

**LEARNING TO SAVE BY LOOKING AHEAD:  
THE ROLE OF FINANCIAL LITERACY IN  
VANCOUVER'S DOWNTOWN EASTSIDE**

By

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## **Abstract**

This study uses survey information collected from low-income people living in Vancouver's impoverished Downtown Eastside to explain why some people and not others manage to save, and suggests policies financial institutes might enact to make low-income non-savers into savers. A survey of 110 Pigeon Park Saving Community Bank (PPS) members examines the degree to which the tendency to save corresponds with financial literacy levels, sticking to a budget and, future planning. Tests of association show that the only variables directly related to saving is future planning and making and sticking to a budget, but further testing indicates a relationship between future planning and financial literacy, future planning and budgeting and budgeting and financial literacy. Based on these findings this study proposes three policy options that augment the status quo by which PPS can encourage increased saving among customers. These include; (1) one-to-one lessons on financial literacy; (2) one-to-one lessons on financial literacy with matched incentives; (3) one-to-one lessons on financial literacy with supermarket incentives. However, using assessment criteria of cost, effectiveness, administrative ease, and stakeholder acceptability, there is no one option that outweighs the other options. Therefore, the study recommends a monitored pilot program involving all the above options to find the most effective option, referred to in this study as the "Mixed Bag".

**Keywords:** Budgeting; Financial Literacy; Low-Income Groups; Future Planning; Saving;

## **Executive Summary**

Thirty years ago, the Canadian attitude to saving was very different. According to Statistics Canada, the average Canadian spent 82 per cent of his or her income in 1980, but by 2005 spending levels rose to 96 per cent. This increased rate of spending negatively affected savings, with positive bank balances dropping from 20 per cent in 1982 to a meagre 1 per cent in 2005 (Foran, 2010, 12). This lack of saving is problematic, as it leaves those without savings devoid of a sufficient cushion to handle unexpected life changes. The Canadian Council on Learning's website (2010) states the problem is especially serious for those in the low-income group, who are without access to other forms of credit such as credit cards, which are usually available only to people in higher income groups.

Many suggest that to breach this financial gap and encourage saving, levels of financial literacy need to be increased. Lusardi noted that financial literacy tends to increase net worth, especially for families at the bottom of the wealth distribution and those with low education (Lusardi, 2004, 162). Therefore, the definition of financial literacy for this study is "having the knowledge, skills and confidence to make responsible financial decisions" (Canadian Task Force on Financial Literacy, 2010).

Statistics Canada (2009), in an unpublished report, noted that Canadians appear to be lacking in three key areas of financial literacy: staying informed on financial issues, budgeting, and future planning. Statistical evidence to support these arguments shows more than one third of Canadians are struggling to keep up with their finances and one third are unable to understand the effect of inflation on their buying power. Additionally 30 percent of Canadians are not making adequate plans for their retirement (Canadian Council on Learning, 2010).

This study explores the relationship between saving and financial literacy in an attempt to generate policy options for increasing saving rates among low-income people. To accomplish this I undertook a survey of low-income people, some of whom are savers and some of whom are not. The survey helps examine the question of why some and not other low-income people save. Survey data comes from 110 customers of Pigeon Park Saving Community Bank (PPS) in Vancouver's Downtown Eastside (DTES), a financial institution offering basic services such as a safe place to save, low interest saving accounts and small overdrafts.

The dependent variable is generated from determining the amount of money a PPS member normally has in his or her account at the end of the month, with those with a positive balance being treated as 'savers' and those with a zero or negative balance treated as 'non-savers'. As the sampling method is not probabilistic, approximately half the respondents are savers and half non-savers. Questions structured to uncover the respondent's financial knowledge, budgeting capacity and future planning tendencies comprise the main independent variables, with secondary independent variables including employment, disposable income, education and gender.

Statistical analysis shows an association between saving and future planning, and saving and budgeting, but no association between saving and financial knowledge. These results suggest that any policy to increase savings among PPS customers should focus on increasing future planning tendencies. However, secondary tests on these three variables show a relationship between both future planning and budgeting, and financial knowledge. These secondary findings suggest increasing financial knowledge and/or budgeting capacity will also increase the tendency to plan for the future, which ultimately leads to increased savings.

Taking into consideration the above information, I constructed the following policy options to improve saving among Pigeon Park Savings customers. These are (1) maintaining the status quo; (2) one-to-one lessons on financial literacy; (3) one-to-one lessons on financial literacy with matched incentives; (4) one-to-one lessons on financial literacy with supermarket

incentives. The criteria used to measure these options are cost, effectiveness, administrative ease, and stakeholder acceptability. An additional consideration is the length of time required to determine the success or failure of these options. I chose six months as it provides enough time, to monitor participant's monthly contributions, to see if the program can succeed. Additionally the literature also suggests that interventions with immediate awards are more likely to succeed than awards with delayed actions, and breaking large tasks into smaller ones will enable individuals over time to master complex behaviours (Holden, 2010, 2). Furthermore, many customers at Pigeon Park Savings rely on monthly payments from the Canadian welfare system.

After comparing the options against the chosen criteria none of the suggested options indicated they would be more successful, or more cost effective than the other selected options. Therefore, it was necessary to develop a new option from the old options, referred to in this study as the 'Mixed Bag'. The mixed bag is a pilot program involving 200 participants separated into four groups of 50 that would act as a test for the original options, to find the option most likely to increase savings at PPS.

I recommend PPS use the policy 'Mixed Bag' to improve savings patterns amongst its customers. There are five main reasons for selecting this option:

- The option proved to be popular with most stakeholders,
- Administration is at manageable level
- The long-term results will have a positive effect on saving and financial literacy at PPS.
- The varied approach will enable staff to gain a greater knowledge of customer saving behaviours at PPS
- This approach would help to find the best solution to increasing PPS customers saving rates, and help to identify possible partnerships.



## **Dedication**

*To my Mom and Dad, thank you for teaching me to question authority and always seek the truth. Susan my sister without your encouragement and support none of this would have been possible. A special thanks to my friends Nick and Nina Houghton who willingly gave up their time when I needed sanctuary and a sounding block. To all my other friends, especially Chris, for your support and understanding, words can never express my gratitude to you all.*

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# 1: Introduction

Saving money for the proverbial rainy day was once the norm, but it now seems that saving has become less prevalent in today's fast-paced society with its easily accessible credit. This change in behaviour creates a great deal of risk, not only for the individual but also for the economic well-being of our society. For example, the recent report by the Canadian Task Force on Financial Literacy (2010) indicates that saving is a basic, but essential financial activity. Furthermore, the Task Force stresses activities ranging from setting aside money for small purchases all the way up to saving for retirement are important now that we live in a society with a longer life expectancy. All Canadians need to make long-term plans for their retirement, and ensure that they have the resources to prepare for unforeseen events.

Canadians generally do want to save money and many see the benefits of doing so. However, there are various reasons why saving does not occur, ranging from the confusion over the availability of too many options, behavioural biases of young people to discount for the future, and people just not having the available funds to allow for saving (Canadian Task Force on Financial Literacy, 2010, 54). Additionally recent research in the United States has shown that the lack of financial information affects saving habits (Wheeler-Brooks, 2009, 763).

Although failing to save affects everyone, it has a much greater destabilizing effect on those in the low-income bracket, since without planning or saving for their future low-income groups are left living from cheque to cheque. Michael Barr (2004, 1), in 'Banking the Poor: Policies to Bring Low-Income Americans into the Financial Mainstream' argues that this situation leaves the poor especially vulnerable to unexpected expenses such as medical and job emergencies. Inadequate *savings* endangers financial stability, and leaves many unable to obtain common long-term benefits, such as buying a home, car or sending children to university.

Financial emergencies endured by low-income groups may also leave them dependent upon fringe banking services such as payday loans institutions. While this may be a short-term fix to their financial emergency, poor people are then left with high interest loans, without savings and less disposable income (Barr, 2004,1). The importance of improving financial literacy was also noted by the Canadian Social Enterprise Development Initiative (SEDI) a charitable organization aiming to reduce poverty by improving social and economic opportunities for low-income Canadians, who in a submission to the Canadian Task Force on Financial Literacy said any strategy to improve financial literacy must be inclusive and accessible to low-income groups. There is a growing need for a life course behavioural approach aimed at encouraging responsible actions such as saving (SEDI, 2010). There are however structural barriers that limit the ability of some low-income groups to save. For example those living on welfare in British Columbia (BC) are allowed assets of up to \$1500, with any assets over this amount likely leading to benefits reduction or removal (Ministry of Social Development, 2008).

This study was conducted in one of Canada's poorest neighbourhoods, Vancouver's Downtown East Side (DTES). An area largely made up of groups experiencing long-term poverty, such as single parents, unemployed, disabled, chronically ill, and low-waged workers and pensioners (FSA, 2000, 12). To compound this problem many DTES residents suffer from mental illness, and or drug and alcohol addiction. While these groups are often less able to save, their vulnerability suggests even small amounts of savings are critical to their well-being.

The goal of this study is to suggest what policy measures may encourage saving among low-income people. The study designs and evaluates policy options using survey data collected from customers at Pigeon Park Saving Community Bank (PPS). PPS is a DTES bank created to provide services for whom mainstream banks do not normally provide services, the aim of this survey is to ascertain present levels of saving among PPS customers, and identify barriers that prevent saving.

