PH3.3. RECIPIENTS AND PAYMENT RATES OF HOUSING ALLOWANCES

Definitions and methodology

In many countries, housing allowances are an important tool of affordable housing policy (see Indicator PH3.1 on Public spending on housing allowance as a % of GDP). "Housing allowances" can cover costs relating to rent, payment of mortgage and/or interest, utilities, insurance and services, while the term "rent allowance" refers to housing allowances paid to tenants only. In most countries, housing allowances are geared towards low-income households, and payment rates often depend on household size, housing costs and income (see Indicator PH3.2 on Key characteristics of housing allowances).

This indicator measures the coverage and generosity of housing allowances based on (1) survey data and (2) OECD tax-benefit microsimulation models (OECD, 2021). Survey data show which households benefit from housing allowances (by income quintile and by tenure). Results from OECD tax-benefit microsimulation models, by contrast, show how the payment rates of housing allowances vary with household income, averaging across different family types.

Key findings

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

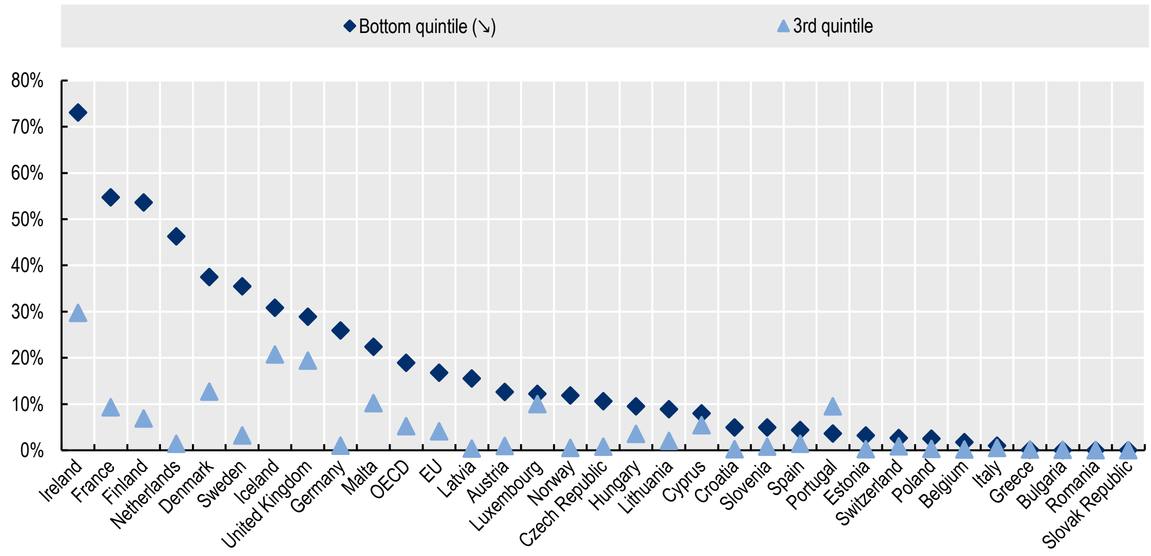
Figure PH3.3.1 shows the share of households in the bottom and middle quintile of the earnings distribution that receive a housing allowance (see online Worksheet HP3.3.A1 for earlier years and other points of the income distribution; see Indicator PH3.1 on Public spending on housing allowances). In Finland, France, Ireland and the Netherlands, more than 40% of households in the bottom quintile of the income distribution report receiving a housing allowance, as well as over 30% of low-income households in Denmark, Iceland and Sweden. By contrast, hardly any households report receiving a housing allowance in Bulgaria, Greece, Romania and the Slovak Republic.

Most countries target housing allowances towards households in the bottom quintile of the income distribution, and in most countries the share of households in the third income quintile receiving a housing allowance is less than 2%. Exceptions are Denmark, Iceland, Ireland, Malta and the United Kingdom, where more than 10% of households in the middle quintile of the income distribution report receive a housing allowance. Greece and Portugal are the only countries in which middle-income households are more likely than low-income households to receive a housing allowance; this is because housing allowances are mainly geared towards owner-households with a mortgage, and this tenure type is less common among low-income households (also see Indicator HM1.3 on Tenure structure).

