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IRP SPECIAL REPORT

DEVELOPING A CHILD SUPPORT
ASSURANCE PROGRAM FOR
MINNESOTA

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Preface

The Minnesota budget act of 1994 required the Commissioner of Human Services to report to the legislature on the planning and design of a child support assurance program. The statute required the report to:

1. Recommend the amount of a guaranteed child support assurance benefit.
2. Discuss the relationship of the child support assurance program to the Aid to Families with Dependent Children (AFDC) program.
3. Estimate the cost of a child support assurance demonstration program.
4. Discuss the selection of counties for a child support assurance demonstration.
5. Discuss the federal waivers needed to implement a child support assurance program.
6. Study and make findings on the annual cost in Minnesota of items necessary to meet a child's "basic needs."

The Institute for Research on Poverty was selected to assist the Department of Human Services in completing the planning and design report for the first five statutory requirements. The collaboration between the two agencies resulted in a report, "Design of a Child Support Assurance Program for Minnesota: Report to the Minnesota Legislature," issued by the Child Support Enforcement Division (CSED) of the Minnesota Department of Human Services in January 1995.

This Special Report from the Institute for Research on Poverty is adapted from that report. It begins by setting the child support assurance proposal in the policy context. The next four sections examine purposes of a child support assurance program, eligibility, interactions with other programs, and the structure of the benefit. For each of these sections, the report describes and evaluates various design alternatives, provides our recommendation when we had one, and reports the decision of the Minnesota Child Support Enforcement Division. This report therefore goes beyond the design report submitted to the legislature, because it also includes options not selected by the CSED representatives.

The final three sections of the report address caseload and cost estimates, program evaluation considerations, and administrative and implementation issues. The sixth statutory requirement, the study of basic needs, was conducted by Policy Studies Incorporated and hence is not included in this report.

We believe this report is timely in view of current federal proposals for welfare reform, under which states are almost certain to have more flexibility in the design and management of their social welfare programs. Some states may pursue creative and far-reaching reforms; others may feel compelled to retrench in the face of the fiscal constraints that will accompany greater state responsibility.

If federal support for a number of social welfare programs is capped, state decisions on welfare reform assume greater importance. All additional expenditures would come from state taxpayers, and the sharing of fiscal risk would end. Although this report is based on the circumstances and interests of a single state, its relevance may extend to all states engaged in reforming their social welfare systems and thinking more generally about new ways to address the problems of vulnerable populations.

I. Child Support Assurance: Introduction and National Context

Child support assurance, when first proposed in 1982 by Irwin Garfinkel at the Institute for Research on Poverty,¹ had three main components: (1) all child support orders should be set on the basis of a numerical formula and be automatically adjusted when the earnings of the nonresident parent change; (2) the amount of the child support order should be automatically withheld from the income of the nonresident parent; and (3) the government should guarantee a minimal amount of child support to families with children who were legally entitled to child support. Although the first two components were generally enacted into federal law by the Family Support Act, the third component, a publicly funded guaranteed benefit, has not been enacted. This report focuses on the third component.

The argument for a child support assurance program has rested on several economic, demographic, and policy trends. Child poverty has recently increased in the United States; a growing percentage of children reside in single-parent families; children in such families are especially vulnerable to economic and social insecurity for a variety of reasons; and Aid to Families with Dependent Children (AFDC) has not proved a fully satisfactory response to these problems. The following paragraphs provide greater detail on these points.

1. Child poverty has been rising in the United States. For the past two decades, children in the United States have been the most economically vulnerable group in society. In 1993, more than one U.S. child in five (22.7 percent) fell below the official national poverty line. Some 40 percent of all the poor were children (U.S. Bureau of the Census, 1993).

A few comparisons place the issue of child poverty in perspective. The first comparison is across groups. A child in 1993 was almost twice as likely to be poor as a prime-aged adult or an elderly person. Economic vulnerability was particularly striking for children living in single-mother families. While more than one child in five was poor in 1993, more than one child in two living only with the mother was poor (U.S. Bureau of the Census, 1993).

The second comparison is over time. The child poverty rate was almost halved between 1959 and the mid-1970s. Progress then stalled. Beginning in the late 1970s, with a downturn in the economy, child poverty began to increase again, and the child poverty rate remained quite high even after the economic recovery of the mid- to late 1980s. The rate has increased by over one-third in the last 15 years while the number of poor children has increased from less than 10 million in 1975 to over 15 million in 1993 (U.S. Bureau of the Census, 1993).

The third comparison is with other advanced nations. By the mid-1980s, child poverty in the United States was more than twice that of the United Kingdom and Canada, four times the French rate, and over ten times the Swedish rate (Palmer et al., 1988).

2. Increasing numbers of U.S. children reside in single-parent (primarily mother-only) households. The divorce rate in the United States doubled between 1964 and 1975, then leveled off at the higher rate. The share of births out of wedlock increased from 4–5 percent of all births in the post-World War II period to 10 percent by the end of the 1960s, to about 20 percent by the early 1980s, and to 30 percent in the early 1990s (National Center for Health Statistics, various years). Now, more than one child in four does not live with both biological parents (U.S. Bureau of the Census, 1994). A child born today has about a 50 percent chance of spending at least part of his or her minority years in a mother-only family (Sweet and Bumpass, 1987).

3. Poverty and other forms of economic and social insecurity are widespread and severe in mother-only households. About half of all mother-only households have incomes below the federal poverty threshold (\$11,186 for a family of three in 1992), and nearly three-quarters have incomes below 1.75 times the federal poverty line (U.S. Bureau of the Census, 1992). Even those which do not fall below the poverty line typically experience economic instability; on average the postdivorce income of a single mother is about 60 percent of her predivorce income (see, for example, Smock 1994). Single-parent families experience more economic insecurity than two-parent families, in part because

they lack economies of scale (two adults can live more cheaply together than apart) and in part because they have a lower earning capacity (one potential worker and child care provider rather than two). These two structural difficulties are exacerbated when the single parent is a woman; although the wage gap narrowed among full-time workers during the 1980s, women working full time still earn only about 70 percent of the amount that men earn (U.S. Bureau of the Census, 1995).

Changes in the structure of the economy make it more difficult for single-parent families to achieve economic security. From 1950 to 1970, real wages in the United States increased by 40 percent per decade. Between 1974 and 1992, real median earnings for all families with children remained roughly the same. During the same period, the median income of mother-only families with children dropped by 4.7 percent. Their median incomes have continued to decline despite the recent recovery from the recession of the early 1990s. Between 1989 and 1993, female householders (with no husband present) experienced an 8 percent decline in median income while black female householders experienced a median income decline of about 12 percent (see Mishel and Bernstein, 1993).

An additional factor contributing to the economic insecurity of mother-only families is the low rate of child support from nonresident parents. Nationally, only six of ten mothers potentially eligible for child support actually have a court order (U.S. Bureau of the Census, 1991). Of those with an order, only half receive the full amount of the order, and over a quarter receive nothing. The Urban Institute has recently estimated that a "perfect" child support system might collect some \$48 billion on behalf of children not living with both parents (Sorensen, 1994). Currently, only \$13 billion is collected, at least through formal channels.

Single-parent households experience social as well as economic stress. Newly formed single-mother families are likely to change residence, which can affect informal sources of social networking and supports (McLanahan and Sandefur, 1994). Also, new single mothers are more likely to start

working outside the home or increase hours of paid work (Seltzer, 1994). This in turn may result in new child care arrangements.

Considerable research has shown that these economic and social dislocations create significant stress among single parents and have important consequences for the well-being of their children (McLanahan and Sandefur, 1994). Children in mother-only families are less likely to graduate from high school, more likely to have a child while still in their teens, more likely to experience a nonmarital birth, and are less likely to become attached to the labor force. Although some of these disadvantages are due to differences in family characteristics or individual traits that predate divorce or nonmarital birth, at least part of them are now thought to result from single parenthood itself. In particular, the income drop associated with marital disruption accounts for a substantial part of the difference in educational attainment between one- and two-parent families (McLanahan and Sandefur 1994).

4. Dissatisfaction with the AFDC program as a response to child poverty has been increasing.

Few people defend the current welfare system (i.e., AFDC). Why is it so unpopular? The short answer is that welfare is fatally flawed as the centerpiece of an antipoverty strategy. Basically, welfare programs are public transfers with two distinguishing characteristics: (1) benefits can be received in the absence of work; and (2) the rate at which benefits are reduced in the face of earnings substantially exceeds the rate we impose on other members of society. Thus, AFDC essentially substitutes for earnings rather than supplementing them.

The AFDC grant by itself has never sufficed to raise a family above the official federal poverty line. Still, in the first decade of the War on Poverty (from the mid-1960s to the mid-1970s), regular increases in AFDC benefits in many states provided important new sources of income support to poor families. These benefit increases have not continued. Strong pressures exist to keep AFDC benefits low so that they do not compete with wages in the secondary labor market or attract in-migrants to more generous states. Between 1970 and January 1994, the real value (after inflation) of the AFDC

guarantee in a typical state fell some 47 percent (45 percent in Minnesota), and the package of AFDC and food stamps fell in real value by almost 30 percent. Currently, the AFDC guarantee for a typical family in a typical state amounts to 38 percent of the poverty threshold, 69 percent if food stamps are included (U.S. House of Representatives, 1994). Even in Minnesota, a state with one of the highest benefits, the comparable figures were only 55 and 80 percent in January 1994.

Despite the reduction in real benefits, more families and children have recently begun receiving AFDC. From 1971 through 1989, the number of children receiving AFDC benefits remained relatively stable, at 7.3 million (U.S. House of Representatives, 1994). Since 1989, participation of children in AFDC has increased by almost one-third, to about 9.6 million in July 1993. Early in 1993, for the first time in history, the number of families receiving AFDC benefits exceeded 5 million (U.S. Department of Health and Human Services, 1994).²

These caseload increases have not been welcomed in many states. Critics have pointed to many faults with the AFDC program, including the following:

- (i) AFDC benefits can be received in the absence of work, and some adults are dependent on welfare for very long periods of time, apparently without any attempt to move toward self-sufficiency;
- (ii) Even recipients who leave AFDC often return to the program—recent research has found that almost 70 percent of all new entrants onto welfare rolls will exit within the first two years, but that almost three-fourths of the exiters will return to AFDC within five years (Bane and Ellwood, 1994);
- (iii) AFDC benefits seem to discourage work, in that the benefits decline by a high percentage for every dollar earned;
- (iv) AFDC seems to encourage nonmarital births (or it at least allows women who have children outside of marriage to survive); and

(v) AFDC enables teen mothers to live away from their parent(s), a living situation that may not be optimal for their children.

Because of these concerns, interest has grown in creating programs outside of AFDC that could address the economic vulnerability of children in single-parent families. A proposal made originally by Irwin Garfinkel and his colleagues at the Institute for Research on Poverty, University of Wisconsin-Madison, has been to institute a publicly guaranteed minimum child support payment. The idea was that a public subsidy would be paid to families with current child support orders in any month in which the child support paid by the noncustodial parent was less than the assured level. This was viewed as a nonwelfare alternative, though not necessarily a substitute, to AFDC. Unlike a welfare program, the assurance concept was not highly targeted on the income-and-asset poor in ways that create perverse incentives. This critical distinction between a welfare and nonwelfare strategy for helping poor children is discussed in several places throughout the report.

Possible advantages of child support assurance include:

- **It provides support to economically vulnerable children in single-parent families.**
If they have a very low child support order (because the noncustodial parent has low earnings), child support assurance would provide them with assistance each month. Even if their order is larger than the public guarantee, child support assurance would still provide economic support to them in months in which the noncustodial parent is unwilling or unable to pay child support. In these ways, the assurance may enable some families with low earnings ability or low child support entitlements to escape poverty.
- Further, if child support assurance is available to custodial-parent families without regard to the income of the custodial parent, **it can provide economic support to children in families which are not poor but are at risk of becoming poor.** This

makes it similar to other social insurance programs, thereby avoiding some of the stigma attached to programs targeted to the poor.

- **Child support assurance provides additional economic security because it guarantees a regular source of income.** Income would not precipitously drop during a month in which the noncustodial parent paid nothing. It therefore provides a reliable stream of income to children not residing with both parents.
- If child support assurance is not income-tested, or if it is only lightly income-tested, it can be seen as one step toward dismantling the welfare approach to providing economic help to children. **It would not discourage work but would supplement earnings.**
- If child support assurance is available only to those with court orders, **it provides an incentive for the custodial parent to establish paternity and seek an order.**
- **Child support assurance is an effective means of reinvesting the savings from increased child support collections.** Currently, much of the increased child support collected for poor children does not go to them but to offset AFDC costs. This means that one effect of improved child support collections is to take more money from poor absent fathers and use it to reduce the burden on middle- and upper-income taxpayers. Sharing the gains of increased collections with poor custodial-parent families who have child support orders not only bolsters their incomes in times of hardship, but also gives them an incentive to cooperate in establishing paternity and locating the other legally liable parent of their child.

The concept of expanding government's role by creating a publicly guaranteed minimal child support benefit raises legitimate concerns. We address a few of these concerns below:

1. Some fear this program will encourage family breakup and/or discourage family formation.

Theoretically, the larger the guaranteed payment, the greater the financial advantage to marital

separation or feigned separation. However, AFDC already contains such incentives, and the existing research suggests that these effects are small (Moffitt, 1992). The child support assurance transfer may create a stronger incentive because it is less stigmatizing than AFDC and would extend to a broader population group. The magnitude of this incentive is still likely to be small, but we cannot say this with confidence. This is an empirical question that should be answered more precisely in a careful evaluation of a pilot program.

2. This program might reduce the incentive for noncustodial parents (particularly low-income parents) to pay child support. Theoretically, it is possible that this disincentive would lead to a larger decrease in private payments than the increase in collections due to a hypothesized increase in paternity establishments, which this program should also encourage. In practice, this seems unlikely. First, AFDC already contains such incentives. Second, the increased fiscal risk assumed by government could encourage further resources and energies to be devoted to child support enforcement and collection. Again, an evaluation of a pilot program could examine the effect of the assurance on the amount of child support paid.
3. Benefits are provided to those with incomes above the poverty threshold. Some feel the benefits are inadequately targeted. However, as discussed elsewhere in this document, targeted benefits create strong work disincentives because such benefits must fall as earnings rise. One has only to look at the current welfare system to recognize the problems inherent in too much targeting. In any case, despite its lack of explicit targeting by income, in practice most of the benefits are received by the lower-income segment of the population.
4. This program would unnecessarily expand the role of government. Although an increase in the role of government should not be undertaken lightly, especially in a country that takes pride in its tradition of limited government, the increase in government attributable to child support assurance is likely to be quite small. It is the improvements in the collection components of

any child support reform that involve the largest increase in the size of government—establishing paternity, setting fair awards, universal immediate withholding, and universal payments of private support through a government agency. While there would be additional cases receiving a government transfer, child support assurance would decrease the number receiving AFDC and other welfare benefits. Welfare programs are costly to administer and interfere in the lives of their beneficiaries; child support assurance would be less expensive to administer and would involve little extra interference in the lives of those who benefit from the program.

Child support assurance has received recent attention at both the national and state level.

Although Wisconsin was given federal approval to pilot a child support assurance program in the mid-1980s, the guaranteed benefit was never implemented. Periodic proposals for child support assurance have been made at the federal level, but no legislative action has been taken on the guaranteed benefit. More recently, the Clinton administration proposed the Work and Responsibility Act, which would have provided 90 percent funding for three states to undertake child support assurance demonstrations. Several states have expressed interest in the concept, but the only programs that have been developed thus far are variants of child support assurance offered only to AFDC recipients. In 1988, New York State began the Child Assistance Program (CAP), available only to former AFDC recipients who have child support orders (see Hamilton et al., 1993). Additional experiments are planned or underway in Connecticut and Virginia, but again these are only for AFDC recipients.

II. The Purposes of a Child Support Assurance System

Child support assurance programs can serve multiple purposes. In designing an actual program in Minnesota, it was necessary to emphasize certain purposes over others, because all of them could not be advanced simultaneously.