The second section of this study discusses the saving behaviours of Canadians, why saving is an important part of well-being, and how low-income people are encouraged to save in other locales. Section 3 provides a broad overview of the policy problem concerning low-income people and saving, with other background information on the people and place targeted in this study. Section 4 presents the survey results including frequencies and crosstabs results, while Section 5 explains the criteria used to evaluate policy options including cost, effectiveness, administrative ease, and political viability. Section 6 outlines options by which PPS might increase savings among its clientele, with the section ending by evaluating the options. Finally, section 7 of this study provides policy recommendations for PPS and general comments on the study.



## **2: Low-Income Saving, and Financial Literacy**

This study examines policies that may increase saving rates among low-income Canadians. Increased saving rates help to ensure improved health and well-being, economic stability and greater community involvement (Jones, 2008, 21). This section explains the difficulties faced by low-income Canadians trying to save, then proceeds to make the connection between poverty and saving, before moving on to define financial literacy. In the first part of this section, the link between poverty and saving is established. The last part of the section looks at the various approaches used to break down any possible barriers to saving.

### **2.1 The Impact of Saving and Spending**

Four decades ago, the financial landscape was very different. Jobs for life were still the norm and not the exception. There were no fears of a greying population and its impact on the Canadian Health system, credit cards were a luxury, and debt frowned upon. Times have changed; many Canadians now borrow to finance current consumption and have high debt loads. A report by Statistics Canada, points out that in 1980, Canadians spent 82 percent of their income; by 2005, Canadians were spending 96 percent. This change has negatively affected the rate at which Canadians save falling from 20.2 percent in 1982 to 1.2 percent in 2005 (Chawla and Wannell, 2005). In 2008 Statistics Canada reported a reverse to this trend with saving rates increasing to 4.7 percent and spending decreasing by 0.8 percent to the lowest level since 2005 (Statistics Canada, 2008). However, in a related study by the Royal Bank of Canada (RBC), a survey by Bevan in 2010 showed that many Canadians are now finding it difficult to save, with 38percent indicating that they are unable to save. The same poll, undertaken in August 2010, also

indicates that more than a quarter of people have reduced their savings and a further one in five customers indicated that they have given up saving altogether (Bevan, 2010).

The extent to which over-extended consumers can affect the economy became clear during the 2008 economic recession (Foran, 2010, 11), and caused Statistics Canada in 2009 to undertake a nation-wide survey on financial literacy. That suggested over one third of Canadians find it difficult or are unable to keep up with their finances, and nearly one quarter of Canadians surveyed were found to be lacking in three key areas of financial capability (a phrase noted as interchangeable with financial literacy in this report). These areas are keeping track of their finances, future planning, and staying informed on financial issues (Foran, 2010, 12). These impacts are greater among low-income groups without savings, as they have no protection from everyday mishaps or bad financial decisions. Higher income groups have better protection against these problems, as they usually have greater access to savings or credit to cover the costs of unforeseen issues (Canadian Council on Learning, 2010).

### **2.1.1 Financial Literacy Defined**

I take the definition of financial literacy used in this study from the Canadian Task Force's report on financial literacy. "Financial literacy means having the knowledge, skills and confidence to make responsible financial decisions" (Foran, 2010, 10). "Knowledge" is defined as the ability to understand "personal and broader financial matters". "Skills" is "the ability to apply that knowledge in everyday life". "Confidence" is being "self-assured enough to make important decisions." "By responsible financial decisions", we mean that people will be able to use the knowledge, skills and confidence they have gained to make choices that are appropriate to their own circumstances (Foran, 2010, 10).

Lack of financial literacy and poverty are often seen to be interdependent. The reason for this is that a large portion of financial services are aimed at the high-income groups, while very few services target low-income groups (SEDI, 2008, i). As a result those with a low-income are

forced to use fringe or payday loan banks, instead of established financial institutions (Habschick, 2007, 7). This lack of service leads to higher interest rates among those with less access to reliable information. It also leads to deficiencies in three key areas: budgeting, forward planning and staying informed about financial circumstances. Budgeting is important and features in numerous reports and surveys such as that of the Canadian Task Force on Financial Literacy and Statistics Canada. Forward planning is critical, as those who look forward tend to be better savers (Lusardi, 2004, 161). Finally, staying informed tends to increase net worth, especially for families at the bottom of the wealth distribution and those with low levels of education (Lusardi, 2004, 162).

The neo-classical approach according to Wheeler (2009) consists of economic models that assume individuals have a propensity to save, and that it is in principle easier for a higher income person to save when their income exceeds the amount of money they must spend for basic needs of shelter, food, clothing, etc. Therefore, because neo-classical theorists believe that saving is a function of income, there is an assumption that low-income people are unable or unlikely to save. However, recent studies such as that on the independent-development accounts (IDA) in the USA do not support neo-classical theory, and have produced empirical evidence to support that people within all income levels can save when offered the right incentives (Wheeler-Brooks, 2009). The IDA program begun in 1993, offered participants matching funds when they save towards a productive asset (covered in more detail in section 2.23).

## **2.2 Improving Financial Literacy**

There are numerous ways suggested to improve financial literacy. This study groups these various methods into three approaches: (1) Life Cycle, (2) Information, (3) and Behavioural and Incentive.

### **2.2.1 Life Cycle Approach**

As people go through life they are confronted with major events such as finishing high school, getting married, having a baby and raising children, dealing with aging parents and death. These key points in people's lives can have a powerful but significant influence on how people consciously and unconsciously organize society. When in the midst of these major events, people have a heightened willingness to learn or take on new responsibilities. For instance, people may take on a mortgage when they get married, and are therefore open to learning about interest rates. As all the aforementioned events can carry some kind of financial responsibility, they are therefore important periods in which to target individuals with specific types of financial education (Orton, 2007, 23).

### **2.2.2 Information Approach**

This approach usually addresses people already within the mainstream banking system, and relies heavily on the clarity and accessibility of the information. This includes providing information to people who are considering their first mortgage, and helps them to understand closing costs and interest rates (Canadian Council on Learning, 2010). Another and more recent group targeted by this approach is students. For example, the Canadian Bankers Association website offers financial literacy lessons through its program 'Your Money'. The purpose of this site is to teach students how to use their money wisely and to achieve their financial goals (Canadian Bankers Association, 2011).

### **2.2.3 Behavioural and Incentive Approach**

This approach suggests that by offering incentives it is possible to change people's saving habits. For instance, people often show different inclinations towards present income and future

income (Bertrand, et al, 2004, 420). For example, research shows that people who cannot presently save money are more likely to make and keep their promise to save money if they expect future pay raises. The ‘Save More for Tomorrow Retirement Program’ encouraged participants in the United States to commit in advance a portion of their future salary increases toward retirement savings. Of the 78 percent of people who chose to participate in the program, 98 percent of that 78 percent increased their original rate of saving by 3.5 to 11.6 percent over a two-year period (Canadian Council on Learning, 2010). Another example is the United Kingdom’s ‘Saving Gateway Pilot Project’ aimed at increasing saving rates. The program first ran in August 2002, with participants receiving matching savings for a period of 18 months. Results from the pilot showed that nine out of 10 participants still had active savings accounts three months after the end of the project, and four out of 10 were still saving regularly over the same period (Collard, 2006). In Canada the federal project called ‘Learn to \$ave’ educated low-income adults about saving and entrepreneurship. This project was in effect from June 2001 to February 2008, and offered \$3 dollars for every dollar saved, along with financial training. A report by the Social Research and Development Corporation (SRDC) in 2008, confirmed that the use of incentives on the Learn to \$ave program encouraged low-income adults to save (Leckie, 2008). The U.S. equivalent named the independent-development account (IDA) offers matching funds when saving towards a productive asset (Bertrand, 2004, 421). The first large scale IDA program to operate in the USA was the American Dream Demonstration (ADD). The project demonstrated that the poor can save by revealing that participants made an average of \$528 in net deposits and received \$2,538 in matched withdrawals (Han, 2009, 226). The conclusion from these studies is that financial incentives tend to be more effective than the educational and information side of these programs (Canadian Council on Learning, 2010).

There are however other forms of the behavioural approach in operation that can affect the saving habits of PPS customers in a small but positive way. For example, a title such as ‘My New Bike’ or ‘My Trip Home’, should replace the number identifying an account. These names

would act as reminders to the customer of why they are saving the money, and help to limit their temptation to access accounts (Bertrand, 2004, p421).

## **2.3 Summary**

This section outlined financial difficulties faced by low-income Canadians, links to financial literacy and approaches by which to increase literacy and subsequently savings. The success of any program depends heavily upon the participation of its targeted group, and all the aforementioned projects received a positive response from participants. For example, 78 percent of the people approached to take part in the ‘Save More for Tomorrow Retirement Program’ took part. At this stage, it is important to acknowledge that the survey conducted for this study, also indicates a high participation in any option involving incentives and one-to-one financial education.

### **3: Study Parameters**

The aim of this study is to suggest how to increase savings among those surviving on a low-income. The previous section outlined a general connection between saving and financial literacy; this section outlines study specifics, by first describing the problem and then moving on to the study locale and survey details.

#### **3.1 Policy Problem**

The need to encourage those with low-incomes to save is important, as asset development helps to reduce their vulnerability, improves social inclusion, community involvement, social status and civic participation (Murphy-Erby, 2009, 1). Therefore, this study poses the following policy problem.

