

Statement of

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Subcommittee on Housing and Consumer Interests
Select Committee on Aging
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Over the past decade, the federal government has greatly expanded the availability of housing assistance for low-income renters and homeowners--doubling the number of households receiving aid under programs administered by the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA). In its 1986 budget submission, the Administration is proposing to make no additional assistance commitments under the FmHA programs and to adopt a two-year moratorium on new commitments under HUD programs. A large share of the recent growth in assisted housing has benefited older Americans, and any pause in that growth would also affect them.

I am pleased to be here today to provide background information on the housing problems of the elderly as your Committee considers the Administration's proposal and alternatives to it. My remarks will cover three topics:

- o The income and housing circumstances of the elderly;
- o The nature of federal housing assistance, including benefits provided through the tax system; and
- o Housing policy options available to the Congress.

THE INCOME POSITION AND HOUSING CIRCUMSTANCES OF THE ELDERLY

Over the past several decades, the income and housing circumstances of the elderly have improved dramatically--in part as the result of federal transfer programs. Nonetheless, large numbers of older people are still

poor, and a sizable share of them either live in physically deficient dwellings or pay a large portion of their income for shelter.

Long-Term Trends

By most measures, the income position of older Americans has improved greatly during the past quarter century. For example, between 1960 and 1983, the proportion of all families headed by someone aged 65 or older who were classified as poor declined from 27 percent to 9 percent, and the share of elderly unrelated individuals living in poverty fell from two-thirds to about one-fourth. Much of this improvement can be attributed to the widening availability of Social Security and Supplemental Security Income (SSI) payments, and to the increase in average benefits. Between 1960 and 1983, the proportion of elderly people receiving either Social Security or SSI increased from 72 percent to 96 percent, and the average benefit nearly doubled in constant dollar terms. During this period, the government also greatly increased the in-kind incomes of the elderly through the creation of the Medicare program.

Not surprisingly, older people have used some of their increased cash incomes to improve their housing circumstances. More old people than ever live away from their children or other relatives--a long-standing preference for most elderly. Between 1960 and 1984, for example, the share of all people aged 65 and older who lived independent of their relatives increased from about 60 percent to approximately 78 percent. Also, the proportion of all households living in physically deficient units declined. Between 1960

and 1983, for example, the share of all households living in units lacking complete plumbing facilities fell from 15 percent to less than 2 percent. (Comparable data are not readily available for elderly-headed households alone.)

Current Circumstances

Despite these improvements, a large number of elderly people remain in or near poverty, and a large share of them face housing problems.

As of 1983, 14 percent of all people aged 62 years and older--the cutoff for being considered elderly under most housing assistance programs--had cash incomes below the official poverty thresholds. An additional 16 percent had incomes no more than 50 percent above the poverty line. Poverty is especially prevalent among the elderly who live alone or with other people not related to them. As of 1983, one-half of such people had cash incomes no greater than 50 percent above the poverty line (see Table 1).

Housing problems often accompany the limited incomes of the elderly. As of 1981 (the latest year for which data are available), 16 percent of all elderly renters and 9 percent of all elderly homeowners classified as very-low-income for the purpose of qualifying for housing aid were living in dwellings judged to be in need of rehabilitation (see Table 2). As of the same year, close to one-half of all very-low-income elderly households were paying more than 30 percent of their income for shelter, and nearly one in

TABLE 1. POVERTY STATUS OF PERSONS AGED 62 AND OLDER,
BY LIVING ARRANGEMENT, 1983

Income as a Percent of Poverty <u>a/</u>	Living Alone	Living With Spouse	Living with Other Than Spouse		Total
			With Relative	Unrelated Individuals	
Persons in Thousands					
Below Poverty	2,356	1,232	347	233	4,168
100 - 150 Percent	2,227	1,987	348	170	4,732
150 - 200 Percent	1,257	2,503	282	84	4,126
200 Percent or More	3,305	12,827	1,134	184	17,451
Total	9,146	18,549	2,110	673	30,478
Percent of All Elderly In Same Living Arrangements					
Below Poverty	26	7	16	35	14
100 - 150 Percent	24	11	16	25	16
150 - 200 Percent	14	13	13	12	14
200 Percent or More	<u>36</u>	<u>69</u>	<u>54</u>	<u>27</u>	<u>57</u>
Total	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of the 1984 Current Population Survey.

