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# RAISING RENTS

## for HUD Housing Program Recipients Would Throw Over Half a Million Americans into Poverty

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The Making Affordable Housing Work Act of 2018, a recent proposal issued by the Department of Housing and Urban Development (HUD), proposes raising rental payments for almost all households that participate in HUD's housing programs. HUD's federal housing programs aim to provide affordable housing to families who would otherwise be unable to afford a place to live. Under current policy, most program participants pay 30% of their adjusted income in rent, while the remainder of their rental payment is subsidized. The 30% payment follows national guidelines set by HUD, and, according to the Department, "families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care."[1] But the Making Affordable Housing Work Act disregards this guideline and raises the rent for non-disabled, non-elderly households to 35% of unadjusted income – a key distinction (see The Value of Housing Assistance); and if this portion of income amounts to less than $150 per month, then households are required to pay $150 per month regardless (an increase of threefold or more from the minimum payment under current law).[2] Under the proposal, rents for elderly and disabled households would also increase as these households would go from paying 30% of adjusted income to 30% of unadjusted income in rent. If passed, this legislation would have a drastic impact on the available resources that subsidy recipients use to meet routine needs and move many recipients into poverty. In this brief, we quantify these impacts.

*The Value of Housing Assistance*

*In this brief, we follow the Census Bureau's method for calculating the value of government housing subsidies. In short, the value of a housing subsidy is defined by the Census Bureau as the difference between tenants' annual rental payments for their housing unit and the market value of that unit. To estimate the change in subsidy value described here, we first estimate survey respondents' current rental payments and then estimate their rental payments under the Making Affordable Housing Work Act. With these two estimates, we calculate the amount of new rent that respondents would have to pay, and deduct this amount from the Census' calculated housing subsidy value. Poverty statistics are then recalculated using this revised subsidy value under the new law.*

*Critical to estimating the new subsidy value is our estimate of the new assumed rental payments under the new law. All subsidy recipients under the proposed law would have their rental payments calculated under unadjusted household income rather than adjusted household income. The key difference is that adjusted income is calculated after accounting for deductions to income based on the presence of dependents in the household, non-dependent elderly and disabled household members, and households' expenses for child care and medical costs. This means that many subsidy recipients would see an increase in rent far larger than just 5% of total income. For more detail on the methodology, see Appendix C.*

1 *See https://www.hud.gov/program_offices/comm_planning/affordablehousing/.*
2 *See Appendix B for a comparison of current policy and the Making Affordable Housing Work Act.*

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*The Making Affordable Housing Work Act Depletes the Cash Resources Available to Subsidy Recipients*

Under the Making Affordable Housing Work Act, 4.1 million participant households (and over 8.7 million individuals) would see the value of their annual rental subsidies decrease, by about $750 on average (see Table 1). Subsidy recipients, an already vulnerable group with little cash income, will need to use their cash resources to cover the decrease in their subsidy values. In some states, the average decrease in subsidies is even greater (see Appendix A, Table 1). The most vulnerable subsidy recipients—those that pay the minimum rent—would see their subsidies decrease by an even greater amount. About 1.7 million people would be affected by the increase in the minimum rent from $50 to $150, and, on average, they will see their annual subsidy decrease by about $1,200.

*Table 1. Decrease in Annual Subsidy Values*

| *Population* | *Number of Households* | *Number of Individuals* | *Average Decrease in Annual Subsidy Value* |
|---|---|---|---|
| Subsidy Recipients | 4.1 million | 8.7 million | $750 |
| Subsidy Recipients Affected by Increase in Minimum Rent | 600,000 | 1.7 million | $1,200 |

*Poverty Impacts of the Making Affordable Housing Work Act*

The decrease in the value of rental subsidies will also impact the poverty rate among subsidy recipients. In Table 2, we present the predicted poverty impacts of the Making Affordable Housing Work Act, measured under the Supplemental Poverty Measure.[3] We predict that the proposed changes would increase the poverty rate of subsidy recipients by 5.3 percentage points, moving over half a million people into poverty, over 200,000 of whom are children.