Too few PPS customers have a positive bank balance at the end of the month. In this study, a PPS “customer” is somebody with an active PPS account, a “positive balance” describes funds in an active account. Whereas “end of the month” is a time at the end or near the end of a calendar month, when the customer makes a final or only deposit (i.e. the day of the month before a welfare cheque is received on a monthly basis and deposited into their account). The remainder of this section presents information on PPS.

##### **3.1.1 Pigeon Park Savings**

Most people are part of the mainstream banking system provided by banks such as the Toronto Dominion (TD), Bank of Montreal (BMO) and Scotia Bank. However, low-income people are not always able to access mainstream services. This is in part due to bank closures in low-income areas. Mainstream banks claim modern methods of banking, such as automatic teller

machines and internet banking fill the gaps created by branch closures. However, these technologies are of little use to people from low-income groups, as many do not have cars or computers to access banking services outside their communities (Buckland, 2008, 10).

The absence of mainstream banks often causes low-income people to use expensive fringe-banking services such as payday loan companies, rent to own services and pawnshops. Services fees at these companies for cashing one cheque can rival the cost of a monthly fee at a mainstream bank. In his project 'Strengthening Banking in Inner-cities' Buckland (2008, 4) reports the annual percentage rate of interest for a pawnshop can be around 250 percent annually, with annual payday loan interest rates ranging from 250 percent to 1000 percent.

Inaccessibility of mainstream bank services is not the only reason for low-income people to turn to fringe banking. For example, mainstream banks often make people on low-incomes feel unwelcome and uncomfortable. Bertrand compares this feeling, as not unlike the embarrassment and anxiety felt when administering medical self-exams (Bertrand, et al, 2004, 420).

In the case of the DTES, the community-banking model is at the forefront of alleviating the pressure on residents to use fringe banking. Four Corners Community Savings Bank was Vancouver's first attempt at community banking, with the bank offering full banking services including small business loans. Established in the 1990s, Four Corners Community Savings Bank closed in 2004, after reporting losses of over \$6 million (MacDonald, 2007). The closure of Four Corners Community Savings Bank prompted the creation of PPS. In contrast, PPS operates without government support and offers only basic services such as a safe place to save, low interest rates and small overdraft privileges. Operational since March 2004 PPS is located in the DTES at 92 Hastings Street, and is run by Portland Hotel Society (PHS) in conjunction with Vancity Credit Union and other local businesses (Allen, 2010). In addition to these associations, the TD bank recently gave PPS a \$100,000 grant to improve financial literacy among its customers. The grant has enabled PPS to increase the amount of hour's staff work, which in turn



has allowed staff to spend more time with each customer, and to gain a greater insight into customer problems.

The bank is open to everyone and presently has around 5000 members. Members pay a flat rate of \$5 a month for unlimited transactions, while non-members pay \$1.99 to cash each government cheque under a \$1000 and \$2.99 for each government cheque over \$1000 (Buckland, 2008, 7).

The DTES is an area, where many homeless people congregate and the location of many of Vancouver’s single occupancy rooms (SRO’s). PPS offers somewhere safe for members of the local community to keep their money instead of their room or wallet (MacDonald, 2007). Some of the other benefits gained from banking at PPS, are it allows first time customers to open bank accounts using only photocopied personal identification. It also helps members experiencing financial difficulties to obtain an overdraft usually of no more than \$20, but sometimes higher depending on the situation and member. In addition, bank tellers at PPS are skilled social workers. Training PHS workers to become tellers was deemed far easier than attempting to train tellers to work in the DTES (Buckland, 2008, 7). Table 1 below outlines PPS’s operating costs over the last several years.

*Table 1: Pigeon Park Saving Membership Numbers and Approximate Annual Operating Loss, 2005-2007*

Pigeon Park Savings Membership		Approximate Operating (Annualized) Loss/yr
Month/Year	Membership	
Mar 2005	0	N/A
June 2005	1,800	\$60,000
Aug 2006	3,600	\$36,000
Dec 2006	3,900	\$100,000
June 2007	4,200	Not Available
July 2011	5,000	Not Available

(Courtesy of Buckland, 2008, 19)

In the Buckland report (2008, 19), it was estimated that the number of members needed to achieve breakeven at PPS is 4,400 to 5,500. It is now evident that this estimate did not include the cost of increased wages, as there are presently 10,000 open accounts at PPS, with 5,000 considered to be active. Yet the PPS bank manager still believes that although PPS finances are improving they are still running at a net loss. Allen, (interview, 2011) the PPS manager said it was however impossible to determine the present net losses at PPS, as the present running costs of the bank are closely linked to Portland Hotel services. Complicating the issue even further is the fact that the 5000 inactive accounts continue to have the \$5 monthly charge applied to them, until they reach the \$100 mark, adding to the confusion over net losses. Although PPS's main benefactor Vancity Credit Union approached the project as if they were just adding another branch Vancity, executives expect PPS to be viable (MacDonald, 2007). The manager at PPS believes that the present financial situation at PPS has improved and that Vancity is happy with the progress the bank has made towards stability. The fact that Vancity Credit Union is considering opening another branch in Surrey supports the opinion expressed by the PPS manager (Allen, interview 2011).

### **3.2 The Dependent Variable**

The dependent variable used in this study is a measure of whether or not customers normally have money in their accounts at the end of the month, as assessed by the following question. "Thinking only of your account at Pigeon Park Savings, approximately how much money do you normally have left in your account from deposits made over the previous 30 days?" The following range was offered to the participant: a) <\$0, b) \$1-\$50, c) \$51-\$100, d) \$101-\$150, e) \$151- \$200, f) \$201-\$250, g) \$251-\$300, h) \$301-\$350> , (question 10a allowed participants to write in exact amounts if over \$350). Note that this is a study of financial assets, and not net worth, so the dependent variable measure does not include values of real property or

other non-financial assets. It is also unlikely that many respondents have much in the way of assets of value.

### **3.3 Main Independent Variables**

The literature review undertaken for this study uncovered several recurring themes in past surveys that were used to measure financial literacy. These themes are also the subject of the Canadian Task Forces report on financial literacy and include:

1. Making ends meet (relates to the ability to budget and stick to a budget)
2. Keeping track of money (the ability to stay on top of a budget)
3. How people choose financial products (e.g., mortgages, loans, investments)
4. Planning ahead (thinking about financial affairs over time)
5. Staying informed and getting help (the ability to understand broad financial trends)

(Canadian Task Force, 2010, 74)

These themes attempt to measure financial literacy among the general population. Therefore, not all of them apply to the group targeted by this study. For instance, PPS only offers limited services so I do not include any questions regarding point number three *choosing the best product* such as a loan or mortgage. I do include the following areas: sticking to a budget, level of financial knowledge, and future planning and discuss each of these in the following sections.

#### **3.3.1 Financial Literacy**

Studies carried out in many countries have identified financial literacy as an important factor in being able to manage finances. The Organization for Economic Cooperation and Development (OECD) state on their website that there is a growing need for financial education, as many individuals are now required to use more financial products than ever before, so it is important that they be financially literate. Additionally the OECD point out that the lack of

financial literacy causes a rise in consumer debt, low levels of retirement saving, lack of financial resources for financial emergencies and a lack of trust in financial institutions (OECD, 2010).

Using the information above, the earlier definition of financial literacy and drawing from other surveys conducted in this field the following question was constructed (e.g. Harris Interactive, 2010, 9). “On a scale from ‘A’ (highest) to ‘F’ (lowest), my level of knowledge about personal finance is....” Therefore, the variable attempts to measure the effects that the level of financial literacy has upon the participant’s ability to save. The expected outcome (hypothesis) is that the higher the level of financial literacy the more likely the participant is to save.

### **3.3.2 Making and Sticking to a Budget**

The literature recognises the ability to make and stick to a budget as heavily affecting the financial wellbeing of an individual or household. I drew the following question from previous survey questions (e.g. Harris Interactive, 2010, 4). “I make and stick to a budget, keeping close track of how much I spend on things like food, housing and entertainment.” The measures used for this question was Always, Almost Always, Sometimes, Almost Never, Never. The expected outcome (hypothesis) is that the more a participant makes and sticks to a budget the more likely the participant is to save.

### **3.3.3 Planning for the Future**

Most plans for the future involve estimating the cost of the expected expenditure and then saving the required amount. It is therefore likely that people who make long-term plans also save on a regular basis. For example, Lusardi (2004, 161) found that planning for retirement has an effect on saving behaviour. Using this information and previous surveys conducted in this field the following question was constructed (e.g. Hogarth, 2006, p11). “When I make plans for my future, I usually think ahead in terms of... days, weeks, months and years. The respondents then

chose one of the durations, with the expected hypothesis that the further the participant looks ahead the more likely the participant is to save.

### **3.4 Secondary Independent Variables**

I constructed a number of other questions to test whether additional factors influenced the ability of PPS customers to save. I drew all of these questions from previous surveys, a literature review, or by information gathered from interviews with the PPS manger. The three methods used to construct the questions are important, because of the participants and location used for this study. Some of the elements that give this study its different characteristics are the high levels of addiction, low-income and a lack of banking options. Below, I describe some of the more important secondary variables.