- a. Classification is according to the Bureau of the Census definition of poverty. People age 65 or older who were living alone or with people unrelated to them are classified as poor if they had cash incomes in 1983 below \$4,775. For individuals less than 65 years old living outside of a family unit, the poverty threshold was \$5,180. The threshold for two-person families are \$6,023 if the head is age 65 or over, and \$6,697 if the head is younger. Thresholds for larger families vary from \$7,938 for three-person families to \$20,310 for nine or more persons, regardless of the age of the household head.

TABLE 2. HOUSING CONDITIONS OF HOUSEHOLDS HEADED BY A PERSON AGED 62 YEARS OR OLDER, BY INCOME AND TYPE OF HOUSING, 1981

	Income <u>a/</u>			Total
	Very-Low Income	Low Income	Other	
<u>Renters</u>				
Thousands of Households				
Living in Housing Requiring Rehabilitation <u>b/</u>	530	90	100	730
Housing Costs Exceed <u>c/</u>				
30 Percent of Income	1,660	400	80	2,140
50 Percent of Income	830	70	20	920
Percent of All Households in Category				
Living in Housing Requiring Rehabilitation <u>b/</u>	16	9	10	14
Housing Costs Exceed <u>c/</u>				
30 Percent of Income	54	40	9	43
50 Percent of Income	27	7	2	18
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<u>Homeowners</u>				
Thousands of Households				
Living in Housing Requiring Rehabilitation <u>b/</u>	510	90	120	720
Housing Costs Exceed <u>d/</u>				
30 Percent of Income	1,460	240	120	1,820
50 Percent of Income	450	20	20	490
Percent of All Households in Category <u>e/</u>				
Living in Housing Requiring Rehabilitation <u>d/</u>	9	3	2	5
Housing Costs Exceed <u>c/</u>				
30 Percent of Income	39	9	3	17
50 Percent of Income	12	1	0	5

SOURCE: Congressional Budget Office tabulations of the 1981 Annual Housing Survey.

(continued)

Footnotes

- a. Income classification corresponds to definition in housing assistance programs. Very-low-income households are those with family incomes ranging from 35 percent of the area median for a one-person household to 66 percent of the area median for a household with eight or more members. (For a four-person household, the threshold is 50 percent of area median.) Low-income designation ranges from 56 percent of area median for a one-person household to 100 percent of area median for a household with eight or more members. (For a four-person household, the threshold is 80 percent.)
- b. Units in need of rehabilitation are defined here as those lacking complete plumbing or kitchen facilities, or with two or more of 11 different structural defects.
- c. Housing costs for renters include rent payments due the landlord plus utility costs not included in the rent payment.
- d. Housing costs for homeowners include mortgage payments, real estate taxes, property insurance, and utilities. Housing costs are not reported for homes on 10 or more acres, or with a business on the property.
- e. Calculated as a percent of households for which data are available.

five were paying more than 50 percent of their income for housing. Overall, as of 1981, 2.2 million elderly-headed households with incomes below or near the poverty line either were living in units requiring rehabilitation, were paying more than one-half their income for shelter, or experienced both conditions.

FEDERAL HOUSING PROGRAMS SERVING THE ELDERLY

The federal government provides housing assistance to the elderly mainly through a combination of housing-related provisions of the tax code and direct spending programs that also benefit nonelderly households. Housing-related tax provisions provide by far the largest source of aid. This assistance is available on an entitlement basis and benefits principally middle- and upper-income homeowners. By contrast, direct spending programs are targeted on low-income households, but that aid is available to well less than half of those people with incomes low enough to qualify.

