

Housing allowances: cost estimates, and the number and nature of recipients

Marion Steele
Department of Economics, University of Guelph
and
Centre for Urban and Community Studies
University of Toronto
marionsteele@gmail.com
<http://www.uoguelph.ca/~msteele1/msteele.htm>
With the assistance of Joshua Hoy, University of Guelph

Introduction

- How much would it cost for New Brunswick and other Atlantic provinces, for Canada?
 - For families, for the 55+, for all
- How many recipients?
- Average allowance?
- Who are the recipients?
- Next: how the estimates are done

Doing the estimation

- Use the classic housing allowance formula
 - Recall affordability gap is
 $\text{Rent minus 30\% of income}$ unless rent more than max rent
in which case gap is
Maximum rent minus 30% of income
 - Housing allowance is 75% of this gap
- You don't have to use 75% and 30% but CMHC uses 30% as affordability criterion
 - Since we care about amount of cash left for food after paying rent, would make sense to use 35% or 40% for seniors (no kids to feed)

The role of maximum rent

Maximum rent

- sets a cap on the subsidy when rent increases
 - Too high, it encourages rent increases, over-consumption
 - Too low, it doesn't deliver enough subsidy to recipients in high cost places
- Sets an implicit max on income because when 0.30 of income equals max rent, allowance is zero
 - If max rent set at \$510 per month then
 $\text{max income} = \$510/0.3$ or \$1,700 per month or
\$20,400 annually

Maximum rents used here

- 85% of average rents, province's highest-rent city, CMHC 2006
- Result: 2-bedroom unit for **couple, one child**.

Maximum rents for this family:

For NB	\$570
For NS	\$650
For NL	\$540
For PEI	\$520

What does choice of max rent give for max income?

- **maximum income**, NB couple, one child, **\$23,000**
[annual income at minimum wage, 2006, about \$13,400]
- Maximum income for single senior \$18,700
 - If 35% ratio used, \$16,100
 - Note: OAS plus GIS, 2006, \$13,100

How many eligibles apply?

- **Not everyone applies.**
- My estimates for Quebec, BC seniors: only 50% to 70% of eligible seniors actually get the allowance.
- Easy to **greatly** overstate costs.
- Families more likely to apply than seniors
 - but, if tight asset requirement or tough application process, big drop
 - BC predicted 15,000 for family plan, has 5,200
 - Ontario predicted 27,000, has 15,000

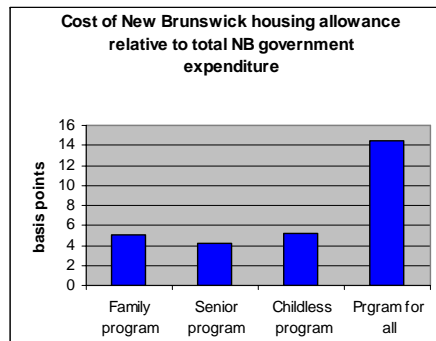
What I do

- **Conservative approach. Assume**
 - 100% for families
 - 75% for seniors
 - 90% for childless under age 55.

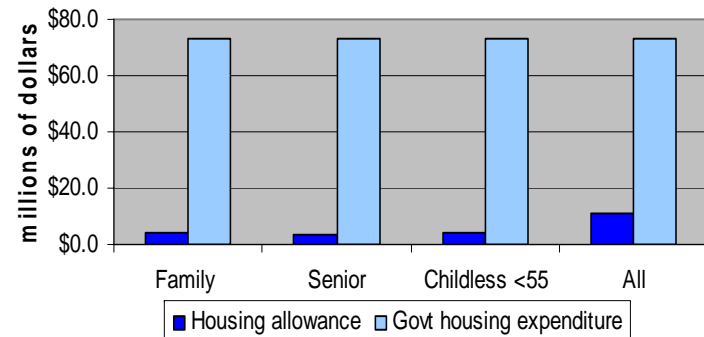
The numbers: total costs

- Estimated cost for New Brunswick (2006) is \$11.1million; estimated number of recipients is 15,000
- Covers seniors, families AND childless households under age 55
- For families, the estimated cost is less than a third of total

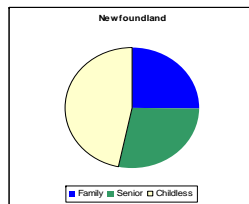
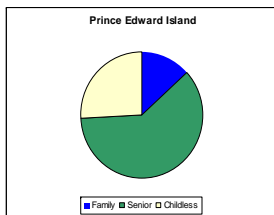
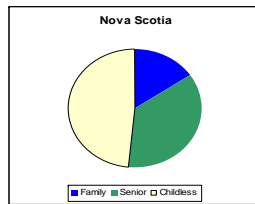
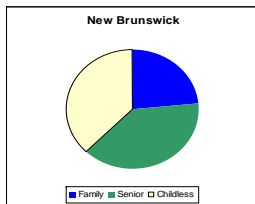
Cost for program for all is less than 15 basis points (15/100 or a percentage point) of total NB government expenditure



