

PH3.3. RECIPIENTS AND PAYMENT RATES OF HOUSING ALLOWANCES

Definitions and methodology

In many countries housing allowances are an important tool of affordable housing support (see Indicator PH3.1 on public spending on housing). Housing allowances can include rent, payment of mortgage and/or interest, utilities, insurance and services. The term "rent allowance" refers to housing allowances paid to tenants only. In most countries housing allowances are geared towards low-income households and often depend on household size, housing costs and income (see Indicator PH3.2 on key characteristics of housing allowances).

This indicator measures the generosity of housing allowances based on (1) survey data and (2) OECD tax-benefit microsimulation models (OECD, 2016). Survey data show which households benefit from housing allowance. OECD tax-benefit microsimulation models, by contrast, are used to show how payment rates of housing allowance varies with household income, averaging across different family types.

Key findings

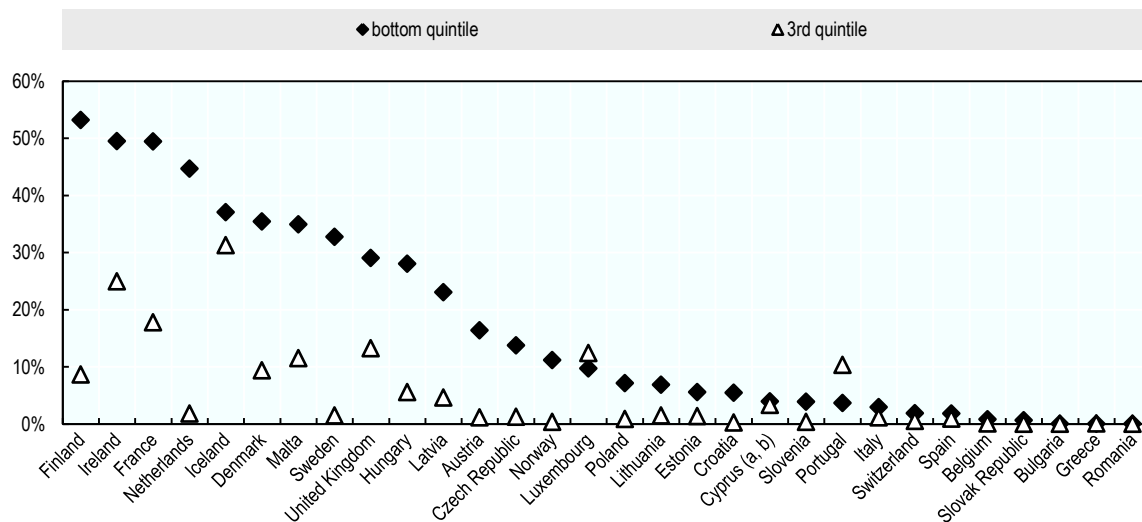
Housing allowances are geared towards low-income households in nearly all countries

Figure HP3.3.1 shows the share of households in the bottom and middle quintile of the earnings distribution that receive housing allowances (see online Annex HP3.3.A1 for earlier years and other points of the income distribution; see Indicator PH3.1 on public spending on housing allowances). Hardly any household reports receiving housing allowances in Romania, Greece and Bulgaria. In Finland, Ireland, France and the Netherlands, by contrast, more than 40% of low-income households acknowledge receiving a housing allowance while this is over 30% in Iceland, Denmark, Malta and Sweden

Most countries target housing allowances on low-income households. The share of households in the third income quintile receiving housing allowance, by contrast, is below 2% in most countries. Exceptions are France, Iceland, Ireland, Luxembourg, Malta, Portugal and the United Kingdom, where more than 10% of households situated in the middle quintile of the income distribution report receiving housing allowance. In Luxembourg and Portugal middle-income households are more likely than low-income households to receive housing allowance as in both countries housing allowances are mainly geared towards owner households with a mortgage and this tenure type is less common amongst low-income households compared to middle-income households (also see Indicator HM1.3 on tenure structure).

PH3.3.1. Share of households receiving housing allowance, 2014

Share of households receiving housing allowance, bottom and third quintile of the disposable income distribution, in percent ^{1,2}



1. No information available for Australia, Canada, Chile, Germany, Japan, Korea, Mexico, New Zealand, Turkey and the United States due to data limitations. Only estimates for 30 or more data points shown.

