

ASSET BUILDING PROGRAM

RENTAL ASSISTANCE ASSET ACCOUNTS

An Opportunity to Support Work and Savings Among Recipients of Federal Housing Assistance

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The rental housing market in the United States is characterized by a fundamental disconnect between rents and household incomes. It has been this way for decades. Millions of Americans simply earn too little to afford to rent a decent home. To meet these families' basic needs for shelter, the federal government spends more than \$25 billion each year to provide rental assistance to more than four million poor and near-poor households.

This assistance is delivered through a mix of housing vouchers and deep subsidies to public housing agencies and private owners to maintain a stock of affordable housing developments built in prior decades. Despite this large and important federal investment, the unmet need remains vast. As of 2007, some eight to nine million renter households spent more than half their incomes for rent and utilities.¹ Given current budget deficits and political realities, dramatic increases in federal rental assistance seem unlikely. Some have argued that we should spread out the available assistance to a larger number of households. While this idea is worth investigating further, many practitioners believe that the reduced assistance amounts would be too low to enable families to achieve stable rental housing in a decent neighborhood, undermining a fundamental objective of housing assistance.

We propose an alternative approach that would revise federal rental assistance rules to create stronger incentives for existing beneficiaries of rental assistance programs to build assets and make progress toward economic self-sufficiency. If successful, this reform in the delivery of housing assistance would help existing residents transition more quickly to private-market housing and help those who remain on assistance to achieve higher incomes and assets so that they need lower levels of assistance. Both outcomes would free up funds for assisting additional families.

There are certainly many challenges in designing a rental assistance policy that provides the right bundle of incentives to support this process. People are different, their needs are diverse, and many of the tools that are needed to fully accomplish these objectives lie outside the housing assistance system. Despite these challenges, we believe a system of housing assistance can be designed that more effectively encourages work, promotes savings, and creates a path to future independence. In this paper, we

¹ U.S. Census Bureau (2007) The raw count from the 2007 American Housing Survey is 9.03 million. This number will likely drop somewhat once the 2007 micro data become available to permit a finer analysis.

introduce an innovative proposal to achieve these objectives, articulate its policy rationale, explore how it might be tested and implemented, and consider the potential implications for future policy development.

The Concept of Rental Assistance Asset Accounts

Under current rules, families receiving federal rental assistance pay 30 percent of their adjusted income to cover the costs of rent and utilities. This ensures that families' rental payments do not consume a disproportionate share of their disposable income and that families with lower incomes receive a larger amount of assistance. Unfortunately, this approach may have unintended consequences. As the earnings of assisted families rise, their rent also increases, creating a likely disincentive for families to substantially increase their earnings.

To address this problem, while also helping families accumulate assets that will help them achieve greater financial security, we propose that the provision of housing assistance be accompanied by a Rental Assistance Asset Account. Under our proposal, families would continue to pay 30 percent of their adjusted income for rent and utilities, but a portion of the increased rent that they pay when their earnings rise would be placed into a personal account. If marketed effectively, this account could provide a strong incentive for families to increase their earnings and build up resources that could facilitate progress toward self sufficiency.

Over time, as families' earnings rise, they would accrue savings in these accounts, providing access to a pool of resources that they could use to buy or fix a car, make a down payment on a home, invest in education or training, or spend in some other way that helps advance their personal goals. This combination of increased earnings and increased savings—together with complementary services to help families overcome barriers to work and improve their financial literacy—could help families prepare to

access private-market housing, freeing up scarce rental assistance subsidies for other qualifying families.

Modeled on the successful Family Self Sufficiency (FSS) Program—an existing HUD Program enacted in 1990—Rental Assistance Asset Accounts would provide a means to connect the provision of housing assistance to other important social policy goals, including the promotion of economic self-sufficiency through a process of work, savings and asset building. The principal difference between our proposal and the existing FSS program is scale. FSS currently serves fewer than 70,000 households. ***We propose providing access to a Rental Assistance Asset Account to every household receiving federal rental assistance.*** Taking this idea to scale would represent a significant and productive reform in the delivery of housing assistance. It would also require some additional changes—most notably a change in how the benefit is structured—to minimize costs. We believe there is a way to design the account so it has little or no direct cost to the federal government, local housing authorities, or private owners.²

Why Are Rental Assistance Asset Accounts Needed?