*Table 2. Poverty Impacts of the Making Affordable Housing Work Act of 2018*

| *Population* | *Number of Individuals* | *Current Poverty Rate* | *Poverty Rate Under HUD Proposal* | *Difference in the Poverty Rate* | *Number of People Moved into Poverty* |
|---|---|---|---|---|---|
| Subsidy Recipients | 8.7 million | 34.9% | 40.2% | 5.3% | 500,000 |
| Subsidy Recipients <18 | 3.0 million | 32.6% | 39.7% | 7.1% | 200,000 |

3 See Appendix C for a summary of the methods used to arrive at these estimates.

Table 3 looks specifically at the poverty impacts for those affected by the increase in the minimum rent payment under the proposal. As it stands, the poverty rate for this group is already extremely high, at 76.3 percent. Under the proposal, the poverty rate for this group would increase by 4.8 percentage points to 81.1 percent.

*Table 3. Poverty Impacts of the Making Affordable Housing Work Act of 2018 for the Population Affected by Increase in Minimum Rent*

| *Population* | *Number of Individuals* | *Current Poverty Rate* | *Poverty Rate Under HUD Proposal* | *Difference in the Poverty Rate* | *Number of People Moved into Poverty* |
|---|---|---|---|---|---|
| Subsidy Recipients Affected by Increase in Minimum Rent | 1.7 million | 76.3% | 81.1% | 4.8% | 80,000 |
| Subsidy Recipients <18 Affected by Increase in Minimum Rent | 850,000 | 73.4% | 80.0% | 6.6% | 50,000 |

*Conclusion*

Our analysis shows that the Making Affordable Housing Work Act will take cash resources away from economically vulnerable individuals and households, with over half a million people falling into poverty. Overall, the plan outlined in this proposal does little to improve affordable housing, and its outcomes run counter to those one would expect from legislation intended to make affordable housing work.

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*Appendix A. State Level Results*

| *State* | *Average Decrease in Annual Subsidy Value* | *Number of Households Affected* | *Total Annual Decrease in Subsidies* |
|---|---|---|---|
| Alabama | $650 | 52,000 | $33.8 million |
| Alaska | $1,150 | 9,500 | $10.9 million |
| Arizona | $600 | 36,400 | $21.8 million |
| Arkansas | $700 | 38,000 | $26.6 million |
| California | $850 | 488,700 | $415.4 million |
| Colorado | $650 | 29,400 | $19.1 million |
| Connecticut | $800 | 47,500 | $38.0 million |
| Delaware | $650 | 12,000 | $7.8 million |
| District of Columbia | $750 | 30,900 | $23.2 million |
| Florida | $700 | 146,200 | $102.3 million |
| Georgia | $650 | 67,900 | $44.1 million |
| Hawaii | $1,050 | 31,900 | $33.5 million |
| Idaho | $900 | 9,400 | $8.5 million |
| Illinois | $700 | 147,700 | $103.4 million |
| Indiana | $550 | 98,300 | $54.1 million |
| Iowa | $500 | 39,500 | $19.8 million |
| Kansas | $550 | 29,600 | $16.3 million |
| Kentucky | $500 | 48,700 | $24.4 million |
| Louisiana | $800 | 85,200 | $68.2 million |
| Maine | $600 | 27,000 | $16.2 million |
| Maryland | $850 | 91,700 | $77.9 million |
| Massachusetts | $1,000 | 188,000 | $188.0 million |
| Michigan | $850 | 128,700 | $109.4 million |
| Minnesota | $750 | 61,800 | $46.4 million |
| Mississippi | $850 | 47,100 | $40.0 million |
| Missouri | $450 | 42,600 | $19.2 million |
| Montana | $700 | 12,600 | $8.8 million |
| Nebraska | $1,200 | 11,800 | $14.2 million |
| Nevada | $500 | 27,400 | $13.7 million |
| New Hampshire | $650 | 23,400 | $15.2 million |
| New Jersey | $900 | 192,300 | $173.1 million |
| New Mexico | $800 | 30,300 | $24.2 million |
| New York | $850 | 540,200 | $459.2 million |
| North Carolina | $550 | 71,300 | $39.2 million |
| North Dakota | $950 | 8,700 | $8.3 million |
| Ohio | $550 | 210,000 | $115.5 million |
| Oklahoma | $850 | 54,600 | $46.4 million |

