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Designing a housing allowance program

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EXECUTIVE SUMMARY

This paper describes a series of design options for housing allowance programs and compares their advantages and disadvantages.

The five housing allowance design alternatives discussed here range from a housing rent supplement that helps with the cost of rent by providing modest extra funding for those with high rent, up to a housing allowance meant to pay as much as the full cost of affordable housing for those with little or no income. The alternatives are more expensive as they become more generous to recipients.

While Ontario is employed to illustrate the housing allowance options, the discussion applies across Canada, with adjustments for the peculiarities of each jurisdiction's programs.

The housing allowance options in this paper are based on varying the relationship among three key variables: rent, income and the amount of the housing allowance. In the parlance of mathematics: Rent and income are the independent variables and the amount of the housing allowance is the dependent variable. The comparative advantages and disadvantages of the options are assessed against seven criteria:

- fit with social assistance
- potential replacement for 'rent-geared-to-income' in social housing
- fairness, poverty and affordability
- housing market impacts
- portability and recipient autonomy
- marginal tax rates
- relative cost of the options.

The table that follows summarizes the assessment of various characteristics of the housing allowance options discussed in this paper.

Option 5 replaces stigmatizing social assistance shelter benefits with a broad-based flat-rate housing allowance available to everyone with low income. Option 5 ensures that everyone can afford to pay a modest rent. This option also always pays more to those with the lowest incomes. It has the least potential distortionary impact on the rental market and enhances recipient autonomy. It is neither better nor worse than the other options in its impact on marginal tax rates on income. Since Option 5 could replace both the shelter benefit in social assistance and 'rent-geared-to-income' subsidies in social housing, it could consolidate what might otherwise be three programs into one program. Option 5 takes us halfway towards a form of guaranteed income.

The only problem: Option 5 costs approximately seven times as much as Option 1. Yet, these costs are only the initial budgetary costs. In the longer term, the true economic costs of Option 5 may be less, and the benefits much more. Nevertheless, governments often balk at taking on this kind of major reform and prefer incremental steps. The options can provide a step-by-step path towards a full Option 5-style housing allowance by beginning with an Option 1 program and gradually enhancing it through the options set out in this paper.

Summary assessment of housing allowance options					
Options	Option 1	Option 2	Option 3	Option 4	Option 5
Description of Options	A housing allowance that fills part of the gap between the social assistance shelter benefit maximum and affordable rent	A housing allowance that fills part of the gap between the social assistance shelter benefit average and affordable rent	A housing allowance that fills part of the gap between actual rent and affordable rent	A flat-rate housing allowance based on income, not rent, plus a supplemental housing allowance to fill part of the remaining gap up to an affordable rent	A flat-rate housing allowance based only on income so that anyone can afford a reasonable rent regardless of their actual rent
Fit with social assistance	No change to social assistance; a supplement for assistance recipients	Restructure assistance shelter benefit as flat rate; allowance is a supplement for assistance recipients	Convert assistance shelter benefit to a broad-based housing allowance according to actual rents	Convert assistance shelter benefit to broad-based flat-rate housing allowance with supplement for higher actual rents	Convert assistance shelter benefit to broad-based flat-rate housing allowance
Potential replacement for 'rent-geared-to-income' housing	Cannot replace 'rent-geared-to-income' housing	Cannot replace 'rent-geared-to-income' housing	May fully replace 'rent-geared-to-income' housing	May fully replace 'rent-geared-to-income' housing	May fully replace 'rent-geared-to-income' housing
Housing affordability	Ensures affordability for narrow range of rent and income	Ensures affordability for a range of rent and income a little broader than Option 1	Ensures affordability for all	Ensures affordability for all	Ensures affordability for all
Fairness	Households with higher incomes may get larger allowances than those with lower incomes – in a narrow band of income	Households with higher incomes may get larger allowances than those with lower incomes – in a slightly wider band of income than Option 1	Households with higher incomes may get larger allowances than those with lower incomes – for all incomes up to the income cut-off	Some households with higher incomes may get larger allowances, but many households will get a flat-rate in which those with lower incomes will always get more	Those with lower incomes will always get more than those with higher incomes
Housing market impacts	For those eligible for an allowance, price of shelter is significantly reduced. Theoretically upward pressure on rents	For those eligible for an allowance, price of shelter is significantly reduced. Theoretically upward pressure on rents. Offset by flat rate for social assistance shelter benefits	Price of shelter reduced for almost all low-income households. Theoretically upward pressure on rental market.	Theoretically upward pressure on rental market, except offset by extensive band of 'flat-rate' housing allowance	Least impact on rental market. Only change due to more income of renters – but renters will also have bargaining power to reduce rents and save income for other purposes.

Recipient autonomy	Reduced capacity for recipients to decide their own priorities	Reduced capacity for recipients to decide their own priorities, but offset by increased capacity of assistance recipients to manage their own incomes	Reduced capacity for recipients to decide their own priorities	Reduced capacity for recipients to decide on their own priorities, but for many, increased capacity within the 'flat rate' component	Increased capacity for recipients to manage their own resources. Increased autonomy
Marginal tax rates on income	Increased by 'contribution rate' – same for all options	Increased by 'contribution rate' – same for all options	Increased by 'contribution rate' – same for all options	Increased by 'contribution rate' – same for all options	Increased by 'contribution rate' – same for all options
Relative cost index (nominal cost based on illustrative model)	100	154	375	538	707

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Introduction

The biggest challenge in meeting low-income households' housing needs is affordability. What makes housing affordable? The price – and the income to pay the price. And like any other good or service, the price of housing and therefore its affordability need to be considered both on the supply side and the demand side.

On the supply side (i.e., adding to the quantity of housing units) the largest spending for low- income housing programs in Canada, has been on purpose-made 'social housing' in which tenants usually pay rent-geared-to-income. In addition, a scattering of smaller programs provide lower cost financing, tax credits and grants for housing construction.

Table 1 shows that about 14 percent of renters in Canada live in subsidized housing, representing about 4 percent of total housing stock in Canada. All provinces, except Saskatchewan and Newfoundland and Labrador, subsidize fewer than 20 percent of rentals. The National Household Survey reports households' own understanding of whether their rent is subsidized. While this may sometimes be in error, it should not affect the overall results by more than a percentage point or two. The point is: There is not a lot of subsidized housing in Canada.

The lesson is that limited government supply-side interventions may be critical for the quality of life in neighbourhoods (e.g., to ensure that new sub-divisions have a mix of housing for a range of incomes), meeting the special needs of vulnerable populations, innovation and, indeed, for the overall built environment. However, only a much larger supply-side program is likely to have a substantial impact on market prices for housing. Unless we build many tens or even hundreds of thousands more units, supply-side programs will do little for the market cost of housing and therefore little for affordability for those in the private market – which will remain more than 80 percent of renting households.

Demand-side programs, by contrast, need not be rationed because they are not limited by the quantity of housing units that can be constructed or otherwise specifically designated for subsidies. Some demand-side housing programs may, in any case, be limited in number – i.e., rationed – such as the US housing voucher programs or private apartment rental supplements in some Canadian provinces, but this is a policy decision and not intrinsic to the program design.

One vastly ambitious 'demand-side' strategy is not to single out the housing sector: Instead, governments should increase low-incomes through income transfers reflecting the size and structure of a household.

Table 1
Percentage of subsidized rentals in Canada and the provinces, 2011

	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Renter 000s	4,060	46	15	111	74	1,309	1,386	126	99	357	520
Subsidized	14%	23%	16%	14%	16%	9%	16%	20%	24%	11%	13%

Source: Statistics Canada, 2011 National Household Survey, Statistics Canada Catalogue no. 99-014-X2011031.

The lack of subsidized housing should come as no surprise. Canada has seen minimal supply-side development in the last two decades, while the population has grown by more than 20 percent. Supply-side activity dried up in the mid-1990s due mainly to deep reductions in federal support. But even when supply-side initiatives were more robust, there appeared to be little effect on market housing for low-income households. The at best slight impact on market housing may be due to the small number of social housing units, relative to the overall demand for affordable rental housing.

Subsidized housing is a rationed service. A lucky few among needy households get a subsidized unit. Long queues remain for subsidized housing, so there is little reduction in demand in the non-rationed, non-subsidized housing market. Yet without reducing prices for market housing, only those low-income households obtaining one of the few subsidized housing units benefit financially from our major supply-side programs.

This is the strategy proposed by advocates of a Guaranteed Annual Income, a Basic Income or other general population-wide anti-poverty and redistributive programs. Some form of guaranteed income has been discussed for about 60 years and so far has not been implemented on other than a short-term experimental basis anywhere in the world.

Alternatively, targeted programs aimed specifically at housing affordability may be a more achievable, yet still ambitious, demand-side strategy. Targeted programs provide a housing allowance to or on behalf of households to offset some or all of their housing costs. Targeted housing strategies may be especially advantageous in jurisdictions where there are large variations in the cost of housing for low-income households. In Ontario, for example, the average rent for a two-bedroom apartment as of October 2014 ranged from $654 in Norfolk to $1,251 in Toronto [CMCH 2015]. An income just sufficient to rent an acceptable quality home in Norfolk would be utterly inadequate in Toronto.

Canada, or rather the provinces and territories, already has a large demand-side housing program which is almost always ignored in discussions about housing policy – the shelter allowance in social assistance. This is a multi-billion dollar housing benefit available only to households that 'pass' a needs test and have minimal assets, with the specific requirements for eligibility varying substantially among the provinces and territories. It is by far and away the biggest demand-side program in Canada.

Until recent developments in Manitoba, social assistance was the only shelter allowance in Canada available to any legal resident. Much more modest are a few targeted housing supplements in some provinces, notably Québec, available on an income-tested basis to selected demographic or other groups as well as a scattering of tax credit programs which may or may not be counted as a housing allowance (e.g., tax credits in lieu of property tax credits).

Manitoba is currently in the early stages of implementing a new program, called Rent Assist, providing an income-tested housing allowance which will ensure that no household need pay more than 25 percent of its income to rent an apartment at up to 75 percent of median market price. Over time, the Manitoba program will replace almost all of the shelter allowance in its social assistance plan. So far, Manitoba is the only province with such a comprehensive housing allowance program and its program is still in the earliest stages of implementation.

The potential weakness of demand-side programs is the 'flip side' of the weakness of supply-side initiatives. As long as a housing allowance program is limited to relatively few households, the latter will likely benefit from their extra purchasing power and be able to find better accommodation. But if the housing allowance program is broad-based and effectively raises every low-income household's rental purchasing power, will this simply increase rents? Or will the market work, at least over the longer run, the way it is supposed to with a consequent increase in the supply and quality of housing? The experience in Manitoba will be the best test of this question in Canada but it will take many years before we know the outcomes in that province.

These unanswered questions regarding the longer-term relationship among supply, demand and the price of housing are the context in which policy must be developed. The answer is likely that both supply and demand programs are needed simultaneously. However, this paper does not attempt to answer the question about the ultimate effectiveness of a supply-side program or even a housing allowance program or both combined. Rather, this report is only about the alternative ways to design a housing allowance. This paper has a single, focused purpose: to describe a full range of design options for housing allowance programs, and to compare their relative advantages and disadvantages (and not other possible uses for the money, such as a supply-side program).

The housing allowance design alternatives discussed here range from a housing rent supplement that helps with the cost of rent by providing a little extra funding for those with high rent, up to a housing allowance meant to pay as much as the full cost of affordable housing for those with little or no income (like Manitoba's new Rent Assist program). As can be expected, the alternatives are more expensive as they become more generous to recipients. While Ontario is employed to illustrate the housing allowance options, the discussion applies across Canada, with adjustments for the peculiarities of each jurisdiction's programs.

