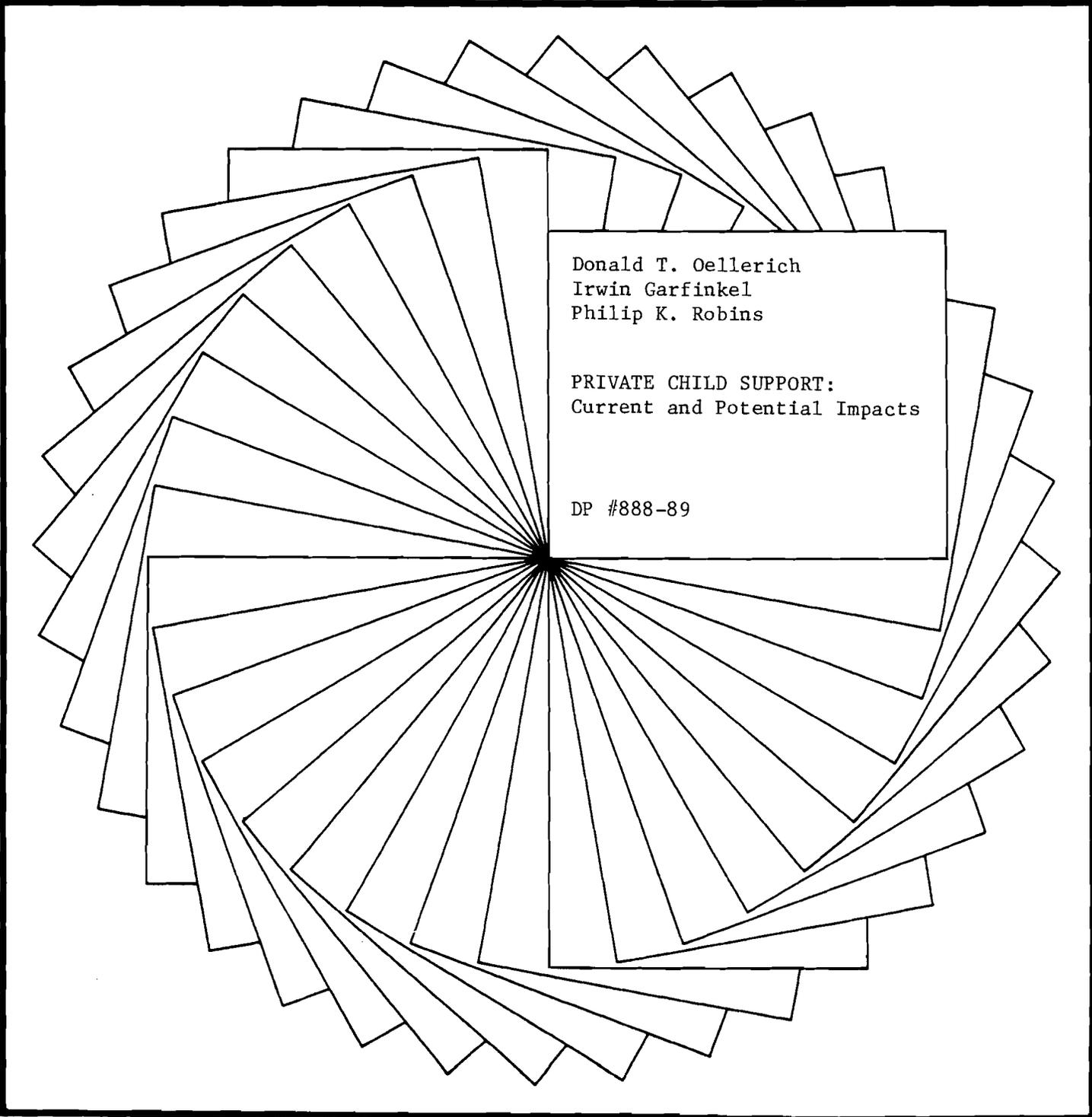


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# IRP Discussion Papers

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PRIVATE CHILD SUPPORT:  
Current and Potential Impacts

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**Private Child Support: Current and Potential Impacts**

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## Abstract

This paper examines the effects of a number of methods for enhancing private child support collections: increasing the proportion of those children potentially eligible for child support who get child support awards; using a uniform standard for determining child support obligations; and collecting a greater percentage of current obligations. The paper also estimates the potential of all three methods used in combination to provide income to needy custodial families.

