

# 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  
WORKING CAPITAL

## PROJECT SUMMARY

**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:** 3,000 HUD-assisted households

**Source of funding:** Private philanthropy; no federal funding required

**Congressional action required:** Grant authority to HUD to waive certain FSS program requirements that would allow opt-out approach to be tested

## 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

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/Latinx women. Expanding access to FSS will also help narrow the racial and gender wealth divides.

## Taking the next step

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. Compass and three of its housing partners are proposing to conduct a large-scale pilot of the approach, serving 3,000 households, and needs authority from Congress via HUD to do so.

### **Proposed authorizing language:**

In support of HUD'S request, Compass is pursuing a demonstration that would "create an escrow account for families modeled after the Family Self-Sufficiency escrow account. This account would allow for families to be automatically enrolled in the program that places the incremental rent increase due to an increase in earned income, into an escrow account." The demonstration would remove barriers that keep eligible households from accessing the program and decrease administrative costs. It would clarify the impact, cost and feasibility of the approach, providing critical information to decision-makers about the long-term viability of an opt out model for FSS. This demonstration would require no funding to implement, as Compass Working Capital has secured philanthropic dollars to implement it.

### **Key features of opt-out FSS demonstration**

- Streamline graduation requirements
  - *Focus on the clear and easily verifiable graduation requirements that participants must be employed and free from cash welfare assistance. Since families only accumulate escrow when they pay additional rent due to increased earned income, housing providers would simply 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 with the statutory requirement that FSS is a voluntary program)
- No federal funding required
- Participants will have access to additional support services, such as financial coaching or case management
  - *These services will be strongly encouraged and incentivized, but will not be a required part of the program*

### **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.
  - *More than one-third of FSS graduates leave housing assistance within one year following graduation, which creates opportunities for more families to benefit from assisted housing. If FSS graduates continue to receive housing assistance, their higher earnings at graduation reduce subsidy costs – potentially allowing housing authorities to stretch their existing HCV funding to issue vouchers to more families on waiting lists.*
- Measure the rate of engagement in financial coaching and/or case management 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 PHAs 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 rental assistance to more new families.*

### **Supporters**

These organizations support granting HUD the authority to enable this demonstration

- POAH
- WinnCompanies
- Local Initiatives Support Corporation
- NAHRO
- NH&RA
- The Caleb Group