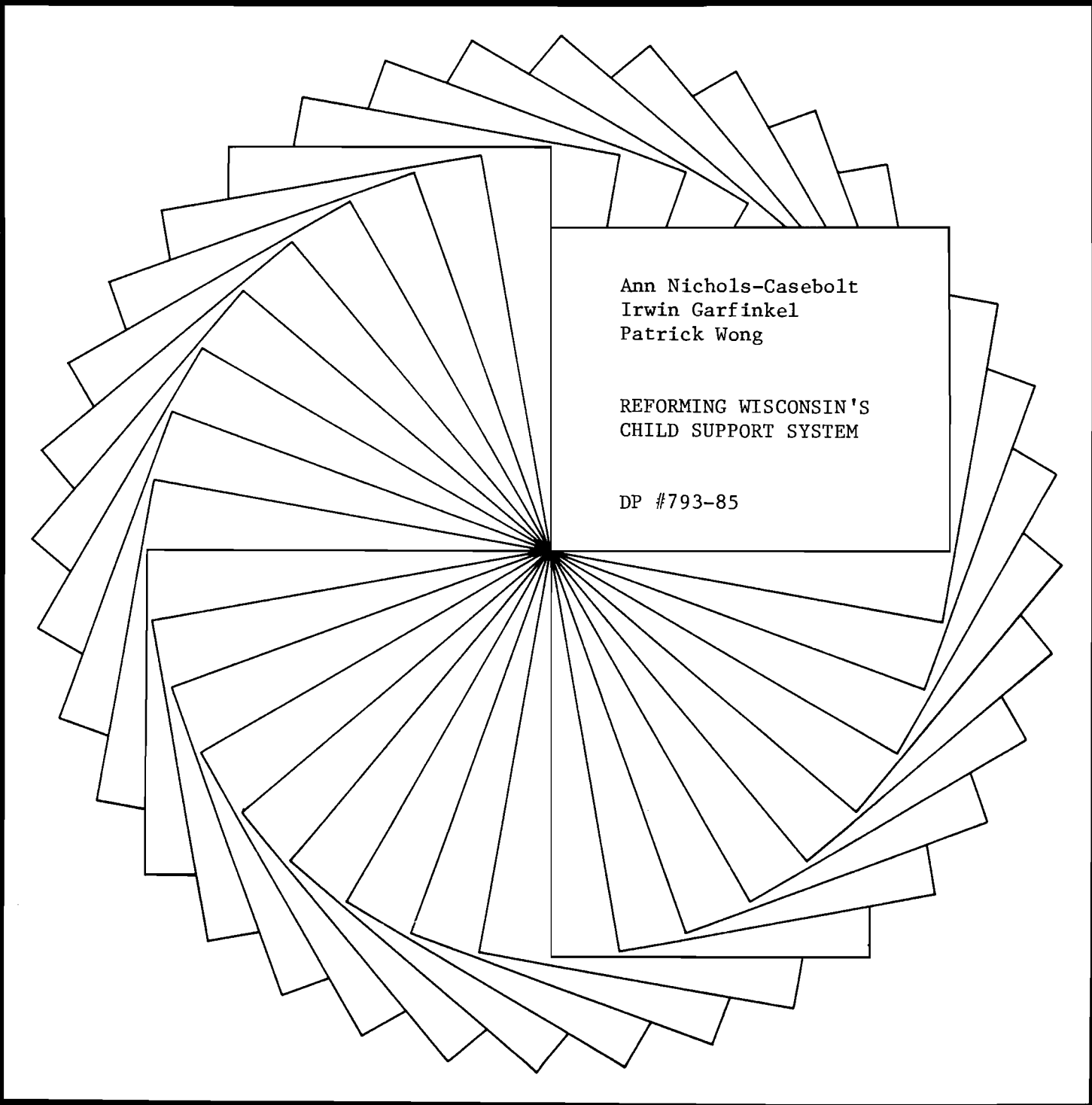


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# IRP Discussion Papers

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Ann Nichols-Casebolt  
Irwin Garfinkel  
Patrick Wong

REFORMING WISCONSIN'S  
CHILD SUPPORT SYSTEM

DP #793-85

Institute for Research on Poverty  
Discussion Paper 793-85

Reforming Wisconsin's Child Support System

Ann Nichols-Casebolt  
Arizona State University

Irwin Garfinkel  
University of Wisconsin-Madison

Patrick Wong  
University of Wisconsin-Madison

October 1985

The research described in this paper was supported by funding from the Ford Foundation and the Wisconsin Department of Health and Social Services to the Institute for Research on Poverty. The opinions expressed in this paper are those of the authors and do not necessarily reflect the views of the Ford Foundation, DHSS, or the Institute.

## Abstract

This paper first describes Wisconsin's child support system and its shortcomings. It then describes a Child Support Assurance Program that is being undertaken on a demonstration basis in Wisconsin. The new program entails a standardized percentage-of-income sharing rate for absent parents, automatic withholding of child support, and an assured benefit. The rationales for these features of the program are presented, as are estimates of the benefits and costs of the new program.

A final section describes the current status of the new program in Wisconsin, the parts that have been implemented in the demonstration, the parts that are yet to be tried, and the responses of the legislature, judges, administrators, and counties to the initial stages of the reform.

## Reforming Wisconsin's Child Support System

### INTRODUCTION

One of every five children in Wisconsin is now potentially eligible for child support.<sup>1</sup> That is, they have a living parent not residing with them who could be contributing to their financial support. Demographers project that nearly one-half of all children born today will become potentially eligible for child support before they reach adulthood.<sup>2</sup> Thus the quality of Wisconsin's child support institutions is of great importance.

Unfortunately, though Wisconsin's child support system is one of the best in the nation, it is still plagued by serious problems. It condones and therefore fosters parental irresponsibility. It is inequitable. And it leaves thousands of children and their mothers impoverished and dependent on welfare.

