Asset Building Program

Taking Asset Building and Earnings Incentives to Scale in HUD-Assisted Rental Housing

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In the United States, housing assistance is not an entitlement. Despite annual federal expenditures in excess of $30 billion for housing subsidies distributed to roughly 4.8 million households, millions of eligible families with low incomes and high housing costs do not receive any support.[1] Some families have applied for assistance from their local housing authorities but must wait for their names to come to the top of the list; others have not applied but may pay large shares of their income for rent, reducing available funds for basic necessities, such as food and health care. To ensure that our limited federal housing resources are available to assist as many families as possible, we should be actively searching for innovative ways to encourage existing subsidy recipients to build assets and make progress toward economic security. By helping families take advantage of the stability that federally-subsidized housing provides as a foundation for income and asset growth, we can free up existing housing subsidies for other families in need.

In this pursuit, we believe that the existing rent formula for subsidized housing, which requires families to pay 30 percent of their adjusted income for rent, is a critical asset that can be leveraged to promote both asset building and economic security. Currently, HUD's Family Self Sufficiency (FSS) Program—a small initiative serving about 50,000 families in the housing voucher and public housing programs—illustrates this potential well. When program participants increase their earnings, the resulting increase in rent is placed into an escrow account which they can receive after successfully completing the program. With support from case managers who provide service referrals, participants identify a series of goals to define success, which may include any number of personal goals as well as the required goals of becoming employed and independent of TANF assistance. Through the combination of case management support and the work incentive provided by the presence of an escrow account, FSS participants have been able to increase both their earnings and assets, making progress toward economic security. [2]

[1] U.S. Department of Housing and Urban Development (2008); H.R.1473 -- Department of Defense and Full-Year Continuing Appropriations Act, 201,

Given the strong program design, existing authorization, and a twenty-year track record of success, it makes sense to capitalize on opportunities to strengthen and expand the FSS program on its own terms. This could help tens of thousands of additional families in the short term.[3]

By helping families take advantage of the stability that federally-subsidized housing provides as a foundation for income and asset growth, we can free up existing housing subsidies for other families in need.

At the same time, we recommend that HUD begin developing and evaluating the next generation of economic security policies that would incorporate earnings incentives and asset-building objectives into the basic structure of rental housing assistance for *all families in subsidized housing*. One such approach would be to offer every recipient of housing assistance the ability to build assets through a Rental Assistance Asset Account (RAAA) that would grow as the family's earnings rise.[4] These accounts would provide families with a strong incentive to increase their earnings and a powerful opportunity to build wealth. They could enable existing residents to transition more quickly to private-market housing and help those who remain on assistance achieve higher incomes and assets so that they need lower levels of assistance. Both outcomes would free up funds for assisting additional families. If offered to all families receiving housing assistance, this approach has the potential to help hundreds of thousands of families and maybe even a million or more.

as summarized by National Low Income Housing Coalition*, FY11 and FY12 Budget Chart for Selected HUD Programs.*

[2] de Silva et al. (2011); Ficke and Piesse (2004).

[3] Under current legislative authority, housing agencies are free to expand the size of the FSS programs offered to public housing residents and families in the Section 8 voucher program. In addition, Congress is currently considering legislation to help stabilize funding for the FSS program and expand eligibility to families living in project-based Section 8 housing, the third of HUD's large rental assistance programs.

[4] Cramer and Lubell (2009).

In the current budgetary climate, it is particularly important to pursue policy options that carry little or no additional costs to the federal government. In this case the existing rent formula can become a valuable tool. Because families in subsidized housing pay more rent when their incomes go up, strategies that boost a family's earnings generate additional revenues. So the question is whether a financial incentive strategy can be identified that sufficiently boosts earnings so higher rent payments cover the costs of providing the incentive.