The research demonstrates that the current private child support system falls far short of its potential to transfer income from noncustodial to custodial families. Although the use of a normative standard, improved collections, and extending child support to all those potentially eligible will greatly improve the economic circumstances of impoverished custodial families, private child support cannot be viewed as the sole answer for the economic plight of these families. Increased work opportunities and increased public support are also needed.

## 1. INTRODUCTION

Child support is an income transfer to the custodian of a child with a living noncustodial parent. Private child support is paid for by the noncustodial parent. Public child support is paid for by taxpayers. During the past decade a significant amount of legislation has been enacted to strengthen public enforcement of private child support. The most important legislation was passed in 1975, when Congress established the Office of Child Support Enforcement (OCSE) as Part D of Title IV of the Social Security Act (the IV-D program). Primarily a state program with significant federal involvement and federal funding, the original IV-D legislation required each state to develop a child support enforcement program providing services to all families receiving benefits from the Aid to Families with Dependent Children program (AFDC).

Since its inception, the IV-D program has grown steadily, and several amendments to the Social Security Act have greatly expanded the scope of its activities. Part of this expansion has been the extension of services to non-AFDC families. During the period 1978 to 1985, total child support collections through the IV-D program increased by 157 percent (56 percent in real terms), and the program's caseload grew by 102 percent.<sup>1</sup> This increase in program activities spanned both the AFDC and non-AFDC components of the program, although the percentage increase in the non-AFDC component was somewhat larger. Between 1978 and 1985 collections for AFDC families rose by 131 percent (40 percent in real terms) while collections for non-AFDC families grew by 179 percent (69 percent in real terms). The IV-D AFDC caseload grew by 76 percent over

this period and the IV-D caseload of non-AFDC families grew by 260 percent. Passage of the Child Support Amendments of 1984, which instituted, among other things, mandatory wage withholding for delinquent noncustodial parents, has caused continued growth in the size of the IV-D program throughout the 1980s. The recent passage of the Family Support Act of 1988, which will institute universal withholding by 1994, will ensure growth through the end of this century.

The expansion of the IV-D program reflects the public's concern about the growth in the number of children living with one parent and the public cost of supporting these children when the private child support system fails.

The potential child-support-eligible population consists of children under the age of 18 years who have living noncustodial parents. In 1983 15.3 million children were living in 6.1 million families disrupted by divorce or separation and in 1.8 million families in which the mothers had never been married. Combined, these children represent one of every five children in the United States today and a 35 percent increase in the eligible population over 1978.<sup>2</sup> It is estimated that more than two of every five children born today will at some time before age 18 live in a single-parent family and hence become potentially eligible for private child support (Bumpass, 1984).

Under the current system of private child support, noncustodial fathers transferred nearly \$6.8 billion to the custodial mothers of their children in 1983. This represented 70 percent of the \$9.7 billion legally owed. Of those families potentially eligible for child support, only 60 percent had a legal child support order. Of those legally entitled to child support, close to half received the full amount they

were owed while just over one-quarter received nothing. Reciprocity rates (proportion of the eligible population who receive some child support) have been fairly consistent from 1978 to 1985 (.35 to .36 respectively).<sup>3</sup>

Partly because of the failure of the child support system to transfer sufficient income, about one-third of all eligible children received some form of public assistance. The largest single source of public aid for these children is the AFDC program, which transferred some \$13.8 billion to needy families in 1983.<sup>4</sup> This program, combined with Food Stamps, Medicaid, and other smaller programs, cost the public more than \$24 billion during 1983 for single-parent families eligible for private child support (Garfinkel and McLanahan, 1987). In other words, public child support cash transfers to the poor alone exceed private child support cash transfers to all children eligible for support by a ratio of about three to one.