In response to these problems the state has embarked upon a major reform effort to create a new child support assurance system. If successful, Wisconsin's system will likely become the model for the nation.

In the first two sections of this paper, we describe Wisconsin's child support system and document its shortcomings. The third section outlines the contents of and presents the rationale for a new child support assurance system. The fourth section provides estimates of some of the benefits and costs of the proposed new system. In the last section, we discuss the status of the reform effort and prospects for the future.

## THE CURRENT SYSTEM

The child support system consists of two major parts: the family court system and the welfare system. The former establishes and enforces noncustodial parents' obligations to provide financial support for their children. This part of the system may be thought of as engaging in the public enforcement of private child support obligations. In contrast, the second part, the welfare system, provides publicly financed economic support for poor children and their custodial parents.

Family law is traditionally a province of the states. Wisconsin, like most states, has statutes that establish the obligation of non-custodial parents to contribute financial support to their children. The amount to be paid, however, is determined on a case-by-case basis, and historically the guidelines given the court have been very broad. Prior to 1983, Wisconsin statutes instructed courts to apply the following criteria in determining the amount of child support: (1) the financial resources of the child; (2) the financial resources of both parents; (3) the standard of living the child would have enjoyed had the marriage not ended in annulment, divorce, or legal separation; (4) the desirability that the custodian remain in the home as a full-time parent; (5) the cost of day care if the custodian works outside the home, or the value of custodial services performed by the custodian if the custodian remains in the home; (6) the physical and emotional health needs of the child; (7) the child's educational needs; (8) the tax consequences to each party; and (9) any other factors that the court deems relevant. These guidelines are so vague that Wisconsin courts have had tremendous discretion in setting child support awards.

Until recently, nearly all states allowed wide judicial discretion.<sup>3</sup> In some jurisdictions, however, judges use a child support obligation schedule similar to a tax table. Most counties in Michigan, for example, use only two facts to determine child support: the noncustodial parent's income and the number of children owed support. Though such schedules remain the exception rather than the rule, an increasing number of states have begun to adopt simple standards. As we describe below, recent federal legislation requires all states to establish at least nonbinding standards as of July 1986. Wisconsin legislation in 1985, described below, takes the state well beyond the federal requirements.

Wisconsin law in the area of enforcement of the parental child support obligations also is among the strongest in the nation. It provides that all child support be paid through a government body--the county clerk of courts. Only six other states have a similar requirement.<sup>4</sup> Moreover, since 1978, Wisconsin law has also provided that when a court order for child support is entered, a contingent income assignment must be issued. This means that if payments are a month late (changed to 10 days in 1983), the county clerk of courts is authorized to send notice to the delinquent noncustodial parent. Unless the parent can show cause within 10 days, the child support payments will be withheld from the delinquent parent's paycheck. Although these statutory provisions appear comprehensive, the logistics involved in contingent income assignments are too cumbersome for successful implementation, and as we will see below, Wisconsin is now moving beyond withholding in response to delinquency to a universal, immediate withholding law, while the federal government is requiring all states to adopt at least a law mandating withholding in response to delinquency.

Although income withholding is the most effective collection tool, the ultimate sanction for those who do not pay is jail. In Michigan, thousands of noncustodial fathers are jailed each year for failure to comply with child support orders.<sup>5</sup> In Wisconsin and most other states, however, jail is used infrequently.

The second part of the child support system is welfare, of which the Aid to Families with Dependent Children (AFDC) program is the most important component. AFDC provides cash assistance to low-income families with dependent children. Most families eligible for AFDC are also eligible for food stamps and for Medicaid, a medical assistance program for the poor.

The AFDC program was enacted in 1935 as part of the original Social Security Act. Initially the principal beneficiaries were the children of widows. Once the Survivors Insurance Program was enacted in 1938, AFDC was expected to shrink in importance. Instead, due to dramatic increases in divorce, separation, and out-of-wedlock births, AFDC caseloads grew. Today, widows and their children constitute less than 2 percent of the caseload.

As AFDC costs mounted, congressional interest in private child support payments grew. Between 1950 and 1984, Congress enacted a series of bills to strengthen public enforcement of private child support. Although the initial motivation was to reduce public child support costs, by the 1980s strengthening private child support had become an end in itself.

In 1950, Congress enacted the first federal child support legislation. This required state welfare agencies to notify law enforcement officials when a child receiving AFDC benefits had been abandoned. Other

legislation, enacted in 1965 and 1967, required states to enforce child support and establish paternity, and allowed them to request the addresses of absent parents from the Internal Revenue Service (IRS) and the Social Security Administration within the Department of Health, Education, and Welfare.

The most significant legislation was enacted in 1975, when Congress added Part D to Title IV of the Social Security Act, thereby establishing the Child Support Enforcement (or IV-D) program. The states are responsible for running this program. They are reimbursed by the federal government for about 70 percent of the cost of establishing paternity, locating noncustodial parents, and collecting child support. Use of the IRS to collect child support owed to AFDC beneficiaries was authorized by the 1975 law. In 1980, this use was extended to non-AFDC families, and new legislation in 1981 required the IRS to withhold tax refunds in cases when states certified that the individual had an overdue child support obligation.

In the summer of 1984, Congress voted unanimously to enact the strongest federal child support legislation to date. It requires all states to (1) initiate a process to withhold child support from the wages of noncustodial parents who are delinquent in their child support payments for one month, and (2) appoint blue-ribbon commissions to devise statewide standards for child support. In addition, for the first time, the law gives the states financial incentives to collect child support for non-AFDC and out-of-state cases.

As of 1980 (the latest year for which we have data), about 174,000 Wisconsin families had about 305,000 children potentially eligible for



child support. Table 1 indicates that 99,000 or nearly 60 percent of these families were headed by single mothers. Most of the remaining children lived with their remarried mothers. Less than 10 percent of the children lived with their fathers. Thus although we will refer to noncustodial parents throughout most of this paper, the reader should bear in mind that in the overwhelming majority of cases the noncustodial parent is the father.