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We believe the answer to this question is quite likely "yes" and describe below the earnings incentive we believe could be taken to scale while generating the revenue to offset its cost. In this respect, this policy innovation has the potential to largely or entirely pay for itself. We also recognize that further exploration, investigation, and evaluation is needed to assess the cost and impact of different variations on this approach. An assessment of this approach could be conducted under the authority of the existing Moving to Work demonstration or under the authority requested by the Administration in the FY 2012 budget.[5] Either way, we recommend that Rental Assistance Asset Accounts be evaluated to fine-tune the approach and compare outcomes against other existing and promising alternatives.

[5] In Section 223 of its proposed FY 2012 budget for the Department of Housing and Urban Development, the Administration has requested authority to evaluate alternative approaches to promoting economic security through rent policy. This authority could be used to evaluate Rental Assistance Asset Accounts as well as other alternative approaches.

A Scalable Escrow Model

Previously, we identified two models that deployed an earnings incentive tied to the rent formula which had the potential to keep costs down for the federal government and local housing authorities.[6] The first, Shared Escrow, would split increased rent paid on increased earnings evenly between the local housing authority and an escrow account set up on behalf of the family. The second, the Earnings Target approach, would delay the escrow accumulation until families exceeded a specified earnings target. Both approaches could be implemented in a manner that would allow all families in subsidized housing to have the opportunity to build an escrow account.

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Of the two models, the Earnings Target approach holds the most promise because it is more flexible and focuses on incentivizing large earnings increases, rather than modest incremental wage growth. We propose that HUD work with a group of housing authorities to implement versions of this approach and track outcomes for participating families as well as the costs (or savings) that accrue. Here are some of the features we would recommend be implemented in this demonstration:

- All participating families would continue to pay 30 percent of adjusted income for rent, as they do today.

- Once families' earnings reached a set earnings target—such as $1,000 per month—any additional rent that families pay would be held in escrow in a Rental Assistance Asset Account. This earnings target could be set uniformly, for everyone in the development or local program. Alternatively, the target could be customized by requiring families to reach a set earnings target or a specified amount 20 percent more than their starting earnings, whichever is higher. (An evaluation could test alternative approaches to setting this threshold.)

- The escrow feature would last for a specified period of time, such as three years, at which point families would no longer receive any additional contributions to their escrow accounts.

- Payout of the Rental Assistance Asset Account could be made once a family leaves subsidized housing. This would create an incentive for families to move on without forcing them to move at any specific time, allowing them to decide when the move is best achieved.[7] Alternatively, resources in the escrow account could be paid out to families that stay in subsidized housing but only if they agree to use the funds for specific asset-purchases, such as buying or repairing a car, starting a business, buying a home (e.g., through Section 8 homeownership), or paying for training and post-secondary education.

- The earnings incentive would be accompanied by a marketing campaign that focuses on demonstrating to residents how the earnings incentive would work and underscoring how it would help "make work pay." This marketing effort would be incorporated into all aspects of the housing subsidy provider's interaction with residents, including and especially the annual income certification process. Rather than focusing exclusively on how much rent families have to pay, the annual recertification process would now also include an emphasis on the economic gains from increased work effort.

[6] Cramer and Lubell (2009).

[7] This approach would be preferable to a time limit on housing assistance itself, as that would undermine the residential stability that is one of the chief benefits of housing assistance.

- The evaluation should test the relative effectiveness of the model both on its own and when combined with various levels of coaching and case management. One approach might be to contrast a low-touch coaching model focused on initial goal setting followed by periodic check-ins with a higher-touch case management model that involves more frequent and intensive client contact.

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A thorough evaluation could help refine the precise policy parameters. For example, some families may need more than three years to take full advantage of this approach; others may find the time constraint valuable as a way to focus their efforts. Some earnings targets may work better than others in balancing increased rent for the government with a target level that is achievable and effective. Some families may be motivated to increase work by the escrow account rules alone, while others may need the support and encouragement of a designated financial coach or case manager. Testing a series of approaches to these parameters would allow us to maximize our learning about which specifications are most impactful and cost-efficient.

