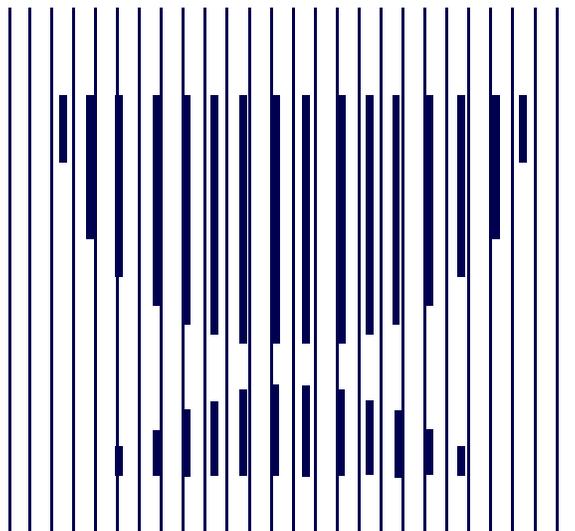




CBO MEMORANDUM

**AN ANALYSIS OF ALTERNATIVE
CHILD SUPPORT
ASSURANCE PROGRAMS**

April 1996



CONGRESSIONAL BUDGET OFFICE



CBO

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

NOTE

Numbers in the text and tables of this memorandum may not add up to totals because of rounding.

This Congressional Budget Office (CBO) memorandum analyzes the potential costs and other impacts of proposals for a government program of child support assurance. Such a program would provide payments to children who were living apart from at least one of their parents if the child support paid by the noncustodial parent fell below a specified amount. The memorandum was prepared as part of the response to a 1993 request from Dan Rostenkowski, then Chairman of the House Committee on Ways and Means. In accordance with CBO's mandate to provide objective, impartial analysis, the memorandum contains no recommendations.

Janice Peskin, formerly of CBO's Health and Human Resources Division, prepared the memorandum under the direction of Joseph R. Antos, Nancy M. Gordon, and Ralph Smith. Special thanks are due to John Tapogna, who provided helpful comments and suggestions throughout the project. The estimates of costs and other aspects of child support assurance programs (CSAPs) are based on the Urban Institute's TRIM2 microsimulation model. The estimates could not have been made without the work of institute staffers Sandy Clark, Daniel Dowhan, Linda Giannarelli, Elaine Sorensen, and Laura Wheaton. The contributions of Linda Mellgren and Don Oellerich of the Department of Health and Human Services were essential in developing specifications for simulating CSAPs. At CBO, Julia Matson reviewed the paper and Cori Uccello provided research assistance. Paul Cullinan, Irwin Garfinkel, Daniel Meyer, Daniel Mont, and Laura Wheaton also commented on earlier drafts.

Leah Mazade edited the manuscript, and Christian Spoor proofread it. Sharon Corbin-Jallow typed the several versions and prepared the final document for publication.

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SUMMARY AND INTRODUCTION

When a marriage dissolves or an out-of-wedlock birth occurs, the affected children may become eligible for child support from their noncustodial parent. In recent decades, the number of those children has grown dramatically. Yet most receive no child support and suffer the reduced standard of living that lack of support entails.

Legislators, program administrators, and policymakers at all levels of government have responded strongly to the inadequacies of the child support system by expanding enforcement tools and adding resources in an effort to improve its effectiveness. Reform of the system has been under way for at least two decades, beginning with the enactment of the Child Support Enforcement (CSE) program in 1975. The CSE program, which is funded jointly by federal and state governments, establishes paternity, locates noncustodial parents, secures awards, enforces obligations, and collects and distributes support to custodial parents who receive Aid to Families with Dependent Children (AFDC) and to other parents who apply for its services. It is one part of a complex set of institutions, including local courts and related administrative bodies, that together form the child support system.

Throughout the 1980s and early 1990s, the federal government imposed more requirements on state child support agencies and courts as a means of improving performance. In 1984, the Child Support Enforcement Amendments required child support agencies to use specific procedures (such as withholding support from the wages of noncustodial parents who were delinquent in their payments) and to provide services to families who were not receiving AFDC. The Family Support Act of 1988 imposed many new requirements including those for the establishment of paternity, the use of state guidelines in setting child support awards, the periodic review and modification of awards, and the mandatory withholding of child support from the wages of most noncustodial parents immediately after an award has been issued or modified. In 1993, the Omnibus Budget Reconciliation Act further strengthened rules regarding the establishment of paternity. More recently, the Congress and the Administration have proposed another round of major changes, including reporting by employers of information on newly hired workers and suspension of driver's and professional licenses for failure to pay child support.

By the end of the 1980s, the child support system was providing services to a greatly expanded number of custodial parents and their children, but the system's effectiveness in securing awards and enforcing the payment of support had scarcely improved. By 1995, however, the Congressional Budget Office (CBO) projected modest gains in the proportions of custodial mothers who had child support awards and who received payments.¹

1. For more information on the nature and effectiveness of the CSE program and on recent legislative changes, see Congressional Budget Office, *The Changing Child Support Environment*, CBO Paper (February 1995).

Yet considerable room remains for improvement. In 1995, only 43 percent of all families who included a mother with children who were potentially eligible for child support received any formal support, according to CBO's estimates.² Almost one-half of all families headed by a custodial mother had never been awarded support. Among those families who had child support awards, roughly one-half received the full amount they were due. Most of the remaining families received a partial payment; however, one-fifth of them received nothing in 1995.

This lack of child support contributes to the impoverishment of many families with children. Of all families with custodial mothers who were potentially eligible for child support in 1995, CBO estimated that almost one-third lived in poverty.³ About 60 percent had family incomes of \$30,000 a year or less, compared with one-quarter of all married-couple families with children in 1994.

Assuring that families with a custodial parent received child support regularly, in amounts that they could count on each month, would improve their financial situations. To that end, some people have looked to the development of a child support assurance program (CSAP). In the United States, a handful of academics were supporters as far back as the late 1970s. More recently, members of the Congress and the Clinton Administration have proposed demonstrations of a CSAP that would provide data on its effects. New York and Virginia have undertaken demonstrations of programs similar to a CSAP but with eligibility limited to families who are receiving AFDC. Abroad, a number of countries--including Austria, Denmark, Israel, the Netherlands, Norway, and Sweden--have enacted programs similar to child support assurance.

What exactly is a CSAP? In its broadest interpretation, it is a government program to ensure that children who live apart from one (or sometimes both) of their parents receive support if the child support paid by the noncustodial parent (or parents) falls below the CSAP's maximum benefit. For example, if the maximum benefit was \$300 a month for two children and a custodial parent received \$100 in child support from the children's noncustodial parent, the government would pay the family \$200 in benefits in that month. According to proponents, the CSAP would ensure reliable child support payments each month and reduce reliance on AFDC. It could also encourage parents to establish paternity and secure child support awards if eligibility for the CSAP was contingent on having an award. Yet, as critics note, such a program would expand the role of government in the lives of U.S. citizens and

2. Families who are potentially eligible for child support in this analysis are those with children under age 21 who have a living noncustodial father and who reside with their custodial mother.

3. The poverty threshold, which varies by family size, was projected by CBO to be about \$12,000 for a family of three in 1995.

raise government expenditures, contributing to the federal deficit. It would also provide incentives for noncustodial parents to reduce their payments of child support and for families to break up.

Until now, the literature on CSAPs has largely reflected the views of their proponents. CBO undertook this analysis of such programs to objectively probe their advantages and disadvantages and to measure, as accurately as possible, their costs and effects on families. Previous estimates of a CSAP's effects were available only for the mid- to late 1980s, when the number of potentially eligible families was much smaller than it is today. CBO's analysis presents estimates for 1995.

By focusing solely on a CSAP, this memorandum ignores one critical aspect of any comprehensive evaluation--namely, how a CSAP compares with other income support programs. Although child support assurance is unique in certain respects--for example, in focusing on and replacing child support--many of its aims (such as encouraging work and reducing the number of poor families) are shared with other programs. In a world of limited resources, in which cuts in programs rather than expansions are the norm, scarce dollars must go where they will do the most good. Evaluators who take that broader view must ask whether additional dollars for programs primarily for low- and moderate-income families would be best used for wage or earnings subsidies, education and training programs, child care subsidies, other programs, or a CSAP. If additional dollars could go to only one program, which one would best meet the critical aims of such support? Alternatively, would there be a role for all of these programs, and would a mix of them add something valuable that a single program would not? If so, would a CSAP be an important component of that mix?

Summarizing the Costs of CSAPs and Their Effects on Families

The design of a CSAP would determine its costs and how it affected the families who participated in it. Developing that design would be no small task--policymakers and program administrators would have to make literally hundreds of decisions, large and small. For this memorandum, CBO has studied the features of the CSAPs that have been set out in recent Congressional bills and proposals and in the academic literature

of the past decade and a half.⁴ Costs for those programs range from relatively low levels under some designs to substantial amounts under others.

The estimated costs and effects that CBO presents here are for calendar year 1995, based on simulations that use the Urban Institute's Transfer Income Model, Version 2 (TRIM2). The data that form the basis of the model are taken from the March 1990 Current Population Survey (CPS) and the matched March 1990 CPS/April 1990 Child Support Supplement of the Bureau of the Census; both data sets contain information on incomes for 1989. To estimate the costs of a CSAP in place in the mid-1990s and its effects on families, CBO projected changes in child support from 1989 to 1995, which were then integrated with TRIM2 so that simulations could be run that reflected circumstances in 1995.

Several aspects of CBO's estimates should be kept in mind. First, because of data constraints, the estimates include only children who are living with custodial mothers. By excluding children who are living with custodial fathers or with other relatives, the estimates understate the costs of a CSAP and its effects on families and their poverty status.

Second, CBO assumed that all mothers who were receiving AFDC and who were potentially eligible for child support would participate in a CSAP. Ordinarily, that would be an unusual assumption, given that participation among families who are eligible for benefits in any income support program generally falls below 100 percent. (Participation rates vary widely among programs, depending on such factors as ease of access, stigma, and the amount of benefits.) In the case of a CSAP, CBO assumed that the higher rate would apply because states would probably require mothers who were receiving AFDC to participate, especially if the federal government was paying all the costs of the CSAP. (Benefits from a CSAP would substitute for some or all of a family's AFDC payments, which would reduce state spending for that program.) If families who were receiving AFDC participated at rates of less than 100 percent, the costs of a CSAP would drop significantly. For all mothers, both those who were receiving AFDC and those who were not, average

4. As of early 1996, several bills with CSAP demonstrations had been introduced in the 104th Congress. The 103rd Congress saw the introduction of other such bills including S. 689 (Bradley); S. 663 (Rockefeller); S. 1962 (Dodd); H.R. 1600 (Roukema); and H.R. 4767 (Matsui). Selected studies of a CSAP include Irwin Garfinkel, *Assuring Child Support: An Extension of Social Security* (New York: Russell Sage Foundation, 1992); Irwin Garfinkel, Sara S. McLanahan, and Philip K. Robins, eds., *Child Support Assurance: Design Issues, Expected Impacts, and Political Barriers as Seen from Wisconsin* (Washington, D.C.: Urban Institute Press, 1992); General Accounting Office, *Child Support Assurance: Effect of Applying State Guidelines to Determine Fathers' Payments* (1993); Robert I. Lerman, "Child-Support Policies," in Phoebe H. Cottingham and David T. Ellwood, eds., *Welfare Policy for the 1990s* (Cambridge, Mass.: Harvard University Press, 1989); and Elaine Sorensen and Sandra Clark, "A Child-Support Assurance Program: How Much Will It Reduce Child Poverty, and at What Cost?" *American Economic Review*, vol. 84, no. 2 (May 1994).

participation rates ranged from 73 percent to about 84 percent, rising with the amount of the CSAP's maximum benefit.

Third, CBO's estimates of costs for a CSAP take "recoupment" into account; that is, CSAP benefits paid in some months would be recouped from future payments of child support during that calendar year. Without recoupment, families would have an incentive to time the payment of child support to maximize CSAP benefits. (For example, a noncustodial parent could pay the year's child support in the last month of the year, and without recoupment, the custodial parent would receive the entire year's child support as well as CSAP benefits in all but one month.)

Fourth, the figures in this memorandum do not represent formal CBO cost estimates because some costs have been left out. For example, the costs of administering a CSAP are missing, as are the effects on costs of any changes in the behavior of parents. (However, the memorandum does discuss those topics later.) In addition, CBO's estimates represent total costs to all levels of government that might be involved in financing a CSAP, without breaking down that financing among them.

Finally, the estimated effects of a CSAP are based on current law. Those effects would differ should the government enact legislation similar to H.R. 4, the Personal Responsibility and Work Opportunity Act of 1995, which was passed by the Congress but vetoed by the President. The act would have strengthened the child support system to increase collections of support, thus reducing the gross costs of a CSAP. However, changes the act would have made in the AFDC program, reducing the number of recipients and outlays, would lower any offsetting savings in AFDC. Those changes would also affect distribution of the net costs of a CSAP among federal, state, and local governments and its impact on families' incomes and their poverty status.

Varying Eligibility Requirements and Benefit Levels. The major decision with respect to eligibility for a CSAP would be whether to confine benefits to children who had child support awards or to furnish benefits to children without awards as well, provided that their parents cooperated with authorities in attempting to secure awards. A CSAP that restricted eligibility to children with child support awards and kept the maximum benefit low (\$1,500 annually for the first child, \$500 for the second, and \$500 for the third, equaling a family maximum of \$2,500) could be set up at a modest cost in benefit payments. CBO estimated that the gross costs of such a program in 1995 would be \$2.6 billion (see Table 1). If each dollar of benefits from the CSAP was counted in full as income in the AFDC and Food Stamp programs, savings in those programs would total \$1.0 billion. Further, if benefits from the CSAP were subject to federal income taxes, revenues would increase by

TABLE 1. ESTIMATED COSTS AND EFFECTS UNDER THREE STANDARD DESIGNS OF A CHILD SUPPORT ASSURANCE PROGRAM, 1995

	Low Maximum Benefit, Award Required	Medium Maximum Benefit, Award or Cooperation Required	High Maximum Benefit, Award or Cooperation Required
Costs (Billions of dollars)^a			
Gross Costs ^b	2.6	12.6	20.1
AFDC and Food Stamp Savings (-) ^c	<u>-1.0</u>	<u>-6.6</u>	<u>-10.2</u>
Net Costs Excluding Revenues	1.6	6.0	9.9
Increase in Income Tax Revenues(-)	<u>-0.3</u>	<u>-1.0</u>	<u>-1.8</u>
Net Costs	1.3	5.0	8.1
Effects on Families			
Number of Families Receiving Benefits (Millions)	2.4	5.8	6.8
Average Annual Payment per Family (Dollars) ^d	1,105	2,170	2,955
Percentage of Families Losing Eligibility for AFDC ^e	1.4	15.0	29.7
Effects on Family Incomes and Poverty Status (Percent)^f			
Change in Average Annual Income	g	2	3
Change in Poverty Rate ^h	-1	-4	-7
Change in Poverty Gap ⁱ	-2	-11	-17

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. Estimates reflect changes for all families who are potentially eligible for child support.
- g. Less than 0.5 percent.
- h. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- i. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

\$0.3 billion. As a result, CBO estimated that the net costs of benefits would be only \$1.3 billion.

Under that program design, an estimated 2.4 million families--fewer than one-fifth of all families who were potentially eligible for child support--would receive benefits averaging \$1,105 a year. Reflecting the modest costs of the program, the impacts on families would also be small: 1.4 percent of families would lose their eligibility for AFDC, and the poverty rate for families who were potentially eligible for child support would drop by 1 percent.

Other designs could raise the costs of the program sharply. For instance, expanding eligibility to include children whose parents cooperated in securing child support awards and raising the maximum benefit to a "medium" level (\$2,000 annually for the first child, \$1,000 for the second, and \$500 each for the third and fourth, equaling a family maximum of \$4,000) would push the gross costs of the program to \$12.6 billion and the net costs to \$5.0 billion. The number of families who received benefits would increase two and a half times to 5.8 million (or 45 percent of all families who were potentially eligible for child support), and average payments per family would about double. The proportion of families who lost eligibility for AFDC would jump to 15 percent, and the decline in the poverty rate would increase to 4 percent. The poverty gap would drop by 11 percent for families who were potentially eligible for child support. (The poverty gap measures the aggregate difference between families' poverty thresholds and their incomes.)

Most of those higher costs and enhanced effects on families would result from allowing cooperators to participate rather than from the higher level of benefits. CBO estimated that allowing cooperators accounted for more than 80 percent of the rise in gross costs, AFDC savings, and number of families who received benefits. In any CSAP, cooperation could be defined strictly (for example, mothers who provided valid information on fathers' addresses, social security numbers, and so on) or loosely (for instance, any mother who applied for services from the child support enforcement agencies). CBO assumed that all mothers who were receiving AFDC but had no child support awards would be deemed cooperators because the AFDC program now requires them to cooperate in order to receive that aid (although the cooperation requirement apparently is not well enforced). For mothers who were not receiving AFDC, CBO assumed that 30 percent of those without awards would qualify as cooperators.

Over the long run, CBO's estimates overstate the additional costs a CSAP would incur by allowing cooperators to participate because they do not take into account cooperators who may secure awards and receive child support payments. If cooperators received child support at about the rates and amounts of all families who were potentially eligible for child support--an overly optimistic assumption--gross

costs would fall by \$1.8 billion (or 15 percent) to \$10.7 billion, and net costs would drop by \$1.6 billion (or one-third) to \$3.4 billion.

Limiting eligibility for a CSAP to children who had child support awards would provide the strongest incentive for custodial parents who did not have awards to secure them--and thus ensure a better future for their children. Such a limit would also lower the costs of the program. But it might be seen as inequitable for custodial parents who made every effort to obtain awards but were unsuccessful because of failures of the child support system. Many of the children who failed to qualify would be from the poorest families. Allowing cooperators to receive benefits from a CSAP would remove that inequity and could significantly reduce the number of families who were receiving AFDC--but at the cost of administrative complexity and an inevitable arbitrariness in defining and enforcing cooperation. Moreover, if cooperation was loosely defined or enforced, or both, custodial parents would have less of an incentive to secure awards than they do now because their CSAP benefits would substitute for their forgone child support.