The following paragraphs suggest many of the potential purposes of a child support assurance program. We believe that purposes A through D are all important, and we tried to promote them in designing a child support assurance system for Minnesota. We view items E and F as less important.

A. Assure a Reasonable and Reliable Level of Child Support. A child support assurance program fulfilling this purpose would select some level of “reasonable” child support—perhaps the average monthly child support order level, the average monthly payment level, or the amount the Minnesota state guidelines would require of a worker earning the median wage. The program would then assure this level of support to custodial parents on behalf of children covered by a child support order. If the private child support transfer were higher, no public child support assurance would be paid. If private support were lower, the public child support assurance would make up the difference.

Because a child support assurance program fulfilling this purpose could be set at a benefit level below current AFDC payments, it might well not meet basic needs. For the most part, only custodial parents with earnings would find such a child support assurance financially preferable to AFDC. However, because the program would represent child support that might reasonably have been expected regardless of the custodial parent’s earnings, the child support assurance could be made available to all custodial parents with a current order, without consideration of income from other sources.

In essence, a child support assurance program fulfilling this purpose would provide basic support to custodial parents. The parents would know they could count on at least some child support each month, allowing them to build the rest of their lives on a more secure financial foundation.

B. Encourage Custodial Parents to Obtain Current Child Support Orders. Considerable potential remains to increase economic support for children from noncustodial parents. The first step in realizing this potential is for more custodial parents to obtain child support orders and keep them current. A child support assurance system can be devised to be an incentive for custodial parents to obtain a current court order for child support.

C. Encourage Work among Single-Parent Families. Many policymakers are concerned about low levels of earnings among single-parent families. Although job training has some positive effect on earnings, the most likely way for adults with low wages to increase their earnings is to increase their number of hours of work (Ellwood, 1988). Several ways exist to encourage more hours of work. One is to avoid reducing public benefits as earnings rise (or to reduce the public benefits at a rate much lower than the increase in earnings). For reasons we discuss more fully below, child support assurance can be designed to do this.

D. Encourage (or at Least Not Discourage) Child Support Payments by Noncustodial Parents. Some evidence suggests that noncustodial parents are more likely to pay child support if they know that their payments result in actual income improvements for their children. We believe it is possible to experiment with a child support assurance program in which the public assurance declines by less than one dollar for every dollar of increased private child support. We discuss below the evidence on this issue and how such an experimental program might work.

Again, we think the four purposes listed above are all important. In contrast, although the next two objectives are sometimes cited as major goals of a child support assurance system, we did not suggest that program design efforts should strive to maximize them.

E. Provide an Income Floor for Low-Income Families. To emphasize this principle, the program would identify a minimum income floor below which single-parent households should not be asked to live. The floor could be the current poverty line, the poverty line recommended by the National Academy of Sciences study of the subject (Citro and Michael, 1995), or some other “basic needs” level which a state might select.

Assuring an income floor is desirable from many perspectives, but it can also create problems. For households with no source of income other than the government payment, establishing a floor, and assuring that people receive that amount, is relatively straightforward. But an income floor approach becomes more complicated when it must address households with earnings, because the floor implies a reduction in government payments as earnings rise. Government, after all, is assuring only that families have an income at the level of the floor, not above the floor. Yet if government payments are reduced as earnings rise, then little economic incentive may exist to increase earnings.

We do not believe that this principle should be central to a child support assurance system. Although assuring a minimum income may be a desirable objective, other income support programs such as AFDC have been created for this purpose. Child support assurance should promote other objectives.

F. Provide a Replacement for Welfare. We agree that child support assurance should be designed to be different from AFDC. We argue in this report, for example, that the program should not be means-tested, but should instead be available to all custodial parents with current child support orders, regardless of their earnings. Further, we believe that some current AFDC recipients will be enabled to leave AFDC because of child support assurance. But we do not think that child support assurance should replace AFDC, for if child support assurance had to serve all households qualifying for AFDC, it would lose some of its desirable qualities.

We do not, then, recommend subsuming all of AFDC under child support assurance, but neither do we recommend subsuming child support assurance under AFDC. Reforms within AFDC could conceivably meet several of the purposes of child support assurance. For example, the current \$50 disregard for private child support payments could be raised to perhaps \$200 or \$300 per month, allowing AFDC recipients to keep more of their private child support, and AFDC could be modified to allow for lower reductions in the AFDC grant as earnings rise.

We do not recommend trying to accomplish all of this through an expanded AFDC program for the following reasons:

1. A separate child support assurance program can be structured to provide a clear incentive for potential recipients to obtain an up-to-date court order for child support, even if little private child support can be expected in the near future. An expanded AFDC program cannot do this as easily.
2. Many believe AFDC should be a temporary source of assistance for families with children. Several reforms of the program now under discussion at the federal level and in several states, such as limiting AFDC to two or five years, emphasize this temporary quality. An attempt to provide child support assurance within welfare would thus be likely to provide only short-term assistance.
3. A desirable child support assurance system that exists independently of AFDC provides a clear target for AFDC recipients. If they wonder how much they should be expected to work and earn, the answer can be: enough to be better off on the child support assurance program than under AFDC, so as to leave AFDC.
4. As David Ellwood of Harvard University (and recently the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services) has said, AFDC is disliked both by the public that pays for it and by recipients (Ellwood, 1988). Leaving aside the issue

of whether this unpopularity is deserved (Ellwood argues that it is), alternatives may be preferable to expansions of such a widely disliked program.

Purposes A through D above, but not E and F, thus served as important principles in our consideration of what child support assurance should achieve. In addition to these overall objectives, three operational themes guided our design effort in Minnesota. The themes were:

1. Simplicity. Insofar as possible, the program should be easy to explain to potential participants, easy to administer, and add minimal complexity to current child support guidelines.
2. Comparable Treatment of Public and Private Child Support Payments. To the extent possible, each dollar of public child support assurance payments should have the same effect on food stamps, Medicaid, child care, and other public programs as does each dollar of private child support payments. Also, eligibility requirements under child support assurance should generally match those in the child support collection system.
3. Administrative Responsibility. The IV-D (child support), rather than the IV-A (AFDC) system (see Glossary for full definitions) should handle eligibility and benefit determinations and make public payments under child support assurance.

III. Eligibility for Child Support Assurance

One issue that arises in consideration of child support assurance is whether initial eligibility for it should be limited to AFDC recipients. Both the ongoing child support assurance pilot program in New York State and a new test of child support assurance in Richmond, Virginia, are limited to custodial parents who enter child support assurance while on AFDC.

Limiting entry into child support assurance to AFDC clients seems to offer an efficient way of targeting resources to the most needy. Because AFDC recipients have already undergone a review of

their income and assets, such targeting can be accomplished without a new and potentially large eligibility-determination bureaucracy. Without an income limitation in the program, some wealthy custodial families would receive a public benefit, and it can be argued that scarce public resources should not support a high-income custodial parent just because the noncustodial parent did not pay in a particular month. Also, limiting entrance to child support assurance to AFDC recipients restricts overall public expenditures for the program.

Yet limiting program entrance to AFDC recipients also creates problems. One hope for child support assurance is that it might prevent welfare reciprocity, but limiting the program to AFDC recipients keeps this benefit from occurring, and might even encourage some custodial parents to cycle through welfare as a way of obtaining child support assurance. Also, the limitation would not keep all high-income custodial parents from receiving child support assurance; a custodial parent who entered child support assurance while on AFDC could subsequently have substantial income and still receive child support assurance benefits. Finally, the limitation could make child support assurance appear to be an adjunct of the welfare system rather than an alternative to it.

Because of these problems, Minnesota officials decided—we believe correctly—not to plan a child support assurance program that limits entry to AFDC recipients. The officials did, however, decide to limit child support assurance in other ways, as the following paragraphs describe:

A. The Custodial Parent Must Have a Current Child Support Order. This program would be available only to custodial parents with a child support order, even if the order is for a token amount. The order must be less than three years old or certified by the county child support agency as inappropriate for court review. The order may be from any court or administrative agency in the United States.

This requirement excludes from the child support assurance program custodial parents who do not know, or cannot for some valid reason name, the noncustodial parent. The requirement thus keeps

some vulnerable children, through no fault of their own, from receiving a potentially important benefit. One alternative to requiring an order would be a requirement for custodial parents simply to cooperate with the child support agency. Or, if an order is required, perhaps custodial parents who can demonstrate "good-cause" reasons for not having one could receive an exemption. In practice, however, experience with the AFDC program has shown that requirements for cooperation and good-cause exemptions can easily slip into no enforceable requirement at all.

Restricting eligibility to custodial parents with a court order would underscore the responsibility of parents to provide for their own children, more clearly limiting the role of government to the enforcement of parental responsibility and the provision of public support only when private efforts are inadequate. The limitation has several other advantages as well: (1) custodial parents would be encouraged to obtain an order wherever possible; (2) the purpose of child support assurance is primarily to assure child support, rather than income, and the public should not assure child support in cases where an appropriate level of child support is not even theoretically possible; and (3) limiting the assurance to those with current orders helps control costs. The AFDC program would still be available for parents who cannot obtain an order.

B. Among Custodial Parents with a Current Order, the Program Should Be Universally Available, Regardless of Earnings, Nationality, or Current Family Status. Because this program assures a reasonable level of child support and does not seek to discourage marriage or remarriage, custodial parents could participate regardless of earnings, nationality, or current marital status. The decision not to limit the program to U.S. citizens in part reflects the emphasis on assuring child support rather than income. The decision also reflects the likelihood that even when the custodial parent is not a citizen, many of their former partners, and many of the children on behalf of whom an assurance is provided, are U.S. citizens.

Custodial parents who marry another partner should be able to participate in child support assurance without regard for the earnings of their new spouse. Deeming stepparent income is administratively complicated and inappropriate for a program that guarantees a reasonable level of support from noncustodial parents.

Reasons for not taking custodial parent income into account are discussed more fully below.

One optional eligibility requirement for the program would be to limit eligibility to custodial parents with earnings. This would have the advantage of emphasizing a distinction between AFDC and child support assurance, with child support assurance only available to those who are working. The limitation would also avoid difficulties in sustaining political support that may arise if custodial parents who are not working, but are married to a stepparent with sizable earnings, receive child support assurance.

We did not recommend this approach for the following reasons: (1) it would interfere with a basic program message—that public child support assurance offers security for periods when noncustodial parents do not provide a basic level; (2) such a limitation would require child support agencies administering the assurance program to take the extra step of verifying that earnings occurred each month for each program participant; and (3) child support assurance under such a limitation would be unavailable at critical times to workers in the low-wage labor market who experience occasional periods of unemployment even when they are generally working.

C. The Custodial Parent Must Be an Adult or a High School Graduate to Be Eligible for the Child Support Assurance Program. The custodial parent must be at least 18 or have graduated from high school to qualify for the program. Because one purpose of child support assurance is to encourage work, this can be seen as an inappropriate program for a minor child who has not graduated from high school and who should be focusing on getting an education.

D. The Child Support Assurance Program Would Be Available to Custodial Parents on Behalf of a Child between the Ages of 0 and 18 (or 20 if the Child Remains in High School). A custodial parent may continue to receive child support assurance on behalf of a child only until the child turns age 18, unless the child is pursuing an accredited course of instruction leading to the acquisition of a high school diploma or its equivalent. In that case, the custodial parent could continue to receive child support assurance payments on behalf of a child who is less than age 20. No benefit would be available on behalf of a child not yet born. (Our original proposal was to offer child support assurance on behalf of children still in high school only up to age 19, rather than age 20. However, Minnesota's state guidelines for private child support call for support to be paid on behalf of high school students below the age of 20, and we wanted the guidelines for child support assurance to match guidelines for private child support whenever possible.)

E. Child Support Assurance Should Be Available in All Cases in Which a Current Child Support Order Calls for a Payment, Regardless of Split or Shared Custody Arrangements. If a current court order has been entered, the assured benefit program should be available to the parent even if the child temporarily resides with the other parent. When children reside with someone other than the payee for any length of time, the order should be revised to reflect the child's actual living arrangement.

In split custody arrangements, each parent has physical custody of one or more children from their partnership. In shared custody arrangements, both parents share physical custody of the child(ren). We recommended that any parent with a child support order be eligible for the assured benefit. Whether the benefit amount should be adjusted in these custody arrangements is discussed in section V.F., below.

IV. **The Relation between the Child Support Assurance Program and AFDC, Food Stamps, Medicaid, Child Care Programs, and the Earned Income Tax Credit Program**

The discussion below assumes that the current set of income support programs for poor families with children remains intact. If a new policy environment emerges that provides states with significant policymaking discretion, a number of these program interactions may not be quite as important or problematic.

A. AFDC. Because we conceive of child support assurance as a universal program available to all custodial parents with a current order, we would allow AFDC recipients who are custodial parents and have a current order to enroll simultaneously in the child support assurance program. Assurance benefits would be treated as unearned income in the AFDC program. Recipients of both programs would then receive two checks—one for their assured benefit payment and the second for their AFDC benefit minus the amount of the child support assurance.

Under this procedure, AFDC recipients with no earnings would receive the same total amount as they currently do, but their AFDC check would be smaller. The prospect of finding a job that would replace their now smaller AFDC check would seem more promising. The stability of the child support assurance check as earnings begin—combined with an AFDC check that fluctuates because of disregard status, earnings, and the number of pay periods in a month—would reinforce the character of child support assurance payments as something other than a means-tested welfare program.

For custodial parents enrolled in both programs, the first \$50/month of private child support would be treated as under AFDC law. AFDC recipients receiving exactly \$50 in private child support in a month would be given three separate checks (rather than their current two): their AFDC check, their \$50 in “disregarded” private child support (paid only if at least \$50 of private child support collections has been obtained for the case), and their child support assurance check for the full

guarantee. Each dollar of increased private child support beyond the first \$50 would then reduce their public child support assurance payment by a dollar.

This simultaneous participation in the AFDC and child support assurance programs would require that the IV-D system notify the IV-A system of the amount of child support assurance each month, so that the AFDC check could be adjusted by the appropriate amount. AFDC recipients would not be passively enrolled into child support assurance; those who wish to participate in both programs would have to enroll in both.

B. Food Stamps. Child support assurance payments should be treated as unearned income (as are private child support payments) for purposes of determining Food Stamp eligibility and benefit levels. The earned income disregard would thus not be applied to child support assurance payments. The amount of Food Stamp benefits a custodial parent family receives would not affect the level of child support assurance payments.

C. Medicaid. Minnesota officials believed that child support assurance payments should be treated as income for Medicaid eligibility purposes, just as private child support payments are. The effect of applying this principle, however, would be to treat child support assurance recipients less generously with respect to Medicaid eligibility than are AFDC recipients.

Under AFDC policy, as long as a case head is eligible for even one dollar of AFDC benefits in a month, the entire case is categorically eligible for Medicaid. However, if child support assurance of, say, \$300 is provided in a month, and if that counts as income for purposes of determining categorical eligibility for Medicaid, the level of earnings at which the case loses categorical eligibility for Medicaid is \$300 per month less than if the case had instead received \$300 in AFDC benefits. Yet the case would financially be no better off under child support assurance and public costs would be no different; \$300 in monthly AFDC benefits would be replaced with \$300 in monthly child support assurance benefits.

The interaction of Medicaid and child support assurance is complicated because cases losing eligibility for AFDC due to earnings receive an extension of their Medicaid eligibility. Also, children born after 1983 retain eligibility for Medicaid at household incomes well above the AFDC threshold. In some cases, however, child support assurance (not earnings) may be deemed to have made the case ineligible for AFDC, and in these cases many older children and adults would presumably lose categorical Medicaid eligibility.

An alternative approach to the Medicaid-child support assurance connection would be to confer categorical eligibility for Medicaid if the case would have been eligible for AFDC in the absence of child support assurance. That way, participants would lose no Medicaid eligibility by choosing to participate in child support assurance. This policy would, however, treat public child support assurance differently from private child support payments; a case with enough earnings and private child support to exceed the income eligibility limit for AFDC would no longer have categorical Medicaid eligibility.

