

For Immediate Release

September 20, 2022



Financial Stress Rains Down on Working Canadians

National Payroll Institute's research shows worrisome financial trends gaining traction, but shelter from the storm remains possible

Working Canadians are beginning to experience the first drops of a financial stress storm that appears to be gaining in intensity.

Throughout the pandemic, many of those who remained employed were able to save more and spend less, a result of pandemic-related lockdowns and the need to work from home. With interest rates and inflation climbing, offices now reopened, and expenditures rising, new research from the National Payroll Institute shows that those gains are quickly disappearing — especially for those who have not adopted positive financial habits.

The research, which combines the *National Payroll Institute's annual survey of working Canadians* with analysis by the Financial Wellness Lab of Canada (the Lab), finds that the financial wellbeing of Canadians has declined steeply in the past year. In fact, those living paycheque-to-paycheque has increased by 26 per cent relative to last year.

Similarly, the Lab's scientific analysis to cluster survey respondents, which again identified that Canadians generally fall into one of three clusters – financially comfortable, coping or stressed – also showed several signs that the state of our financial health is worsening. Where in 2021 the comfortable cluster was relatively large (46%), the analysis of 2022 data shows a migration out of the comfortable cluster (-10%) into the coping (+8%) and stressed (+2%) clusters.

“While the growth of the coping and stressed clusters shows that more Canadians are struggling financially as we emerge from the pandemic economy, the data indicates that things are likely to become even more difficult for more people in the near future,” explains Peter Tzanetakis, President of the National Payroll Institute. “Savings and spending habits, along with reliance on debt, have consistently determined the cluster an individual belongs to, and each one is moving in the wrong direction. With rising interest rates and persistent inflation still an issue, it's likely that this trend will continue.”

The cluster analysis also showed that the gap has widened between the coping and stressed clusters, indicating a growing level of distress among those who are financially struggling the most.

FINANCIAL HABITS WORSENING

An individual's “cluster residency” is determined by a host of factors, however, how much one earns does not necessarily correlate to financial wellness.

While the Lab's analysis found those with lower household incomes were more likely to be in the financially stressed cluster, there still remains a significant proportion (41%) of those in the financially stressed cluster reporting an annual household income in excess of \$100,000. In actual fact, it is financial habits related to saving, spending and debt that play a more critical role in determining where an individual resides on the financial well-being scale — each of these habits are presenting a more troubling picture this year.

The number of employed Canadians spending more than their net pay is at the highest level ever reported in the survey (11%). Unsurprisingly, those in the stressed cluster are living closest to their limits with 91 per cent in that cluster spending all or more than their net pay (up from 82% in 2021).

Canadian workers are also saving less than they were a year ago. In fact, those saving just 1-5 per cent of their pay increased to 34 per cent (up from 27%). Nine per cent don't save anything. Eighty-four per cent of stressed individuals save less than 5 per cent of their pay (up from 76%).

2022 results also showed a significant increase in debt levels. The amount of working Canadians with credit card debt skyrocketed to 42 per cent (up from 29% in 2021). Debt levels increased among all groups, with 27 per cent reporting an increase (up from 17%). This rise was sharpest among the stressed cluster, among whom a whopping 56 per cent say they feel overwhelmed by their debt.

INFLATION AND ECONOMIC OUTLOOK: FORECAST IS FOR MORE TROUBLE AHEAD

After more than a generation of low interest rates and inflation, the steep upward trajectory of both is increasing the intensity of financial anxiety among survey respondents.

Working Canadians, many having never faced either factor before, overwhelmingly (85%) said that inflation and increasing costs of living were their top economic concerns. Canadians are most worried about the cost of food and transportation, and, they are turning to credit cards to fund these basics. Eighteen per cent noted that they used debt to pay for essentials like food, clothing or shelter in 2022. Among the financially stressed, this number is 61 per cent.

"Many Canadians feel stretched thin and that the ability to change their financial position remains out of their control," says Matt Davison, Dean of Science at Western University and Director of the Financial Wellness Lab of Canada. "The research however, demonstrates that moving to a state of improved financial well-being is not only possible, it's probable if you undertake certain measures that can secure your individual financial position."

SHELTER FROM THE STORM

Survey results indicate that, faced with this torrent of financial stress and anxiety, many are unsure what to do and as a result are doing nothing. Doing nothing will not help them weather the storm.

“The good news is that, despite how dark things appear, one’s current cluster does not have to be a permanent residency,” adds Tzanetakis. “The cluster an individual belongs to is closely tied to how much people save, spend and rely on debt.”

In many cases, the cluster analysis has shown that by establishing positive habits like saving more and utilizing less high-interest debt, a stressed individual can change the state of their financial well-being and move into either the coping or comfortable cluster within a single year. However, as the state of financial distress deepens for many, the research also indicates that the individual nature of financial wellness will often require seeking out personalized financial advice or support.

The first step is understanding the depth and reality of your current situation and then not waiting to get started. The National Payroll Institute partnered with the Lab to create a [Financial Fitness Evaluator](#) for individuals to evaluate whether they currently fall into the comfortable, coping or stressed category. Once you have a baseline of your financial well-being, you can begin charting a way out of the storm.

There are a number of avenues available to help you navigate your best options to move forward. Work with a financial advisor to understand your options, explore employee assistance programs (often available at no cost through employers), and reach out to the myriad of government and not-for-profit agencies who offer financial support and advice. The key is to do something, rather than waiting. The storm will likely not last forever, but the sooner you take action to build strong financial habits, the brighter the forecast ahead.

SURVEY METHODOLOGY

The 14th Annual *National Payroll Institute Survey of Working Canadians*: An online survey of 3,033 working Canadians (92 percent of whom are full-time employees) was completed between June 7 and July 15, 2022, using Framework Analytics online panel. The survey is consistent with a margin of error of plus or minus 1.7% 19 times out of 20, but as a non-probabilistic methodology was used, a definitive margin of error cannot be expressed. The data was weighted in order to be statistically representative.

ABOUT THE NATIONAL PAYROLL INSTITUTE

The National Payroll Institute champions payroll in Canada as being vital to the health of businesses across Canada by setting THE professional standard of excellence and sharing critical expertise. We provide the knowledge and resources that more than 40,000 payroll professionals need to realize their potential, 1.5 million employers depend on for the annual payment of \$1.06 trillion in wages and taxable benefits, and that governments rely on to receive \$364 billion in statutory remittances to fund critical programs each year. The Institute's designations are recognized as the gold standard for expertise and professionalism, and the only such designations for payroll in Canada.

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