Shared Benefits

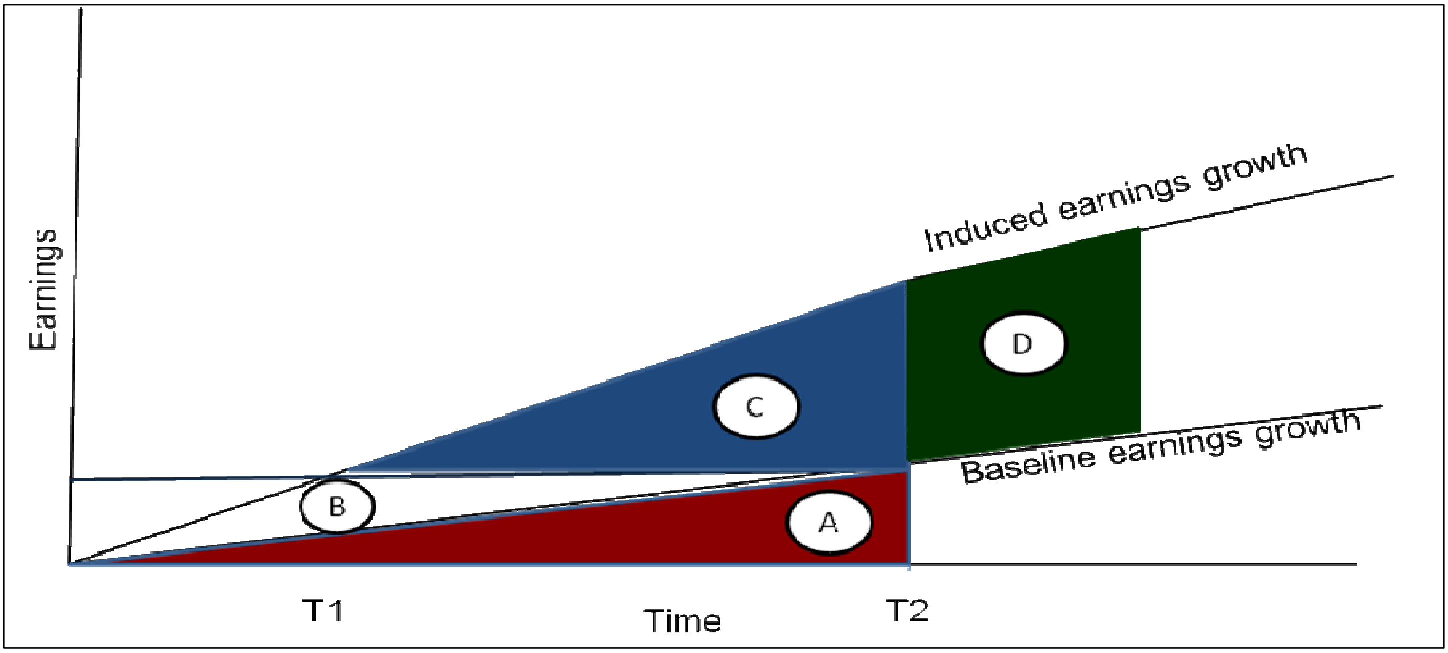
For several reasons, Rental Assistance Asset Accounts can create benefits for participating families as well as keep costs down for participating housing authorities and the federal government. First, to the extent the work incentive is effective in inducing higher earnings it would lead to significant boosts in families' rent payments to the housing authority. This increase in rent income, together with the higher rent payments that follow expiration of the escrow period, should lower or even eliminate the cost of the rent incentive. (We show this graphically in the figure below and include a hypothetical illustration in the Appendix.)

Second, by limiting the escrow period to a defined period, such as three years, the program provides a sense of moving through the subsidized rent system: there is a beginning, a middle (the escrow period), and an end (when families exit the system).[8] The precise date of the end would be chosen by the resident to minimize disruption and maximize family stability, which would likely work better than imposing an arbitrary time limit for receiving assistance. Finally, the RAAA model promotes transition to private market housing. Since families at all times pay 30 percent of their adjusted income for rent, this approach ensures that families get used to higher rent payments, preparing them to transition to market-rate rental housing or homeownership. The accelerated and stable transition off of housing assistance by participants frees resources to allow these programs to reach more families without requiring additional funding.