For purposes of categorical Medicaid eligibility, then, states planning a child support assurance program must choose between two presumably desirable principles: guaranteeing that public and private child support are treated the same way, or guaranteeing that public child support assurance recipients are no worse off for having chosen that option than they would have been if they had simply remained on AFDC. Minnesota's selection was influenced by the fact that it has a state program of health care benefits (called MinnesotaCare) for people with no or inadequate employer-paid insurance and with low income but lacking eligibility for Medicaid. Under Minnesota's policy choice, child support assurance participants who lose Medicaid eligibility would be placed on the comparable MinnesotaCare program. However, the state pays 100 percent of MinnesotaCare costs and only about 46 percent of Medicaid costs.

D. Child Care. An important purpose of child support assurance is to encourage work, and the availability of affordable child care is presumably an important element in work decisions. The issue of child care presented Minnesota staff planning the child support assurance program with a dilemma comparable to that presented by Medicaid.

As required under federal law, AFDC recipients are guaranteed state child care assistance. Minnesota provides this guarantee through a program with a sliding fee schedule based on income. Because the program has many more qualified applicants than can be served with available funds, AFDC recipients are placed at the head of the list for assistance under the program.

If child support assurance recipients lose eligibility for AFDC solely because their assurance benefits substitute for what would otherwise have been AFDC, they may lose access to the child care assistance program despite experiencing no change in their overall financial condition. (States are required to provide one year of transitional child care benefits to cases losing eligibility for AFDC due to earnings. However, states do not yet appear to be in full compliance with this requirement, and it is unclear how cases which lose eligibility for AFDC in part because of child support assurance would be treated under current federal regulations.)

As with Medicaid, one option would be to offer guaranteed child care to child support assurance recipients who would have been on AFDC if child support assurance did not exist. Minnesota staff did not select this option because of concerns over differential treatment of public and private child support.

Another option given more consideration was to place all child support assurance participants at the head of the line for assistance under the Minnesota sliding fee schedule program. This would have assured child care assistance to some moderate-income households (up to about \$24,000 annually for those with one child in care), but families toward the upper end of the income limit would pay a large portion of the child care costs. Minnesota staff did not select this option because of concerns over

displacing other families (such as low-income families with two parents) who also need help with child care.

E. Earned Income Tax Credit. The report to the legislature recommended that any effort by Minnesota to provide earned income tax credits on a monthly basis to AFDC recipients be applied as well to child support assurance benefits.

V. Benefit Level and Structure

A. Benefit Level for One Child. Three alternative levels of the benefit for one child are:

- a. the median child support order level among families with one child in Minnesota (\$200/month),
- b. the amount of child support that would be ordered for a man earning the median income (in 1990, the median income of a male in Minnesota age 15 or over with income was \$20,913 according to the U.S. Census Bureau; with standard deductions, this translates into an order of about \$300/month),
- c. the estimated cost of raising children in Minnesota (Betson, 1994) (\$389/month for one child).

Higher benefits clearly provide more assistance to custodial-parent families (increasing their income, decreasing their levels of poverty, and decreasing their AFDC use) but also cost more. The next section provides estimated effects and costs for these three levels; our recommendation on the benefit level for one child is a part of that section.

Another way to set the benefit level for one child would be to set it so that it would bring a custodial-parent family up to some minimal income level if the family receives the benefit and if the custodial parent works an expected amount. We have not selected this approach because it is not

consistent with the basic principle that the purpose is assuring a reasonable and reliable level of child support, not assuring an income floor. Nonetheless, Appendix A shows that benefit levels (a) and (b), when combined with working half-time at \$5/hour, would bring a custodial-parent family with one child above the poverty level if food stamps are counted as income.

B. Benefit Level for More than One Child. We believe the benefit should increase with the number of children. We recommend that the increase from one child to two, three, and four or more children be the same percentage increase as is currently in the Minnesota guidelines for private child support (that is, the benefit for two children should be 120 percent of the one-child benefit; for three children should be 140 percent of the one-child benefit; for four or more children, 156 percent). Although the guidelines continue to increase up to seven children, our inclination is to cap the benefit at four children. We have selected the percentage increases that are implicit in Minnesota's current guidelines, believing that they are reasonable, that they may reflect a consensus among Minnesota policymakers on the increases needed for more children, and that clear connections between an assured benefit and other child support policies strengthen the assured benefit. (When we test the plan in which the benefit level is related to the cost of raising children, however, we use the actual estimates developed for these other family sizes, which are \$717/month for two children, \$1,012 for three, and \$1,285 for four.)

An alternative that we considered is to increase the benefit by the percentages incorporated in the national poverty thresholds. We did not recommend this because the equivalence scale built into the thresholds is internally inconsistent (Ruggles, 1990). We also considered increasing the benefit by some round number for each child (\$500 or \$1000/year, perhaps), but prefer increases consistent with the guidelines.

Determining the amount of the benefit for custodial parents with more than one child support order is difficult. Our recommendation would be to guarantee the amount associated with the total

number of children covered by all orders. Thus, if a custodial parent has two separate orders, one for each child, she or he would be guaranteed the amount for two children, not twice the amount for one child. Although guaranteeing a certain amount for each order would be simpler to administer, we believe it promotes equity to treat all custodial parents with the same number of children similarly. Further, this may limit any perceived incentive to reward custodial parents with multiple partners.

C. Structure of the Benefit. We considered several types of benefits and recommended that Minnesota test two different benefit structures, described as follows.

A "Flat" Guarantee: We recommend that one level be structured so that the custodial parent receives either the amount that was paid, or, if the amount paid is less than the guarantee, the guarantee. This type of benefit is understandable by custodial parents and simple to administer. In the past, this is the type of benefit most often proposed.

A Benefit That Rewards Payments: We recommend that the other benefit to be tested should vary with the amount paid, so that the noncustodial parent has an incentive to pay more child support. One type of assured benefit has been tested in the United States in the form of the Child Assistance Program (CAP) in New York, which offered a "flat" guaranteed child support payment to welfare recipients with child support orders. The program increased the number of women with orders, but did not generally increase child support collections (Hamilton et al., 1993). We are troubled by this finding. Clearly, if the custodial family income remains the same regardless of whether the noncustodial parent pays any child support, there is little incentive for the noncustodial parent to pay child support through the formal system. Moreover, information from ethnographic research suggests that the similar feature of the current AFDC system (in which children receive nothing after the first \$50/month of child support) is perceived by many noncustodial parents (and custodial parents) as quite unfair (e.g., Wattenberg et al., 1992).

It is often asserted that the collection side of child support must be tightened so that there is little discretion available for noncustodial parents—that they pay automatically. Yet we are uncertain of the degree to which this is possible. One way to maintain an incentive for the noncustodial parent to pay child support is to link the amount of the benefit to how much is paid.

Alternative 1. The guarantee could be \$250/month, for example, and this is the amount that a custodial parent whose partner paid nothing would receive. For every dollar of private child support paid, the amount of public support could decrease by less than a dollar, perhaps by fifty cents. Below we present cost estimates for two levels of the base guarantee, in both of which the public benefit is reduced by fifty cents for each dollar of private support that is paid.

Alternative 2. A similar approach would be to match a portion of the payments made by the noncustodial parent. For example, there could be a small guarantee (perhaps \$100/month) available even if the noncustodial parent paid nothing. The first \$50/month that was paid could be matched by public funds, dollar for dollar. For payments between \$51 and \$100/month, the amount paid could be matched by fifty cents for each dollar. Payments between \$101 and \$200/month would be augmented with \$175 of public funds. Payment above \$200/month would lead to a reduction of fifty cents in public support for each dollar paid. This schedule is similar in structure to the Earned Income Tax Credit.

Comparing the alternative incentive plans, alternative 1 is simpler. For the same cost, it could provide more support for those who receive nothing. Alternative 2 may provide higher incentives for noncustodial parents with very low incomes to pay something, since low payments would be matched dollar-for-dollar with public support.

Although either of the benefits that reward payments may increase private child support, they also result in a lower level of economic security for custodial-parent families. If costs are to be comparable between the types, the public assurance level for families receiving no private support must

be set at a lower level under either of the benefits that reward payments. The incentive type of benefit is more complicated to implement and administer. It also is more complicated for the custodial parent and the noncustodial parent to understand. Further, it limits the amount of security provided to custodial-parent families: first, the benefit would provide less when the noncustodial parent pays nothing; second, the custodial parent would not be assured of a consistent amount each month, but a varying amount, because it would partly depend on how much the custodial parent pays. The key advantage is that an incentive for the noncustodial parent to pay child support is preserved.

We recommended that Minnesota test one benefit that was unrelated to the amount paid and another benefit linked to payments, so that substantial information about the potential negative effect of an assured benefit on payments would be gained. Representatives of the Minnesota Child Support Enforcement Division (CSED) concurred, and preferred alternative 1 for the benefit linked to payments.

D. Benefit Levels and Children's Ages. The child support guidelines establish whether different amounts of child support are appropriate for children of different ages. Because under current Minnesota law the order amount does not change as a child ages, we recommend that assured benefit amounts should not change. This also has the advantage of simplicity. If, however, the guidelines change, we would consider changing the assured benefit, since some research has found that more is typically spent on children as they age, if child care expenses are not considered (Betson, 1990).

E. Benefit Levels and Order Amounts. We recommend that the benefit not be tied to the level of the individual order. One simple type of benefit would be merely to guarantee the amount of the order, assuming that the order amount is what society has determined is appropriate in this case. We do not recommend this, however, because it would provide higher public benefits to those already fairly well off, and would provide very little to most of those with low incomes. Particularly if the new guidelines in Minnesota incorporate a self-support reserve, many low-income women may have only

token orders, and we would argue that the public responsibility to these families is to do more than merely guarantee a token amount. Further, while we are comfortable with the provision that taxpayers provide support to upper-income families (see section G below), we do not believe that taxpayers should generally provide more support to higher-income families than they do to lower-income families.

F. Benefit Levels and Custody Arrangements. We recommend that legal custody be irrelevant to the assured benefit level. Physical custody, however, raises complicated policy choices. While the assured benefit translates most easily to cases in which one parent has primary physical custody, in an increasing number of cases (albeit still small), both parents have custody of the children for significant portions of time.

For cases with split custody (i.e., each parent has custody of one or more children from their partnership), we recommend that each parent who has a child support order be eligible for the full amount of the guarantee if the payment from the other partner is less than the assured level.³

Cases with shared physical custody (i.e., each parent has custody of all the children for a substantial part of the time) are also difficult. The current treatment of these cases in Minnesota is that the child support obligation is typically set at an amount less than would be required under a sole custody arrangement because the primary parent does not have the full costs they would have if the child lived with them full-time. One approach would be to decrease the assurance level to reflect this. For example, if a sole-custody order would have been \$500 and the parent's actual order was \$250, the parent could be eligible for half the regular assurance amount. Because these cases still represent a small proportion of all child support cases, and to preserve administrative simplicity, CSED representatives believe that shared custody cases be ineligible for child support assurance during the demonstration. We are unconvinced of the appropriateness of this approach because it may discourage shared custody.

G. Benefit Levels and Other Income. We recommend that the benefit be available to all custodial-parent families with orders, regardless of income. We therefore recommend that the benefit level not be adjusted when the custodial-parent family has other income. There are five reasons for this recommendation.

1. Income-tested programs require larger administrative costs per recipient. A bureaucracy must be developed that checks income to determine eligibility, monitors income over time, and adjusts benefits based on income. In contrast, a non-income-tested program would not have to check income at application or over time and would not have to vary the amount of the benefit each month. The child support agency in Minnesota does not want to administer an income-tested program.
2. Limiting eligibility to low-income families may discourage work. Income-tested programs must reduce benefits as the income of the recipient increases. This reduction in benefits is equivalent to an extra tax placed on income. An advantage of a non-income-tested benefit is that it can supplement earnings, rather than replace them.
3. A non-income-tested benefit could prevent poverty. A variety of recent empirical studies have all shown that children experience a substantial decline in their economic situation when their parents separate (e.g., Smock, 1994). An assured benefit available to all may help to cushion this income drop among the near-poor and may prevent others from slipping into poverty. In contrast, an income-tested benefit would provide no help until a family suffered loss of income and became income-eligible. Even then the benefits might only substitute for earnings and not raise the economic well-being of the family.

4. An income-tested benefit segregates the poor, and therefore may stigmatize them. In contrast, a non-income-tested program integrates the poor into the social mainstream, and receiving benefits may be less likely to be seen as an indication of moral failure.
5. Child support is not income-tested (custodial parents of all incomes are eligible to receive child support). Having an assured benefit that is not income-tested is consistent with the main purpose of an assured benefit: guaranteeing a reasonable level of child support.

On the other hand, several arguments can be presented in favor of limiting eligibility for the assured benefit to those with low incomes. The principal one is pragmatic—cost. When public resources are limited, targeting those resources on the most needy is appealing. A second reason for limiting eligibility to low-income families is that making an assured benefit available to all would mean that some wealthy custodial-parent families will receive a public benefit. The argument could be made that the public should not be supporting a high-income custodial-parent family solely because a noncustodial parent has not paid in a particular month. But other universal programs support high-income families without public outcry. Few consider it an outrage that wealthy individuals send their children to public schools or receive social security. Similarly, unemployment insurance is available to all regardless of income and is primarily seen as an important buffer against insecurity for all individuals, not just those who have low incomes. Finally, if high-income custodial parents tend to be associated with high-income noncustodial parents, and if these noncustodial parents pay regularly, then there may be relatively few cases in which an actual public benefit was paid to any individual high-income custodial parent.

In summary, we believe the case for a non-income-tested benefit is compelling.

H. Benefit Levels and Income Taxes. While we recommend that the benefit itself should remain constant as the custodial parent earns more, we also recommend that the benefit should be considered as taxable income.

We see three benefits to making the assured benefit taxable:

1. It reduces the cost of the program.
2. It targets more of the benefits on the poor, without bringing all the disadvantages, listed above, associated with limiting benefits only to the poor.
3. It differentiates the assured benefit from welfare. Although income-tested transfers are not subject to income tax in this country, there has been some recent movement toward taxing non-income-tested benefits (unemployment compensation, part of social security benefits, etc.).

The rationale for taxing benefits is that the tax code already exempts poor individuals from paying taxes; if recipients are not poor, this income should be subject to income taxation. Although private child support payments are not taxable income to the custodial parent, this income was already subject to taxation when it was earned by the noncustodial parent. The assured benefit, however, has not already been taxed and thus taxing it is appropriate.

I. Benefit Levels and Cost Recoupment. Making a decision about cost recoupment requires a tradeoff between two potential goals: maximizing the amount of child support the custodial-parent family receives, and minimizing potential windfalls that could be created by having an uneven payment stream.

Three possible rules for cost recoupment are:

1. The custodial parent has the first right to any payments in excess of the monthly current support order.
2. The state has the first right to any payments in excess of the monthly support order.

3. The state has the first right to any payments in excess of the child support guarantee.

Only under option 3 is the total amount received by the custodial family equal, regardless of the timing of the payments; this is also the option that is least expensive to the state. However, option 1 provides the highest benefit to the custodial-parent family when the payment stream is uneven and would be consistent with the way arrears are handled now for former AFDC recipients in Minnesota. Our preference is for option 3, which we believe will minimize the incentives for noncustodial parents to make uneven payments.⁴ Minnesota CSED representatives selected option 2.

VI. Caseload and Cost Estimates

In this section we discuss the data used to estimate caseloads and costs; briefly describe the model that is used; provide statewide results for five different assured benefit plans; present estimates of welfare and poverty reductions, costs, and information on predicted recipients; and make a recommendation on the benefit level.

A. Data. The ideal data source to estimate the effects of an assured benefit would include information on child support, welfare use, and income for all custodial-parent families in Minnesota (not just those who have made contact with the child support office). The information would be relatively current, and the sample would be large enough to provide confidence in the estimates.