Slightly over one-third of families with children potentially eligible for child support were on welfare. About 1 of every 2 such female-headed families received AFDC in 1980, but only about 1 in 6 of the families with remarried mothers did.

Public transfers in Wisconsin to poor families with children eligible for child support substantially exceed private child support transfers to all Wisconsin children. Whereas about \$121 million in private child support was paid in 1980, AFDC expenditures on families eligible for child support were equal in 1979 to about \$213 million. If the costs for Medicaid and food stamps are added in, public transfers were equal to nearly \$370 million, or more than three times private child support transfers.<sup>6</sup>

#### PROBLEMS WITH THE CURRENT SYSTEM

Although Wisconsin's child support system is better than most, it faces the same problems that obtain in the rest of the nation: parental irresponsibility, inequity, impoverishment of children, and fostering dependence on welfare.

Nationwide, slightly less than 60 percent of mothers with children eligible for child support even have a child support award. The

Table 1  
 Number of Wisconsin Families and Children  
 Potentially Eligible for Child Support in 1980 by AFDC Status

Headship Status of Custodial Parent	Total	AFDC Status	
		Non-AFDC Recipient	AFDC Recipient
Number of Families			
Female head	99,348	48,511	50,837
Remarried female	53,906	45,358	8,548
Male head (single)	13,543	13,543	Unknown
Remarried male	3,617	3,617	Unknown
Remarried couple	3,550	3,550	Unknown
<b>Total</b>	<b>173,964</b>	<b>114,579</b>	<b>59,385</b>
Number of Children			
Female head	179,967	77,021	102,946
Remarried female	85,623	68,843	16,780
Male Head (single)	21,695	21,695	Unknown
Remarried male	3,630	3,630	Unknown
Remarried couple	13,911	13,911	Unknown
<b>Total</b>	<b>304,826</b>	<b>185,100</b>	<b>119,726</b>

Source: Non-AFDC recipient data from Wisconsin Basic Needs Study, 1981.  
 AFDC recipient data from Wisconsin Computer Reporting Network, 1980.

proportion with an award varies dramatically with the marital status of the mother. Whereas about 8 out of 10 divorced and remarried mothers have child support orders, less than half of separated mothers and only about 1 in 10 never-married mothers have orders. Of those with orders, only about half receive the full amount due them, and about one-quarter receive nothing.<sup>7</sup> In all, over half the families eligible for support receive nothing. The statistics for Wisconsin are only slightly better. For example, whereas the proportion with orders nationally is 59 percent, in Wisconsin it is 69 percent.<sup>8</sup>

There are two ways in which the child support system is inequitable. First, it treats equals unequally. Second, it is regressive because it establishes child support obligations that are a greater proportion of the incomes of low-income men than of those who are well off. The first inequity of the system stems directly from its toleration of irresponsibility--a problem compounded by capricious enforcement of the law. The majority of noncustodial parents pay no child support. Most who do not pay suffer no consequences. Yet others, albeit a very small percentage, are sent to jail. The amount of support an absent parent pays depends not just on the ability to pay, but on the varying attitudes of local judges, district attorneys, and welfare officials; the beliefs, attitudes, and relative power of both parents; and the skill of their lawyers. Nearly every absent parent knows someone earning more who pays less. And nearly every custodial parent knows someone who is receiving more though the child's father earns less.

Data for Wisconsin indicate that child support awards range from zero to over 100 percent of the noncustodial father's income.<sup>9</sup> The data in Table 2 from 21 Wisconsin counties indicate that in 20 percent of the

Table 2

Child Support Order as a Percentage of Gross Income  
By Number of Children

Order as % of Noncustodial Parent's Income	Percentage of Cases by Number of Children		
	1 (N = 1087)	2 (N = 829)	3 (N = 277)
0-10	20	10	6
11-20	50	36	27
21-30	21	30	33
31-40	5	15	20
41-50	3	5	9
More than 50	2	5	6

Source: Family Court record data file from Wisconsin Child Support Reform Demonstration Project, 1985, Institute for Research on Poverty, University of Wisconsin, Madison.

Note: This table covers custodial families with a child support award and with three or fewer children. Cases with 4 or more children (N = 102) are not tabulated because the sample size is too small for reliable estimates. Of the 3806 cases meeting the sample requirements, income information is missing in 1536 cases. In addition, 77 cases have zero reported income and are also excluded. This results in a final N of 2193.

cases, child support awards for one child were less than 10 percent of the noncustodial father's income, in 50 percent of these cases, awards were between 10 and 20 percent. Similar data in Table 3 indicate that average award levels as a percentage of noncustodial parent's income vary substantially across counties. The average for one child varies from 12 percent to 24 percent. For two and three children respectively, the ranges are 18 percent to 36 percent and 13 percent to 37 percent.

Child support awards are also regressive. Table 4 indicates that orders decline as a percentage of income as the noncustodial father's income increases. For one child they range from a high of 32 percent for those with incomes less than \$5,000 to a low of 12 percent for those with incomes between \$30,000 and \$40,000.