The five housing allowance options in this paper are based on varying the relationship among three key variables: rent, income and the amount of the housing allowance. In the parlance of mathematics: Rent and income are the independent variables and the amount of the housing allowance is the dependent variable. There are obviously many variables other than income and rent that must also be defined in designing a housing allowance. For example, would the housing allowance be available only to renters or to homeowners as well? If homeowners are included, what is equivalent to rental costs? Some other critical parameters beyond income and rent include:

- other forms of tenure such as student accommodation, assisted living, boarding houses, shared housing with family members.
- housing on reserves where the most common form of tenure is Band ownership.
- definition of a 'household' and of 'income' (for example, whether income is annual as reported through the tax system or monthly as in social assistance).
- the household structure of the housing allowance – for example, should a two-adult couple get the same allowance as a lone parent with one child?
- quality of dwelling – for example, in Saskatchewan's rent supplement program, housing must meet basic quality standards.
- demographic criteria such as restricting the housing allowance to families with children, or excluding seniors.

In the interest of keeping a complex and lengthy analysis a bit simpler, more accessible and shorter, these and similar questions are not discussed directly in this paper. These are critical questions that will need to be resolved in the process of actual implementation of a housing allowance following upon decisions about the overall design parameters. For now, they can remain on hold while reviewing the main design options.

The five options are described in the following section (section 2). A rigorous, algebraic and graphical description is provided in Appendix A for those who want a deeper understanding of the options. The third section goes on to assess comparative advantages and disadvantages of the options against seven criteria:

- fit with social assistance
- potential replacement for 'rent-geared-to-income' in social housing
- fairness, poverty and affordability
- housing market impacts
- portability and recipient autonomy
- marginal tax rates
- relative cost of the options.

Finally, the paper concludes by describing possible paths towards the incremental development of a housing allowance through sequential implementation of the options.

Designing a housing allowance program: Five core options

Few, if any, current proposals for housing allowance programs systematically develop a full spectrum of options for designing a housing allowance. Without understanding the range of options, it is not possible to compare the pros and cons of each alternative.

Following are five options presented in ascending order of their generosity to low-income households. Each of the options is described 'in words.' However, in order to define the options precisely so that they can be modelled on spreadsheets, displayed graphically, compared rigorously and further developed and critically analyzed, it is necessary to describe each option in the form of an algebraic formula. These are set out in Appendix A.

Option 1: A housing allowance that fills part of the gap between the social assistance shelter benefit maximum and affordable rent

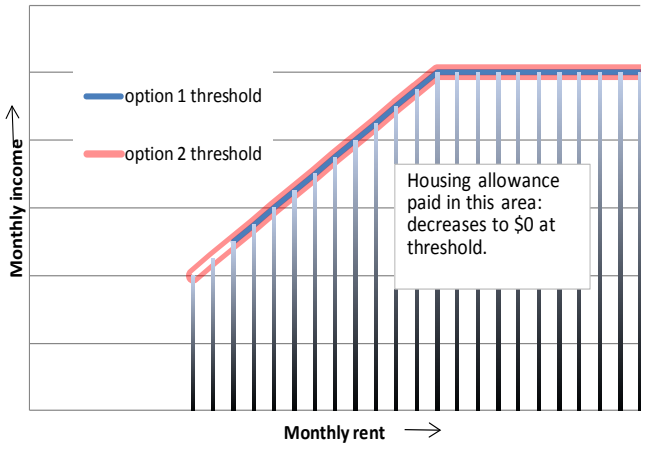
Option 1 is a housing supplement designed to help pay part of the rent only for those whose rental costs are above a minimum, with the amount of the supplement determined on a sliding scale according to rent and household income. In this and all other options, the term 'household income' refers only to income that is taken into account when setting the amount of the housing allowance. The definition of income may, for example, exclude some forms of household income like social assistance, tax credits or gifts, or it may rely on one of the definitions of income in the tax system. The definition of income does not affect the range of housing allowance options and is one of the variables not discussed in this paper, as noted in the introductory section.

Option 1 assumes that low- and modest-income households have sufficient income from other sources to pay at least a minimum rent, possibly with income from social assistance. The thinking here is that social assistance is universally available to any resident meeting social assistance eligibility criteria, so everyone should be able to access at least the social assistance shelter benefit. Option 1 therefore pays a housing allowance only to households whose actual rent is *greater* than the maximum shelter benefit in social assistance, with part of rental costs paid up to some maximum rent level set by the housing allowance program. (Anyone with rent above the maximum would be treated as if they had the maximum rent.)

Where the social assistance shelter benefit ends, the housing allowance begins. In this way, all social assistance recipients whose actual rent is higher than the shelter benefit maximum paid by social assistance would get supplementary assistance through the new Option 1 type of housing allowance.

This is the model developed several years ago by the Ontario Housing Allowance Working Group [2008], a coalition advocating a housing allowance for the province. The amount of allowance is calculated as a percentage of the 'gap' between the household's actual rent up to a maximum rent less the amount which the household is expected to contribute toward its own rental costs. The maximum rent can be set as a percentage of some measure such as median market rent. Households

Figure 1
Options 1 and 2 income and rent threshold



with rent above the maximum may still be eligible for a housing allowance, but the amount of their housing allowance is calculated as if they were paying only the maximum rent. The 2008 Ontario Housing Allowance Working Group proposes two maximum rent levels: one at 75 percent of median rent for cities with population over 100,000 and the other at 75 percent of median rent for locations with population under 100,000.

Option 2: Fill part of the gap between the social assistance shelter benefit average and affordable rent

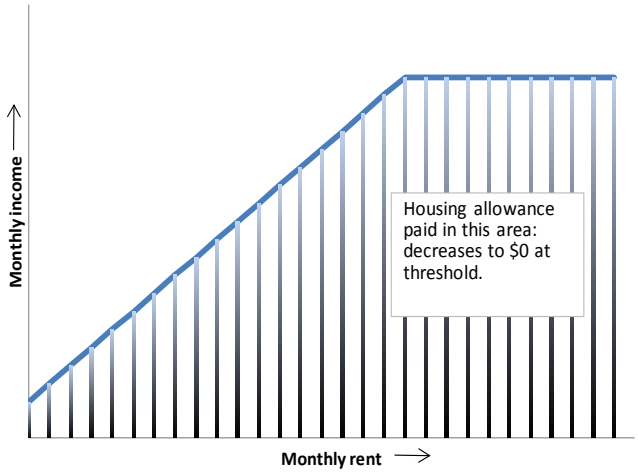
Option 2 is almost the same as Option 1 with the single exception that the minimum rent level would be a little lower – set not at the level of maximum shelter benefits in social assistance, but at the *average* benefit. This seemingly small change would permit a significant restructuring of social assistance shelter benefits into a flat-rate shelter benefit (i.e., a shelter benefit amount that is not dependent upon the actual rent that a recipient is paying, but is based instead on an 'assumed' rent) equal to today's average rate, thereby allowing a conversion to a flat-rate structure at no additional cost to the social assistance budget.

However, like Option 1, the new Option 2 housing allowance would pay a supplement to all recipients whose actual rent was above the minimum, so that there would be no loss of income for any social assistance recipients. No recipient would be worse off than in Option 1 and many would get a slightly higher benefit (everything else being equal) if their expected contribution from income was less than the Option 1 minimum.

In essence, the purpose of Option 2 is to use the introduction of a supplementary housing allowance as an opportunity to reform social assistance so as to increase recipient autonomy. The rationale for Option 2 is discussed further in the section on fit with social assistance.

To provide a visual representation of the way these options work, Figure 1 illustrates the 'threshold' for income and rent combined for Options 1 and 2. The 'threshold' is the combination of income and rent at which the housing allowance becomes zero. All combinations of rent and income in the area below the threshold, filled with vertical lines, are paid some housing allowance. Figure 1 does not show explicitly the amount of the housing allowance paid, which would require a third dimension. But the gradient of the vertical lines from dark to light reflects the gradual decrease in amount that would be paid, up to zero at the threshold line. Any combination of rent and income in the area *not* below the threshold line gets no housing allowance.

Figure 2
Option 3 income and rent threshold

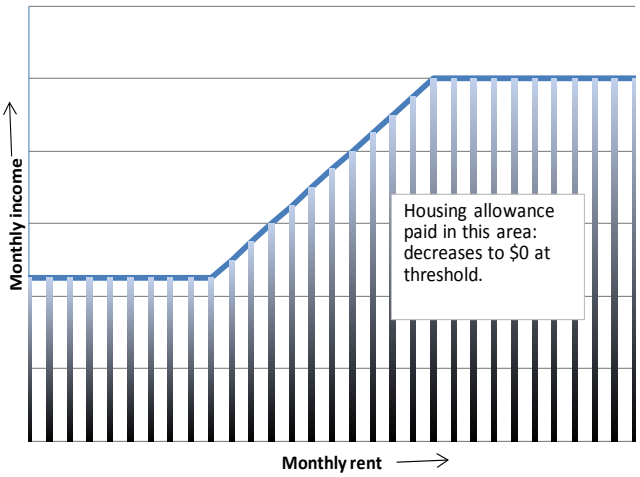


Option 3: Fill part of the gap between actual rent and affordable rent

Option 3 is another variant on Option 1, again with one change that makes a big difference. Unlike Options 1 and 2, there is no minimum rent level required to be eligible for a housing allowance. In Option 3 a housing allowance is paid to all households whose actual rent, up to a maximum, is higher than a percentage of their income, with the amount of the housing allowance scaled according to income. The allowance is calculated as a percentage of the 'gap' between actual rent up to the maximum rent less the amount the household is expected to contribute towards rent. As with Option 1 and all other options, the maximum may be set according to some measure of regional rents.

Figure 2 illustrates the threshold for an Option 3-style housing allowance. The threshold is the combination of income and rent at which the amount of the housing allowance falls to zero. As illustrated by the vertical lines, combinations of income and rent below the line get some housing allowance – combinations above the line get no housing allowance.

Figure 3
Option 4 income and rent threshold



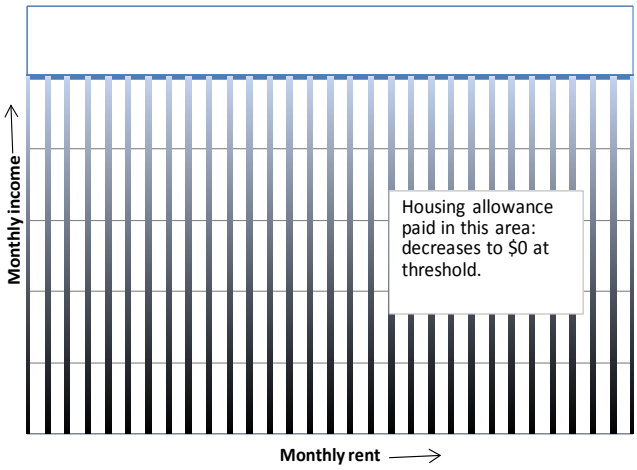
Option 4: A flat-rate housing allowance based on income, not rent, plus a supplemental housing allowance to fill part of the remaining gap up to an affordable rent

Option 4 adds a new type of 'minimum rent' not based on actual rent. If a household pays less than a specified minimum rent, Option 4 assumes the household is paying this minimum amount rather than its actual rent, so that it gets a housing allowance at a higher level. For example, if a household is paying $600 rent but the minimum is $800, in Option 4 the housing allowance is calculated as if the household is paying $800. The amount of allowance is calculated as a percentage of the 'gap' between the amount of actual rent or the minimum rent, whichever is greater, up to the maximum rent less the amount the household is expected to contribute itself for rent.

While both Options 1 and 4 include minimum rent levels, they are the opposite of one another. Option 1 does not pay any housing allowance to a household below the minimum. Option 4 pays to every household as if it were at least at the minimum.

If the minimum floor in an Option 4-type housing allowance were set at the level of average social assistance shelter benefits then, as in Option 2, the social assistance shelter benefit could be converted to a flat rate with no losers. However, Option 4 has this vital difference: In Option 2, only social assistance recipients would get the new flat-rate shelter benefit which would remain in the social assistance system. In Option 4, by contrast, both social assistance recipients and the working poor would also be eligible for the flat-rate housing allowance outside of the social assistance system. In short, Option 4 would allow the social assistance shelter benefit to be abolished and replaced by a 'universal' flat-rate housing allowance (with a rent and income-related housing allowance supplement) outside of the social assistance system.