Maintaining the same definition of cooperation but raising the maximum benefit to a "high" level would increase costs even more sharply and have major effects on families (see Table 1). Under that design, the maximum benefit would be \$3,000 a year for the first child with \$1,000 increments each for the second through fifth children, equaling a family maximum of \$7,000 a year. The gross costs of such a program would rise to an estimated \$20.1 billion and the net costs to \$8.1 billion. Benefits averaging \$2,955 a year would go to 6.8 million families, or 52 percent of the families who were potentially eligible for child support. Almost 30 percent of families who were receiving AFDC would lose their eligibility for that program. For families who were potentially eligible for child support, the poverty rate would drop by 7 percent and the poverty gap by 17 percent.

As the level of the maximum benefit increased, the CSAP would replace more unpaid child support, thus decreasing poverty more dramatically. In addition, more families who were receiving AFDC would be removed from that program. The costs of the CSAP would, of course, increase with larger maximum benefits, and the intended and unintended behavioral effects would be magnified. For a growing number of families, benefits would exceed their child support awards, with the result that the program would more closely resemble a pure income supplement. In a program with the low maximum benefit, benefits would exceed awards for fewer than 10 percent of families, rising to about 20 percent with the medium maximum benefit and to 60 percent with the high benefit. However, the program could be designed to cap payments at the amount of each family's award, thus eliminating the pure income supplement. Presumably, a cap would mean limiting eligibility to families with awards. That design would provide larger payments to higher-income rather than to lower-income families.

Imposing a Means Test. A means test would confine eligibility for a CSAP to families with low or moderate incomes, depending on its design. CBO simulated a means test that would phase out benefits at a rate of 21 percent (the phaseout rate in 1996 for the earned income tax credit for families with two or more children), beginning at incomes equal to 200 percent of the poverty threshold. That level was projected to be about \$24,000 for a family of three in 1995. Thus, no change in benefits would occur for families in which the incomes of the mother and stepfather, if one was present, were below that level.

Under the means test described above, the costs of benefits would decline by \$0.5 billion for a CSAP with a low benefit and an award required for eligibility; they would drop by \$1.2 billion for the medium-benefit, cooperators-allowed package and by \$2.0 billion for the high-benefit, cooperators-allowed package. If the means test substituted for taxing benefits, however, savings from the means test under the three designs would amount to only \$0.2 billion to \$0.3 billion.

Whether policymakers considered a means test important would depend on the incomes of beneficiaries. CBO estimated that in 1995, about 30 percent to 45 percent of families who were eligible for benefits (depending on the design of the CSAP) had incomes below the poverty threshold. About 15 percent to 20 percent had incomes above \$50,000.

The use of a means test has advantages and disadvantages. Instituting such a test would eliminate payments to families who were not in need of government assistance, possibly allowing policymakers to target higher benefits toward children with lower family incomes. It might also lower the costs of the program. Perhaps the strongest disadvantage of a means test is that it could also decrease the amount of work some beneficiaries were willing to perform, because a portion of any increase in their earnings would be lost through reductions in their benefits. However, because fewer families would receive benefits in a program with a means test, those reductions in work might be offset for all families in the aggregate.

Another argument some people make against the means test is that it would turn the CSAP into “just another welfare program” and possibly lead to the stigmatizing of beneficiaries. It would also complicate the administration of the program, thus raising the administrative costs per beneficiary. Depending on the specific test that was used--and how much it saved in benefits or, possibly, lost in tax revenues--the administrative costs could outweigh any savings.

Integrating CSAP Benefits with AFDC. If each dollar of benefits from a CSAP reduced AFDC payments by a dollar, the costs of a CSAP would be lessened and the greatest number of families would lose their eligibility for AFDC. Those families

would have no greater incentive to secure child support awards unless they saw child support as a way off welfare over the longer term.

If, instead, a dollar of benefits from a CSAP reduced AFDC by 67 cents, some of the neediest families would see their incomes increase. AFDC savings would drop by between \$0.3 billion and \$2.5 billion a year, rising with expanded eligibility and higher maximum benefit levels of the CSAP. Net costs would increase by between 17 percent and 28 percent compared with a program that had a dollar-for-dollar offset.

Administration and Financing. Based on existing income support programs, a range of options is available for administering and financing a nationwide CSAP--from a fully federal program like Social Security to a program like AFDC, in which, under current law, federal and state governments share policymaking and funding. Most proponents assume that if a CSAP was implemented nationwide, it would be a federal program administered by the Office of Child Support Enforcement, the Social Security Administration, the Internal Revenue Service, or some new agency. Ties to state and local child support enforcement agencies would have to be strong, at least in the short run, because those agencies would provide necessary information on the award and payment status of each family. (In H.R. 4, the 104th Congress would have required states to set up automated central registries to provide that information for many families.)

Most proponents of a national program not only see it as federally administered but also fully federally financed. Of course, other options would be possible. For example, state child support agencies could administer a CSAP. In that case, some sharing by the state in financing might be necessary to ensure efficient, effective operation of the program.⁵

Summarizing a CSAP's Potential Effects on Behavior

Like any income security program, a CSAP would encourage its beneficiaries and other people that it affected to alter their behavior. Those behavioral changes might lead to positive or negative outcomes.

Securing Awards. If eligibility for a CSAP was contingent on having a child support award, some custodial parents without awards would try to secure them in order to receive benefits. A strict--and tightly enforced--cooperation test would probably lead to more awards. Alternatively, a program that had a loose--and poorly enforced--

5. Even if states paid no part of a CSAP's costs, they would experience budgetary savings if families left AFDC because of the CSAP's benefits.

cooperation requirement, or that allowed all children who were eligible for child support to receive benefits, would lead fewer custodial parents than at present to seek awards because the benefits from a CSAP would substitute for regular child support. For families who were receiving AFDC, the incentives would be much weaker to the extent that the CSAP offset the benefits due the family by comparable reductions in their AFDC payments.

No evidence exists on the behavioral changes caused by a CSAP like the one discussed here. A demonstration in New York State found that making program benefits contingent on having an award led to a significant increase in the number of families who secured new awards for child support. That program, however, was limited to parents who were receiving AFDC and differed significantly from the general CSAP model.

Any increase in the number of child support awards or in cooperation would make more families eligible for the CSAP, thus raising the direct costs of the program. Additional costs would be incurred for families with new awards but no child support payments and for those whose payments fell below the program's maximum benefit level. However, any increase in payments for child support would reduce costs for AFDC, food stamps, and other government programs, offsetting to some degree the increase in the costs of the CSAP.

Reducing Payments of Child Support. By substituting for some portion of the child support paid by noncustodial parents, the benefits from a CSAP would encourage those parents to reduce their payments. CSAP benefits would also offer an incentive to custodial parents to pursue those payments less vigorously than they might otherwise have done. Any drop in child support payments would depend not only on the parents' behavior but also on the enforcement capabilities of the child support system. A reduction in payments would raise the costs of a CSAP as well as the costs of the agencies that enforced child support. Designing a CSAP so that its benefits were not fully offset by payments of child support might moderate any such reduction, but the costs of the program would then increase unless the maximum benefit was also cut.

No direct evidence exists on the extent to which child support payments might fall under a CSAP. But the AFDC program, which also uses child support to reduce its costs, provides some recent findings on how payments might be affected. Researchers conducted personal interviews with sometimes quite small samples of mothers and fathers of children who were receiving AFDC. Those parents made it clear that they understood that child support payments (above the \$50 a month that the custodial parent was allowed to keep) went to the state and not to the children. As a result, many of the fathers did not pay child support--at least, not "above the table"--and many of the mothers did not comply with the AFDC program's

requirement that they cooperate in locating fathers so awards could be established and payments made.

Changing the Number of Hours Mothers Worked. A CSAP would have different effects on the work hours of mothers who were receiving AFDC and those who were not. For mothers who were receiving AFDC, CSAP benefits would raise their potential incomes when they left the AFDC program, thus making life without AFDC--but with work--more attractive. In addition, as long as CSAP benefits were not means-tested, those mothers would no longer face the high rate of benefit reduction, or "tax," on their earnings that they faced while they were receiving AFDC. But for mothers who were not receiving AFDC, work hours could drop because benefits from a CSAP would raise their nonwage income. Moreover, that effect would be exacerbated if CSAP benefits were means-tested. A recent study that simulated the possible labor-supply effects of a CSAP found increases in work hours of between 3 percent and 24 percent for mothers who were receiving AFDC and who previously had worked only an average of 212 hours a year. (The percentage increase rose with the maximum benefit and the number of eligible mothers.) For mothers who were not receiving AFDC, reductions in hours of work ranged from just over 1 percent to about 2.5 percent. For all mothers together, the study found a decline of approximately 1 percent in hours of work.

Increasing Family Dissolution and Out-of-Wedlock Births. By providing more income or more secure income in the event of divorce or separation, a CSAP might contribute to marital disruptions. It might also lead to more out-of-wedlock births and, for the mothers of those children, fewer marriages with the child's father. In addition, benefits from a CSAP might encourage or discourage marriages of custodial parents to new spouses. The parents' higher incomes from the CSAP would make them more attractive marriage partners, but at the same time, those higher incomes would give them more freedom to decide whether or not to marry. In effect, many of the perverse incentives that now affect beneficiaries of AFDC would begin to affect families who were not receiving AFDC but were receiving benefits from a CSAP.

Altering Relationships. A CSAP could improve relationships between parents and between noncustodial parents and their children to the extent that failure to make child support payments was causing conflict between the parties. In addition, any increase in establishments of paternity and awards of child support that occurred as a result of the CSAP could encourage beneficial contacts between family members. Of course, those legal events could have the opposite effect for some families. And a reduction in child support payments because a CSAP was in place might lead to more conflict.

The various incentives of a CSAP may strongly affect how beneficiaries and others behave, but their effects are untested. Most such behavioral changes would, in turn, significantly affect the costs and impacts of a CSAP. Thus, before full implementation, carefully planned demonstrations that could measure behavioral effects, as well as the effects of alternative designs and administrative feasibility, should be a major consideration of policymakers.

DESIGNING A CSAP AND ESTIMATING ITS EFFECTS

A child support assurance program would ensure that children whose noncustodial parents were living received child support if those parents failed to make their child support payments or paid less than was due. Depending on the design of the program, the government would provide some or all of the missing support in the form of benefits. Under some designs, families could receive benefits even if they had not been awarded child support. Moreover, they might receive more than their missing support payments.

Whether all or only some of the children who were potentially eligible for child support received benefits and how much they received would depend on how the program was designed. Nonetheless, under the “general” CSAP, a maximum benefit (or guarantee) would be set based on the number of eligible children in the family. Benefits would be provided to a custodial parent who, in any month, received no child support or received support that fell below the maximum benefit. For example, if the maximum benefit was \$300 a month for two children and the parent received \$100 in child support for them, the family would receive \$200 that month from the CSAP.

A CSAP would thus provide two types of income supplements, depending on the program's design. The first would simply replace some portion of the child support owed but not paid by the noncustodial parent. The second type would exceed the amount of child support owed a family (this would be a so-called pure income supplement), either because the maximum benefit was higher than the family's child support award or because the family did not have an award.

Designing a CSAP

In designing a new program, legislators and program administrators would have to make hundreds of design decisions, large and small. Ideally, those decisions would reflect the goals of the program but at the same time hold down its costs and minimize its unintended effects. In the design process, trade-offs would be

inevitable. The most obvious would be the trade-off between providing more support to families and reducing costs.

The goals of a CSAP include:

- o Guaranteeing that custodial parents receive child support payments each month, thus reducing the uncertainty caused by monthly fluctuations in income as well as longer-term losses of income;
- o Providing income support, much of which would go to children whose mothers were single parents with low or modest incomes;
- o Enabling and encouraging more custodial parents to enter and remain in the labor force;
- o Reducing reliance on Aid to Families with Dependent Children; and
- o Providing an incentive for custodial parents who do not have awards to seek them.

Those goals often suggest specific features for a CSAP. For example, to give parents the maximum encouragement to seek an award for child support, eligibility for the program could be made contingent on having an award. Also, if the program was not means-tested--that is, it did not phase out benefits above a specified level of income--a custodial parent's decision on how many hours to work would be unaffected by the loss of a portion of the benefits from a CSAP for each dollar of income earned. Or, stated another way, the custodial parent would not diminish her hours of work because of the benefit reduction rates in the CSAP. Further, to encourage self-sufficiency among recipients of AFDC and food stamps and also to lower the costs of a CSAP, benefits could offset AFDC and food stamps dollar for dollar.

Any new or expanded program of income support would have to deal with two critical issues: costs and unintended effects. With regard to the first, as long as federal deficits remained at a high level, the costs of any new program would probably have to be modest. But holding down costs would make it more difficult to meet some of the program's goals, such as replacing a large portion of any unpaid child support. With regard to the program's unintended effects, adverse impacts would occur along with positive outcomes. One serious adverse effect of a CSAP would be the incentive it would create for noncustodial parents to reduce their payments of child support, because its benefits would substitute for some or all of their payments. In addition, an incentive would exist for some families to reduce their hours of work, even though for other families an incentive would exist to

increase work hours. A further impact might be that a CSAP would encourage more divorces and out-of-wedlock births by providing payments to children who lived apart from a parent.

CBO's Approach to Estimating the Effects of a CSAP

Recent proposals for CSAPs cover far too many design options to allow comprehensive analysis of all possibilities. The Congressional Budget Office chose the options that this memorandum covers to reflect the range of programs in bills introduced in recent years and in the academic literature. They vary in a number of ways, in particular in their criteria for eligibility and maximum benefits. To assess the effects of certain variations in design options (for example, a means test), CBO used three “standard design packages”:

- o The first package restricts eligibility to mothers with child support awards and has a relatively low maximum benefit starting at \$1,500 a year for one child and rising to \$2,500 for three or more children (see Box 1).
- o The second package has a medium-level benefit starting at \$2,000 for one child and rising to \$4,000 for four or more children. It extends eligibility to mothers without awards who cooperate with child support enforcement agencies or others in securing awards.
- o The third package also makes cooperators eligible and has a relatively high maximum benefit that provides \$3,000 for one child and then rises in \$1,000 increments to \$7,000 for five or more children.

Assumptions Underlying CBO's Standard Design Packages. The number of families who were granted the status of cooperators would, of course, depend on the criteria for cooperation, which could be defined tightly or loosely (see the later discussion). For the purposes of its analysis, CBO assumed that all families who were receiving AFDC would be deemed cooperators because to be eligible for AFDC, they are required to cooperate in establishing paternity and securing child support. (In practice, however, AFDC's cooperation requirement is not effectively enforced.) For families who were not receiving AFDC, CBO assumed that 30 percent would meet the cooperation requirement, based on data from the Bureau of the Census on the reasons mothers gave for not having child support awards.

Other assumptions underlie the standard packages. First, there is no means test. Second, a dollar of benefits from the CSAP is counted as a dollar of income in the AFDC and Food Stamp programs. In the Food Stamp program, however, that

**BOX 1.
GENERAL ESTIMATING ASSUMPTIONS**

The estimated costs of a child support assurance program (CSAP) and its effects on families can vary considerably depending on the underlying assumptions used to develop the estimates. The most important of those assumptions for CBO's estimates are laid out below. Also, for purposes of presenting the costs and effects of certain variations in the design of a CSAP, CBO used three "standard design packages" with specific CSAP characteristics.

Assumptions

Coverage: Children living with custodial mothers.

Participation Rates: All families who were receiving AFDC would participate (100 percent). Families who were not receiving AFDC would participate at varying rates depending on the amount of CSAP benefits and family income. Average rates for all women would range from 73 percent for the low benefit to about 84 percent for the medium and high benefits.

Recoupment: Benefits from a CSAP that were paid to a family would be recouped from child support paid in later months if the child support exceeded the CSAP guarantee.

Taxation: For most options, benefits would be subject to federal income taxes.

Behavioral Changes: The estimates do not include any allowance for behavioral change in securing child support awards, in making child support payments, in work hours, or in family breakup or formation.

Standard Design Packages

The table below shows the three standard design packages CBO used for this analysis.

	Low Maximum Benefit, Award Required	Medium Maximum Benefit, Award or Cooperation Required	High Maximum Benefit, Award or Cooperation Required
Annual Maximum Benefit			
Levels per Child (Dollars)			
Child 1	1,500	2,000	3,000
Child 2	500	1,000	1,000
Child 3	500	500	1,000
Child 4	0	500	1,000
Child 5	0	0	1,000
Child 6+	<u>0</u>	<u>0</u>	<u>0</u>
Maximum per Family	2,500	4,000	7,000
Families Assigned			
Cooperator Status (Percent)			
Receiving AFDC	0	100	100
Not receiving AFDC	0	30	30
Means Test	None	None	None
Reduction in AFDC and Food Stamp Payments	Dollar for Dollar	Dollar for Dollar	Dollar for Dollar

dollar of income would reduce benefits by about 30 cents for families who were not receiving AFDC. (The effects of having a means test and of counting less than a dollar of CSAP benefits as income are discussed in the next section beginning on page 35.)

Coverage of Families. The estimates presented in this memorandum are only for children (age 18 or younger, or age 19 if they are full-time students) living with custodial mothers. The data and model used for the estimates do not permit broader coverage. The estimates thus exclude custodial fathers, who in 1990 numbered 1.4 million, or about 14 percent of all parents whose children were potentially eligible for child support. They also exclude children who are potentially eligible for support but who live with other relatives or are in foster care or other settings. Because of those exclusions, the costs of a CSAP and its effects on families and their poverty status are underestimated.

Participation Rates. The costs of an income security program and its effects on families and their poverty status depend in part on the proportion of eligible families who actually participate. Rates of participation vary widely among the existing income security programs, ranging from less than 60 percent for elderly people in the Supplemental Security Income program to over 80 percent in AFDC. Those rates depend on many factors including knowledge of the program, the stigma associated with it, ease of access, feelings that the potential beneficiary has about accepting welfare, income and need, and the amount of benefits.

