

Summary and recommendations

Housing allowance – from the perspective of distribution policy and the labour market

Background and purpose

The housing allowance is a means-tested benefit that households with children or households without children where the recipients are between the ages of 18 and 28 can apply for. The allowance is part of family policy support aimed at maintaining consumption potential for households with a weak economic position, but it also has a housing policy objective.

Total public expenditure on housing allowance depends on macroeconomic growth, in particular the development of incomes, housing costs and unemployment. Demographic trends also influence total expenditure on housing allowance. For example, a larger number of children will mean that more households will be entitled to housing allowance and that greater amounts of housing allowance will be paid out.

The most recent housing allowance reform was in 1997. The Swedish NAO's assessment of the housing allowance is based on the distribution policy purpose stated by the Riksdag Committee on Housing at the time: that housing allowance is to target financially weak households. At the same time the Riksdag pointed out that the marginal effects¹ that the housing allowance gives rise to should decrease.

Housing allowance thresholds are not indexed, which means each increase must be through a political decision. Since the increases implemented have fallen short of wage increases and to a certain extent price development, the housing allowance risks being undermined. At the same time the housing allowance is still an important part of the disposable income of households that receive it, particularly single parents. However, this group's income growth lags behind.

¹ The marginal effect refers to the part of an income increase that is lost through taxation or reduced benefit. For example, a marginal effect of 20 % means that an income increase of SEK 100 only increases the disposable income by SEK 80.

Due to means-testing, the housing allowance gives rise to marginal effects in the income interval where it is reduced against other income, which may impact the incentive to work. Previous research has found that the housing allowance may have a negative effect on labour supply for families with children. However, there is no previous study that studies the effect of housing allowance on young households without children. For this group it is important that the housing allowance does not delay labour market entry, since this may impact the individual's lifetime earnings and entail costs to society.

The Swedish NAO's forecast shows that the number of housing allowance recipients may increase going forward. Hence it is important that the benefit maintains an appropriate balance between fulfilling its distribution policy purpose and at the same time as far as possible retaining financial incentives to work for the recipients.

For these reasons, the Swedish NAO audited the housing allowance on the basis of the following audit questions:

- Has the distribution policy precision of the housing allowance developed in line with the Riksdag's intentions?
- Have the aggregate marginal effects for recipients of housing allowance decreased over time?
- Could the housing allowance for young people risk having a negative influence on labour supply?

The Swedish NAO's audit is mainly based on analyses of register data. The simulation model FASIT is used to calculate the marginal effects for housing allowance recipients. Literature studies were also carried out to survey the historical design of the housing allowance, as well as research findings and inquiries linked to the housing allowance.

The Swedish National Audit Office's findings and conclusions

Housing allowance recipients are financially vulnerable to a greater extent than previously

The Swedish NAO's audit shows that the increases and changes to the maximum allowance and the income limits implemented in the past 20 years fall substantially short of wage growth, but also to some extent the development of the consumer price index (CPI). As a consequence of the fact that increasingly lower real incomes are required to qualify for housing allowance, the group that receives housing allowance has become

smaller. At the same time the average housing allowance has increased, mainly since the increases in 2012 and 2014. In addition, households now receive housing allowance for longer periods than before.

The Swedish NAO's survey of housing allowance recipients since the last major reform of housing allowance in 1997 shows that the housing allowance to an increasing extent has been concentrated to households with low incomes and a low relative economic standard.² The latest housing allowance increases in 2012 and 2014 were accurately targeted as they mainly reached households with the lowest incomes.

A large proportion of housing allowance recipients have disposable incomes that are under the threshold for low relative economic standard. In 2014 about two thirds of households receiving housing allowance had disposable incomes that were below the threshold for low relative economic standard, compared with one third at the beginning of the 2000s. About one third of all housing allowance recipients also received social assistance in 2014.

The most economically vulnerable housing allowance households are cohabiting partners with children, three quarters of which have a low relative economic standard, compared with two thirds of the single households with children. Almost half of cohabiting households with children also receive social assistance at the same time as housing allowance. The fact that this group of housing allowance recipients is particularly vulnerable may be because income thresholds are individualised. This means that if only one of the adults works, the household's total income threshold is lower than for corresponding single households. This may mean that the housing allowance is reduced from lower incomes for cohabiting households than for single households. Cohabiting households also have a higher dependency burden, as they consist of two adults. Thus these households can receive social assistance at higher incomes than the equivalent single household, since social assistance gives benefit for two adults.

Among households without children receiving housing allowance, about 60 per cent are estimated to have a low relative economic standard. About half of this group consists of students, which means that the group can be assumed to have comparatively better prospects of increasing its income in future. At the same time, housing allowance for young people without children is drawn in shorter periods than other housing allowance (about one third only receive housing allowance for young people for one year).

² Low relative economic standard is calculated as the percentage of households with an economic standard that is below 60 % of the median.