Figure 4
Option 5 income and rent threshold



Option 5: A flat-rate housing allowance based only on income so that anyone can afford a reasonable rent regardless of their actual rent

Option 5 is a variation on Option 3. In Option 3, every household is eligible for an allowance according to the household's actual rent. In Option 5, every household is eligible for a housing allowance based on regional median market or another indicator of regional rental costs, regardless of the rent the household actually pays. The amount of allowance is calculated as a percentage of the 'gap' between the assumed rent minus the amount the household is expected to contribute for rent from their own income. The amount the household is expected to pay out of its own income is a percentage of their household income. This is the Manitoba Rent Assist model discussed in the introductory section of this paper.

Comparing the options

While it may not be immediately evident, the minimum rent for the options affects the total amount of housing allowance many of the lowest-income households might receive even if the maximum rent and all other variables are otherwise the same. For example, since the

minimum rent level in Option 1 is greater than the minimum rent level in Option 2, everything else being equal, the income needed to be able to 'afford' to pay the minimum rent will be more in Option 1. If the minimum rent in Options 1 and 2 is $800 and $700 respectively, and the contribution from income expected for rent is 40 percent, then an income of $2,000 a month is needed to be able to 'afford' the minimum rent in Option 1 while only $1,750 monthly income is needed in Option 2. Any household eligible for a housing allowance with less than $2,000 income, everything else being equal (including the rent), would get a lesser allowance from Option 1 than Option 2.

For eligible households under Options 3, 4 and 5, the housing allowance under those options will always be more than for Options 1 and 2, when income is less than the minimum rent divided by the contribution rate for Options 1 and 2 (everything else being equal – including rent).

The mathematics of this is difficult and it is easier to see the differences between the options if they are illustrated graphically. But because there are three variables – housing allowance, income and rent – it would only be possible to graph all three variables acting together in a three-dimensional figure. Instead, we show graphically how the options would work using two different sets of three figures: One set holds rent constant while allowing income to vary and the other set holds income constant while allowing rent to vary. Figures 5 through 7 show the amount of housing allowance that would be paid with three different rents, while income on the horizontal axis varies. Figures 8 through 10 show the amount of housing allowance paid with three different incomes, while rent on the horizontal axis varies.

To illustrate graphically the options, it is necessary to assign values to the variables. Further definition of the variables can be found in Appendix A. Purely for illustrative purposes in the following figures (and subsequently throughout the paper), I have assigned the values to the variables set out in Table 2. *Note that these values are not meant to be realistic examples reflecting amounts actually paid by existing programs or that would be paid by new programs.*

TABLE 2
Values used for variables in Figures 5 through 10

Maximum rent	$1,000 in Options 1 through 4 and the assigned value for the rent in Option 5
Minimum rent	$800 in Option 1 and $700 in Option 2
'Contribution rate' from income towards rent	30 percent in Options 3, 4 and 5.040 percent nominally in Options 1 and 2. Because these formulae multiply the 'gap' rate by the contribution rate, the effective rate of contribution from income is 30 percent in this illustration – see Appendix B.
Percentage of gap to be filled by housing allowance	75 percent

Figure 5
Housing allowance for all design options with $400 monthly rent

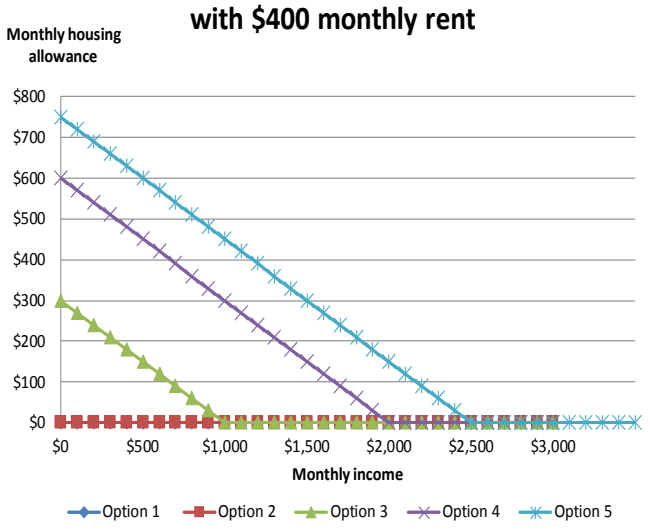


Figure 8
Housing allowance for all design options with $0 monthly income

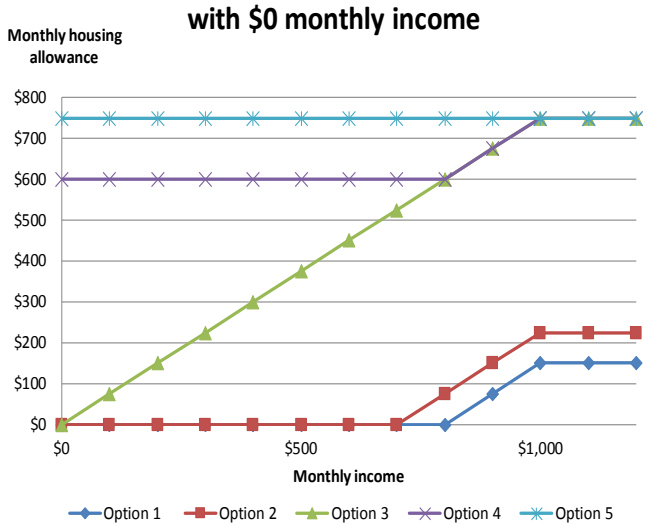


Figure 6
Housing allowance for all design options with $800 monthly rent

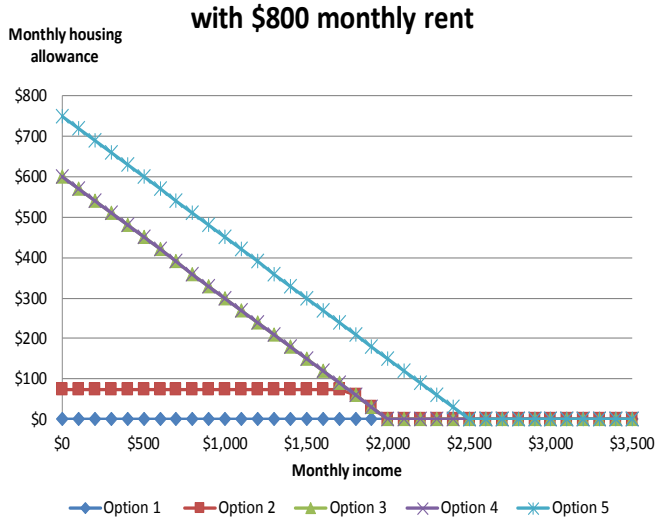


Figure 9
Housing allowance for all design options with $500 monthly income

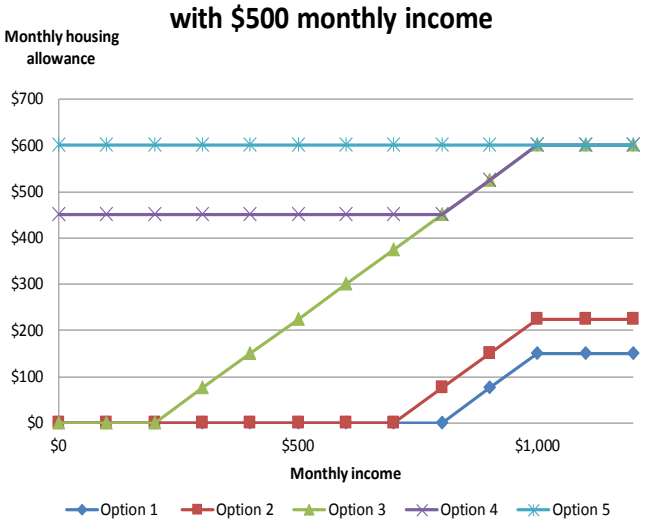


Figure 7
Housing allowance for all design options with $1200 monthly rent

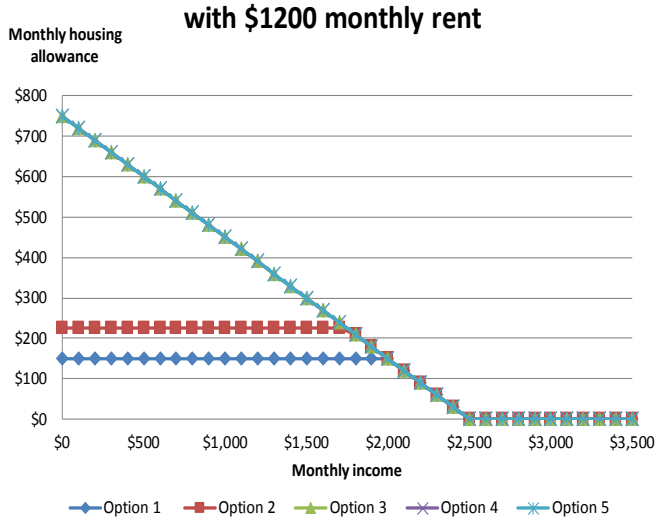
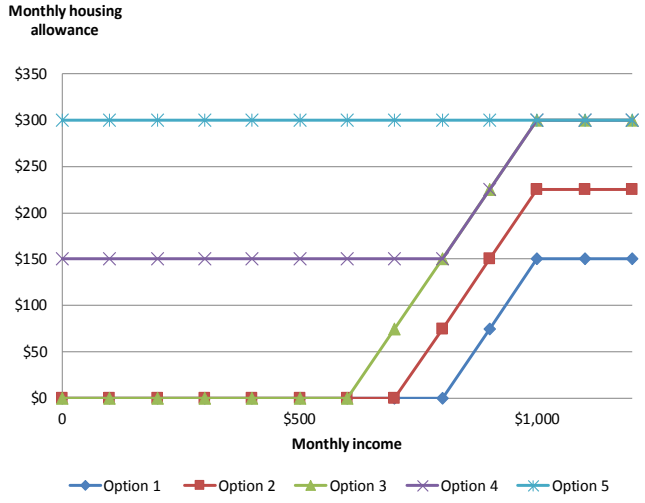


Figure 10
Housing allowance for all design options with $1500 monthly income



Fit with social assistance

Social assistance is not just a bit player in the Ontario rental market: Households on social assistance represent up to about *one-third* of all renters. Table 3 summarizes the number and distribution of rental households in various categories in Ontario. There are faults in the data which exaggerate this figure ('cases' are not the same as 'households'); nevertheless it is in the correct ballpark. Housing policy cannot reasonably be discussed without considering social assistance.

Notwithstanding the prominence of social assistance both to the housing market and as a major source of assistance for shelter for low-income households, in most Canadian provinces housing policy and social assistance policy have operated as ships in the night. Ministries responsible for housing policy usually know little about the development of the income security system, and the ignorance is reciprocated within ministries responsible for that system. Policy changes and rules for social housing are often made with little or no coordination with social assistance, and vice versa.

This silo-like isolation is an historical artifact of the way these sectors have developed over many decades and has become baked into the bureaucratic culture, resisting occasional attempts to break down the silos. At an educated guess, the provinces and territories pay in the order of $4 to $5 billion each year for social assistance shelter benefits. The transformation of social assistance shelter benefits into a program better suited to a modern economy and society where both jobs and household structures are flexible should be one of the key goals of a new housing allowance program. 'Fit with social assistance' is therefore treated here as a factor of primary importance in assessing housing allowance options.

As shown on Table 3, in Ontario about 420,000 social assistance cases were in the private rental market in September 2014, the most recent date for which caseload data is available. One of the differences between Ontario and most other provinces is that Ontario has two types of social assistance: the Ontario Disability Support Program (ODSP) for persons with prolonged and severe disabilities and Ontario Works (OW) for everyone else. As of March 2014, 64 percent of ODSP households and 86 percent of OW households were renters in the private market [data provided by the Ontario Ministry of Community and Social Services]. In March 2014, there were 320,000 ODSP cases and 250,000 OW cases [Ministry of Community and Social Services 2014]. Applying these percentages to each type of assistance, a total of 150,000 social assistance cases were not in private rental in March 2014. Updating these numbers to September caseload data gives us 420,087 cases renting in the market.

