

Fact Sheet: FSS Opt-Out Demonstration

Helping more HUD-assisted renters to build assets and move out of poverty by testing a new approach to HUD's Family Self-Sufficiency (FSS) program

COMPASS
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Pending Legislation

Purpose: Operate a large-scale, multi-site, multi-year demonstration of an opt-out FSS program to clarify impact and feasibility of the approach

Scope: Up to 5,000 HUD-assisted households

Congressional action: S.3904 Helping More Families Save Act Introduced on March 12, 2024 to authorize Opt-out Demonstration Program. The bill was introduced on a bi-partisan basis by Senators Reed (D-RI) and Britt (R-AL) and is published in the Congressional Record.

The challenge

Assets such as cash savings or real estate are essential to economic mobility. Yet one in four families do not have the assets needed to cover even three months of basic living expenses without income.

In some types of HUD-assisted housing, a household's rent is based on income. If a household earns more money, their rent increases proportionately. Designed to keep housing affordable, this structure can discourage families from increasing their income and make it more difficult to save.

Households enrolled in FSS can capture as savings any non-utilized portion of their housing subsidy if their rent increases because they earn more income. These savings build over time and can be put toward financial goals such as buying a home, going to college, or improving credit. To graduate from FSS, participants must make progress toward their goals and be working, and no adults in the household can be receiving cash welfare assistance at the time of graduation.

The impacts of FSS are significant when the program is run well – graduating households build over \$8,000 in savings while increasing their annual earned income by over \$10,000, on average. Yet the program currently reaches less than 3% of an estimated 2.2 million eligible households nationally.

What is opt-out, and why test it with FSS

Compass partnered with the Cambridge Housing Authority to test opt-out from 2016 to 2019. Outcomes from the pilot were very promising. More learning with a larger sample is needed to better understand the potential impact of an opt-out approach as well as the feasibility and scalability of the approach relative to the current opt-in model for FSS do so.

Opt-out means that eligible households would participate in FSS by default, with the choice to opt out of the program without penalty. It takes inspiration from the success of the approach with increasing participation rates in employer-sponsored retirement plans.

An opt-out approach removes barriers that keep eligible households from accessing the program and decreases administrative costs. Opt-out can be a more feasible path to scale for FSS.

About half of all HUD-assisted households are headed by Black and/or Hispanic/Latina women. Expanding access to FSS will also help narrow the racial and gender wealth divides.

Key features of opt-out FSS demonstration

- *Streamline graduation requirements:*
 - *Focus on clear and easily verifiable requirements that participants be employed and free from cash welfare assistance. Families only accumulate escrow when they pay additional rent due to increased earned income; housing providers can consider employment status and positive escrow balances as objective evidence of the attainment of goals that support self-sufficiency.*
- Residents able to opt-out of the program at any time (in compliance w/ statute that FSS is voluntary)
- No federal funding required
- Participants will have access to additional support services, i.e. financial coaching or case management. These services will be strongly encouraged and incentivized, but not required.

Learning and evaluation goals of the demonstration

- Determine whether opt-out produces strong, measurable outcomes, such as beneficial changes in earnings, use of public assistance, credit, and debt.
- Track whether an opt-out model increases positive exits from housing assistance or reduces subsidy costs, thereby enabling more families to receive housing assistance over time.
- >33% of FSS graduates leave housing assistance within one year of graduation. FSS graduates who continue to receive assistance have higher earnings at graduation.
- Measure the rate of engagement in supportive services among different types of households, when these services are offered as a voluntary rather than required component of the FSS model. Clarify the overall costs of this model, both for housing providers and for HUD.
- The proposed demonstration will enable HUD to assess and compare the likely changes in direct federal costs with the potential to increase positive exits and provide assistance to more new families.

Supporters: These organizations support granting HUD the authority to enable this demonstration:

- Baltimore Regional Housing Partnership
- The Caleb Group
- The Community Builders
- Housing Partnership Network
- Local Initiatives Support Corporation
- Mercy Housing
- NAHMA
- NAHRO
- NH&RA
- National Housing Conference
- NLIHC
- NLHA
- National NeighborWorks Association
- Piedmont Housing
- POAH
- RIHousing
- SAHF
- WinnCompanies