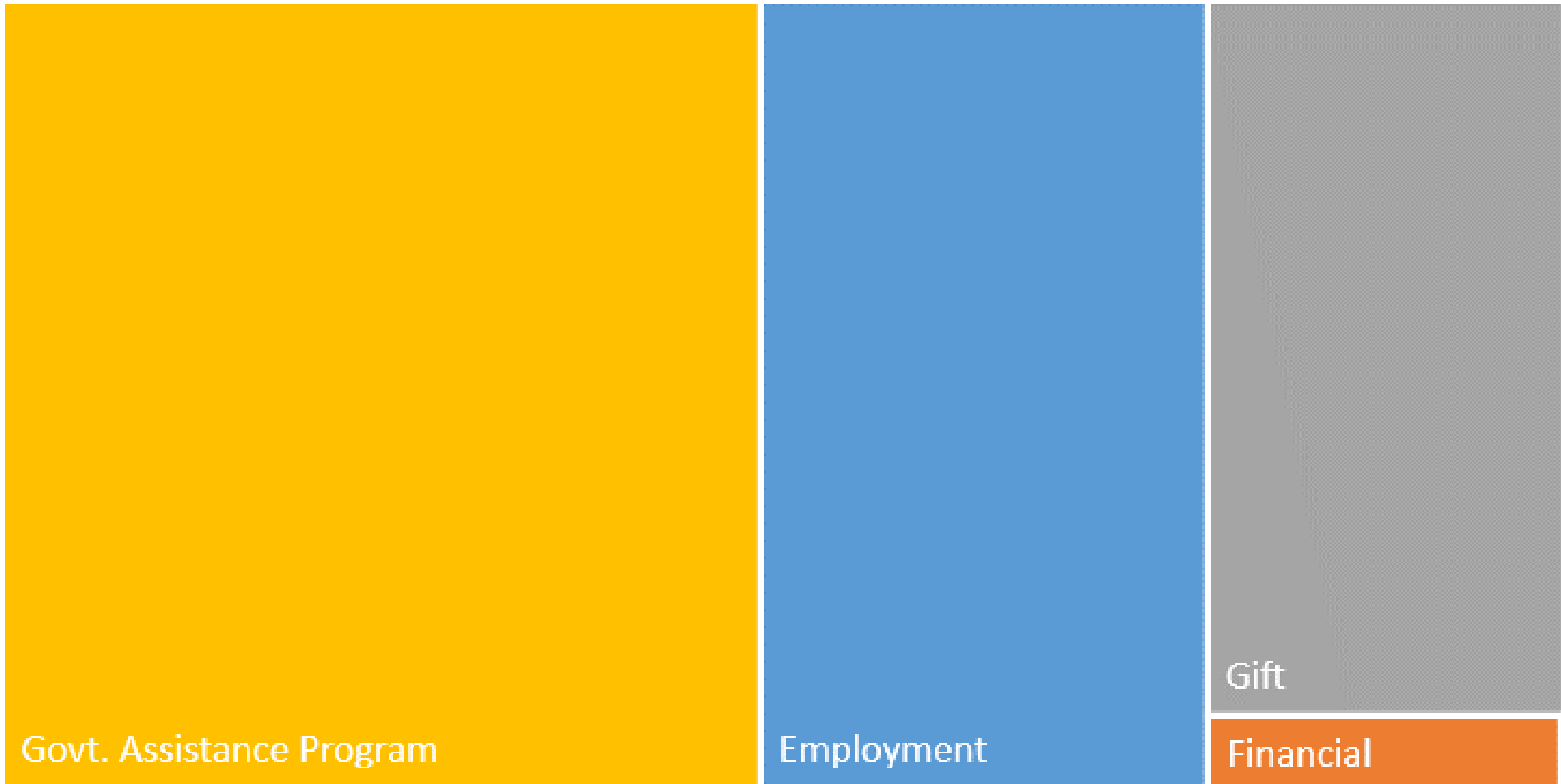
Major Categories	Percentage %
+ Clothing & Accessories	0.77%
+ Communications	5.73%
+ Financial	1.58%
+ Food	16.58%
+ Gift	4.76%
+ Health	0.09%
+ Household items	3.38%
+ Housing	64.76%
+ Leisure and Pets	0.49%
+ Miscellaneous	0.57%
+ Transport	1.29%
	100.00%





