

ECONOMIC VIEWPOINT



A Look at Household Assets in Quebec: Their Room for Manoeuvre is There Sufficient?

There has been much focus recently on household debt loads and on various indicators to better assess some of those households' vulnerability. Aside from loans, the real estate assets of owner households have also swelled over the past 15 years or so owing to rising home prices. During that time, how have Quebecers' financial assets changed? More than half of households have less than \$25,000 in savings. Not surprisingly, the financial assets of those aged 65 and over are higher than those of other age groups, but are limited to an average of almost \$150,000 per household (not including the pension funds of employers). Many 65+ households now have loans to repay, which eats into part of the capital they have accumulated. Do they have sufficient savings to have a decent income on retirement? A 65-year-old person can expect to live at least 20 years, far more than previous generations. A longer life and especially an extended retirement period require, of course, additional savings.

Homeowners Have Built Up More Assets

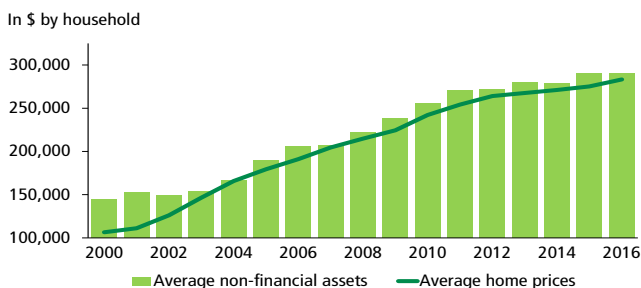
According to data from the Ipsos Reid Canadian Financial Monitor survey, the sharp rise in debt over the past 15 years is due to a sustained increase in the value of assets. Naturally, the boom in home prices during this period drove up non-financial assets, which include such personal property as cars, recreational vehicles or even furniture.

Of course, owner households have benefited from the rise in residential real estate prices, which have caused their non-financial assets to balloon (graph 1). Their average value doubled from around \$145,000 in 2000 to over \$290,000

in 2016 in the space of 15 years. It bears reminding that low interest rates have enabled borrowers to repay a larger share of capital on their homes and increase the value of their net assets. Households that have paid off their mortgage before or during this period also benefited from the appreciation in home prices. The real estate and financial assets of owner households, whether or not they have debt, are averaging \$420,000. Excluding the borrowings of some, the average net value of homeowners was \$340,000 in 2016 (graph 2).

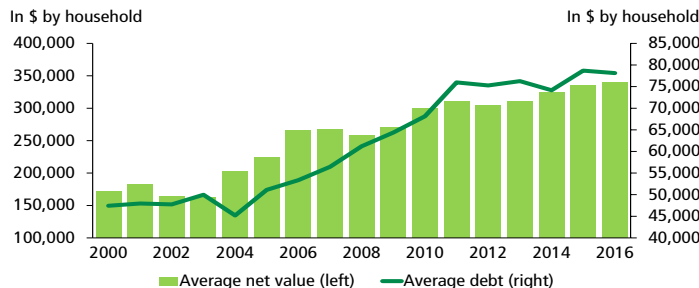
Roughly 40% of households in Quebec are renters and have not benefited from the wealth effect associated with the real estate

GRAPH 1
The value of non-financial assets of owner households has climbed in Quebec



Sources: Ipsos Reid and Desjardins, Economic Studies

GRAPH 2
The net value* of owner households in Quebec has increased despite rising household debt



* Total assets less total debt.
Sources: Ipsos Reid and Desjardins, Economic Studies

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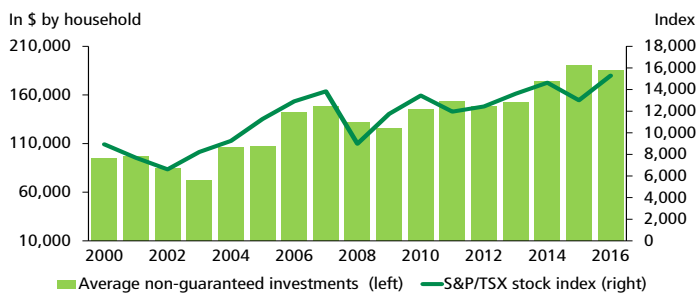
buzz. Their non-financial assets, such as a car or furnishings, have remained virtually unchanged at around \$15,000 on average over the past 15 years. The financial assets of renter households have expanded modestly and now exceed an average of \$30,000. Since the early 2000s, the wealth gap has widened considerably between homeowners and renters as a result of skyrocketing home prices. A home purchase is generally a way for owner households to direct a portion of their savings into the home through payments on their mortgage.