#### **3.4.1 Disposable Income**

The reasoning behind this variable is that the higher the level of disposable income the more likely the participant is to save. Having access to more spending money allows greater opportunity to save. In this study, I use the amount of disposable income that participants reported as the variable. Therefore, I constructed the following question from an interview with the PPS manger who acknowledged that many of the customers at PPS would have only have small amounts of disposable income (Allen, Interview 2010). “After living expenses, how much money do you have left over every month to spend...” The range used for this variable was \$0-\$250, \$251-\$500, \$501-\$750, \$751-\$1000, \$1001-\$1250, \$1251-\$1500, \$1501-\$1750, \$1751-\$2000, \$1751-\$2000, \$2001-\$2250, \$2251-\$2500\$2500>. The hypothesis is that the lower the amount of disposable income the less likely the participant is to save<sup>1</sup>.

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<sup>1</sup> A question on income was also included within the survey to test the reliability of the question on disposable income

### **3.4.2 Education**

Many studies have connected lower levels of education with poverty. For instance in a report titled “Poverty and Education” it was noted that education increases the chances of finding employment and that households with higher levels of education are less likely to be poor (Van der Berg, 2008, 11). Therefore there is reason to assume that education can effect saving habits. The hypothesis is that the lower the education level the less likely the participant is to save.

### **3.4.3 Benefits**

Over the last, several years’ cuts in Canadian welfare payments have arguably caused welfare recipients to tighten their belts even further. As the survey undertaken at PPS showed, over 75 percent of participants claim some form of welfare, it is important to understand how this will affect saving habits. Therefore, the hypothesis is that PPS customers receiving benefits are less likely to save than those who do not receive benefits.

### **3.4.4 Gender**

There are many theories about why women save less money than men do. In a study carried out on single men and women, many of these theories were tested. Questions asked include, for example how does the effect of lower wages affect women’s saving behaviour, and are women more risk adverse than men. Patti Fisher’s 2007 survey showed no significant difference in regular savings behaviour between men and women; thus, it did not support the hypothesis that men are more likely than women are to save (Fisher, 2010). To test if this is true of the participants in this study; the hypothesis is that men are more likely than women are to save.

### **3.5 Sampling and Distribution**

As probabilistic sampling was impossible, the study relied on a convenience sample of PPS customers using face-to-face questionnaires. At the outset of this study, I assumed it would be difficult to achieve a balance of participants who save and participants who did not save, due to the poverty levels within the neighbourhood. This belief was supported by a 2009 SEDI publication 'Financial Literacy: Strategies to Meet the Needs of Low Income Albertans' that reported many members of low-income groups know they should save but just do not have the money to do so (SEDI, 2009, 24). However, the perception in this case proved to be incorrect and I achieved approximately equal numbers of savers and non-savers in my sample. To ensure a good cross-section of the PPS population, the survey took place over a three-week period, with varying collection days and times. The various groups covered by the survey, included welfare recipients, employed, unemployed, lone parents, people with disabilities, pensioners, new immigrants etc. The only conditions to participating in the survey were participants must be a current member of PPS and over 19.

I asked participants to take part in the survey while waiting for service at PPS. This method proved most effective during the busier periods, the busiest of which was welfare week. Although this is the busiest period, securing respondents can be a challenge, as many of the people are pre-occupied with receiving and spending their money. Another issue that was uncovered and dealt with while distributing the questionnaire were the patterns of participation and non-participation. For instance, if some members of PPS witnessed other members refusing to take part in the questionnaire, then they too would refuse to participate. To overcome this factor, whenever a pattern of non-participation became apparent I moved the survey to another part of the bank. Most participants preferred to fill out the survey themselves, but to avoid

discriminating against people with lower literacy levels I offered to read the survey to them to save time (usually avoiding any embarrassment by adding if you have forgotten to bring your glasses). Several surveys were unusable, as they contained no answers to the questions just a string of abusive comments. Nevertheless, it is fair to say that the general attitude of the customers was positive and over 110 members participated from a potential population of over 5000 bank customers.

The following section shows the important findings from this study and the derivation of various crosstabs in a condensed form.



## 4: Results of PPS Survey on Behavioural Patterns

This section presents information in the form of frequencies and crosstabs related to two different dependent variables as defined below.

### 4.1 Frequencies of Important Variables

I aggregate the frequencies below into fewer categories. This was required in all cases to facilitate computation of cross tabs and because of limited numbers of observations in some of the categories for each variable. The detailed disaggregated data are in Appendix B.

#### 4.1.1 Dependent Variable

I separated the sample into those who had positive accounts at PPS at the end of the month and those who did not. Those customers classified as savers have positive accounts, and are on the bottom of the table below (\$1 or greater). Whereas those customers classified as non-savers are on the upper level, and have \$0 or less in their accounts. The results also found that 86 (78.9 percent) of the participant surveyed had \$50 or less in their accounts, and suggests that although saving takes place at PPS there is still a lot of room for improvement.

*Table 2: The Classification of PPS Customers as Savers and Non-savers*

Classification of PPS Customers	Number of Customers	Percent
Non-savers (\$0 or less)	52	47.7
Savers (\$1 or greater)	57	52.3
Total	109	100.0

#### 4.1.2 Main Independent Variables

The first of the frequency tables for the independent variables is the ‘Level of Financial Literacy’. I aggregated the six categories into three groups. Groups A+B are now called ‘High’, C+D are now ‘Medium’ and E+F are ‘Low’. High indicates a high level of financial literacy while low indicates a low level of financial literacy among PPS participants surveyed.

*Table 3: Financial Literacy Level of PPS Customers*

Level of Financial Literacy	Number of Customers	Percent
High	33	30.8
Medium	57	53.3
Low	17	15.9
Total	107	100.0

The next variable is ‘Making and Sticking to a Budget’ and has been aggregated into three groups. They are Always and Almost Always (High), Sometimes (Medium) and Almost Never and Never (Low). High indicates the ability to make and stick to a budget while low indicates an inability to make and stick to a budget among PPS participants surveyed.

*Table 4: PPS Customers Likelihood of Sticking to a Budget*

Likelihood of Sticking to a Budget	Number of Customers	Percent
High	39	37.1
Medium	39	37.1
Low	27	25.7
Total	105	100.0

The last of the main independent variables is that of ‘Planning for the Future’, which has been aggregated into two groups, and they are days and weeks (short-term), and months and years (long-term). Long-term indicates the likelihood of a participant to make plans stretching over a longer period, while short-term indicates a participant’s inability to make plans for the future, and only make plans at best on a cheque-to-cheque basis.

*Table 5: Period of Time PPS Customer Plans Ahead*

Period of Time PPS Customer Plans Ahead	Number of Customers	Percent
Days and Weeks	49	50.0
Months and Years	49	50.0
Total	98	100.0

### **4.1.3 Secondary Independent Variables**

I aggregate the data for ‘Disposable Income’ into two groups: that of <\$250 and \$250>. The lower level of disposable income is on the top while the higher level of disposable income, those with over \$251 is shown at the bottom of the table below. The results also found that 89 (88.2 percent) of the participant surveyed had \$750 or less disposable income per month.

*Table 6: Amount of Disposable Income among PPS Customers*

Level of Disposable Income	Number of Customers	Percent
\$0-\$250	54	53.5
\$251 or greater	47	46.5
Total	101	100.0

The next frequency table is that of ‘Level of education’ and is aggregated into four groups that of No High School, High School, Trade and the combination of College and university. I tried other variations but the same or similar results emerged. Due to the image often portrayed by many about the DTES, I was surprised to see the high level of college graduates among PPS participants.

*Table 7: PPS Customer’s Highest Level of Education Obtained*

Level of Education	Number of Customers	Percent
No High School	22	21.6
High School	38	37.3
Trade	11	10.8
College or Above	31	30.4
Total	102	100.0

The following frequency table is that of ‘Benefits’ and is aggregated into three groups No Claims (not claiming), Short Term Claims (unemployment, child allowance and welfare) and Long Term Claims (pension and disability). The basis for selecting these groups is on the perceived length of time recipient’s various claims are likely to last.

*Table 8: Expected Period of Welfare Claims made by PPS Customers*

Expected Period of Welfare Claim	Number of Customers	Percent
No Claims	24	23.5
Short Term Claims	33	32.3
Long Term Claims	45	44.2
Total	102	100.0

The final frequency table is that of ‘Gender’, and shows the populations of PPS customers based on gender.

*Table 9 PPS Customer’s Gender*

Gender of PPS Customer	Number of Customers	Percent
Female	37	33.64
Male	73	66.36
Total	110	100

## 4.2 Test of Associations

Directly below is a summary of the study’s results, showing only the information in regards to the Chi-Square Tests and ‘P’ values. The bold italic font highlights significant associations between the variables being examined. The results for the dependent variable ‘money in account normally’ and the independent variables ‘planning for the future’ and ‘making and sticking to a budget’ show a significant level of association. However, the other main independent variable measuring the level of financial literacy did not have a significant correlation with money in account normally.

Another issue with the results is that we do not know which direction causality runs. For instance, does someone who plans for the future have more money in his or her account? Alternatively, is it the other way: if I save more, I am more likely to plan for the future? Therefore, I used the planning and budgeting variables to check for a correlation between each other and all other variables by means of a chi-square test. The two variables in question, as expected showed an association between each other (planning and budgeting), as both involve some form of planning. Both of the aforementioned variables also showed an association to the level of financial literacy variable, but only making and sticking to a budget showed any

association with level of education. My results are consistent with hypotheses in other studies. For example, Lusardi (2004; 161) argues that by offering financial education seminars, both financial and total net worth increase sharply, especially for families at the bottom of the wealth distribution and those with low education.

