



## **RESEARCH HIGHLIGHTS**

*February 2003*

### **INDEPENDENT LIVING ACCOUNTS (ILAs) : ASSET-BUILDING TO INCREASE ACCESS TO AFFORDABLE PRIVATE RENTAL ACCOMMODATION**

#### **WHY A FORM OF ASSET-BUILDING FOR INCREASED ACCESS TO PRIVATE RENTAL ACCOMMODATION FOR LOW-INCOME CANADIANS?**

Evidence from across Canada indicates that the individuals and families living in an “at risk” situation, and the number of adults and children living in transitional houses or in supportive housing have increased dramatically in the last fifteen years. The situation is gaining increased public attention. An example of this was a survey undertaken by Canada Mortgage and Housing Corporation (CMHC) in March of 2000, which illustrated that the majority of Canadians agree that the number of homeless persons is very much on the rise.

#### **WHAT FORM OF ASSET-BUILDING?**

Providing financial incentives for use for first and last months rent is, in its pure form, not asset building, as rental accommodation is not seen as a direct asset to those living within it. However, the IDA methodology may well lend itself to other useful purposes.

By enrolling in an ILA project, that would allow participants to save for first and last months rent, participation in a supportive environment administered by a community based agency would result. It has been demonstrated, through anecdotal evidence, that the direct link with such an agency, and by participating in a financial management training course, increases successful savings rates. If savings for first and last months rent are achieved in accordance with the participant’s personal savings goals then this cannot be discounted. A financial asset is created along with the related personal benefits attained through participation on the project including participation in the economic mainstream.

## **BENEFITS OF A FORM OF ASSET-BUILDING FOR THOSE IN TRANSITIONAL OR SUPPORTATIVE HOUSING**

Individuals and families who are living in transitional or supportative housing situations lack security of tenure within private rental accommodation, may have extreme affordability problems and, therefore, face concerns relating to the possibility that they cannot operate and live within the private rental market. Current evidence also suggests that homelessness is moving away from an episodic/periodic situation to a continuing state of affairs for many people. Transition back into the “mainstream” society is becoming increasingly difficult for many.<sup>1</sup>

The need to respond to the evolving set of circumstances has resulted in community-based agencies, and Funders of those agencies, reaching deeper into the community for help. This has included the formation of more diverse linkages, strategic partnerships and alliances with other related agencies and service providers.

A form of an IDA, called an *Independent Living Account*, or ILA, could provide the necessary mix of financial incentives and services needed to increase the self-sufficiency of people living in transitional housing. Therefore a formalized demonstration project aimed at assisting this population to access private rental accommodation is both sensible and timely.

### ***1) Breaking Out of the Cycle of Poverty***

The Homelessness Secretariat, through their various initiatives, has tried to address the growing needs of those living within transitional or supportative housing. With the Secretariat’s recognition of the direct link between housing costs and household income, it is appropriate to assess the potential of the concept of asset-building using the IDA methodology to create a positive, supportive environment for those within this situation. The approach would provide an opportunity for these individuals and families to create a foundation on which to build savings and receive life-skill training that could buttress them from future poverty or provide them with the means necessary to break out of the cycle of poverty.

### ***2) Change in Behaviour***

The anecdotal evidence of IDA projects is showing that asset-holding and asset-accumulation changes attitudes. The support for this assertion is survey evidence that shows that those with greater assets are more likely to plan for the long term, to have high self-esteem and to be satisfied with their lives. This evidence is consistent with the hypothesis that asset holding and asset-accumulation cause long-term planning, self-esteem and life satisfaction.

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<sup>1</sup> Carter, Tom; 2001 National Research Conference: Bringing Communities Together, A Community Based Approach to Addressing Homelessness. *Community Challenges and Governance Issues: an Overview*. Ottawa, December 7, 2001.

The acquisition of assets is generally measured in terms of the value of the assets/wealth that is attained. For example, it is relatively simple to assess the financial/equity and social impacts of moving from rental to home ownership. It is more difficult to rationalize the acquisition of rental housing in the context of asset measurement.