No available data source meets all these criteria. We use the 1990 Census, which provides a large sample of custodial-parent families in Minnesota (over 6,100) and has good demographic detail and income information from 1989 on these families. It does not, however, have information on child support, and the data on welfare use are less than ideal (as is true of all national surveys). We have adjusted the 1990 Census to account for these limitations, as described below and in more detail in Appendix B.

The 1990 Census was an enumeration of the country's population; in each state a sample of families was asked to complete a longer form. Detailed information from the longer form from 5 percent of the families in Minnesota has been released to the public and is the source of the data we use. We first identify any single-parent family (excluding widows and widowers) with at least one child under age 18 in the home. We also identify husband-wife families in which at least one child is a stepchild of the respondent. A total of 6,183 families meet these criteria. A weight is attached to these families to make them represent the total number of families in Minnesota that are demographically eligible for child support.⁵ Information about these families is provided in Table 1.

For each family we estimate whether it has a child support order, the amount, the percentage of the order that is paid, and the average amount paid, based on equations that we estimated from the national Current Population Survey-Child Support Supplement of 1990 and provided in Appendix B. The results of these estimations are in the second section of Table 1.

The third section shows the results of our estimates of AFDC and food stamp reciprocity. To estimate welfare use, we calculate the amount of AFDC and food stamps a family would be eligible for, using the benefit levels of 1989. Finally, we calculate gross and net income for each family and compare each of these to the poverty thresholds, as shown in the fourth section of Table 1. The gross income definition matches the typical definition of income used in comparisons to the poverty threshold and is the sum of reported earnings, estimated child support, and estimated AFDC benefits. We also examine net income, which we calculate by adding the cash value of food stamps to gross income, adding in any predicted child care subsidies and subtracting payroll taxes, estimated net federal and state income taxes, and estimated child care expenditures. (The Earned Income Tax Credit and other credits are not included in gross income but are included in net income.)⁶ For both gross and net income, we also calculate the number of families that are "near poor," defined as those with incomes between the poverty threshold and two times the poverty threshold. Comparisons are made only for

TABLE 1
Basic Information on the Sample
(6,183 Families: Minnesota 1990 Census)

1. Number of Custodial Parents^a

By Marital Status:	<u>Fathers</u>	<u>Mothers</u>
Remarried	4,864	42,172
Divorced	10,224	48,204
Separated	1,900	15,728
Never married	<u>1,217</u>	<u>37,298</u>
Total	18,205	143,402
Grand total		161,607
By Race:		
White		139,295
Black		12,020
Hispanic		3,431
Other		<u>6,861</u>
Grand total		161,607

2. Child Support Information
A. Percentage with Orders

Mothers:	
Remarried	63 %
Divorced	70
Separated	51
Never married	35
All fathers	30 %
All custodial parents	54 %

B. Average Annual Order Amounts for Those with Orders

Mothers:		<u>Mean</u>
Remarried		\$2,558
Divorced		\$3,110
Separated		\$2,596
Never married		\$1,940
All fathers		\$2,272
All custodial parents		\$2,666

C. Percentage of Order Amount Paid

Mothers with orders:	<u>Receive None</u>	<u>Receive Some</u>	<u>Receive All</u>
Remarried	22 %	23 %	55 %
Divorced	20 %	21 %	59 %
Separated	16 %	16 %	68 %
Never married	21 %	21 %	58 %
All fathers with orders	50 %	23 %	27 %
All custodial parents with orders	24 %	21 %	55 %

(table continues)

TABLE 1, continued

D. Average Annual Amount Paid for Families with Orders

Mothers:	<u>Mean</u>
Remarried	\$1,727
Divorced	\$2,183
Separated	\$1,922
Never Married.	\$1,439
All fathers	\$936
All custodial parents	\$1,829

3. AFDC and Food Stamp Information

AFDC families	46,355
AFDC total benefits	\$264.0 million
Food stamp families	51,065
Food stamp benefits	\$85.9 million

4. Income Information

Using Gross Cash Income: ^b	
Percentage below poverty threshold ^c	35.5%
Percentage near poverty threshold ^d	23.8%
Poverty gap ^e	\$157.4 million
Using Net Income: ^f	
Percentage below poverty threshold	30.2%
Percent near poverty threshold	36.6%
Poverty gap	\$69.4 million

Data Source: 1990 Census for Minnesota, adjusted by authors.

^aWeighted data, with weights adjusted by authors to total those demographically eligible for child support.

^bThe sum of reported earnings, estimated child support, and estimated AFDC benefits.

^cAnnual weighted average poverty thresholds for 1989 are: \$8,343 for family of 2 (nonelderly house holder), \$9,885 for a family of three, \$12,674 for a family of 4, and \$14,990 for a family of 5. These same figures for 1992 are: \$9,443, \$11,186, \$14,335, and \$16,592.

^dBetween 100 percent and 200 percent of threshold.

^eAmount of money needed to bring all poor families up to the poverty threshold.

^fCash value of food stamps is added to gross income, predicted child care subsidies are added, and payroll taxes, income taxes, and estimated child care expenditures are subtracted.

custodial-parent families, so the poverty percentages do not include any children living with both parents. Table 1 also displays the poverty gap, which is the total amount of money needed to bring each family that is below the poverty threshold just up to the poverty threshold.

B. Method. Costs and effects are estimated through a microsimulation model. The model has four steps:

1. The current situation for each family is determined. We determine whether each family is a custodial-parent family. If so, we calculate gross and net income, including our estimation of AFDC, food stamps, and child support.
2. We then determine whether the family is eligible for child support assurance (an assured benefit); that is, we estimate whether the family has a child support order, and, if it does, whether the amount paid is less than the guarantee.
3. The next step is the most complicated and involves estimating the response to an assured benefit. We focus on two kinds of responses: Would the custodial parent change the number of hours she/he works? Second, would the family leave the AFDC or food stamp rolls? To make these predictions, we calculate the level of well-being of the family in its current situation, using an equation developed by economists that is based on the amount of net income and leisure time the family enjoys. We then calculate the level of well-being of this family under different scenarios (not working and receiving welfare, working part time and receiving welfare, working part time and not receiving welfare, working full time, etc.). Finally, we assume the family selects the scenario that provides them the highest level of well-being. Further information on this part of the model is in Appendix B.⁷
4. Step four is straightforward; we simply develop totals by summing all the predicted responses for individual families.

Several simplifications and limitations are inherent in this model. First, the data do not include information on child support, so child support status must be estimated from national data. If a typical woman in Minnesota has a higher order and receives more child support than a woman with similar characteristics who lives in another state,⁸ we underestimate the amount of private child support collected, and thus overestimate costs. Further, because an updated order is required for eligibility for the program, many custodial-parent families may obtain higher orders. Other families may be encouraged to pursue an order for the first time. These potential improvements in the private child support system have been ignored. Second, because the data are from 1989, the simulation uses tax and welfare program conditions from 1989. Some changes have occurred since that date, particularly the enlarged generosity of the EITC program and the altering composition of the child support caseload. We acknowledge that these estimates need some adjustment to reflect precisely 1995 circumstances, but they are the best estimates available. Third, the model we use to estimate potential changes in labor supply employs many assumptions (e.g., each custodial parent for whom working would be the optimal decision is able to find a job). To gain a sense of the importance of these assumptions, we will also present estimates without a labor supply response. Fourth, child support assurance may cause other changes in addition to changes in welfare use and labor supply, and we have not considered these. For example, noncustodial parents may change their payment behavior, there may be changes in family formation or dissolution, or there may be changes in child custody, all in response to an assured benefit. Finally, because this model is a one-period model, the dynamics of cost recoupment are ignored.

C. Results. In each of the next series of tables, we examine five different levels of an assured benefit. The monthly guarantees are:

	Plan 1: \$200 Benefit; 100% BRR	Plan 2: \$300 Benefit; 100% BRR	Plan 3: Cost of Raising Children; 100% BRR	Plan 4: \$167 Benefit; 50% BRR	Plan 5: \$250 Benefit; 50% BRR
One child	\$200	\$300	\$389	\$167	\$250
Two children	\$240	\$360	\$717	\$200	\$300
Three children	\$280	\$420	\$1,012	\$233	\$350
Four+ children	\$312	\$468	\$1,285	\$260	\$390

In Plans 1, 2, and 3, the government pays the guarantee if nothing is paid privately. For every dollar of private support paid, the government benefit decreases by a dollar (i.e., the benefit reduction rate, called “BRR” on the tables, is 100 percent). In Plans 4 and 5, the government also pays the guarantee if nothing is paid, but for every dollar of private support paid, the government benefit decreases by only 50 cents. Plan 1 (the \$200 guarantee) is based on the amount of the average order for families with one child; Plan 2 (the \$300 guarantee) is derived from the amount of the order for a man earning an average income. In both plans, the increment for additional children is based on the percentages implicit in Minnesota’s child support guidelines. Plan 3 is based on the cost of raising children in Minnesota. Plan 4 is designed to be comparable in cost to Plan 1, but to have a lower guarantee and lower BRR. Similarly, Plan 5 is comparable to Plan 2.

For each of the results in Tables 2 through 5, the benefit is available only to those with orders and is subject to income taxation. All of these results allow custodial parents to change their labor supply. We do not estimate any changes in payments in response to the assured benefit in any of these results.

Table 2 provides information on the effects of an assured benefit on welfare and poverty. Under Plan 1, 3 percent of the AFDC caseload leaves AFDC and AFDC benefits decline by 14 percent. Increasing the benefit to Plan 2 increases the number of families leaving AFDC to 7 percent and increases the AFDC benefit decline to 24 percent. Savings in the AFDC program are substantial

TABLE 2

Effects of a Statewide Assured Benefit on Welfare, Income, and Poverty

	Plan 1: \$200	Plan 2: \$300	Plan 3: Cost of Children	Plan 4: \$167; 50% BRR	Plan 5: \$250; 50% BRR
AFDC:					
% Reduction in families receiving benefits	3.3%	6.9%	32.8%	3.1%	6.6%
% Reduction in benefits paid	14.0%	24.0%	42.1%	14.5%	23.8%
Food Stamps:					
% Reduction in families receiving benefits	0.8%	1.5%	7.0%	0.8%	1.6%
% Reduction in benefits paid	1.6%	3.4%	21.4%	1.7%	3.3%
Effects on Poverty:					
Using gross cash income:					
% Reduction in families in poverty	4.3%	7.4%	21.8%	4.7%	7.6%
% Reduction in poverty gap	3.9%	6.4%	29.4%	3.9%	6.0%
Using net income:					
% Reduction in families in poverty	4.4%	6.5%	27.1%	4.3%	6.3%
% Reduction in poverty gap	5.3%	7.8%	29.2%	5.2%	7.5%

under every plan, although in a portion of these “savings” assured benefit dollars are replacing AFDC dollars. While savings are substantial in each plan, only under Plan 3, by far the most generous plan, do more than 10 percent of AFDC families exit that program. The Food Stamp program shows substantially smaller savings than AFDC. Reductions in the poverty population are also fairly small except in Plan 3: 4 percent in Plan 1, 7 percent in Plan 2, and 29 percent in Plan 3.

Estimates of direct costs for statewide implementation are shown in Table 3. (The table does not include administrative costs.) The first row, “Maximum Public Benefit,” shows the maximum amount that would be paid by the state if each custodial-parent family were paid the full benefit. These costs range from \$362 million (Plan 4) to \$1.129 billion (Plan 3). But many custodial-parent families do not have child support orders, so the amounts for these families are subtracted in the second row. A further reduction occurs because some custodial-parent families are receiving more than the assured benefit, so no public costs would be associated with these families. Finally, some families receiving the benefit are not receiving a full benefit, but only enough to fill the gap; these partial collections are subtracted in the third row. This leaves the total we estimate to be paid in the assured benefit program, ranging from \$120 million (Plan 1) to \$471 million (Plan 3).

But these costs are partially offset by savings. The largest savings are in AFDC and in collecting more income taxes (by subjecting the public benefit to federal and state taxes). The savings offset about half the gross cost, leaving net costs estimated at around \$65–\$70 million under Plans 1 and 4, around \$120 million under Plans 2 and 5, and \$267 million under Plan 3. A portion of the remaining state costs would be subsequently reimbursed by later collections on behalf of the case if Minnesota were to continue progress in improving child support collections.

Information on recipients is provided in Table 4. Between 68,000 and 84,000 families are predicted to receive public payments, or between 42 percent and 52 percent of all custodial-parent families. The more generous plans have more recipients, because some who receive a modest amount

TABLE 3

**Estimated Annual Costs and Savings of a Statewide Assured Benefit
(Millions of Dollars)**

	Plan 1: \$200	Plan 2: \$300	Plan 3: Cost of Children	Plan 4: \$167; 50% BRR	Plan 5: \$250; 50% BRR
Costs:					
Maximum public benefits	\$434.4	\$651.7	\$1,128.6	\$362.0	\$543.0
Subtracting \$ for families without orders	198.9	298.4	509.6	165.8	248.6
Subtracting \$ for families who receive more than AB amount	50.7	38.6	20.9	17.9	10.4
Subtracting \$ received among families receiving less than full AB amount	64.8	95.0	127.4	50.8	64.0
GROSS COSTS	\$120.0	\$219.7	\$470.6	\$127.5	\$220.0
Savings:					
State AFDC	16.8	28.7	50.3	17.3	28.4
Federal AFDC	20.2	34.6	60.6	20.9	34.2
Food stamps	1.3	2.9	18.3	1.4	2.8
State income taxes	3.4	6.7	15.5	3.6	6.8
Federal income taxes	11.6	21.9	48.8	12.5	21.9
State EITC	0.3	0.6	1.1	0.3	0.6
Federal EITC	2.1	3.8	7.5	2.3	3.9
Total savings	55.8	99.2	203.2	58.3	98.4
NET COSTS	\$64.2	\$120.5	\$267.4	\$69.2	\$121.6

TABLE 4

Information on Recipients of a Statewide Assured Benefit

	Plan 1: \$200	Plan 2: \$300	Plan 3: Cost of Children	Plan 4: \$167; 50% BRR	Plan 5: \$250; 50% BRR
Number of Families Receiving the Assured Benefit	68,421	77,552	83,549	79,167	84,076
% of All Custodial-Parent Families	42.3%	48.0%	51.7%	49.0%	52.0%
% Recipients Who Are:					
Remarried custodial mothers	30.2%	30.9%	30.6%	30.9%	30.9%
Divorced custodial mothers	36.6%	37.2%	38.3%	37.4%	38.2%
Separated custodial mothers	9.2%	9.4%	9.4%	9.3%	9.2%
Never-married custodial mothers	16.0%	15.5%	15.1%	15.4%	15.2%
Custodial fathers	8.0%	7.1%	6.6%	6.9%	6.5%
% Recipients Who:					
Were not on AFDC	72.5%	73.6%	74.1%	73.7%	73.3%
Remain on AFDC	25.7%	22.5%	7.7%	24.7%	22.0%
Leave AFDC	1.8%	3.9%	18.1%	1.6%	3.5%

of private support would not receive a public payment if the guarantee were low, but would receive it if the guarantee were higher. The second panel shows the distribution of public benefit recipients by marital status and gender. There is little difference in the composition of recipients across the plans. For example, the largest group of recipients in each plan contains divorced custodial mothers, about 38 percent of all recipients. The smallest group is custodial fathers, comprising 6.5 percent to 8 percent of recipients. The next panel shows the distribution of recipients who were and were not receiving AFDC prior to the introduction of the assured benefit. In each plan almost three-fourths of the assured benefit recipients were not receiving AFDC. Among those assured benefit recipients who were receiving AFDC, the majority in Plans 1, 2, 4, and 5 continue to receive it. In Plan 3, 18 percent of the assured benefit recipients are former AFDC recipients.