*Table 10: Summary of Chi Square and p-Values from Crosstabs of Previously Selected Variables*

#	Themes	Variable	Variable	X <sup>2</sup> value	p-value
1	<b>Term of saving</b>	<b>Money in account normally</b>	<b>Money in November</b>	<b>20.12</b>	<b>0.00</b>
2	Financial literacy and saving	Money in account normally	Level of Financial knowledge	0.252	0.88
3	<b>Financial literacy and saving</b>	<b>Money in account normally</b>	<b>Sticking to a budget</b>	<b>4.822</b>	<b>0.09</b>
4	<b>Financial literacy and saving</b>	<b>Money in account normally</b>	<b>Future planning</b>	<b>5.014</b>	<b>0.025</b>
5	Money available and saving	Money in account normally	Disposable income	0.992	0.319
6	Education and saving	Money in account normally	Level of education	4.107	0.25
7	Benefits and saving	Money in account normally	Benefits	0.385	0.825
8	Gender and saving	Money in account normally	Gender	0.471	0.492
9	<b>Financial Literacy</b>	<b>Planning for the future</b>	<b>Budgeting</b>	<b>15.383</b>	<b>0.000</b>
10	<b>Financial Literacy</b>	<b>Planning for the future</b>	<b>Level of financial literacy</b>	<b>11.240</b>	<b>0.001</b>
11	<b>Financial Literacy</b>	<b>Budgeting</b>	<b>Level of financial literacy</b>	<b>17.308</b>	<b>0.002</b>
12	<b>Budgeting and Literacy</b>	<b>Budgeting</b>	<b>Level of education</b>	<b>12.123</b>	<b>0.059</b>

### **4.2.1 Saving Variables**

The goal of this analysis was to determine why too few people at PPS save and to find ways in which to change this situation. Out of 110 participants, approximately 50 percent are savers and 50 percent are non-savers. Recall that I used two separate questions in the survey to measure the dependent variable: how much was in your account on the last dates before receiving another cheque (dates were November 25 to 30) and how much money do you normally have left in your account from deposits made over the past 30 days.

The first of these two questions was used to check the validity of the second question, with the result being that there is evidence of a relationship between Money in account in November and Money in account normally in this study,  $\chi^2 (1) = 20.12, p = 0.00$ . Having established a link between the two variables we will now move onto looking at the relationship of variable two with the other variables.

### **4.2.2 Level of Financial Literacy Variable**

The chi square test for this variable does not support a positive correlation between money in account normally and the participants knowledge of financial literacy; in this study,  $\chi^2 (2) = .256, p = 0.88$ . Therefore, my data does not support the hypothesis that the higher the level of financial literacy the more likely the participant is to save. Interestingly when reviewing the literature, other tests have shown that many people actually over estimate their level of financial literacy (Canadian Council on Learning, 2010), so the lack of understanding of what financial knowledge is and how it affects everyday life may have distorted this data.

### **4.2.3 Making and Sticking to a Budget Variable**

There is a significant correlation between money in account normally and sticking to a budget in this study;  $\chi^2 (2) = 4.822, p = 0.09$ . Therefore, my data does support the hypothesis that the more a participant sticks to a budget the more likely the participant is to save. This is an important discovery as over 62 percent of those surveyed indicated that at best they would only sometimes make and stick to a budget.

### **4.2.4 Planning for the Future Variable**

The chi square test results,  $\chi^2 (2) = 5.014, p = 0.025$  indicates that there is support for a correlation between money in account normally and future planning in this study. Therefore, my data does support the hypothesis that the longer a participant plans ahead the more likely the participant is to save. This is another important finding, as over 81 percent of those surveyed did not look any further ahead than a few months when making plans and 50 percent of those surveyed looked no further than a few weeks ahead.

### **4.2.5 Disposable Income Variable**

As can be seen from the chi square test results,  $\chi^2 (1) = 0.992, p = 0.319$  there is no support for a relationship between money in account normally and disposable income. Therefore, the hypothesis that the lower the amount of disposable income the participant has the less likely he or she is to save is not supported.

### **4.2.6 Education Variable**

As can be seen from the chi square test results,  $\chi^2 (3) = 4.107, p = 0.25$  there is no statistical evidence of a relationship between money in account normally and level of education in



this study, so the data does not support the hypothesis that the lower the education level the less likely the participant is to save.

#### **4.2.7 Benefits Variable**

As can be seen by the chi square test results,  $\chi^2 (2) = 0.385$ ,  $p = 0.825$  there is no statistical evidence of a relationship between money in account normally and type of benefits claimed in this study. Therefore, there is no evidence to support the hypothesis that participants claiming long term benefits are less likely to save than those participant making no welfare claims.

#### **4.2.8 Gender Variable**

It can clearly be seen from the chi square test results,  $\chi^2 (1) = 0.471$ ,  $p = 0.492$  that there is no statistical evidence of a relationship between money in account normally and gender in this study, so there is no evidence to support the hypothesis that men are more likely than women are to save.

#### **4.2.9 Summary of Findings**

The evidence from the survey in the study at PPS revealed a strong association between long term planning and saving, and making and sticking to a budget and saving. These finding suggest that by increasing the length of time over which Pigeon Park Saving customers make their financial plans and stick to them, then the more likelihood there is of them saving. However, the level of financial literacy variable showed no association with the variable money normally in account. The results do show a positive correlation between planning and budgeting and a correlation between both of these variables and the level of financial literacy variable. The only other positive correlation was that of making and sticking to a budget and level of education.

These association increases the likelihood of a connection between making plans for the future and sticking to them, and financial literacy in this study. Therefore, my results are consistent with Lusardi's argument that financial literacy is linked to the ability to plan for the future, which in turn leads to an increase in saving rates among all groups especially the poor (Lusardi, 2004, 161). There is some evidence to suggest that given the correct tools, PPS customers can improve their saving rates by increasing their financial knowledge.

The variables such as gender, education, income and disposable income showed no association with the variable money in account normally, nor did they show any association to either the planning or budgeting variable. Therefore, this data does not support any link between them and improving saving rates at PPS.

I now turn to the identification of possible policy options and criteria with which to assess them.

## **5: Criteria to Assess Policy Options to Improve Saving Rates**

This section contains the criteria that I used to evaluate the feasibility of the policy options. The criteria include cost, effectiveness, administrative ease and political feasibility.

### **5.1 Cost**

This criterion assesses all costs involved in implementing the individual options and the amount of money needed to finance the various options. There are at this time no present funds available to PPS other than the grant from TD Bank of \$100,000 used to increase staff hours, an action that allows staff to spend more time with each customer and giving staff time to identify problems confronting individual customers. However, there are no funds available at this time to follow up on the assessments made by staff. The only possibility available at this time is slightly increasing interest rates for motivational purposes. Therefore, the higher the cost of the option the less likely the chances are of finding possible sponsors, so it is important costs are kept within the realms of possibility.

The measure for this criterion will be in dollars and I will rank the amounts based on the availability of funds and the possibility of covering all incurred costs. A rank of one indicates that the financial resources needed to pay for the option are unrealistic, while five indicates a realistic possibility of being available to cover all costs for six months to one year.

## **5.2 Effectiveness**

The objective of this study is to increase the number of people who save money at PPS. This will in part involve moving people on the saving scale from the <\$0 range, up to at least the \$1-\$50 range over several months. Therefore, I measure the effectiveness of the options by using evidence from the literature review that indicates the success of various programs and the number of people that indicated on my survey that they would be encouraged to save by various incentives and policies. The ranking for this criterion is on a scale of zero to five with zero indicating the option will have no effect.

The information from my survey on savings shows that approximately 50 percent of the people have no savings while 31 percent of the people have between \$1 and \$50 in savings. The planning ahead table indicates that approximately 50 percent of the people think in terms of days and weeks, while over 30 percent of the people think in terms of months. In both cases, the data captures the majority of the participants within the lower ranges of the original scales. Therefore, it seems rational that the first steps should be to move customers from the no savings group into the group with \$1 to \$50. With the next step aimed at moving customers from the \$1 to \$50 group into the group \$50 to \$100, while at the same time increasing the length of time participants set financial targets. Other reasons to be taken into consideration are that the majority of participants have only small amounts of disposable income, and that welfare regulation for BC limits assets to \$1500 for an individual (Ministry of Social Development, 2008).

## **5.3 Administrative Ease**

The issue here will be how easy or difficult it will be to implement the option into practice. I base my rankings on interviews with the manager at PPS. For instance, will the options create additional paperwork, complex procedures or the creation of a new department? Therefore

the option of administrative ease will be measured by the amount of additional administration required, and will be ranked on a basis of one to five with one being the most complex.

## 5.4 Political Viability (Stakeholders Concerns)

The political viability criterion considers the acceptance of the options by the stakeholders and their willingness to participate in the policy. In the case of customers, data from the survey will be used, for outside stakeholders I use their willingness to participate (interest level), and finally in the case of staff and management their willingness to endorse the option (interview with PPS manger). I rank each group’s willingness to participate from one to five, with five being the most acceptable to all parties. Below is a summary of the measures and sources used with the selected criteria.

