



**Supporting Albertans To Save**  
**An Asset Building Approach to Poverty Reduction Concept Paper**

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# Supporting Albertans to Save

## An Asset Building Approach to Poverty Reduction

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*“Without an income people can’t get by, but without assets people can’t get ahead”*

As Albertans we need to ask ourselves, why we do not want poor people to own anything. This question was first proposed in a Metcalf Foundation report that proposes that our social systems require a re-examination of policies that contribute to the perpetuation of poverty<sup>1</sup>. Much of current welfare policy in Canada is “caught in a trap of its own making that strips applicants of the same productive assets they will need to leave and stay off welfare later on”<sup>2</sup>. New policy approaches are required that encourage people to save, build their assets and ultimately achieve a sustainable livelihood.

### Recommendations

Momentum recommends that Alberta develop policy that supports Albertans living on low-incomes to save and build their assets. We can encourage Albertans at or below the Low Income Cut Off (LICO) to:

- **Keep their Savings** – by raising the current asset limits for Income Support benefits and exempting all assets for the first three months of receiving support. Recommended revised asset exemptions in the Income and Employment Supports Regulation include (current asset limits included in Appendix A):
  - i. Increasing liquid asset exemptions to \$2,000 per person to a household maximum of \$16,000 for families with children;
  - ii. Exempting all assets in Registered Savings Accounts, including the Tax Free Savings Account, up to \$10,000 per person to a household maximum of \$50,000;
  - iii. Exempting all registered savings for the first 90 days of receiving public benefits;
- **Grow their Savings** – by investing in effective matched savings programs that provide people on low-incomes an incentive to save. Matched savings programs work as a savings power boost that encourage people living on lower-incomes to develop savings behavior and purchase an asset, such as education, tools for work or a home. The savings from matched savings programs should also be considered exempt from Income Support benefits.

The Social Policy Framework provides an opportunity to integrate savings and asset building in future provincial government policy. Aligning the recommended Income Support asset exemptions with an investment in savings incentives and financial literacy programs will enable more Albertans to move out of and stay out of poverty.

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<sup>1</sup> Stapleton, J. (2009). *Why Don't We Want the Poor to Own Anything? Our Relentless Social Policy Journey Toward Destitution for the 900,000 Poorest People in Ontario*. Toronto, Ontario: Metcalf Foundation.

<sup>2</sup> Robson, J. (2008). *Wealth, Low-Wage Work and Welfare: The Unintended Costs of Provincial Needs-tests*, SEDI. See <http://www.sedi.org/DataReqV2-unified/sedi-Publications/Final%20welfare%20paper.pdf>

## Rationale

### The Issue

All Albertans are struggling to avoid debt and save for their future. However, people living on lower incomes, especially those receiving Income Support, are disproportionately impacted by rising personal debt levels and a lack of assets. The lowest income earners in Alberta annually spend 122% of their income, which results in growing personal debt levels. Recent research indicates that 52% of Calgarians report a concern for lack of savings and 42% feel they have too high of debt levels. The concern of people on lower-incomes is even more pronounced as 83% of people earning less than \$30K reported they were not saving enough for the future, which was an increase from 70% reported in 2006 and 2009.<sup>3</sup>

*The lowest income earners in Alberta annually spend 122% of their income.*

Many people in debt and under financial stress are also living in poverty. They just do not earn enough income to afford critical living expenses, such as housing and food. The high cost of living in Alberta combined with the prevalence of low-wage employment results in many Albertans not being able to save. Alberta currently has nearly 400,000 people living in poverty; Canada's highest Income Inequality using the Gini co-efficient measure; and Canada's highest Income Gap Ratio, which means that Alberta's families living in poverty take home incomes that fall nearly 40% short of Low Income Cut Off levels.<sup>4</sup> Recent research indicates that poverty costs Alberta between \$7.1 and \$9.5 billion every year<sup>5</sup>. The costs are in health care, crime, intergenerational poverty and the opportunity costs of continuing to ignore increasing income gaps, wage disparities and rising debt levels.

### The Opportunity

Building personal assets can enable people to avoid the stress of financial shocks and achieve longer-term financial independence. Without personal assets, people are often unable to plan for the future and have little cushion against sudden unemployment, serious illness or an emergency situation. According to TD Economics, the financial community is consistently urging Canadians to save more, because it is clear how important even a small pool of savings can be in cushioning families through a financial shock<sup>6</sup>. From a government spending perspective, an asset building approach may decrease the likelihood of these individuals needing government assistance, subsidized health care and other supports in the future. Assets are the ladder rungs for people to climb out of and stay out of poverty.