Housing-Related Tax Benefits

Several sections of the federal tax code either reduce the after-tax costs of homeownership or lower the capital-gains liability of people who sell their homes for a profit. (See accompanying box.) Together, these tax expenditures are expected to amount to approximately \$40 billion this year. Two provisions ~~alone--the~~ deductibility of mortgage-interest and property-tax expenses from taxable ~~income--are~~ expected to account for more than \$30 billion in foregone revenue. As of last year, 35 percent of the tax

MAJOR HOUSING-RELATED TAX EXPENDITURES

Provision	Estimated Revenue Loss: 1985 (Billions of Dollars)
Owner-Occupied Housing	
Deductibility of Mortgage Interest on Owner-Occupied Homes	25.5
Deductibility of Property Tax on Owner-Occupied Homes	9.6
Deferral of Capital Gains on Home Sales	5.6
Exclusion of Capital Gains on Home Sales for Persons Age 55 and Older	1.9
Exclusion of Interest on State and Local Government Housing Bonds for Owner-Occupied Housing	1.8
Rental Housing	
Accelerated Depreciation	0.9
Exclusion of Interest on State and Local Government Housing Bonds for Rental Housing	1.4
Five-year Amortization of Rehabilitation Expenses for Low-Income Rental Housing	0.1

SOURCE: Joint Committee on Taxation.

expenditure resulting from these provisions benefited persons with 1982 incomes greater than \$50,000; only 7 percent aided homeowners with incomes less than \$20,000.

Elderly homeowners take these deductions less often than nonelderly ones; however, these tax provisions helped many older people become homeowners when they were younger. Also, a number of tax provisions benefit the elderly by shielding from taxation some or all of the gain they realize on the sale of their homes late in life.

Tax subsidies for rental housing accrue to the property owners, but some or all of the tax savings may eventually be passed through to tenants in the form of reduced rents. All rental housing tax expenditures together are expected to result in revenue losses of just over \$2 billion this year. This amounts to less than \$100 per rental unit compared with about \$700 in foregone revenues per owner-occupied dwelling for the major homeownership tax provisions. Elderly and nonelderly tenants alike benefit from rental housing tax expenditures to the extent that the **benefits** are passed through to the occupants of a building.

Direct Spending Programs

In contrast to tax provisions, direct spending for housing is highly targeted on the low-income population. Its availability, however, is limited by annual appropriations.

Current Programs. The largest direct spending programs are the rental assistance programs administered by HUD (Section 8, Section 202, and public housing), and reduced-interest mortgages provided by the FmHA for rural residents buying their own homes and for developers of rental housing projects (the Section 502 and Section 515 programs, respectively). In addition, each year, the federal government helps pay for repairs to a small number of units that require rehabilitation. Most rehabilitation aid is provided indirectly through Community Development Block Grants to cities and through a recently enacted rental housing rehabilitation block grant. (See accompanying box.)

The elderly apparently receive a disproportionately large share of all rental assistance. About 46 percent of subsidized rental units are expected to be available to the elderly or handicapped (who are classified with the elderly in information reporting systems). By way of comparison, the elderly alone make up about one-third of all eligible renters. Older people hold 5 percent of all subsidized home mortgages--about equal to the proportion of all homebuyers in any year who are elderly.

Recent Funding Trends. All of the major housing programs are funded through long-term assistance contracts. Each year, the Congress appropriates funds to pay for some number of additional assistance commitments that run for anywhere from 5 years to 50 years. These

MAJOR RENTAL AND HOMEOWNERSHIP ASSISTANCE PROGRAMS

	Number of Commitments Outstanding Through Fiscal Year 1985 <u>a/</u> (in thousands)	Estimated Number Available to Elderly and Handicapped (in thousands)	Elderly and Handicapped as Proportion of Total
Rental Assistance			
Section 8 New Construction <u>b/</u>	820	558	.68
Section 8 Existing-Housing/Vouchers	1,387	541	.39
Public Housing	1,396	628	.45
Section 515 Rural Rental Assistance <u>c/</u>	355	181	.51
Other <u>d/</u>	<u>365</u>	<u>92</u>	<u>.25</u>
Total	4,323	2,000	.46
Homeownership Assistance			
Section 502 Rural Housing Loans	1,051	32	.03
Section 235 Assistance	<u>205</u>	<u>33</u>	<u>.16</u>
Total	1,256	65	.05

SOURCE: Information provided by the Department of Housing and Urban Development and the Farmers Home Administration.

- a. Includes units in the processing pipeline but not yet occupied.
- b. Includes substantial rehabilitation. Some of these units are in projects financed with Section 202 loans and set aside for the elderly and handicapped.
- c. Units also receiving Section 8 rent subsidies are excluded to avoid double-counting.
- d. Includes largely inactive mortgage-interest-subsidy programs and rent supplement program. Adjusted to avoided double-counting households also receiving other subsidies.

additional commitments expand the pool of available aid and increase the share of the eligible population that can be served, but they also contribute to federal outlays for decades to come.