*Table 11: Criteria Measures and Sources for Evaluating Policies*

<b>Criteria</b>	<b>Measure</b>	<b>Source</b>
<b>Cost</b>	The measure is in dollars and ranked from 1 to 5, based on actual cost and how realistic it will be to obtain funding to cover costs	Information provided by PPS Manger, and calculations
<b>Effectiveness</b>	Indicates the number of people that can be encouraged to save, with 5 being the most effective, and zero indicating no change	Information provided by PPS Manger, Customer Survey, Literature review
<b>Administrative ease</b>	The measure is the amount of additional administration required, as well as the policy’s complexity. Ranked on a scale of 1-5 with 1 indicating the most complex	Information provided by PPS Manger
<b>Political Viability</b>	Measured by the willingness of various groups to become involved and the policy’s acceptability to all parties, ranked on a scale of 1 to 5, with 5 indicating the viability by all parties	Customers (Survey) Partners (Willingness of involvement) Staff and Management (interviews with PPS Manger)

## **6: Policy Options to Increase Savings among Low-Income Groups Using PPS**

### **6.1 Descriptions and Analysis**

The first part of this section describes the chosen options and the second part compares and contrasts the options. Results from this study indicate that the lack of forward planning and sticking to a budget among PPS customers is associated with both their inability to save and their lack of financial knowledge. This information has led to the evaluation of the three selected options along with the status quo against the criteria to find the best alternative for PPS customers. The other three options are; One-to-one Lessons on Financial Literacy; One-to-one Lessons on Financial Literacy with Pilot Program Involving Matching Funds; One-to-one Lessons on Financial Literacy with Pilot Program Involving Supermarket Incentives.

Each of the options involves a pilot project rather than offering the program to all PPS customers. Even though PPS's target is to improve the wellbeing of all its customers, the financial cost involved makes it infeasible at this stage. For instance, matching customers' savings, dollar for dollar would prove to be a very expensive option. Even with a maximum allowance of \$100 per customer, costs for a customer base of 5,000 could add up to \$500,000. Another option considered for all customers was 'Take a Trip Home on Us', offering PPS customers a chance to earn a free bus ticket anywhere in Canada during the December holiday period. Like the previous suggestion, the cost of offering this option would be very expensive, as Greyhound's advanced booking rates range upwards of \$122 not including taxes. This would mean that the possible costs of this option would exceed \$550,000, making it difficult if not

impossible to find a partner to donate their services. Thus, all the following options are pilot programs, consisting of only one hundred or two hundred participants. All positive information gathered from this approach will help to encourage greater stakeholder participation, which will in turn allow for a greater number of PPS customers to benefit.

I have constructed the following conditions so that the implementation of the suggested pilot programs at PPS will be fair and structured, and maintain the program's integrity.

1. Participant will be selected by means of a lottery from all eligible customers
2. Participants must have been a member of the bank for at least one year
3. Participants must save the agreed amount of money each month for five out of the six months (amounts will vary depending on the customer's income and circumstances)
4. Participants must not withdraw money from their assigned saving account during the six month period
5. Participants must attend where applicable one-to-one financial literacy classes on a regular basis

Customers who qualify for the rewards offered by an option will be able to collect their reward through PPS. This will enable the employees at PPS to congratulate successful participants and encourage them to continue saving. Below is a detailed explanation of all four options.

### **6.1.1 Status Quo**

The present system at PPS offers little in the way of financial education or advice to customers. There are no leaflets or posters anywhere on the PPS premises, and serving customers takes up most of the employee's time, especially at the peak periods. During this time, employees deal with general account transactions such as deposits, withdrawals, and the opening and closing

of accounts. Even with the grant from TD, the increased time allowed per transactions fails to offer alternative sources to improve financial literacy (one-to-one or group classes). However, financial information and advice are available during the slower periods, usually through PPS bank manger Nathan Allen. Customers do not routinely use this time to ask for financial information, instead they usually use the time to request help during times of financial difficulty help typically remedied by providing a short-term loan and a sympathetic ear (Allen interview, 2010).

### **6.1.2 Financial literacy education (one-to-one)**

The second option targets the problem of too few savers at PPS by offering financial education lessons to 200 customers at PPS on a one-to-one basis. The reason for selecting 200 participants is that it will take three mentors approximately 12 hours each per week to pass on the required information to customers. Additionally there are two main reasons for selecting one-to-one financial education classes over group classes; first, this was the preferred choice of participants from this surveys study. Secondly research shows that group workshops can at best only hope to convey knowledge, whereas programs offering mentoring or coaching appear to provide better results (SEDI, 2009, 25).

As all the other options except for the status quo will involve one-to-one financial literacy education, the following information will apply.

- All information sessions on financial literacy will be held at PPS
- Resources and guidance will be provided by Vancity with the permission of TD Bank
- Bank staff and volunteers will act as mentors
- Information will be aimed at increasing the saving rates at PPS



The present system run by Vancity for low-income groups uses a four-week program (four one hour classes) aimed at imparting the skills needed to access financial information; to develop good money management skills; and to build a sense of confidence in making money decisions (Vancity, 2011). This present program will act as the basis from which to explore how to serve the needs of individuals at PPS.

### **6.1.3 Financial Literacy Education (one-to-one) and Financial Incentives**

This option aims to change customer saving behaviour through motivation as well as education, which is the basis for traditional IDA programs that believe the use of both incentive and education improves participant outcomes; a viewpoint shared by participants during interviews and focus groups on the benefits of IDA programs (Leckie, 2010). Additionally programs offering dollar for dollar matching incentives have proved to be very popular in previous studies such as the ‘Learn to \$ave’ program, offered in Canada. However, due to the cost of implementing this program, the matching dollar for dollar incentive will be lower than that of the Learn to \$ave program. The maximum monthly saving amount matched will be \$5 with the six-month total being \$25. Note that participation in this pilot will also be a maximum of 100.

### **6.1.4 Financial Literacy Education (one-to-one) and Incentives (Supermarket Voucher)**

This option like the one above aims to change the saving behaviour among PPS customers by means of education and incentives. However, unlike the previous option this one uses information gathered from the survey rather than from a literature review, which shows that over 56 percent of participants would be interested in receiving supermarket vouchers. Although at this time, the program has no sponsors the cost would be reflective of the previous option, with

the matching maximum monthly value of the voucher being \$5 with a total maximum of \$25 over six months. Note that participation in this pilot will be a maximum of 100.

## **6.2 Analysis**

In this section, I look at the strengths and weaknesses of the options when measured against the selected criteria. All options will run over a six-month period. In most cases, this will also require monthly contributions from participants. These conditions were set due to related findings involving behavioural theory. For instance, Karen Holden states that behaviours that have immediate awards are more likely to occur than those with delayed action, and breaking large tasks into smaller ones will enable individuals over time to master complex behaviours (Holden, 2010, 2).

### **6.2.1 Status Quo**

As the management at PPS have indicated that they are considering introducing new policies, it would seem logical that there will be more cons than pros in regards to the status quo option. First off, the identified problem of too few savers remains unsolved, leaving customers without additional help or information they need. Additionally, employees continue to have limited tools and time with which to help customers deal with their individual problems. The benefits on the other hand would include no increase in workload for either employees or managers, no short-term or long-term additional costs and no administration implications.

### **6.2.2 Financial literacy education (one-to-one)**

The cost of offering this option to everyone would be inexpensive, but time consuming. Therefore, as mentioned earlier the pilot program will involve 200 participants, in this case the increased number of participants is the best utilization of the 6-month period. Survey responses

suggest that this option will be popular with 60 percent of surveyed participants, so there is no reason to suggest a lack of interest from participants. The need for the involvement of three mentors indicate that this option would involve a large amount of administrative work and training, as employees and volunteers will need to identify individual participant requirements. However, as the option is available to 200 customers there is a strong possibility of affecting saving behaviour at PPS.

### **6.2.3 Financial Literacy Education (one-to-one) and Financial Incentives**

Using a pilot program instead of an open-ended incentive program lowers the costs dramatically, and increases the chances of obtaining the required funding. With a limitation placed upon the number of participants (100) and the amount of matching funds (max \$25 per customer), the total cost would not exceed \$2500. These limitations could however create a negative effect, by lowering the popularity of the options among customers, and create a feeling of exclusion among participants not selected. This means that it is important to involve as many people as possible at the start up stage, thus avoiding negativity among customers. The idea of rewards would appeal to both customers and staff, but to be successful the option would rely on employees accepting an increase in their workload, due to the inability of the present system to track accounts. As mentioned throughout this study incentives encourage changes in behaviour. Therefore, it is likely that a combination of incentives and one-to-one lessons would be highly successful in creating savers and improving financial literacy at PPS.

### **6.2.4 Financial Literacy Education (one-to-one) and Incentives (Supermarket Voucher)**

This option differs in two ways from the above option; a) it will lack popularity, as most people will prefer to receive money rather than vouchers, and b) the idea for this option comes

from participant’s responses to the survey question on possible discount incentives that would encourage participants to save.

### 6.3 Summary

After weighing all the options against the criteria, it is clear to see that there is no obvious choice, as all the options are within a half point of each other. There is also no large variation in cost with which to eliminate any of the options, or no large variation in the effectiveness of any of the options. See Table 12 for the differences in ranking between the options.

