

Housing assistance and workforce participation

THE MEASURED DISINCENTIVE EFFECT OF HOUSING ASSISTANCE PROGRAMS UPON WORKFORCE PARTICIPATION IS NOT LARGE. NEVERTHELESS, WHEN COMPARING THE WORKFORCE PARTICIPATION OF PUBLIC TENANTS AND PRIVATE TENANTS RECEIVING COMMONWEALTH RENT ASSISTANCE WITH INCOME SUPPORT RECIPIENTS NOT RECEIVING ANY HOUSING ASSISTANCE, SMALL DISINCENTIVE IMPACTS ARE APPARENT. THESE DISINCENTIVE EFFECTS ARE FINANCIAL, GEOGRAPHICAL, AND DISCRIMINATORY IN CHARACTER.

KEY POINTS

- Housing assistance recipients are 6 per cent less likely to be in employment than a comparison group of income support recipients not receiving housing assistance.
- Controlling for all other factors, Commonwealth Rent Assistance (CRA) recipients are 8 per cent less likely to be in employment compared to income support recipients not receiving CRA.
- For those in employment, receiving housing assistance is not associated with fewer hours worked, though there is indicative evidence of a small decline in the number of hours worked amongst those entering public housing.
- Attitudinal data indicate that although some were willing to work even if it meant less money, four in five housing assistance recipients were looking for a clear financial benefit of over \$100 per week above income support earnings.
- While financial disincentives were most important, other problems including poor location, poor skills and age discrimination reduced the incentive to work for housing assistance recipients.
- For housing assistance recipients, on average, the net financial benefit after tax from working (taking into account additional costs of work such as transport costs, loss of concessions and higher rent or reduced CRA) was found to be marginal.

This bulletin reports research from two separate AHURI projects both analysing work disincentives facing housing assistance recipients. The project by Stephen Whelan (AHURI Sydney Research Centre), sought to quantify the link between housing assistance and workforce participation. The project by Dr Kath Hulse (AHURI Swinburne-Monash Research Centre) and Professor Bill Randolph (AHURI UNSW-UWS Research Centre), sought to understand the attitudes of housing assistance recipients facing possible work disincentives.

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BACKGROUND

A number of concerns have been raised about the impact of housing assistance on employment outcomes, including that housing assistance beneficiaries might:

- face high financial disincentives to work because additional market income is 'taxed away' by virtue of the income tax and means-testing provisions of social security programs or rent policies of social housing providers;
- be poorly located to employment opportunities (for example this might apply to some public housing estates);
- face discrimination because of their age or public housing status; or
- lack access to ancillary services that support workforce participation (such as child care).

These concerns challenge the traditional view of housing assistance: that it provides residential stability, security of tenure and reduced financial stress, which in turn allows beneficiaries to become more focussed in searching for jobs. Until these studies there was little in the way of Australian data to test whether any of these concerns were empirically valid.

METHODS

Whelan analysed data from the Housing Income and Labour Dynamics in Australia (HILDA) survey, and compared workforce participation for income support recipients that received and did not receive housing assistance. The analysis compared income support recipients receiving and not receiving CRA and those non-disabled working age income support recipients in public housing.

Hulse and Randolph undertook face-to-face interviews with 400 unemployed renters (293 Private renters, 57 public renters and 50 group households) in Sydney and Melbourne to understand how renters themselves understood and interpreted the work disincentives associated with housing assistance.

KEY FINDINGS

IS WORKFORCE PARTICIPATION AFFECTED BY RECEIPT OF HOUSING ASSISTANCE?

In general, work ready housing assistance recipients (i.e. both public rental and CRA recipients) are 6 per cent less likely to be in employment than a comparison group of income support recipients not receiving housing assistance, controlling for all other factors.

Work ready public housing tenants were 25 per cent more likely to report receipt of a wage/salary than work ready CRA recipients not controlling for any other

factors. Yet, working age non-disabled public tenants had lower workforce participation than a comparable population not in public housing.

These findings may partly reflect the allocation rules in public housing, which permit entry to low income workers, whereas CRA is targeted to only those receiving income support payments. Though CRA recipients are allowed to earn labour market income up to certain income limits without jeopardising their receipt of CRA.

It is possible to test whether the receipt of CRA makes a difference to employment participation by comparing the workforce participation of CRA recipients and those who receive a government pension, benefit or allowance but do not receive CRA.

Amongst work ready individuals, and controlling for all other factors, CRA recipients are 8 per cent less likely to be in employment than other income support recipients.

ARE HOURS OF WORK AFFECTED BY RECEIPT OF HOUSING ASSISTANCE?

Confining the analysis to only those in employment, there was no significant evidence to suggest that housing assistance was associated with fewer hours of work.

Although working CRA recipients tend to have lower hours compared to other income support recipients not receiving CRA (all other things being equal), it is not clear whether lower hours are due to the effect of CRA, or whether this simply reflects the high degree to which CRA is targeted to those with low labour force participation (such as pensioners or unemployed persons). When the analysis controls for the effect of such targeting, CRA is found to have no significant impact on the number of hours worked.

However, there is some indicative evidence that for those in work, entry to public housing coincides with a small reduction in hours worked. Entrants to public housing reduce their working hours on average by 1.73 hours per week and exiters from public housing increase their working hours, on average, by 1.84 hours per week. Nevertheless, the findings in this regard are tempered by the small set of individuals observed to enter and exit public housing in the years covered by HILDA in the current analysis (the analysis is based on a sample of 43 and 48 public tenants respectively).

The analysis suggests that if they have any impact, housing assistance programs have a small negative impact on workforce activity.

HOW HIGH ARE FINANCIAL DISINCENTIVES TO WORK FOR THOSE RECEIVING HOUSING ASSISTANCE?