Large numbers of assistance commitments have been made during each of the last 10 years (see Figures 1 and 2). Between 1976 and 1985, about 2.4 million new rental assistance commitments will have been made, and about 900,000 new subsidized mortgages will have been provided for homebuyers. Although the annual assistance increment declined during that period, the total number of commitments outstanding will grow from about 2.2 million to 5.6 million, and annual federal expenditures for housing will more than double in real terms to an estimated \$13.3 billion this year.

Despite these increases, the rental assistance commitments financed to date are expected to be sufficient to serve only about one-third of all very-low-income renters but a larger share of very-low-income elderly renters. Federally subsidized mortgages aid only about one in ten of all low- and moderate-income homebuyers in any year.

ISSUES AND OPTIONS

Each year, the Congress faces two broad issues concerning the funding of housing assistance:

- o How many additional households to aid, if any; and
- o What type of assistance to provide.

FIGURE 1. NET ADDITIONAL HOUSING ASSISTANCE COMMITMENTS FINANCED PER YEAR (in thousands)

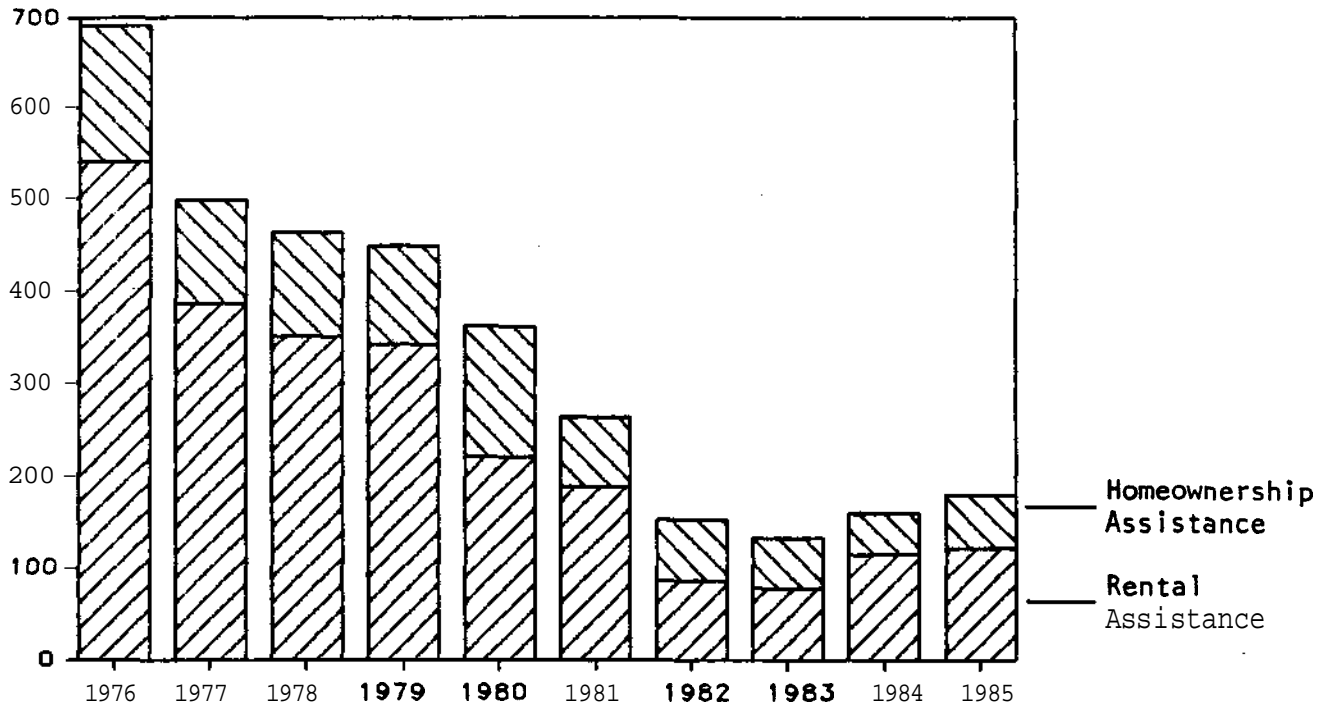
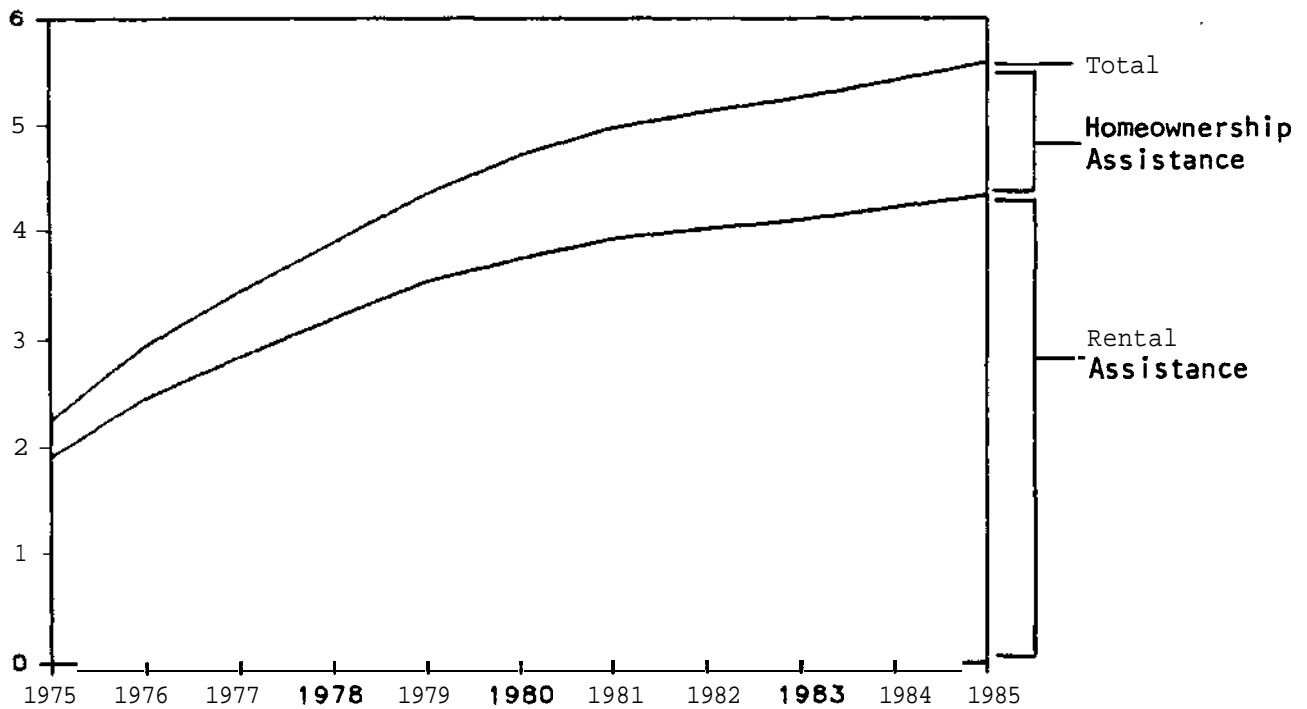


FIGURE 2. NUMBER OF HOUSING ASSISTANCE COMMITMENTS OUTSTANDING AT END OF YEAR (in Millions)



How Much Additional Assistance to Provide

The question of how many additional households to assist in any given year involves a **tradeoff** between program coverage and costs.

The Administration's 1986 budget contends that recent increases in assistance and general budgetary stringency warrant terminating the FmHA's housing programs and imposing a two-year moratorium on new commitments under HUD's programs. Because assistance commitments made in recent years are still working their way through the processing pipeline, under the Administration's plan, the number of households actually receiving aid would continue to grow slightly for a year or two; however, the share of the eligible population that would be served would eventually decline.

If the Congress chose instead to continue to expand assistance, several benchmarks could be used to determine how many additional households to serve. For example, the Congress could establish budget authority and lending limits in 1986 at the 1985 levels adjusted for inflation. This action could aid about 100,000 additional households under HUD programs and 83,000 new households through FmHA loans. Alternatively, the Congress could aid just enough additional households to keep the share of the eligible population served constant. This would involve assisting between 56,000 and 72,000 new households under HUD programs and aiding between 20,000 and 25,000 additional households through FmHA loans. These options would

require up to \$11.2 billion in additional long-term budget authority for HUD programs and \$3.4 billion in additional FmHA lending. The new commitments would add up to \$5 billion in outlays between 1986 and 1990. (See Table 3.)