Table 12: Options for Improving saving Rates at PPS, Measured Against Criteria

	<b>Cost</b>	<b>Effectiveness</b>	<b>Administrative Ease</b>	<b>Stakeholders</b>	<b>Total</b>
<b>Status quo</b>	Low to no cost (5)	No change in the number of savers (0)	No extra administration work (5)	Unpopular with stakeholders (1)	<b>11</b>
<b>One-to-one financial literacy classes</b>	Inexpensive (5)	Medium participation with low to medium long term success (2)	Fairly complex as there would be 200 participants and therefore a larger amount of monitoring (2.5)	Popular with some customers and stakeholders (1.5)	<b>11.5</b>
<b>Matching funds and one-to-one financial literacy classes</b>	Fairly expensive with limited funding to cover costs (3)	Low participation due to pilot program, low to medium long term success (2)	One hundred participants, monitoring medium and paperwork low (3)	Popular with customers (2.5) and most stakeholders (1), but unlikely to attract sponsors (3.5)	<b>11.5</b>
<b>One-to-one lessons with supermarket voucher incentives</b>	Fairly expensive with limited funding to cover costs (3)	Low participation due to pilot program, low to medium long term success (1.5)	One hundred participants, monitoring medium and paperwork low (3)	Popular with customers (2.5) and most stakeholders (1), but unlikely to attract sponsors (3.5)	<b>11</b>

## **7: Recommendations**

As the previous options showed no one policy to be the best choice, this study recommends a mixture of all the above options. The name for this combined option is the ‘Mixed Bag’ and will require four groups of 50 participants adding up to a total of 200. The four groups below will follow the same rules as laid out in the corresponding option sections.

- Status quo,
- One-to-one Lessons on Financial Literacy,
- One-to-one Lessons on Financial Literacy with Pilot Program Involving matching funds,
- One-to-one Lessons on Financial Literacy with Pilot Program Involving supermarket Incentives

### **7.1 Mixed Bag Evaluation**

This combined option faces many of the same obstacles as the previous option such as the requirement for additional funds, and an increase in administration costs. However, the total cost of this program in terms of incentives will remain the same as other incentive options (\$2500), as the number of participants receiving incentives remains the same. Additional administrative needs will be required, as this program will monitor 200 participants split between four different programs. An increase in participants also means an increase in information, which heightens the possibility of finding a successful method of increasing saving at PPS. Therefore, the long-term likelihood of gaining sponsorship is increased.

## 7.2 Reasons for Selecting the Mixed Bag Approach

The information provided in the latter sections has provided the tools with which to evaluate the options, which in turn has led to this study recommending the option of 'Mixed Bag'.

There are five main reasons for selecting this option.

- The option would prove to be popular with most stakeholders,
- Administration is at manageable level
- The long-term results will likely have a positive effect on saving and financial literacy at PPS.
- The varied approach will enable staff to gain a greater knowledge of customer saving behaviours at PPS
- Cost is at realistic and achievable level

The grant given to PPS by TD Bank allows employees the time to determine the willingness of customers to participate in new programs, and to tailor programs to individual needs. Although the basic program would be similar to the one employed by Vancity Credit Union, the barriers facing PPS customers are unlike other groups Vancity has encountered. For instance, PPS customers tend to have higher levels of addiction and mental illness than those of Vancity. This means that many of the volunteers recruited to help implement one-to-one financial literacy lessons will need to have at least a basic knowledge of social work, similar to that of the present PPS tellers. Therefore, before implementation I would suggest approaching UBC's Social Work department for possible volunteers.

It is also important that PPS clarify with TD Bank if Vancity Credit Union can participate in the one-to-one teaching or training of volunteers. Vancity has indicated its willingness, but have expressed concerns over venturing into another bank's territory.

This study also recommends that the monitoring of participants continue after the six-month period to see the level of long-term improvements in saving behaviour. This will increase

the value of the study and aid further research at PPS and similar locations, due to the limited information on the success or failure of programs especially among communities such as the DTES.

### **7.3 Improving the Study and Additional Information**

There are also things that the study could have done differently or could have done that would have improved the value of this project. For instance, there are questions or choices that should have been added to the survey such as in the question “What is your living situation”, where no space was provided for homeless or living in a shelter. The question on barriers to saving where political correctness stopped me from directly asking “do you have an addiction and if so what are you dependent upon”, I instead placed addiction next to illness.

I should have also pushed harder for the PPS manager to gain permission from TD bank for me to talk to the financial literacy department at Vancity Credit Union. While staff at Vancity welcomed the idea, they were concerned about interfering in what they perceived as a TD bank project. The possible insight and knowledge gained from this meeting escaped me until later in the study, at which stage I had no more time to expand my interviews.

I also would have conducted in-depth interviews among PPS customers and staff to gain a deeper understanding of the barriers to savings, as this would have provided a greater pool of information to assess policy options. This objective would have been achievable as bank customers and staff, were more than willing to share their thoughts and feelings with me, and there seemed no limit to the information they supplied. However, as I did not plan to use interviews within this study, I failed to gain permission from Simon Frasers Ethics committee, so the information given to me was informative only at a personal level.

The results of this study indicated that budgeting and planning are problems facing many of the people surveyed, and although outside of the scope of this project there are changes that can be made at a governmental level that will help to increase saving. For instance, changing welfare payments from monthly to bi-weekly may help people who struggle or are unable to make long-term plans or stick to a budget. The manager at PPS believes this would help customers, and supports this argument by explaining that the BC ministry already offers this option to some people with mental health issues or some other specific conditions. Additionally some bank customers realize that budgeting is an issue for them, and have asked the bank for a self-imposed limit on weekly withdrawals. There is however, an obvious drawback to this as a regional or national solution, and that is the increased cost to government. Another issue the BC government should review is the \$1500 limitation on assets, a limit that prevents some recipients on welfare from saving due to the fear of losing their benefits.



## Appendix A

### Frequencies

The tables below shows survey questions and the choices made by the participants of the PPS survey for the questions regarding saving and banking. The inconsistency in the number of total member responses to questions is a reflection of missing information.

*1. I have been a customer at pigeon Park Savings for.....*

#### NUMBER OF YEARS AS A PPS MEMBER

Years of Membership	Number of Members	Percent
0.3	1	.9
0.5	2	1.8
1	17	15.5
2	14	12.7
3	10	9.1
3.5	3	2.7
4	16	14.5
4.5	1	.9
5	19	17.3
5	1	.9
6	26	23.6
Total	110	100.0

2. I regularly make \_\_\_\_\_ deposit(s) a month into my account

NUMBER OF DEPOSITS PER MONTH

Deposits per/month	Number of Members	Percent
1	11	10.1
2	41	37.6
3	49	45.0
4	5	4.6
5	3	2.8
Total	109	100.0

3. I use Pigeon Park Savings to...

a) Cash Cheques

MEMBERS USING PPS TO CASH CHEQUES

Members Who Do or Do Not Cash Cheques	Number of Members	Percent
No	43	39.1
Yes	66	60.9
Total	110	100.0

b) Saving Money

MEMBERS USING PPS TO SAVE MONEY

Members Who Do or Do Not Use PPS to Save Money	Number of Members	Percent
No	71	64.5
Yes	39	35.5
Total	110	100.0

*c) Direct Deposit*

MEMBERS WITH DIRECT DEPOSIT

Members With or Without Direct Deposit	Number of Members	Percent
No	25	22.73
Yes	85	77.27
Total	110	100.0

*d) Pay Bills*

MEMBERS PAYING BILLS THROUGH PPS

Members Who Do or Do Pay Bills	Number of Members	Percent
No	70	63.6
Yes	40	36.4
Total	110	100.0

*4. I pay the following bills at Pigeon Park Savings.....*

*a) BC Hydro*

MEMBERS PAYING HYDRO BILL THROUGH PPS

Members Paying Hydro Bill	Number of Members	Percent
No	85	79.4
Yes	22	20.6
Total	107	100.0

*b) Cable TV*

MEMBERS PAYING CABLE BILL THROUGH PPS

Members Paying Cable Bill	Number of Members	Percent
No	75	69.4
Yes	33	30.6
Total	108	100.0

*c) Pay Phone Bill*

MEMBERS PAYING PHONE BILL THROUGH PPS

Members Paying Phone Bill	Number of Members	Percent
No	70	64.8
Yes	38	35.2
Total	108	100.0

5. Check any of the following discount coupons you think would encourage you to save a set amount for several months.

*a) Bus or Train ticket*

INTEREST LEVEL IN DISCOUNTED BUS TICKETS

Members Interested in Discounted Bus Tickets	Number of Members	Percent
No	50	45.9
Yes	59	54.1
Total	109	100.0

*b) Discounted Furniture*

INTEREST LEVEL IN DISCOUNTED FURNITURE

Members Interested in Discounted Furniture	Number of Members	Percent
No	91	83.5
Yes	18	16.5
Total	109	100.0

*c) Discounted Phone Cards*

INTEREST LEVEL IN DISCOUNTED PHONE CARDS

Members Interested in Discounted Phone Cards	Number of Members	Percent
No	77	70.6
Yes	32	29.4
Total	109	100.0

*d) Reduced apartment move in rates*

INTEREST LEVEL IN DISCOUNTED RENT

Members Interested in Discounted Rent	Number of Members	Percent
No	88	80.7
Yes	21	19.3
Total	109	100.0

*e) Groceries*

INTEREST LEVEL IN DISCOUNTED GROCERIES

Members Interested in Discounted Groceries	Number of Members	Percent
No	47	43.1
Yes	62	56.9
Total	109	100.0

*f) Other*

INTEREST LEVEL IN OTHER DISCOUNTS

Members Interested in Other Discounts	Number of Members	Percent
Members No	106	97.2
Response Yes	3	2.8
Total	109	100.0