For a CSAP, CBO assumed that all eligible mothers who were receiving AFDC would participate. States would be likely to require those mothers to do so because it would reduce AFDC benefits and thus save the states money--assuming that the CSAP was federally funded. Based on studies of participation in the Food Stamp program, CBO assumed that rates of participation in a CSAP would increase with the amount of benefits and decrease with the income of the custodial mother. However, because the stigma associated with a non-means-tested CSAP would be less than that associated with the Food Stamp program, CBO raised its estimated participation rates somewhat. Thus, rates for all mothers--both those who were receiving AFDC and those who were not--increased from 73 percent, on average, for the low maximum benefit to about 84 percent for the medium and high benefits.

Those rates might be appropriate for a program in which recipients initiated the application process. If participation was automatic--for example, in a fully automated and inclusive child support system--those rates would be too low.

Recoupment. CBO's estimates of costs for a CSAP are after "recoupment," which would be critical to the design and integrity of such a program. With recoupment, benefits paid in some months would be subtracted from future child support

payments over a year or some longer period. Without recoupment, parents would have an incentive to time the payment of child support so as to secure as much as possible in benefits from the CSAP. For example, a noncustodial parent could pay all the child support owed for the year in the last month; if the program had no recoupment policy, the custodial parent would receive the entire year's child support as well as benefits from the CSAP in every month but one.

In CBO's estimates, benefits are recouped from payments of child support that are more than the CSAP's maximum benefit in any month of the year. Such a scheme would pay equal benefits over the year to families with equal amounts of child support payments. A drawback of the method, however, is that it would take away the portion of the family's regular child support payment that was above the level of the maximum benefit. An alternative without that drawback would recoup benefits from future payments of past-due child support; however, CBO could not estimate the effects of that approach because information on those payments was not available.

Income Taxation. Many of the options for the design of a CSAP assume that benefits would be subject to federal income taxes. In a time of large budget deficits, a strong case can be made for reducing the costs of a CSAP in reasonable ways. Taxing the program's benefits might substitute for a means test: it would cost less to administer and would eliminate some of the other disadvantages of means-testing. Taxing benefits would also reduce income supplements to higher-income families but not lower-income ones. Moreover, because child support is not considered taxable income to the custodial family, families would prefer it to CSAP benefits.

Missing Costs and Effects. CBO's estimates do not take into account how a CSAP would alter the behavior of families. But alterations in how custodial and noncustodial parents behaved, which a CSAP might foster, would affect the costs of the program and some of its impacts (see the later discussion). In addition, the estimates do not include the costs of administering a CSAP (although the memorandum does discuss administration and financing issues later). Missing as well is any breakdown of costs by funding source; the costs that CBO has calculated represent total costs to whatever level of government--federal, state, or local--would fund the CSAP. Because the analysis ignores those costs and other effects, the estimates in this memorandum are not formal CBO cost estimates.

Source of the Estimates. CBO based its estimates of the costs of a CSAP and its effects on families and their poverty status on the Transfer Income Model, Version 2, that the Urban Institute developed and maintains. Recently, the institute added modules on child support and child support assurance to the model. For child support, TRIM2 simulates five outcomes: the probability that a mother has a child support award; the amount of the award; if she has an award, the probability that she

will receive a payment for child support; if she receives a payment, the likelihood that she will receive the full amount of the award; and the amount of the payment she receives if it is less than the amount of the award. The child support assurance module simulates the cost of benefits from CSAPs with different designs and the effects of those programs on families, family incomes, and poverty status.

The TRIM2 simulations are based on data from the March 1990 Current Population Survey of the Bureau of the Census, which gathered information on incomes for calendar year 1989. In imputing child support characteristics to mothers, TRIM2 used data from the matched March 1990 CPS/April 1990 Child Support Supplement. By estimating the distribution of child support payments across months, TRIM2 simulated the monthly benefits of a child support assurance program.

To estimate the costs and effects of a CSAP in place in the mid-1990s, CBO projected changes in child support from 1989 to 1995.⁶ It based those projections, first, on extrapolating to 1995 the trends during the 1980s in the number of mothers who were potentially eligible for child support and in the child support outcomes noted above. Second, CBO estimated the effects in 1995 of the four most important provisions of recent legislation (such as the Family Support Act of 1988) covering presumptive guidelines for setting awards, review and modification of past awards, immediate wage withholding, and mandates for establishment of paternity. CBO's projections were then superimposed on child support outcomes for 1989 as estimated by TRIM2.⁷

ALTERNATIVE PROGRAM DESIGNS AND THEIR EFFECTS

Among the many choices to be made in designing a CSAP, five are critical:

- o Which children with living noncustodial parents would be eligible for benefits?
- o How high would the maximum benefit (or guarantee) be, and how would it rise with the number of children in a family? Would the benefit be capped at the amount of a family's award?
- o Would the program be means-tested and if so, how?

6. For more detail, see Congressional Budget Office, *The Changing Child Support Environment*.

7. See Appendix C for more detail.

- o How would AFDC, Food Stamps, and other means-tested programs treat benefits from a CSAP?
- o Which level of government--federal, state, or local--would pay for the program, and which governmental agency would administer it?

Each choice would affect the extent to which program goals were met and unintended effects minimized. In addition, each would have important implications for budgetary costs and the effects a CSAP had on families, their poverty status, and their incomes.

Varying Conditions of Eligibility

The eligibility requirements for a CSAP would affect every facet of its outcomes--from its costs and the number of families who received benefits to behavioral incentives. The major options for eligibility are as follows:

- o Confine eligibility to children who have been officially awarded child support;
- o Expand eligibility to children whose custodial parent has cooperated with authorities in attempting to secure an award, even if the attempt has not been successful; or
- o Allow all children with a living noncustodial parent to be eligible for benefits.

The first and third options for eligibility would be straightforward: they depend on proof of a living noncustodial parent or of a child support award (or a formalized voluntary agreement between parents).⁸ But the second option would introduce more complexity. Its impacts would depend on how cooperation was defined. If it was defined strictly--for example, requiring the custodial parent to furnish a social security number, home address, place of work, and so on for the noncustodial parent--the number of children who did not have awards but who were granted eligibility might be fairly small.⁹ At the other extreme, cooperation could

8. Under this definition, children who were living with a caretaker other than a parent would be eligible for benefits as long as a noncustodial parent was living.

9. In addition to cooperators, some children could become eligible under either the first or second option if their parent was granted a "good cause" exemption--for example, if the parent feared retaliation for seeking a child support award from the noncustodial parent.

be defined as loosely as applying for services from child support enforcement agencies, in which case most children might be found eligible.¹⁰

Of the bills introduced in recent years, most would grant eligibility to cooperators under fairly loose definitions of cooperation. The bills put forward two general variants of cooperation: when a person has "sought" an award by applying for services from child support enforcement agencies or from private sources, and when a person has applied for services from child support agencies that, after one year, had failed to secure an award because of circumstances beyond the control of the custodial parent. By contrast, only a few bills, including the Administration's bill introduced in 1994, would have restricted eligibility to custodial parents who had an award or who had good cause for not securing one. Among other proponents of a CSAP, many academicians have opted for requiring an award, but advocacy groups have called for expanding eligibility.

Requiring an award would limit CSAP eligibility but by how much obviously would depend on the proportion of families who were potentially eligible for child support and who had awards. CBO estimated that in 1995, 53 percent of all women who were potentially eligible for child support had awards. The proportion varied sharply among women, however, depending on their marital status. The estimated award rate for women who were divorced was 67 percent; the rate for women who had been divorced but were currently married was 62 percent. If separated, women had an estimated award rate of 41 percent; if they had never been married, the rate dropped to 35 percent. Because many women who were receiving AFDC in 1995 had never been married, their average award rate was only 39 percent. Thus, a CSAP that required beneficiaries to have awards in order to receive benefits would limit eligibility sharply, particularly for women who had never been married and women who were receiving AFDC. Of course, if women acted on the incentive to secure awards that such a CSAP offered, eligibility would become less restricted over time.

Costs and Effects on Families. Along with the level of the maximum benefit, eligibility requirements would be the major determinant of what a CSAP cost and how it would affect families. Requiring beneficiaries to have a child support award would minimize costs. Combined with a medium maximum benefit, the estimated gross costs (after recoupment) of such a program in 1995 would amount to \$4.5 billion (see Table 2). That figure represents the estimated total costs of benefits divided among all government bodies--federal, state, or local--that participate in funding the CSAP. If a dollar of CSAP benefits was counted as a dollar of income

10. These broad eligibility questions are the most important in terms of a CSAP's costs and effects. But other questions will arise in actually designing a program, such as whether to make teenage mothers who have a noncustodial parent of their own or noncitizens eligible, and how to treat children of parents with joint custody.

TABLE 2. ESTIMATED COSTS AND EFFECTS OF VARYING ELIGIBILITY IN A CHILD SUPPORT ASSURANCE PROGRAM WITH A MEDIUM MAXIMUM BENEFIT, 1995

	Award Required	Cooperators Allowed	All Mothers Eligible
Costs (Billions of dollars)^a			
Gross Costs ^b	4.5	12.6	17.3
AFDC Savings (-) ^c	-1.4	-5.5	-5.5
Food Stamp Savings (-) ^c	<u>-0.3</u>	<u>-1.1</u>	<u>-1.3</u>
Net Costs Excluding Revenues	2.8	6.0	10.5
Increase in Income Tax Revenues(-)	n.a.	<u>-1.0</u>	n.a.
Net Costs	n.a.	5.0	n.a.
Effects on Families			
Number Receiving Benefits			
(Millions)			
Families	2.8	5.8	7.7
Children	4.9	10.4	13.3
Families receiving AFDC	1.1	3.1	3.5
Average Annual Payment			
(Dollars)^d			
Per family	1,650	2,170	2,235
Per child	930	1,210	1,295
Per family receiving AFDC	1,860	2,510	2,550
Percentage of Families Losing			
Eligibility for AFDC^e			
	3.3	15.0	15.1

(Continued)

TABLE 2. CONTINUED

	Award Required	Cooperators Allowed	All Mothers Eligible
Effects on Family Incomes and Poverty Status^f			
Change in Average Annual Income per Family			
Dollars	245	555	925
Percent	1	2	3
Change in Poverty Rate (Percent) ^g	-2	-4	-7
Change in Poverty Gap (Percent) ^h	-4	-11	-14

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children; n.a. = not available.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. Estimates reflect changes for all families who are potentially eligible for child support.
- g. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- h. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

in the AFDC and Food Stamp programs, the benefits from the CSAP would substitute in full for an equivalent amount of AFDC payments for families who were receiving AFDC. As a result, the total incomes of those families would be unchanged, and their food stamps would not be affected. Families who were not receiving AFDC would see their food stamp benefits drop by about 30 cents for every dollar that the CSAP raised their incomes. In turn, savings in the AFDC and Food Stamp programs together would total \$1.8 billion. Thus, the net costs excluding revenues in 1995 of a CSAP that required an award would be \$2.8 billion. If benefits were subject to federal income taxes, the net costs would be lower; however, revenue estimates were not available for this option.

For the net costs noted above, 2.8 million families--about one-fifth of all families who were potentially eligible for child support--would receive, on average, \$1,650 a year in benefits. Among those beneficiaries would be 1.1 million families who were receiving AFDC--almost one-third of all such families who were potentially eligible for child support.¹¹ A relatively small proportion (3.3 percent) of those families would lose their AFDC benefits as a result of their larger incomes.

Among all families who were potentially eligible for child support, estimated annual incomes would increase, on average, by \$245, or 1 percent. That rise in cash income would overstate the improvement in their well-being, however, because their food stamps--and possibly other means-tested benefits like subsidized housing--would be reduced. With the gain in income, the poverty rate for those families would drop by an estimated 2 percent and the poverty gap by 4 percent.¹² Those estimated impacts would be greater if more families secured awards in order to qualify for benefits from a CSAP.

Extending eligibility to cooperators would have major consequences for a CSAP's costs and effects, especially in the short run, unless cooperation was defined narrowly and administered tightly. CBO's estimates assumed that all mothers who were receiving AFDC but who had no child support award and 30 percent of other mothers without awards would gain access to the CSAP as cooperators. Under those assumptions, the gross costs of the program would increase by almost three times to \$12.6 billion, and the net costs (after reductions in AFDC and Food Stamps but before gains in revenue) would more than double to \$6.0 billion, compared with a CSAP that was limited to families who had child support awards. After subtracting the gains in revenue from federal taxation of the benefits, however, CBO estimated that net costs would drop to \$5.0 billion.

11. Most families who were receiving AFDC would be no better off, however, because their AFDC payment would be reduced by the full amount of their CSAP benefits.

12. The poverty gap is the aggregate difference between families' poverty thresholds and their incomes.

The number of families who received benefits from a CSAP would rise to 5.8 million, or 45 percent of all families who were potentially eligible for child support. Families who were receiving AFDC would account for two-thirds of the new cooperator beneficiaries. With so many more families receiving benefits, the annual incomes among all families who were potentially eligible for child support would increase by more than twice as much as they would if only families with awards received benefits, and the poverty gap would decline by 11 percent instead of 4 percent.

The estimated costs of making cooperators eligible for a CSAP are overstated over the longer term because they do not take into account that some cooperators may secure awards and receive child support payments. Over time, however, child support agencies would probably be successful in enforcing the payment of support for some of the cooperator families, which would reduce the costs of a CSAP. If cooperators received child support at roughly the same rates and amounts as all families who were potentially eligible for support, the gross costs of a CSAP with a medium maximum benefit would total \$10.7 billion in 1995, a decline of \$1.8 billion, or 15 percent, from the estimates that assumed no cooperators received child support.¹³ The net costs would fall by one-third to \$3.4 billion. About 425,000 fewer families would receive benefits, and changes in incomes and poverty status would be small because child support payments would substitute for CSAP benefits. (For more details, see Table A-1 in Appendix A.)

To assume that child support enforcement agencies on average will be as successful in securing awards and child support payments for cooperators as they are for all other families who are potentially eligible for support is almost certainly too optimistic. Thus, these estimates understate the effects of allowing the assumed number of cooperators to participate in a CSAP. Nonetheless, the costs of a CSAP would still rise considerably compared with a program that limited eligibility to children with awards.

If all families who were receiving AFDC and were potentially eligible for child support became eligible for and participated in the CSAP--whether as cooperators or families with awards--the effects on the AFDC program would be dramatic. Under the medium maximum benefit, 15 percent of those families would lose their AFDC benefits. The estimated savings in the AFDC program would be \$5.5 billion, or 41 percent.

13. The assignment of child support awards was done separately for mothers who were receiving AFDC and other mothers because the former were assumed to be cooperators and because child support award rates for the two groups were quite different.

Under the third eligibility option, all custodial mothers would be eligible for benefits from a CSAP, either through a loose definition of cooperation or outright. Gross costs under the medium guarantee for this option would jump to \$17.3 billion, and net costs (before gains in revenue) would climb to \$10.5 billion. At the same time, many more families would benefit, and poverty would decline more sharply.

With a lower or higher maximum benefit, the effects of shifting from award-based eligibility to eligibility for cooperators or for all families who were potentially eligible for child support would obviously change (see Table A-2).

Advantages and Disadvantages. Restricting eligibility to children who had support awards would offer several advantages: benefit costs would be considerably lower; the test for eligibility would not require arbitrary decisions, which would make it simpler to administer and thus lower administrative costs; and the restriction would provide the strongest incentive for custodial parents to secure child support awards. There are three major arguments against the option, however. First, it could be faulted on equity grounds because it would penalize children whose custodial parents had made every effort to secure awards but had been unsuccessful. Second, a majority of families who were receiving AFDC would be ineligible for benefits, leading to little reduction in AFDC caseloads and few incentives for those families to become self-sufficient. Third, the poorest families--those with never-married mothers--would be the least likely to qualify for CSAP benefits.

Allowing cooperators to be eligible for benefits would mean similar treatment for families with awards and those who had tried hard to secure them. It could also reduce AFDC caseloads significantly. However, it would accomplish those ends only by increasing administrative complexity, introducing an inevitable arbitrariness into the process of delineating cooperators, and raising the costs of the program. Moreover, if the cooperation requirement was not strictly enforced, the option would reduce the incentive for custodial parents to provide enough information to locate noncustodial parents and secure awards.

Extending eligibility to all children with noncustodial parents would undercut the important program goal of providing an incentive to secure awards for child support. In fact, the incentive for a custodial parent to secure an award would be less than under current law because benefits from a CSAP would substitute for child support. Broadening eligibility would also raise the costs of the program sharply. At the same time, however, it would provide income support to more families and remove a larger number of families from the rolls of AFDC.

Setting the Level and Structure of the Maximum Benefit

The higher the level of the maximum benefit of a CSAP, the more families would be eligible for its benefits and the larger would be a family's average benefit. Increases in the number of eligible families and in average benefits would in turn raise the costs of the program significantly and heighten its effects on families' incomes and their poverty status. Furthermore, unless the program capped benefits at the amount of a family's award, the component of the payments that was pure income supplement--that is, payments above a family's child support award--would expand.

Maximum benefits did not vary much among recently introduced bills that contained a provision for demonstrations of a CSAP. When bills specified maximum levels, they generally included a range, which would give some flexibility to the states that undertook demonstrations. The lowest maximum benefit was generally \$1,500 a year for one child; the benefit rose in increments of \$1,000 for the second child and \$500 for each additional child, usually without limit. The highest benefit generally began at \$3,000 for the first child with \$1,000 increments for additional children.¹⁴ The maximum benefits recommended by other proponents of a CSAP generally fell within that same range. CBO drew on those proposed levels in selecting four alternatives for study:

- o A "low" maximum benefit, beginning at \$1,500 for one child with \$500 increments for the second and third children (the limit on the benefit would be \$2,500 for three or more children);
- o A "medium" maximum benefit, beginning at \$2,000 for one child with a \$1,000 increment for the second child and \$500 increments for the third and fourth children (the limit on the benefit would be \$4,000 for four or more children);
- o A "high" maximum benefit, beginning at \$3,000 for one child with \$1,000 increments for each additional child up to and including the fifth (the limit on the benefit would be \$7,000 for five or more children); and
- o The "medium" maximum benefit described above but capped at the amount of a family's award.