However, there is every reason to believe that utilizing an ILA strategy to enable an individual or family to save, learn and then move into rental accommodation will achieve long lasting and positive effects on their future savings behaviour and on their capacity to plan for other important goals such as their children's education, their own skills upgrading and perhaps even home ownership.

### **3) Addressing the Gap Between Owners and Renters**

An ILA project for increased access to affordable housing can seek to assist in closing the gap between the wealth of renters and that of homeowners through the supports inherent in the project processes and through the long term change in attitudinal behaviour that can result through participation in such a project. For example, although some people rent housing only when they are young, others will need rental housing throughout their lives. They will never be able to afford homeownership and will always depend upon the private rental and social housing sectors. These lifetime renters are at a particular disadvantage and this disadvantage could be addressed through participation in an ILA project.

In 1984 and 1999 Statistics Canada carried out a detailed survey of household income and wealth called the Survey of Financial Security. Initial results from the 1999 survey were published by Statistics Canada in March 2001 as *The Assets and Debts of Canadians*.<sup>2</sup>

This data<sup>3</sup> provides that there are significant gaps between the income and wealth of renters compared to homeowners and that:

- *With respect to Income:* Over the 15-year period, the median income of homeowners increased by \$2,100 (5%) while the income of renters decreased by \$600 (-3%).
- *With respect to Wealth:* The median net worth of homeowners in 1999 was \$145,000, an increase of \$28,400 (24%) over 1984. For renters, the trend was the opposite: median net worth decreased by \$1,900 (-48%), from \$4,000 in 1984 to \$2,100 in 1999.

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<sup>2</sup> For additional information please see: (<http://www.statcan.ca/cgi-bin/downpub/research.cgi>).

<sup>3</sup> The data was presented in a Research Bulletin, prepared by David Hulchanski, and published by the Centre for Urban and Community Studies, University of Toronto in August 2001. The bulleting reports on a further analysis of the 1984 and the 1999 financial security data. Special tabulations were obtained from Statistics Canada with a focus on housing tenure: the income and wealth of *owners* compared to *renters*. All dollar amounts have been inflation adjusted by Statistics Canada to 1999, allowing a comparison of the two periods (15 years apart).

- *With respect to the Income Gap:* The gap between the median income of homeowners and renters grew by 16% (from \$19,800 in 1984 to \$22,500 in 1999). In 1984, homeowners had almost double the income of renters (192%). By 1999, the gap had increased to more than double (208%). This represents an average growth in the income gap between owners and renters of about 1% a year.
- *With respect to the Wealth Gap:* The gap in the median net worth of homeowners and renters increased from \$112,900 in 1984 to \$143,100 in 1999. Homeowners' wealth increased from being 29 times that of renters in 1984 to 70 times that of renters in 1999.

Statistics Canada reports that the most important non-financial asset of Canadians, accounting for 38% of household wealth, is the owner-occupied house. Home ownership is, therefore, a major (but not the only) reason for the large gap in wealth between owners and renters.

The gap between owners and renters has increased by an average of about 1% a year. Canada's population is, therefore, even more polarized by income and wealth than in the past. This fact has serious implications for rental housing supply. There has been virtually no unsubsidised new supply in neither recent years – nor will there be as long as this polarization continues. The low income and wealth levels relative to homeowner's means that many tenants have a *social need* for adequate and affordable housing. They do not have enough money to generate effective *market demand*.<sup>4</sup> This will result in more and more renters are likely to have severe problems remaining housed.

About 40% of all of Canada's renters live in the high-cost housing markets of Toronto, Montreal and Vancouver. For homeowners, high and increasing house costs contribute to their lifelong accumulation of wealth. For renters, it is the opposite. High housing costs make it difficult, if not impossible, for them to accumulate assets (such as the amount needed for a down payment) resulting, for many, in lifelong impoverishment.