*6. Are you presently affected by any of the following problems...?*

*a) Legal Issues*

MEMBERS WITH OR WITHOUT LEGAL PROBLEMS

Members With or Without Legal Problems	Number of Members	Percent
No	87	79.8
Yes	22	20.2
Total	109	100.0

*b) Illness/addiction*

MEMBERS WITH OR WITHOUT ILLNESS/ADDICTION PROBLEMS

Members With or Without Addiction/Illness Problems	Number of Members	Percent
No	58	53.7
Yes	50	46.3
Total	108	100.0

*c) Debt*

MEMBERS WITH OR WITHOUT DEBT PROBLEMS

Members With or Without Debt Problems	Number of Members	Percent
No	77	71.3
Yes	31	28.7
Total	108	100.0

*d) Pregnancy*

MEMBERS WITH OR WITHOUT PREGANCY ISSUES

Members With or Without Pregnancy Problems	Number of Members	Percent
No	110	100.0
Total	110	

*e) Long Term Unemployment*

MEMBERS WITH OR WITHOUT UNEMPLOYMENT PROBLEMS

Members With or Without Unemployment Problems	Number of Members	Percent
No	82	75.9
Yes	26	24.1
Total	108	100.0

f) Divorce

MEMBERS WITH OR WITHOUT DIVORCE PROBLEMS

Members With or Without Divorce Problems	Number of Members	Percent
No	99	91.7
Yes	9	8.3
Total	108	100.0

g) Other

MEMBERS WITH OR WITHOUT OTHER PROBLEMS

Members With or Without Other Problems	Number of Members	Percent
No	91	84.3
Yes	17	15.7
Total	108	100.0

7. On a scale from 'A' (highest) to 'F' (lowest), my level of knowledge about personal finance is

.....

PPS MEMBERS EVALUATION OF THEIR LEVEL OF FINANCIAL LITERACY 'A' (highest) to 'F' (lowest),

Level of Financial Literacy	Number of Members	Percent
A	17	15.9
B	16	15.0
C	32	29.9
D	25	23.4
E	6	5.6
F	11	10.3
Total	107	100.0

8. *If I need banking information, I would first ask...*

WHERE PPS MEMBERS GET BANKING ADVICE

Bank Advice Institutions	Number of Members	Percent
Close Friends or Family	22	22.9
Pigeon Park Savings	51	53.1
Money Mart/Other Payday lenders	1	1.0
Other Banks	3	3.1
Social Services	4	4.2
Never Ask	15	15.6
Total	96	100.0

9. *Thinking only of your account at Pigeon Park Savings, approximately how much money did you have left in your account when you deposited your final check of the month in November between the dates of 25<sup>th</sup> to the 30<sup>th</sup>?*

MONEY LEFT IN MEMBERS ACCOUNT IN NOVEMBER (2010)

Money in Account	Number of Members	Percent
<0	51	46.8
\$1-\$50	24	22.0
\$51-\$100	5	4.6
\$101-\$150	3	2.8
\$151-\$200	11	10.1
\$201-\$250	2	1.8
\$251-\$300	5	4.6
\$301-\$350	8	7.3
Total	109	100.0



10. Thinking only of your account at Pigeon Park Savings, approximately how much money do you normally have left in your account from deposits you made over the previous 30 days

MONEY LEFT IN PPS MEMBERS ACCOUNT NORMALLY

Money in Account	Number of Members	Percent
<0	52	47.7
\$1-\$50	34	31.2
\$51-\$100	5	4.6
\$101-\$150	3	2.8
\$151-\$200	5	4.6
\$201-\$250	3	2.8
\$251-\$300	2	1.8
\$301-\$350	5	4.6
Total	109	100.0

10 (a). If over \$350 please state amount..... (No Responses)

11. I would now like you to answer a few questions about different types of services that could be offered at Pigeon Park Savings.

How interested would you be in...?

a) Receiving one-to-one financial advice, from Pigeon Park Saving employees

PPS MEMBERS LEVEL OF INTEREST IN RECIEVING ONE-TO-ONE FINANCIAL ADVICE

Level of Interest	Number of Members	Percent
Very Likely	31	32.6
Likely	26	27.4
Neither Likely or Unlikely	8	8.4
Unlikely	18	18.9
Very Unlikely	12	12.6
Total	95	100.0

*b) Receiving financial advice in a group setting from Pigeon Park Saving staff*

PPS MEMBERS LEVEL OF INTEREST IN RECEIVING FINANCIAL ADVICE IN A GROUP SETTING

Level of Interest	Number of Members	Percent
Very Likely	20	22.2
Likely	24	26.7
Neither Likely or Unlikely	9	10.0
Unlikely	16	17.8
Very Unlikely	21	23.3
Total	90	100.0

*c) Reading financial leaflets while waiting in line at Pigeon Park Saving*

PPS MEMBERS LEVEL OF INTEREST IN RECEIVING FINANCIAL INFORMATION FROM LEAFLETS

Level of Interest	Number of Members	Percent
Very Likely	23	25.3
Likely	26	28.6
Neither Likely or Unlikely	16	17.6
Unlikely	11	12.1
Very Unlikely	15	16.5
Total	91	100.0

*d) Receiving discounts coupons or bonuses for saving money each month*

PPS MEMBERS LEVEL OF INTEREST IN RECEIVING INCENTIVES TO ENCOURAGE SAVING

Level of Interest	Number of Members	Percent
Very Likely	62	63.3
Likely	22	22.4
Neither Likely or Unlikely	2	2.0
Unlikely	4	4.1
Very Unlikely	8	8.2
Total	98	100.0

12. *When I make plans for my future, I usually think ahead in terms of ...*

LENGTH OF TIME PPS MEMBERS LOOK AHEAD

Length of Time	Number of Members	Percent
Days	23	23.5
Weeks	26	26.5
Months	31	31.6
A Year	8	8.2
Five years	10	10.2
Total	98	100.0

13. I make and stick to a budget, keeping close track of how much I spend on things like food, housing and entertainment

HOW OFTEN PPS MEMBERS STICK TO A BUDGET

Making and Sticking to a Budget	Number of Members	Percent
Always	17	16.2
Almost Always	22	21.0
Sometimes	39	37.1
Almost Never	13	12.4
Never	14	13.3
Total	105	100.0

14. In what year were you born? 19\_\_\_\_\_ (converted to age in years)

THE AGE RANGES OF PPS MEMBERS

Age of Customers	Number of Members	Percent
<30	4	3.85
30-34	11	10.58
35-39	8	7.69
40-44	13	12.50
45-49	14	13.46
50-54	25	24.04
55-59	16	15.38
59>	13	12.50
Total	104	100.00

15. You Are (gender):

Gender of PPS Customers

Gender	Number of Members	Percent
F	37	33.6
M	73	66.4
Total	110	100.0

16. What is your employment status?

EMPLOYMENT STATUS OF PPS MEMBERSHIP

Employment Status	Number of Members	Percent
Employed	23	22.3
Part Time	12	11.7
Temporary	9	8.7
Unemployed	23	22.3
Disability	31	30.1
Retired	5	4.9
Total	103	100.0

17. What is your total monthly household income?

MONTHLY INCOME OF PPS MEMBERS

Level of Income	Number of Members	Percent
\$0-\$250	4	4.0
\$251-\$500	8	8.1
\$501-\$750	16	16.2
\$751-\$1000	22	22.2
\$1001-\$1250	18	18.2
\$1251-\$1500	6	6.1
\$1501-\$1750	9	9.1
\$1751-\$2000	4	4.0
\$2001-\$2250	5	5.1
\$2251-\$2500	3	3.0
\$2500>	4	4.0
Total	99	100.0

18. After living expenses, how much money do you have left over every month to spend....

MONTHLY AMOUNT OF DISPOSABLE INCOME

Level of Income	Number of Members	Percent
\$0-\$250	54	53.5
\$251-\$500	22	21.8
\$501-\$750	13	12.9
\$751-\$1000	4	4.0
\$1001-\$1250	3	3.0
\$1251-\$1500	2	2.0
\$1751-\$2000	1	1.0
\$2251-\$2500	1	1.0
\$2500>	1	1.0
Total	101	100.0

19. What is the highest level of education you have completed...?

EDUCATION LEVEL OF PPS MEMBERS

Level of Education	Number of Members	Percent
Did Not Complete High School	22	21.6
High School	38	37.3
Trade Certificate	11	10.8
College Certificate	22	21.6
Bachelor Degree	5	4.9
Graduate Degree or Higher	4	3.9
Total	102	100.0

20. Do you collect any of the following benefits?

BENEFITS CLAIMED BY PPS MEMBERS

Type of Benefit	Number of Members	Percent
Not claiming	24	23.5
Unemployment	10	9.8
Child Allowance	4	3.9
Welfare	19	18.6
Pension	9	8.8
Disability	36	35.3
Total	102	100.0

21. *Your household living situation*

SIZE OF PPS HOUSEHOLD

Living Situation	Number of Members	Percent
Single with No Children	72	69.2
Family with No Children	7	6.7
Single with Children	15	14.4
Family with Children	4	3.8
Sharing with friends	6	5.8
Total	104	100.0

22. *If you have children please specify how many...*

NUMBER OF CHILDREN IN A PPS MEMBERS FAMILY

Number of Children	Number of Members	Percent
0	75	73.5
1	10	9.8
2	11	10.8
3	4	3.9
4	2	2.0
Total	102	100.0

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