



Focus

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Child Support Assurance: Wisconsin demonstration	1
The changing economic circumstances of children: Families losing ground	6
<i>Fighting Poverty</i>	11
Private aid for the needy	12
Medicaid: The cost of deficient information	14
Discussion Papers	16
A comprehensive view of disability policy	17
New work under way	21
The socioeconomic status of Native Americans: A special policy problem	25

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Child Support Assurance: Wisconsin demonstration

by Tom Corbett

The state of Wisconsin is conducting a demonstration which, if successful, will almost certainly provide a model for legislation on a national scale. A Child Support Assurance Program, designed by Institute researchers, is now being tested in a number of Wisconsin counties. This program has four aims: to make sure that all parents share their incomes with their children, to reduce welfare dependency, to promote work, and to provide an income floor for children in single-parent households.

Need for reform

Just as the Great Depression demonstrated the need for Social Security and Unemployment Insurance, the growing number of children in single-parent homes who live in pov-

erty has generated a force for reform of child support. The current system of providing financial support for these children is not doing the job.

The present system is a makeshift adaptation to greatly changed demographics. Aid to Families with Dependent Children (AFDC, originally ADC) was devised in an era when most single-parent families consisted of widows and their children, and women were generally expected to stay at home to care for their children. It was assumed that the program would gradually shrink as more and more widows were protected by the survivors' provisions of Old Age and Survivors' Insurance (OASI). Instead, AFDC expanded to support children whose fathers were alive and capable of contributing to their upkeep. In 1975, when program enrollment peaked, over 11 million people were receiving AFDC

benefits. By 1984, after the program was pared down by restrictive legislation, the number was still over 10 million.¹

No one foresaw the enormous growth in divorce, separation, and out-of-wedlock births. In the decade between 1970 and 1980 alone, the number of families headed by women doubled and the number of children with never-married mothers tripled.² It is now estimated that one out of every two children born today will spend part of his or her childhood in a single-parent home.³

Almost half of the children living in households headed by women are poor. The causes of their poverty are clear enough. The family contains one wage-earner instead of two; the wages of women are lower than those of men; and child support payments are often either deficient, erratic, or nonexistent. Although women who get divorces tend to get child support awards—the amounts of which vary widely from place to place, even under similar conditions—those who are separated or who were never married are much less likely to get settlements. In 1983, therefore, only about 58 percent of women potentially eligible for child support awards had received them.⁴ Furthermore, only half of those who obtained awards received the full amount owed them, and a quarter received nothing. Altogether, more than half of all the children eligible for child support received nothing. The taxpayers, via AFDC, now shoulder responsibility for most of these poor children.

National awareness of this situation can be measured by the increasingly stringent laws passed by the Congress in an attempt to require absent parents to support their children. As early as 1950 Congress started to pursue absent parents of families on AFDC. By 1984 the focus had broadened to cover all children living with one parent. The measures enacted in the intervening years to secure more child support were not part of an overall plan: The IRS was authorized to withhold tax refunds from persons who owed child support that was past due; unemployment benefits were also to be withheld; federal salaries were to be garnished if support was not paid; and states were required to expedite their procedures for establishing paternity and obtaining child support awards. The federal government appeared to be using whatever leverage it had to collect child support. Finally, in 1984, by a unanimous vote in both houses of Congress, the federal government required the states to set up systems to withhold child support payments from wages after a one-month delinquency and to set up commissions to set standards for support obligations.

The Child Support Assurance Program

The Wisconsin Child Support Assurance Program addresses the inadequacies and inequities in the existing system. It has three basic features: (1) a simple formula to determine the amount of the child support award; (2) collection through withholding; and (3) an assured benefit.

The formula for child support, as determined by legislation and administrative rule, is a percentage of the absent parent's gross income: 17 percent for one child, 25 percent for two children, 29 percent for three children, 31 percent for four children, and 34 percent for five or more children. This percentage-of-income standard means that, except in unusual circumstances, all absent parents are treated alike. Child support payments are based only upon the income of the absent parent and the number of children to be supported.

The child support obligation, like social security and income taxes, will be automatically withheld from the paycheck of the obligor and transferred to the custodial parent. This simple procedure will ensure that owed child support will be immediately collected.

Finally, under the Wisconsin plan, all children who have an absent parent will be entitled to the child support paid by their absent parent or to a publicly assured child support benefit, whichever is larger. This assured level of support will reduce poverty among children in one-parent households, cut back greatly on the need for welfare, and provide an incentive for single custodial parents to work, since the child support payments will not be reduced—as are AFDC benefits—by any amount that they earn. To ensure that public subsidies do not go to wealthy families, custodial parents will be expected to contribute a small share of their income up to the amount of the public subsidy when the absent parent pays less than the assured benefit.

History of the program

The Child Support Assurance Program began in 1978 as part of a broad reform package for aiding the economically disadvantaged in Wisconsin. The reform was put together by the Wisconsin Welfare Reform Study Advisory Committee, chaired by Robert H. Haveman, past director of the Institute for Research on Poverty. From the outset, a close working relationship was established between the Institute and the Wisconsin Department of Health and Social Services (DHSS).

