



Housing Allowance Overview

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Solving problems, guiding decisions - worldwide



Housing Assistance Types

- **Supply side**
 - Property-based: construction programs
 - Tenant based: subsidies to residents in particular privately owned units/buildings (such as Rent Supplement Program)
- **Demand side**
 - Housing allowance, tenant based, tenant must find qualifying unit in private market
 - A housing allowance is a subsidy that covers a portion of housing costs for eligible low-income households who live in private market housing.



Housing Allowances

- Can be for renters (covers rent, utilities etc)
- Can be for homeowners (can subsidize mortgage payments, utilities, taxes etc)

Key elements of a housing allowance include:

- Number of eligible households
- Proportion of eligible households served
- Subsidy per recipient household

Program design parameters for targeting program resources involve three major design elements:

- Rules for defining the eligible population, and for selection of recipients from among the eligible population.
- The rules for defining eligible units.
- The subsidy formula.

Key Terminology for Housing Allowance Programs Based on a Housing Gap

Eligible household	A household that meets the specified eligibility criteria—usually based on household income and/or household characteristics
Affordability standard	The percentage of income households are expected to pay for housing without having a shelter cost burden
Subsidy standard or eligible housing cost	The maximum actual housing cost on the basis on which a subsidy may be paid; alternatively, the subsidy amount may be based on the standard, regardless of the actual housing cost
Housing gap	The difference between housing costs (e.g., rent) and the presumed household payment determined by an affordability standard
Partial gap coverage	A subsidy formula that pays a percentage of the housing gap that is less than 100 percent

The US Housing Choice Voucher Program

- Eligibility based on household income relative to the local area median income, adjusted for household size
- Affordability standard is 30% of income.
- Subsidy standard generally based on units at the 40th percentile rent for the area. (in some location higher)
- Subsidy is based on a full housing gap formula: the actual rent paid by the household up to the subsidy standard minus 30 percent of the household's income.
- Not an entitlement program. Long wait lists.

US Voucher Program Formula

Full Affordability Gap Coverage

Subsidy covers the difference between the eligible shelter cost (which is the minimum of payment standard and actual shelter costs) and the tenant's required contribution. The formula is:

$$\text{Subsidy} = \min(C^*, C) - (0.3 \times Y)$$

Where:

0.3 = contribution rate (based on affordability standard)

C = actual shelter cost

C* = payment standard for household type and location

Y = actual income

For example, if household income is \$20,000 per year, and monthly rent is \$600 (below the payment standard), the monthly subsidy would be $600 - 0.3 \times 20,000 / 12 = \100 , and the annual subsidy would be \$1,200.

Other Features of the US Program

- Subsidy standard and actual rent include utilities costs: heating fuel, electricity, and cooking gas, but not water and telephone.
- Subsidy standard varies by location and is updated each year.
- Generally available only to renters.
- Open to all renters, regardless of household type.
- For renters, subsidy paid directly to owner.
- Households may pay more than subsidy standard to owner, as long as their portion of the rent is not greater than 40 percent of income at the point when the subsidy payment for that unit begins.

US Voucher Program Costs and Participation

- Current participation nearly 2 million households.
- Total cost about \$14 billion per year (about \$7,000 per assisted household)
- Allowances plus supply-side rental program serve about 4.8 million households in the US. Another 4.9 million have “worst case needs” but receive no assistance.

Other Housing Allowance Programs

Australia: renters, recipients of pensions or other allowances, relatively high subsidies, amounts to 10-20% of income, most renters received allowance, subsidy based on household composition

France: programs for renters and owners, very broad eligibility, complicated formula based on households size

Germany: for renters and owners, for recipients of social assistance covers full rent, for other – must contribute about 25-30% of income for rent, subsidy based on household size, income and housing expenditures

Great Britain: renters, relatively small program, high benefits for unemployed.