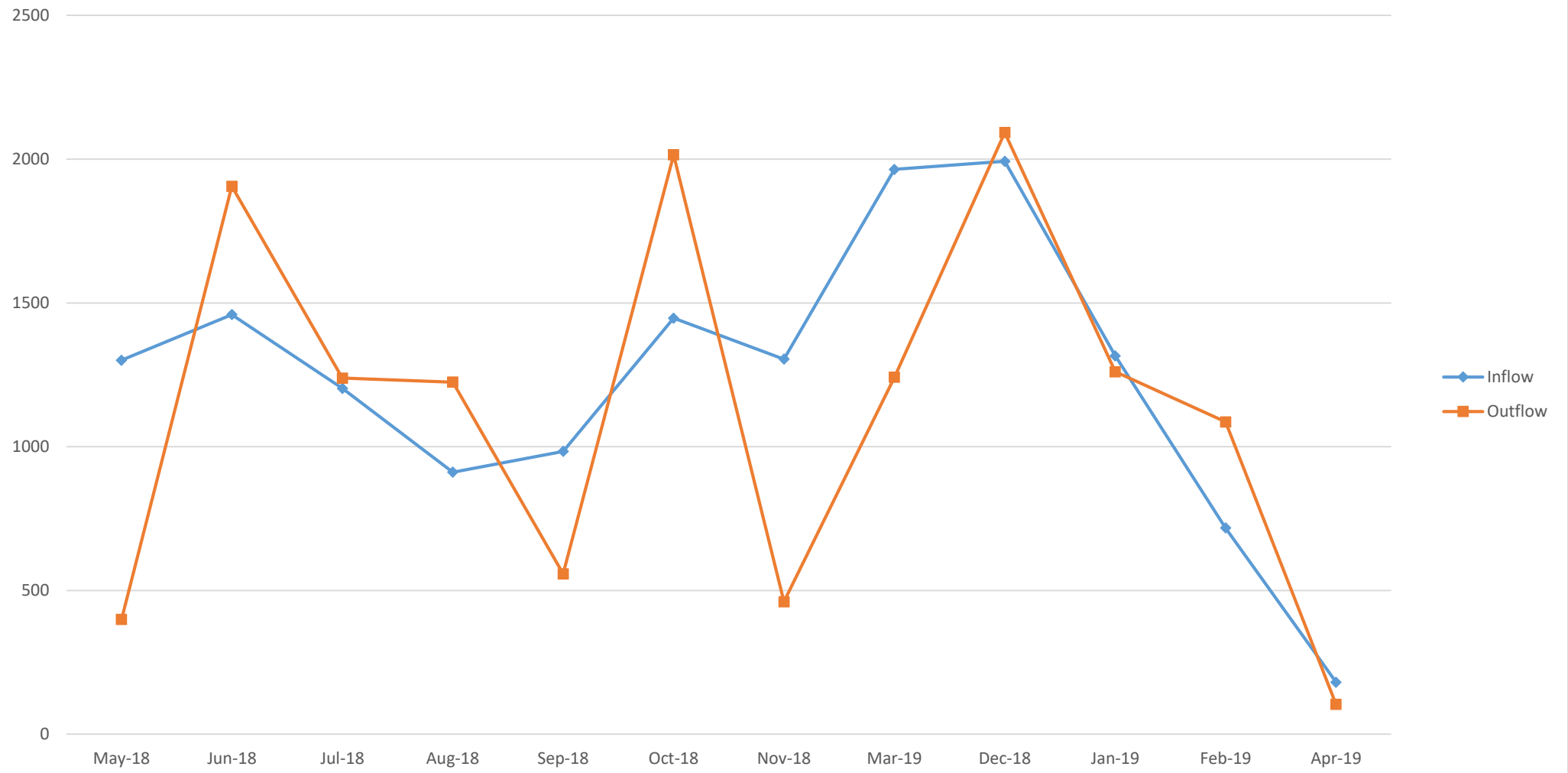
Major Categories	 Percentage
+ Employment	28.62%
+ Financial	2.12%
+ Gift	20.74%
+ Govt. Assistance Program	48.49%
+ Refunds	0.03%
100.00%	





■ Employment ■ Financial ■ Gift ■ Govt. Assistance Program ■ Refunds





**Ideas?
Comments?
Questions?**

**Please
contact us**

Thank-you



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