Most pieces of the reform package got no further than governmental awareness of the difficulties entailed in transforming them into practical programs. The child support reform, however, evolved into a major research effort under the direction of Irwin Garfinkel, also a former director of IRP. Since that time the project has been supported by funds provided by the state, the federal government, and the Ford Foundation.

From 1980 through 1982, child support was translated from an essentially abstract set of concepts into a detailed specification for a new program: eligibility, benefit structures, financing, integration with other programs, and administrative procedures were worked out. A model law was designed to implement the benefit and collection system in Wisconsin. Data bases were developed, as was the technical capacity, to simulate costs and benefits under various plans.

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Edited by E. Uhr. Unsigned articles written by Elizabeth Evanson and E. Uhr.

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In February 1982 the Institute published a comprehensive three-volume report, *Child Support: Weaknesses of the Old and Features of a Proposed New System*,⁵ describing the new plan and all the related issues, such as eligibility, collections, benefits, and administration, which revealed how and why the design choices had been made. In addition, it described a method for implementing the Child Support Assurance Program at the state level. The plan recommended two stages. First, the collection methods would be put into place (the percentage-of-income standard and the automatic withholding). At a later date the assured benefit would be introduced. The strategy was suggested because it was both fiscally conservative and cognizant of the complexities of the benefit side of the package.

By the beginning of 1983, the plan was ready for implementation on a demonstration basis.

The first practical steps toward implementing the reform took place when the legislature included, in its 1983-85 budget, directives for DHSS to (1) test the automatic wage withholding in ten counties, and (2) publish a percentage-of-income standard as a suggested guideline for establishing support obligations. The bill also contained a provision requiring all Wisconsin counties to begin to use immediate withholding in all new child support cases after July 1, 1987.

This legislation was a watershed. Its modest scope effectively muted concerns that the automatic income withholding would generate a burden for employers and infringed on the constitutional rights of noncustodial parents. Furthermore, the language of the standard did not deprive the judiciary of flexibility in setting support amounts. The passage of the bill demonstrated to the federal government that the implementation of the plan was more than a scholarly exercise.

Needless to say, this venture into the real world met with obstacles. Ten counties had to be convinced that they should participate. Each one provided a unique set of problems to surmount.

The judicial community—judges, court commissioners, and attorneys—had to be persuaded that the percentage-of-income standard was an appropriate means for determining the amount of the child support obligation. Although it was generally agreed that use of the standard would simplify the process, save time, and lessen antagonism between parents, there was fear that an automatic determination of support amounts would fail to treat equitably those individuals whose circumstances set them outside the guidelines.

Some judges and commissioners feared the procedure would erode their discretion and reduce them to administrative functionaries. Some attorneys feared they would lose their livelihood. Noncustodial parents objected to the size of the awards, which, they claimed, did not take into account their current needs. They also resented income withholding because it implied a reluctance on their part voluntarily to provide support to their children.

After some initial opposition, the concern of the legal community diminished. In part, the approach of not mandating the standard worked in its favor. Judges and commissioners tried it, found it helpful, and convinced others to use it. The percentage-of-income standard appears to be gaining acceptance. Many judges and commissioners now use it on a routine basis.

The pilot counties have evidently been satisfied with the automatic income withholding plan, since more counties are now asking to become pilots. In September 1985, the Milwaukee County Board—representing Wisconsin's largest county—passed a resolution requesting that it become a pilot.

Benefits and costs

No social reform that adds substantially to the cost of government is likely to succeed at a time when the national debt is a paramount concern. One of the selling points of the Child Support Assurance Program is that, by returning the responsibility for the support of their children to absent parents, it can improve the economic well-being of poor children and perhaps simultaneously save public monies.

Both the benefits and costs of a child support assurance program will depend upon the level of the assured benefit, the incomes of noncustodial fathers, the contribution rates on noncustodial 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 1, 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 for the state of Wisconsin.⁶ Because Wisconsin has below-average family incomes and above-average AFDC benefits, the benefit-cost ratio would be even more favorable in most other states.⁷ The benefit levels for the first child currently being considered—\$2,500, \$3,500, and \$4,500—are all less than the Wisconsin AFDC benefit for one child and the child's custodial parent (currently \$5559 per year). This is in keeping with the purpose of the program, which is to supplement earnings rather than substitute for them. Moreover, unlike welfare, child support benefits are for the children only, not for the custodial parent.

The estimates in the top panel of Table 1 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 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 percent to 19 percent.