Finally, our welfare system, in relieving poverty, encourages dependency. Most of the poor in female-headed households receive welfare, and the overwhelming majority of mothers on welfare do not work during the months they receive benefits.<sup>10</sup> Given the confiscatory tax rates on earnings in the AFDC program, this is not surprising. Because AFDC, like any welfare program, is designed to aid only the poor, benefits are reduced when earnings increase. After four months on a job, a woman on AFDC faces a benefit reduction of a dollar for every dollar of net earnings. That is equivalent to a 100 percent tax on earnings. What we give with one hand, we take away with the other. Yet because they have little education and experience, and would have child care expenses if they did work, most women on AFDC could not earn enough to lift their families from poverty even if they worked full time. Isabel Sawhill finds that even if fully employed, one-half of welfare recipients could earn no more

Table 3

Percentage of Wisconsin Child Support Eligible Cases  
with Child Support Orders, and Relationship between Awards and  
Noncustodial Parent's Income by Number of Children and by County

County	% Cases with Child Support Orders	Child Support Award as % of Gross Income		
		# Children		
		1	2	3
Calumet	90 (N = 154)	20	26	25
Clark	83 (N = 151)	18	21	16
Dane	85 (N = 397)	18	22	25
Dodge	81 (N = 148)	19	30	29
Dunn	78 (N = 151)	12	20	13
Green	91 (N = 149)	24	24	26
Jefferson	83 (N = 147)	18	25	29
Juneau	81 (N = 141)	19	28	34
Kewaunee	83 (N = 138)	18	22	30
LaCrosse	83 (N = 198)	21	23	28
Marathon	84 (N = 199)	17	22	31
Milwaukee	85 (N = 648)	18	22	24
Monroe	87 (N = 153)	20	18	18
Oneida	90 (N = 152)	15	22	23
Ozaukee	90 (N = 188)	16	23	37
Price	81 (N = 144)	12	23	27
Racine	91 (N = 201)	23	36	35
Richland	91 (N = 143)	15	19	24

(table continues)

Table 3, continued

County	% Cases with Child Support Orders	Child Support Award as % of Gross Income		
		# Children		
		1	2	3
St. Croix	87 (N = 154)	13	18	15
Sheboygan	90 (N = 221)	16	22	24
Waukesha	85 (N = 399)	16	21	24
Winnebago	86 (N = 223)	18	22	27
Weighted Average	86 (N = 4599)	18	24	27

Source: Family Court record data file from Wisconsin Child Support Reform Demonstration Project, 1985.

Note: There is an upward bias in the estimates for child support as percentage of gross income. Because of coding error, net income is used for about 280 cases for which gross income is not available. Current work is in progress to separate those cases.

Table 4

Relationship between Noncustodial Parent's Income at the  
Time of the Child Support Order and Level of Child Support  
Awards by Number of Children and Gross Income Category,  
Selected Wisconsin Counties

Income Category	N	Percentage of Income by Number of Children		
		1 N = 1087	2 N = 829	3 N = 277
Less than \$5,000	151	32	41	33
\$5,000-10,000	538	20	27	28
\$10,000-15,000	506	18	25	31
\$15,000-20,000	443	15	22	30
\$20,000-30,000	450	13	21	24
\$30,000-40,000	107	12	20	32
\$40,000 or over	<u>100</u>	<u>16</u>	<u>19</u>	<u>14</u>
Weighted Average	2,295	18	24	27

Source: Family Court record data file from Wisconsin Child Support Reform Demonstration Project.

Note: See Note to Table 3.



than their welfare grant, while another quarter could earn only up to \$1,000 more.<sup>11</sup> If they also received child support from the children's noncustodial father, some but not all of these families would attain an income above the poverty level. Clearly, the only way to alleviate this kind of poverty without creating dependency is to supplement rather than replace the earnings of these custodial mothers.

#### CHILD SUPPORT ASSURANCE: THE PROPOSAL AND ITS GOALS

In the summer of 1980, a research team from the Institute for Research on Poverty (IRP) at the University of Wisconsin contracted with the Wisconsin Department of Health and Social Services (DHSS) to examine the state's child support system and find ways to improve it. The IRP report concluded that a child support assurance system gave promise of reinforcing parental responsibility, increasing equity, and reducing poverty and welfare dependence.

Under a child support assurance system, all parents living apart from their children would be obligated to share income with their children. The sharing rate would be specified in the law and would depend only upon the number of children owed support. The obligation would be collected through payroll withholding, as social security and income taxes are. Children with a living noncustodial parent would be entitled to benefits equal to either the child support paid by the noncustodial parent or a socially assured minimum benefit, whichever was higher. Should the noncustodial parent pay less than the minimum, the custodial parent would be subject to a small surtax up to the amount of the subsidy. Any remaining difference would be financed out of general revenues.

The report examined the pros and cons of the rationales for dozens of features of the proposed new system. Here we only describe briefly the rationales for the four major features of the program: (1) standardized income sharing rate, (2) automatic income withholding, (3) assured support, and (4) custodial parent surtax. The report argued that a legislated formula for child support would eliminate many of the worst problems of the current system. First, it would be "horizontally" equitable, since absent parents with the same income and the same number of children would pay the same amount. Second, the current regressiveness in the child support obligation would be corrected by using a proportional formula. Third, the formula would reduce one of the principal conflicts between former spouses by eliminating the possibility of disputes over the size of the child support payments. A final justification for the transfer of jurisdiction from the judiciary to the legislative branch is simple: Child support belongs under the control of taxpayers, who already provide for the large number of children whose absent parents do not pay sufficient support.

Withholding for income and payroll taxes attests to the effectiveness of withholding in general. Wisconsin's preliminary experience with selective, court-ordered wage withholding attests to the effectiveness of withholding for child support collections. We already have one of the best collection records in the country,<sup>12</sup> but withholding in response to delinquency is neither equivalent to nor likely to be as effective as universal withholding. Does anyone imagine social security payroll tax collections would be as great if we withheld only from those who were delinquent? The principal reason for advocating universal automatic wage

withholding for child support, therefore, is that it has been proved in practice.

The argument for a socially assured benefit is twofold. First, it would reduce the risk to children whose noncustodial parents became unemployed or unable to work. In such cases, child support payments would fall only to the socially assured benefit level, not to zero. Second, the assured benefit, when combined with earnings, would lift many single-parent households out of poverty and remove them from welfare. Custodial parents going to work would not face a dollar-for-dollar reduction in their child support payments, as they do under AFDC. Any reduction in their payments would be small and would occur only if the absent parent was paying less than the minimum benefit. Thus custodial parents would have the usual incentive for acquiring jobs--the knowledge that by so doing they would be enhancing the well-being of their families. Also, benefits would no longer be seen as welfare for the poor alone, but as social insurance for which all children eligible for child support were entitled. Therefore, the child support assurance program would not demean the recipients. AFDC, with its built-in negative incentives and stigma, should dwindle into a program of last resort for a destitute few.

