Report indicates moving rapidly from financial stress to financial comfort may be possible

January 17 2022

Credit: Pixabay/CC0 Public Domain

If a new report from the Financial Wellness Lab of Canada at Western University is any indication, moving from a financially stressed situation to a more comfortable level in a relatively short period of time may not be an impossible feat.

While financial stress might feel inescapable, the report, "Financial Wellness Lab—State of the Nation—December 2021," has found that 16.1 percent of Canadians whom the research determined were financially stressed in 2020 were able to move into the financially comfortable category in one year. While this is not an indication that moving from financially stressed to being financially comfortable is easy or obstacle-free, the report does provide some hope for those who might be feeling despair.

The report is an early output from the Lab, which aims to develop a science-based, big-picture understanding of financial wellness and deliver information and tools to help Canadians improve or maintain their financial fitness.

"Up until now, our understanding of financial wellness has looked at specific aspects of the topics," said Matt Davison, dean of science at Western. "At the Financial Wellness Lab of Canada, we are combining leading analytics tools and methodology, a multi-disciplinary approach and deep data sets furnished by industry partners to draw connections between research that have already deen done, and articulate a road map towards financial wellness. This includes identification of factors that can either slow or accelerate one's journey."

Spectrum of financial wellness

While it can be complex to determine a household's financial positioning, the report confirms that Canadians generally fall into three categories of financial well-being: financially comfortable, financially coping and financially stressed.

"Where one falls on this spectrum depends on a variety of factors, but savings habits, spending and debt seem to be especially predictive," said Adam Metzler, associate professor at Laurier University, a partner institution in the Financial Wellness Lab.

While each cluster is distinct, the comfortable and coping clusters seem to be 'closer together,' meaning they share more common traits. As a result, movement between these clusters is more frequent relative to moving out of the stressed group. Interestingly, the research has indicated that while making more money can help, it does not necessarily correlate to improved financial wellness.

"Because savings, spending and debt are so interconnected, it may be impossible for us to fully understand financial wellness by studying them in isolation," adds Metzler. "Improving these habits, and moving to a more 'comfortable' cluster, is far from simple. They are impacted by personal circumstances and external factors that are seemingly out of our control, like the cost of housing which is an area that we should all be concerned about."

Home ownership factor

As one of Canadians' most significant expenses, the cost of housing can have a disproportionate impact on financial wellness. This is especially true in light of the current real-estate boom and the low-interest rates, of which so many have taken advantage, and the ability to work remotely to purchase a new home.

While home ownership does not distinguish the clusters from one another, there are significant differences in the percentage of monthly income spent on housing costs. Fifty-eight percent of the comfortable group spend less than 30 percent of their monthly income on housing costs, while 66 percent of the stressed cluster spend more than 40 percent. The Canada Mortgage and Housing Corporation (CMHC) have set 39 percent of monthly income allocated to housing as the threshold for mortgage approval.

Recent data analyzed by the Lab also shows that housing affordability and its associated debt is of paramount concern for Canadian households. Even within the comfortable category, 29 percent are concerned about their debt load, and 23 percent are spending more on housing than CMHC's recommended threshold.

From these data points, it appears that housing costs are straining the finances of far too many. And, given that most housing purchases are made possible by taking on debt, an interest rate increase has the potential to add significant financial hardship for those who were only able to purchase their home because rates were low.

Path to financial wellness

Despite the obstacles ahead, it is possible for Canadians to make a plan and chart a course toward improving their financial wellness. It requires knowing where you are—a determination that is not always easy because of certain complexities.

"We're often told that the answer to financial wellness is to spend less and save more," said Davison, "But that seemingly simple advice can be challenging for people to put into action without specific and personalized guidance. Where the Lab can help is to show Canadians specific tools that can help them make better decisions and take small, meaningful steps towards financial resilience, backed by real, objective data."

In partnership with the Lab, the Canadian Payroll Association has developed a new Financial Fitness Evaluator to help Canadians determine their financial wellness. After receiving their analysis, respondents are provided with tools and resources to help make meaningful changes to their financial habits. The results are anonymous, and the tool is free to use.

More information: Report: news.westernu.ca/wp-content/up … on-December-2021.pdf

Calculator: financiallyfit.ca/

Provided by University of Western Ontario

Citation: Report indicates moving rapidly from financial stress to financial comfort may be possible (2022, January 17) retrieved 6 July 2024 from https://phys.org/news/2022-01-rapidly-financial-stress-comfort.html