According to the National Household Survey, in 2011 1,159,545 Ontario households were renters in the private market [Statistics Canada, 2011 National Household Survey]. The definition of 'household' in the National Household Survey and 'case' in social assistance is not the same: Multiple social assistance cases may form a single household when families live together or when adult children still living in the family home get assistance in the own right. There are other confounding issues, such as the treatment of boarders in each of the surveys. If social assistance cases were exactly equivalent to a household in the National Household Survey, social assistance renters would represent a remarkable 36 percent of the total private rental market in Ontario, and an even larger proportion of the less expensive end of the rental market. But even if 10 percent of social assistance cases were in shared households and other data problems distort the numbers, social assistance renters would

Table 3
Categories of renter households in Ontario

Total number of renter households	1,385,540
Total number of market renter households	1,159,545
Total number of renter households in subsidized housing	225,995
Market renter households below median rent	579,773
Total social assistance cases in market rental	420,087
Total social assistance cases in non-market rental	151,434
Social assistance cases below social assistance shelter maximum	148,926
Social assistance cases at or above social assistance shelter maximum	271,161
Approximate proportion of market renter households on social assistance	up to 1/3
Approximate proportion of households in subsidized housing on social assistance	up to 2/3

Sources: Statistics Canada, 2011 National Household Survey, Statistics Canada Catalogue no. 99-014-X2011031. Ontario Ministry of Community and Social Services, Social Policy Development Division (2014) Ontario Social Assistance Monthly Statistical Report. Other data supplied by the Ontario Ministry of Community and Social Services.

still represent about 33 percent of private market renter households in Ontario. We can safely conclude that somewhere around one-third of the renters in the private market in Ontario are on assistance.

With the exception of a small number of unusual circumstances, all of these households on social assistance get a shelter benefit as part of their social assistance. So there is already a form of 'housing allowance' for up to one-third of Ontario renters. What about the other two-thirds, many of whom are also low-income households? And how can the two groups of low-income renters be treated fairly both within and between the groups, and in such a way as to best improve housing affordability while fitting within a modern economy?

For those in private unsubsidized rental in Ontario, social assistance pays a shelter benefit up to a maximum based on the number of persons in the household and the household's actual rental costs. Tables 4 and 5 below compare monthly maximum social assistance shelter allowances to 75 percent of median market rent for various Ontario households. The tables assume a bachelor apartment for singles, and 1, 2 and 3 bedroom apartments for family sizes 2, 3 and 4 or more, respectively. According to data provided by the Ontario Ministry of Community and Social Services, 69 percent of Ontario Works recipients and 60 percent of ODSP cases are at or above the maximum shelter benefit levels. This means that about 270,000 cases are at or above the maximum and 150,000 below.

Table 4
75 percent of median Ontario rent minus Ontario Works maximum shelter allowance (2015)

Family size	Monthly maximum	Median Ontario Rent	75% of median	Monthly difference	Annual difference
1	$376	$800	$600	-$224	-$2,688
2	$602	$919	$689	-$87	-$1,047
3	$655	$1,049	$787	-$132	-$1,581
4	$710	$1,286	$965	-$255	-$3,054
5	$766	$1,286	$965	-$199	-$2,382
6+	$793	$1,286	$965	-$172	-$2,058

Sources: CMHC Rental Market Survey April 2015; Ontario Ministry of Community and Social Services, Ontario Regulation 134/98

Table 5
75 percent of median Ontario rent minus Ontario Disability Support Program maximum shelter allowance (2015)

Family size	Monthly maximum	Median Ontario Rent	75% of median	Monthly difference	Annual difference
1	$479	$820	$600	-$121	-$1,452
2	$753	$956	$689	-$64	-$765
3	$816	$1,096	$787	-$29	-$351
4	$886	$1,316	$965	-$79	-$942
5	$956	$1,316	$965	-$9	-$102
6+	$990	$1,316	$965	-$26	-$306

Sources: CMHC Rental Market Survey April 2015; Ontario Ministry of Community and Social Services, Ontario Regulation 222/98

These tables give a rough indication of the gap between an allocation for a modest rent and current Ontario shelter benefits. However, a more detailed analysis would be based on median rents for different size communities showing costs for large cities, such as Toronto or Ottawa, to be much higher than for smaller communities.

Each option is reviewed below along with how it may harmonize with or be used to restructure the social assistance shelter benefit. Because this is one of the most important factors in selecting among the options for the design of a housing allowance, the fit with social assistance is discussed at greater length than the other assessment criteria.

Option 1 and social assistance

Option 1 is a supplement based on actual rent above a minimum and up to a maximum. In the 2008 Working Group, the minimum was to be equal to the social assistance shelter benefit and the maximum equal to 75 percent of median market rent in large and small cities in Ontario. In practice, this would be complex to implement due to Ontario's two sets of shelter benefits – for OW and for ODSP – and presumably there would be no such distinction in the new housing allowance. With ODSP shelter benefits higher than those in OW, if the minimum were set at OW levels, ODSP cases could get a 'double' benefit on the same rent expense from social assistance and from the new housing allowance.

This issue could be resolved by raising the OW shelter rates to ODSP levels. Assuming no behavioural change, all the OW clients above their current maximum who would get an increase in the OW shelter allowance would, in any case, have gotten the same increase – but through the new Option 1 housing allowance. Consequently, this change would not increase the total cost to government of Option 1 – except that some of the new cost would be in the social assistance budget rather than the new housing allowance budget. Alternatively, the government could indeed run two levels of housing allowance, which raises its own challenges.

This complexity due to Ontario's dual systems is a good example of the dozens of critical, detailed issues which arise in the practical process of implementing a real-life broad-based housing allowance harmonizing with the shelter benefit in needs-tested social assistance. Not all provinces have Ontario's two-tier structure. But they all have other peculiarities that will pose difficult challenges – including in most provinces different rates for persons with disabilities. An overall guiding rule for any attempt to reform social assistance is 'nothing is simple.'

In general, this paper does not address implementation issues of this nature since the objective here is to deal with just the policy issue of housing allowance design. However, the experience in Manitoba to date is that each of these types of policy challenges can be resolved one at a time and that it is not necessary to resolve all issues in the first stages of implementation. For example, Ontario could keep two separate streams of housing allowance for the first few years and integrate them over time. In other words, we are not here going to address the intricate complexities of social assistance in each province, but are reasonably confident that these matters could be dealt with should a housing allowance program be implemented.

In proposing an Option 1 form of housing allowance, the 2008 Working Group saw it as an add-on to social assistance without immediately changing the social assistance program itself. The Group suggested that, over time, increases would or could be added only to the housing allowance and not to the social assistance shelter benefit, so that the housing allowance might gradually supplant the shelter benefit. Assuming that the minimum cut-off level for the housing allowance would be at the level of the social assistance shelter benefit, the new Option 1 housing allowance would become a supplement to the income of the 270,000 assistance recipients whose actual rental costs are higher than the maximum social assistance shelter benefit – setting aside the possibility of behavioural change among the 150,000 social assistance households not now getting the maximum social assistance shelter benefit.

One of the presumed reasons the Working Group recommended an Option 1-type housing allowance was that it has an important political advantage: It would not require the housing allowance to *replace* any social assistance benefit. Instead, it would only add to the incomes of recipients whose actual rent was above the current shelter allowance. Some anti-poverty advocates believe that any increase in income for social assistance recipients must be an add-on to their social assistance benefits and not a replacement, even in part, for those benefits. Any attempt to replace social assistance benefits with other forms of income has been given the pejorative label 'clawback.' Fearing accusations of clawing back income from social assistance recipients, some governments have shied away from measures to replace social assistance benefits with less stigmatizing and less bureaucratic forms of income (e.g., programs that provide broad-based benefits for *both* assistance recipients and the working poor).

Implementing an Option 1 style of housing allowance has the advantage of increasing social assistance households' income without subjecting government to potential charges of failing to add on the full amount of any increase to social assistance recipients. However, if the fear of being labelled a clawback is not an insurmountable barrier, there is an alternative way to harmonize an Option 1 type of housing allowance with social assistance that would result in more positive change for social assistance recipients.

Option 2 and social assistance

As noted, the social assistance shelter benefit is currently based on the actual rent paid by recipients up to a maximum. If the shelter component of social assistance were instead a flat rate, rather than based on actual rent, this would reduce paper work and the need to 'police' recipients. More importantly, it would increase recipients' autonomy and control over their own lives (a topic discussed further below) – e.g., by allowing social assistance recipients to take more charge of their own financial decisions and derive a financial reward for finding less expensive accommodation. For the 150,000 recipients below today's maximum, finding less expensive rent just means a lower shelter benefit. Finding rent that is more expensive up to the maximum implies no additional rental expense to the recipient.

A flat-rate shelter component for social assistance also has benefits from a market perspective: A flat benefit unrelated to actual rent implies less distortion of recipients' personal preferences as rent would no longer be a subsidized good. With a flat rate, an extra dollar of rent would be fully paid from a recipient's income, just as one less dollar of rent would be fully added to a recipient's net income. This might not matter much to the rental market if social assistance households made up only a small portion of the rental market. But as we have seen, the social assistance shelter component is a huge proportion of the rental market. One of the few maxims upon which most economists can agree is that for ordinary goods (unless there is a social benefit to encouraging more consumption – a so-called 'merit good'), subsidize the person, not the good.

Given these advantages, some provinces (notably Québec) have implemented a flat-rate shelter allowance in their social assistance program. However, Ontario and several other provinces still base their shelter allowance on actual rents up to a maximum. In my experience, there is consensus in favour of a flat-rate benefit among those working and designing policy in the area of social assistance. So why have not all provinces followed Québec's example and adopted a flat-rate shelter benefit? The main impediment is the cost.

As noted, since shelter rates have not increased as quickly as the real costs of rent (especially in the larger cities), more and more recipients are at or above the maximum shelter benefit in social assistance. In Ontario, if the flat rate were set at the current maximum shelter benefit, there would be no financial change for the estimated 270,000 recipients already at the maximum – only for the 150,000 recipients below the maximum. This may be only a little more than a third of the caseload but it is still a big number; almost any increase in their benefits will add up. For example, in Ontario, closing a gap between actual and maximum rent averaging only $40 a month implies a total cost of about $72 million. If the first maxim of social assistance reform is 'nothing is simple,' the second is 'nothing is inexpensive.'

Any housing benefit is going to require substantial additional spending. But added spending on an alternative form of an Option 1 type of housing allowance could effectively 'kill two birds with one stone' and provide bonus social benefits in addition to the added income for recipients. If the social assistance shelter allowance were set at a flat rate equal to the *average* rent in private rental situations up to the maximum social assistance shelter allowance, there would be no additional cost in the social assistance budget. If at the same time an Option 1 housing allowance were implemented, and automatically paid to all social assistance recipients whose actual rent is above the new flat rate (which is below the social assistance maximum), at a level at least equal to the gap between the new flat-rate shelter benefit and the previous maximum shelter benefit, all social assistance recipients would be at least as well off and many – especially those with the lowest incomes – would be better off.

The difference between Option 1 as originally conceived by the 2008 Working Group – with the minimum rent for the housing allowance set at the *maximum* social assistance shelter benefit – and this Option 2 – in which the minimum rent is instead set at the *average* shelter benefit – is illustrated in Figure 1. This alternative would require a small add-on to the front end of the new housing allowance to include slightly lower rents. It would also increase the housing allowance for many low income households as is discussed in the section on costs.

All recipients whose actual rent had been below the average would now be better off by having their shelter benefit increased to the average. Whether above or below the average, all social assistance recipients would be freed from reporting their actual rental costs to the social assistance administration and would have greater autonomy and control of their own finances. The rental market would be freer to operate without the distorting impact of fully subsidized rent.

Indeed, the Option 2 housing allowance is more a reform of social assistance using a housing allowance as a vehicle, rather than the other way around. The political liability of Option 2 is that some of the benefits now paid by social assistance (namely those between the average and maximum shelter benefit) would be removed from social assistance and instead paid under the new housing allowance program. This could be characterized as a clawback.

Options 3, 4 and 5 and social assistance

Option 3 is very simple – a housing allowance that pays a percentage of actual rent up to a maximum based on income, with no minimum. The integration of an Option 3 housing allowance with social assistance is also simple; it could replace the shelter component of social assistance. With an Option 3 type of housing allowance, all low-income households whether working poor or on social assistance would have the same

shelter benefit. Of course, this is possible only if the threat of being labelled a clawback does not constitute a prohibition on reform.