Table 5 shows the income levels of recipients. The first two panels show that the vast majority of families who have orders but who are below the poverty threshold will receive some public benefit. While the percentages receiving public benefits decline as custodial-parent family income increases, between 69 percent and 93 percent of families in the highest income group, using the gross income measure, are predicted to receive benefits. Recall that all families with orders who are receiving nothing will receive a public benefit, that most families with orders who are receiving a partial payment will receive a public supplement, and that any family receiving full payments will receive a supplement if the child support order is below the assurance amount. The more generous the plan, the more recipients it attracts. In Plans 4 and 5, the "breakeven" child support payment (that is, the amount of private payment at which there is no longer a public benefit) is higher than the guarantee (in fact, is twice as high), so in these plans many families are eligible (but for a lower amount).

Panel three shows that poorer families receiving a public benefit receive more, on average, than families that are better off. When taxes on the public benefit are considered (panel four), the benefits are even more heavily concentrated among the needy, the average net benefit for those in

TABLE 5
Assured Benefits to Various Groups

	Plan 1: \$200	Plan 2: \$300	Plan 3: Cost of Children	Plan 4: \$167; 50% BRR	Plan 5: \$250; 50% BRR
Percentage of Families in Each Income Class (gross income measure), with Orders, Who Receive Benefits					
Below poverty threshold ^a	87%	95%	99%	96%	100%
100%–200% poverty threshold	83	93	98	94	98
200%–300% poverty threshold	74	88	95	90	96
Above 300% poverty threshold	69	81	91	84	93
Percentage of Families in Each Income Class (net income measure), with Orders, Who Receive Benefits					
Below poverty threshold	88%	94%	99%	96%	100%
100%–200% poverty threshold	84	94	98	95	99
200%–300% poverty threshold	74	87	96	89	96
Above 300% poverty threshold	62	75	86	78	89
Mean Annual Public Benefit for Recipients in Each Income Class (gross income measure)					
Below poverty threshold	\$1694	\$3001	\$6891	\$1726	\$2892
100%–200% poverty threshold	1483	2697	5864	1561	2659
200%–300% poverty threshold	1205	2278	4774	1335	2364
Above 300% poverty threshold	1086	2053	3903	1202	2146
Mean Annual Public Benefit Less Taxes on Those Benefits for Recipients in Each Income Class (gross income measure)					
Below poverty threshold	\$1691	\$2989	\$6793	\$1724	\$2884
100%–200% poverty threshold	1304	2368	5112	1379	2364
200%–300% poverty threshold	970	1826	3701	1084	1906
Above 300% poverty threshold	786	1480	2753	869	1559
Percentage of Public Net Benefit Going to Families in Each Income Class (gross income measure)^b					
Below poverty threshold	41.2%	40.0%	42.7%	39.6%	38.5%
100%–200% poverty threshold	23.4	23.4	23.7	23.3	23.1
200%–300% poverty threshold	18.2	18.8	17.9	19.2	19.6
Above 300% poverty threshold	17.2	17.8	15.6	18.0	18.8

^aAnnual weighted average poverty thresholds for 1989 are: \$8,343 for family of 2 (nonelderly householder), \$9,885 for a family of three, \$12,674 for a family of 4, and \$14,990 for a family of 5. These same figures for 1992 are: \$9,443, \$11,186, \$14,335, and \$16,592.

^b35.5% of all custodial-parent families are below the poverty threshold; 23.8% are between 100% and 200% of the threshold; 20.1% are between 200% and 300% of the threshold; and 20.6% are above 300% of the threshold.

poverty becoming more than twice the average benefit for those in the highest income class in each plan except the last two. The final panel shows the distribution of public net benefits. Although only 35.5 percent of the families are below the poverty thresholds, these families receive between 38.5 percent and 43 percent of the benefits. Thus, even though the benefit is available for all families with orders (without regard to income), about 60 to 65 percent of the benefits go to families who are poor or near-poor.

Table 6 examines how the estimated results differ if the assured benefit (Plan 1 and Plan 2 only) is not subject to income taxes. The first and third columns repeat information presented in Tables 2–5, in which the assured benefit was taxed. Columns 2 and 4 present results under an untaxed benefit. Row 1 shows that taxed and untaxed benefits have almost an identical effect on AFDC use. An untaxed benefit does cost substantially more, \$20.5 million additional for the \$200 benefit (column 2 minus column 1) and \$38.1 million for the \$300 benefit (column 4 minus column 3). Subjecting the benefit to taxation also helps to concentrate the benefits more among those who need it most, as seen in the last two rows. Over 64 percent of the taxed benefits go to the poor and near-poor in the \$200 plan, compared to 58 percent of the untaxed benefits.

Finally, Table 7 provides results under a scenario in which custodial parents do not change the number of hours they work (columns 2 and 4). These results are compared to results previously presented in Tables 2 through 5 in which custodial parents can change their work hours (columns 1 and 3). Allowing changes in the number of hours worked increases the reductions in AFDC slightly, as an additional 0.2 percent (column 1 minus column 2 and column 3 minus column 4) of AFDC recipients are predicted to leave AFDC when they are allowed to supplement the benefit with additional earnings. Net costs are slightly higher when we allow labor supply changes. Although labor supply changes mean greater AFDC savings, we also predict that some higher-income custodial-parent families will

TABLE 6

Effects of Subjecting the Statewide Assured Benefit to Income Taxes

	Plan 1: \$200 Benefit; Taxed	\$200 Benefit; Not Taxed	Plan 2: \$300 Benefit; Taxed	\$300 Benefit; Not Taxed
% Reduction in AFDC recipients	3.3%	3.3%	6.9%	6.8%
% Reduction in AFDC benefits	14.0%	14.0%	24.0%	24.0%
State income tax savings (million \$)	\$3.4	\$ -0.2	\$6.7	\$ -0.3
Federal income tax savings (million \$)	\$11.6	\$ -2.7	\$21.9	\$ -4.6
Total net costs (million \$)	\$64.2	\$84.7	\$120.5	\$158.6
% Benefits to those below poverty threshold (gross income measure)	41.2%	35.2%	40.0%	34.1%
% Benefits to those below 200% of poverty threshold (gross income measure)	64.6%	58.5%	63.4%	57.3%

TABLE 7**Effects with and without Changes in Labor Supply**

	Plan 1: \$200 Benefit; with Labor Supply Changes	Plan 1: \$200 Benefit; without Labor Supply Changes	Plan 2: \$300 Benefit; with Labor Supply Changes	Plan 2: \$300 Benefit; without Labor Supply Changes
% Reduction in AFDC recipients	3.3%	3.1%	6.9%	6.7%
% Reduction in AFDC benefits	14.0%	13.8%	24.0%	23.5%
Total net costs (million \$)	\$64.2	\$63.8	\$120.5	\$116.0

work less if they have an assured benefit available to them, and this will decrease income tax revenues. The decreased tax revenues more than offset the increased savings, leading to higher net costs.

D. Summary and Recommendation. The costs and effects of five plans have been presented. Each plan reduces welfare use and poverty among custodial-parent families and provides almost two-thirds of its benefits to poor and near-poor custodial-parent families. All plans are projected to incur net costs, although it should be noted that if award levels and collections are higher than estimated, or can be increased further, net costs will be lower than estimated here. In addition, if the provisions covering child support assurance in the Clinton administration's previously proposed Work and Responsibility Act had become law, and if the funding recommended in the Act had been authorized and appropriated, and if Minnesota had become one of the three state demonstration sites, the federal government would have paid 90 percent of the net costs of the program (see discussion in Section VII, below).

We recommend that both Plan 1 (\$200/month benefit for one child; 100% benefit-reduction rate) and Plan 4 (\$167/month benefit for one child; 50% benefit-reduction rate) be selected for testing. We have already outlined in Section V the rationale for testing two types of benefits, one that guarantees a flat amount and one that rewards payments. Note that Plan 1 and Plan 4 are comparable to each other, as are Plans 2 and 5. We recommend the lower-benefit packages (Plans 1 and 4), in part because the other plans, all of which do more to reduce poverty and welfare use, are also substantially more costly. We also make the recommendation because this is a program that has not been tried, and we believe it is prudent to begin on a smaller scale. If the program itself has negative consequences (increasing divorce rates or decreasing private child support payments, for examples), these will be mitigated by beginning with a smaller benefit. Further, if the demonstration encounters difficulties in implementation, a program that affects fewer people may be easier to adjust. Finally, we believe we

have, if anything, underestimated the poverty- and welfare-reducing capabilities of the smaller benefit. This option may therefore have larger effects than predicted here.

VII. Program Evaluation Strategies, Waiver Information, and Demonstration Costs

A. Program Evaluation Strategies

An evaluation has three components, which we detail in the next three subsections. The first deals with process and implementation questions—essentially, how well the concept was turned into an operational program. The second deals with impacts or “net” outcomes—that is, does the program affect the lives of participants in measurable ways when they are compared to similar individuals who are not exposed to the intervention? The second evaluation question is substantially informed and guided by the first. The third component addresses the question of whether some performance indicators ought to be measured on an ongoing basis. That is, when (if) the program is institutionalized, should an ongoing monitoring system be installed to guide program management and suggest areas where correction or change is warranted?

1. Process and Implementation Questions. The general objectives of a process or implementation analysis (a study of the way in which the program is put in place and operated) are to (1) assess the extent to which policies and procedures are carried out in accordance with the specifications and intent of the reform; (2) provide feedback with which to modify and revise problematic policies and procedures; (3) enable program officials to detect and respond if necessary to serious unanticipated outcomes; and (4) provide information useful for facilitating the introduction of the reform elsewhere.

Given the complexity of child support assurance, we suggest carrying out a careful implementation evaluation. It may be especially important to focus on the first objective in the

paragraph above—assessing whether the program is operating as intended. This kind of evaluation requires setting performance measures against which the pilots can be compared. Potential performance measures include the following: (1) the proportion of eligible cases that choose to participate in child support assurance; (2) the accuracy with which various calculations are made; (3) the promptness with which changes in case circumstances are accommodated; (4) the proportion of otherwise eligible participants who exit the program, and why; and (5) a general measure of participant satisfaction.

To illustrate, project officials might speculate in advance that, say, 40 percent of the target population will “choose” to participate within the first year of operation. If the actual participation rate is only 20 percent, that may suggest a closer look at client experiences in the gatekeeping or point-of-entry stage of the program. Perhaps the child support assurance program being offered to clients is not sufficiently attractive, or perhaps it is not being made clear to the target group. Feedback on such issues is vital to identifying and correcting problems.

Several data collection techniques that might be considered in a process evaluation are:

- A systematic review of case activity among a representative sample of cases in pilot counties.
- A careful monitoring of program and fiscal data normally collected by the Department of Human Services.
- Interviews (or the use of self-administered questionnaires) with a randomized sample of program participants and/or members of the target population.
- A systematic review of case-level records and other administrative data that would not normally be reviewed by the state agency in a systematic manner.
- Semi-structured interviews with key state and local personnel at strategic points in the implementation process.
- Occasional on-site observations of administrative practices.

2. Outcome and Impact Questions. Observers might be concerned about several outcomes. In general, advocates argue that child support assurance will (1) reduce the economic insecurity of children potentially eligible for private child support; (2) reduce the dependence of such families on welfare; and (3) improve the functioning of recipient families in a number of ways. Opponents argue that the child support assurance may (1) erode the motivation and willingness of nonresident parents to support their children; (2) reduce the likelihood of marriage or remarriage and other socially approved behaviors; and (3) increase the scope and cost of government.

A good evaluation will seek to test the claims of both advocates and opponents through a comprehensive and balanced examination of the benefits and costs to all affected members of society. Those potentially affected by this initiative, particularly when considered broadly to include both benefit and collection components, can be divided into several target groups: (1) the child(ren); (2) the custodial parent; (3) the noncustodial parent; and (4) taxpayers. The following outline lists several domains that will require evaluation.

Potential Effects of Child Support Assurance

Effects on Child(ren)

- a. Economic security
- b. Child well-being (noneconomic)

Effects on Custodial Parents

- a. Dependence on welfare transfers
- b. Dependence on other public transfers
- c. Labor supply and earnings: AFDC cases; non-AFDC cases
- d. Stigma
- e. Family formation (e.g., remarriage)

Effects on Noncustodial Parents

- a. Noncompliance with child support system
- b. Economic security
- c. Family formation (remarriage)
- d. Labor supply and earnings

Effects on Relationships

- a. Child/custodial parent
- b. Child/noncustodial parent
- c. Custodial/noncustodial parent

Effects on Child Support Payments

- a. Percentage with orders
- b. Compliance with orders
- c. Total child support payments
- d. Informal cash transfers from nonresident to resident parents
- e. In-kind support from nonresident to resident parents

Effects on Taxpayers

- a. Fiscal costs
- b. Perception of the child support system

Outcomes may often be of limited value in assessing the real value of a new program, because other changes affecting outcome, in addition to the intended intervention, may occur during the period of evaluation. To determine the actual effect of a program, both experimental groups (which receive the intervention) and control groups (composed of similar people who do not receive the intervention) are desirable. An essential element of this kind of experimental design is random assignment to either experimental or control status. In the child support assurance demonstration, a classical experimental design would require the child support agency or court to assign randomly some members of the target population to the child support assurance program and others to the current system.

However, random assignment within a jurisdiction sometimes creates problems: (1) some officials may believe there are ethical or legal concerns; (2) administrative difficulties associated with running two programs within the same jurisdiction can arise; (3) some argue that a program that is available only to a subset of the population will have a weaker effect on individual behavior because the message of the new program is partly lost if only half are exposed to the new treatment; (4) if the whole eligible population can receive the program, other community-wide effects may occur that would not if the program were available only to a few.

Under one alternative, often called a cross-site design, evaluators would compare outcomes in the counties with the child support assurance program before and after introduction of the new system with similar counties lacking the new system over the same time period. One weakness of the cross-site design is that something else (such as the closing of a large manufacturing operation in one county) may occur at roughly the time the new program is being implemented that would differentially affect the outcomes of interest in the matched counties.

The CAP initiative in New York State is being evaluated in both ways: in some counties, random assignment to experimental and control groups occurs, and other counties have been carefully paired, one member of each pair offering the intervention to all eligible people and the other member of the pair continuing the status quo. If enough counties want to participate, we recommend this combined approach to the evaluation of the Minnesota child support assurance system. Through such an approach, a rigorous measure of both individual and community effects should be possible.

The combined approach we recommend would require at least two medium-size counties (preferably one metro and one non-metro) willing to run an experimental design with random assignment. The approach would also require at least two other counties to implement child assurance countywide, each of these to be paired with a suitable matching county. Criteria for suitable matching counties include economic and demographic characteristics and styles of child support administration.

Obtaining results that would achieve standard levels of statistical significance might well require more than four counties. A preliminary statistical "power analysis," based on an evaluation plan using both experimental and cross-site designs and testing both a basic assurance level and an assurance level that varies with the level of private child support, suggests the need for following 8,000 cases participating in child support assurance. If attracting that number is not possible in a demonstration, fewer pilot cases could still offer important and suggestive—even if not statistically significant in the standard sense—insights into the workings of child support assurance. Clearly, the

closer the demonstration comes to 8,000 the better for evaluation purposes. However, as more counties and families participate, the cost of the demonstration rises.

We do not recommend including counties participating in the Minnesota Family Independence program (MFIP), Minnesota's welfare reform initiative, in the child support assurance demonstration. Although new entries into MFIP will probably have ended by the time a child support assurance demonstration could begin, the operation of the MFIP program for continuing cases may make it harder to draw conclusions about the independent effect of child support assurance.

From an evaluation perspective, demonstrations should mimic as closely as possible the actual program that would be implemented if the program were to be fully operational statewide. If a custodial parent is told that participation in the program can only be assured for several years, rather than the lifetime of the support order, that limitation might influence the parent's choice among available alternatives—welfare, work, etc. A long demonstration period has several other advantages as well: it takes time for agencies to learn how to administer a new system; child support assurance involves a new offer to custodial parents, and it may take time for the subtleties of that offer to be understood; it permits the question of extinction to be examined, learning whether early gains or losses are sustained over time or there is some regression. We strongly suggest that a demonstration period of at least 7 to 10 years be adopted in Minnesota. This is also the suggestion made in the federal Work and Responsibility Act proposal of 1994. A long demonstration period allows a complete evaluation of outcomes, encompassing both immediate and long-term effects.