Finally, there are two related arguments for the custodial-parent surtax in the event that the noncustodial parent pays less than the assured benefit. First, in the absence of a custodial-parent surtax, in a few cases, well-to-do custodial parents will receive a public subsidy. Second, a custodial-parent tax will reduce the cost of the program.

## BENEFITS AND COSTS OF CHILD SUPPORT ASSURANCE

Both the benefits and costs of a child support assurance program will depend upon the level of the assured benefit, the tax rates on non-custodial and custodial parents, the response of AFDC mothers to the improved work incentives of the new program, and the effectiveness of the new collection system.

In Table 5, estimates of net savings or costs and reductions in poverty and AFDC caseloads are presented for child support assurance programs with three different assured benefit levels. The methodology used for obtaining these estimates is described in Appendix A. The benefit levels for the first child--\$2,500, \$3,500, and \$4,500--are all less than the welfare benefit for one child and the child's custodial parent (\$5,136 in 1983 in Wisconsin). This is in keeping with the purpose of the program, which is to supplement rather than substitute for earnings. Moreover, unlike welfare, the child support benefit is for the children only. The assured benefit levels for the second, third, fourth, and fifth child respectively are equal to \$1,000, \$1,000, \$500, and \$500, regardless of the assurance level for the initial child. The tax rates for noncustodial and custodial parents alike are equal to 17 percent for one child, and 25, 29, 31, and 34 percent respectively for two, three, four, and five or more children.

The estimates in the top panel of Table 5 assume that 100 percent of the noncustodial parent's child support obligation is collected. Under these circumstances, all three proposed plans result in net savings to the state and federal government, ranging from \$72 million for the least generous plan to \$36 million for the most generous plan. All of the

Table 5  
Costs and Benefits of  
Alternative Child Support Assurance Plans in 1983

Collection Rate		Benefits for the 1st child <sup>a</sup>		
		\$2,500	\$3,500	\$4,500
100%	Net savings <sup>b</sup>	72	60	36
	% poverty gap reduction	32	34	36
	% AFDC load reduction	7	12	19
Mid-range <sup>c</sup> improvement	Net savings	27	12	-14
	% poverty gap reduction	31	33	35
	% AFDC load reduction	5	10	17
Current <sup>c</sup> national average	Net savings	- 9	-27	-58
	% poverty gap reduction	29	32	34
	% AFDC load reduction	4	9	15

Source: 1981 Wisconsin Basic Needs Study for non-AFDC sample; 1983 Wisconsin Computer Reporting Network data for AFDC sample.

<sup>a</sup>Assured benefits for additional children are the same for all plans: \$1,000 each for the 2nd and 3rd children, and \$500 each for the 4th and 5th children. The noncustodial parent is taxed at 17%, 25%, 29%, 31%, 34%, for 1 up to 5 children, respectively. The custodial tax rate is the same as the noncustodial rate.

<sup>b</sup>Net savings are reported in millions of 1983 dollars.

<sup>c</sup>On average, we now collect about 70¢ of each dollar owed in child support. The middle range estimate is 86¢ per dollar owed. The averages are a bit misleading, however, in that upper-income men, who affect the cost of the program less, pay a higher percentage of their obligations than lower-income men. From the 1982 Current Population Survey, we estimated the relationship of income to percentage paid to be 39% plus 1.4% for each additional \$1,000 of income. This is the relationship used in our estimates. For the mid-range improvement we shift the intercept to 60% and retain the same slope.

plans reduce the poverty gap--the difference between a family's income and the poverty line--by about one-third. AFDC caseload reductions range from 7 to 19 percent.

The bottom panel presents estimates of the effects of instituting the same child support assurance plans, assuming, however, that collection effectiveness was no better than the current national average. In this case, in all three of the plans, there are added costs instead of savings--ranging from \$9 million to \$58 million. The poverty gap reduction doesn't change very much because the assured benefit makes up for the shortfall in private child support collections. Wisconsin already does better than the national average in enforcing awards. Moreover there is every reason to believe that universal immediate income withholding will lead to further substantial improvement in collection effectiveness. On the other hand, it is unrealistic to expect that collections will ever be perfectly efficient. For this reason, the middle panel presents estimates based on the assumption that collection enforcement is about midway between perfect and the current national average. We believe this panel provides the most realistic estimate of collection effectiveness when immediate withholding is universally applied. In this case, the two least generous plans save \$27 and \$12 million respectively, while the most generous would cost an additional \$14 million.

Because none of the estimates in Table 5 incorporate any changes in work behavior on the part of the AFDC mothers in response to the improved work incentives in the child support assurance, the reductions in welfare dependence, in the poverty gap, and in savings are all underestimated.

Moreover, the underestimates are likely to be more serious for the more generous plans. For, the closer the assured benefit is to the welfare benefit, the more likely AFDC mothers will choose to combine it with work in preference to welfare. (On the other hand, if noncustodial fathers reduce their labor supply, the costs would increase.) Unfortunately, there is no way to accurately predict ahead of time how much AFDC mothers will work in response to this new opportunity to combine work and assured child support. That will be one of the principal questions addressed by the child support assurance demonstration to be initiated in early 1987.

#### THE STATUS OF THE WISCONSIN CHILD SUPPORT REFORM INITIATIVE

Wisconsin is now in the process of moving towards a child support assurance system. For two reasons, the state has implemented the collection phase of the system before the benefit phase. First, improving collections before instituting a new benefit is fiscally prudent. Second, the assured benefit and custodial tax are more complicated administratively and fiscally.