Other Housing Allowance Programs

(Continued)

Ireland: renters, focus on unemployed, can amount to up to 50% of income, about 45% of renters receive, subsidy based on income and rent

Netherlands: renters and owners, pays 5-12% of rent, subsidy based on income and rent

New Zealand: renters and owners, relatively low participation, complicated formula based on income, assets, housing costs and location

Sweden: renters and owners, focus on families with children, about 1/3 of renters and 7% of owners receive assistance.

In deciding on these parameters, need to consider impacts:

Direct Program Impacts

- Core housing need
- Affordability for recipients
- Program Assistance Budget

In deciding on these parameters, need to consider impacts:

(Continued)

Indirect Impacts

- Fairness, vertical and horizontal equity.
- Housing market and stock.
- Dependency, work incentives.
- Relationships with other income support programs.
- Relationships with other social policy objectives.

In deciding on these parameters, need to consider impacts:

(Continued)

Administrative Issues

- Complexity
- Need for local administration
- Susceptibility to fraud

Housing Allowance Options

Reminder...

Program design parameters for targeting program resources involve three major design elements:

- Rules for defining the eligible population, and for selection of recipients from among the eligible population.
- The rules for defining eligible units.
- The subsidy formula.

Relationship Between Design Parameters and Evaluation Criteria

	Subsidy Formula Amount	Eligible Households, and Selection of Households Served from Among Eligible Households	Eligible Units
Direct Impacts			
Core Housing Need	Higher payments reduce incidence of core housing need if payments cover entire gap. Partial coverage of gap reduces depth but not incidence of core housing need.	Broader eligibility reduces incidence of core housing need if payments cover entire gap. Partial coverage of gap would reduce depth but not incidence of core housing need.	Requiring quality standards could reduce the incidence of core housing need (although poor quality housing is the cause of only a small fraction of core housing need).
Affordability for Recipients	Higher payments make housing more affordable.	No relation.	If only higher quality units allowed, and payments do not include the entire gap – units may be less affordable.
Recipient Housing Consumption	Higher payment could increase housing consumption especially if benefit is dependent upon the amount spent on housing.	No direct relation. If payment tied to income could increase consumption.	Requiring a quality standard could increase housing consumption.
Program Assistance Costs	Higher payments raise overall costs.	More eligible households raises costs. Impact of targeting depends on how it is done.	Requiring quality standards could raise assistance costs (because higher quality likely tied to higher housing costs).

Relationship Between Design Parameters and Evaluation Criteria

	Subsidy Formula Amount	Eligible Households, and Selection of Households Served from Among Eligible Households	Eligible Units
Indirect Impacts			
Fairness, Equity	In a fixed budget scenario, a larger subsidy per recipient reduces fairness and equity because it reduces number of recipients.	Tying eligibility to income raises vertical equity issues, tying it to other characteristics raises horizontal equity issues.	Quality restrictions raise fairness issues – households that live in poor quality units would not be eligible for assistance unless they moved.
Housing Market and Stock	Higher allowances could theoretically raise overall rent levels.	Serving more households could have more of a market impact (if there is an impact of the program on local rents).	Inspections may improve stock, though not clear.
Dependency, Work Incentives	Higher payment amounts could increase dependency and reduce work incentives.	If eligibility/priority based on income could lower work incentive. If based on characteristics not related to working will not impact work incentives.	No relation.
Relationships with Other Income Support Programs	Need to coordinate with other programs so that marginal tax rate at certain notch points does not become excessive.	If eligibility/priority based on income need to worry about marginal tax effects. If SA recipients not eligible, need to worry about welfare-to-work effects.	Need to decide whether social housing, reservation housing, and other assisted housing are eligible for housing allowance.
Relationships with Other Social Policy Objectives	Payment may need to be higher if program is intended to assist homeless or doubled-up.	Eligibility/priority criteria could be determined based on these other social policy objectives.	High quality standards could make it harder for some types of households to participate.