Many evaluation issues are also basic program design issues. A key design question is whether the program, and the evaluation, will target new child support cases or whether the existing child support caseload (that is, those with a recent order) will also be included. Including all eligible existing cases in the evaluation raises some issues. First, existing cases may be different from new cases in some relevant way. Second, including all eligible existing cases may tax the administrative capacity of

participating counties. Third, it may simply be prudent to start small until more is known about the behavioral and fiscal consequences of this initiative. On the other hand, one of the objectives in the counties in which all are eligible (the "saturation" counties) is to allow for changes in community norms; making all existing cases eligible may speed this process.

This decision is difficult to make independent of other decisions about the anticipated scope of the project and the amount of fiscal risk the state is willing to assume. If only new cases are included, and low percentages of these accept the offer to participate, the likelihood of detecting measurable effects decreases dramatically. If the counties chosen to participate are few in number and/or small in size, it will probably be necessary to include new and existing cases.

3. Ongoing Monitoring. Some management concerns will endure beyond the process and impact evaluations and would probably need to be monitored permanently. For example, any income transfer program raises concerns that the transfers are being made accurately. Thus, a system for checking the payment accuracy of the transfers should be considered, not unlike the Quality Control system for existing welfare programs. The state may also want to monitor permanently the accuracy of information about the child support assurance program that is provided to potential participants.

B. Waiver Information

1. The Current Federal Approach to AFDC and Child Support Waivers

Both AFDC and child support enforcement are administered through a complex arrangement of shared federal, state, and local responsibility. In general, states must abide by federal regulations set forth in Titles IV-A and IV-D of the Social Security Act if they wish to secure federal financial contributions toward the cost of these programs (see Glossary for terms and definitions).

Any state changes to policies covered by federal law require prior approval from the Secretary of the U.S. Department of Health and Human Services (DHHS). Congress conferred this waiver

authority to give the Secretary limited discretion to permit innovation for the purpose of learning about the efficacy and feasibility of new policy alternatives in order to advance national policy. Until the late 1980s, few states sought waivers, and those that did underwent a lengthy and critical review by DHHS. Since that time, the number of waiver requests has increased dramatically, and federal waiver practices have become more flexible.

Under the Clinton administration, federal review of these waiver requests has come to focus primarily on two requirements: (1) federal cost neutrality and (2) provisions for “rigorous evaluation” of the state proposal as it is carried out. Currently, any waiver is reviewed by several parts of the federal government. The Administration for Children and Families (ACF) within the Department of Health and Human Services generally does the substantive review. The Office of the Assistant Secretary for Planning and Evaluation (ASPE) in DHHS reviews the evaluation component. Unofficially, members of the Domestic Policy Council in the White House often review the political implications of a waiver proposal.

2. Contents of a Waiver Request

The precise contents of a waiver proposal will depend upon the nature of the actual program being proposed and the circumstances that exist in Washington at the time the proposal is made.

A typical waiver request has the following sections:

- a. An introduction that provides an overview of the changes to current policies and a rationale for these changes.
- b. A detailed program description in which the innovation is described in detail.
- c. A section that identifies the specific provisions of the Social Security Act to be waived.
- d. An implementation schedule section that describes briefly what will be done, when, and by whom.

- e. A population and cost estimate or cost neutrality section that describes how the state will assure that the federal government will not incur additional fiscal risk as a consequence of the demonstration (unless otherwise agreed to).
- f. A section that describes the evaluation plan in detail.

3. Child Support Assurance in the Clinton Administration

The Work and Responsibility Act of 1994, the Clinton administration's welfare reform proposal, would, if passed, authorize child support assurance demonstrations under the following provisions:

- Congress would authorize and appropriate funds for three state demonstration programs.
- Each demonstration would be authorized for 7 to 10 years, though the Secretary could shorten or lengthen those limits.
- The demonstrations could be either statewide or limited to particular geographic areas within a state.
- The projects would be funded on a 90 percent federal/10 percent state match rate. This match rate would apply to administrative costs of the demonstration and to the portion of the benefits not representing a reduction in AFDC due to receipt of child support assurance.
- The Secretary of DHHS would develop standards for evaluating the demonstrations.

The proposed legislation also established certain parameters for designing a child support assurance program. These parameters were never deemed likely to become law, but they suggested the emphases of the current administration:

- Child support assurance would have to be administered by the IV-D agency or the state revenue department and be adequately supported by an automated case management system.
- The child support assurance guarantees should be set between \$1,000 and \$3,000 per year for one child and between \$3,000 and \$4,500 per year for four or more children.

- The child support assurance guarantee should be indexed to the Consumer Price Index, be counted as private child support for the purpose of determining eligibility for other programs, and be deducted dollar for dollar from an AFDC grant in most states.
- Eligibility for child support assurance would generally be restricted to children for whom paternity and support orders have been established.
- Money collected from the noncustodial parent would be distributed in the following order: (1) to pay current support; (2) to pay child support assurance arrearages; (3) to pay family support arrearages; and (4) to pay AFDC debts.
- Child support assurance benefits would be treated as income to the custodial parent for state and federal tax purposes.

Although the Work and Responsibility Act did not become law, any waiver proposal for child support assurance falling within its general guidelines is likely to be received positively by the current administration.

4. Congressional Prospects

Welfare reform is a priority item for the 104th Congress. Much of the early discussion has focused on the Personal Responsibility Act, a proposal linked to the Republican Contract with America. Welfare reform seems likely to be one of the more contentious items within the Contract with America agenda. Congress is considering legislation that will authorize the block granting of federal funds, but until such legislation is approved, a request for federal waivers would be required.

5. Waiver Strategy Summary

In general, the Clinton administration is likely to become even more responsive to state requests for flexibility before the 1996 election.

We suggested:

- a. Carefully monitoring federal policies as Minnesota further develops a child support assurance waiver proposal. It seemed likely that states will receive more flexibility from the Clinton administration or, possibly, that federal block grant legislation will pass, substantially increasing state responsibility for a broad set of social welfare programs.
- b. Preparing and submitting a waiver request before the 1996 election. Receptivity toward child support assurance within the Clinton administration is high.
- c. Emphasizing in a waiver proposal federal cost neutrality and a plan to evaluate child support assurance in the context of other reforms occurring in Minnesota.
- d. Making the conservative assumption, at least initially, that the federal funding for state child support assurance pilots proposed in the Work and Responsibility Act of 1994 will not be appropriated.

C. Demonstration Costs

If the sites selected for a demonstration are relatively typical of the rest of the state, the statewide numbers can be translated to an estimated cost per case, which can then be used to provide a crude estimate of the costs of a demonstration. In Plan 1 of Section VI above, the annual gross costs (without administrative expenditures) are \$120.0 million, net costs are \$64.2 million, and 68,421 families receive assurance payments. Thus for each recipient family the annual gross costs average \$1754 and net costs are \$938. In Plan 4, the annual costs per recipient family are \$1611 (gross) and \$874 (net).

As noted above, we propose a two-pronged evaluation: in experimental sites, applicants will be randomly assigned to either an experimental group (able to receive the assurance) or a control group (not able to receive the assurance), and in saturation sites, all applicants will be eligible. As we noted, the optimal number of cases depends on the estimated effect and the funds available for evaluation. A

crude estimate, based on the Wisconsin evaluation plan, is that around 2,000 recipient families would be needed for each of the two plans (Plan 1 and Plan 4) in the experimental sites, and a similar number of families would be needed in the saturation sites.

In the first year after all 8,000 families have joined the program (it may take several years to reach that level, and annual costs will be lower until that many have been recruited), nonadministrative net costs are estimated to be \$7.2 million (4,000 recipients under Plan 1 @ \$938/recipient and 4,000 recipients under Plan 4 @ \$874/recipient). These net costs assume that the federal government will reimburse Minnesota for the federal income taxes collected on the assured benefit and the savings in the Food Stamp program that result from the assured benefit being counted as income in the determination of food stamp benefit amounts. Additional costs include those associated with administering the program and those associated with evaluating it, including collecting data on both the experimental and the control groups.

The precise sharing of benefit costs between the state and federal government is currently unknown (the proposed Work and Responsibility Act provides 90 percent federal funding). Therefore the total costs to Minnesota for benefit amounts in the first year would probably be less than the \$7.2 million calculated here, and the costs for administering the program, while unknown, could also be eligible for potential federal funding.

In subsequent years, for the evaluation in the experimental counties, it is appropriate to not accept new cases once the target number of recipient families (2,000 for each plan) has been reached. Therefore, the number of recipient families will decline each year, as the youngest child in some families will become 18 and the families will no longer be eligible for an assurance payment. If 1/18 of the caseload becomes ineligible each year, total net benefit costs would decline from \$3.6 million in year 1 to \$1.8 million in year 10, which would result in a total expenditure in these counties of about \$27.2 million over ten years. For the evaluation in the saturation counties, we believe it is appropriate

to continue to offer the benefit to new cases. If the number of cases is roughly constant, with new cases replacing cases in which the youngest child turns 18, the total net benefit costs in the saturation counties would be about \$36.2 million over ten years. Again, total benefit costs would be partially offset by federal matching dollars and could be further reduced by improvements in the child support system.

VIII. Administrative and Implementation Issues

This section describes selected administrative issues needing attention in the implementation of child support assurance pilots. The section was intended to be only an initial description of administrative concerns; one of the reasons we think it is desirable to pilot child support assurance in a few counties, rather than implement it statewide immediately, is to provide an opportunity for a process evaluation and subsequent procedural adjustments according to field experience. Nevertheless, at least the following issues require consideration in implementing the pilots.

A. Reimbursing Administrative Expenditures in the Pilot Counties

Under current Minnesota child support procedures, noncustodial parents in IV-D cases pay their child support obligations to county governments, either directly or through their employers. If the custodial parent receives AFDC, the county child support agency writes a check to the custodial parent for the first \$50 per month of private collections. The county then, in effect, sends any private collections on behalf of the case that exceed \$50 in a month to the state and federal governments, through a routine IV-A settlement process. For cases not receiving AFDC, the county sends all private collections it receives in the month to the custodial parent, again in the form of a new check written by the county child support agency.

Counties, of course, incur costs in collecting and disbursing child support payments. On average, in Minnesota, these county costs are reimbursed from the following sources:

- About 82 percent of county administrative costs for child support are paid by federal funds. The federal government reimburses 66 percent of the cost of basic administrative expenditures and 90 percent of the cost of special administrative expenditures (such as for data processing development and paternity blood tests). In addition, through the routine IV-A settlement process, counties are able to retain (in the case of collections for AFDC recipients) or receive (in the case of non-AFDC collections) a percentage of their overall child support collections. That percentage varies, based on the county's ratio of administrative expenditures to collections.
- About 10 percent of county administrative costs are reimbursed by the state, in two ways. First, the state provides counties with \$100 for each paternity adjudication and \$50 for each review and adjustment of an existing case. Together, these funds reimburse counties, on average, for 2 percent of their child support administrative costs. In addition, counties track their work and calculate collections and payments through a state-administered child support data system. The state pays the costs of running the system, and these state expenditures are judged to contribute about 8 percent to county child support administration costs.
- On average, the remaining 8 percent of county administrative costs are met with county funds.

Counties piloting child support assurance will incur additional administrative costs. A guiding principle of this planning document has been to keep these administrative costs low by keeping benefit computations simple and by avoiding the need to determine the income of the custodial parent and any stepparent. To calculate a monthly child support assurance payment under this plan, all the county child support agency must know is information that it already has—how much private child support has been collected on behalf of the case.

Still, counties piloting child support assurance will incur additional costs for such tasks as:

- Providing outreach to prospective child support assurance participants;
- Discussing child support assurance with prospective recipients;
- Updating the orders of those who wish to participate but have orders that are more than three years old;
- Enrolling those who choose to participate;
- Informing the IV-A system when an AFDC recipient joins the program, so that AFDC payments can be reduced by the proper amount;
- Assuring that the proper child support assurance payment (if private collections fall below the guaranteed level) goes to each participant each month;
- Crediting and disbursing arrearages properly;
- Reminding participants of the need to review and adjust orders within three years, and terminating from the child support assurance program those who fail to do so;
- Keeping track of the number of eligible children in the case (because the assurance level will vary by the number of children).

Of these tasks, the most expensive are likely to be calculating and writing the checks for the monthly payments, assuring proper handling of arrearages, and updating orders. However, the Minnesota Department of Human Services has separately proposed that, by 1997, it would assume responsibility for calculating and issuing child support payments received from noncustodial parents. If this proposal takes effect, the Department should probably also calculate and issue child support assurance payments, so that counties need not incur these costs.

Even if the state performs the calculation and checkwriting functions, however, counties would still incur staff costs for sending information to the Issuance Operations Center, providing outreach, updating old orders, and performing other child support assurance tasks. The cost of outreach to

potential participants is flexible, depending on the amount of effort counties and the state wish to exert. We recommend that counties target current IV-D cases for enrollment in child support assurance, but it will still not be easy to update their orders and enroll them. It may take several years before a substantial percentage of the IV-D caseload joins the child support assurance program. County costs could be “reimbursed” in one of three ways:

- a. Pilot counties could simply absorb the costs, because child support assurance (with its incentive to obtain and maintain a current order) should increase county collections and, hence, regular state and federal incentive payments to counties. The costs counties incur to update old orders might be especially good candidates for being treated this way.
- b. Pilot counties and the state could jointly estimate in advance the likely administrative costs, and the state could commit that level of funding to the counties in advance.
- c. Pilot counties could keep track of their administrative expenses for the pilot, and the state could subsequently reimburse them for the costs.

Under alternatives b and c, any higher federal incentive payments attributable to child support assurance could either flow as normal to the county or be retained by the state as reimbursement for its costs. Presumably, the alternative that is selected will be determined in part by the preferences of the particular pilot counties.

B. Benefit Expenditures

Child support assurance recipients who are currently receiving an AFDC check larger than the assurance level would receive no more in total assistance; the child support assurance check would be offset by a reduced AFDC check. The same mixture of state and federal funds now paying for AFDC could instead be redirected to child support assurance through the routine IV-A settlement process.

Among AFDC participants currently receiving less than the child support assurance guarantee in AFDC, and among child support assurance participants not on AFDC, any assurance payments for months when private child support is less than the guarantee would be new state costs. These state costs would often, however, be subsequently reimbursed by later collections on behalf of the case. We recommended that Minnesota establish a new entitlement appropriation to pay these expenses. If possible, the same appropriation should also have the capacity to receive offsetting collections, so that the net budgeted appropriation would be anticipated costs less anticipated collections.

One task of the pilot evaluation will be to measure accurately the actual cost to the state of child support assurance benefits. The true cost could be significantly less than the net expenditures of the appropriation described in the preceding paragraph. For example, some custodial parents on AFDC should be more likely to work as a result of child support assurance, which would reduce state AFDC expenditures. These AFDC reductions would not be reflected in a net appropriation for child support assurance.

C. Development of Forms and a Manual

Pilot counties must have available, to give to potential child support assurance participants, documents explaining the program and describing participant rights and obligations. Presumably, potential participants who select the program would indicate their choice by signing a standard form. One implementation task will be the development of these documents and forms, perhaps in more than one language.

Ideally, all the forms—as well as the standard procedures that county workers would follow in explaining child support assurance, enrolling cases, and maintaining cases—would be published in an easily understandable procedures manual for child support workers in the pilot counties.

D. Training Pilot County Child Support Workers

For child support assurance to work successfully, county IV-D workers must learn new application, enrollment, and maintenance procedures. Perhaps more important, workers in the pilot counties will need to understand fully the goals of child support assurance, so they will have a framework for resolving administrative problems that will inevitably arise. For workers who have previously emphasized either enforcement or account maintenance responsibilities, child support assurance may require fundamental shifts in their approach. These shifts may not come easily, but they will be enhanced through careful training.