14. Most of the bills specified that benefits would be indexed--that is, they would rise with some index of prices. Thus, over time, the costs of a CSAP would probably increase beyond those presented in this memorandum (unless collection rates for child support improved significantly) because the amounts of existing child support awards have not kept pace with inflation. Without indexing, however, benefits from a CSAP would replace ever smaller shares of unpaid child support for families with new, or modified, awards, which are typically larger.

How each of these alternatives would affect families and their incomes and how much each would cost would depend on both the number of children in families who were potentially eligible for child support and the distribution of child support awards and payments. CBO estimated that in 1995, most women (57 percent) had only one child who was eligible for child support, another 29 percent had two eligible children, and 15 percent had three or more children.¹⁵ Consequently, the level of the benefit for the first child, and to a lesser degree that of the second child, would have the greatest effects. Providing benefits for additional children would have only modest impacts.

The amounts of annual awards in 1995 were clustered in the \$1,500 to \$3,999 range for women with one child; they increased for women with more children (see Table 3). But because of the failure of many noncustodial fathers to pay some or all of the child support they owed, actual payments of child support were considerably lower. In fact, one-fifth of all payments were less than \$1,500. Among all mothers with awards, 47 percent would be eligible for a CSAP with the low maximum benefit, 53 percent would qualify for a CSAP with the medium benefit, and 72 percent would be eligible for a CSAP with the high benefit.

Costs and Effects on Families. If a low maximum benefit was combined with requiring a child support award for eligibility, the result would be a CSAP with modest costs--for 1995, an estimated \$2.6 billion. (That figure is only a fraction of the costs in other income support programs.) The CSAP's net costs, after taking into account savings in the AFDC and Food Stamp programs, would amount to \$1.6 billion before including the gains in revenues that would result from taxing CSAP benefits and \$1.3 billion after including those gains (see Table 4). An estimated 2.4 million families--fewer than one-fifth of those who were potentially eligible for child support--would receive benefits averaging \$1,105 a year.

Raising the maximum benefit to the medium level would increase the gross and net costs of the CSAP by about 75 percent to \$4.5 billion and \$2.8 billion, respectively. Most of the increased costs would reflect larger payments to families--averaging \$1,650 a year--but a portion of the increase would reflect the additional 400,000 families who would begin to receive benefits. Because new families become eligible for benefits as the maximum benefit increases, costs rise more than proportionately. Thus, under the high maximum benefit, net costs would climb to \$5.3 billion, almost double those for the medium benefit. The number of families who were receiving benefits would increase by almost a million to 3.7 million--about one-quarter of all families who were potentially eligible for child support--and their

15. The distribution of the number of children is almost identical for women who have child support awards and all potentially eligible women. Thus, the discussion above would also apply to a CSAP that was confined to children with child support awards.

TABLE 3. ESTIMATED DISTRIBUTION OF CHILD SUPPORT AWARDS AND PAYMENTS BY NUMBER OF CHILDREN, 1995 (In percent)

Amount of Award or Payment	Awards to Women				Payments to Women			
	With One Child	With Two Children	With Three or More Children	All	With One Child	With Two Children	With Three or More Children	All
Less than \$1,500	8	a	a	5	25	13	15	20
\$1,500-\$1,999	13	2	1	8	14	9	8	12
\$2,000-\$2,499	21	6	4	14	18	9	9	14
\$2,500-\$2,999	18	11	7	14	13	9	10	12
\$3,000-\$3,499	13	19	11	15	10	13	9	11
\$3,500-\$3,999	10	14	13	12	8	10	10	8
\$4,000-\$4,499	7	13	11	10	5	11	9	7
\$4,500-\$4,999	3	12	12	7	2	8	8	5
\$5,000 or More	<u>6</u>	<u>23</u>	<u>40</u>	<u>15</u>	<u>4</u>	<u>17</u>	<u>23</u>	<u>11</u>
All Brackets	100	100	100	100	100	100	100	100

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTES: Distributions are for women who have child support awards or who receive child support payments.

Sample sizes were limited for families with two children in the low dollar brackets and for families with three or more children in all dollar brackets.

a. Less than 0.5 percent.

TABLE 4. ESTIMATED COSTS AND EFFECTS OF CHANGING THE MAXIMUM BENEFIT LEVEL IN A CHILD SUPPORT ASSURANCE PROGRAM, 1995

	Award Required			Cooperators Allowed		
	Low Maximum Benefit	Medium Maximum Benefit	High Maximum Benefit	Low Maximum Benefit	Medium Maximum Benefit	High Maximum Benefit
Costs (Billions of dollars)^a						
Gross Costs ^b	2.6	4.5	8.4	8.2	12.6	20.1
AFDC Savings (-) ^c	-0.8	-1.4	-2.4	-3.7	-5.5	-8.1
Food Stamp Savings (-) ^c	<u>-0.2</u>	<u>-0.3</u>	<u>-0.7</u>	<u>-0.6</u>	<u>-1.1</u>	<u>-2.0</u>
Net Costs Excluding Revenues	1.6	2.8	5.3	4.0	6.0	9.9
Increase in Income Tax Revenues(-)	<u>-0.3</u>	n.a.	n.a.	n.a.	<u>-1.0</u>	<u>-1.8</u>
Net Costs	1.3	n.a.	n.a.	n.a.	5.0	8.1
Effects on Families						
Number Receiving Benefits (Millions)						
Families	2.4	2.8	3.7	5.4	5.8	6.8
Children	4.1	4.9	6.4	9.6	10.4	12.0
Families receiving AFDC	0.9	1.1	1.3	3.0	3.1	3.3
Average Annual Payment (Dollars) ^d						
Per family	1,105	1,650	2,255	1,525	2,170	2,955
Per child	630	930	1,315	855	1,210	1,680
Per family receiving AFDC	1,225	1,860	2,730	1,745	2,510	3,590
Percentage of Families Losing Eligibility for AFDC ^e						
	1.4	3.3	8.4	6.7	15.0	29.7

(Continued)

TABLE 4. CONTINUED

	Award Required			Cooperators Allowed		
	Low Maximum Benefit	Medium Maximum Benefit	High Maximum Benefit	Low Maximum Benefit	Medium Maximum Benefit	High Maximum Benefit
Effects on Family Incomes and Poverty Status^f						
Change in Average Annual Income per Family						
Dollars	140	245	475	360	555	945
Percent	g	1	1	1	2	3
Change in Poverty Rate (Percent) ^h	-1	-2	-4	-3	-4	-7
Change in Poverty Gap (Percent) ⁱ	-2	-4	-6	-7	-11	-17

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children; n.a. = not available.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. Estimates reflect changes for all families who are potentially eligible for child support.
- g. Less than 0.5 percent.
- h. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- i. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

annual payments would rise to \$2,255 on average. With more people receiving benefits and a higher average benefit level, increases in the incomes of beneficiaries and reductions in the number of families living below the poverty level would, of course, be larger. For example, poverty rates among all families who were potentially eligible for child support would decline by 1 percent, 2 percent, and 4 percent, respectively, for the low, medium, and high maximum benefit levels.

The same general patterns that come from boosting the level of the maximum benefit would occur if cooperators were allowed to participate in a CSAP. For example, the net costs (before figuring any gains in revenues) would rise from \$4.0 billion for the low maximum benefit to \$6.0 billion for the medium maximum benefit and \$9.9 billion for the high benefit. The number of families who gained eligibility as the level of the maximum benefit increased would be the same as under a program that confined eligibility to families who had awards. (Because cooperator families by definition are receiving no child support payments, a rising maximum benefit will not make any more of them eligible for a CSAP.)

Under a CSAP that capped benefits at the amount of a family's child support award, costs would drop and some families would lose their eligibility (see Table 5). The gross costs of such a program with a medium maximum benefit level would be \$3.8 billion; the net costs would be \$2.5 billion. Those costs represent reductions of \$0.7 billion and \$0.3 billion, respectively, compared with a CSAP that has a medium maximum benefit and requires an award for eligibility, but has no cap. Under a program with a cap, more than 450,000 families who received the full amount of the child support payments due them would lose all CSAP benefits.

Advantages and Disadvantages. On the one hand, the higher the level of a CSAP's maximum benefit, the larger would be the number of families who received benefits and the larger would be their average benefit. Other effects would be greater reductions in the number of families with incomes below the poverty threshold and a bigger increase in the number of families who lost their AFDC benefits. On the other hand, as the amount of the CSAP's maximum benefit increased, so would its costs, as would the component of it that is a pure income supplement, making it more like a welfare program. In addition, any intended or unintended behavioral effects might be magnified. For example, a large maximum benefit might induce more mothers to secure awards, but at the same time, it might also induce more mothers to work fewer hours. (The potential behavioral effects of a CSAP are discussed later.)

Although the decision on the size of the maximum benefit is largely a normative one, it could be based on several variables that would help to determine the nature of the CSAP. For example, if a state undertook a demonstration of a

TABLE 5. ESTIMATED COSTS AND EFFECTS OF CAPPING BENEFITS FROM A CHILD SUPPORT ASSURANCE PROGRAM AT THE AMOUNT OF A FAMILY'S CHILD SUPPORT AWARD, 1995

	With a Cap on Benefits	Change from Benefits Without a Cap
Costs (Billions of dollars)^a		
Gross Costs ^b	3.8	-0.7
AFDC Savings (-) ^c	-1.1	0.3
Food Stamp Savings (-) ^c	<u>-0.2</u>	<u>0.1</u>
Net Costs Excluding Revenues ^d	2.5	-0.3
Effects on Families		
Number Receiving Benefits (Millions)		
Families	2.3	-0.5
Families receiving AFDC	0.8	-0.2
Average Annual Payment per Family (Dollars) ^e		
	1,675	-25
Percentage of Families Losing Eligibility for AFDC ^f		
	2.6	-0.7 ^g
Effects on Family Incomes and Poverty Status (Percent)^h		
Change in Average Annual Income	1	i
Change in Poverty Rate ^j	-2	i
Change in Poverty Gap ^k	-3	1 ^g

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Estimates are based on the medium maximum benefit. Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government—federal, state, or local—finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. Revenues were not available for this option.
- e. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- f. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- g. In percentage points.
- h. Estimates reflect changes for all families who are potentially eligible for child support.
- i. Less than 0.5 percentage points.
- j. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- k. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

CSAP, it might want to tie the maximum benefit to award amounts, to AFDC benefit levels, or to the costs of raising a child in that state.

Given the distribution of award amounts, a larger maximum benefit would increase the pure income supplement aspects of a CSAP. Based on the estimated distribution of award amounts in Table 3, the low maximum benefit would provide benefits greater than awards for only about 6 percent of families who were potentially eligible for a CSAP (assuming that no families without awards, such as cooperators, were allowed to participate). Under the medium maximum benefit, about one-fifth of families would receive CSAP benefits greater than the amount of their award. Almost 60 percent would receive more than their award under the high maximum benefit.

The relationship between CSAP benefits and maximum payments in the AFDC program could also be important. If the maximum benefit from a CSAP fell below the maximum payment from AFDC in a state, few families who were receiving AFDC would become ineligible for it. In only seven states, most of which are in the South, does the medium maximum benefit of \$2,000 a year for one child exceed the January 1995 maximum payment from AFDC for a two-person (one-child) family.¹⁶ Those states accounted for 13 percent of all AFDC cases in fiscal year 1994. The medium maximum benefit of \$3,000 a year for two children rises above the AFDC payment for a three-person (two-child) family in eight states. Thus, the low and medium maximum benefit levels would do little to reduce participation in AFDC, particularly if cooperators were not eligible for a CSAP.¹⁷

Apart from their overall levels, maximum benefits could be varied among different family sizes. For example, the maximum benefit for the first child compared with the amount for additional children could be set in alternative ways that would leave the net costs of the program unchanged. One reasonable approach to establishing that benefit structure would be to approximate the estimated costs of raising children of various ages; another approach would relate the structure of benefits to state guidelines for child support. Altering the benefit structure would change the distribution of CSAP payments among families with different numbers of children. It might also change the program's behavioral effects--for example, the

16. Note that the AFDC benefit is for two people, the adult caretaker and the child, whereas the benefit from the CSAP pertains only to the child.

17. A CSAP could be designed so that states were allowed to supplement its benefits. In that case, more families would become ineligible for AFDC. A state might want to supplement CSAP benefits if its AFDC payments fell to low levels after a CSAP was in place. Allowing supplementation could complicate the administration of a CSAP, however, if the program was fully federally financed and administered. Moreover, if the states had a major role in administering and financing a CSAP, the level of benefits might be allowed to vary among them, as it does in the AFDC program.

incentives to have a first child out of wedlock would change compared with the incentives to have additional children out of wedlock.

Capping the benefits from a CSAP for families at the amount of their child support award would eliminate the pure income supplement component of the program and ensure that it provided benefits only as a substitute for support that was not paid by the noncustodial parent. (In other words, no family would receive benefits unless it had an award and its child support payments fell below the amount of its award.) The cap would reduce the costs of the program and permit it to pay a larger maximum benefit--thus replacing more unpaid child support--without simultaneously increasing the pure income supplement. However, benefits would be greater for higher-income than for lower-income families. In addition, benefits would decline for a large number of families, fewer families would leave the AFDC program, and mothers without child support awards (for example, cooperators) would presumably be unable to participate. Moreover, capping benefits would eliminate the leveling effect of a CSAP, which comes from a fixed maximum benefit that evens out payments to families in similar circumstances but with widely varying award amounts. (Awards vary significantly among and within states because they are set at the local level by individual judges. However, they are nonetheless subject to state guidelines.)

Imposing a Means Test

Instituting a means test would confine benefits to families with low or moderate incomes, depending on the nature of the test. Means tests can be designed in many ways. Some tests, such as the one used in the AFDC program, reduce benefits rapidly as a family's income increases; in the case of AFDC, benefits are reduced dollar for dollar for unearned income as well as for earned income after certain exclusions. Other tests reduce benefits gradually. For example, the earned income tax credit (EITC) phases out benefits at a rate of 21 percent for families with two or more children. (In other words, for every increase of a dollar in countable income beyond a certain level, EITC benefits decline by 21 cents until a family's income reaches a level that makes the family ineligible for the program.) The lower the rate at which benefits are reduced, the larger is the number of families who are eligible for the program, given the maximum benefit.

The restrictiveness of a means test would also depend on how much of a family's income the CSAP counted in determining benefits. For example, existing means-tested programs like AFDC and Food Stamps do not count certain kinds of income (such as the earnings of children who are students). In addition, they treat some types of income more favorably than others (for instance, earnings or, in the AFDC program, a stepparent's income).

The range of possible variations in the design of a means test is enormous. For illustrative purposes, CBO evaluated the following two tests:¹⁸

- o The first means test would begin phasing out benefits when a family's income reached 200 percent of the poverty threshold. The phaseout rate would be 21 percent, and the test would count all of the income of the mother and stepfather, if one was present.
- o The second test would use the same threshold and phaseout rate but count only the income of the mother.

Thus, the benefits from a CSAP received by families with incomes below 200 percent of the poverty threshold would be unchanged. Families with incomes above 200 percent of the poverty threshold would receive less in benefits: every dollar of countable income above that level would reduce the benefits those families received by 21 cents. How much families lost would depend on their incomes relative to their benefits, which would reflect, in turn, the CSAP's maximum benefit and what those families received in child support. If their incomes were high enough or their benefits low enough, some families would lose all of their benefits and become ineligible for the CSAP. Others would simply receive lower benefits.

In part, the distribution of incomes of families who were eligible for benefits from a CSAP would help determine whether policymakers favored a means test and how the test affected costs and families. Based on the TRIM2 estimates, in 1995, about 45 percent to 55 percent of families who were eligible for CSAP benefits had family incomes of \$20,000 a year or less before receiving any benefits (see Table 6). About 15 percent to 20 percent had estimated incomes of more than \$50,000 a year; from 6 percent to 9 percent had incomes of more than \$75,000 a year.¹⁹ With an increase in the CSAP's maximum benefit from the medium to the high level, the proportion of eligible families who had higher incomes would rise modestly. If the CSAP required a child support award for eligibility, families with higher incomes would make up a larger proportion of all families who received benefits, in part

18. Table A-3 presents the effects of another means test that would phase out benefits at a rate of 21 percent beginning with \$1,000 of monthly income and count the income of the mother and stepfather, if one was present. The effects of that test on net costs (before gains in revenue) and on the number of participating families, compared with a CSAP that did not have a means test, were roughly double the effects of the first test discussed here.

19. Some eligible families would choose not to participate in a CSAP; probably more families with higher incomes than with lower ones would make that choice. Thus, TRIM2 estimated that among families who actually participated in the CSAP, a smaller proportion than that for eligible families--11 percent to 14 percent, depending on the standard design package--would have incomes greater than \$50,000 a year.

TABLE 6. ESTIMATED INCOME DISTRIBUTION AND POVERTY STATUS OF ELIGIBLE FAMILIES UNDER THREE STANDARD DESIGNS OF A CHILD SUPPORT ASSURANCE PROGRAM, 1995 (In percent)

	Low Maximum Benefit, Award Required	Medium Maximum Benefit, Award or Cooperation Required	High Maximum Benefit, Award or Cooperation Required
Income Distribution			
\$10,000 or Less	25	37	34
\$10,001-\$20,000	19	20	19
\$20,001-\$30,000	15	13	13
\$30,001-\$50,000	20	16	17
More than \$50,000	<u>21</u>	<u>15</u>	<u>18</u>
All Brackets	100	100	100
Family Income as a Percentage of the Poverty Threshold^a			
100 Percent or Less	32	45	41
101 Percent to 200 Percent	25	23	23
More than 200 Percent	<u>43</u>	<u>32</u>	<u>36</u>
All Categories	100	100	100

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Estimates of income are before receipt of benefits from a child support assurance program.

a. The poverty threshold, which varies by family size, was projected by CBO to be about \$12,000 for a family of three in 1995.

because most families who were receiving AFDC and whose incomes were low would lose their eligibility.