Rental Assistance Asset Accounts are needed to provide a financial incentive for families to increase their earnings, while also helping families build savings that they can use to purchase a home or otherwise invest in their future. By helping to counter the disincentives built into the 30% of income rent standard for families to substantially increase their earnings, these accounts would allow the positive contributions of affordable housing—notably, the financial and psychological stability it provides—to dominate, contributing to efforts to help families make progress toward self-sufficiency.

² We do acknowledge, however, that the proposal would have an administrative cost that would need to be addressed through a modest new administrative fee paid by the federal government to local owners and administrators of subsidized housing.

There is a strong belief among many practitioners that, in addition to providing decent and affordable shelter and helping participants afford basic needs such as food, health care and education, rental assistance helps families achieve a stable home environment that may contribute to child and family welfare, as observed in a wide range of areas. Among other outcomes, the stability that housing assistance provides arguably creates a strong platform from which to pursue economic self-sufficiency. At the extremes, it is clearly difficult to focus on getting and keeping a job if you are worried about where you will sleep the next night. Other forms of housing instability, such as severe rent burdens, poor housing quality, and dangerous neighborhood conditions, may also lead to dislocations that undermine job stability and advancement. Without housing stability, a family's economic security, employment opportunities, and health and welfare are assumed to be undermined.

However, most studies of the impacts of housing assistance on earnings do not back up this common-sense assumption about the contribution that housing assistance may make to economic self-sufficiency. In general, the data suggest that housing assistance neither helps nor hinders families' work effort. The most likely cause is the subsidized rent formula, which requires families to pay 30 percent of their adjusted income for rent. While there are many good reasons to support this approach to calculating rent—notably, to ration scarce government assistance and provide more help to those who need it the most—it is hard to deny that it acts as a tax on increased income, which economic theory suggests may act as a disincentive for families to substantially increase their earnings. In the Jobs Plus evaluation, public housing residents identified having to pay more rent as the chief obstacle to increased work effort.³ And as many others have observed, benefit phase-outs in other programs, such as TANF, EITC, and Medicaid, may interact with the increased rents required by subsidized housing to create an even greater disincentive for substantial earnings increases.⁴

³ Bloom et al. (2005).

⁴ Parrish (2005), O'Brien (2006).

If there are aspects of housing assistance which promote work, such as increased stability, and aspects which may depress work, such as the 30% of income rent formula, it is not surprising that they may more or less cancel each other out in research studies, leading to a finding of no net impact. The goal of our proposed Rental Assistance Asset Accounts is to get the incentives aligned in the right direction, neutralizing the economic disincentives inherent in the subsidized rent formula to allow the more positive aspects of housing assistance to dominate and stimulate increased work, earnings, and ultimately self-sufficiency.

How Rental Assistance Asset Accounts Would Work

The basic idea is simple. Every current and future resident of subsidized rental housing—including public housing, Section 8 vouchers, and project-based Section 8—would be provided a Rental Assistance Asset Account. The account would be linked to families' incomes: the more they earn, the more their account would grow. As with the FSS program, the accounts would be married with service coordination to help families develop long-term self-sufficiency plans and access vital social services necessary to overcome barriers to work.⁵ Access to resources stored up in the accounts could be contingent upon achievement of certain personal milestones, such as becoming and staying employed; graduating from housing assistance; or using the funds for specified purposes, such as repairing a car or purchasing a home.

Given what we have learned from the FSS program and from policy demonstrations, such as Jobs Plus, that have

⁵ Under FSS, public housing agencies set up a single interest-bearing account into which they deposit the FSS escrow deposits of all participating families. The agencies are responsible for monitoring the amount of each participant's FSS escrow balance, assigning to them their share of the collective account's interest, and periodically notifying participants of their escrow balance. One policy question to consider would be whether to continue this practice for Rental Assistance Asset Accounts or to adopt a different approach to managing the accounts.

demonstrated the value of providing public housing residents with work incentives and complementary services, we believe there are good reasons to build these accounts into the basic delivery model of rental housing assistance. The accounts are needed to ensure that families have strong incentives to take advantage of the stability that housing assistance provides to substantially increase their earnings. Providing these accounts as a universal benefit to *all* families receiving rental assistance would eliminate the current problem of local administrators of rental assistance viewing self-sufficiency programs as a boutique add-on that falls far down the list of agency priorities. Taking the model to scale, however, would likely raise budgetary implications that need to be addressed.