Relationship Between Design Parameters and Evaluation Criteria

	Subsidy Formula Amount	Eligible Households, and Selection of Households Served from Among Eligible Households	Eligible Units
Administrative Issues			
Complexity	The more variation in payment based on household composition and location, the more complex.	Criteria for eligibility/priorities could be complex.	Requiring inspections adds complexity and cost to the program.
Need for Local Administration	No relation.	If complex eligibility/priority rules, or a waiting list would likely need local administration.	If program requires inspections, would likely need local administration.
Susceptibility to Fraud	Higher payments increase incentives for fraud.	If eligibility based on income or rent burden, increases incentives for fraud. Local administration of wait list and priorities could increase susceptibility to fraud.	If program requires inspections, introduces possibility of fraud.

Design Option Families

1. Full Affordability Gap Coverage

Allowance lowers rent payment to 30 percent of income for recipients, essentially solving core housing need for recipients.

Subsidy covers the difference between the eligible shelter cost (which is the minimum of median rent for an affordable unit and actual shelter costs) and the tenant's required contribution.

Design Option Families

Full Affordability Gap Coverage Formula

$$\text{Subsidy} = \min(C^*, C) - (0.3 \times Y)$$

Where:

0.3 = contribution rate (defines core housing need)

C = actual shelter cost

C* = median local rent for standard housing for household type

Y = actual income

For example, if household income is \$20,000 per year, and monthly rent is \$600 (below the median rent), the monthly subsidy would be $600 - 0.3 \times 20,000 / 12 = \100 , and the annual subsidy would be \$1,200.

Design Option Families

2. Partial Gap Coverage

Program pays a portion of the gap between eligible shelter cost (where eligible shelter cost is the minimum between actual cost and maximum shelter cost) and the tenant's required contribution (which equals either 30 percent of income or some minimum contribution).

Design Option Families

Partial Gap Coverage Formula

Subsidy: = $pr \times [\min(C^*, C) - \max(cr \times Y, Y^*)]$

Where:

pr = proportion of gap covered

cr = contribution rate

C = actual shelter cost

C* = maximum subsidized shelter cost

Y = actual income

Y* = minimum contribution

In the above example, if the proportion of the gap covered is 75 percent, then the monthly subsidy would be $0.75 (600 - 0.3 \times 20,000 / 12) = \75 , and the annual subsidy would be \$900.

Design Option Families

3. Flat Subsidy

Option provides a flat subsidy (for example, a \$1,000 refundable tax credit per year) to all recipients.

Design Option Families

Flat Subsidy Formula

In an example where maximum eligibility is at \$21,000, and the phase-out rate is 50 percent

If $Y \leq \$19,000$, subsidy = \$1,000

If $\$19,000 < Y < \$21,000$, subsidy = $0.5 (\$21,000 - Y)$

If $Y > \$21,000$, subsidy = 0.

A household with an annual income of \$20,000 would receive a subsidy of \$500 per year.

Design Option Families

4. Rent Co-pay

This family of options would involve paying a fixed portion of the rent (or mortgage payment), for all recipients, up to some maximum shelter cost.

Design Option Families

Rent Co-pay Formula

$$\text{Subsidy} = \text{cp} \times \min(C, C^*)$$

Where cp = co-pay percent

C = actual shelter costs

And C* = maximum eligible shelter costs

In an example with a co-pay of 20 percent, and a monthly rent of \$600 (below the maximum eligible shelter cost), the monthly subsidy would be \$120, and the annual subsidy would be \$1,440.

Options for Targeting Program Resources

1. Include All Households in Core Housing Need
2. Subset to Meet a Specific Budget Using a Waiting List
3. Subset by Income
4. Subset by Rent Burden
5. Subset by Tenure
6. Subset by Household Type