LAST UPDATED 08/07/2022

Figure PH3.3.1. Share of households receiving a housing allowance

Share of households receiving a housing allowance, bottom and third quintile of the disposable income distribution, in percent, 2020 or last year available



Notes:
1. No information available for Australia, Canada, Chile, Colombia, Costa Rica, Japan, Korea, Mexico, New Zealand, Türkiye and the United States due to data limitations. Only estimates for 100 or more data points are shown.
2. Quintiles are based on the equivalised disposable income distribution. Low-income households are households in the bottom quintile of the net income distribution.
3. Data for Germany and Italy refer to 2019 and for Iceland to 2018.
4. In the United Kingdom, net income is not adjusted for local council taxes and housing benefits due to data limitations.
Sources: OECD calculations based on the European Survey on Income and Living Conditions (EU-SILC 2020), except for Germany and Italy (2019), and Iceland (2018); Understanding Society - The UK Household Longitudinal Study (2020).

Figure PH3.3.2 shows the tenure structure of low-income households receiving a housing allowance (see online worksheet PH3.3.A2 for the tenure structure in other parts of the income distribution). In most countries, low-income recipients of housing allowance are more likely to be tenants in the private rental market (see Indicator PH3.2 with regard to key characteristics of housing allowances). In countries where ownership is the dominant form of tenure, such as Croatia, Hungary, Ireland, Latvia, and Malta, owner households are the largest group of low-income housing allowance recipients (see Indicator HM1.3 for the general tenure structure).

While many tenants renting at market prices benefit from housing allowances, the share of housing allowance recipients renting at a reduced price (living, for instance, in social (subsidsed) rental housing) is considerable in some countries. In Finland, France, Iceland and the United Kingdom, almost half or more of low-income households receiving a housing allowance rent at a reduced price. While the

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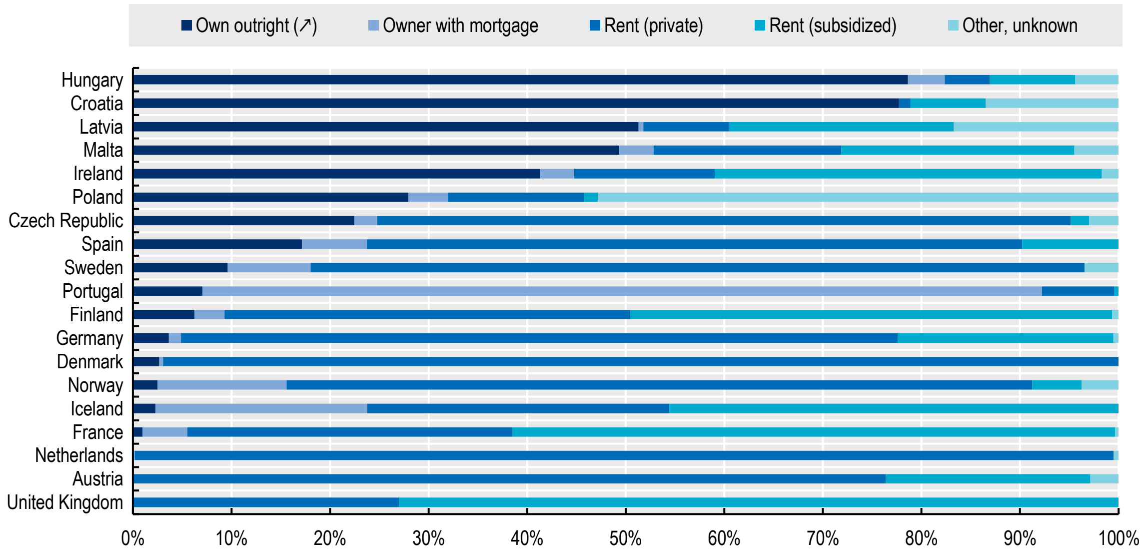
Note by the Republic of Türkiye: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until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

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 Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Netherlands and Denmark have a sizable subsidised rental sector, the EU-SILC data group all tenants into the private market rent sector (see also the section on Data and Comparability, below). In the Netherlands and Denmark, nearly all low-income households receiving a housing allowance are tenant households.