While superficially straightforward, there are still many complexities that would have to be worked out with respect to the other variables noted above. For example, the shelter component of social assistance is based on current monthly income, but it would likely be most efficient to pay a broad-based housing allowance according to past year's income as reported through the income tax form. If this form of retrospective income were to be used, there would have to be a mechanism for in-year adjustments for households that found themselves in dire need in mid-year. This is another example of a second level of policy issue not addressed in this paper.

Like Option 3, Options 4 and 5 would replace the shelter component of social assistance. However, Options 4 and 5 would have some important differences.

Option 4 has a minimum floor for rent. If actual rent is below the minimum, it is assumed for purposes of calculating the housing allowance that the household is paying the minimum, rather than the lower rent it actually pays. If the minimum is set at a low level, for example, $200, then it would act as a kind of floor value only in a few exceptional circumstances. Most very low rental situations that fell below the minimum would likely be in ineligible categories, such as student housing. In this case, the floor becomes more symbolic than a meaningful change in the amount that would be paid under Option 4, everything else being equal. In this case, Option 4 is for most eligible households the same as Option 3.

If the minimum rent floor in Option 4 was instead set at average social assistance shelter levels, as in Option 2, then Option 4 becomes the same as Option 2 except that the flat-rate component would now be available to *all* low-income working households as well as those on social assistance. By making all low-income households eligible, Option 4 allows a large proportion of social assistance (i.e., the shelter benefit) to be replaced with a broad-based program.

From the perspective of social assistance reform, Option 4 then has some advantages over Option 2, despite their similarities. First, Option 4 would allow many more households not to go on to assistance in the first place by providing a modest alternative source of income in hard times. Second, Option 4 would allow for better rewards for staying in work (where there is an option) as the housing allowance would be available without having to go on to assistance. Of course, Option 4 is also much more expensive, as is discussed in the section on costs below.

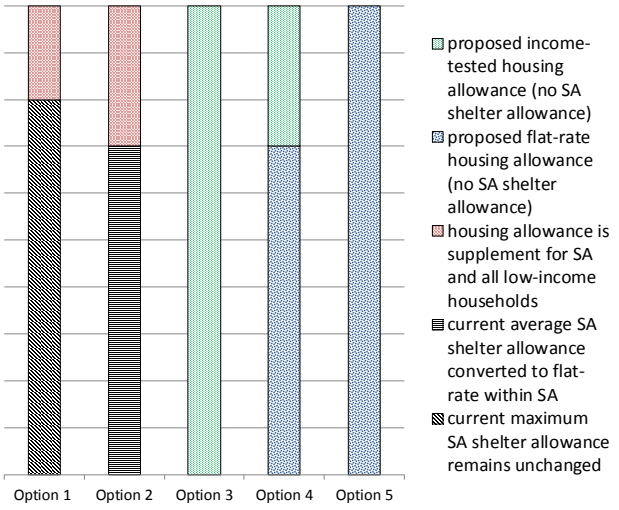
The final option, Option 5, pays a flat-rate benefit to everyone based on regional or some other assessment of rental costs, not based on a household's actual rental costs. The flat-rate benefit would replace the social assistance shelter benefit for everyone. It would confer all the benefits of autonomy to both social assistance recipients and working poor households, simplifying administration and minimizing effects on the rental market. Like Option 4, it would reduce the overall social assistance program by about half or even more, and allow many families to escape altogether from the need for social assistance at all.

Assuming the minimum level of Option 4 is set high enough to replace fully all social assistance shelter benefits, both Options 4 and 5 allow shelter benefits to be fully removed from social assistance. The difference is that Option 4 still requires recipients to report on their actual rent and the housing allowance program to base top-up payments on those reports.

Comparing the options' fit with social assistance

Figure 11 is a visual summary of all the options and the differences in integrating or replacing the social assistance shelter allowance with a new housing allowance.

Figure 11
Illustration of options for housing allowance and social assistance (SA) 'fit'



Potential replacement for 'rent-geared-to-income' in social housing

While social assistance is the largest income-related housing program today, the second-largest such program is rent-geared-to-income social housing. As discussed in the preceding section, some housing allowance options (Options 3, 4 and 5) would fully replace the shelter benefit in social assistance, while others (Options 1 and 2) would harmonize with but not replace social assistance shelter benefit. How could these five housing allowance options work with rent-geared-to-income housing? Could any of the options replace the use of rent-geared-to-income in social housing?

The specifics of rent-geared-to-income housing differ from province to province and, in some provinces, it may also differ from project to project or even person to person. The most common rent-geared-to-income is to require a contribution of 30 percent (give or take several percentage points) of income from tenants, up to some maximum meant to approximate market rent. There are many details within that general description, such as how income is assessed and what contributions are expected from whom in the family, and on and on.

Notwithstanding these details, it is easy to see that a housing allowance paying an amount up to the price of a reasonable rent for a modest apartment could fully replace rent-geared-to-income in social housing. The tenants could be charged a rent equal to the maximum housing allowance and the housing allowance program would provide any subsidy needed to make that rent affordable for the family.

Subsidizing household rent would no longer be the job of social housing. It would instead be accomplished through the housing allowance program. This would work for Options 3, 4 and 5. By contrast, Options 1 and 2 could not fully replace rent-geared-to-income as they only provide a supplement to rent and do not cover the whole cost of a reasonable rent.

Likely the full economic cost of a social housing unit will almost always exceed a maximum housing allowance, even if the housing allowance maximum equals a reasonable but modest rent. If so, social housing projects would not be sustainable only with rental income when rent is set to equal the maximum housing allowance. Mixed use projects, where some tenants are not subsidized, might be sustainable by cross-subsidizing lower-income tenants (by charging higher rents for some units), but this would create two classes of tenants. Alternatively, a smaller public subsidy might continue to be needed for most social housing projects, beyond the subsidy implicit in the housing allowance.

If a public subsidy is still needed for social housing even after rent-geared-to-income is replaced by a housing allowance, the nature of this continuing public subsidy could be dramatically different. First, the subsidy need not be associated with specific units within the project and could instead be in the form of a grant to the project as a whole. Second, the amount of the grant would be many magnitudes smaller than the total of today's subsidies delivered via rent-geared-to-income; most of the income for the building or project would come from rents.

All of this might seem, at first glance, to be a distinction without a difference. After all, there would still be a public subsidy, and everything else being equal the total amount of government cost through both the housing allowance and any grant (or government plus private cost if there is cross-subsidy) would be the same.

So long as the maximum housing allowance is less than the full economic cost of the social housing, replacing rent-geared-to-income with a housing allowance would be cost neutral. The cost would shift from whoever now pays for the rent-geared-to-income subsidies to whoever would pay for the new housing allowance – in most instances, this might be one from one government ministry to another or one level of government to another. However, while total dollar amounts might be the same, there are important advantages to be gained from replacing rent-geared-to-income with a general housing allowance program.

First, paying the government benefit to the household rather than associating it with a housing unit means that that the household retains the subsidy wherever they move so long as their income and family circumstances (and rent in Options 3 and 4) remain the same. This gives the household mobility so that it is not tied down to a location, increasing recipient household's autonomy. This is not only a psychological advantage, it is also practical: Households in public housing are often stuck in a location because it is the only way to get help with their rent. It may be difficult to take advantage of new employment, education or other opportunities that would require the household to move.

Second, since most income for a building or a project would come from rent, the housing authority can be more business-like and customer-driven. With most income coming from rent, vacancies will mean lost income, not reduced expenses. There will be no difference in the total rent coming from various tenants (except in the case of private cross-subsidization within a building). Housing authorities will have stronger economic incentives to maintain buildings and keep them as attractive as possible, and the tenant's income level will not matter to the authority. Indeed, it might even be economic for the private sector to build low-cost housing using its own risk capital without government involvement, knowing that a minimum rent level is effectively guaranteed by the housing allowance program.

These points are vividly illustrated in interviews John Stapleton conducted with tenants in social housing in Ontario:

> One woman was paying $1,800 for a three bedroom when much nicer existed in private stock nearby for $300 a month less. She said she had to stay because her job was a successive renewal of contracts and she could not risk leaving and having to go back on the waiting list. She was making $72,000 a year but had a sick husband and three children. Municipal landlords turn a blind eye to high earning renters because it is too hard to resist the revenue from the market renter. If they evict her and take the next person on the waiting list, the landlord loses $1,400 a month in rent. [John Stapleton 2015 private correspondence]

Third, 'housing' ministries in government today are theoretically responsible for overall housing in a province. But a big part of their real day-to-day job is running huge social assistance systems in the form of rent-geared-to-income programs. Getting the housing ministries out of the business of administering household subsidies would allow them to focus on the core mandate of overseeing the residential assets of our towns and cities.

While there are many advantages to replacing rent-geared-to-income with a housing allowance, there will also be barriers, especially given the many heterogeneous forms of subsidized housing that have evolved over the past decades – for example, special rates for seniors and so on. The barriers will differ from province to province (and territory), but in Ontario there is an especially high barrier that has nothing to do with housing allowances.

The Ontario government does not pay municipal housing authorities or other social housing authorities an economic rent on behalf of social assistance recipients. Ontario does not even pay the full amount of the social assistance shelter benefit on behalf of social assistance recipients in social housing. Instead, it pays an artificially low rate on behalf of social assistance recipients in subsidized housing. This is a continuation of a policy that was put in place many decades ago to maximize federal cost-sharing. But the federal cost-sharing was abolished more than 20 years ago. This 'policy' was not changed even when the housing sector was downloaded to municipalities in the 1990s.

John Stapleton has estimated the cost to Ontario of just paying the full shelter benefit to all social assistance recipients in subsidized housing as in the order of $200 million a year [John Stapleton 2015 private correspondence]. Whatever the real cost, an Option 3, 4 or 5 housing allowance that did not exclude tenants in rent-geared-to-income housing would have to correct this anomaly and therefore add a sizeable amount to the province's cost. Notice, however, that including tenants in rent-geared-to-income in the housing allowance program and replacing rent geared-to-income with the housing allowance would not actually involve any added *government* costs, just a transfer of costs upwards to the province from housing authorities. This is an intergovernmental transfer. The rule remains that if a housing allowance replaced rent-geared-to-income, the cost to the government sector would be approximately neutral.

Housing affordability

In Canada, we usually measure housing affordability by the percentage of income a household pays for housing. Thirty percent is the commonly used indicator for affordability. If you pay more than 30 percent of your income for housing, it is said to be unaffordable. Yet a wealthy household may choose to pay an extravagant amount for housing. The wealthy household may have chosen 'unaffordable' housing according to the '30 percent' criterion, but this does not tell us much about whether the housing is actually affordable. We do not really want to know how much households pay for housing; rather, we want to know how much they have to pay for housing. How much do households *have* to pay for *modest* housing and would it cost them more than 30 percent of their income?

There are many different ways to define modest housing. Following both the example of Manitoba and the 2008 Working Group, 75 percent of median market rent seems to be a reasonable demarcation of a modest rent. Using the usual 30 percent guideline, we can define housing as affordable for a given household if 75 percent of median market rent is 30 percent or less of household income. We can therefore say that a housing allowance program has ensured affordability when the sum of 30 percent of household income plus the housing allowance is greater or equal to a modest rent – which we here set at 75 percent of median market rent. To what extent would each of the options ensure affordability for low-income households?

This question can be answered rigorously since we know the formula for each option. Assuming that the maximum rent in each option equals 75 percent of median market rent and the effective contribution rate from household income for rent is 30 percent, Appendix B derives algebraically the extent to which each option ensures affordability.

Appendix B shows that Options 1 and 2 guarantee affordability for any household with household income high enough so that their affordable contribution for rent is greater than the minimum income in these options. As Option 2 has a somewhat lower minimum rent, this would encompass more households. However, Options 1 and 2 do not provide sufficient housing allowance to ensure that a household can afford a modest rent when the household's income is so low that its expected rent contribution is less than the minimum. This should not be surprising since these options were designed to provide only a supplement to

income to assist in the cost of housing and not to substitute fully for a household's whole housing cost. Using the data from the National Household Survey and the values on Table 2, Options 1 and 2 would not ensure affordability (or even provide any housing allowance) for somewhere in the range of 160,000 to 235,000 of the lowest-income households in Ontario.