2. Quintiles based on the equivalised disposable income distribution. Low-income households are households in the bottom quintile of the net income distribution.

a) Note by Turkey: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

b) Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

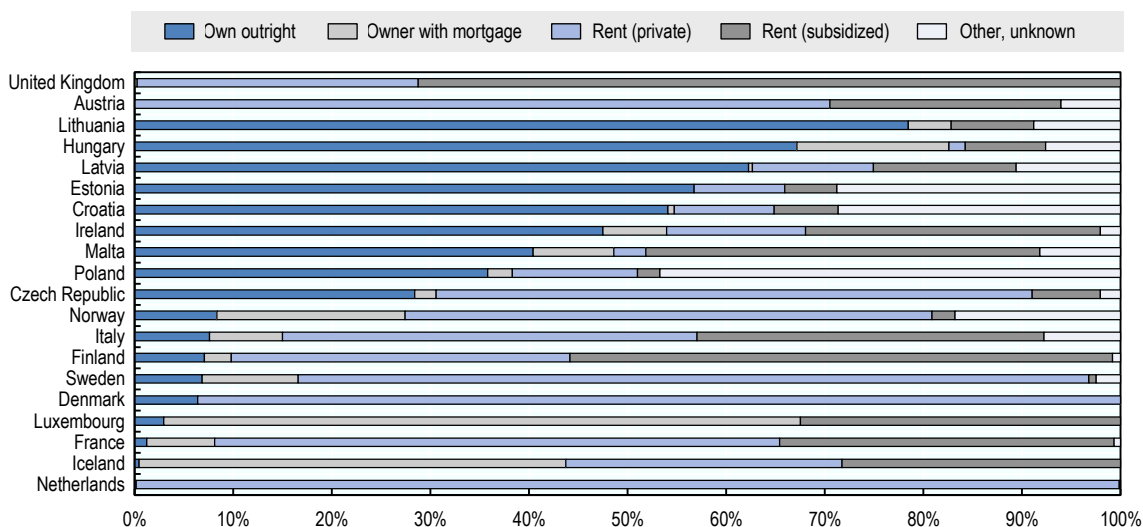
Source: OECD calculations based on European Survey on Income and Living Conditions (EU SILC 2014) for European countries except for Germany.

Figure PH3.3.2 shows the tenure structure of low-income households receiving housing allowance (see online Annex PH3.3.A2 for the tenure structure in other parts of the income distribution). In the Czech Republic and Norway housing allowances towards low-income households are paid to owners and tenants to a similar extent (see Indicator PH3.2 with regard to key characteristics of housing allowances). In countries where ownership is the dominant tenure pattern such as Central and Eastern European countries as well as Ireland, it is largely low-income owner households that receive housing allowances (see Indicator HM1.3 for the general tenure structure).

In some countries, for example, in Austria, the Netherlands and the United Kingdom, housing allowance is predominantly paid to tenants. While many households renting at market prices benefit from housing allowances the share of housing allowance recipients renting at reduced price is considerable in some countries. In Finland and the United Kingdom more than half of low-income households receiving housing allowance are renting at reduced price. While the Netherlands and Denmark have a sizable subsidized rental sector the EU SILC data list all tenants as if paying private market rents (also see Section on Data and Comparability below). Out of all low-income tenant households nearly all households in the Netherlands and more than nine in ten households in Denmark report receiving a housing allowance.

PH3.3.2. Tenure structure of low-income households receiving housing allowance, selected countries, 2014

Tenure shares of low-income households receiving housing allowance, in percent ^{1, 2, 3}



1. No data available for countries not covered in EU SILC due to data limitations. Only estimates for 30 or more data points shown.

2. Break-down by tenure type only shown for countries where more than 5% of low-income households receive housing allowance.

3. Quintiles based on the equivalised disposable income distribution. Low-income households are households in the bottom quintile of the net income distribution.

Source: OECD calculations based on European Survey on Income and Living Conditions (EU SILC 2014) for European countries except for Germany.