At the request of Governor Anthony Earl and Assembly Speaker Thomas Loftus, the Wisconsin Legislature, in July 1983, enacted a budget bill that directed the DHSS to (1) contract with 10 counties to withhold child support payments from the wages of all new obligors, and (2) publish a child support standard based on a percentage of the noncustodial parent's income that judges and family court commissioners could use in lieu of the nine guidelines discussed above. The bill also contains a provision which requires all Wisconsin counties to adopt universal income withholding in new cases as of January 1, 1987.

The standard was published by DHSS and sent to all judges and family court commissioners in December 1983. It provides for a child support obligation equal to 17 percent for one child, and 25, 29, 31, and 34 percent respectively for two, three, four, and five or more children. (For the source of these rates, see Appendix B.)

By May 1984 ten counties had contracted with DHSS to pilot the use of immediate income assignments. The counties were selected on the basis of the willingness of the judges and family court commissioners to implement immediate income assignments, the interests of related agencies in participating in the pilots, and the willingness of a majority of the county board to contract with DHSS to participate in the pilot. In addition, factors such as diversity in geographic location were considered. The ten pilot counties are Clark, Dane, Dunn, Kewaunee, Monroe, Oneida, Ozaukee, Richland, Sheboygan, and Winnebago.

Meanwhile, state officials also successfully sought federal legislation that allows Wisconsin to use federal funds to help finance the state's assured child support benefit. Because the assured benefit will reduce AFDC costs, of which the federal government pays about half, the federal government agreed to allow Wisconsin to use the resulting savings to help finance the assured benefit. The agreement, contained in the 1984 landmark federal child support legislation, extends for seven years--from the last quarter of 1986 through 1993.

Finally, the July 1985 budget bill for the 1986-87 biennium contains new child support legislation that permits additional counties to begin immediate withholding prior to January 1, 1987, and makes the DHSS percentage-of-income standard the presumptive child support award as of July 1987. This means that awards can depart from the standard only if the



judge makes a written finding that justifies such a departure. Finally, the new bill gives the DHSS authority, subject to a final approval by the Joint Finance Committee in late 1986, to implement the assured benefit on a demonstration basis in several counties.

Soon after the legislation was enacted, nearly twenty additional counties began implementing universal immediate income assignments. Intensive planning for implementation in Milwaukee got under way. As of late 1985, therefore, it appears that this part of the proposed new system is no longer politically controversial in Wisconsin.

The standard is more controversial. During the 1985 legislative session, there was vociferous debate among interested parties about the grounds that judges could use to depart from the standard. DHSS favored, and the governor proposed, language that would have allowed a departure from the standard only if it were "in the best interests of the child." A Child Support Advisory Committee appointed by DHSS had recommended a much broader escape clause, which would have allowed a departure if the judge found that it was "in the best interests of justice." DHSS and the governor thought this escape clause was too broad, the judiciary and bar mobilized against the narrow escape clause, and the final legislation contained both a general escape clause and some specific criteria.

Though the standard is increasingly used to establish the initial child support order, as yet it is only infrequently used as a way of automatically adjusting the order as the noncustodial parent's income changes. County clerks of courts currently have no way of monitoring income changes. This problem should disappear when immediate income withholding is implemented in all cases, employers are required to report

earnings along with withheld child support, and the computer capabilities of the child support system are updated.

During the 1985 legislative session, there was relatively little debate about the assured benefit. How controversial this piece of the reform is, however, is not clear. For one thing the legislature was only being asked to vote on a limited demonstration in a few counties. The potential costs to the state, therefore, are not large. Moreover, the legislature was assured another crack at the issue before the demonstration commenced, through the requirement that the Joint Finance Committee review and approve the final plans for the demonstration. Finally, legislators may simply have taken a wait-and-see posture. How controversial the assured benefit turns out to be is certain to depend upon the results of the demonstration.

At this point the contrast between the dismal reality of the current system and the bright promise of a child support assurance system warrants a thorough test of child support assurance. Whether the new system proves to be as promising in reality, of course, remains to be seen. If so, the rest of the nation will almost certainly follow Wisconsin's example, and child support assurance will join Workers' Compensation, income taxation, and Unemployment Insurance as successful social policy innovations that bear the stamp "made in Wisconsin."

## Notes

<sup>1</sup>From computer runs of the Wisconsin Basic Needs data set.

<sup>2</sup>Larry L. Bumpass "Children and Marital Disruption: A Replication and An Update." Demography 21 (February 1984): 71-82.

<sup>3</sup>For a general description of child support laws, see Harry O. Krause, Child Support in America: The Legal Prospective (Charlottesville, VA: Michie, 1981); Marygold Melli, "Child Support: A Survey of the Statutes," Institute for Research on Poverty Special Report #33; David L. Chambers, Making Fathers Pay: The Enforcement of Child Support (Chicago: University of Chicago Press, 1979).

<sup>4</sup>Melli, p. 36.

<sup>5</sup>For an evaluation of the effectiveness of jail as an enforcement tool, see Chambers.

<sup>6</sup>Estimates of private child support are taken from the Wisconsin Basic Needs Study for non-AFDC recipients and from the Wisconsin Ability to Pay Study for AFDC recipients (see Tom McDonald, James Moran and Irwin Garfinkel, Wisconsin Study of Absent Fathers' Ability to Pay More Child Support, [Madison, WI: Institute for Research on Poverty Special Report #34, 1983]. Estimates of public child support transfers were derived from Table 1 of Sheldon Danziger and Ann Nichols-Casebolt, "Income Transfers and Poverty Policy," in Setting Wisconsin's Priorities, 1986, ed., S. Danziger and J. Witte (Madison: University of Wisconsin Press, forthcoming). The expenditures for AFDC, Medicaid, and food stamps in this table were multiplied respectively by .74, .24, and .48, estimates of the total expenditures in these programs on female-headed households. (See Chapter 4 of Irwin Garfinkel and Sara McLanahan, Female-Headed

Families and Public Policy: A New American Dilemma [Washington, D.C.: Urban Institute, forthcoming]). Most female-headed households are eligible for child support. The small percentage who are not (widows) should be more than offset by the families headed by men who are eligible for child support and receive welfare.