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

Tenure shares of low-income households receiving housing allowance, in percent, 2020 or last year available



Notes:
1. No information available for Australia, Canada, Chile, Colombia, Costa Rica, Japan, Korea, Mexico, New Zealand, Türkiye and the United States due to data limitations. Only estimates for 100 or more data points are shown.
2. Quintiles are based on the equivalised disposable income distribution. Low-income households are households in the bottom quintile of the net income distribution.
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Sources: OECD calculations based on the European Survey on Income and Living Conditions (EU-SILC 2020), except for Germany and Italy (2019), and Iceland (2018); Understanding Society - The UK Household Longitudinal Study (2020).

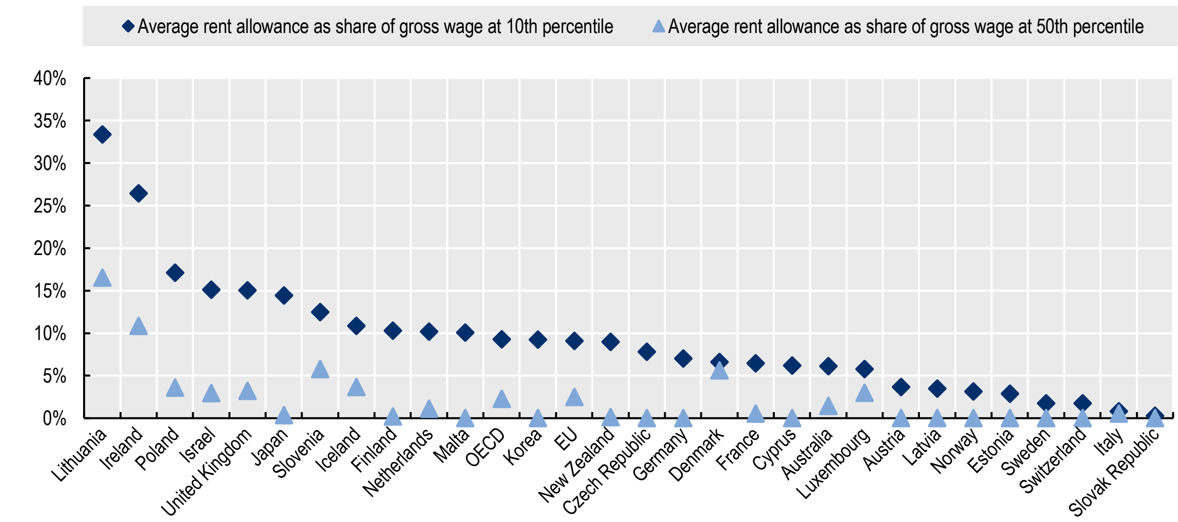
Rent allowances make up a larger share of total income for low-wage earners

Results from OECD Tax-benefit models, shown in Figure PH3.3.3, illustrate that rent allowances – where they exist – are usually targeted to low-income households (OECD Tax-benefit models only include rent allowances, and exclude benefits for homeowners). In all countries, rent allowances make up a larger share of total household gross income for households earning a gross wage at the 10th percentile of the wage distribution, compared to households with median earnings. Among households in the 10th percentile of the earnings distribution, rent allowances amount to around 33% and 26% of gross earnings in Lithuania and Ireland, respectively, and more than 5% of gross earnings for 20 other countries. It is important to note that in Lithuania, compensation for part of the lease payment was introduced in 2015, but the rollout was slow and the rental market remains underdeveloped; as a result, the number of recipients of the benefit is still quite low. For households with median earnings, the rent allowance as a share of gross earnings amounts to more than 3% in only seven 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 Worksheet PH3.3.A3 for the information by family type). Across countries, rent allowances are typically more generous for households with children, and particularly for single-parent households. For more details on the key characteristics of housing allowances, see Indicator PH3.2.