Among families who were eligible for CSAP benefits, between approximately 30 percent and 45 percent--depending on the standard design package--had estimated family incomes of more than 200 percent of the poverty threshold in 1995. Because families with higher incomes would probably participate in a CSAP at lower rates than would other families, TRIM2 estimated that a smaller proportion of families who were participating in the program--from 25 percent to 33 percent--had incomes above 200 percent of poverty. Under the means test that would count both the mother's and the stepfather's income, virtually all of those families would either lose eligibility for the CSAP or have their benefits reduced. If only the mother's income was counted, some of those families would retain the full amount of their benefits.

Costs and Effects on Families. Under the first means test, which would count both the mother's and the stepfather's income, the gross costs of the program (and its net costs after calculating savings from the AFDC and Food Stamp programs but before figuring revenue gains) would decline by \$0.5 billion, \$1.2 billion, and \$2.0 billion for the three standard design packages, respectively (see Table 7). Those savings represent almost 20 percent of gross costs for the low benefit, award-required package but 10 percent of gross costs for the other two packages that allow cooperators. Many of the cooperators--and most important, families who were receiving AFDC--would not be affected by the means test. In fact, savings in the AFDC and Food Stamp programs from the CSAP would remain unchanged under the first means test. With those savings unchanged, the net costs before gains in revenues for the three standard design packages would decline by 20 percent to 30 percent.

Allowing for changes in revenues, however, would alter that picture considerably. If the means test substituted for taxes on benefits, the reduction in the costs of the program after figuring in the losses in revenues would drop to \$0.2 billion to \$0.3 billion a year. At that level, this means test, on balance, might cost money because the added costs of administering the test could more than offset program savings.

Under the first means test, about 350,000, or 14 percent, of families participating in a low-benefit, award-required CSAP would lose their eligibility for the program. For the medium- and high-benefit, cooperators-allowed packages, about 475,000 and 650,000 families, respectively, would lose eligibility--an 8 percent to 10 percent reduction. However, among families whose incomes were high enough to make them subject to the means test, much larger proportions--between 33 percent and 43 percent--would become ineligible.

Instituting the particular means test that CBO simulated would have no effect on the number of families with incomes below the poverty threshold or on the poverty gap. Family incomes would rise a little less than if there was no means test.

Under the second means test, in which only the mother's income was counted, net costs (before revenues) of a medium-benefit, cooperators-allowed package would increase by \$0.5 billion, or 10 percent, compared with a means test that also counted a stepfather's income. Under the second test, about 250,000 more families would receive benefits, and family incomes would rise by slightly more than under the first test.

Advantages and Disadvantages. Means-testing the CSAP would reduce the cost of benefits and eliminate payments to families who were not in need of government assistance. By excluding higher-income families and targeting benefits toward those with lower incomes, the program might gain greater public acceptance in some quarters.

Nonetheless, the arguments against means-testing are strong enough that no supporter of a CSAP--whether a program proposed in recent bills or in academic studies--has advocated a means test. With such a test, one of the important aims of a CSAP, that of replacing unpaid child support, would be lost for moderate- and higher-income families. Also, if the program provided benefits only to low-income families, beneficiaries would be stigmatized and the CSAP seen as "just another welfare program," with an attendant loss of public support.

In addition to those drawbacks, a means test would add significantly to administrative complexity. It would require the CSAP to determine the eligibility of participants and to periodically verify their incomes. The administrative costs per participating family would rise considerably. However, because a means test would reduce the number of those families, overall administrative costs might rise or fall. With the means tests discussed above, administrative costs would probably increase because the tests would reduce the number of participating families by only about 10 percent to 15 percent, depending on the maximum benefit level (and still make administration more complex). In addition, it might also be impossible to operate the CSAP through a computerized child support system, thus requiring an entirely new bureaucracy. Finally, if the means test was viewed as a substitute for taxing CSAP benefits, then the lost tax revenues would have to be added to the program's net costs.

A means test would also lessen the number of hours participating families worked, but how it would affect work overall is hard to ascertain. Under a CSAP with a means test, a rise in a family's income would lead to the family's losing a portion of its benefits as well as having to pay income and payroll taxes on its additional income. The resulting "tax" rates could be quite high, which might make

TABLE 7. ESTIMATED COSTS AND EFFECTS OF MEANS-TESTING BENEFITS UNDER THREE STANDARD DESIGNS OF A CHILD SUPPORT ASSURANCE PROGRAM, 1995

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP with Means Test	Change from CSAP Without Means Test	CSAP with Means Test	Change from CSAP Without Means Test	CSAP with Means Test	Change from CSAP Without Means Test
Costs (Billions of dollars)^a						
Gross Costs ^b	2.1	-0.5	11.4	-1.2	18.1	-2.0
AFDC and Food Stamp Savings (-) ^c	<u>-1.0</u>	<u>0</u>	<u>-6.6</u>	<u>0</u>	<u>-10.2</u>	<u>0</u>
Net Costs Excluding Revenues	1.1	-0.5	4.8	-1.2	7.9	-2.0
Increase in Income Tax Revenues (-) ^d	<u>0</u>	<u>0.3</u>	<u>0</u>	<u>1.0</u>	<u>0</u>	<u>1.8</u>
Net Costs	1.1	-0.2	4.8	-0.2	7.9	-0.3
Effects on Families						
Number of Families Receiving Benefits (Millions)	2.0	-0.3	5.3	-0.5	6.2	-0.7
Average Annual Payment per Family (Dollars) ^e	1,050	-55	2,135	-35	2,935	-20
Percentage of Families Losing Eligibility for AFDC ^f	1.4	0	15.0	0	29.7	0

(Continued)

TABLE 7. CONTINUED

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP with Means Test	Change from CSAP Without Means Test	CSAP with Means Test	Change from CSAP Without Means Test	CSAP with Means Test	Change from CSAP Without Means Test
Effects on Family Incomes and Poverty Status (Percent)^g						
Change in Average Annual Income	h	h	1	h	2	-1 ⁱ
Change in Poverty Rate ^j	-1	h	-4	0	-7	0
Change in Poverty Gap ^k	-2	0	-11	0	-17	0

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: The means test phases out benefits at a rate of 21 percent on incomes at or above 200 percent of the poverty threshold. Income of the mother and stepfather, if one is present, is counted. Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. Because of the means test, benefits were considered nontaxable.
- e. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- f. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- g. Estimates reflect changes for all families who are potentially eligible for child support.
- h. Less than 0.5 percent or 0.5 percentage points.
- i. In percentage points.
- j. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- k. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

that family decide to work less. If the family was also in the phaseout range of the EITC and received other means-tested benefits, its "tax" rate could exceed 100 percent. Yet under a CSAP with no means test, participating families who were not receiving AFDC might work less (see the later discussion), so the effect of a means test on how much families worked would be indeterminate. The means test could encourage families who were receiving CSAP benefits to work less, but it could also lead some families that the test made ineligible for a CSAP to work more.

A means test would penalize married people in some instances because marriage could raise the family's income, thus reducing its benefits. Counting only the mother's income for purposes of determining benefits would eliminate the marriage penalty. However, if the family included a stepparent, total family income would be a fairer measure of that family's resources.

Integrating a CSAP with Other Government Programs

One issue in designing income security programs is the interaction of one program's benefits with those of another--in this case, CSAP benefits and benefits in means-tested programs like AFDC and Food Stamps. (For example, families who are receiving AFDC automatically receive Medicaid; Social Security benefits and unemployment compensation both reduce AFDC dollar for dollar; and each dollar of AFDC is fully counted as income in determining food stamp benefits, reducing those benefits by about 30 cents.)

What portion of the benefits from a CSAP was counted in the AFDC and Food Stamp programs would have major effects on the costs of a CSAP as well as on the benefits received by AFDC or food stamp recipients. A CSAP could also affect Medicaid: whether families who were participating in a CSAP but who lost their AFDC benefits retained their eligibility for Medicaid would be an important policy decision. Even the number of checks a family received could have an impact: whether families who were receiving AFDC and who remained eligible for that program after receiving their CSAP benefits got only an AFDC check or checks from both programs might be important.

Recent bills that have proposed demonstrations of a CSAP and studies in the academic literature differ widely on the issue of integrating benefits. Most of the bills proposed counting less than 100 percent (typically, 50 percent) of the benefits from a CSAP in determining AFDC payments over at least some income ranges.²⁰ Moreover, if a family lost its AFDC because of the benefits from a CSAP, the mother

20. Several bills would have given the Secretary of Health and Human Services discretion to count less than 100 percent of CSAP benefits.

or other caretaker would have continued to be eligible for AFDC. Some bills would also have allowed the family to remain eligible for Medicaid and for other government programs if it lost its eligibility for AFDC. By contrast, studies by some researchers proposed offsetting AFDC by a dollar for each dollar of benefits from a CSAP and in many cases were silent about eligibility for other programs.

In the earlier estimates presented in this memorandum, each dollar of CSAP benefits was fully counted as income in determining AFDC and Food Stamp payments. In the AFDC program, a dollar of CSAP benefits would reduce AFDC by a dollar. In the Food Stamp program, that dollar of CSAP benefits taken alone would reduce food stamps by about 30 cents for families who were not receiving AFDC. However, for families who were receiving AFDC, the level of food stamps would remain unchanged because the decline in AFDC payments--also counted as income in the Food Stamp program--would be fully offsetting. An alternative would be to count 67 percent of any CSAP benefits as income in the AFDC program but continue to count all of the benefits in determining the amount of food stamps a family received. (The AFDC program currently counts 67 percent of earned income, after certain deductions, during the first four months of receipt; thereafter, it counts 100 percent of a marginal dollar of earnings.) Under both of the above options, a family would receive checks from both the AFDC program and the CSAP as long as it continued to be eligible for AFDC.

Costs and Effects on Families. Altering from 100 percent to 67 percent how CSAP benefits were counted in the AFDC program would affect savings for AFDC and food stamps only (among the costs that CBO measured in this analysis). Moreover, that alteration would affect only families who were receiving AFDC. Savings in that program would drop by \$0.3 billion to \$2.5 billion, depending on the standard design package (see Table 8). A rise in the incomes of families who were receiving AFDC would lead to a decline in their food stamp benefits, adding slightly to savings in the Food Stamp program. As a result, the net costs of a CSAP (before figuring its effects on revenues) would increase by 17 percent to 28 percent, compared with a program that counted 100 percent of CSAP benefits in the AFDC program.

Under the alternative option (counting only 67 percent of benefits), many fewer families--roughly one-half fewer--would lose their AFDC. In addition, poverty rates and gaps would decline more steeply, and family incomes would rise by larger amounts.

Advantages and Disadvantages. Reducing AFDC by less than the full amount of CSAP benefits would allow families who continued to receive AFDC to benefit to some degree from a CSAP. With an offset of less than 100 percent, the incomes of some of the poorest families would increase. Also, families who were receiving

TABLE 8. ESTIMATED COSTS AND EFFECTS OF COUNTING AS INCOME IN THE AFDC PROGRAM 67 PERCENT OF BENEFITS UNDER THREE STANDARD DESIGNS OF A CHILD SUPPORT ASSURANCE PROGRAM, 1995

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent
Costs (Billions of dollars)^a						
Gross Costs ^b	2.6	0	12.6	0	20.1	0
AFDC Savings (-)	-0.5	0.3	-3.7	1.8	-5.6	2.5
Food Stamp Savings (-)	<u>-0.2</u>	<u>-0.1</u>	<u>-1.3</u>	<u>-0.2</u>	<u>-2.1</u>	<u>c</u>
Net Costs Excluding Revenues ^d	1.9	0.3	7.6	1.7	12.4	2.5
Effects on Families						
Percentage of Families Losing Eligibility for AFDC ^e	1.0	c	7.0	-8.0 ^f	15.6	-14.1 ^f

(Continued)

TABLE 8. CONTINUED

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent
Effects on Family Incomes and Poverty Status (Percent)^g						
Change in Average Annual Income	h	h	2	h	3	1 ^f
Change in Poverty Rate ⁱ	-1	h	-5	-1 ^f	-8	-1 ^f
Change in Poverty Gap ^j	-3	-1 ^f	-16	-6 ^f	-24	-8 ^f

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Less than \$50 million or 0.05 percentage points.
- d. Revenues were not available for this option.
- e. The percentage of families who lose AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. In percentage points.
- g. Estimates reflect changes for all families who are potentially eligible for child support.
- h. Less than 0.5 percent or 0.5 percentage points.
- i. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- j. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

AFDC would have more of an incentive to secure child support awards.²¹ But the net costs of a CSAP would rise substantially without a dollar-for-dollar offset, and fewer families would lose their eligibility for AFDC. In addition, for some families who were receiving AFDC, CSAP benefits would be treated more favorably than child support paid by noncustodial parents.

The estimates throughout this memorandum do not include any savings in the Medicaid program or in other government entitlements that would result from families' becoming ineligible for AFDC (and thus often ineligible for those other programs). The additional savings could bring down the costs of a CSAP substantially. However, losing those other benefits would make some families who were receiving AFDC less likely to pursue child support awards or to participate in a CSAP, if they had the choice.²²

A third issue in program integration concerns the number of checks that would be sent each month to a family who was receiving AFDC. Consider what would happen if a family received payments for both CSAP benefits and AFDC in the same month. If the family's earnings increased, it would lose its eligibility for AFDC faster because the government would use all of its earnings to reduce the smaller AFDC payment and none to reduce the CSAP benefits (assuming they were not means-tested).²³ Even without any earnings, a mother with CSAP benefits and a much smaller AFDC payment might see more of a potential for a job and a life off welfare. But allowing a family who was receiving AFDC to remain in both programs would raise administrative costs. It might also change the relative shares of financing

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21. There are other methods of providing an incentive to secure awards. Increasing the amount of child support that could be retained by AFDC families would be one; providing a one-time, or phased-out, payment when paternity was established would be another.
 22. Two factors may affect how families view the potential loss of Medicaid. First, under current law, states must cover all children under age 19 who were born after September 30, 1983, in families with income below the poverty level. States must also cover pregnant women and children under age 6 in families with income below 133 percent of the poverty level. (States have the option to cover pregnant women and infants under 1 year of age in families with income below 185 percent of the poverty level. In addition, some states now have waivers that enable them to cover pregnant women and children at higher income levels.) Second, including coverage for children under the noncustodial parent's health insurance policy when child support awards are issued or modified is likely to become more widespread.
 23. For example, assume that a mother who is receiving only AFDC earns \$100 a month and receives \$400 a month from the AFDC program. Her earnings will result in a decrease of \$100 in her AFDC benefit. (Deductions from earnings are ignored in this example.) She will then have a total income of \$400 and remain eligible for AFDC. If that same mother received CSAP benefits of \$350 and an AFDC payment of \$50 (her total benefits equaling \$400), the added earnings of \$100 would make her ineligible for AFDC, and her total income would rise to \$450 (as long as the CSAP benefits were not means-tested).

of the federal and state governments, assuming that such shares differed between the AFDC program and the CSAP (see the discussion in the next section).

Other Design Issues

In designing a new income security program, dozens of issues would have to be addressed. Two such matters would be of considerable importance. First, how and by whom would a CSAP be administered and financed? Second, how would benefits from a CSAP be treated relative to regular child support?

Administration and Financing. Many options are available for both the administration of a CSAP and its financing. Existing national programs for income security run the gamut of choices from full federalization to joint federal/state operations. The Social Security system is administered and funded entirely by the federal government. The Supplemental Security Income (SSI) program, which aids low-income aged, blind, and disabled people, is federally administered and funded, but some states supplement the federal benefits. In the Food Stamp program, the federal government provides financing and sets rules and requirements but turns administration over to the states.²⁴ The AFDC program at present is a true hybrid, with both federal and state governments setting certain policies and financing benefits and administration in varying degrees. However, federal involvement would diminish greatly if a block grant was enacted for the program.

It would be possible to implement a nationwide CSAP following any of those models, or none of them.²⁵ Another choice is a block-grant approach, in which the federal government pays for the program but states implement and administer its policies. One factor may complicate the choice of administration and financing. A CSAP must be closely integrated with the child support system. (Its monthly benefits would depend on the amount of child support paid in any month; recoupment might depend on payments of past-due child support; and eligibility would probably depend on whether a child had an award or the custodial parent cooperated in securing one.) The system of child support is itself a hybrid, with policies and practices set by federal, state, and local governments and with joint financing of the Child Support Enforcement program.

24. The federal government pays for all benefits, and the states share about equally in the costs of the program's administration.

25. Of course, a CSAP need not be implemented nationally. States could be given the option of operating one with some federal financing. Moreover, states could begin a CSAP on their own at any time if they were willing to pay its costs.

Proponents of a national CSAP have generally envisioned one that is federally run, and they mention various federal agencies as a possible administrative home--for example, the Office of Child Support Enforcement in the Department of Health and Human Services (DHHS), the Social Security Administration, the Internal Revenue Service, or a new office, probably housed in DHHS. Unless the government established automated central registries of child support awards and payments over time for families who were eligible for child support, the most likely choice as CSAP administrators would be the existing CSE agencies.²⁶ But without full automation, administration would be problematic for those agencies.²⁷ Moreover, if the CSE agencies housed the program, their caseloads might have to expand to include all of the families who would apply for CSAP benefits but whose child support payments are now being handled privately.

The costs of administering a CSAP are difficult to estimate because they depend on the exact design of the program. Moreover, no existing income security programs offer close models whose costs can be extrapolated. The Old-Age and Survivors Insurance (OASI) program--or Social Security for retirees and their survivors--incurred administrative costs of about \$50 per beneficiary in fiscal year 1994. Other income security programs cost significantly more in that year: SSI averaged approximately \$300 per beneficiary; Food Stamps, excluding the costs of producing and redeeming the stamps, averaged around \$250 a household; and AFDC averaged roughly \$650 a family. If the CSAP had no means test and was a federally run program with federal administration, then administrative costs should be well below those of the AFDC and Food Stamp programs and also lower than those of SSI (which are boosted by costly medical determinations and redeterminations). However, unless child support systems were fully and effectively automated and already sending child support checks each month to most potential beneficiaries, the administrative costs of a CSAP could be higher than those of OASI because the CSAP would have to track monthly child support payments and recoup benefits in certain cases.²⁸

If the administrative costs per family in a CSAP were between \$100 and \$200, those costs would total roughly \$0.2 billion to \$0.5 billion a year for a CSAP

26. H.R. 4 would have required states to implement automated central registries for all families served by child support agencies and other families whose support orders were established or modified on or after October 1, 1998. The act would also have required the federal government to maintain an automated registry based on information in the state registries.