By contrast, Options 3, 4 and 5 all do guarantee that any household can afford a modest rent. In all these options, a household with no income ('income' as defined for purposes of setting the housing allowance, as discussed above) would get a housing allowance up to 75 percent of median market rent. In Option 3, the amount of the housing allowance would depend upon the household's actual rent. In Option 5, the household would get an allowance sufficient so that 30 percent of the household income plus the housing allowance would always equal 75 percent of median market rent, regardless of what the household actually paid for rent. In Option 4, the housing allowance would be a blend of a flat rate and actual rent.

Fairness

The options also differ with respect to both horizontal and vertical equity. 'Horizontal equity' can be defined here as treating households in similar circumstances similarly. 'Vertical equity' can be defined as treating households in dissimilar circumstance inversely and proportionately to the quality of their circumstances. Households that are a lot better off should get a lot less benefits and households that are a little less better off should get a little less benefit from a vertically equitable program. Here our concern is horizontal and vertical equity among recipients of a housing allowance, not issues such as equity between home owners and renters.

Options 1 and 2 may be seen as perpetuating existing horizontal inequity in excluding some very low-income working households. Many of these low-income households may be in economic circumstances similar to households on social assistance but be ineligible for any housing allowance. Some of these households may be eligible for social assistance but unwilling to apply. This is an old problem for income security programs – so old that it goes back to pre-Victorian England – namely, how do we treat people who are working for low-incomes compared to those on assistance? It is, in part, in response to this dilemma that Options 3 through 5 would convert the social assistance shelter allowance into a broad-based housing allowance available equally to all low-income families. Fair treatment for the working poor is also one of the goals motivating the reforms in Manitoba.

Options 1 through 4 may be seen as vertically inequitable in that the housing allowance would be paid according to actual rent, although in the case of Option 4 this would apply only to those households with rents over the minimum floor. In Options 1 through 4, households with the same financial circumstances could be paying different rents. Households with higher rent would get a larger housing allowance, everything else being equal.

In short, for any housing allowance paid according to actual rent, some households with higher income could get a larger housing allowance than similar households with lower income. Only Option 5 always pays more to those with lower incomes, as the amount of the allowance is not dependent upon actual rent. So, according to this perspective, only Option 5 is vertically equitable.

Or exactly the reverse argument could be made: Household circumstances are indeed different – in that some are paying a higher rent despite having the same income. So Options 1 through 4 are horizontally equitable to the extent that the housing allowance corrects for these higher costs. If this latter argument is accepted, then Option 5 (and Option 4 for households below the minimum floor) is horizontally *inequitable* in that the housing allowance in these options is not adjusted for differences in actual rent.

There are parallel arguments with respect to vertical equity. Options 1 through 3 allow households with higher incomes to get larger housing allowances than lower-income households if the former have higher rents than the latter. Vertical equity would require, instead, that a lower-income household get a larger housing allowance. Option 5, by contrast, always pays the highest allowances to those with the lowest incomes and pays equal amounts to similar households of equal income. Option 4 lies between these options, operating like 1 through 3 for households above the minimum rent floor and like Option 5 for those with rents below the floor.

But as with contrasting views with respect to horizontal equity, there is also a contrasting and opposite case with respect to vertical equity. It could be argued that Options 1 through 3 are vertically equitable because they adjust for the higher rent of some households by providing a larger housing allowance, thereby correcting for their greater expense.

These contrasting assessments of fairness will depend largely upon one's perspective on the extent to which rents are supplier dominated. To what extent do renters have agency? Is the rent you pay and the quality of apartment you get more or less like a lottery within a broad range? If renters pay a higher or lower rent with little discretion and little difference in the product they are buying – more or less dependent upon the haphazard luck of what apartment they happen to hear about and get to first – then it is equitable to adjust for differences in actual rent. If, instead, renters can decide whether or not to pay more for a better place with some choice and some reasonable expectation that paying more will result in a better place to live, then it is inequitable to provide a higher housing allowance to those who choose to pay more – or those who can pay more because the household income is higher.

So, do low-income renters have agency? The issues of 'renter agency' and the nature of the rental market are discussed further below.

Housing market impacts

Economists distinguish between two different ways that government assistance may affect demand. On the one hand, a government program may raise incomes of some households. This will increase demand for goods and services across the whole economy depending upon the needs and preferences of the households. On the other hand, a government program may change the price of a specific good or service by subsidizing part of the cost. Consumers of a subsidized good will get a 'bargain' discount and suppliers will encounter less resistance from consumers to price increases when part of the bill is paid by someone else. The former effect on demand is called an 'income' effect; the latter effect on demand is called a 'substitution' effect. For any given amount of spending, the substitution effect has much more impact on demand because the subsidy is focused on a particular good or service while the income effect is diffuse.

All five options raise the incomes of low-income households and therefore all have an income effect. The income effects of each option will be proportionate to the size of the program. The options may focus more of the money they pay on different categories of household income, and there may be slightly different preferences among income categories, but these differences will be vanishingly small in any effect on the total housing market. Therefore, there are no substantive grounds for distinguishing among the options based on their income effects. Where the options differ is in their substitution effects.

Options 1 through 4 all subsidize rent for households within a limited range – those with rents above the minimum rent floor (in Options 1 and 2) and with incomes below the maximum income threshold. The maximum income threshold is the amount at which the contribution rate (e.g., 30 percent) from income is sufficient to pay for the maximum rent. Options 1 and 2 have a more limited range of subsidy because they each have a minimum rent level below which there is no subsidy. Option 2 offsets the substitution effect of its housing allowance by removing that effect from the social assistance shelter benefit, since in Option 2 the social assistance shelter benefit is a flat rate so it does not change if rent changes. Option 4 similarly has a range in which there is no substitution effect because this option has a flat rate for both social assistance and working poor. Option 3 is the only option with a substitution effect on the full range of rent right up to the maximum income threshold.

Although the extent of the substitution effect is different for these options, that there is a substitution effect is indisputable. The question is whether this effect has any implications in the real as opposed to the theoretical world.

For those in the range of income and rent where the household is eligible for a housing allowance based on actual rent in Options 1 through 4, an additional $100 rent will cost only $25 or so, depending upon the design parameters. This is a terrific bargain. It would seem only sensible for households to pay rent up to the maximum or close to it if they can get a $100 worth of improved living accommodations for only $25. Landlords will also quickly learn of the program parameters. Landlords have powerful incentives to push rents as close as possible to the subsidized maximum, especially if they can anticipate reduced resistance from their tenants. The capital value of a rental property is determined by the income it generates. At current 'cap rates' of about 6 percent, an additional dollar of income adds about $16 of additional capital value to a property. Furthermore, as we have seen in Table 3, a large proportion of the total rental market is likely to be eligible for any broad-based housing allowance. Given these considerations, it is hard to see how Options 1 through 4 would not have a substantial impact on the rental market.

The alternative perspective is that rental housing is a peculiar kind of market in which the ordinary rules may not apply. According to this alternative perspective, renters have little choice and do not necessarily get what they pay for – in the sense that within a range of hundreds of dollars a month, the quality of the accommodation is more like a lottery than a supermarket. Transition costs for tenants moving from one apartment to another are so high that it only makes sense to move if there is a big difference in price or quality.

In this view, renters mostly take what they can get. The tens of thousands of small landlords who rent one or two apartments, often in their own homes, may charge rent according to their history and their costs or other personal factors such as their perception of the tenants, not according to the market. Moreover, tough legislation regulates landlord-tenant relations and, in some towns and cities, also governs prices and especially price increases (but in Ontario buildings built after 1991 are exempt from rent controls so most condominium rentals are exempt).

As the 2008 Working Group paper pointed out, existing rent supplement schemes have had no discernable effect on the rental market in Canada. Perhaps more tellingly, social assistance shelter allowance pays 100 percent of any increase up to the maximum social assistance shelter benefit, yet only 60 percent of ODSP and 69 percent of OW renters are at the maximum. The percentage of caseload at the maximum may be increasing, but there is still a sizable minority below the maximum. If the rental market works so fluidly, closer to 100 percent of social assistance recipients should be at their maximum. And with social assistance representing around one-third of the rental market, why has this program not set a floor for rents?

Canada has not had a universally available housing allowance, so past experience may not be a reliable guide as to what would happen should

a province-wide broad-based housing allowance be implemented. Over the next several years, we will get some better evidence from Manitoba. But in the meantime, the debate as to the effect on the rental market remains unresolved.

However, we can say one thing for certain: Option 5 alone has no substitution effect. Rent increases or decreases are paid or saved entirely by the renter and are not subsidized by an Option 5 housing allowance. Option 5 unequivocally presents the least danger of distorting the rental market of any of the other options. If there is any market or economic risk here, everything else being equal, Option 5 minimizes this risk. Of course, everything is not equal – as Option 5 costs more for any given level of allowance, a topic discussed below.

Recipient autonomy and portability

Recipient autonomy is the other side of the rental market coin. A high marginal rate of subsidy for rent cuts the price of rent for those getting a subsidy. But the subsidy also places a barrier in the path of recipients attempting to improve their own net incomes or who have more important current priorities than rent. In Options 1 through 4 (in Option 4 for those above minimum rent), if a low-income household finds an opportunity to save money by renting an apartment for a $100 a month less – forget it, the household will lose $75 of that saving through having their housing allowance reduced. If a household feels that other needs are a higher priority (like education, or decent food, or transportation) – forget it, the government will help pay for part of your costs only if you spend your money on rent.

Any of the options with a high marginal subsidy on rent present one more barrier to low-income households having power over their own finances. Only Option 5, in which the amount of the housing allowance does not depend upon the household's own spending on rent, unambiguously permits recipient financial autonomy, without implicitly directing recipient households to spend their money on one type of good – rent.

However, as with the discussion of the impact of the options on the rental market, there is another way to look at the relationship of the options to renter's autonomy. If the rental market is seen as one in which households have little or no autonomy to start with, then the effect of the options on preserving recipient autonomy is not especially relevant as there is not much to preserve anyway. Still, if there is any risk of meaningfully eroding recipient autonomy by subsidizing rent among all household expenditures, Option 5 is the only option which removes this risk.

Marginal tax rates

In the above sections, we have been discussing the change in housing allowance as the amount of *rent* changes and how this distinguishes the options. This might be thought of as the marginal rate of change in rent. However, there is a second type of marginal rate of change – namely, the rate of change in the housing allowance as income changes. This is called the effective marginal tax rate on income. If the contribution rate from income for rent is 30 percent, this implies that if income goes up $100, the household can afford to pay an additional $30 towards rent, so their housing allowance is reduced by $30. The household therefore experiences a net change in income of only $70 – a 30 percent marginal tax rate.

As we saw, Option 5 has no marginal rate of change in rent, as the amount of the housing allowance is not dependent upon the household's spending on rent. Similarly, the flat-rate portion of Option 4 has no marginal rate of change in rent, and Option 2 removes the marginal rate of change in rent from social assistance (as does Option 4 by converting the shelter component of social assistance into a flat-rate housing allowance).

But unlike the marginal rate of change in rent, all the options have an equal marginal tax rate on income in the applicable ranges. The amount of the marginal rate of tax on income depends upon the 'affordability' criterion. Here we have generally used 30 percent as an illustrative example, which then becomes the marginal tax rate. Manitoba, however, is using a 25 percent criterion in its Rent Assist program so it has a lower marginal rate of tax on income.

The higher the effective marginal rate of taxation, the less a recipient benefits from any increase in income. Like the marginal rate on rent, this factor theoretically places barriers in the way of recipients improving their own financial situation as they do not fully benefit from increases in income. This becomes more problematic as the effective marginal rate increases.

The practical problem is that the marginal tax rates of income-tested programs and provincial and federal income taxes add up and are cumulative. If a household pays $15 income tax on each additional $100 of income and also loses $30 of housing allowance due to that added income, then the loss of income due to that extra $100 is $45. The household's net increase in income is only $55, so the cumulative effective marginal tax rate is 45 percent. As there are several programs with marginal tax rates, such as the federal Working Income Tax Benefit, the new federal Child Benefit and some provincial programs such as the Ontario Child Benefit, for some households in some income ranges the cumulative effective marginal tax rate can become quite high. The unanswered question is whether high marginal tax rates have any substantive behavioural implications.