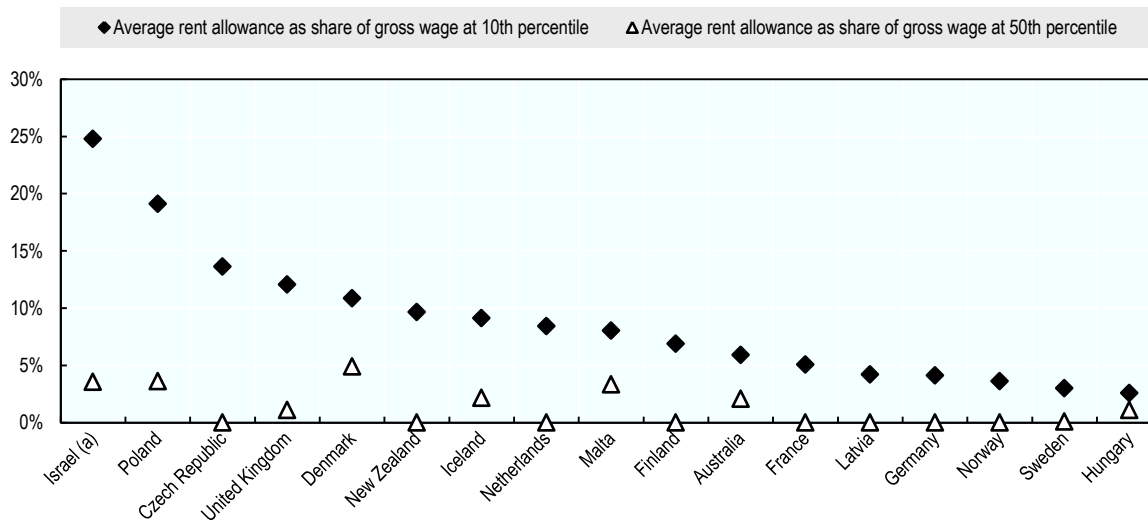
Rent allowances make up a larger share of income for low-wage earners

Figure PH3.3.3 illustrates that rent allowances – if they exist - are usually targeted at low-income households (OECD Tax-benefit models only include rent allowances not benefits towards home owners). Rent allowances make up a larger share of household gross income for households earning a gross wage at the 10th percentile of the wage distribution than for household with median earnings in all countries. While in Israel the rent allowance amounts to nearly a quarter of the gross earnings at the 10th percentile of the earnings distribution; at this point in the earnings distribution rent allowances are above 5% of gross earnings for 12 countries. For households with median earnings the rent allowance as a share of gross earnings is above 3% in only five countries.

Figure PH3.3.3 shows the average rent allowance over gross income for four different family types (see note to Figure PH3.3.3 for more details and online Annex PH3.3.A3 for the information by family type). Across countries rent allowance is typically more generous for households with children and particularly for single-parent households. For more details on key characteristics of housing allowance see Indicator PH3.2.

PH3.3.3. Rent allowance as a share of household earnings, selected countries, 2014

Average of rent allowance for four different family types earning at the 10th or the 50th percentile of the wage distribution, in percent^{1, 2, 3, 4}



Notes:

1. Rent allowance calculated based on assumed rent of 20% of gross household earnings.

2. The information only concerns central government rent allowances. Where no national scheme exists, a representative region was chosen, refer to country specific information for more details: <http://www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm>.

3. Full-time earnings are either at the 10th or the 50th percentile of the full-time wage distribution. No transitional benefits for entering the labour market are considered; social assistance but no unemployment benefits are considered.

4. The four family types considered are (1) single person, (2) single parent with two children aged 4 and 6, (3) one-earner couple and (4) one-earner couple with two children aged 4 and 6.

a) The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD tax-benefit models <http://www.oecd.org/social/benefits-and-wages.htm>.

Steep phase-out of housing allowance may hamper incentives to increase working hours and earnings

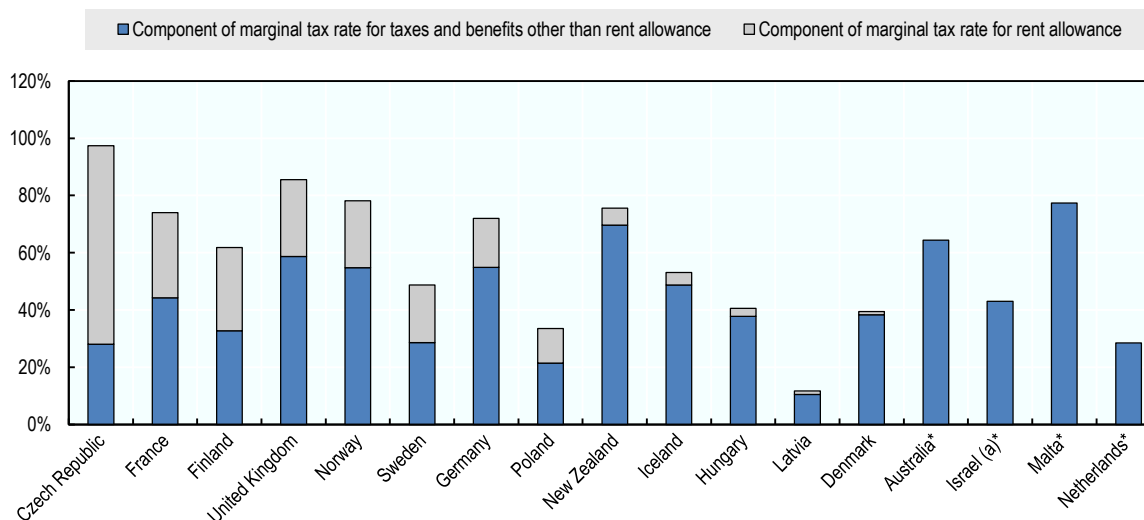
Housing allowances usually not only depend on household composition and income but also interact with taxes and other benefits. Therefore the phasing out of housing allowance can act as a benefit trap as increasing work hours and thus income may lead to higher taxes and the withdrawal of housing and other benefits. Marginal effective tax rates show how much of an increase in gross earnings are taxed away.