The budgetary implications are not a substantial problem so long as the program stays small. HUD could double or even triple the size of the current FSS program without experiencing a substantial budgetary hit. But if FSS-type incentives are *offered to all* households in subsidized housing, some modification of the accounts would be needed to ensure they have little or no cost to the federal treasury or implementing agencies.⁶ The following are two alternative approaches for modifying the existing FSS program structure to reduce or even eliminate the costs of the accounts to the federal government:

- **Shared Escrow:** Modify the FSS program to split the escrow between the family and the government/housing authority.⁷ An example would be to share the current escrow account 50/50—half accrues in the family’s account and half goes to the government/housing authority.
- **Earnings Target.** Delay the escrow accumulation until families reach a specific earnings target. Assume, for

⁶ Appendix A presents a more detailed discussion of the budgetary challenges associated with implementing the Rental Assistance Asset Accounts proposal.

⁷ We do not address here the question of how the federal government should reimburse housing authorities except to note that it is essential that this take place in a timely and effective manner.

example, that families do not accrue any escrow until their earnings reach \$1,000 per month. At this point, families begin escrowing 100% of any increased rent that they pay due to increased earnings. Families that enter subsidized housing with incomes above or close to the \$1,000 level would be required to achieve a certain level of earnings increase—say 30%—before their escrow account starts.

Some experimentation and evaluation will be needed to determine the right split in the shared escrow, or the right earnings target for the second option, to ensure the program is both effective as a work incentive and cost-effective from a budgetary standpoint. However, if the financial incentives remain clear and are effective in promoting increased earnings by recipients, it ought to be possible under either option to generate sufficient rental income for the administering entities (by incenting increased earnings) to offset potential losses associated with the policy (due to the escrowed savings). Table 1 on page 5 provides an example of how each variation would work.

Ultimately, we propose taking one of these variations to scale—offering it to every family in the public housing, Section 8 voucher, and project-based Section 8 programs. However, we do not yet know which variation will provide the right balance of effectiveness and cost-containment. Arguably, the Shared Escrow incentive will be easier for families to understand and provide more immediate rewards, since it applies right away. On the other hand, the Earnings Target approach focuses more clearly on incenting *substantial increases in earnings*, which ultimately may lead to higher and more sustained employment. To determine which approach is most effective, we propose an initial demonstration period during which these and other promising approaches are offered to large numbers of subsidized renters.

Our proposal is that both the Shared Escrow and Earnings Target approaches be rigorously evaluated, in comparison with four comparison groups: (a) families who receive the

Table 1. Alternative Scenarios to Implement Rental Assistance Asset Accounts

<p>A family enters subsidized housing with an adjusted income of \$500 per month due entirely to earnings. After the family enrolls in the self-sufficiency program, the family increases its adjusted income to \$1,300 per month—again due entirely to earnings.</p> <p>Under all three options, the family pays 30% of adjusted income at all times for rent. So the family’s rent goes from \$150 at the outset to \$390 per month when its income goes up.</p> <p>The difference lies in how much escrow the family receives under each model.</p>		
<p>Traditional FSS</p> <p>The family receives 100% of the increase. \$240 per month (the difference between \$390 and \$150) is deposited into the escrow account.</p>	<p>Shared Escrow</p> <p>Assuming a 50/50 split, the escrow accumulation is \$120 per month.</p>	<p>Earnings Target</p> <p>If the incentive point is set at \$1,000 per month, the family’s escrow is \$90 per month—30% of the difference between \$1,300 and \$1,000.</p>

full FSS escrow account benefit, (b) families who receive no financial incentive, and (c and d) families who receive the same financial benefits as the Shared Escrow and Earnings Target approaches, but in the form of lower rents, rather than escrow accounts. A number of outcomes should be assessed, including changes in earnings, employment rates and welfare receipt; asset accumulation; asset purchases (i.e., homeownership, cars, post-secondary education, etc.); and cost.

The ideal vehicle for conducting these evaluations would be the Moving to Work Program, a Congressionally-chartered demonstration designed (among other things) to test different approaches for helping families to achieve economic self-sufficiency. The program is up for renewal and there is broad support for expanding it to cover additional agencies. Reauthorization would be an excellent time to include a more rigorous research mandate for the program, along with funding to cover the costs of this research.