<sup>7</sup>U.S. Department of Commerce, Bureau of the Census, "Child Support and Alimony, 1983," Current Population Reports, ser. P-23, no. 141 (Washington, D.C.: Government Printing Office, 1985).

<sup>8</sup>The data from Wisconsin are taken from the Wisconsin Basic Needs Study.

<sup>9</sup>These figures and the data for Tables 2, 3, and 4 are derived from court records in 21 Wisconsin counties. The court records are being used to evaluate the effects of the child support reform. In making calculations of orders as a percentage of noncustodial-parent income, the sample was limited to cases in which orders existed, the income of the non-custodial parent was known, and the noncustodial parent was a male.

<sup>10</sup>On the other hand, nearly half of those who receive welfare during the course of the year also work at some point during the year.

<sup>11</sup>Sawhill, "Discrimination and Poverty among Women Who Head Families," Sign, 1976, 2, 201-211.

<sup>12</sup>See Donald Oellerich, "The Absent Parents' Ability to Pay: A New Measure of State IV-D Child Support Enforcement Programs for AFDC Households," pp. 62-77 in Child Support: Weaknesses of the Old and Features of a Proposed New System, Vol. III, by Irwin Garfinkel and Margo Melli, a report prepared for the Division of Economic Assistance, Wisconsin DHSS (Madison, Wis.: Institute for Research on Poverty Special Report #32C, 1982).

## APPENDIX A

Methodology for Estimating the Effects of  
the Child Support Assurance ProgramA. Data

The simulation is based on the combination of two recent Wisconsin data sets. The 1981 Wisconsin Basic Needs Study (BNS) provides an extract of families eligible for child support in 1980. The BNS file contains basic demographic and income data for the custodial families, but it has three major shortcomings. The first is the very small sample size--138 nonwelfare cases and even fewer welfare cases. The second is its annual reporting of welfare income. The third is the absence of income information on the noncustodial parents.

To circumvent the second problem, a second data file is used to replace the AFDC cases in BNS. The Wisconsin Computer Reporting Network (CRN) is the state's administrative information system with monthly extracts of all cases currently on welfare. It contains the same spectrum of demographic and income variables as in BNS. A 7 percent sample of CRN's 1983 March file is obtained to yield a total of 4,408 child-support-eligible cases on AFDC. This sample is combined with the 138 nonwelfare cases from BNS to yield a weighted sample of 4,546 cases for our primary analysis.

However, another data set is needed to solve the third problem, the lack of income information on noncustodial parents. To obtain estimates of noncustodial parent income, the 1979 Current Population Survey data is used, as described in the next section.

## B. Methodology

The methodology for estimating the noncustodial father's ability to pay employs the custodial mother's characteristics and other demographic information as proxies for those of the absent father. (The methodology for estimating noncustodial mother's ability to pay is the same and, therefore, not described separately.) The methodology is based on the assumption that the relationship of wife's characteristics to husband's income is the same as that of the custodial mother's characteristics to the absent father's income.

The methodology can be broken down into four steps. The first step is to estimate the relationship between a woman's characteristics and her mate's income. To do this we estimate a regression equation employing a sample of currently married couples with children under 18 years of age. The dependent variable is the log of income of the man from all earned and unearned sources excluding welfare income. The independent variables include the characteristics of the women: age, education, number of children, region, SMSA, city, and interaction terms, chosen to be proxies for the variables normally included in human-capital regressions. In this and subsequent regressions, there are two sets of equations, one for whites and another for nonwhites, to control for the interaction of race and the other explanatory variables. The estimation method is ordinary least squares regression (OLS).<sup>1</sup> The results of these regressions are presented in Table A-1.

The second step is to impute income estimates for the absent fathers. To do this we use the characteristics of the custodial mother, and the coefficients estimated in step one.

Table A-1  
Step 1 Income Regression

Dependent Variable: Log of Annual Income of Husband		
Mean of Dependent Variables	Whites 9.543	Nonwhites 9.212
<u>Explanatory Variables</u>		
Age	.0621 (.0006) <sup>1</sup>	.08476 (.01829)
Age <sup>2</sup>	-.0008707 (.0000808)	-.00111 (.00022)
Age*Education	.00116 (.00015)	.000563 (.00038)
Education < 9	-.1799 (.0438)	-.09772 (.1147)
Education 9-11	-.08367 (.0236)	-.12788 (.0647)
Education > 12	.10191 (.02285)	.16861 (.0669)
Non-Central City	.09671 (.01961)	.05817 (.05162)
Non-SMSA	-.22725 (.0159)	-.16827 (.0592)
2 Children	.05064 (.01693)	.03103 (.05175)
3+ Children	.06684 (.01943)	-.04254 (.05567)
Northeast Region	-.01481 (.0201)	-.17811 (.0705)
South Region	-.03063 (.01846)	-.20191 (.06094)
West Region	-.00087 (.0212)	+.00297 (.07271)

table continues

Table A-1, continued

Dependent Variable: Log of Annual Income of Husband		
Mean of Dependent Variables	Whites 9.543	Nonwhites 9.212
Income Dummy	-5.5793 (.06811)	-5.533261 (.1444)
Intercept	8.04844	7.71464
R <sup>2</sup>	.4362	.5759
F test	605.83	116.41
Number of Observations	10,590	1,214
Mean Squared Error	.54216	.54369

Note: Standard errors are in parentheses.