Figure 3.3.4 uses OECD tax-benefit models to show how moving from half-time work at the 10th percentile of the wage distribution to full-time work with double the earnings affects the income position of a single parent who is a tenant and thus potentially eligible for rent allowance (see on-line Annex PH3.3.A4 for results for other family types). Marginal effective tax rates vary considerably across countries, and so does the impact of withdrawal of rent allowances. In the Czech Republic more than two thirds of the marginal effective tax rate stems from withdrawal of rent allowance, while in Finland, France and Sweden this effect is also substantial and constitutes more than 40% to the marginal effective tax rate.

In Australia, Israel, Malta and the Netherlands single parents with two children receive a rent allowance but none of it is withdrawn when moving from half-time work to full-time work (country name marked with an asterisk in Figure PH3.3.4).

PH3.3.4. Marginal effective tax rates and the impact of rent allowance withdrawal, selected countries, 2014

Decomposition of the marginal effective tax rate for an increase from half-time to full-time work at the 10th percentile of the wage distribution, average across four different family types, in percent ^{1, 2, 3, 4}



Notes

1. Rent allowance calculated based on assumed rent of 20% of gross household earnings.

2. Only shows central government rent allowance. Where no national scheme exists, a representative region was chosen, refer to country specific information for more details: <http://www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm>.

3. Half-time earnings at the 10th percentile of the wage distribution and full-time earnings at double the value. No transitional benefits for entering the labour market are considered; social assistance but no unemployment benefits are considered.

4. The family types considered is a single parent with two children aged 4 and 6.

* Country pays rent allowance but withdraws none of the rent allowance when the single parent doubles working hours and earnings.

a) The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD tax-benefit models <http://www.oecd.org/social/benefits-and-wages.htm>.

Data and comparability issues

The first part of this indicator is calculated based on the European Survey on Income and Living Conditions (EU SILC) covering European countries. Housing allowances include rent benefits and benefits to owner-occupiers. Only means-tested housing allowances that help covering the cost of housing are considered.

EU SILC categorizes all tenants to the market rent category in Denmark and the Netherlands as it does not facilitate making distinctions by type of tenant (Dewilde, 2015; Haffner, 2015). The "other" tenure category refers exclusively to accommodation provided for free in all countries.

OECD tax-benefit models calculate tax burdens, benefit entitlements and net incomes for a range of different labour market and household -- thus family composition -- situations. They simulate assessments of different households' tax liabilities and benefit entitlements using a detailed representation of relevant policy rules and parameters (including tax rates, benefit eligibility criteria, and any rules determining the interaction of relevant policy areas, such as whether some benefits are taxable or not). On the tax side, simulated payments include income taxes and mandatory contributions to public or private social insurance schemes. On the benefit side, calculations account for all cash transfers that are typically available to able-bodied working-age individuals and their families: unemployment benefits, social assistance, rent allowances, other minimum-income benefits, family benefits, and in-work transfers.

With regard to rent allowance OECD tax-benefit models assume that rental costs amount to 20% of gross earnings. While other family compositions are possible the results presented in this indicator show benefit generosity for four common family types that are more likely to be eligible for rent allowance than households with two incomes; the family types considered are: (1) single person, (2) single parent with two children aged 4 and 6, (3) one-earner couple and (4) one-earner couple with two children aged 4 and 6.

Sources and further reading:

Dewilde, C. (2015): "What Have ECHP and EU-SILC to Contribute to the Comparative Study of Housing?", *Critical Housing Analysis*, Vol. 2 (2), pp. 19-26;

Haffner, M. (2015): "EU-SILC: Should We Make Do with What We Have?", *Critical Housing Analysis*, Vol. 2 (2), pp. 27-34;

OECD (2016), "Tax and Benefit Systems: OECD Indicators", <http://www.oecd.org/social/benefits-and-wages.htm>.