One important set of policy issues that merit further consideration relate to what restrictions should be placed

on the accounts and when funds in the account can be withdrawn. Should account holders receive access to savings after a specified period of time has elapsed, or a certain amount of resources have been saved, or perhaps only after they have left subsidized housing? Should withdrawals be allowed only for the purchase of specific assets or for any need recognized by the family? Savings in and of themselves are financial assets that can be used as a means of overcoming immediate hardship but also used to make a more strategic investment, such as a car purchase, tuition cost, or down payment. In this sense, savings can be converted to other assets in ways that are particularly beneficial. The way that they are beneficial will likely vary for different types of people. It may be that a number of different access rules could be implemented and assessed in the field as a way of learning how different policy rules that govern these accounts contribute to different policy goals related to work, savings, and long-term economic independence.

Why Provide the Incentive in the Form of a Rental Assistance Asset Account?

Anti-poverty efforts have traditionally focused on providing access to income and other supports, such as food stamps and housing assistance, to help families achieve a basic level of minimally adequate consumption. In recent years, however, alternative strategies have highlighted the role of savings and asset development as a means of providing a path out of poverty. Resources that are saved and built up over time can be strategically invested in ways that promote economic security. Assets provide stability, are reflective of economic prospects over a longer period of time, and create a starting point from which families can take advantage of social and economic opportunities. Even small levels of asset holdings have the potential to make large differences in the lives of lower-income families and change behavior. A growing body of research literature has begun to explore the connections between asset holdings and a range of positive outcomes in terms of economic and social well-being.⁸ In this sense, Rental Assistance Asset Accounts can serve as a source of assets for families as they strive to overcome barriers to work and pursue self-sufficiency.

Current policy efforts that support savings and asset accumulation tend to ignore the needs of lower-income families. This is because many incentives are delivered through the tax code in ways that make them inaccessible for those with lower incomes and tax liabilities. These same families may in fact face disincentives for asset accumulation when eligibility for government benefits is tied to low levels of asset holdings.

One approach to building assets among poor and near-poor families that has been explored and tested over the last fifteen years is to create targeted incentives, such as Individual Development Accounts (IDAs), which match the deposits of participants into savings accounts. This experience has demonstrated that even households with low incomes will respond to targeted savings incentives.

Additional insights have revealed the importance of having access to financial education and an account structure to increase savings behavior. These findings are similarly supported by the preliminary assessments of the Family Self-Sufficiency program, where participants appear to have responded to the presence of the incentives and benefited from facilitated access to an escrow account structure. While HUD's evaluation of FSS was based on administrative data, rather than randomized assignment, it nevertheless suggests that providing families with an escrow account tied to increased earnings can serve as an effective incentive for higher earnings.⁹

The benefits of an asset account structure are further supported by the many reports of practitioners on the positive ways in which families have used their escrow accounts; for example, to buy and repair cars so families can get to work, for home purchase, and for post-secondary education. In both the FSS and IDA experience, the resources in families' accounts have been used strategically by families seeking to move forward in their lives, such as pursuing homeownership or acquiring an education that can help them further increase their earnings. We should use these insights to inform the strengthening of rental housing assistance so it not only promotes work but also includes an account component that facilitates the gradually storing-up of assets.

Rental Assistance Asset Accounts have several features that make it a potentially more attractive policy than the alternative approach of lowering rents by disregarding income:

- First, they provide a flexible source of assets for families that need help overcoming barriers to work. Resources can be allocated strategically to gain access to education or training or to purchase a car to facilitate transportation to a job site.

⁸ Lerman and McKernan (2008).

⁹ Ficke and Piesse (2005).

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- Second, assets built up in the account can be used to transition away from assistance. A significant number of successful FSS graduates were able to leave assistance when they became homeowners.
 - Third, these accounts can operate as a forced savings mechanism. Similar to how automatic payroll deductions to 401(k)s and mortgage payments that pay down principal work to help people save automatically, deposits to the Rental Assistance Asset Account would happen automatically as earnings rise. The asset accumulation process becomes much easier if it does not have to be revisited on a regular basis.
 - Fourth, by continuing the current practice of requiring families to pay more for rent as their earnings go up, an escrow account structure helps families get accustomed to paying the market rent levels they will need to absorb when they leave housing assistance. By contrast, a ceiling rent that caps rent at a specific level, or some other large earnings disregard, will keep families' rents at very low levels that will make it harder for them to transition to unsubsidized housing.

Retaining the 30 percent of income rent contribution, while depositing a portion of that increased rent into an escrow account, would also make it easier to administer the financial incentive as a time-limited benefit, if desired. Let's say, for example, we wanted the financial incentive to last for three years. At the end of the three-year period, the family's rent would not change, but they would stop receiving escrow deposits. By contrast, if the rent incentive were administered as a ceiling rent—for example, with their rent capped at \$250 per month—the jump to paying 30 percent of their income for rent at the end of the benefit period could be quite difficult for the family to handle, creating an event of instability that could undermine other benefits of the program.