Economic theory predicts that, everything else being equal, individuals will reduce their efforts to earn more income if the tax rate is higher. But everything else is not equal. A household may have a target net income required to do things like pay the mortgage, send a child to college or take a holiday. The result of a higher tax rate might be to encourage the household to work harder to earn a higher income so as to achieve its net income target. A person may be working for reasons in addition to money, like satisfaction, the need to participate in society or to get ahead. The marginal tax rates of 70 percent or even higher in the income tax system in the 1950s and 1960s had no discernible negative impact on work effort or on the economy in general. Experiments in guaranteed annual income in the United States and one in Canada did not show large reductions in work effort among primary earners [Forget 2011].

Recent behavioural economics has taught us to take the theoretical predictions of economics with a large grain of salt, especially because the proviso 'everything else being equal' is usually forgotten when extrapolating from theory to reality.

There is no definitive assessment of the importance of marginal tax rates in changing the behaviour of recipients. The answer might be that marginal rates do not matter much up to a high level. But if marginal rates are very high, such as 75 percent or more, over a large range of income, they might become quite important. If so, the challenge will be to set the parameters of the housing allowance so that they do not add up when combined with other programs to create these very high rates.

Relative cost of the options

Baseline costs for option 1

There is no estimate of the cost of the options in this paper.

This paper's purpose is to set out options for the design of a housing allowance and then compare the advantages and disadvantages of the options. Of course, how much a program costs is one of the key factors in assessing a proposal. A new program paying benefits to many hundreds of thousands of low-income households will have a substantial budgetary bottom line. This is an unavoidable reality. However, the cost of a new housing allowance program will depend not only on the design but the *levels* at which the variables are set – i.e., the contribution rates, the maximum and minimum rent, and so on.

This paper's goal is to compare the options, so our main interest is in determining cost *differences* among the options rather than calculating the costs for a particular design and set of variables. For example, approximately how much more does an Option 2-type housing allowance cost over and above an Option 1 design, everything else being equal? Consequently, this paper does not include a cost estimate of a specific housing allowance proposal. Instead, it only compares the cost of the design options to one another.

This discussion of relative budgetary costs also does not take into account dynamic effects, such as possible changes in the rental market due to the program influencing the behaviour of recipients, as discussed in previous sections. Nor does it discuss 'economic' costs. Much of the budgetary expenditure on a new housing allowance program will be spent immediately by lower-income households. This will go back into the economy and boost everyone's income. The economic costs will consequently be much less than the amounts that have to be allocated in the government's budget. Some of this will feed back right into government revenue, and thereby reduce the net incremental budget costs once economic effects have been considered.

A costing of the options would require assigning values to the variables in each option for each type of household and generating an allowance for each type of household. Some tricky issues would have to be resolved, such as dealing with the differences between OW and ODSP, regional variations in rent and so on. Instead here, I average all types of households (as if there were only one type of household and all households got the same housing allowance) and use that to estimate the relative costs of the options to one another.

The methodology in this paper is straightforward. First, I develop a rough ball-park estimate for Option 1. Second, I estimate the added costs of each succeeding option. To get a ball-park estimate for Option 1, the following values are assigned to the variables (note these are not meant to reflect real values in any province and are for a mythical average household):

- maximum rent used to calculate a housing allowance = $1,000
- minimum rent below which no housing allowance is paid = $800
- effective contribution rate from income for rent = 30 percent
- percentage of 'gap' paid by the housing allowance = 75 percent.

I then created a file of households and their rents and incomes from the 2011 National Household Survey (the Census survey that replaced the long-form Census) for all of Ontario, including all households paying non-subsidized rent in the private market with annual incomes up to $42,000. (This excludes renters in subsidized housing, but including these are cost neutral as discussed above.) Rents are in increments of $100 from $0 to $1,200 and over $1,200. Incomes are in increments of $100 up to $3,500. This creates 504 cells encompassing approximately 600,000 renting households. Where data are missing to fill in cells, I interpolate by averaging data from other cells. The housing allowance for Option 1 is then calculated given the above values and multiplied by the number of households in each cell. The sum of the values is the estimate of the cost of Option 1. Using this costing model, the ball-park cost of Option 1 is $297 million.

Cost of Option 2

Option 2 is a restructuring of the shelter component of social assistance using the housing allowance to ensure that there are no losers among assistance recipients, while also providing a housing supplement to many low-income households who are not on assistance. Option 2 is like Option 1 except that the minimum rent is set at the average social assistance shelter benefit for each type of household, rather than at the social assistance maximum shelter rate. At the same time, the social assistance shelter benefit becomes a flat-rate amount that does not depend upon actual rent.

There is no added cost to the social assistance system since the increased social assistance flat-rate shelter benefit that would go to those whose actual rent is below the average shelter allowance is offset by the decreased cost for those above the average up to the maximum. But this is not 'free' money. The additional shelter benefit over and above the new flat rate for social assistance recipients whose rent is above the average social assistance shelter benefit would now be transferred instead to the housing allowance program.

As discussed in the section comparing the options, lowering the minimum rent raises the amount of shelter allowance for many very low-income households, so the added cost of Option 2 over and above Option 1 is more than just that of adding a few households whose rent would have been below the minimum in Option 1. Using the costing model based on the National Household Survey and the values for Option 1 listed above, an Option 2 housing allowance with the minimum set at $700 would cost $457 million, about 54 percent more than Option 1.

Cost of Option 3

Option 3 does away with the minimum rent cut-off so all low-income households would be eligible who met the other criteria (e.g., not in subsidized housing). Option 3 includes all low rent households that would have been excluded under Option 1 or 2. We can use the costing model based on National Household Survey data to estimate the cost of Option 3 just by setting the minimum rent in Option 1 to $0. This gives a cost of $1,047 million. However, this cost is incorrect because the majority of low-income recipients in the data base would be on social assistance. Social assistance benefits would not be counted as income in determining the amount of housing allowance. Moreover, the Option 3 housing allowance is meant to replace the shelter benefit in social assistance.

If we prorate the total social assistance paid in 2011 (actually 2011-12 fiscal year but this should make little difference) by the percentage of households in market rentals, we get $4,016 million. To remove $4,016 million income from the costing model, we do not count the incomes of all households with less than $30,000 annual income and less than $1,100 rent. Instead, we leave the number of households unchanged at their existing rents except now treating them as if they had no income. This roughly corrects for social assistance income. Without this income, the gross cost of Option 3 is $3,189 million. However, this amount includes replacing all social assistance shelter benefits, so now social assistance shelter benefits have to be subtracted to get the total net additional costs to government of Option 3.

We do not have access to an estimate of the total cost of shelter benefits for households receiving ODSP and OW, nor does the ballpark kind of values used here allow for an accurate estimate of the shelter benefit for each household. Making an educated guess that half of the total social assistance cost is shelter benefits, we get $2,008 million. This would put the net cost of Option 3 at $1,111 million or 56 percent higher than Option 1. If shelter benefits are 55 percent or 45 percent, then Option 3 would cost $200 million less or more – that is, $911 million or $1,311 million, respectively.

Cost of Option 4

Option 4 is similar to Option 2 except that the minimum flat-rate rent is taken out of social assistance and instead is in the new broad-based housing allowance. This means that the new flat-rate shelter benefit would be available not only to those on social assistance, but to the working poor as well.

Option 4 can be costed using the same assumptions as Option 3 except that all households whose rent is less than $700 is set as if it were $700, as the minimum corresponding to the illustrative social assistance average shelter benefit in Option 2. In this case, assuming 50 percent of total social assistance paid to renters is in the form of shelter benefits, the cost for Option 4 is $1,596 million. If shelter benefits are 55 percent or 45 percent, then Option 4 would cost $1,396 million or $1,796 million respectively.

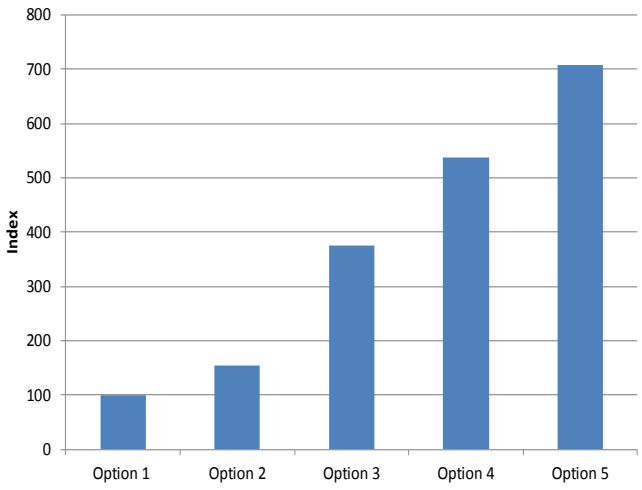
Cost of Option 5

Option 5 would see everyone eligible get a housing allowance based on a regional rent, rather than on actual rent. In other words, the maximum in Option 1 becomes the one and only rent in Option 4. Here we have used $1,000 as an illustrative rent. Using the same assumptions as in Option 3, except setting everyone with a rent less than $1,000 to a monthly rent of $1,000, the cost of Option 5 is $2,097 million. If shelter benefits are 55 percent or 45 percent, then Option 5 would cost $1,897 million or $2,297 million, respectively.

Comparing the costs of the options

The objective in this paper is to obtain a broad sense of the comparative costs of the options, rather than the absolute costs. The absolute cost estimates derived in the above calculations are not meant to reflect realistically the actual cost of the option were it implemented in Ontario. Such a cost estimate would require the assignment of realistic values for each household structure, dealing with issues such as the treatment of child benefits and many other items. Such a cost estimate would be possible (using the Canada Household Survey data) but goes beyond the scope of this paper. Instead, the purpose here is to give a rough estimate of the cost of each option relative to one another. This is given in Figure 12. If we arbitrarily assign Option 1 an index of 100, then the relative height of the bars in Figure 12 illustrates the comparative cost of each option.

Figure 12
Comparative index of the net budgetary costs of the five options



Conclusion

Table 6 summarizes the assessment of various characteristics of the five options discussed in this paper. There is also a less complicated assessment: As so often the case in social policy, the best option – Option 5 – is also by far the most expensive.

Option 5 replaces stigmatizing social assistance shelter benefits with a broad-based flat-rate housing allowance available to everyone with low-income. Option 5 ensures that everyone can afford to pay a modest rent. This option also always pays more to those with the lowest incomes. It has the least potential distortionary impact on the rental market and enhances recipient autonomy. It is neither better nor worse than the other options in its impact on marginal tax rates on income.