Financial Asset Composition

The financial assets of all households have grown significantly over the past 15 years and can be broken down into two categories. The first includes all types of guaranteed investments, such as savings bonds, term deposits or cash held in a chequing or savings account. These sums, whose capital is sheltered from financial market fluctuations, represent about a third of Quebecers’ financial assets. The value of guaranteed investments was, on average, \$45,237 per household in 2016.

The second category includes various non-guaranteed investments, such as mutual funds, stocks and marketable bonds, which are closely tied to bond market and stock market trends (graph 3). These investments can go through periods of outstanding growth, while being dependent on sudden and unpredictable swings in various financial centres around the world. Approximately two thirds of financial assets¹ held by Quebecers are in the form of non-guaranteed investments. The average value of such assets was \$185,639 in 2016, with about half of households owning these types of assets, to varying degrees.

GRAPH 3
The value of Quebecers’ non-guaranteed investments is tied to stock market trends

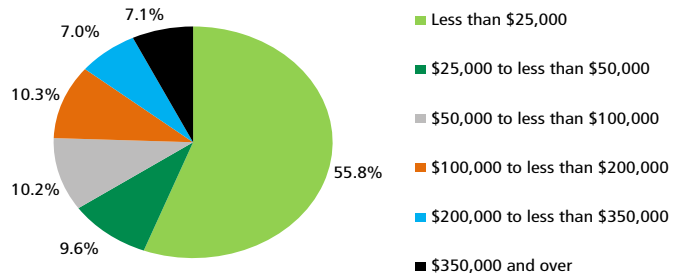


Sources: Ipsos Reid, Datastream and Desjardins, Economic Studies

Household Financial Asset Distribution

Aside from the average financial asset value, distribution among households provides a clearer picture of their assets (graph 4).

GRAPH 4
Distribution of households in Quebec by financial asset level in 2016



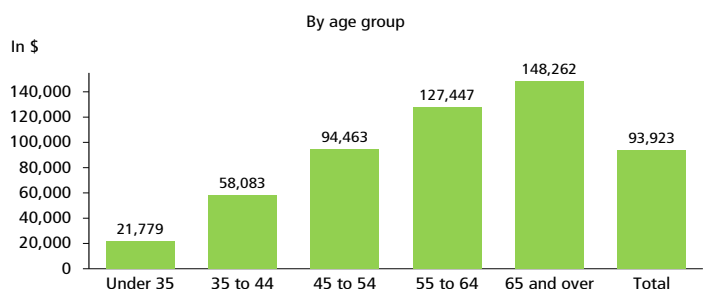
Sources: Ipsos Reid and Desjardins, Economic Studies

In 2016, more than half of households had less than \$25,000 in financial assets, and roughly 10% had between \$25,000 and \$50,000. Indeed, about 65% of households had less than \$50,000. About 10% had at least \$50,000, but less than \$100,000. However, about a quarter of households have more than \$100,000 in financial assets, of which 7.1% have more than \$350,000. This distribution shows that a high proportion of households have less financial assets.

Assets by Age Group

The average value of financial assets held by young people under age 35 surpassed \$20,000 in 2016 (graph 5). The average financial assets of households in the 35–44 and 45–54 age groups were close to \$58,000 and \$95,000, respectively, in 2016. These two age groups are mid-way through their financial life: most must repay their debts, particularly mortgages, while putting some income aside for retirement in the form of savings.

GRAPH 5
Average financial assets of households in Quebec in 2016



Sources: Ipsos Reid and Desjardins, Economic Studies

The 65+ age group has the highest asset level. In 2016, their financial assets (not including employer pension funds) were in the neighbourhood of \$150,000. Of course, these households are well into their life cycle (box on page 3), a situation usually

¹ Financial assets exclude amounts accrued through employer pension funds, as the insufficient statistical sample for this category would not yield reliable data.

BOX
The Financial Situation Changes With the Life Cycle

The financial situation of households, that is, how much they save, borrow and spend, varies a great deal depending on their age. Young households usually borrow to build up their wealth. The burden of debts relative to assets is also heavier for under-35 households than it is for households in the other age groups. At this stage, mortgage loans are fairly high and student debts are still quite often weighing young households down financially. Over time, personal income increases, which enables them to save more easily.

Generally speaking, people aged 65 and over consume less, but their incomes decrease considerably with the gradual depletion of their capital. Life cycle stages therefore influence a household's financial situation to a certain degree, which is reflected in the various indicators presented in this document. It is therefore to be expected that young households are subject to some financial fragility and that this fragility gradually diminishes with age, in line with the various stages of life.