Figure A illustrates how the Earnings Target approach could be cost-neutral or generate cost savings. The horizontal axis shows time, while the vertical axis shows earnings. T1 is the beginning of the escrow period, while T2 is the end of the escrow period. While we assume all families will increase their earnings somewhat over time, families that participate in the program will experience faster earnings growth, so the figure charts both a baseline earnings level that would be experienced without the intervention and a higher level induced by the work incentive associated with the Rental Assistance Asset Account. The straight line parallel to the time horizon is the earnings target.

[8] It would be worth testing periods longer than three years to see if it would help additional families to avail themselves of support services, increase their earnings, and generate enough resources in their accounts to make a difference in their long-term plans.

Figure A: Costs and Savings of the Earnings Target Approach



The earnings on which rent is charged to the families up to and through the end of the escrow incentive period is the sum of polygons (A), (B), and (C). Thirty percent of (A) equals the rent that would be charged even if the earnings incentive were not offered. Thirty percent of (B) represents the additional rent that the government would capture as revenue (without incurring an obligation to the escrow account) based on additional earnings induced by the rent incentive; and 30 percent of (C) represents the amount of rent that would accumulate in the family's escrow account. Thirty percent of (D) represents the additional rent that would be received by the government once the escrow period ends if the families choose to remain in subsidized housing for a period of time. Under the circumstances diagrammed here, the program actually results in a net savings to the government equal to 30 percent of the sum of (B) and (D). The extent of the savings (or cost) of the program will depend on the effectiveness of the earnings incentive, which needs to be evaluated through research.
The Appendix provides an example of how this might work for a hypothetical family.

Notably, the model depicted in Figure A does not address the costs of services, coaching or case management that may be needed to complement the earnings incentive. There is reason to believe that the provision of these services is beneficial, and, despite the costs, may even be essential to the success of the program. As noted above, we recommend testing the model with and without different levels of coaching and case management to study the full costs and benefits of each approach. Should case management be found essential to the success of the initiative, there are a number of options to consider for leveraging existing case management resources in the community to minimize costs. For example, partnerships could be formed with other organizations offering case management services funded through other channels.[9]

Issues for Evaluation

The single biggest question is whether the model will be effective in inducing higher earnings. There is reason to be optimistic that it will work for at least some significant portion of assisted households. A pair of HUD evaluations provides initial evidence that the FSS program may provide an effective incentive that raises the earnings of some families in the housing voucher program above what they would be without the program.[10] In addition, there is evidence from several welfare reform demonstrations indicating that subsidized housing residents respond strongly to well-designed and marketed earnings

[9] Lubell (2005). Available at: http://www.fsspartnerships.org/includes/expandingfss.pdf.
[10] de Silva et al. (2011); Ficke and Piesse (2004).

incentives.[11] Each of these interventions utilized a different approach to incentivizing greater earnings, and they all appear to have been effective.

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Other key questions to be addressed through a demonstration include:

- Will the rent charged on induced earnings be sufficient to pay for the rent incentive?
- What are the costs and benefits of adding in different forms of coaching / case management?
- What is the optimal earnings target level?
- What is the optimal duration of the incentive?
- How do the impacts of the intervention differ for different types of households? Presumably, there will be some households that respond to the intervention with little or no coaching or case management, some that respond to the intervention only when accompanied by intensive case management, and some of the hardest to serve households that do not respond at all. How large is each of these groups in the context of the housing programs studied?

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 incentivizes work, promotes savings, and creates a path to economic security. In this endeavor, the current rent formula is a powerful but largely untapped resource which can be more effectively deployed to reach these goals.