The third step is to adjust our income estimates to take account of the fact that divorced, separated, and never-married men have lower incomes than married men of the same characteristics. Since we do not have information on the current marital status of the absent parent, a probability model is employed to predict the marital status of the ex-spouses of divorced or remarried custodial parents. This is done by running a probit model of having new dependents on the demographic characteristics of previously married men in the 1975 Survey of Income and Education data. For separated and never-married custodial parents we assume the absent parents are also separated and never-married, respectively; the former because it is legally true, the latter because there is no better predictor. Then to correct for the overestimate that arises from basing an estimation on the relationship of married men's earnings to married women's characteristics, we reduce the estimated incomes by the ratio of divorced or separated or never-married men's income to married men's income.

The fourth and last step is to make a similar adjustment in the estimated income according to the welfare reciprocity status of the custodial parent. Everything being equal, we may still expect the income of the father of the children of someone on AFDC to be lower than that of the father of the children of someone not on welfare. The regression estimate we obtain is an overall average. Therefore the estimate is adjusted up for non-AFDC cases and downward for AFDC cases, each according to the ratio between the respective group's mean to the nation's overall mean income.

So far we have a point estimate of absent-father income for each woman in the sample. Each woman represents many women in the popula-

tion. Not all of these absent fathers have the same income, but rather they make up a distribution of income which we are summarizing by the point estimate. To further define these distributions we use the mean square error of the regression in step one as an estimate of the variance. We can now define our distributions of income by two parameters: the mean estimated by the point estimate and the variance. In addition, we assume that income is distributed log normal. The distributions allow us to simulate a nonlinear normative standard that incorporates an income exemption and income ceiling.

Estimates of their income are necessary but not sufficient for determining the ability of absent fathers to pay child support. A normative standard or tax must be applied to the income. The normative standard we have employed has a proportional tax rate based on the number of children; it is applied from the first dollar of income to a maximum of \$50,000 per year. The proposed tax rates are 17 percent of gross income for the first child, 25 percent for two children, 29, 31, and 34 percent, respectively, for three, four, and five or more children. Estimates of ability to pay are calculated by taxing the weighted probabilistic income estimates by the normative standard. The result is a point estimate of child support for each sample family. If the child support payment from the absent father is less than the minimum, the child support benefit is equal to the assured benefit.

### C. Results

The results of this simulation are summarized in Table 5. This section describes how the concepts tabulated are derived.

Net savings refers to the reduced government outlay in the Child Support Assurance Program relative to the current welfare system. It is equal to the total revenue generated by taxing the noncustodial and custodial parents, plus the savings resulting from reduced AFDC payment, minus the total child support benefits paid to children and the \$39 million that the state's IV-D program collected on child support in AFDC cases in 1983.

Poverty gap reduction is computed by comparing the aggregate poverty gap in the data set before and after the child support simulation. The Census definitions of poverty line and money income are used.

Similarly, AFDC caseload reduction is derived by comparing the aggregate number of cases eligible for AFDC before and after the simulation. It should be noted that in determining AFDC eligibility after the Child Support Assurance Program, a provision of setting aside a maximum of \$50 monthly private child support payment is incorporated. This provision was put into law by Congress in 1984 and therefore is not reflected in the original data. It has the effect of dampening the cost-savings and welfare reduction effect of the Child Support Assurance Program itself.

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<sup>1</sup>Heckman's procedure to account for selectivity bias was attempted in earlier work but the selectivity term was insignificant. Hence, the simpler OLS procedure is employed here. See Donald T. Oellerich, The Effects of Potential Child Support Transfers on Wisconsin AFDC Costs, Caseloads, and Recipient Well-Being (Madison, Wis.: Institute for Research on Poverty Special Report #35, 1984).

## APPENDIX B

Determining What Proportion of Their  
Incomes Absent Parents Should Pay

The rates were based upon research conducted by the Institute for Research on Poverty and the recommendations of a joint IRP-DHSS task force. The first principle upon which the Child Support Assurance Program is based is that when individuals parent children, they incur an obligation to share their income with the children. In determining what proportion of their income absent parents should share with their children, a good starting point is the proportion that they would have devoted to their children had they lived with the children.

Estimating how much income married parents share with their children is very difficult, because so many expenses, like housing, are jointly consumed. As a consequence of this difficulty, estimates of the costs of children vary. As part of the child support project, Jacques van der Gaag conducted a review of the literature on the costs of children<sup>1</sup> and found the following:

1. The cost of a first child is between 20 and 30 percent of income.
2. The cost remains roughly proportional up to very high income.
3. The second child costs about half as much as the first, the third as much as the second, and subsequent children about half as much as the second and third.

For several reasons, the proportion of their incomes that absent parents share with their children should be lower than the proportion they would have shared had they been living with the children. First, some of the costs of raising the child will be borne by the custodial

parent. Second, a parent derives less benefit from a child when he or she lives apart from rather than together with the child. Third, the noncustodial parent will incur some costs for the children in the course of normal visitation. Finally, extremely high child support tax rates on noncustodial parents should be avoided because they will encourage evasion.

None of these reasons for expecting absent parents to share less of their income with their children than if they lived with them suggest an exact amount. Ultimately, decisions about how much the noncustodial parent should pay depend also upon judgments about how to balance the conflicting objectives of providing well for the children; minimizing public costs; and retaining incentives and a decent standard of living for the noncustodial parent.

Combining the midpoint of the estimated range of what percentage of income parents who live with their children share with their first child--25 percent, with the first three reasons for expecting absent parents to contribute a smaller percentage of their income to the children, led the joint task force to recommend a child support rate of 17 percent for the first child. Based upon estimates of the cost of a child, the additional rate for the second and subsequent children should be about half the rate for the previous child. The committee also suggested that the highest rate for children in one family be 34 percent, hence the recommended rates of 17, 25, 29, 31, and 34 percent for 1, 2, 3, 4, and 5 children.

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<sup>1</sup>See "On Measuring the Costs of Children," pp. 1-44 in Irwin Garfinkel and Margo Melli; Child Support: Weaknesses of the Old and Features of a Proposed New System, Vol. III (Madison, Wis.: Institute for Research on Poverty Special Report #32C, 1982).