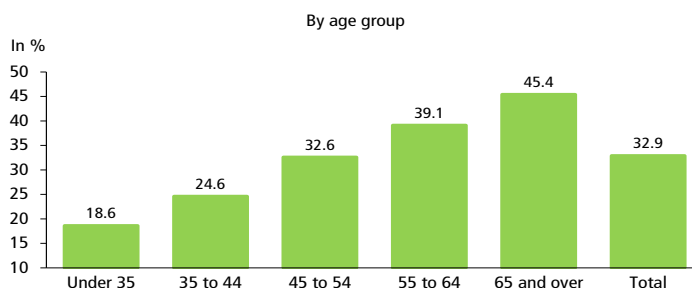
characterized by a considerable accumulation of assets, coupled with a small debt load. For similar reasons, households in the 55–64 age group rank second with more than \$125,000 in financial assets.

Proportion of Households With or Without Debt

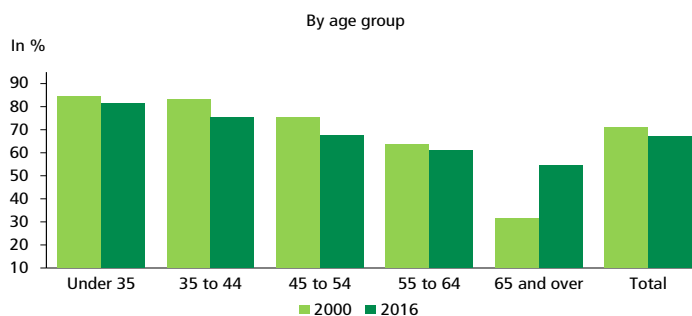
According to the Canadian Financial Monitor survey, approximately a third of Quebec households have no debt. These are households that either have no credit products or have them but systematically pay off their monthly balances (applies essentially to personal line of credit and credit card holders). These people are typically advanced in their life cycle. A large share of households in the 65+ or 55–64 age groups have no debt (graph 6). Many homeowners have paid off their mortgage by then, which ends the borrowing period.

A large portion of households with assets also contracted loans, which decreases their net value. The proportion of households with debt is close to 70% in Quebec, but varies tremendously from one age group to another, which is consistent with the various stages of financial life. For example, about 80% of under-35 households have debt. In this age group, income is typically lower and the purchase of a home and various goods, such as furnishings, raises financing.

This proportion of households with debt is different in the other age groups. More than 55% of households aged 65 and over still have loans to repay (graph 7), particularly mortgages. This represents a sharp increase over the past 15 years. Their income is often lower than during their working life, and debt

GRAPH 6
Share of households without debt in Quebec in 2016


Sources: Ipsos Reid and Desjardins, Economic Studies

GRAPH 7
Change in share of households with debt in Quebec


Sources: Ipsos Reid and Desjardins, Economic Studies

repayment chips away at part of the capital they have built up over the years.

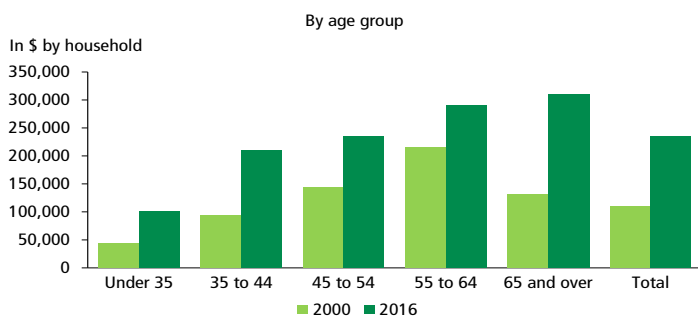
Net Value by Age Group

The net value is total household assets less all debts contracted by the household. The net value of households under age 35 was close to \$100,000 in 2016, while that of those aged 35 to 44 was double (graph 8 on page 4). The net value of 65+ households, which is close to \$300,000 not including the pension funds of some employers, is not much higher than that of households in the 55–64 age group.

Since the average retirement age of Quebec workers was 61.7 in 2016², most households in the 55–64 age group still have a job and earn a regular income to pay for living expenses. When they leave the labour market, that is no longer the case. Income sources change then. Households can receive a sum from the Régie des rentes du Québec as of age 60 and from the Canada Pension Plan as of age 65, in addition to the Old Age Security pension. Some also receive a pension from their former employer.

² Statistics Canada, Labour Force Survey (LSF), special compilation of Institut de la statistique du Québec.