27. Proponents of a CSAP have sometimes called for federalization of the entire child support system, perhaps under the Internal Revenue Service.

28. As noted earlier, H.R. 4 would have moved state child support agencies in the direction of more automation and the provision of collection and disbursement services to more families.

that had a low maximum benefit and required an award for eligibility; they would total \$0.6 billion to \$1.2 billion for a CSAP with a medium maximum benefit that allowed cooperators and \$0.7 billion to \$1.4 billion for a CSAP with a high maximum benefit that allowed cooperators. A means test; the lack of automated, centralized reporting on child support; or administration at the state or local level would significantly raise the administrative costs of a CSAP above those amounts.

Would a federally run CSAP (with or without state assistance in administering it) be fully federally financed? That approach would certainly be the simplest. However, the federal government could allow states to supplement the federal benefit with their own funds without adding major complexity to the administration of the program. Because the state guidelines that are used in setting child support awards differ considerably from place to place, a fixed federal benefit would replace varying proportions of awards among states. That policy might give states with the highest levels of awards an incentive to supplement the federal benefit.²⁹

Full federal financing could create several problems if it was combined with certain types of program interactions and administration. If families who were receiving AFDC got two checks--one for AFDC and the other for their CSAP benefits--AFDC payments would decline. Because states pay for a portion of AFDC, they would be reaping savings as the federal government was incurring costs. (If legislation similar to H.R. 4 made the AFDC program a block grant that was fully paid for by the federal government, states would save even more by shifting families from AFDC and into a federally financed CSAP. Such a change could make a CSAP more attractive to the states.) Of course, any savings in the state's welfare program could be transferred to the federal government, leaving the relative financing of the programs for the two levels of government in a more even position.

The most serious problem would occur in a system in which states administered the CSAP and continued to run the child support system but the federal government provided all of the funds. The states would then have incentives to operate in ways that would save them money but raise the costs of the CSAP. For example, if states were allowed to realize any of the potential AFDC savings, it would be to their advantage to put into the CSAP as many families who were receiving AFDC as possible, perhaps to the exclusion of other families. More important, states would care less about collecting child support for families who were receiving AFDC because they would be unlikely to benefit as much from the AFDC savings those collections generated. They might also feel less urgency about collecting child support at all, knowing that benefits from the CSAP would make up for some or all of the lost income.

29. Some advocates of a CSAP have also proposed national guidelines for setting awards.

Another problematic area is the cooperation requirement. If states were administering the CSAP, they would also be responsible for effectively implementing and enforcing any such requirement. But with no funds of their own at stake, they might be encouraged to make fewer efforts than they would under a program that they were helping to finance. In addition, they might feel less compelled to adjust upward, on a timely basis, the guidelines for award amounts (and thus save money in the form of CSAP benefits).

If states were required to pay for some portion of the CSAP's costs--even if the portion was a small one--they would have more of an incentive to operate the program efficiently and effectively. Alternatively, funding formulas for the Child Support Enforcement program might be modified to encourage the desired outcomes. For example, the federal government might pay more of the costs of child support cases involving participants in the CSAP than of other cases, or otherwise provide incentives for states to operate in ways that benefited the CSAP.

Relation to Child Support. In the TRIM2 simulations, each dollar of child support paid reduced CSAP benefits by a dollar. In a CSAP whose primary aim was replacing unpaid child support, such treatment would take precedence. However, because the CSAP would provide a strong incentive for noncustodial parents to stop or reduce their payments of child support, something less than a dollar-for-dollar offset might be desirable. For example, a dollar of child support paid might reduce benefits from the CSAP by only 75 cents. Alternatively, the CSAP could "disregard" a fixed amount of child support paid--for example, \$50 a month--in determining benefits. But those alternative designs would raise the costs of the program significantly and move it away from one focused on replacing lost support. To its credit is that it would provide some incentive for noncustodial parents to pay the child support they owed. The strength of that incentive and its effects, however, are unknown.

Another set of issues concerns the symmetry of treatment of child support and CSAP benefits in the AFDC program (and in other means-tested programs like Food Stamps or Medicaid) and in the income tax system. If benefits from a CSAP were treated more favorably than regular child support payments, the incentive for the noncustodial parent to substitute CSAP benefits for child support would increase.

In the AFDC program, families may retain up to \$50 a month from child support they receive; payments exceeding that amount go to the government as a reimbursement for those families' AFDC benefits.³⁰ The principle of symmetry would argue for disregarding in the AFDC program no more than \$50 a month of

30. H.R. 4 would have eliminated this \$50 "pass-through."

CSAP benefits. If families were allowed to retain more than \$50, custodial parents would prefer to receive CSAP benefits rather than child support, other things being equal, because their incomes would increase. Noncustodial parents might also prefer CSAP benefits over payments of child support because those benefits would provide more support for their children, possibly intensifying the incentive for nonpayment of support already provided by the CSAP.

In the income tax system, custodial parents do not pay taxes on the child support they receive; noncustodial parents pay taxes on the income they earn, some of which goes to pay child support. If CSAP benefits were considered taxable income for custodial parents, they would prefer to receive regular child support rather than CSAP benefits, other things being equal.

BEHAVIORAL CHANGES

A child support assurance program is an income security program, and like all such programs, it may change the behavior of people who are eligible for its benefits or are indirectly affected in other ways. For example, it is frequently argued that Social Security may reduce how much beneficiaries work by providing income support when people become disabled. Food stamps may raise the demand for food of the households that are receiving benefits, and the AFDC program, by excluding from eligibility most two-parent families with children, may lead families to break up and couples to have children out of wedlock.

Identifying the behaviors that could be affected by any particular program is usually straightforward. But measuring the magnitude--and sometimes the direction--of the shifts is difficult at best. Insufficient data or the lack of appropriate methodologies may make it impossible to measure those changes with any precision. As a result, little agreement exists on the significance of behavioral change in any specific program.

A CSAP has the potential to affect the behavior of custodial and noncustodial parents in ways that are important conceptually and that could be important in actuality. Any behavioral change would, of course, depend on the specific design of the program. Five areas of behavior might be affected:

- o More parents might secure child support awards for their children.
- o Noncustodial parents--alone or in collusion with custodial parents--might reduce their payments of child support, and custodial parents might be less inclined to vigorously pursue the enforcement of unpaid support.

- o Families who were receiving benefits from a CSAP might reduce the amount they worked, although families who were receiving AFDC in addition to CSAP benefits might work more hours.
- o The rates of family dissolution and out-of-wedlock births might rise and marriage rates might fall.
- o Relationships between custodial and noncustodial parents, and between noncustodial parents and their children, might change.

Securing Awards

Proponents of a CSAP cite its potential effects on the securing of child support awards as one of its greatest advantages. They argue that if CSAP benefits were contingent on having an award or on cooperating fully in seeking one, some custodial parents without awards would be induced to cooperate more fully in securing them. Thus, many CSAP proponents call for a program design that would strongly encourage custodial parents to seek awards.

The most powerful incentive to secure awards would come from a program that required an award in order for a family to receive benefits. Extending eligibility to cooperators would also provide an incentive to secure an award--although a weaker one--as long as the cooperation requirement was relatively strong and strictly enforced. But requiring custodial parents simply to seek the services of child support enforcement agencies would probably do little to raise the number of awards and could lower it, as would the absence of any requirement for securing awards. In those circumstances, receiving CSAP benefits would remove some or all of the financial incentive to secure child support awards and payments from noncustodial parents.

Any incentive to secure awards would be much weaker for families who were receiving AFDC than for other families as long as the benefits from a CSAP merely substituted for AFDC payments. However, if families who were receiving AFDC viewed child support as a potential way off welfare, they might still be motivated to secure support awards. Moreover, for some mothers, child support payments might exceed their AFDC benefits and make them better off, particularly if they had earnings.

Any resultant increase in awards or improvement in cooperation would make more families eligible for CSAP benefits, thus raising the direct costs of the program. All families with new awards who were not yet receiving child support payments and families whose payments fell below the CSAP's maximum benefit would be the

source of the additional costs. Those costs would be reduced by any child support due the families that the CSE agencies could collect. In addition, the increased child support payments would reduce costs in the AFDC, Food Stamp, and other government programs, which to some degree would offset the increased costs of the CSAP.

How CSAPs with different eligibility requirements affect the rate of child support awards is unknown and likely to remain so until scientifically valid demonstrations can be carried out. Some evidence has come from a relatively new program--the Child Assistance Program (CAP)--that serves families who are receiving AFDC and that is being run in a number of counties in New York. Researchers found that making program benefits contingent on having an award increased the proportion of families who secured new child support awards over the study period. New York's CAP differs significantly from a pure CSAP; thus, any inferences drawn from its impacts about the effects of a CSAP are problematic.³¹

Reducing Child Support Payments

Because benefits from a CSAP would substitute for some portion of the child support paid by noncustodial parents, those parents would have an incentive to reduce their payments. Noncustodial parents might take that action independently, or they might collude with custodial parents and share the increased income. In addition, with the CSAP benefits in hand, custodial parents might pursue enforcement of unpaid child support less vigorously. How much payments might be reduced would depend not only on the behavior of the parents but on the enforcement capabilities of the child support system. The size and design of the CSAP would also be a factor; for example, the higher the level of the maximum benefit, the greater would be the potential for lost child support. In any event, reductions in child support payments would raise the costs of a CSAP as well as the costs of enforcement in the CSE program.

No direct evidence is available on the effect a CSAP would have on child support payments. However, recent evidence on how AFDC affects the payment of child support can offer some insights into a CSAP's possible impact. Under most designs, a CSAP would reduce its benefits by a dollar for every dollar of child support that was paid. The AFDC program has a similar policy in that the

31. See William L. Hamilton and others, *The New York State Child Assistance Program: Program Impacts, Costs, and Benefits* (Cambridge, Mass.: Abt Associates Inc., July 1993); and Nancy R. Burstein, "Changes in Child Support Status Among AFDC Recipients: Evidence from the New York State Child Assistance Program Evaluation" (paper presented at the 16th Annual Research Conference of the Association for Public Policy Analysis and Management, Chicago, Illinois, October 27-29, 1994).

government retains in full any child support payments over the \$50 a month that the family who is receiving AFDC is allowed to keep. Thus, AFDC offers noncustodial parents an incentive to reduce the payments of child support they make through CSE agencies and instead provide informal, “under-the-table” support.

In fiscal year 1993, less than 15 percent of mothers who were receiving AFDC got formal child support--that is, through the CSE system. Two recent studies employing in-depth interviews of small samples of mothers who were owed child support and fathers who owed it indicate the part that the financial disincentive played in the failure of those parents to secure child support awards or to report payments of child support.

More than one-half of the mothers in one study (for at least one of their children’s fathers) did not comply with the AFDC requirement for cooperation in locating fathers to secure child support awards and payments.³² Of those noncomplying mothers, 41 percent covertly received, on average, \$100 of child support a month. Almost two-thirds of the mothers who received covert payments said they preferred them because they did not have to report them and thus were made better off financially. However, for many of those mothers, other reasons such as the fathers’ low earnings or unemployment were also a factor in their lack of cooperation.

Focus group interviews with noncustodial fathers found similar views of the child support system. Fathers understood that child support payments went to reimburse the state for AFDC benefits rather than to the children, although not all of the fathers knew that the mothers received up to \$50 of the monthly payment.³³ The fathers indicated that the mothers often did not initiate any formal child support actions, which was consistent with the information that the mothers provided. A related study found that 32 percent of noncustodial parents felt that having their child support payments go to “welfare” or “the state” rather than to their children was a good reason for not paying that support.³⁴

32. Kathryn Edin, “Single Mothers and Absent Fathers: The Possibilities and Limits of Child Support Policy” (Center for Urban Policy Research, Rutgers University, March 1994). The study was based on interviews with 214 AFDC mothers in four cities: Cambridge, Massachusetts; Charleston, South Carolina; Chicago, Illinois; and San Antonio, Texas.

33. Frank F. Furstenberg Jr., Kay E. Sherwood, and Mercer L. Sullivan, *Caring and Paying: What Fathers and Mothers Say About Child Support* (New York: Manpower Demonstration Research Corporation, July 1992). The interviews were with 42 fathers in New York City, many of whom had children who were receiving AFDC.

34. Dan Bloom and Kay E. Sherwood, *Matching Opportunities to Obligations: Lessons for Child Support Reform from the Parents’ Fair Share Pilot Phase* (New York: Manpower Demonstration Research Corporation, April 1994). The Parents’ Fair Share demonstration is a test of programs that require

To ensure that awarded child support was actually paid, policymakers could draw on two programmatic options. First, they could put greater resources into securing the cooperation of custodial parents and enforcing the payment of child support by noncustodial parents. Second, as part of its design, the CSAP could reduce its benefits by less than a dollar for every dollar of child support paid, which would diminish the incentive to reduce support payments.³⁵ That option, however, could increase the costs of a CSAP sharply unless the level of the maximum benefit was cut. Moreover, the option's effects on child support payments might be limited.

Changes in How Much People Work

A CSAP would have different effects on how much beneficiaries worked, depending on whether they were receiving AFDC. The hours worked by families who were not receiving AFDC would decline because benefits from a CSAP would increase their nonwage income. Moreover, if CSAP benefits provided a more stable source of income than child support payments from noncustodial parents, that stability might reinforce any downward effect on work hours. A recent study of the potential labor-supply effects of a CSAP found a small reduction in the work hours of mothers who were not receiving AFDC.³⁶ The reductions ranged from just over 1 percent to about 2.5 percent, rising with the level of the maximum benefit and the number of mothers who were eligible for benefits.

If CSAP benefits were means-tested, the program's potential effect on the hours of work of parents who were still eligible for those benefits would be heightened. By taxing away part of every dollar earned (in the form of a reduction in benefits), the program would lower the effective wage rates of custodial parents. That drop would encourage them to substitute leisure or other unpaid work for hours of paid work. However, because a means test would make many parents who were

noncustodial parents of children on welfare to participate in employment or other related programs if they are unemployed and unable to pay child support. The information in the text was based on responses to questions on the program's enrollment form for its pilot phase; the pilot phase involved approximately 2,000 noncustodial parents referred to the program at its sites in nine states.

35. A study that designed a CSAP for Minnesota discussed two ways to handle the benefits/child support payments issue: benefits could decline by 50 cents for each dollar of child support paid, or the program could provide a small benefit if no child support was paid and match any support paid at a declining rate as those payments increased in size. See Daniel R. Meyer and others, *Developing a Child Support Assurance Program for Minnesota*, Special Report No. 66 (Madison, Wis.: Institute for Research on Poverty, 1995).
36. Daniel R. Meyer and Rebecca Y. Kim, *Incorporating Labor Supply Responses into the Estimated Effects of an Assured Child Support Benefit*, Discussion Paper No. 1033-94 (Madison, Wis.: Institute for Research on Poverty, 1994). This research was based on simulations of CSAPs with different designs using labor-supply parameters available in the economics literature.

not receiving AFDC ineligible for benefits from a CSAP, the overall reduction in total hours of work could be either more or less than would occur with a non-means-tested CSAP.

By contrast, the effect of benefits on the work hours of mothers who continued to receive AFDC after a CSAP was in place would probably be positive. The traditional economic model indicates that recipients of AFDC will compare their income and leisure as program participants with the income and leisure available to them as nonparticipants--and make the choice that leaves them better off. Because CSAP benefits would increase the income of recipients if they were not getting AFDC (and under most designs leave it unchanged if they were), some mothers would increase their hours of work and leave the AFDC program.

Other mothers who were receiving AFDC would become ineligible for that program by virtue of receiving CSAP benefits. Some of those mothers would probably begin to work because the "tax" on their earnings (in the form of reduced benefits) would be eliminated if benefits from the CSAP were not means-tested. The hours worked by mothers who already had some earnings while they were receiving AFDC could either rise or fall. On the one hand, their nonwage income would increase as a result of the CSAP benefits, which would cause their hours of work to drop. On the other hand, the tax rate on their earnings would decline, which would cause their hours of work to rise.

The study by Daniel Meyer and Rebecca Kim estimated that mothers who were receiving AFDC would work more with a CSAP in place--the increase ranged from 3 percent with a low maximum benefit and an award required for eligibility to 24 percent with a medium maximum benefit and cooperators allowed to participate. However, those increases were added to low average work hours before the CSAP of only 212 a year. After combining the effects on the number of hours worked by all mothers--both those who were and were not receiving AFDC--the authors found about a 1 percent decline in work hours. Thus, the potential adverse effect of a CSAP on how much beneficiaries work appears to be small.

Increasing Family Dissolution and Out-of-Wedlock Births

By providing more income or more secure income in the event of divorce or separation, the benefits from a CSAP might contribute to marital disruptions. In addition, mothers who had a child outside of marriage might be less inclined to marry or to live with their children's fathers because benefits from a CSAP would then be lost. Or parents might decide to have a first child or to have more children (possibilities that must always be considered with any benefit that depends on the

presence of children or the number of them). Those additional births would have to be outside of marriage for the children to qualify for benefits.

Benefits from a CSAP could also increase or decrease the number of marriages by custodial mothers to men other than their children's fathers. On the one hand, custodial mothers would become more attractive marital partners because of their increased income from the CSAP. On the other hand, the increased income would give them greater freedom to decide whether to remarry.

The AFDC program already provides similar incentives and disincentives to low-income families who are eligible for its benefits. If benefits from a CSAP were larger than AFDC benefits, those incentives and disincentives would be heightened. Moreover, a CSAP would extend such incentives and disincentives to families with incomes and assets that were too large for them to be eligible for AFDC.