The household income and wealth of renters is dramatically below that of owners, and the gap is growing. Renter households may find it increasingly difficult to move into home ownership. Government policies that focus on incentives for home ownership (such as tax-exempt savings plans or the Ontario government's waiver of land transfer taxes) do not address the housing needs of the vast majority of renter households. The federal government has not provided new social housing for low- and moderate-income renters since 1993.

An ILA strategy, with complimentary regional policies, could assist in creating a positive savings environment for renters and address the very low income and wealth of renters.

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<sup>4</sup> *ibid*

## LIMITATIONS

An ILA demonstration project will have limitations and will not be able to address all of the issues associated with the root-causes of people living in transitional housing. The goals of this project would be related to the saving and matched contribution for rental housing purposes and therefore the complications associated with the lack of affordable housing supply will not be addressed by such a proposed project. Anticipated issues include:

- *The supply of rental accommodation.* It is evident that the supply of rental accommodation across the country is not keeping up with the demand. Low supply will inhibit participants in finding more appropriate rental accommodation.
- *Rental housing is less affordable.* Rising rents dramatically outpaced tenant incomes in the early-to-mid 1990's and this trend is likely to continue. The increased cost of rent will require greater savings within an ILA and may require a higher match rate depending upon the length of the savings period and the personal savings achieved.
- *The vacancy rates continue to drop.* Very low vacancy rates mean that adequate housing is scarce and less affordable. Participants within an ILA program aimed at increasing access to affordable housing in the private rental market will have difficulty in some locations finding suitable affordable accommodation.

In addition the population that are taking advantage of transitional housing may have specific needs that cannot be completely addressed through their participation in an ILA project. Some of these issues are:

- *Income.* With low income and low wealth generation some participants will not be able to take advantage of the matched contribution as they are unable to save over and above the required necessities of life.
- *Need for liquid assets.* The poor are often in desperate need of liquid assets — cash in the bank — to deal with financial emergencies. IDAs are available only for the purchase of approved assets such as higher education or small business start-up costs; both of these are illiquid assets that cannot be used to cover emergency expenses. Thus *liquid* savings are useful for insurance purposes but IDA savings are not. Most IDA plans, however, allow participants to withdraw their portion of the account (but not the matching funds) in an emergency.
- *Health related concerns.* Although referrals can be made as part of the related ILA service and case management package no direct link can be made with health related service and associated costs. The service delivery agent can play a role here however and include IDA participants within a system of integrated service delivery that could include health services.

Since all IDA proposals require contributions by participants, an obvious question is “*Can the poor save enough to make ILAs meaningful?*” Proponents of IDAs believe that the answer is a qualified “yes”. In a paper prepared for Sherraden’s Centre for Social Development, Beverly (1997) admits, “in all disciplines, empirical evidence related to saving in low-income

households is extremely limited...” She then argues that low income is a major obstacle to savings because there is a minimum consumption level that people must maintain in order to survive. People with incomes sufficient only to support the minimum level will find it nearly impossible to save. Despite these obstacles, she writes, “many low-income individuals in the U.S. do save money”.

### **WHY A PILOT PROJECT FOR LOW-INCOME CANADIANS LIVING IN A TRANSITIONAL OR SUPPORTATIVE HOUSING SITUATION?**

The following provides a brief rationale for a demonstration project and an overview of the operation of transitional housing or supportative housing and the services that are provided to residents of such housing.

#### ***Supportative Housing***

Supportative housing is a healthier alternative for some people who have experience living within psychiatric hospitals, correctional facilities or shelters. The integration of housing and services increases stability and independence for residents and reduces their need for emergency or institutional care, providing a higher quality of life at substantially lower cost to public services.

Supportative housing is high quality housing that is safe and secure, affordable and permanent, and supports tenant independence through the provision of social supports and employment resources. The objective of supportive housing is to create stability, foster self-sufficiency, promote preventive health care and develop peer support networks for clients. Housing of this sort is available in all shapes and sizes (i.e. one structure or several structures, at one site or in multiple structures at scattered sites) to respond to multi-faceted needs.