[11] Verma, Riccio and Azurdia (2003). In addition, Jobs Plus found evidence of earnings gains in a program that included rent incentives as one of several program features. Bloom et al. (2005). Further research is needed to understand the extent to which a financial incentive alone, when well-marketed, can be effective in incentivizing higher earnings among families in subsidized housing.

Appendix

The following is an illustration of how the Rental Assistance Asset Account (RAAA) could pay for itself or even result in a net savings to the government and local housing authority. The illustration focuses on a hypothetical resident who receives a housing voucher on January 1, 2012 and is offered an opportunity to build assets through the RAAA. Based on the results of research on the Family Self-Sufficiency Program and the impact of earning incentives implemented through welfare reform, we assume the offer of the RAAA will help increase the resident's earnings faster than would normally have occurred. Of course, calculating the potential net savings of this proposal depends on more precise estimates and increasing the precision of these estimates requires additional research. Still, the example below provides an illustration of how net savings could accrue.

Year 1. The resident receives a housing voucher on January 1, 2012. With monthly adjusted income of $500, the resident pays $150 in rent. The resident is told that funds will be deposited into the RAAA once earnings rise to $1,000 per month. Since the resident's earnings are below the target level, no deposits are made during the first year.

Year 2. On January 1, 2013, based in significant part on the incentive of the RAAA, the resident takes a full-time job and now has a monthly adjusted income of $1,200 (due entirely to earnings) and pays $360 per month in rent. The resident now starts building escrow of $60 per month (the difference between the rent on $1,000 and $1,200 per month).

Years 3 and 4. On January 1, 2014, the resident gets a higher-paying job and now has an adjusted income of $1,500 per month (due entirely to earnings) and pays $450 per month in rent. The resident's monthly escrow deposits are now $150 (the difference between the rent on $1,000 and $1,500 per month.)

Year 4 ½. On January 1, 2016, the escrow period ends. The resident continues to hold the same job and leaves subsidized housing six months later.

The first table below shows the amount of rent paid by the hypothetical resident, the amount of that rent deposited into an escrow account, and the net amount of rent retained by the government. The second table shows what might have happened without the incentive of the RAAA, in which case we assume that the family's earnings increases would have been significantly slower. As noted above, these are illustrative figures only; the precise trajectory of earnings with and without the incentive of the RAAA needs to be confirmed through research.

The tables show that the rent captured by the housing agency (net of the RAAA) under this hypothetical would be greater with the RAAA than without it. In addition, the family would save $4,320 in its RAAA.

Under the assumption that the resident will increase its earnings at a faster rate if offered the RAAA, we see a significant difference in outcomes. In this case, the RAAA incentive—combined with whatever services were needed to induce the earnings increase—led to increased earnings that not only helped the resident build up $4,320 in savings through its RAAA but also led the government to receive $4,860 more in net rent than it would have if the resident had not been offered the account. In this scenario, the resident, the government, and the local housing authority all come out ahead.

With Rental Assistance Asset Account

	Monthly Income	Monthly Rent	Monthly Deposit to RAAA	Monthly Net Rent to Agency	RAAA Build-up in Period	Total Net Rent in Period
Year 1	$500	$150	$0	$150	$0	$1,800
Year 2	$1,200	$360	$60	$300	$720	$3,600
Year 3	$1,500	$450	$150	$300	$1800	$3,600
Year 4	$1,500	$450	$150	$300	$1800	$3,600
Year 4 1/2	$1,500	$450	$0	$450	$0	$2,700
Total					*$4,320*	*$15,300*

Without Rental Assistance Asset Account

	Monthly Income	Monthly Rent	Monthly Deposit to RAAA	Monthly Net Rent to Agency	RAAA Build-up in Period	Total Net Rent in Period
Year 1	$500	$150	n/a	$150	n/a	$1,800
Year 2	$550	$165	n/a	$165	n/a	$1,980
Year 3	$650	$195	n/a	$195	n/a	$2,340
Year 4	$750	$225	n/a	$225	n/a	$2,700
Year 4 1/2	$900	$270	n/a	$270	n/a	$1,620
Total					*0*	*$10,440*

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