### Asset Limits

To support asset building, we need to address current systemic barriers to building and maintaining assets. For example, the current asset test for Income Support in Alberta restricts the ability of applicants to keep the assets they will need to leave and stay off of welfare in the future. The Government of Alberta was a leader in Registered Retirement Savings Plans (RRSPs) exemptions by enabling a person to receive Income Supports even that person has as much as \$5,000 in RRSPs. However, Alberta currently has lower liquid asset limits for single employable applicants than five other

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<sup>3</sup> United Way. (2012) From Getting By to Getting Ahead: Six Levers for Building the Wellbeing of Families with Lower Incomes. See: [www.calgaryunitedway.org/gettingahead](http://www.calgaryunitedway.org/gettingahead).

<sup>4</sup> Statistics Canada. (2011). *Low Income Lines, 2009-2010* (Income Research Paper Series). Minister of Industry.

<sup>5</sup> Briggs, A. and Lee, C. (2012) *Poverty Costs Calgary, Alberta: Vibrant Communities Calgary and Action to End Poverty in Alberta* Statistics Canada.

<sup>6</sup> TD Economics. (2005). From Welfare to Work in Ontario: Still the Road Less Traveled. See: <http://www.td.com/document/PDF/economics/special/td-economics-special-welfare05.pdf>

provinces and lower limits than eight other provinces for lone parent families. Refer to Appendix A for further information on asset limits in Canada.

The Income and Employment Support Act (IESA) states: *The purpose of this Act is to provide programs for persons in need for such of their requirements for food, shelter, personal items and medical and other benefits as are essential to their health and well-being and, in particular, to provide training and other measures to facilitate their movement toward independence and self-sufficiency.* Alberta's regulation supporting the IESA does not adequately meet the second intention mentioned in the purpose statement of the Act due to the restrictions of the current asset limits.

Key revisions to the Income and Employment Support Act regulations include:

- i. Increasing liquid asset exemptions to \$2,000 per person to a household maximum of \$16,000 for families with children;
- ii. Exempting all assets in Registered Savings Accounts, including the Tax Free Savings Account, up to \$10,000 per person to a household maximum of \$50,000;
- iii. Exempting all registered savings for the first 90 days of receiving public benefits.

More flexible asset exemptions can help ensure that Income Support recipients do not get stuck in a poverty trap and can achieve greater financial independence.

### **Savings Incentives**

Albertans living on low-incomes, including those eligible for and receiving government benefits, can be encouraged to save by participating in saving incentive programs. People living on low-incomes *can* and *do* save when provided the opportunity. By participating in matched savings programs combined with money management education, people living on low-incomes can reduce their debt, increase their personal savings and enter the financial mainstream. Participants in a matched savings program typically receive \$3 for every \$1 dollar they save for the purchase of a productive asset, such as education, housing or starting a small business. Essentially, matched savings participants *earn* additional savings while they *learn* money management skills. Refer to Appendix B for an overview of matched savings programs provided by Momentum.

A proposed Government of Alberta supported matched savings project can build on the success of existing matched savings programs in Calgary and Edmonton. A province-wide matched savings project could focus on building the assets of Albertans receiving some of form of public benefit, including Income Support, Assured Income for the Severely Handicapped (AISH) and/or rental supplements to leverage the impact of existing social supports. A primary focus of a provincial matched savings program could also be to increase the educational opportunities for people living on low-incomes by supporting people to save for post-secondary education or re-training for a better job.

### **The Evidence**

Encouraging Albertans to build their assets can result in a significant economic and social return. The results of a nine year, national matched savings demonstration project called Learn\$ave that was delivered in partnership with the Social Research and Demonstration Corporation (SRDC) indicated that matched savings do provide an effective incentive for people living on lower-incomes, including those on social assistance, to participate in further education<sup>7</sup>.

Matched savings programs have achieved a significant scale in the United States compared to the Canadian context. As of 2011, a total of 115,000 matched savings accounts had been opened in the

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<sup>7</sup> D. Leckie, M. Dowie, C. Gyorf-Dyke (2008). *Learning to Save, Saving to Learn: Early Impacts of the learn\$ave Individual Development Accounts Project*. Social Research and Demonstration Corporation.

US. Extensive research has been completed in the US that demonstrates the role of matched savings programs in contributing to greater financial security<sup>8</sup>. A national systematic study of matched savings in the US similar to Learn\$ave indicated that with incentives, such as matched savings, even people living on extremely low-incomes will save, accumulate assets, buy homes, start businesses, and pursue higher education<sup>9</sup>.

Matched savings can produce an economic benefit. A Social Return on Investment (SROI) study of one of Momentum's matched savings programs showed that for each \$1 invested in the program, \$3 is returned to the community—as calculated by increased contribution to the tax base, increased purchasing capacity and reduced dependence on social supports. Refer to Appendix C for the SROI analysis of Momentum's Fair Gains matched savings program.

*Matched savings result in a 3:1 return to the community*

## Considerations

### Policy Context

Asset building is an emerging area of social policy in North America<sup>10</sup>. Generally, asset-based approaches to social policy emphasize investment and future needs rather than a focus on meeting immediate needs, which is the standard approach of income assistance policy<sup>11</sup>. Based on the success of over 500 matched savings programs operating in the United States, over 30 states have developed state-wide matched savings programs and 18 states are currently investing in matched savings. Several states have legislated matched savings programs, including Minnesota's Family Assets for Independence Minnesota (FAIM), through state statutes. The State of Oregon's legislated matched savings program has successfully operated for over 5 years and is unique in its use of matched savings as an 'add-on' incentive to other social services provided by the state.