The redistributive effects of housing allowance have decreased

To measure the total redistributive effect on income of housing allowance the audit applies a measurement of the contribution of the housing allowance to the Gini coefficient.³ The audit shows that the concentration of housing allowance to people with the very lowest incomes has given the allowance a more progressive redistributive profile. But since the housing allowance reaches fewer people now than before, the total redistributive effect of the housing allowance has fallen over time.

The Swedish NAO's analysis also shows that the housing allowance reduces the poverty gap⁴ to a greater extent than before but that despite this, it lifts a diminishing number of people over the threshold for low relative economic standard. This means that the households that receive housing allowance to a great extent are so far below the threshold for low relative economic standard that the housing allowance is of little help in raising them over this threshold. For the group of cohabiting households with children it is only a very small proportion who are lifted over the threshold for low relative economic standard with the help of the housing allowance.

Decreased marginal effects for households with housing allowance

The audit analyses the marginal effects of the housing allowance on the basis of typical case households and average marginal effects. Single households with children encounter marginal effects of 20 per cent from the housing allowance for annual incomes in excess of SEK 127 000. These marginal effects remain until the housing allowance is reduced to zero, which is at different incomes depending on the size of allowance the household is entitled to. The total marginal effect that households encounter from housing allowance and tax is, however, half as low as the effect they encounter if they are receiving social assistance.

For cohabiting households with children the individualised income threshold (SEK 63 500 per spouse) leads to a reduction of housing allowance starting at a lower income than for single parents if only one of the spouses is working. This gives marginal effects from lower income levels for cohabiting households than for single households. In addition, in some cases this may mean that cohabiting households may encounter marginal effects from social assistance at higher incomes than single households.

³ The Gini coefficient is the measure of variability that is most commonly used to describe how incomes are distributed.

⁴ The poverty gap refers to how far, in relative terms, an individual lies below the threshold for low relative economic standard.

Young households without children encounter marginal effects of 33 per cent from housing allowance already at low incomes. For these households social assistance may also remain at higher incomes than housing allowance, with higher marginal effects as a consequence.

The Swedish NAO's analysis shows that average marginal effects fell during the period 2006–2017 for households with housing allowance. The difference in average marginal effects between households with children with and without housing allowance has thus decreased. The marginal effects for housing allowance recipients have thus improved in recent years, which should have a positive effect on incentives to work.

Raised housing allowance could both increase or decrease marginal effects

If the housing allowance is raised its marginal effects could decrease for households that receive social assistance at the same time as housing allowance, given that due to the increase the household no longer receives social assistance. However, an increase means that households with higher incomes that were not previously entitled to housing allowance will be entitled, with higher marginal effects as a consequence. Thus it is difficult to determine the net effect of an increase in housing allowance on marginal effects for the entire population.

The Swedish NAO's analysis of the hidden statistics for housing allowance shows, however, that the proportion of households receiving housing allowance (given entitlement) decreases substantially with higher income. This indicates that the problem of households with higher incomes becoming entitled to housing allowance when amounts are raised is probably not so serious, since only a small proportion of the entitled households with a relatively high income receive housing allowance.

Young households that lose housing allowance increase their earned income

Previous research shows that housing allowance has a negative effect on labour market supply for households with children. This audit analyses what happens to the labour supply for households without children that lose their housing allowance when they are no longer entitled to it when they reach the age of 29. The analysis is based on individuals who have received housing allowance for at least 2 years and who are not studying or receiving sickness and activity compensation. The results show that households without children that lose housing allowance increase their earned income more than households

with children that can retain the allowance beyond the 29 year-old threshold, which with some caution can be interpreted as an effect of losing the housing allowance.

The Swedish NAO finds nothing that indicates that the loss of housing allowance would be passed on to social assistance for the young group as a whole. However, among men who lose housing allowance due to the age limit, there is a small increase in receipt of social assistance as a result of losing housing allowance.

The interpretation is that households without children on average compensate the loss of housing allowance mainly by means of earned income and that the housing allowance thus has some negative effect on labour supply for young households without children.

Previously proposed changes to housing allowance aimed at excluding households without children from the allowance, for the purpose of improving distribution policy accuracy. These proposed changes have taken their cue from the fact that the housing allowance no longer fulfils its original housing policy purpose.⁵ The Swedish NAO's audit has not investigated how well the housing allowance fulfils its housing policy purposes, but since the allowance to young households without children has been further undermined since these analyses were made, the Swedish NAO considers that the Government should again evaluate the possible positive effects of housing allowance for young people against the possible negative effects the housing allowance may have on labour market establishment.

The Swedish National Audit Office's recommendations

The Swedish National Audit Office recommends that the Government:

- Takes more account of the national standard for financial vulnerability when setting income thresholds and amount levels for the housing allowance.
- Reviews the distribution policy accuracy of the housing allowance for reaching cohabiting households with children.
- Reviews whether the housing allowance for young households without children is effectively designed from the labour market perspective.

⁵ Swedish Government Official Report SOU 2001:24. *Ur fattigdomsfällan*; Thomas Pettersson and Edward Palmer *Simple and effective – a report on basic security in welfare systems to the Expert Group on Public Economics 2010*