E. Development of Automated Systems

Minnesota was already proposing to assume responsibility for calculating and writing child support checks to custodial parents in the IV-D system. Adding child support assurance to a new state system would require at least the following:

- Development of logic to cover basic child support assurance calculations (for example, no assurance payment when private child support exceeds the guarantee, but otherwise write a check for the difference between child support and the guarantee). This logic would also have to handle cases in which a single custodial parent has two or more children under different court orders; child support assurance benefits should be calculated on the basis of the total number of children, not the total number of orders.
- Development of a subsystem for routinely informing custodial parents each month how much of their child support check derives from private child support and how much derives from public child support assurance funds. The subsystem should also be capable of providing an annual reconciliation statement to custodial parents.

- Development of the capacity to credit private child support payments in a way (a) that can be read by a child support assurance subsystem, and (b) that treats arrearages appropriately (see the section on cost recoupment in this document).

APPENDIX A

TOTAL INCOME UNDER VARIOUS BENEFIT LEVELS

In this appendix we present information on the total income that would be available to custodial-parent families under two levels of the assured benefit. We provide this information because it enables a clear comparison between life on and off AFDC, working, and receiving the assured amount. One way to learn whether the assured benefit can encourage working among AFDC recipients is to compare total income under AFDC to total income under a combination of the assured benefit program and work.

In the case shown below, we calculate income for a family consisting of one adult and one child, age 4. We assume that the 1996 EITC schedule is in place (when currently scheduled increases will be fully phased in), that rent is \$400/month, and that the custodial parent could earn \$5/hour. Note that we count food stamps and some refundable tax credits as income and that we examine total income after taxes, after child care expenses, and after medical expenses, so the net income that we calculate is not directly comparable to the poverty line. Finally, note that a small amount of refundable renters' credit would be available to this family, but we were not able to estimate its amount.

	Not Working; with AFDC	Working Half-Time			
		With AFDC; Year 1 of Working	With AFDC; Year 2+ of Working	Without AFDC; \$200/ Month Guarantee	Without AFDC; \$300/ Month Guarantee
Annual Totals:					
Earnings	\$0	\$5,200	\$5,200	\$5,200	\$5,200
AFDC	5,244	1,906	1,128	0	0
Food stamps	2,172	1,832	2,157	1,578	978
Federal EITC	0	1,768	1,768	1,768	1,768
State EITC	0	265	265	265	265
Assured benefit	0	0	0	2,400	3,600
Subtractions:					
FICA taxes	\$0	\$398	\$398	\$398	\$398
Federal income taxes	0	0	0	0	0
State income taxes	0	0	0	0	0
Child care expenditures	0	0	0	180	180
Medical expenditures	0	0	0	132	156
TOTAL:	\$7,416	\$10,573	\$10,120	\$10,501	\$11,077

Notes to table on next page.

The poverty threshold for a family of 2 in 1992 is \$9,443.

Notes:

- AFDC maximum benefit for a two-person family is \$437. For the first four months of working, work disregards total \$120/month plus one-third of earnings; for the next eight months, disregards total \$120/month; after the first year, disregards total \$90/month.
- The calculation of food stamp benefits begins by adding earnings, AFDC and child support and subtracting \$131/month, 20 percent of earnings, child care up to \$175/month; this gives "counted monthly income." If rent and utilities exceed half of counted monthly income, this can be subtracted (up to a maximum of \$231/month). The food stamp benefit is \$206/month minus 30 percent of this adjusted counted monthly income.
- EITC is 34 percent of the first \$6,160 of earnings, then remains constant at \$2,094 until earnings total \$11,290, at which point it begins to decline by 15.98 cents for each dollar of earnings. This is the schedule for one child which will be effective in 1996. The Minnesota EITC (Working Family Credit) is 15 percent of the federal EITC.
- Federal and state income taxes are calculated using head of household status, one dependent, and the standard deduction.
- Child care is assumed to be fully covered if the family is working while receiving AFDC. Child care expenditures when off AFDC are estimated at \$2/hour of work. This is a little higher than the average expenditures for preschoolers in a child care center in nonmetropolitan Minnesota. The family, however, would have only a small copayment based on the sliding-scale child care program.
- Medical expenditures while receiving AFDC are zero (Medicaid); when off AFDC the copayment amounts for MinnesotaCares were used. This procedure probably overstates medical costs under the assured benefit. If the family had been on AFDC and left due to higher earnings, the one-year Medicaid extension would apply. Also, the child in this family would be eligible for Medicaid if the child was born after October 1, 1983.

APPENDIX B

THE MICROSIMULATION MODEL USED TO ESTIMATE COSTS AND EFFECTS

by Charles Michalopoulos and Daniel R. Meyer

The goal of the microsimulation model is to predict who would receive a child support assurance benefit, how much it would cost, and its effects on income, poverty, and welfare receipt. Because an assured benefit could change the number of hours that custodial parents work (Garfinkel et al., 1990), we also want to estimate its effects on labor supply. To make these predictions, we need to have an estimate of each family's current child support, welfare receipt, gross and net income, and labor supply, and then we need a method for estimating whether changes in welfare receipt, gross and net income, and labor supply would occur if an assured benefit were introduced. This appendix first describes adjustments that were made to the 1990 Census data and then outlines the microsimulation program.

1. Adjustments to the 1990 Census Data

To prepare the 1990 Census data for the microsimulation model, we estimated amounts of child support orders and payments, AFDC, food stamps, taxes, and wages for non-workers.

Estimating Child Support. While the decennial census allows us to identify many parents who have children who are eligible for child support, it does not allow us to identify the level of child support. We impute the child support paid to the parent by predicting whether a parent has an order, the amount of that order, and the collection rate of the order.

First, we predict whether a parent has an order. For custodial mothers, we assume that the probability of an order is $\Phi(X'b)$, where Φ is the standard normal cumulative distribution function and X is a vector of characteristics of the custodial parent. The estimated parameters in b were obtained using a sample from the Current Population Survey's Child Support Supplement (CPS-CSS) from 1990. Results are shown in the first column of Table B-1. The predicted probability of having an order for each individual is calculated using these coefficients. Each sample case is then divided into two parts, one part with an order and one part without, using this predicted probability and the sample weight.

If a custodial mother is assumed to have an order, we next predict the amount of that order and the collection rate. The amount of the order is predicted using an equation estimated using the same sample from the CPS-CSS. We then augment this predicted amount with a randomly distributed error term. Results of this equation are presented in the third column of Table 1. To predict the collection rate, the results of an ordered probit model (shown in the second column of Table 1) are used to predict whether the family would receive none of the child support owed, all of the child support owed, or some of the child support owed. (The CPS-CSS sample is again used to estimate this ordered probit model.) In the CPS-CSS sample, collection rates for families that receive some payments are distributed approximately uniformly between 0 and 100 percent. Therefore, if we predict that a family will receive some part of the order (but not all), we randomly choose the collection rate from a uniform distribution.

For custodial fathers, the procedure differs. We assume that 30.1 percent of all custodial fathers have orders, regardless of personal characteristics of the father (based on Wisconsin data from Meyer and Garasky, 1993). We further assume that the order amount for each father with an order is \$2272. Finally, collection rates are determined as for custodial mothers, and the predicted child support payment is calculated as \$2272 multiplied by the predicted collection rate.

Estimating AFDC and food stamp receipt. To estimate AFDC and food stamp receipt, we calculate the amount of AFDC and food stamps a family would be eligible for, using the benefit levels of 1989. For AFDC, we use the long-term work disregards. We do not assign AFDC reciprocity to anyone predicted to receive less than \$1,500, because prior experience with this model reveals that a family with a low benefit would almost always leave AFDC when any policy change is made, and we prefer a conservative estimate of AFDC savings. We assign food stamp reciprocity to all AFDC recipients and anyone else who reported receiving public assistance if eligible for a benefit based on the food stamp benefit formula.

We estimate \$264 million in total AFDC benefits for this sample. By comparison, actual benefits paid in Minnesota in 1989 were \$296 million in the AFDC-Basic program. (Note that some AFDC-Basic families would not be in our sample, including those in which one parent was incapacitated.) We estimate 46,355 AFDC-Basic families in this sample; the administrative record shows an average of 48,103 in AFDC-B families per month. We have no state-specific food stamp benefit totals for this population.

Estimating Taxes and Other Income. We calculate gross cash income by adding AFDC, child support, and earnings. We ignore other income reported by the family in the Census. While that income potentially includes a variety of sources, a major part of other income for these families will come from AFDC and child support. Since we impute both quantities, we chose to ignore reported other income. Net income is calculated by adding food stamps and the Earned Income Tax Credit (EITC) to gross cash income, and then subtracting income and payroll taxes and child care costs (net of the state and federal child care income tax credits). All tax and transfer schedules are for the 1989 calendar year, and we assume that all families take the standard deduction.

Estimating Wages for Nonworkers. If we are to predict whether the assured benefit encourages some individuals to begin working, we need an estimate of the wages they could receive if they were to work. But we do not observe a wage offer for them; thus we must predict wages for these individuals. The wage prediction has two components. First, we predict the mean of the natural logarithm of the person's wage, given the age, education, and other characteristics of the person, using the 1988 Survey of Income and Program Participation (SIPP). The results of this estimation are shown in Table B-2. Second, we attempt to mimic the actual distribution of wages by adding an individual-specific term to the log of the wage rate. This individual-specific term is chosen randomly from a normal distribution. Finally, the predicted wage is calculated by exponentiating the predicted natural logarithm of the individual-specific wage.

2. Predicting a Response to an Assured Benefit

To predict the impact of an assured benefit, we need predictions of the net income, welfare receipt, and labor supply of individuals under two sets of circumstances: (1) when they are in the current environment without an assured benefit and (2) when the assured benefit is available as a

supplement to their child support income. The difference in the predicted level of employment and income in the two environments represents the predicted effect or "impact" of the assured benefit.

The simulation model assumes that single parents select whether to receive welfare and the number of hours they will work in order to achieve the highest level of well-being (utility). The form of the utility function that we use to determine the response to an assured benefit is the augmented Stone-Geary direct utility function used by Garfinkel et al. (1990), Meyer, Garfinkel et al. (1991), and Meyer, Phillips, and Maritato (1991), and is given as follows:

$$U(C, H, \epsilon) = (1 - \beta) \ln\left(\frac{C}{m} - \delta\right) + \beta \ln\left(\alpha - \frac{H}{R} + \frac{\epsilon}{R * (1 - \beta)}\right)$$

(1)

for single-mother families; and

$$U(C, H_1, H_2, \epsilon_1, \epsilon_2) = (1 - \beta_1 - \beta_2) \ln\left(\frac{C}{m} - \delta\right) + \beta_1 \ln(Z_1) + \beta_2 \ln(Z_2)$$

(2)

for married-couple families; where

$$Z_1 = \alpha_1 - \frac{H_1}{R_1} + \frac{(1 - \beta_2) * \epsilon_1}{R_1 * (1 - \beta_1 - \beta_2)} + \frac{\beta_1 * W_2 * \epsilon_2}{R_1 * W_1 * (1 - \beta_1 - \beta_2)}$$

$$Z_2 = \alpha_2 - \frac{H_2}{R_2} + \frac{(1 - \beta_1) * \epsilon_2}{R_2 * (1 - \beta_1 - \beta_2)} + \frac{\beta_2 * W_1 * \epsilon_1}{R_2 * W_2 * (1 - \beta_1 - \beta_2)}$$

In these equations:

- C = annual consumption of market goods;
- H_n = annual hours of work (1 for husband, 2 for wife; when not subscripted this refers to single women);
- β_n = marginal propensity to consume leisure;
- δ = subsistence consumption;
- α_n = total time available for work;
- m and R = indexes that normalize C and H in accordance with the size and composition of the household;
- ε_n = an error term representing tastes for work; and
- W_n = the hourly net wage.

Maximization of the utility formulation subject to a budget constraint yields an optimal number of hours:

$$H = \alpha(1-\beta)R - \beta(n - \delta m)/w + \epsilon$$

for single-mother families, and

$$H_1 = \alpha_1(1-\beta_1)R_1 - \beta_1(n - \delta m + w_2*\alpha_2*R_2)/w_1 + \epsilon_1$$

$$H_2 = \alpha_2(1-\beta_2)R_2 - \beta_2(n - \delta m + w_1*\alpha_1*R_1)/w_2 + \epsilon_2$$

for married-couple families, where n = net unearned income (and thus $C = n + w_1H_1 + w_2H_2$).

Because directly estimating the parameters of this utility function is beyond the scope of the present paper, we draw on results from the existing labor supply literature. For our estimates of the labor supply effects, we use the results obtained by Johnson and Pencavel (1984) in their analysis of the labor supply response to the Seattle and Denver Income Maintenance Experiments (SIME-DIME). In particular, for single women we assume $\beta = .128$, $\delta = -2,776$, $\alpha = 2,151$, $m = 1-.401*\ln(1+K)$ (K being the number of children in the family under the age of eighteen), and $R = 1-.071P$ (P being 1 if there are preschool-age children in the family, 0 otherwise). For married couples we assume $\beta_1 = .2113$, $\beta_2 = .1238$, $\delta = 1,616$, $\alpha_1 = 2,587$, $\alpha_2 = 2,012$, $m = 1+1.069*\ln(1+K)$, $R_1 = 1$, and $R_2 = 1-.051P$.

In these equations, the epsilon terms (which can be thought of as representing "tastes" for work) represent random variation in optimal hours of work for individuals with identical characteristics. That is, if we observe two people with the same wage offers, the same amount of other income, the same family structure, and so on, we will likely notice that the two people work different amounts. The epsilon terms stand for these differences, which are not captured by the average values defined by the utility function's parameters. For workers, the epsilon terms are calculated so that hours of work reported by a sample member are the same as those predicted for that person. For people who are not working, the procedure is different. If we calculated epsilon so that actual hours of work (zero) were equal to desired hours of work, all of these individuals would be on the margin of going to work, and *any* positive force would push them over the margin. Instead, we expect many people who are not working to be entrenched, i.e., to continue not to work even in the presence of large positive incentives. To capture this, we draw the epsilon terms randomly from a normal distribution. Additional details on this procedure can be found in Garfinkel et al. (1990).

After imputing information about the current situation for each family (child support, AFDC, food stamps, gross and net income, and wages), we need to make sure that the predicted wage rate and hours of work that we estimate are consistent with the utility function. To determine a person's optimal labor supply and welfare choices, we calculate the utility of working 0 hours per week, 1 hour per week, 2 hours per week, and so on, up to 60 hours per week. If we find that the predicted hours maximize utility, we move on to the next stage. If we find that the predicted hours of work and welfare receipt are inconsistent with the utility-maximizing levels, we choose different person-specific wages, hours of work, and preference parameters. For each individual, the process continues until the predicted behavior is the same as that observed in the data.

When we have chosen person-specific wages and hours that are consistent with the amended utility function, we proceed to the next stage: introducing an assured benefit. In the "no labor supply response" estimates, we begin with a simple determination of whether the family is eligible for the assured benefit. If it is not, the policy has no effect. If it is, we assume the family receives the assured benefit, and recalculate AFDC and food stamp benefits and net income. Note that these estimates do not rely on the utility formulation.

The "labor supply response" procedures are more complicated. Again, if the family is not eligible for the assured benefit, the policy has no effect. If the family is eligible, we assume the family considers several possible levels of work effort. The family selects the number of hours of work based on the option that provides the highest utility. Again, the model calculates the utility of working 0 hours per week, 1 hour per week, and so on. The difference is that the individual is assumed to make choices while receiving an assured benefit. The model chooses the level of work and income which allows the individual to achieve the highest level of utility.

When the assured benefit is introduced, the model is capable of making several other changes. It can make the assured benefit subject to income tax or not. The model allows child support order amounts, for those with orders, to be set to the Wisconsin standard, if the Wisconsin standard is more generous than the previous order. (We did not use this option in these estimates for Minnesota.) Similarly, the collection rate can be assumed to improve, and the number of families with orders can be assumed to increase, but the Minnesota estimates did not incorporate either of these options.