Table 6
Summary assessment of housing allowance options

Options	Option 1	Option 2	Option 3	Option 4	Option 5
Description of Options	A housing allowance that fills part of the gap between the social assistance shelter benefit maximum and affordable rent	A housing allowance that fills part of the gap between the social assistance shelter benefit average and affordable rent	A housing allowance that fills part of the gap between actual rent and affordable rent	A flat-rate housing allowance based on income, not rent, plus a supplemental housing allowance to fill part of the remaining gap up to an affordable rent	A flat-rate housing allowance based only on income so that anyone can afford a reasonable rent regardless of their actual rent
Fit with social assistance	No change to social assistance; a supplement for assistance recipients	Restructure assistance shelter benefit as flat rate; allowance is a supplement for assistance recipients	Convert assistance shelter benefit to a broad-based housing allowance according to actual rents	Convert assistance shelter benefit to broad-based flat-rate housing allowance with supplement for higher actual rents	Convert assistance shelter benefit to broad-based flat-rate housing allowance

Potential replacement for 'rent-geared-to-income' housing	Cannot replace 'rent-geared-to-income' housing	Cannot replace 'rent-geared-to-income' housing	May fully replace 'rent-geared-to-income' housing	May fully replace 'rent-geared-to-income' housing	May fully replace 'rent-geared-to-income' housing
Housing affordability	Ensures affordability for narrow range of rent and income	Ensures affordability for a range of rent and income a little broader than Option 1	Ensures affordability for all	Ensures affordability for all	Ensures affordability for all
Fairness	Households with higher incomes may get larger allowances than those with lower incomes – in a narrow band of income	Households with higher incomes may get larger allowances than those with lower incomes – in a slightly wider band of income than Option 1	Households with higher incomes may get larger allowances than those with lower incomes – for all incomes up to the income cut-off	Some households with higher incomes may get larger allowances, but many households will get a flat-rate in which those with lower incomes will always get more	Those with lower incomes will always get more than those with higher incomes
Housing market impacts	For those eligible for an allowance, price of shelter is significantly reduced. Theoretically upward pressure on rents	For those eligible for an allowance, price of shelter is significantly reduced. Theoretically upward pressure on rents. Offset by flat rate for social assistance shelter benefits	Price of shelter reduced for almost all low-income households. Theoretically upward pressure on rental market.	Theoretically upward pressure on rental market, except offset by extensive band of 'flat-rate' housing allowance	Least impact on rental market. Only change due to more income of renters – but renters will also have bargaining power to reduce rents and save income for other purposes.
Recipient autonomy	Reduced capacity for recipients to decide their own priorities	Reduced capacity for recipients to decide their own priorities, but offset by increased capacity of assistance recipients to manage their own incomes	Reduced capacity for recipients to decide their own priorities	Reduced capacity for recipients to decide on their own priorities, but for many, increased capacity within the 'flat-rate' component	Increased capacity for recipients to manage their own resources. Increased autonomy
Marginal tax rates on income	Increased by 'contribution rate' – same for all options	Increased by 'contribution rate' – same for all options	Increased by 'contribution rate' – same for all options	Increased by 'contribution rate' – same for all options	Increased by 'contribution rate' – same for all options
Relative cost index (nominal cost based on illustrative model)	100	154	375	538	707

Since Option 5 could replace both the shelter benefit in social assistance and 'rent-geared-to-income' subsidies in social housing, it could consolidate what might otherwise be three programs into one program. It could permit social housing to become much more consumer-oriented and market-driven. And we might add that Option 5 takes us half way towards a form of guaranteed income.

The only problem is that Option 5 costs approximately seven times as much as Option 1! Of course, Option 1 only affects a narrow group of households that happen to be in the right income and rent levels. But Option 5 also costs almost twice as much as the other universal housing allowance alternative – Option 3. Yet these costs are only the initial budgetary costs.

In the longer term, the true economic costs of Option 5 may be less, and the benefits much more. Nevertheless, governments often balk at taking on this kind of major reform and prefer incremental steps. For these governments, it may not be necessary to choose between the options. Instead, the options can be seen as providing a path towards incremental implementation of a full Option 5-style housing allowance.

A government could start with an Option 1 housing allowance, providing a supplemental benefit to social assistance recipients and available equally to all households with low-incomes. When there is sufficient experience with that program so that there is a level of confidence that the program can be administered and costs are well understood, the minimum rent level can be reduced to equal average social assistance shelter benefits, and social assistance shelter benefits restructured as a flat rate rather than a payment up to a maximum. In short, Option 2. In many provinces and territories, this would constitute the single largest reform of social assistance undertaken in many decades.

When the Option 2 form of housing allowance is well functioning, it is a relatively simple administrative step to make the flat-rate benefit which was available only to social assistance recipients available to all households on an equal basis. In other words, going from Option 2 to Option 4 and skipping over Option 3. Financially, going to Option 4 from 2 is the single biggest step but perhaps the most important in reforming social assistance and changing the nature of Canada's social safety net. Option 4 would reduce stigmatized social assistance by about half and doubtless result in much lower caseloads on assistance. Finally, it is a relatively small administrative step to convert all of the housing allowance being delivered under the Option 4 program into a flat rate – i.e., going to Option 5.

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Appendix A – Formulae for housing allowance options

The formulae for the five options can be defined with eight variables, as described in Table A1.

Table A1
Variables for defining housing allowance formulae

Variable	Definition	Discussion
H	Housing allowance	The amount of housing allowance a household may get each month
R_{MAX}	Maximum rent recognized	The highest amount of monthly rent that the housing allowance program will offset even if actual rent is higher
R_{MIN}	Minimum rent recognized	Some housing allowance programs may set a minimum monthly rent, either as a cut-off or as a floor
R_{ACT}	Actual rent paid by beneficiary	The amount that a household pays each month for rent
y	Household income	The household's monthly income
c	'Contribution rate' is the percent of income the household is expected to contribute to its own housing costs	In most Canadian provinces, between 25 percent and 30 percent of income is considered an affordable amount to be spent on housing
g	Percentage of rental shortfall or gap to be filled by housing allowance	In some housing allowance programs, the 'gap' between the amount the household can afford to spend and the amount they need to spend (according to the program) is filled only partly by the housing allowance
p	Percentage of rent	In some housing allowance designs, the program may set its allowance to some percentage of the amount of the maximum rent recognized

Note: 'Rent' here means any shelter costs that may be recognized within a specific housing allowance program, which could include, for example, utilities or some forms of homeowner costs, depending upon the program.

Option 1

The formula for this option is: $H_1 = \max [g(\min[R_{ACT}, R_{MAX}] - \max [cy, R_{MIN}]),0]$

This is the formula for a housing allowance proposed by the 2008 Working Group (the Working Group does not actually state the formula but it may be derived from the description and examples in the proposal). In the 2008 Working Group's proposal, g (percentage of 'gap' to be filled) was 75 percent and c (percentage of income to go towards rent) was 30 percent or 40 percent depending upon the type of household.

Table A2 below provides an example of the calculation of a housing allowance based on the values for the variables as stated in the table's middle column. Note that the values for maximum and minimum rents of $1,000 and $800, respectively, are used here and in subsequent illustrations of other options only for simplicity. These do not reflect the shelter levels in Ontario's or any other province's social assistance program (and there are actually multiple levels in each province's social assistance program). Nor do they reflect median rents in any province.

Table A2

Example of Option 1 (H_1) calculation of a housing allowance

Variable	Amount	
R_{MAX}	$1,000	H_1 = max [75% x (min [$700, $1,000] – max [(40% x $800),$800]),0]
R_{MIN}	$800	H_1 = max [75% x ($700 – max [$320,$800]),0]
R_{ACT}	$700	H_1 = max [75% x ($700 - $800)),0]
y	$800	H_1 = max [75% x -$100,0]
c	40%	H_1 = max [-$75,0]
g	75%	H_1 = $0

Option 2

The formula for Option 2 is the same as for Option 1 except that the minimum rent is lower to reflect average rather than maximum shelter benefits in social assistance.

Options 1 and 2 housing allowance design has a characteristic that may not be immediately evident. The effective contribution rate (the effective marginal tax rate on income) is actually smaller than the stated or nominal contribution rate. The gap rate (g) is multiplied by the contribution rate (c) so that the effective marginal tax rate in the examples is 75% x 40% = 30%. For example, a household with an income of $800 and a nominal contribution rate of 40 percent can 'afford' to pay $320 a month rent. With an actual rent of $600, the gap between what the household can afford to pay and what it actually pays is $280 (i.e., $600 minus $320). If the program fills 75 percent of the gap, then the household would get a housing allowance of 75 percent times $280 = $210.

But what happens if the household's income goes up by $100 a month? It would seem that with a nominal contribution rate of 40 percent, an increase of $100 income would mean that the household could afford to pay an additional $40 a month for their rent. But the 2008 formula results in the household contributing $30 a month more to its own rent. The household will now have an income of $900 a month and will be able to afford $360 a month rent. So the new gap will be $600 minus $360 = $240. Since the program fills 75 percent of the gap, the new housing allowance will be $180. So with an additional $100 income, the housing allowance will have decreased by $30. Thus the effective contribution rate on additional income is not 40 percent but 30 percent. In arithmetic terms, this is because 'c' is multiplied by 'g' so that the effective contribution rate on income is actually 'c times g,' not the nominal amount of 'c.'

Arithmetically, there are values for 'g' and 'c' such that the housing allowance can have whatever resulting value is sought. But the values that may need to be assigned to 'g' and 'c' could be difficult to explain and the interaction of 'g' and 'c' could make the program difficult to administer (e.g., raising the percentage by which the gap was filled but keeping the effective contribution rate the same would require increasing the nominal contribution rate).

While there are alternative formulae for housing allowances with a minimum and maximum rent, they all have even more serious difficulties than the formula used here. For this reason, likely the same reasons that motivated the 2008 Working Group, I have used this formula for this form of housing allowance in this paper.

In the remaining three options, the formulae can be stated so that the contribution rate is not multiplied by the gap rate. This is not possible for the formula in options 1 and 2. In the remaining options, the contribution rate used in the examples is 30 percent to maintain comparability.

Option 3

The algebraic formula for option 3 is the same as option 1 except that there is no minimum rent level below which a housing allowance is not paid. Because there is no minimum, the formula for option 3 is easier to

understand: The amount of the housing allowance is equal to actual rent up to the maximum rent, less the percentage of income expected to be contributed towards rent. And, of course, the housing allowance is never less than zero.

The formula for this option is:
$H_3 = \max[g(\min[R_{ACT}, R_{MAX}]) - cy,0]$

Table A3 below shows an example of a calculation of benefits for the same values of the variables as used for the illustration of Option 1 in Table A2, with the exception of 'c', as explained above.

Option 4

The formula for this option is:
H4 = max [g(min[max[RACT, RMIN],RMAX]) – cy,0]

Table A3

Example of Option 3 (H_3) calculation of housing allowances

Variable	Amount	
R_{MAX}	$1,000	H_3 = max [75% x min [$400, $1,000] – (30% x $800),0]
R_{ACT}	$400	H_3 = max [75% x $400) –$240,0]
y	$800	H_3 = max [$300 - $240),0]
c	30%	H_3 = max [$60,0]
g	75%	H_3 = $60

Table A4

Example of Option 4 (H_4) calculation of housing allowances

Variable	Amount	
R_{MAX}	$1,000	H_4 = max [(75% x min [max [$400, $800],$1,000]) – (30% x $800),0]
R_{MIN}	$800	H_4 = max [(75% x min [$800,$1,000]) – (30% x $800),0]
R_{ACT}	$400	H_4 = max [(75% x $800) - $240,0]
y	$800	H_4 = max [$600 - $240,0]
c	30%	H_4 = max [360,0]
g	75%	H_4 = $360

Option 5

The formula for this option is: H5 = max [(pRMAX) – cy,0]

TABLE A5 Example of Option 5 (H_5) calculation of housing allowances		
Variable	Amount	
R_{MAX}	$1,000	H_5 = max [(75% x $1,000) – (30% x $800),0]
p	100%	H_5 = max [($750 – $240),0]
y	$800	H_5 = max [$510,0]
c	30%	H_5 = $510

APPENDIX B – WHICH HOUSING ALLOWANCE OPTIONS ENSURE AFFORDABILITY?

Housing is affordable if the amount expected to be contributed towards rent from income plus the housing allowance paid for a modest rent is always equal to or more than the modest rent. Thus housing is affordable if: cy + H ≥ R. In the following, we ask whether the housing allowance paid under each option would be sufficient for a household of any income to afford the modest rent. We do this by assuming that the household is paying the modest rent R, and then seeing under what conditions its expected contribution towards rent plus the housing allowance are equal to or exceed R.

Options 1 and 2: $H_1 = R – \max [cy, R_{MIN}]$

If $cy \geq R_{MIN}$ then $H_1 = R – cy$. Since $cy + (R – cy) \geq R$, then $cy + H_1 \geq R$. Therefore, Option 1 (and 2) ensures housing is affordable if the contribution expected from income is greater than the minimum rent. However, if $cy \leq R_{MIN}$ then $H_1 = R – R_{MIN}$. But $cy + (R - R_{MIN}) < R$ so Option 1 does not ensure affordability under this condition. [Note that R is already a percentage of the maximum rent so Option 1 can be simplified by not using 'g' with adjustments to R_{MIN} and c.] Option 2 is the same as Option 1.

Option 3: $H_3 = R – cy$ so $cy + (R – cy) = R$. Therefore, any household of any income can afford a modest rent. Options 4 and 5 are the same as Option 3.