Studies of AFDC suggest that its effects on the formation and dissolution of families are small, but such effects are difficult to measure.³⁷ Moreover, because all single parents with low incomes and few assets are eligible for AFDC, it has never been possible to test the effects of the existence of the program rather than just the effects of variations in its benefit levels among the states.

Altering Relationships Between Parents and Between Parents and Their Children

A program that provided benefits when noncustodial parents did not meet their obligations for child support could alter the dynamics of family relationships. Relationships might improve in families in which noncustodial parents often missed child support payments. For example, custodial parents might resort less to withdrawing visitation rights for failure to pay support. A number of studies have found that those issues (failure to pay child support and visitation) are important sources of conflict between custodial and noncustodial parents. Moreover, the two issues are related, although causation is complex.³⁸

The potential exists as well for secondary effects on family relationships. For example, if the noncustodial parent reduced his payments of child support because

37. For a recent survey of such studies, see Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature*, vol. 30, no. 1 (March 1992).

38. For example, see Robert I. Lerman and Theodora J. Ooms, *Young Unwed Fathers: Changing Roles and Emerging Policies* (Philadelphia: Temple University, 1993); Freya L. Sonenstein and Charles Calhoun, *The Survey of Absent Parents: Pilot Results* (Washington, D.C.: Urban Institute, 1988); Furstenberg, Sherwood, and Sullivan, *Caring and Paying*; and Bloom and Sherwood, *Matching Opportunities to Obligations*.

of the availability of CSAP benefits, the relationship between the parents could deteriorate. The result might be less contact between the noncustodial parent and his children. Alternatively, an increase in the number of child support awards or establishments of paternity might encourage more contact between noncustodial parents and their children.

Illustrative Effects of Selected Behavioral Changes

To illustrate how certain behavioral changes might affect a CSAP--that is, its costs, its effects on families and their incomes, and its impact on the poverty rate and the poverty gap--CBO simulated the program under seven variants of increases in child support awards and reductions in child support payments:

- o The number of women with child support awards rises by 10 percent, but their child support payments remain unchanged at zero.
- o The number of women with child support awards rises by 10 percent, but their child support payments increase to approximately equal the average payment-to-award rates and payment amounts for all families with awards.
- o The number of women with child support awards rises by 30 percent, but their child support payments remain unchanged at zero.
- o The number of women with child support awards rises by 30 percent, but their child support payments increase to approximately equal the average payment-to-award rates and payment amounts for all families with awards.
- o Of the women who have been receiving partial child support payments, 10 percent now receive no payments.
- o Of the women who have been receiving partial child support payments, 30 percent now receive no payments.
- o The number of women with child support awards rises by 30 percent, and their child support payments also rise. In addition, 30 percent of women who had been receiving partial payments now receive no payments.

The assumed changes of 10 percent and 30 percent are only illustrative; as discussed earlier, no evidence exists on how large those changes might be.

Moreover, use of that range does not imply that behavioral changes would fall within its boundaries. Changes could well be below 10 percent and might even be above 30 percent, although that large a change in response to financial and other incentives would be unusual.

In conducting the simulations, TRIM2 randomly chose the families within each marital status who were to be affected by a change in behavior. Because of small samples and other technical aspects of the simulations, the percentage of women who were affected was somewhat smaller than the specified percentage. For those with an increase in awards, the proportions of women affected were 9.8 percent and 29.1 percent rather than 10 percent and 30 percent; for those with a decrease in child support payments, the proportions were 9.3 percent and 28.8 percent, respectively. The simulations assumed that all of the families who were affected by a behavioral change would participate in the CSAP (that is, the participation rate for those families was set at 100 percent).

The simulations of increases in awards used two assumptions about the payment of child support. Under the first assumption, no child support was paid for those families who sought awards. That assumption is too pessimistic for the actual circumstances, but it does reflect two realities of the child support system. First, many of the women might never be awarded child support because enforcement agencies might not be able to locate the fathers, establish paternity when necessary, and secure the awards. If considerable time had passed since the women last had contact with the fathers, securing awards would be particularly difficult. In a CSAP that made benefits contingent on having an award, those families who tried but failed to secure awards would not be eligible for the program and thus could not raise the costs of the program. In a CSAP that extended benefits to cooperators, those families would be eligible for benefits even if no award was secured for them. Second, the pessimistic assumption that no support would be paid allows for the time that it would take to secure awards. In the short run, no child support payments would be made because there were as yet no awards.

Under the second assumption, families with new awards received child support payments at roughly the same rates and in the same amounts as other families with awards. That assumption is probably too optimistic because of the difficulties child support enforcement agencies would have in securing awards after the passage of time.

The simulations of reductions in child support payments used a restrictive assumption, namely, that only families who were receiving partial child support payments would be affected. (In the two simulations, 10 percent and 30 percent of those families would lose all payments.). Families who received the full amount due--two-thirds of all families who were receiving child support--would be

unaffected. The reasoning behind that assumption was that noncustodial parents who made full payments would either be motivated enough to continue them or would have difficulty reducing them because of the withholding of their payments from wages or the use of other enforcement procedures. As a result, total child support payments under this assumption declined by only 1.4 percent and 4.7 percent for the two simulations, not 10 percent and 30 percent, respectively. Thus, a reduction in child support payments as a result of any change in behavior could be considerably larger and have much greater implications for a CSAP than the impacts shown here.

Rising Award Rates. If the number of women with child support awards increased by 10 percent but they received no child support payments, the net costs of a low-benefit, award-required standard design package would rise significantly--in 1995, by \$0.7 billion, or 52 percent, to \$2.0 billion (see Table 9).³⁹ About 630,000 additional families would receive benefits.

If some of the families with new awards also received child support, the net costs of the CSAP would drop slightly, based on this simulation. Although just over 300,000 more families would receive benefits, causing the gross costs of the program to climb, increased savings in the AFDC and Food Stamp programs from a larger number of collections of child support would more than offset the higher costs for CSAP benefits. In reality, the net costs of this particular CSAP could rise or fall, depending on the proportion of families who received child support, the amount of their child support payments, and the mix between families who had new awards and were receiving AFDC and families who were not. Because the proportion of the families with new awards who received child support payments would probably be smaller than the average, the increment in net costs would probably be positive. Moreover, if the CSAP had a higher level of benefits, the likelihood of any savings in costs would be small.⁴⁰

With a 30 percent increase in the number of women who sought and acquired awards, the net costs of the program would more than double to \$3.3 billion in 1995 when compared with a low-benefit, award-required standard design package (excluding behavioral effects). An additional 1.9 million families would receive benefits, for a total of 4.2 million. The percentage of families who would lose their eligibility for AFDC would more than double to 2.9 percent. Reductions in the

39. As discussed above, the assumption that no child support will be paid is unrealistic for a program that requires an award for eligibility. If child support enforcement agencies were able to secure awards for the families, they would be able to enforce the payment of some child support.

40. A CSAP that allowed cooperators would have much larger increases in costs for these same behavioral changes.

poverty rate and poverty gap would about double. As with the smaller behavioral effect, the net costs of the CSAP would decline slightly if the families with new awards also received child support payments at the average rates and amounts of other families.

Declining Child Support Payments. If the number of women who received partial payments of child support dropped by 10 percent, the net costs of the program would increase by \$0.2 billion, or 12 percent, in 1995, and the effects on families' incomes and their poverty status would remain largely unchanged (see Table 10). In a simulation that assumed a 30 percent decline in the number of women who were receiving partial payments, net costs would rise by \$0.6 billion, or 43 percent, and another 160,000 families would receive benefits. Family incomes would not rise as much, nor poverty drop as much, as before the behavioral change. The modest nature of these effects reflects the assumption that noncustodial parents who were paying the full amount of support that was due--which went to two-thirds of all women who were receiving support payments--would not have their payments reduced at all.

Simultaneous Increase in Awards and Decrease in Payments. A rise in the number of women with awards and a decline in child support payments would both operate in the same direction in terms of the gross costs of the program. As a result, gross costs would rise by \$1.8 billion, or 70 percent, to \$4.4 billion in 1995 under the assumption of a change of 30 percent (see Table 11). Savings in the AFDC and Food Stamp programs would still rise but not by enough to fully offset the increase in gross costs. As a result, the program's net costs would increase by \$0.6 billion, or 45 percent. Almost 1.1 million, or 46 percent, more families would receive CSAP benefits than before the behavioral changes.

These simulations illustrate how behavioral changes could significantly alter the costs of a CSAP and its effects on families' incomes and poverty status. Although strong evidence on the possible magnitude of any behavioral changes is nonexistent, some research discussed earlier indicates the potential for relatively large impacts. Thus, before the full implementation of a CSAP, carefully planned demonstrations that could measure behavioral effects, as well as the effects of alternative designs and administrative feasibility, should be a major consideration of policymakers.

TABLE 9. ILLUSTRATIVE COSTS OF AND EFFECTS ON A CHILD SUPPORT ASSURANCE PROGRAM OF INCREASING THE NUMBER OF WOMEN WHO HAVE CHILD SUPPORT AWARDS, 1995

	Increase of 10 Percent; No Child Support Paid	Change from CSAP with No Behavioral Effect	Increase of 10 Percent; Child Support Paid	Change from CSAP with No Behavioral Effect	Increase of 30 Percent; No Child Support Paid	Change from CSAP with No Behavioral Effect	Increase of 30 Percent; Child Support Paid	Change from CSAP with No Behavioral Effect
Costs (Billions of dollars)^a								
Gross Costs ^b	3.7	1.1	2.9	0.3	5.9	3.3	3.5	0.9
AFDC and Food Stamp Savings (-) ^c	<u>-1.3</u>	<u>-0.3</u>	<u>-1.3</u>	<u>-0.3</u>	<u>-1.8</u>	<u>-0.8</u>	<u>-2.0</u>	<u>-1.0</u>
Net Costs Excluding Revenues	2.4	0.8	1.5	-0.1	4.1	2.5	1.5	-0.1
Increase in Income Tax Revenues (-)	<u>-0.4</u>	<u>-0.2</u>	<u>-0.3</u>	<u>-d</u>	<u>-0.8</u>	<u>-0.5</u>	<u>-0.4</u>	<u>-0.1</u>
Net Costs	2.0	0.7	1.2	-0.1	3.3	2.0	1.2	-0.2
Effects on Families								
Number of Families Receiving Benefits (Millions)	3.0	0.6	2.7	0.3	4.2	1.9	3.3	0.9
Average Annual Payment per Family (Dollars) ^e	1,240	135	1,080	-25	1,400	295	1,065	-40
Percentage of Families Losing Eligibility for AFDC ^f	2.1	0.7 ^g	2.3	0.9 ^g	2.9	1.5 ^g	3.3	1.9 ^g

(Continued)

TABLE 9. CONTINUED

	Increase of 10 Percent; No Child Support Paid	Change from CSAP with No Behavioral Effect	Increase of 10 Percent; Child Support Paid	Change from CSAP with No Behavioral Effect	Increase of 30 Percent; No Child Support Paid	Change from CSAP with No Behavioral Effect	Increase of 30 Percent; Child Support Paid	Change from CSAP with No Behavioral Effect
Effects on Family Incomes and Poverty Status (Percent)^h								
Change in Average Annual Income	1	d	1	d	1	d	1	1 ^g
Change in Poverty Rate ⁱ	-1	d	-2	-1 ^g	-2	-1 ^g	-3	-2 ^g
Change in Poverty Gap ^j	-3	-1 ^g	-3	-1 ^g	-4	-2 ^g	-5	-3 ^g

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTES: Estimates are based on the standard CSAP design that has a low maximum benefit and requires an award.

For those variants for which the new awards also resulted in child support payments, payments were assigned at roughly the same rates and amounts as for all families with awards in 1995.

Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. Less than \$50 million or 0.5 percentage points.
- e. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- f. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- g. In percentage points.
- h. Estimates reflect changes for all families who are potentially eligible for child support.
- i. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- j. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

TABLE 10. ILLUSTRATIVE COSTS OF AND EFFECTS ON A CHILD SUPPORT ASSURANCE PROGRAM OF DECREASING THE NUMBER OF MOTHERS WHO RECEIVE PARTIAL CHILD SUPPORT PAYMENTS, 1995

	Decrease of 10 Percent	Change from CSAP with No Behavioral Effect	Decrease of 30 Percent	Change from CSAP with No Behavioral Effect
Costs (Billions of dollars)^a				
Gross Costs ^b	2.8	0.2	3.3	0.7
AFDC and Food Stamp Savings (-) ^c	<u>-1.0</u>	<u>d</u>	<u>-1.0</u>	<u>d</u>
Net Costs Excluding Revenues	1.8	0.2	2.3	0.7
Increase in Income Tax Revenues (-)	<u>-0.3</u>	<u>d</u>	<u>-0.4</u>	<u>-0.1</u>
Net Costs	1.5	0.2	1.9	0.6
Effects on Families				
Number of Families Receiving Benefits (Millions)	2.4	d	2.5	0.2
Average Annual Payment per Family (Dollars) ^e	1,170	65	1,310	205
Percentage of Families Losing Eligibility for AFDC ^f	1.4	d	1.4	d

(Continued)

TABLE 10. CONTINUED

	Decrease of 10 Percent	Change from CSAP with No Behavioral Effect	Decrease of 30 Percent	Change from CSAP with No Behavioral Effect
Effects on Family Incomes and Poverty Status (Percent)^g				
Change in Average Annual Income	d	h	d	h
Change in Poverty Rate ⁱ	-1	h	-1	h
Change in Poverty Gap ^j	-2	h	-2	h

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTES: Estimates are based on the standard CSAP design that has a low maximum benefit and requires an award.

Families who received less than the full amount of child support they were due had their child support payments reduced to zero. Families who received the full amount due were left unaffected.

Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. Less than \$50 million, 50,000 families, 0.5 percent, or 0.05 percentage points.
- e. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- f. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- g. Estimates reflect changes for all families who are potentially eligible for child support.
- h. Less than 0.5 percentage points.
- i. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- j. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

TABLE 11. ILLUSTRATIVE COSTS OF AND EFFECTS ON A CHILD SUPPORT ASSURANCE PROGRAM OF INCREASING THE NUMBER OF MOTHERS WITH AWARDS BY 30 PERCENT AND DECREASING THE NUMBER OF MOTHERS WITH PARTIAL CHILD SUPPORT PAYMENTS BY 30 PERCENT, 1995

	CSAP with Behavioral Effects	Change from CSAP with No Behavioral Effects
Costs (Billions of dollars)^a		
Gross Costs ^b	4.4	1.8
AFDC and Food Stamp Savings (-) ^c	<u>-2.0</u>	<u>-1.0</u>
Net Costs Excluding Revenues	2.4	0.8
Increase in Income Tax Revenues (-)	<u>-0.5</u>	<u>-0.3</u>
Net Costs	1.9	0.6
Effects on Families		
Number of Families Receiving Benefits (Millions)	3.4	1.1
Average Annual Payment per Family (Dollars) ^d	1,285	180
Percentage of Families Losing Eligibility for AFDC ^e	3.3	1.9 ^f

(Continued)

TABLE 11. CONTINUED

	CSAP with Behavioral Effects	Change from CSAP with No Behavioral Effects
Effects on Family Incomes and Poverty Status (Percent)^g		
Change in Average Annual Income	1	1 ^f
Change in Poverty Rate ^h	-3	-2 ^f
Change in Poverty Gap ⁱ	-5	-3 ^f

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTES: Estimates are based on the standard CSAP design that has a low maximum benefit and requires an award.

Families who were assigned increases in awards were also assigned child support payments at roughly the same rates and amounts as for all families with awards in 1995.

Families who received less than the full amount of child support they were due had their child support payments reduced to zero. Families who received the full amount due were left unaffected.

Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government—federal, state, or local—finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. In percentage points.
- g. Estimates reflect changes for all families who are potentially eligible for child support.
- h. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- i. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

APPENDIX A: SUPPORTING TABLES

This appendix provides data on several additional variations in the design of a child support assurance program.

TABLE A-1. ESTIMATED COSTS AND EFFECTS OF IMPUTING CHILD SUPPORT TO COOPERATORS, 1995

	Medium Maximum Benefit, Cooperators Allowed		
	CSAP with Child Support Imputed to Some Cooperators	Change from CSAP in Which Cooperators Receive No Child Support	Change from CSAP That Limits Eligibility to Children with Awards
Costs (Billions of dollars)^a			
Gross Costs ^b	10.7	-1.8	6.2
AFDC Savings (-) ^c	-5.5	0.1	-4.0
Food Stamp Savings (-) ^c	<u>-1.1</u>	<u>d</u>	<u>-0.8</u>
Net Costs Excluding Revenues	4.2	-1.8	1.4
Increase in Income Tax Revenues (-)	<u>-0.8</u>	<u>0.2</u>	n.a.
Net Costs	3.4	-1.6	n.a.
Effects on Families			
Number of Families Receiving Benefits (Millions)	5.4	-0.4	2.6
Average Annual Payment per Family (Dollars) ^e	1,995	-170	345
Percentage of Families Losing Eligibility for AFDC ^f	14.4	-0.6 ^g	11.1 ^g

(Continued)

TABLE A-1. CONTINUED

	Medium Maximum Benefit, Cooperators Allowed		
	CSAP with Child Support Imputed to Some Cooperators	Change from CSAP in Which Cooperators Receive No Child Support	Change from CSAP That Limits Eligibility to Children with Awards
Effects on Family Incomes and Poverty Status (Percent)^h			
Change in Average Annual Income	2	d	1 ^g
Change in Poverty Rate ⁱ	-5	d	-3 ^g
Change in Poverty Gap ^j	-11	-1 ^g	-8 ^g

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTES: Child support payments are ascribed to cooperators at roughly the same rates and amounts as for all families eligible for child support.

Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children; n.a. = not available.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. Less than \$50 million or 0.5 percentage points.
- e. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- f. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- g. In percentage points.
- h. Estimates reflect changes for all families who are potentially eligible for child support.
- i. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- j. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

TABLE A-2. ESTIMATED COSTS AND EFFECTS OF VARYING ELIGIBILITY
IN A CHILD SUPPORT ASSURANCE PROGRAM
WITH LOW AND HIGH MAXIMUM BENEFITS, 1995

	Low Maximum Benefit		High Maximum Benefit	
	Award Required	Cooperators Allowed	Award Required	Cooperators Allowed
Costs (Billions of dollars)^a				
Gross Costs ^b	2.6	8.2	8.4	20.1
AFDC Savings (-) ^c	-0.8	-3.7	-2.4	-8.1
Food Stamp Savings (-) ^c	<u>-0.2</u>	<u>-0.6</u>	<u>-0.7</u>	<u>-2.0</u>
Net Costs Excluding Revenues	1.6	4.0	5.3	9.9
Increase in Income Tax Revenues (-)	<u>-0.3</u>	n.a.	n.a.	<u>-1.8</u>
Net Costs	1.3	n.a.	n.a.	8.1
Effects on Families				
Number Receiving Benefits (Millions)				
Families	2.4	5.4	3.7	6.8
Children	4.1	9.6	6.4	12.0
Families receiving AFDC	0.9	3.0	1.3	3.3
Average Annual Payment (Dollars) ^d				
Per family	1,105	1,525	2,255	2,955
Per child	630	855	1,315	1,680
Per family receiving AFDC	1,225	1,745	2,730	3,590
Percentage of Families Losing Eligibility for AFDC ^e				
	1.4	6.7	8.4	29.7

(Continued)

TABLE A-2. CONTINUED

	Low Maximum Benefit		High Maximum Benefit	
	Award Required	Cooperators Allowed	Award Required	Cooperators Allowed
Effects on Family Incomes and Poverty Status^f				
Change in Average Annual Income per Family				
Dollars	140	360	475	945
Percent	g	1	1	3
Change in Poverty Rate (Percent) ^h	-1	-3	-4	-7
Change in Poverty Gap (Percent) ⁱ	-2	-7	-6	-17

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children; n.a. = not available.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. Estimates reflect changes for all families who are potentially eligible for child support.
- g. Less than 0.5 percent.
- h. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- i. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

TABLE A-3. ESTIMATED COSTS AND EFFECTS OF MEANS-TESTING BENEFITS UNDER THREE STANDARD DESIGNS OF A CHILD SUPPORT ASSURANCE PROGRAM USING AN ALTERNATIVE MEANS TEST, 1995

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP with a Means Test	Change from CSAP Without a Means Test	CSAP with a Means Test	Change from CSAP Without a Means Test	CSAP with a Means Test	Change from CSAP Without a Means Test
Costs (Billions of dollars)^a						
Gross Costs ^b	1.7	-0.9	10.0	-2.6	15.9	-4.2
AFDC and Food Stamp Savings (-) ^c	<u>-1.0</u>	<u>d</u>	<u>-6.6</u>	<u>d</u>	<u>-10.2</u>	<u>d</u>
Net Costs Excluding Revenues	0.7	-0.9	3.4	-2.6	5.7	-4.2
Increase in Income Tax Revenues (-) ^e	<u>0</u>	<u>0.3</u>	<u>0</u>	<u>1.0</u>	<u>0</u>	<u>1.8</u>
Net Costs	0.7	-0.6	3.4	-1.6	5.7	-2.4
Effects on Families						
Number of Families Receiving Benefits (Millions)	1.7	-0.7	4.9	-0.9	5.5	-1.3
Average Annual Payment per Family (Dollars) ^f	980	-120	2,050	-120	2,860	-95
Percentage of Families Losing Eligibility for AFDC ^g	1.4	0	15.0	0	29.7	0

(Continued)

TABLE A-3. CONTINUED

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP with a Means Test	Change from CSAP Without a Means Test	CSAP with a Means Test	Change from CSAP Without a Means Test	CSAP with a Means Test	Change from CSAP Without a Means Test
Effects on Family Incomes and Poverty Status (Percent)^h						
Change in Average Annual Income	d	d	1	-1 ⁱ	2	-1 ⁱ
Change in Poverty Rate ^j	d	d	-4	d	-7	d
Change in Poverty Gap ^k	-2	d	-10	d	-16	d

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTES: The means test phases out benefits at a 21 percent rate on incomes at or above \$1,000 a month. Income of the mother and stepfather, if one is present, is counted. Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. Less than \$50 million, 0.5 percent, or 0.5 percentage points.
- e. Because of the means test, benefits were considered nontaxable.
- f. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- g. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- h. Estimates reflect changes for all families who are potentially eligible for child support.
- i. In percentage points.
- j. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- k. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

APPENDIX B: COMPARING COSTS AND EFFECTS OF A CHILD SUPPORT ASSURANCE PROGRAM IN 1989 AND 1995

The estimates presented in this memorandum are for calendar year 1995, based on projections of child support from the most recent available data, which are for 1989. This appendix compares the projected outcomes of a child support assurance program in 1995 with its estimated outcomes in 1989. By identifying changes over time and the sources of those changes, the growth path of the program's costs and its effects on families can be better understood.

The net costs of a CSAP based on the low maximum benefit and requiring a child support award for eligibility were estimated to increase by 60 percent from 1989 to 1995, rising from \$0.8 billion to \$1.3 billion (see Table B-1). About half of that increase reflected the larger number of families who were projected to receive benefits. The number of beneficiary families was estimated to rise from 1.9 million to 2.4 million because of a general increase in the number of women who were eligible for child support and an increase in the proportion of women who had child support awards and thus qualified for CSAP benefits.¹

A rise in the average benefits per family from a CSAP accounted for the other half of the increase in net costs. Two sources of those higher average benefits were important. First, the projections to 1995 included an increased probability of having a child support award, particularly for mothers who had never married. The awards to those mothers were smaller than the awards to mothers who had been married, which led to smaller average child support payments and above-average benefits from a CSAP. Second, the Congressional Budget Office projected that average child support payments would decline by more than 2 percent in inflation-adjusted terms from 1989 to 1995, whereas the maximum CSAP benefit was held constant after inflation.² If a CSAP was designed so that its benefits did not increase with the cost of living, average benefits might decline over time as child support awards and payments increased in nominal terms.

Tables B-2 and B-3 present 1989 and 1995 estimates for two standard CSAP designs with medium and high maximum benefits and eligibility extended to cooperators. Gross and net costs rise less in percentage terms than for the first standard package. That "reduction" primarily reflects a smaller percentage increase in the number of families who receive benefits because the boost that would occur from a rise in projected award rates, as in the first standard package, would be smaller.

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1. For more detail on the projections to 1995, see Congressional Budget Office, *The Changing Child Support Environment*, CBO Paper (February 1995), Chapter III and Appendix B.
 2. For 1995, CBO specified the maximum benefits for the simulations. Then, for the 1989 simulations, it deflated those maximum benefits by the consumer price index so that benefit levels would be held constant after inflation.

TABLE B-1. ESTIMATED COSTS AND EFFECTS OF A CHILD SUPPORT ASSURANCE PROGRAM THAT HAS A LOW MAXIMUM BENEFIT AND REQUIRES AN AWARD FOR ELIGIBILITY, 1989 VERSUS 1995

	1989 Estimates	1995 Projections	Change (Percent)
Costs (Billions of dollars)^a			
Gross Costs ^b	1.7	2.6	55
AFDC Savings (-) ^c	-0.5	-0.8	52
Food Stamp Savings (-) ^c	<u>-0.1</u>	<u>-0.2</u>	59
Net Costs Excluding Revenues	1.0	1.6	55
Increase in Income Tax Revenues (-)	<u>-0.2</u>	<u>-0.3</u>	38
Net Costs	0.8	1.3	60
Effects on Families			
Number of Families Receiving Benefits (Millions)	1.9	2.4	25
Average Annual Payment per Family (Dollars) ^d	895	1,105	23
Percentage of Families Losing Eligibility for AFDC ^e	1.4	1.4	f

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. Less than 0.5 percentage points.

TABLE B-2. ESTIMATED COSTS AND EFFECTS OF A CHILD SUPPORT ASSURANCE PROGRAM THAT HAS A MEDIUM MAXIMUM BENEFIT AND REQUIRES AN AWARD OR COOPERATION FOR ELIGIBILITY, 1989 VERSUS 1995

	1989 Estimates	1995 Projections	Change (Percent)
Costs (Billions of dollars)^a			
Gross Costs ^b	9.0	12.6	40
AFDC Savings (-) ^c	-4.2	-5.5	30
Food Stamp Savings (-) ^c	<u>-0.7</u>	<u>-1.1</u>	58
Net Costs Excluding Revenues	4.1	6.0	48
Increase in Income Tax Revenues (-)	<u>-0.7</u>	<u>-1.0</u>	37
Net Costs	3.3	5.0	50
Effects on Families			
Number of Families Receiving Benefits (Millions)	5.0	5.8	17
Average Annual Payment per Family (Dollars) ^d	1,800	2,170	20
Percentage of Families Losing Eligibility for AFDC ^e	12.1	15.0	3 ^f

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government—federal, state, or local—finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. In percentage points.

TABLE B-3. ESTIMATED COSTS AND EFFECTS OF A CHILD SUPPORT ASSURANCE PROGRAM THAT HAS A HIGH MAXIMUM BENEFIT AND REQUIRES AN AWARD OR COOPERATION FOR ELIGIBILITY, 1989 VERSUS 1995

	1989 Estimates	1995 Projections	Change (Percent)
Costs (Billions of dollars)^a			
Gross Costs ^b	14.0	20.1	43
AFDC Savings (-) ^c	-6.2	-8.1	31
Food Stamp Savings (-) ^c	<u>-1.1</u>	<u>-2.0</u>	78
Net Costs Excluding Revenues	6.7	9.9	49
Increase in Income Tax Revenues (-)	<u>-1.2</u>	<u>-1.8</u>	43
Net Costs	5.4	8.1	50
Effects on Families			
Number of Families Receiving Benefits (Millions)	5.7	6.8	20
Average Annual Payment per Family (Dollars) ^d	2,485	2,955	19
Percentage of Families Losing Eligibility for AFDC ^e	21.4	29.7	8 ^f

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families that include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government—federal, state, or local—finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. In percentage points.

APPENDIX C: THE TRIM2 MODEL AS THE BASIS FOR CBO'S ESTIMATES

For this memorandum, the Congressional Budget Office used the Transfer Income Model, Version 2 (TRIM2), developed and maintained by the Urban Institute, to simulate a child support assurance program under alternative designs. Over the past several years, with funding from the Department of Health and Human Services and CBO, the Urban Institute has added a child support module to TRIM2 as well as a module to simulate a CSAP.

The Child Support Module

TRIM2 and its child support module are based on the March 1990 Current Population Survey of the Bureau of the Census, which gathers information for income year 1989.¹ TRIM2 uses data from the April 1990 Child Support Supplement to the CPS (CPS-CSS) to impute child support characteristics to the March CPS file.

The TRIM2 universe of mothers who are potentially eligible for child support is identical in concept to the April CPS-CSS universe: mothers with at least one child under the age of 21 who live apart from the child's father.² The CPS-CSS, however, undercounts the number of eligible mothers because it does not identify currently married mothers who had children by another man out of wedlock or any mother (married, divorced, or separated) who had children from an earlier divorce or separation but not from the latest one.

In the TRIM2 model, all divorced, separated, and never-married mothers with a child under age 21 in the March CPS are considered to be potentially eligible for child support. The procedure for finding currently married mothers who are potentially eligible for child support is more difficult. TRIM2 identifies several groups of eligible married mothers, using information from both the March CPS and the April CPS-CSS, as follows: mothers who live in a family in which the husband reports having stepchildren on the March CPS, mothers who report child support income on the March CPS, and other mothers identified as being potentially eligible for child support on the April CPS-CSS. Because those three sources do not provide enough currently married mothers who are potentially eligible for child support, TRIM2 randomly selects additional married mothers. Those mothers account for about 10 percent of all married mothers estimated by TRIM2 to be potentially

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1. This description and the following one on the child support assurance module draw on information in Sandra Clark, *Using Microsimulation to Model Child Support Characteristics and Child Support Assurance Programs* (Washington, D.C.: Urban Institute, 1994).
 2. The CPS-CSS does not include information on custodial fathers or on people caring for children of other parents (for example, children in foster care).

eligible for child support (or about 3 percent of all eligible mothers). Through a complex set of steps, TRIM2 then determines which children in the family are potentially eligible for child support.

After identifying the potentially eligible universe of mothers, child support characteristics or outcomes are imputed to the mothers. Those imputations are based on five equations, with the following dependent variables:

- o The probability that a mother who is potentially eligible for child support is supposed to receive child support--that is, has an award;
- o The amount of child support due those mothers who are supposed to receive child support;
- o The probability of receiving any child support for those mothers who are supposed to receive child support--that is, who have awards;
- o The probability of receiving the full amount due for those mothers who receive some child support; and
- o The amount of child support received by those mothers who receive less than the full amount due.

The equations were estimated from the April CPS-CSS data. Each included as explanatory variables marital status, age, race, education, family income, eligibility for Aid to Families with Dependent Children, region of residence, metropolitan status, and the number of children eligible for child support. An individual mother's probability (as determined from the equations) is then compared with a random number between 0 and 1; if her probability exceeds the random number, TRIM2 identifies her as being supposed to receive child support, receive payments, or receive the full amount due. Different random numbers are used for the three determinations. The award and payment amounts are estimated using multiple regressions.³

TRIM2 can then simulate changes in its child support outcomes by altering those predicted values. For example, in its projections for 1995, CBO estimated that recent legislative changes affecting establishments of paternity would increase by 6 percentage points the probability that a never-married woman would have an award. That increase was applied directly to the probability of each never-married woman

3. For a comparison of the TRIM2 estimates of child support and the April CPS-CSS numbers from the Bureau of the Census for 1989, see Congressional Budget Office, *The Changing Child Support Environment*, CBO Paper (February 1995), Appendix A.

before the change. Similarly, CBO estimated that the effects of legislation relating to guidelines for awards would raise award amounts by 15 percent; in that case, the predicted value was multiplied by 1.15. Because the equations operate sequentially, TRIM2 captures interactions among child support outcomes. (For example, an increase in child support awards increases the number of mothers receiving child support, and so on.)

The CPS information on incomes--notably that on child support--is annual. Estimating the effects of a CSAP, however, requires monthly data. Thus, TRIM2 distributes annual child support payments across months of the year. If the payment equals the child support award, the payment is divided evenly over 12 months. Payments that are less than awards are distributed among a number of months less than 12, based on reported monthly data on child support in the Survey of Income and Program Participation of the Bureau of the Census.

Projecting Child Support to 1995

To estimate the effects of a CSAP in 1995--and to assess the status of child support in general--CBO projected child support variables in 1995. Using the 1989 TRIM2 estimates as a base, CBO made the projections in two steps. First, it projected changes from 1989 to 1995 in the number of mothers eligible for child support and in child support outcomes, by marital status, based on their past trends. Second, CBO estimated changes in the child support environment between 1989 and 1995 resulting from legislative changes in the Family Support Act of 1988 and the Omnibus Budget Reconciliation Act of 1993. (CBO based its estimates on studies of the impacts of those laws.) Specifically, CBO estimated the effects of presumptive guidelines for setting awards, reviewing and modifying past awards, immediately withholding child support from wages, and establishing paternity. These two projected sets of changes were then combined and applied to the TRIM2 model to simulate the 1995 child support environment.⁴

Because of the complexity of the model and the estimated changes for the 1995 update that CBO developed, the simulations of the 1995 environment were run only once. Greater reliability would have been achieved if the simulations had been run multiple times to generate a range of estimates.

4. For more detail, see Congressional Budget Office, *The Changing Child Support Environment*, Appendix B.

The Child Support Assurance Module

The TRIM2 module can model many alternative designs of a CSAP. The simulations are based on the child support characteristics imputed to families in the child support module or on other family characteristics (such as income) that are available from the CPS.

One important aspect of the simulation is determining overall participation rates--that is, the proportion of families who receive benefits relative to those eligible for benefits. TRIM2 models participation as a function of family income, family type (one- or two-parent family), and the amount of benefits from a CSAP for which the family is eligible. Participation rises with the amount of the benefit and falls with income. Each family is assigned a probability of participating based on the above characteristics. TRIM2 then compares that probability with a random number to decide if the family participates. The module allows families who are receiving AFDC to participate at different rates. As noted earlier, CBO's estimates are based on a participation rate of 100 percent for those families.

Another important feature is the estimation of recoupment, which allows "excess" child support to be used to offset previous payments of CSAP benefits. In TRIM2, excess child support can be either amounts above the CSAP maximum benefit--the recoupment measure used by CBO in its estimates--or amounts above the larger of the maximum benefit or the award. The excess is measured monthly, accumulated for the year, and recouped up to the point at which all of the benefits have been paid back or all of the excess has been retained. For some families, there would be no excess child support and thus no recoupment. For others, all of the benefits from a CSAP would be recouped. For still others, the excess would not be as large as their CSAP benefits; in that case, all of the excess would be recouped, but the families would still receive some benefits for the year.

Because TRIM2 also simulates participation and benefits in a number of government programs--including AFDC and Food Stamps--and federal tax revenues, it can estimate interactions among those programs, child support, and a CSAP.⁵ For AFDC, none, some, or all of a family's benefits from a CSAP can be counted in determining eligibility and benefit levels. The Food Stamp program would be directly affected by the amount of CSAP benefits its recipients received, depending on what proportion was counted as income. It would be indirectly affected by any change in the AFDC benefits of its recipients caused by the CSAP because AFDC benefits are counted as income in the Food Stamp program. In both programs, TRIM2 resimulates eligibility and benefits in order to calculate any program savings

5. For more information, see Linda Giannarelli, *An Analyst's Guide to TRIM2--The Transfer Income Model, Version 2* (Washington, D.C.: Urban Institute Press, 1992).

or costs as a result of the CSAP. If CSAP benefits were taxable, TRIM2 could simulate the amount of any increased revenues. Such simulations were the source of the estimated savings in the AFDC and Food Stamp programs and the revenue gains reported in this memorandum.