The final stage of the simulation is to aggregate the labor supply, welfare choices, and net income of the members of the sample. In doing this, sample weights from the Census are used, but adjusted for the probability that a family received a child support order. (Recall that each family is used twice in the simulations. When the family is simulated to receive no child support award, the family receives a weight equal to its weight from the Census, multiplied by the probability of not having an award. When the family is simulated to receive a child support award, the family receives a weight equal to the sample weight times the probability of having an award.)

TABLE B-1

Regression Equations for Estimating the Probability of a Child Support Order, the Amount of the Order If One Exists, and the Percentage of the Order Paid If One Exists

Variable	Custodial Mothers		
	Probability of an Award	Percentage Paid	Log Award Amount
<u>Constant</u>	0.687 (5.252)	-0.0064 (-0.037)	6.9083 (61.774)
<u>Region of residence</u>			
Northeast	0.073 (1.150)	0.2206 (2.885)	0.0535 (-1.050)
Midwest	0.059 (0.939)	0.2004 (2.694)	-0.1269 (2.587)
South	0.053 (0.917)	0.1389 (2.005)	0.0016 (0.035)
<u>Urban location</u>			
Central City	-0.102 (-1.869)	-0.1175 (-1.713)	0.0409 (0.897)
Suburb	-0.014 (-0.276)	0.0203 (0.343)	0.0883 (2.269)
<u>Number of children</u>			
2	0.176 (3.586)	0.0348 (0.607)	0.2391 (6.242)
3 or more	0.152 (2.564)	-0.0698 (-0.963)	0.3077 (6.481)
<u>Annual earnings</u> (\$1000s)	0.004 (1.784)	0.0007 (0.302)	0.0036 (2.386)
<u>Marital status</u>			
Separated	-0.722 (-10.823)	0.2314 (2.555)	-0.1770 (-3.050)
Never married	-1.218 (-18.463)	0.2066 (2.114)	-0.1933 (-3.022)
Remarried	-0.237 (-4.315)	-0.0561 (-0.960)	-0.1020 (-2.618)

(table continues)

TABLE B-1, continued

Variable	Custodial Mothers		
	Probability of an Award	Percentage Paid	Log Award Amount
<u>Race/ethnicity</u>			
Hispanic	-0.388 (-5.043)	-0.0077 (-0.075)	-0.0728 (-1.054)
Nonwhite	-0.424 (-7.475)	-0.2319 (-3.075)	-0.2554 (-5.014)
<u>Years of age</u>	-0.011 (-3.788)	0.0079 (1.949)	0.0131 (5.035)
<u>Education</u>			
High school graduate	0.246 (4.369)	0.3363 (4.335)	0.1571 (3.083)
Post-high school	0.412 (6.407)	0.3841 (4.570)	0.4637 (8.361)
<u>Mu</u>		0.6516 (25.133)	
<u>Log of the likelihood function</u>	-2431	-2209	
<u>R-squared</u>			0.0257

Notes: Asymptotic t-values are shown in parentheses. The first column presents the results of a probit regression of the probability of an award. The left-hand side is a binary variable equal to one if the custodial mother has an award, equal to zero otherwise. The second column presents an ordered probit regression of the percentage of the award paid, among families with awards. The dependent variable takes on three values: no amount paid, some of the amount owed paid, or all of the amount owed paid. (Mu is the value of the underlying dependent variable at which the observed value switches from partial to full payment.) The third column presents an ordinary least squares regression of the amount of the child support award for families with awards. The dependent variable is the natural logarithm of the annual award amount.

TABLE B-2

Regression Equations for Estimating Wages for Nonworkers

Variable	Nonblack		Black	
	Participation in Labor Force	Log Wage	Participation in Labor Force	Log Wage
<u>Constant</u>	-.908 (.389)	.620 (.270)	-1.046 (.919)	.751 (.730)
<u>Years of age</u>	.077 (.019)	.070 (.011)	.090 (.044)	.063 (.032)
<u>Age squared</u>	-.001 (.000)	-.001 (.000)	-.001 (.000)	-.001 (.000)
<u>Education</u>				
9-11 years	.103 (.148)	-.091 (.094)	-.238 (.364)	-.071 (.194)
High school graduate	.373 (.162)	-.059 (.103)	.198 (.422)	.106 (.235)
Some college	.547 (.192)	.049 (.121)	.321 (.504)	.319 (.238)
College graduate	.676 (.243)	.239 (.151)	.556 (.659)	.662 (.369)
Years of education times age	-.000 (.000)	.001 (.000)	.001 (.001)	-.001 (.001)
<u>Marital status</u>				
Divorced/widowed	.451 (.074)		.011 (.178)	
Separated	.179 (.115)		.113 (.203)	
Never married	-.089 (.119)		-.369 (.163)	
<u>State unemployment rate</u>	-.073 (.017)	-.031 (.010)	-.075 (.040)	0.040 (.019)
<u>Region of Residence</u>				
South	.186 (.064)	-.003 (.036)	.030 (.290)	-.154 (.121)
Midwest	.207 (.062)	-.056 (.035)	-.207 (.293)	-.028 (.126)
Northeast	-.127 (.071)	-.038 (.040)	-.501 (.302)	-.081 (.140)

(table continues)

TABLE B-2, continued

Variable	Nonblack		Black	
	Participation in Labor Force	Log Wage	Participation in Labor Force	Log Wage
<u>Urban location</u>				
Metropolitan	.158 (.067)	.116 (.037)	.586 (.211)	.034 (.118)
SMSA	-.018 (.063)	.119 (.033)	-.221 (.194)	.025 (.084)
<u>Health limits work</u>	-.654 (.083)	-.097 (.064)	-1.096 (.247)	-.359 (.213)
<u>Other income (\$1000s)</u>	-.251 (.079)		-.660 (.421)	
<u>Preschool children</u>	-.371 (.058)		-.259 (.155)	
<u>Total children</u>	-.114 (.025)		-.065 (.053)	
<u>Lambda</u>		-.029 (.079)		.090 (.223)
<u>N</u>	3827	2094	528	279
<u>Log of the likelihood function</u>	-2441		-303	
<u>R-squared</u>		.201		.265

Note: Standard errors are in parentheses.

Endnotes

¹Irwin Garfinkel first worked out the Child Support Assurance concept while providing consultation to the Wisconsin Welfare Reform Advisory Commission in the late 1970s. A rudimentary form of the concept was incorporated into the committee's recommendations. It took another few years to develop the concept into a mature proposal.

²However, it should be noted that the proportion of AFDC recipients among poor children has fallen since 1973.

³The most common method of handling split custody arrangements currently is that each parent is treated as owing the other parent child support for the child/ren who live with the other parent. The amounts these parents owe each other are typically then netted against each other so that only the parent with the higher obligation actually is supposed to pay support. We recommended that under a child support assurance system, the two amounts not be netted so that it would be quite clear what each parent was paying, and when. The amount of the assured benefit could then be calculated simply.

⁴Consider a case in which the guarantee is \$200/month and the child support order is \$300/month. We calculate the amount the custodial parent receives and the state cost and compare these amounts under two scenarios: (a) the noncustodial parent pays \$175/month for two months or (b) the noncustodial parent pays nothing the first month and \$350 the second month.

Alternative rule (1), in which the custodial parent is paid first if the custodial parent is owed arrearages and public costs have been incurred in the past, and a payment in excess of current support is made:

Under scenario (a), the custodial parent receives \$200 in each month, totaling \$400, and the state cost is \$25 in each month, totaling \$50.

Under scenario (b), the custodial parent receives \$200 in the first month, at a state cost of

\$200. In the second month, the custodial parent receives \$300 in current support and \$50 that was paid on the arrearage, and the state cost is zero. Thus the total received by the custodial parent is \$550 and the total state cost is \$200.

Alternative rule (2), in which the state is paid first if the custodial parent is owed arrearages and public costs have been incurred in the past, and a payment in excess of current support is made:

Under scenario (a), the custodial parent receives \$200 in each month, totaling \$400, and the state cost is \$25 in each month, totaling \$50.

Under scenario (b), the custodial parent receives \$200 in the first month, at a state cost of \$200. In the second month, the custodial parent receives \$300 in current support. The state recoups the \$50 paid on the arrearage. Thus the total received by the custodial parent is \$500 and the total state cost is \$150.

Alternative rule (3), in which the state recoups its costs before the custodial-parent is paid more than the guarantee.

Under scenario (a), the custodial parent receives \$200 in each month, totaling \$400, and the state cost is \$25 in each month, totaling \$50.

Under scenario (b), the custodial parent receives \$200 in the first month, at a state cost of \$200. In the second month, the custodial parent receives \$200 and the remainder (\$150) is recouped by the state. Thus the total received by the custodial parent is \$400 and the total state cost is \$50.

Thus only under rule (3) is the total amount received by the custodial-parent family equal in scenario (a) and scenario (b).

⁵Two identical families would be treated differently in the Census if the respondent in one was the husband and in the other was the wife. Consider a husband-wife family that includes the wife's children from a former marriage. If the husband was the respondent, the children would be coded as his stepchildren, and the family would be in our sample. However, if the wife was the respondent, the children would be coded as her children, we would not know that they were from a previous marriage, and the family would not be included in the sample. We adjust for this undercount by assigning a larger weight to the stepparent families that we do identify. These weights were derived by comparing the national Census totals to totals from the national Survey of Income and Program Participation, which accurately identifies stepparent families.

⁶We assume that all families take the standard deduction, all receive the federal and state EITC if eligible, and all receive the federal child care credit. We use a simplified procedure to estimate child care expenditures and refunds. If a family is receiving AFDC, we assume they receive child care at no cost to themselves. If a family is not, we assume they pay \$2.50/hour/child for child care if they live in a metropolitan region and \$2/hour/child if they do not. We assume they pay for each hour in which the mother works if the child is under age 6, and that they pay for any hours over 30 hours/week if the child is age 6–11. We assume that all non-AFDC recipients who are income-eligible for the Minnesota sliding-scale child care program receive this reimbursement. Preliminary explorations with different assumptions about child care make very little difference to our estimates.

⁷This method has been used in a number of previous estimation projects, most recently in work estimating the effects of a national assured benefit that was performed for the U.S. Congressional Budget Office (Meyer and Kim, 1994).

⁸Minnesota collected a child support payment on behalf of 35 percent of its AFDC families in 1993, compared to a national average of 17 percent. One indicator of child support's effectiveness is the ratio of paternities established to the number of births to unmarried women: in 1991, Minnesota's ratio was

51 percent, compared to 39 percent for the United States as a whole (U.S. House of Representatives, 1994).

Glossary

Note: Cross references to other entries are indicated by **bold** type.

AFDC (Aid to Families with Dependent Children). A federal-state program that provides cash welfare payments for needy children who have been deprived of parental support or care because their father or mother is absent from the home, is incapacitated, is deceased, or is unemployed. The federal government sets the broad program parameters and pays a portion (currently 50–80 percent) of the costs. States define “need,” set their own benefit levels within federal limits, and administer the program. Because AFDC was first established as Title IV, Section A, of the Social Security Act, it is sometimes referred to as the **IV-A program**, to distinguish it from the **Child Support Enforcement**, or **IV-D**, program, which was established in 1975 as Section D of Title IV of the Social Security Act.

Arrears. Delinquent child support payments. If delinquency occurs and the parent later begins to pay, the amount paid may be divided into two portions, one for the amount currently due and one for the amount owed from prior periods.

Child Support Enforcement (IV-D) program. Section D, added in 1975 to Title IV of the Social Security Act, authorizes federal matching funds to be used by the states for enforcing the child support obligations owed by a **noncustodial parent** to his or her children and the **custodial parent**, locating absent parents, establishing paternity, and obtaining child and spousal support. Each state is required to designate a child support enforcement agency to serve all **AFDC** recipients and any other person who desires these services.

Child support guidelines. State laws specifying the way in which the amount of child support owed is to be determined. Minnesota’s guidelines specify that the amount is to be based only on a particular percentage of the noncustodial parent’s net income and the number of children involved. For example, the order for a nonresident parent with net monthly income between \$1001 and \$5000 should be 25 percent of income for one child.

Child support order. A legal obligation to pay child support, typically in cash, to the other parent of one’s children.

Child support payment. The amount of money paid by one parent for the support of his or her children who do not live with that parent the majority of the time.

Control group. See **Experimental group**.

Current Population Survey–Child Support Supplement. The Current Population Survey is a national survey conducted by the U.S. Bureau of the Census. The survey each month collects labor market information from a nationally representative sample of adults. In April of even-numbered years, the survey collects supplemental information concerning child support. This data set is the primary source of information on child support in the United States.

Custodial or resident parent. The parent who legally has been awarded physical custody, with whom the child therefore lives. Under the terms of almost all child support orders, the custodial parent is to be the receiver of child support. See **Noncustodial or nonresident parent**.

Disregard. Income of an individual that is discounted when calculating the AFDC benefit. The first \$50 per month of child support is disregarded and therefore does not reduce the AFDC benefit. The disregard is sometimes referred to as the "set-aside." See **AFDC**.

Earned Income Tax Credit. A federal program that provides income tax credits to low-income working families with children. The EITC is refundable, meaning that even those with incomes too low to owe income taxes can receive a check from the program. Some states (including Minnesota) have their own versions of an EITC.

Experimental group. A group of people who have access to a new program; also sometimes termed "treatment group." The "control group" is a group of similar people who are not offered participation in the new program. By comparing the two groups, a careful measurement of the effects of the program can be made. One way to ensure that the two groups are similar is to randomly assign people to one or the other group.

IV-A program. Another name for the **AFDC** program.

Labor supply response. A feature of an econometric model used to estimate costs and effects of child support assurance, in which an estimate is made of whether a parent would work more, less, or the same number of hours when child support assurance is offered.

Legal custody. The legal responsibility of a parent to make major decisions concerning his or her child, under the terms of a divorce, or agreement in a paternity case. Legal custody is typically established in a court hearing. The person with whom the child lives has **physical custody**, also typically established in a court hearing. Legal and physical custody need not be invested in the same parent.

Noncustodial or nonresident parent. The parent who does not have physical custody. Under the terms of almost all child support orders, the noncustodial parent is to be the payor of child support. See **Custodial or resident parent**.

Physical custody. The legal responsibility of a parent to reside with the child, under terms of a divorce, or agreement in a paternity case. Physical custody may be sole, shared, or split. See **Legal custody, Sole custody, Shared custody, and Split custody**.

Random assignment. See **Experimental group**.

Recoupment. In AFDC cases, the child support collections in excess of the **disregard** that are kept by the state to offset AFDC costs. This term can also be used to refer to the amount kept by the state for **arrear**s paid by a noncustodial parent, to offset the cost of child support assurance.

Self-support reserve. The amount of income that low-income, noncustodial parents are allowed in some states to set aside for themselves, before paying child support. Minnesota does not have

an explicit self-support reserve; in the case of low-income parents, the order is to be based on “the ability of the obligor to provide support,” but no explicit instructions are given.

Shared custody. A type of physical custody in which the child(ren) of divorced parents (or children born nonmaritally) spend a significant portion of time with each parent in turn. For example, children might alternate between their parents’ homes, spending a week with their mother and then a week with their father. In some states (but not Minnesota), the child support guidelines explicitly address the existence and the amount of a child support order in these cases. See **Physical custody, Sole custody, and Shared custody.**

Sole custody. Usually, a type of physical custody in which the child(ren) of divorced parents (or children born nonmaritally) spend a large majority of time with one parent, in contrast to split or shared custody. When one parent has sole custody, the other parent may have rights of visitation. “Sole custody” can also refer to **legal custody**, denoting an arrangement in which the major decisions about the child(ren) are made by only one parent. See also **Physical custody, Split custody, and Shared custody.**

Split custody. A type of physical custody in which at least one child of divorced parents (or children born nonmaritally) resides with one parent and another child resides with the other parent. See **Physical custody, Sole custody, and Shared custody.**

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