What Type of Assistance to Provide

The second recurring issue concerns what type of assistance to provide--that is, what housing problems to address and how.

At a minimum, this involves deciding what the mix should be among the major existing programs. If, for example, the Congress determined to focus on increasing the supply of physically standard units available to low-income renters, it could finance the construction of additional public housing projects or provide additional FmHA rental housing construction loans. Similarly, if the Congress chose to focus on reducing high housing-cost burdens, it might fund additional Section 8 existing-housing assistance or housing vouchers. Because rents in existing dwellings are lower than in newly built projects, the latter approach would make it possible to aid more households at the same cost to the federal government. (In recent years, the program mix has shifted heavily towards subsidizing rents for people living in existing units. Because the elderly constitute a relatively small proportion of those served through existing housing, at the same time that the Congress has shifted the overall emphasis toward existing housing, it has reserved for the elderly a disproportionately large share of the remaining newly built projects.)

TABLE 3. HOUSING ASSISTANCE FUNDING OPTIONS, FISCAL YEAR 1986

	Administration Proposal	1985 Funding Adjusted for Inflation	Funding Sufficient to Serve Constant Proportion of Eligible Population <u>a/</u>
HUD Programs			
Additional Households Assisted (in thousands) <u>b/</u>	0	100	56 - 72
Appropriation Required, 1986 (In billions of dollars)	0.5	11.2	9.1 - 9.9
Additional Outlays, 1986-1990 (In billions of dollars) <u>c/</u>	0	1.3	0.7 - 0.9
FmHA Programs			
Additional Households Assisted (in thousands)	0	83	20 - 25
Lending Authority Required, 1986 (In billions of dollars)	<u>d/</u>	3.4	0.9 - 1.1
Additional Outlays, 1986-1990 (In billions of dollars) <u>c/</u>	0	3.8 <u>e/</u>	1.0 - 1.3 <u>e/</u>

SOURCE: Congressional Budget Office estimates.

- a. Estimated number of additional households who would have to be assisted in 1986 to maintain the ratio of outstanding commitments to the eligible population constant at 1985 level.
- b. Excludes dwelling units already assisted under other programs.
- c. Outlays resulting from net additional households assisted in 1986.
- d. Less than \$50 million.
- e. Includes both on- and off-budget outlays.

A different approach would be to attempt to fill gaps in the coverage of current programs. For example, the Congress might choose to apply additional resources to subsidizing repairs for low-income homeowners. Specific options include: increasing funding for Community Development Block Grants, perhaps with a set-aside for housing rehabilitation; increasing the appropriation for rural housing repair grants; reviving the largely inactive Section 312 rehabilitation loan program; and making homeowners eligible for subsidies under the Section 8 existing-housing program. Because the elderly constitute about one-half of all low-income homeowners living in units that require rehabilitation, a large share of the beneficiaries of any funding increase would be older people.

Finally, the Congress could consider more far-reaching reallocations of available housing assistance. For example, the Congress could choose to limit housing-related tax expenditures and use some or all of the additional revenues to finance additional aid under direct spending programs. Because direct spending programs are much more highly targeted on low-income people, such a change would shift aid from more well-to-do people toward those with **fewer** resources to pay for their housing.

One specific option for curtailing tax expenditures would be to place a limit on mortgage-interest deductions for higher-income homeowners. This could be done independently or as part of a base-broadening tax simplification scheme that would reduce marginal tax rates for everyone. Another

approach would be to impose a transaction tax on the sale of homes that are sold for a **profit**. This would recoup some of the revenue lost under current tax provisions that allow homeowners to defer, and often escape entirely, capital-gains taxation on their homes. While any such change could generate a substantial amount of additional revenue, it would also reduce one important existing encouragement for homeownership.

CONCLUSION

Despite large increases in housing assistance over the past 10 years, only a small proportion of the eligible population receives aid. In determining **whether--and**, if so, **how--to** further expand assistance, the Congress faces **difficult** tradeoffs between program coverage and costs, and among competing housing policy objectives.