The bottom panel presents estimates of the effects of assuming that collection effectiveness is no better than the national average. In this case, all three of the plans result in costs rather than 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.) The middle panel presents an estimate based on the assumption that collection enforcement will be about midway between 100 percent and the current national average. This panel provides the most realistic estimate of how effective collections will be, once 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 the table incorporate any changes in work behavior on the part of the AFDC mothers

Table 1
Costs and Benefits of Alternative Child Support Assurance Plans in Wisconsin, 1983

Collection Rate		Assured Benefits for the 1st Child ^a		
		\$2,500	\$3,500	\$4,500
100%	Net savings ^b	\$72 million	\$60 million	\$36 million
	Poverty gap reduction ^c	32%	34%	36%
	AFDC caseload reduction	7%	12%	19%
Mid-range ^d estimate	Net savings	\$27 million	\$12 million	\$-14 million
	Poverty gap reduction	31%	33%	35%
	AFDC caseload reduction	5%	10%	17%
Current ^d national average	Net savings	\$-9 million	\$-27 million	\$-58 million
	Poverty gap reduction	29%	32%	34%
	AFDC caseload reduction	4%	9%	15%

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

^aAssured 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 assessed at 17%, 25%, 29%, 31%, 34%, for 1 up to 5 children, respectively. The custodial rate is the same as the noncustodial rate.

^bNet savings are reported in 1983 dollars.

^cThe difference between a family's income and the poverty line.

^dOn average, about 70¢ of each dollar owed in child support is collected. 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 it is estimated that the relationship of income to percentage paid is 39¢ per dollar owed plus 14¢ per dollar owed for each additional \$1000 of income. This is the relationship used in these estimates. For the mid-range estimate it is assumed that the relationship of income to percentage paid will be 60¢ per dollar plus 14¢ per dollar owed for each additional \$1000 of income.

Recent Institute Publications on Child Support

Irwin Garfinkel, *The Role of Child Support Insurance in Antipoverty Policy*. IRP Reprint no. 521.

Irwin Garfinkel and Donald Oellerich, "Noncustodial Fathers' Ability to Pay Child Support." IRP Discussion Paper, forthcoming.

Irwin Garfinkel and Elizabeth Uhr, *A New Approach to Child Support*. IRP Reprint no. 488.

Ann Nichols-Casebolt, Irwin Garfinkel, and Patrick Wong, "Reforming Wisconsin's Child Support System." IRP Discussion Paper no. 793-85.

in response to the improved work incentives in the Child Support Assurance Program, the reduction in welfare dependence, the poverty gap, and savings are all underestimated. Moreover, the underestimates are likely to be greater for the more generous plans, since the closer the assured benefit is to the welfare benefit, the more likely it is that AFDC mothers will choose to combine it with work. Unfortunately, there is no way to predict how much AFDC mothers will work in response to this new opportunity to combine work and assured child support. Nor can the labor supply effects of the support obligations on absent parents be predicted. These effects will tend to increase the costs of the plan. These will be among the principal questions addressed by the Wisconsin demonstration.

The future of the project

Two parts of the program have not yet been implemented: the assured benefit and the contribution from custodial parents receiving a benefit greater than the amount contributed by the absent parent.

In its 1984 child support legislation, Congress included a waiver allowing Wisconsin to use the money normally paid to the state as part of the AFDC match program to finance the assured benefit. The agreement extends from 1986 through 1994.

The 1985 Wisconsin budget bill for the 1986-87 biennium contains new child support legislation to permit additional counties to begin immediate withholding prior to July 1, 1987, when withholding becomes mandatory throughout the state. This bill also makes the percentage-of-income standard the presumptive child support award as of July 1987, which means that awards can depart from the standard only

if the judge makes a written finding that justifies such a departure. The legislature also has given DHSS authority, subject to final approval by the Joint Finance Committee in 1986, to implement the assured benefit in several demonstration counties.

The stage is therefore set for demonstrating the entire program. It is too early for the evaluation of the collection part of the program to tell us how big the anticipated increase in child support revenues will be. No one can predict how the assured benefit will be received. Yet all who are associated with the reform are optimistic.

Wisconsin has a long tradition of innovation in the field of social welfare. It was the first state to enact a workers' compensation statute (in 1911) and the first to provide unemployment insurance (in 1932). It pioneered in industrial safety and sanitation, child labor laws, and the income tax. The Child Support Assurance Program, if it succeeds in accomplishing its several goals, will be a significant addition to this list. ■

¹ Committee on Ways and Means, U.S. House of Representatives, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, February 22, 1985 (Washington, D.C.: GPO), p. 4.

² *Ibid.*, p. 407.

³ Larry L. Bumpass, "Children and Marital Disruption: A Replication and an Update," *Demography*, 21 (February 1984), 71-82.

⁴ U.S. Bureau of the Census, "Child Support and Alimony, 1983," *Current Population Reports*, Series P-23, no. 141 (Washington, D.C.: GPO, 1985).

⁵ Available as IRP Special Reports 32A (\$5.00), 32B (\$4.00), and 32C (\$6.00).

⁶ The methodology used to obtain these estimates is described in Donald T. Oellerich and Irwin Garfinkel, "Distributional Impacts of Existing and Alternative Child Support Systems," *Policy Studies Journal*, 12 (September 1983), 119-129. (Available as IRP Reprint no. 475.)

⁷ In states with lower AFDC benefits, the assured benefit level need not be so high to compete with welfare. Lower assured benefit levels will do much more in such states than in Wisconsin to reduce welfare dependence and poverty. In states with higher average incomes, noncustodial parents will pay more child support. That means that to achieve a given assured benefit level, citizens will be required to pay less.