Connecting housing assistance to savings accounts could be implemented in many diverse ways. There are

numerous policy issues and design choices to address, which will create particular issues of compliance and administrative oversight. However these issues are settled, we believe it is vital that rental housing asset accounts be tested so their performance can be assessed and evaluated, especially to learn more about their effects on distinct target populations, such as families with children and single-parent headed households.

Policy Implications and the Potential Politics

The arrival of a new Congress and a new Administration in 2009 creates an important opportunity to evaluate and perhaps revisit some of the basic assumptions underlying our housing policy. Policy attention tilted toward homeownership should rebalance in the wake of rising mortgage defaults, falling home prices, and contracting credit. Certainly, there will be many important questions to address in responding to the changing housing markets, but it will also be a time to broadly reexamine our policy assumptions and the mechanisms we have used to deliver housing assistance.

One perennial question is whether the provision of housing assistance should be place-based or people-based. Another is the failure to offer assistance to all of those in need and that currently qualify for support. While these debates are not without their merits, the national financial crisis is likely to exert pressure on the budget and produce economic hardship for the foreseeable future that will make it difficult to substantially expand federal support for housing. Despite their persistence, resource constraints will not limit policymakers from focusing on the design and delivery of assistance. In fact, this may be a particularly good time to explore low-cost modifications to the delivery system to determine what could or should be taken to scale to improve outcomes for assisted families. We support using the coming political moment to pursue a greater degree of experimentation and policy learning, with the goal of strengthening our already valuable rental assistance programs.

Now may be exactly the right time to pursue a search for innovative approaches that provide more effective means of delivering support and assistance. We should be particularly mindful of leaning more about how to distinguish among key subpopulations. A Rental Assistance Asset Account will not be an effective intervention for every family receiving assistance. Yet it may be particularly valuable for young families, for those that would benefit from a cushion of precautionary savings, for those who see the receipt of assistance as temporary, and for those focused on saving for a particular asset purchase. These accounts could become a stepping stone to sustainable homeownership by helping families build up the necessary downpayment to purchase a home.

Politically, a broader introduction of Rental Assistance Asset Accounts may be attractive to a number of constituencies. These include those focused on promoting increased employment and earnings among low-income families as well as those supporting savings and asset accumulation—goals that will become all the more important in a recessionary economy. Done right, these accounts have the potential to effectively link the provision of assistance to incentives that promote work, higher earnings, and the eventual exit from assistance. While many questions remain regarding how these accounts might be implemented, administered, and assessed, we believe they are a promising policy intervention worthy of greater attention and support.

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Appendix A: Addressing the Budgetary Challenges of a Large-Scale Implementation of Rental Assistance Asset Accounts

Under the existing FSS program, families' escrow accounts are set at an amount essentially equal to 100% of increased rent due to increases in earnings that take place after enrollment in the program. To the extent that increases in earnings are due entirely to this financial incentive, the escrow account imposes no direct cost on the federal government or implementing agencies. However, to the extent that some families would have experienced earnings gains even without the incentive—a finding consistent with HUD's evaluation of FSS, even though earnings gains among FSS participants were much higher¹⁰—then the program will result in some amount of foregone rent, which likely increases costs to the federal government.¹¹

To illustrate the challenge associated with developing a revenue-neutral alternative to FSS, we have reproduced below Figure 1 from Ficke and Piesse's retrospective evaluation of FSS. This figure compares increases in incomes over time among single-parent Section 8 voucher program participants. The top line shows income increases among those families in FSS, while the lower line shows income increases among those families not in FSS. While families were not randomly assigned to the two groups—a fundamentally important caveat—let's assume for purposes of illustration that the bottom line represents the normal income trajectory of voucher-holders during this period of strong economic growth, while the top line represents the increased incomes of FSS participants, which were induced by FSS. Let's further assume for purposes of illustration that all of the income growth shown here was due to increases in earnings.