Cost of NB housing allowance relative to total NB govt housing expenditure



Number of recipients: share of each type



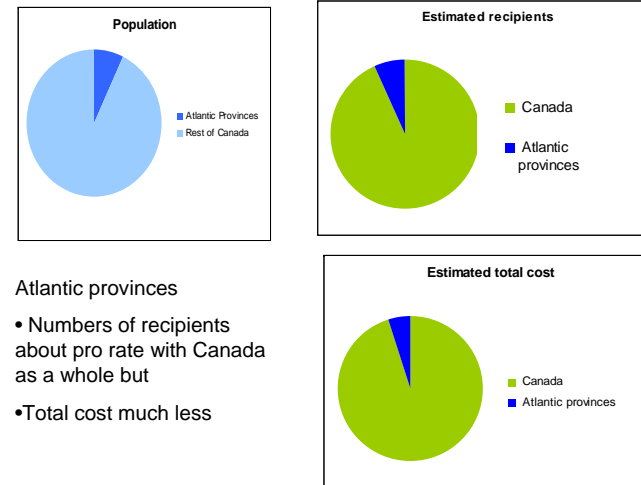
Average estimated monthly payments

- For New Brunswick:
 - Families: slightly less than \$100 per month
 - Seniors: just over \$50 per month
 - Childless: just over \$60 per month
- Payments for NL and PEI in the same region
- Payments for NS much higher

Some numbers for Canada in total

- Estimated total cost for Canada: \$1,325 million
- Comparisons:
 - CMHC housing subsidies: over \$2,000 m.
 - Canada Child Tax Benefit plus supplement about \$7,000
- Estimated total recipients for Canada: 827,000
- Average benefit for Canada \$149 per month

Canada vs Atlantic provinces



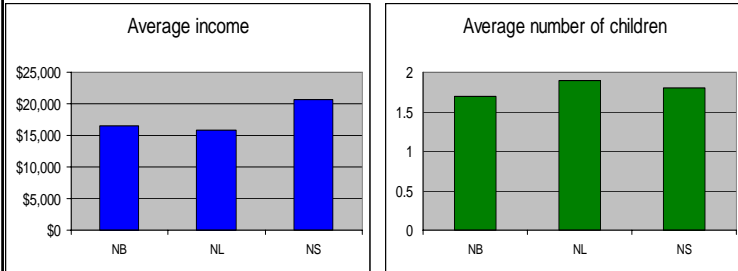
Ways to cut costs

- Eliminate social assistance recipients (not recommended)
 - Adopt Quebec plan: when income is low, use a “base amount” instead of 30% of income.
- Let base amt (minimum rent) be \$300 for parent, 1 child)
- Affordability gap would be defined as
- (1) Rent minus 30% of income or
 - (2) Rent minus \$300, **whichever is less**
- If rent is \$500 monthly and annual income is \$3600 (monthly, \$300)
- gap version (1) is \$500 minus \$90 = **\$410**
- gap version (2) is \$500 minus \$300 = **\$200**
- Affordability gap reduced by about half.
 - Especially good feature if welfare recipients covered,

More ways to cut costs

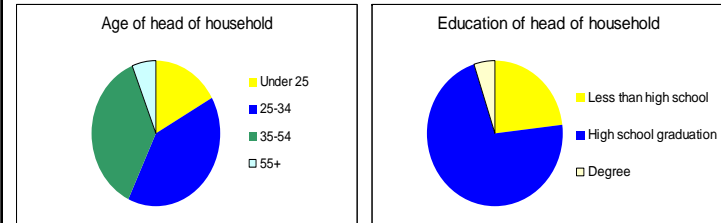
- Cut out childless, unless disabled
 - Would cut costs by a third to a half
- Cut out childless less than age 25 (many students)
- Pay less than 75% of affordability gap
 - Quebec pays only 67%
 - BC and Manitoba pay only 65% for recipients near the program maximum income.
- Reduce maximum rent, e.g. make it 80% of CMHC high-cost market average.
 - Cuts number of recipients and average payment.
- Increase contribution rate of elderly, childless to 40%
 - Cuts number of recipients, average payment

Who would be the Atlantic family recipients?



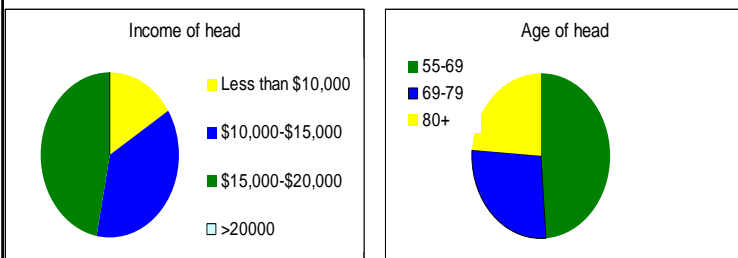
They have very low income—somewhat higher in Nova Scotia-- and fewer than two children

More on family recipients, Atlantic provinces



They are dominantly in prime age groups and the great majority have high school graduation or better.

Who would be the seniors (55+)?



About half have an income less than \$15,000. About half are young old—between 55 and 69 but close to a quarter are very old.

Final comments

- A housing allowance program is **much cheaper for governments than often thought**
- It is **very well targeted** to help those most in need
- The average benefit is not high, but makes a crucially important contribution to the ability of households to **afford enough food**