In Canada, only the province of Manitoba has thus far developed policy support and dedicated stable funding for savings through its *Manitoba Saves* initiative. Manitoba is also a leader in revising asset limits as a component of *Manitoba Saves* resulted in raising liquid asset limits to \$4,000 per person to a maximum of \$16,000 per household.

The Government has previously investigated financial literacy and asset building policy options specifically for low income Albertans. In 2009, the former Ministry of Alberta Employment and Immigration commissioned research to develop recommendations on how financial literacy supports and services can meet the needs of low income Albertans, including those receiving Income Support; however, to date the province has not developed a comprehensive approach to supporting financial literacy that would support asset building opportunities recommended in the research.

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<sup>8</sup> The Center for Social Development at Washington University in St. Louis ([csd.wustl.edu/](http://csd.wustl.edu/)) and Corporation for Enterprise Development (CFED) ([cfed.org/programs/idas/](http://cfed.org/programs/idas/)) have each published numerous papers on matched savings research and policy design.

<sup>9</sup> M. Schreiner, M. Clancy & M. Sherraden, (2002) *Final Report: Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts* (St. Louis: Center for Social Development, Washington University).

<sup>10</sup> Torjman, S. (2008). *Poverty Policy*. The Caledon Institute of Social Policy.

<sup>11</sup> Williams. C. (2006). *Asset Building Approaches and the Search for a New Social Policy Architecture in Canada*. Canadian Policy Research Network and Social and Enterprise Development Innovations.

Several provincial ministries have previously supported matched savings programs. For example, the Government of Alberta supported a matched savings program in Edmonton delivered by Candora Society. Several provincial ministries are also involved in the Alberta Asset Building Collaborative in Edmonton. The Collaborative is currently launching the Empower U matched savings program, which is financially supported by the United Way Capital Region, Alberta Treasury Branch (ATB) and Epcor.

In Calgary, the Government of Alberta supported a youth matched savings program delivered by Momentum until 2011. Based on over 80 people purchasing their own home since 2000, the Ministry of Housing and Urban Affairs also provided funding for Momentum's homeownership matched savings program in 2011 (\$300,000 over 3 years).

At this time, all funding for matched savings programs in Alberta is project-based and time limited without any supportive policy. To increase the scale of matched savings programming in Alberta, provincial government investment is required to supplement the current reliance on charitable funding. The United Way of Calgary and Area, which is the primary funder of matched savings programs in Alberta, has recommended in its *From Getting By To Getting Ahead* report that all levels of government develop asset building initiatives. The United Way report also recommends that the provincial government should consider raising asset limits for Income Support similar to the *Manitoba Saves* initiative.

## Implementation Plan

The implementation of the recommendations should be directly linked to the development of the Social Policy Framework and proposed Poverty Reduction Strategy. Integrating asset building as a strategy within the new Social Policy Framework provides the Government of Alberta an opportunity to leverage existing community efforts to work with people living on low-income to build their assets that involves various not-profit organizations and financial institutions.

The proposed recommendations require an annual investment of \$16 Million. An estimated \$12.5 million increase in the provincial Income Support – Expected to Work budget is anticipated as a result of raising the asset limits due to increased number of eligible recipients<sup>i</sup>. An annual investment of \$3.5 million in a provincial matched savings program would enable 1,000 Albertans living on low-incomes, including those currently receiving public benefits, to increase their financial literacy and build their assets<sup>ii</sup>. The provincial investment would leverage the existing \$1M plus in funding provided annually by United Ways, Foundations and corporations for matched savings programs in Alberta.

By working together, we can provide an opportunity for all Albertans to reduce their personal debt and build assets for their future.

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<sup>i</sup> The Government of Alberta averaged \$167M in Income Support – Expected to Work and Health Benefits spending in the last 5 fiscal years. An estimated 7.5% increase in budget is anticipated due to increase in eligible recipients. The estimate is based on the increase in Manitoba Employment and Income Assistance (EIA) budget in the two years since asset limits were raised as a component of the *Manitoba Saves* initiative (Manitoba EIA spending increased 9.5% between 2007 – 2009 fiscal years to 2009 – 2011 fiscal years; however, the increase would have been impacted by the increase unemployment during this period).

<sup>ii</sup> Estimated matched savings investment based on the budget of Momentum's existing matched savings programming with anticipated cost efficiencies gained from increased scale of programming. For example, Momentum's existing Fair Gains programs has an annual budget of \$200,000 for 50 new participants. Therefore, an investment of \$3,500 per participant is anticipated to reach 1000 matched savings participants per year in a provincial program.