Relationship Between Design and Implementation Choices and Evaluation Criteria

	Design options	Method for Specifying Eligible Population
Core Housing Need	Can only be eliminated through a Full Affordability Gap Coverage Option. Partial Gap Coverage reduces depth but not incidence of need. Flat Subsidy and Rent co-pay options may reduce depth and incidence, depending on subsidy size relative to affordability gap.	The only option that can eliminate need is the option that includes all households in core need. Other options reduce the number of households with core needs, but would leave other households with core needs.
Affordability for Recipients	Full Affordability Gap Coverage Option by definition reduces STIR to 30 percent. Affordability under the other options depends on the portion of gap covered, the flat subsidy amount, and the rent co-pay percent.	No relation
Recipient Housing Consumption	<ul style="list-style-type: none"> Design options that provide higher subsidies increase housing consumption more. Thus the full gap coverage option will have a larger impact on consumption than a partial coverage option. The impact of the flat subsidy and rent co-pay on consumption depend on the subsidy amounts under these options. A quality standard may increase consumption if the standard is above the typical quality of housing consumed by eligible households. If the program is tied to actual housing costs without a rent cap, housing consumption will increase. If recipients use the assistance to move to new units, or form new households, housing consumption will increase. 	No relation
Program Assistance Costs	The Full Gap Coverage Option will have higher costs than the Partial Gap Coverage Option. The costs of the Flat Payment Option and Rent co-pay options relative to the Full Gap Coverage Option depend on the subsidy amounts.	The option of including all households in core need is the most costly. In general, the smaller the number of participants, the lower the cost; however the cost per participant will depend on the method for limiting participation.

Relationship Between Design and Implementation Choices and Evaluation Criteria

	Design options	Method for Specifying Eligible Population
Fairness, Equity	<p>Flat subsidies and rent co-payments create vertical equity problems since they are not tied to recipient income.</p> <p>Quality restrictions may raise fairness issues – households that live in poor quality units would not be eligible for assistance unless they moved.</p>	Tying eligibility to income raises vertical equity issues; tying it to other characteristics (such as age or tenure) raises horizontal equity issues.
Housing Market, and Stock	Higher maximum subsidy amounts could theoretically raise market rents and affect property values (though the direction is unclear). Thus, the Full Gap Coverage Option will have a larger impact than a Partial Gap Coverage Option. The impact of the Flat Payment Option and Rent co-pay options relative to the Full Gap Coverage Option depend on the subsidy amounts.	Serving more households could have a greater market impact; thus the full eligibility option would likely have the largest impact. The impact of other options depends on the number of people assisted under each option.
Dependency, Work Incentives	Higher payment amounts could increase dependency and lower work incentives. The impact will depend on the size of the subsidy. Thus, the Full Gap Coverage Option will have a larger impact than a Partial Gap Coverage Option. The impact of the Flat Payment Option and Rent co-pay options relative to the Full Gap Coverage Option depend on the subsidy amounts.	If eligibility/priority is based solely on income, could lower incentive to work. If eligibility is limited to households not expected to work (e.g. elderly, disabled) will not have an impact on work incentives.
Relationships with Other Income Support Programs	Need to coordinate with other programs so that marginal tax rate at certain notch points does not become excessive.	If eligibility/priority based on income or other characteristics that create eligibility for other support programs (e.g. age), need to coordinate and (in some cases) worry about marginal tax effects of combined programs.

Relationship Between Design and Implementation Choices and Evaluation Criteria

	Design Options	Method for Specifying Eligible Population
Relationships with Other Social Policy Objectives (aiding homeless, disabled, families, elderly, etc.)	No direct relation. However, size of the subsidy will affect the depth of the possible impact on other social priorities. Design options that provide a larger subsidy will have a larger ability to address other social objectives.	Eligibility/priority criteria could be determined based on these other social policy objectives.
Complexity	No relation.	Criteria for eligibility/priorities could be complex.
Need for Local Administration	No relation to design option. However, if the program requires housing unit inspections, would likely need local administration.	If complex eligibility/priority rules, or a waiting list would likely need local administration rather than the tax system.
Susceptibility to Fraud	<p>Higher benefits increase incentives for fraud. Thus, the Full Gap Coverage Option will have a higher motivation for fraud than a Partial Gap Coverage Option. The motivation under the Flat Payment Option and Rent co-pay options relative to the Full Gap Coverage Option depend on the subsidy amounts.</p> <p>Options that provide subsidies based on rent payment (gap coverage options, and rent co-pay options) may be susceptible to collusion between renters and landlords to raise rent to the cap, and split any gains.</p>	If eligibility based is based on income or rent burden, increases incentives for fraud.



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