GRAPH 8
Change in average net value* of households in Quebec



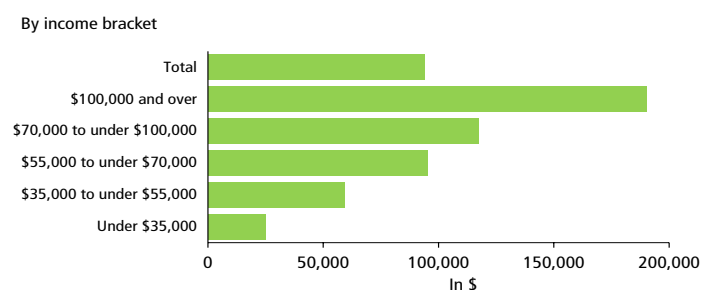
* Total assets less total debt.
Sources: Ipsos Reid and Desjardins, Economic Studies

Households also have the option of tapping into their RRSPs or other investment vehicles, which is the period during which the financial assets they had built up over the years are disbursed.

Financial Assets by Income

Aside from household age, income also affects a household's capacity to save in order to build up wealth. It is no surprise that average financial assets are higher in higher income brackets (graph 9). These households also have greater borrowing power, but their net value is not lower in spite of this. When total assets less all debt are considered, households with a higher income stand out from the rest (graph 10).

GRAPH 9
Average financial assets of households in Quebec in 2016

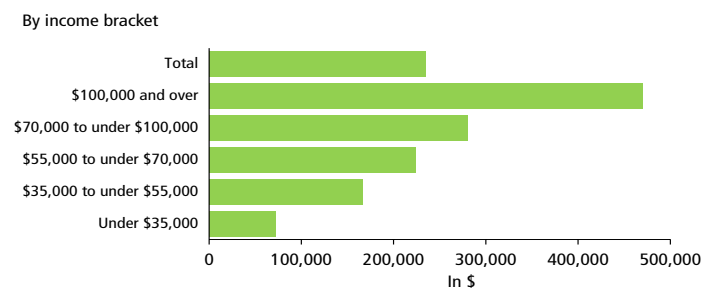


Sources: Ipsos Reid and Desjardins, Economic Studies

Conclusion

Over the past 15 years or so, the wealth gap has widened considerably between homeowners and renters as a result of skyrocketing home prices. They are now, on average, close to \$300,000, almost three times higher than in the early 2000s. A home purchase is generally a way for owner households to direct a portion of their savings into the home through payments on their mortgage. Instead of relying on real estate assets, tenants must build up their wealth through financial assets. Personal

GRAPH 10
Average net value* of households in Quebec in 2016



* Total assets less total debt.
Sources: Ipsos Reid and Desjardins, Economic Studies

financial planning is essential for them to be able to devote part of their income to savings wherever possible.

Asset composition changes with age. Secure investments, which offer guaranteed returns, are more attractive to people approaching retirement age or who have already retired. The low interest rate environment in recent years has been of little help in growing these types of savings. The gradual and weak rise in interest rates, will have a positive effect on guaranteed capital investments and should encourage households to save more for retirement.

That said, private savings levels seem to be insufficient for most Quebecers. Once retired, households must quite often tap into the assets they accrued over time before starting to collect benefits from both orders of government. A small portion of people who leave the labour market can rely on retirement income from a former employer.

Many employers have also done away with defined benefit pension plans, which defined in advance the amount to be paid to employees upon retirement. Around two thirds of employer pension plans are now defined contribution plans; the amounts deposited into the plans are known, but not the benefits to be paid later. This is why it is important to have built up sufficient financial assets prior to retirement.

According to the Ipsos Reid survey, the financial assets of those aged 65 and over (not including employer pension funds) averaged close to \$150,000 per household in 2016. This amount seems insufficient to cover the period between the start of retirement and the commencement of government benefits. The simulations presented in a recent study³, according to certain assumptions, suggest that significantly higher private savings would be needed.

³ [Régimes de retraite publics : analyse de la flexibilité du système actuel et effets d'une réforme possible](#), Chaire en fiscalité et en finances publiques, Sherbrooke University, August 2017, 40 p.

Lastly, life expectancy has increased considerably in recent decades. According to the Institut de la statistique du Québec, a 65-year-old person can expect to live at least 20 years, far more than previous generations. A longer life and especially an extended retirement period require, of course, additional savings. As illustrated in this *Economic Viewpoint*, many households have few financial assets and only a small proportion have built up large reserves. A change of course is needed to steer the situation in a different direction.

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