Financial disincentives to work may be measured using the Effective Marginal Tax Rate (EMTR) which measures the degree to which additional work income is effectively taxed taking into account not only tax rates, but also the withdrawal rates on social security income.

Research using modelling by National Centre for Social and Economic Modelling (NATSEM) showed that the only effect of CRA is to extend the band of incomes at which high EMTRs apply. While data is not available for public renters, EMTRs are likely to be higher for this group as the cost of housing increases by a factor of 25 cents in every extra dollar earned in income (due to income based rents).

Other data, collected as part of a survey of unemployed renters, showed that unemployed renters would receive \$189 per week in income more if they were in work as opposed to being unemployed. When renters were asked to estimate how much it might take to 'break even' to cover costs of working (transport costs, increased rent, loss of concessionary benefits etc), it averaged around \$188 per week, suggesting that current returns from entering employment are financially marginal. Private renting group households faced the lowest financial incentive to take up a job and public renters the highest, though the costs associated with rent for public renters would also increase the most if they took up a job.

There is some evidence that setting rent according to income for public renters is a disincentive to work. Public renters pay a set percentage of their income in rent (typically 25%). Thus 25% of any new earned income will be given to rent. Fifty-six per cent of public renters expressed at least some concern that if they increased their hours, this might affect their rate of rent, and 35 per cent of public renters disagreed that they would be better off if they earned more from paid work and rent increased.

Sixty-one per cent of all unemployed renters surveyed said that their last job was casual or part-time, even though only 15 per cent were specifically looking for casual or part-time work – most were looking for any job. Consequently, median weekly take-home pay for their last job was often not high: \$320 for public renters and \$400 for private renters: men were often factory workers or labourers, cleaners, drivers or security personnel, while women were in hospitality, administration, retail sales and factory process workers.

WHAT FINANCIAL BENEFITS WOULD INDUCE UNEMPLOYED RENTERS TO WORK?

Most (79 per cent) of the unemployed in the survey were looking for a clear financial benefit from paid work of at least \$100 per week more than they were receiving at present, and half wanted \$200 plus a week more in net income.

WHAT OTHER WORK DISINCENTIVES AFFECT UNEMPLOYED RENTERS?

LOCATION AND MOBILITY

Location of a person's home was the difficulty cited second most frequently by unemployed renters:

- 36 per cent of renters considered that their location created difficulties for them to get a job, though only around 10 per cent saw this as a major difficulty.
- Whether renters saw location as a major difficulty also varied significantly according to location. One of the worst areas was outer Sydney where 51 per cent of renters said that their location made it harder to get a job.
- The study revealed that 46 per cent of renters (even 42 per cent in public rental) were willing to move home if it led to the chance of getting a suitable job, however almost a third of public renters would prefer to stay in their present location even if it meant having no job.
- Travel costs were seen as the most important cost of working for 60 per cent of renters. While owning a car might improve the chances of working by assisting in job search or providing convenient transport, especially those in outer suburban areas, only 39 per cent of all respondents indicated that they owned a car.

SKILLS ACQUISITION

Some unemployed job seekers wanted a job to improve skills and self-confidence but clearly faced barriers to make it into work. Forty-one per cent of respondents said they would take a job even if it put them slightly behind in financial terms, and a fifth said they would work even if they were clearly worse off than being unemployed.

AGE DISCRIMINATION

A further difficulty cited by unemployed renters in getting a job was age discrimination. Just under a third of all renters cited this as a concern, with it being a particular concern for those in group households (especially young men) and private renters. Age discrimination was less important as a concern for public renters (poor health and lack of skills were their main difficulties).

POLICY IMPLICATIONS

While the results of these studies provide a limited indication of the labour market issues, there are some lessons for housing policy.

Housing policy might be used to assist in improving employment opportunity in the following ways.

- To address **financial incentives of those on CRA**, CRA and associated welfare payments might be reformed so that adequate financial assistance to afford accommodation in the private rental market is available for those in work. For example, one option is to continue CRA as a cash transfer for the unemployed but offer a housing tax credit for private renters who are working in low paid jobs.
- To address **financial disincentives for public housing tenants** to increase hours of work, options to address rental policies could include: changing the definition of assessable income to assess rent on after tax rather than before tax income; disregarding some or all earned income in assessing rents (possibly as a short term measure to assist the transition to work); in the context of mutual obligation packages, offering renters arrangements in which the rent increases that would have been charged due to increased earned income to be deposited in a savings account; or moving to property based rents instead of income based rents that do not change whether the person is in or out of work.
- To address **locational barriers**, policy options could include: changing the design of CRA to take account of higher rental costs typically associated with areas of strong job markets (typically metropolitan areas); introducing programs to enable access to affordable housing in job rich areas; freeing up the public housing lettings system to allow movement across areas and wider access to more secure affordable housing for private renters so that they too can make job decisions free from the anxiety of losing their home.

- To address **skills, education and job creation** for renters, options might include: programs to develop skills and self confidence as part of community renewal or public housing estate related jobs and contractual arrangements between unemployed persons and public housing agencies involving incentives and compliance to encourage keeping of jobs.

FURTHER INFORMATION

This bulletin is based on AHURI projects 70073 *Work Disincentives and Housing Assistance* and 60203, *An Analysis of the Determinants of the Workforce Activities of Housing Assistance Recipients*. Reports from these projects, previous AHURI research on Housing Assistance and Non-Shelter Outcomes (including projects 80188 and 60008), and further information regarding Collaborative Research Venture I can be found on the AHURI website (www.ahuri.edu.au).

The following documents are available for both projects:

- Positioning Paper
- Final Report

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