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

Average of rent allowance for four different family types earning at the 10th or the 50th percentile of the wage distribution, in percent, 2020 [1, 2, 3, 4, 5, 6]



Note: 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: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. Earnings are either at the 10th- or the 50th-percentile of the full-time wage distribution.
5. Data for New Zealand is preliminary and data for Korea refer to 2018.
6. The present publication presents time series which extend beyond the date of the United Kingdom's withdrawal from the European Union on 1 February 2020. In order to maintain consistency over time, the "European Union" aggregate presented here excludes the UK for the entire time series.
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

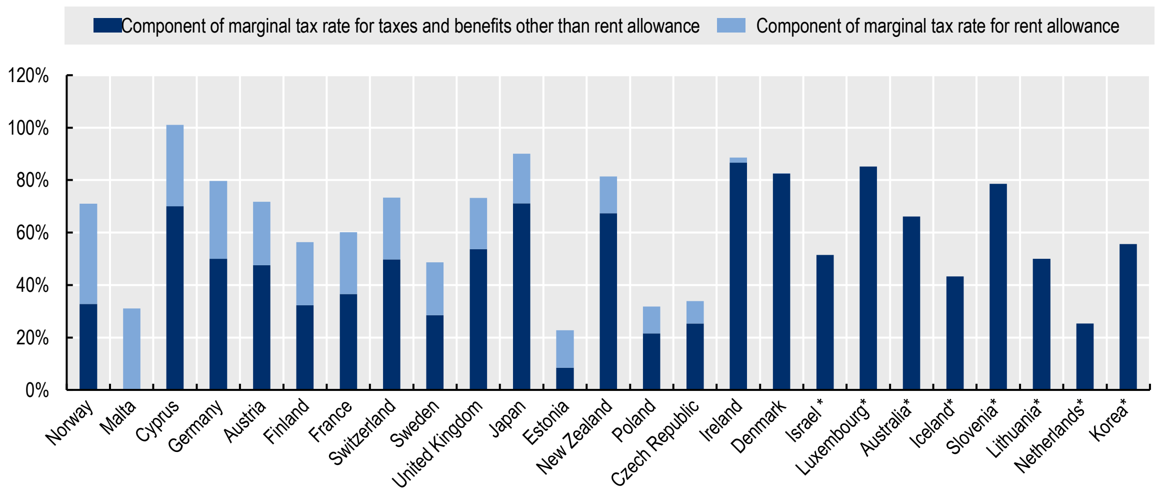
In most countries, housing allowances not only depend on household composition and income, but also interact with taxes and other benefits. Therefore, the phasing out of housing allowances as a household increases work hours and/or earnings can act as a benefit trap, as such changes may lead to higher 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, for a single parent in the 10th percentile of the wage distribution who is a tenant and thus potentially eligible for a rent allowance, moving from half-time work to full-time work with double the earnings would affect his or her income position and thus potentially the eligibility for a housing allowance and other benefits (see online Worksheet PH3.3.A4 for results for other family types). Marginal effective tax rates vary considerably across countries, as does the impact of the withdrawal of rent allowances. In Estonia, almost two-thirds of the marginal effective tax rate stems from the withdrawal of the rent allowance, while in Finland, Norway and Sweden, this effect is also substantial, at more than 40% of the marginal effective tax rate.

In Australia, Iceland, Luxembourg, Israel, Korea, Malta, Slovenia 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).

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

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 per cent, 2020 [1, 2, 3, 4, 5]



Note: 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.
5. Data for New Zealand is preliminary and data for Korea refer to 2018.
* Country pays rent allowance but withdraws none of the rent allowance when the single parent doubles working hours and earnings.

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 and the UK Household Longitudinal Study-Understanding Society -. 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 categorises all tenants (including people living in the market rental sector and those in subsidised (social) rental housing) in the market rent category in Denmark and the Netherlands, as it does not facilitate making distinctions by type of tenant (Dewilde, 2015; Haffner, 2015). In all countries, the "other" tenure category refers exclusively to accommodation provided at no cost.

OECD tax-benefit models calculate tax burdens, benefit entitlements and net incomes for a range of labour market and household 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 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 allowances, OECD tax-benefit models assume that rental costs amount to 20% of gross earnings. The results in this indicator show benefit generosity for four common family types that are more likely to be eligible for a rent allowance than dual-earner households: (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 (2021), "Tax and Benefit Systems: OECD Indicators", www.oecd.org/social/benefits-and-wages.htm