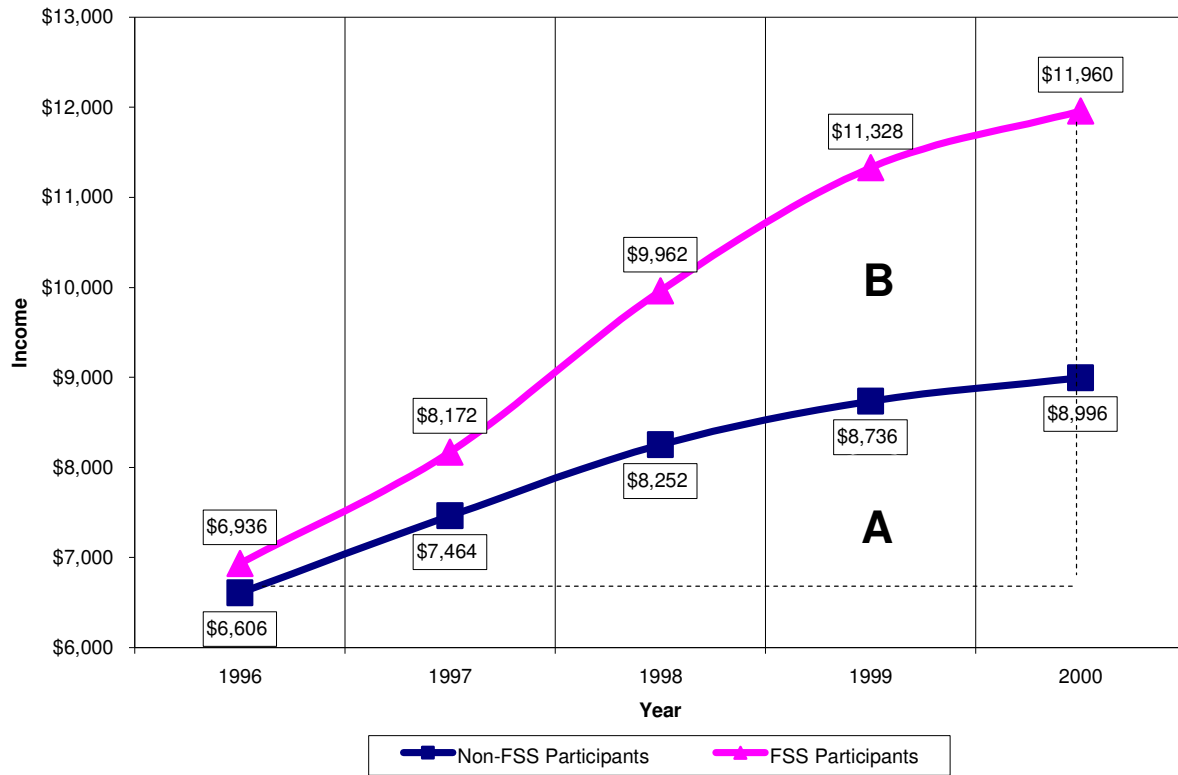
Under these simplified assumptions, families in the FSS program received an escrow on all increased earnings (shown here as the two triangles A and B) but some of those earnings would have occurred anyway even in the absence of FSS. This is represented by triangle A. The budgetary impact is caused by the loss of rent associated with the income represented by triangle A.

One way to seek to achieve cost-neutrality would be to try to limit escrow deposits only to the amount of earnings growth shown in Triangle B. This is represented by the shared escrow idea discussed in the body of the paper. An alternative approach to achieving cost-neutrality would be to allow housing agencies to capture some amount of higher rents on higher earnings before the escrow begins. For example, if a family's escrow were delayed until its earnings reached \$8,500, at which point the family began escrowing 100% of increased rent on increased earnings, the housing agency would gain revenue on most of Triangle A and some of Triangle B, while giving up the revenue on most of Triangle B and a small part of Triangle A. This is the Earnings Target option discussed in the paper.

¹⁰ In their retrospective evaluation of administrative data, Ficke and Piesse (2005) found that single-parent Section 8 voucher-holders “who enrolled in the FSS program in 1996 experienced a 72 percent median income increase by the year 2000: from \$6,936 to \$11,960. Among a comparison group of non-FSS participants, the increase was only half as large at 36 percent, rising from \$6,606 in 1996 to \$8,996 in 2000.” This difference remained significant and substantial even after controlling for “differences that may have existed between the two groups, such as geographic distribution, age, race/ethnicity, gender, 1996 earnings levels, and attrition rates over time.”

¹¹ Increased costs are likely rather than certain because under FSS, families only receive their escrow account if they graduate successfully from the program. Since some families do not graduate successfully, there is some recovery of forfeited escrow.

**Changes in Median Income for
Single-Parent FSS Participants and Non-FSS Participants, 1996-2000**



Source: Adapted from Ficke and Piesse (2005)



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