*Appendix A. State Level Results, contd.*

| State | Average Decrease in Annual Subsidy Value | Number of Households Affected | Total Annual Decrease in Subsidies |
|---|---|---|---|
| Oregon | $650 | 40,100 | $26.1 million |
| Pennsylvania | $600 | 146,700 | $88.0 million |
| Rhode Island | $650 | 25,800 | $16.8 million |
| South Carolina | $800 | 69,700 | $55.8 million |
| South Dakota | $600 | 20,100 | $12.1 million |
| Tennessee | $750 | 73,300 | $55.0 million |
| Texas | $750 | 225,700 | $169.3 million |
| Utah | $750 | 18,600 | $14.0 million |
| Vermont | $450 | 10,000 | $4.5 million |
| Virginia | $850 | 82,500 | $70.1 million |
| Washington | $1,100 | 96,400 | $106.0 million |
| West Virginia | $600 | 22,500 | $13.5 million |
| Wisconsin | $750 | 66,700 | $50.0 million |
| Wyoming | $500 | 7,600 | $3.8 million |
| Total | $732 | 4,124,000 | $3.2 million |

*Appendix B. Current Policy vs. Making Affordable Housing Work Act of 2018*

In most instances under current policy, rents paid by tenants who receive federal housing assistance consist of a payment made by the tenant and a subsidy paid by the federal government. If passed, the Making Affordable Housing Work act of 2018 will increase the portion of the payment that the tenant is responsible for. The table below highlights the differences in the calculation used to determine a tenant's out-of-pocket rent under current policy and under the changes outlined in the bill.

| *Current Policy* | *Making Affordable Housing Work Act of 2018* |
|---|---|
| *The rental payment required for all households is the greater of:*<br>• *10% of a household's monthly income,*<br>• *30 % of a household's monthly* ***adjusted*** *income, or*<br>• *the Minimum Rent (this varies by program and locality, with a maximum value of $50).*[1] | *The rental payment required for all* ***non-elderly, non-disabled households*** *is the greater of:*<br>• *35% of a household's monthly income, and*<br>• *the minimum rent for these households will be 35% of the amount earned by an individual working 15 hours a week for four weeks at the minimum wage (i.e., about $150 per month).*<br><br>*The rental payment required for all* ***elderly and disabled households*** *is the greater of:*<br>• *30% of a household's monthly income, and*<br>• *the Minimum Rent of $50.* |

1 *See https://www.hud.gov/sites/documents/DOC_11689.PDF.*

The three key reforms outlined in the bill are:[1]

1. ***The increase in the share of income required for payment and the elimination of adjusted monthly income when determining rental payment amounts for on non-elderly, non-disabled households***

Non-elderly, non-disabled households will see their rental payments increase in two ways—the share of their income required for payment will increase to 35% and the total income value used in the rental payment calculation will increase from their adjusted monthly income to their total monthly income. Under HUD's definitions, monthly income is a broader measure of income than adjusted income.

- ***A household's total monthly income is the total pre-tax cash income for all sources in the household excluding earned income from family members under 18, earned income greater that $480 from full-time students over 18.***

- ***Adjusted monthly income is total monthly net medical expenses,[2] childcare expense, an annual deduction of $400 for each elderly or disabled household member (a $33 monthly deduction), and an annual deduction of $480 for each dependent household members (a $40 monthly deduction).***

Under current law, a parent and a child with $1400 in monthly income and $300 in monthly childcare expenses would have an adjusted monthly income of $1,060 ($1400 minus $300 minus the $40 monthly dependent deduction and childcare expenses), and they would pay $318 per month in rent (30% of $1060). Under the reform, adjustments to income are not made when calculating rental payment and the portion of income required to be paid increases to 35%. The same parent and child would now have a monthly rent of $490 (35% of $1,400, their total monthly income).

2. ***The increase in the minimum payment required of all non-elderly, non-disabled households***

The second major feature of the bill is the increase in the minimum payment required of all non-elderly, non-disabled households. In instances where 35% of a non-elderly, non-disabled household's monthly income is less than $150, they will be required to pay $150 per month in rent, which effectively increases the minimum rent this group of households threefold—from $50 per month to $150.

3. ***The elimination of adjusted monthly income when determining rental payment amounts for elderly or disabled households.***

While the percentage of income required in rent for elderly and disabled households does not increase, the monthly rent in these households will increase because the income amount used in the rent calculation will not be adjusted to account for medical expenses, or other deductions outlined by HUD when determining adjusted monthly income. This group will be especially hard hit by this change as the original adjustment included deductions for medical

*1 Note that the bill introduces two classes of households--elderly and disabled households and non-elderly, non-disabled households-- and calculating the rental payment for each is different. An elderly or disabled household is one where one or more elderly or disable individuals resides without any able-bodied adults with the exception of a live-in aid. All other households are considered non-elderly, non-disabled households.*

*2 The deduction for medical expenses is limited to unreimbursed medical expenses in excess of 3% of income.*

expenses which are significantly higher for the elderly and disabled.