Services vary depending on the clients' needs, but can include services such as counseling, life and employment skills development and education. The services are delivered in-house or case managers link clients to services and monitor their needs and progress. "In general, services in supportive housing are as accessible as possible to the building and providing a quality living environment." Services are provided to help residents achieve greater self-sufficiency and stability to allow for participation in mainstream society.

#### ***Transitional Housing***

Transitional housing is a type of supportive housing where clients live and receive services that will enable them to live more independently. Regardless of population being served (e.g. homeless individuals, housing victims of family violence, ex-convicts, substance abusers, runaway teens etc.), transitional housing serves those needing structure, support, supervision and skill building in order to move from homelessness into stable, permanent housing and ultimately prevent a return to homelessness.

Generally, compared to emergency shelters, transitional housing facilities are smaller, offer more privacy and intense services that extend beyond meeting basic needs (e.g. food, clothing, etc.) and greater emphasis is placed on participation.

Transitional housing can take various forms. For example, there are differences in the population targeted, physical structures and configurations (e.g. congregate facilities, multi-unit apartment, single room occupancy buildings, clustered, scattered-site apartments, etc.), locale of services (on-site or off-site), and intensity of service (high vs. low). Programs also differ in the lengths of stay (anywhere between 3 and 24 months and some even allow individuals and families to stay for up-to 5 years), program goals, strategies for facilitating moves to permanent housing, and level of resident participation and supervision.

### **WHY TARGET THIS POPULATION?**

As well as the human toll exacted through homelessness there is a significant cost to Canadian taxpayers when people are living in transitional housing. It currently costs governments approximately \$75,000 per year to provide services to a single homeless person.

SEDI believes that an ILA project could allow residents within supportative or transitional housing an opportunity to create, with the assistance of case management, peer support and financial management training, a foundation for successful savings behaviour on which to build savings to allow for their transition to independent housing within the private rental market. The existing transitional or supportative housing environments already provide integrated service delivery that could accommodate the specific project components of a modified asset-building project to meet the needs of this population. This suggested project could work within the existing service delivery network and would compliment the existing services already being offered within supportative and transitional housing environments.

This provision of an ILA to increase access to affordable housing would increase the participant's self-sufficiency through the independent management of his/her financial resources gained in large part to the projects supports and financial management training. If the demonstration were successful in facilitating self-sufficiency for this population future cost savings to governments would be significant.

### **SERVICES AND SUPPORT**

Additional project services/supports such as financial management training, case management and peer support would assist in the savings success of the participants. By allowing the savings and matched credits to be used for first and last months rent, it is thought that many individuals and families could achieve more stable, adequate and affordable housing and thereby ensure a higher quality of life and a more positive orientation towards their future.

It is not thought that a realistic ILA goal for the vast majority of this population would be home purchase due to their income status, current housing market conditions and the daily-related financial constraints that they face. It is thought that an ILA project aimed at home purchase would be more realistically designed as a separate project due to the obvious –

necessary higher savings, qualification for mortgages, related costs associated with home purchase, etc. It would be logical however to consider allowing participants, who have successfully completed the first and last months rent ILA project and have gained a more stable quality of life, to enter a homeownership ILA project.

### **WHY A DEMONSTRATION PROJECT?**

Any type of financial incentive program has the potential to be expensive. In considering the widespread adoption of any potentially expensive program, policy-makers must balance the potential expense against the potential benefits. Since the contemporary incarnations of the “savings accounts for the poor”, however promising they may appear is quite new, there is uncertainty about those benefits. We simply do not know what difference these programs might actually make in the lives of those who take part in them. Because the nature and size of the effects is uncertain and the potential cost could be high, it is important that ILAs, or any modifications on the IDA methodology, be carefully evaluated under real-world operating conditions in order to realistically inform any large-scale implementation of the concept. The cost of providing a new, and potentially costly, financial incentive can be justified only if it produces significant benefits. A demonstration project with an adequate evaluation design provides a cost contained method of securing the knowledge necessary to formulate any future policies or programs.

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