*Appendix C. Methods*

Under the Making Affordable Housing Work Act of 2018, rent for almost all housing subsidy recipients would increase and the value of their housing subsidy used to calculate the poverty rate under the SPM would decrease. Their new subsidy value would decrease by the difference in their current rental payment and their rental payment under the proposed legislation. Below, we outline the method we used to calculate the new subsidy values for all housing subsidy recipients under the proposal and to estimate proposal's impact on the poverty rate. For this simulation, we used the Annual Social and Economic Supplement to the 2017 Current Population Survey.

*Step 1: Calculated Original Rental Payment and New Rental Payment*

The Census Bureau currently estimates the value of the housing subsidies received by households that report receiving rental subsidies or living in public housing. The value of the housing subsidy is "estimated as the difference between the 'market rent' for the housing unit and the total tenant payment."[3] Market rent is estimated by the Census using external sources, [4] and the tenant's rental payment is estimated using information on household income reported in the CPS and the rental payment calculation policy outlined by HUD program rules. Under current policy, the Census calculates the tenant payment as the greater of:

- ***30% of a household's "adjusted" income, and***
- ***10 percent of their total income.***

Under the Making Affordable Housing Work Act of 2018, the tenant payment for non-elderly, non-disabled households would be the greater of:

- ***35% of a household's monthly income, and***
- ***The minimum rent for these households will be 35% of the amount earned by an individual working 15 hours a week for four weeks at the minimum wage (i.e., about $150 per month).***

For elderly or disabled households, the new payment would be the greater of:

- ***30% of a household's monthly income, and***
- ***the minimum rent of $50***

Like the Census, we calculated tenants' original rent by determining their household adjusted income and their total income (see Appendix B for the definitions of each). To determine total income (i.e., unadjusted income), we calculated the total cash income for all households excluding earned income from family members under 18 and earned income greater that $480 from full-time students over 18. We calculated adjusted income as total income net medical

*3 See https://www.census.gov/content/dam/Census/library/publications/2016/demo/p60-258.pdf.*

*4 "The 'market rent' for the household is estimated using a statistical match with HUD administrative data from the Public and Indian Housing Information Center and the Tenant Rental Assistance Certification System. For each household identified in the CPS ASEC as receiving help with rent or living in public housing, an attempt was made to match on state, Core-Based Statistical Area, and household size." https://www.census.gov/content/dam/Census/library/publications/2016/demo/p60-258.pdf* expenses, childcare expense, and deductions for elderly, disabled or dependents household members.[5]

With the total income and adjusted income for all households, we calculated all subsidy recipients' rental payments using the current program rules outlined by HUD and the rules outlined in the Making Affordable Housing Work Act of 2018. [6]

*Step 2: Determined New Subsidy Value at the SPM Level*

Because subsidy recipients' rental payments are increasing, the value of their subsidy is effectively decreasing by the increase in their rent. To calculate the new subsidy value under the Making Affordable Housing Work Act, we first calculated the increase in rent for each household and then subtracted the value of the increase from their household subsidy value. In instances where the rent increase led to a negative subsidy value, we set the subsidy value to zero; in households with multiple SPM units, we prorated the new subsidy value increase based on the sizes of the SPM units.

*Step 3: Estimated Impact on Poverty Rate*

To determine the impact of the rental increase on the poverty rate, we adjusted the SPM resources of all subsidy recipients by replacing their original subsidy value with the subsidy value under the Making Affordable Housing Work Act of 2018 and recalculated the poverty rate.

*5 An annual deduction of $400 was applied for each elderly or disabled household member and a deduction of $480 was applied for each dependent.*

*6 There are approximately 600,000 households that qualify for housing subsidies under HUD's Moving to Work demonstration program and the USDA's rural rental assistance program. In the Making Affordable Housing Work Act, participants in these housing programs would not see their rent increase. With CPS data, we can identify households that receive subsidies but are unable to identify the specific federal housing program in which they participate. To account for the 600,000 households that would not be affected by the rental increases in the Making Affordable Housing Work Act, we randomly selected 600,000 households with subsidies and considered those that we selected as unaffected by the policy change outlined in the proposal.*