In spite of these combined private and public income transfers, many child-support-eligible families remain poor. In 1983 the poverty rate for all potentially eligible families was 33 percent while 41 percent of potentially eligible single-parent families were poor.

Given the current levels of private and public child support and the impoverished economic situation of many of these families, two important policy questions need to be answered. First, how much income can potentially be transferred under the private child support system to eligible families? Second, what are the impacts of such increase in these private income transfers on (1) AFDC costs and caseloads; and (2) the income and poverty status of eligible families?

The purpose of this paper is to address these questions by developing national estimates of private child support under five scenarios, each of which differs in effectiveness. The five scenarios are designed to show the impact of three means of enhancing the private child support system: (1) improving collections, (2) raising award levels, and (3) increasing the number of awards.

The remainder of this paper is organized as follows. The next section details the data used in the analysis. Section 3 provides the methodology for determining current levels of private child support and simulating potential levels of private child support. Section 4 presents the results of these simulations. Section 5 describes the methodology for simulating the economic impacts of potential child support transfers. Section 6 presents the results of these simulations. Finally, section 7 provides a conclusion and policy implications.

## 2. DATA

The 1984 Current Population Survey merged March Annual Demographic File and April Child Support Supplement (CPS-CSS), which provides the data for the analysis, is a match file containing detailed micro-level data on 3,821 families eligible for child support. All of these families have children under 18 years of age and were potentially eligible to receive child support in 1983. The data include detailed child support information as well as the demographic characteristics of the custodial mothers and the economic circumstances of the custodial families. This data file provides the most complete national data source. It is ideally suited for the analysis because it contains data

on child support income due and received as well as AFDC participation data, including whether the family was a full-year or part-year recipient of AFDC.

The data file does suffer from several weaknesses that have a direct impact on the analysis. The major weakness stems from a complete lack of information about the noncustodial parents. Although the data file contains a wealth of information related to child support, no attempt was made to gather data on the noncustodial parent. Lack of income data on noncustodial parents poses a major obstacle for the estimation of potential transfers. This obstacle is overcome by utilizing an indirect estimation methodology developed by Oellerich and Garfinkel (see Oellerich, 1984; Oellerich and Garfinkel, 1983; and Garfinkel and Oellerich, 1986).<sup>5</sup>

### 3. METHODOLOGY: CURRENT AND POTENTIAL CHILD SUPPORT OBLIGATIONS

#### A. Scenarios Tested

Five scenarios for determining total current and potential levels of private child support are tested. These scenarios are summarized in Table 1. The first scenario serves as the benchmark reflecting the current level of collections. The second scenario is the current obligations/perfect collections scenario. That is, if all that is owed were paid. This provides a benchmark reflecting the current level of obligations.

Each of the remaining three scenarios applies a uniform normative standard of ability to pay to the income of the noncustodial fathers to generate a hypothetical child support obligation. The two normative

Table 1

## Scenarios for Private Child Support

- 
1. Current private child support system
  2. Current private child support with perfect collection: System collecting 100% of current child support obligations
  3. Uniform standard,<sup>1</sup> current obligation rate, and current collection rate: Apply a uniform normative standard at the current rate of securing awards and collect at the current collection rate
  4. Uniform standard, current obligation rate, and 100% collection rate: Apply a uniform normative standard in those cases with a current obligation and collect 100% of the new obligation
  5. Theoretical limits of private child support system: Apply a uniform normative standard of ability to pay to all potentially eligible cases and collect 100% of obligations
- 

<sup>1</sup>The uniform standards under each of the remaining scenarios are the Wisconsin Percentage of Income and Colorado Income Shares.

standards chosen represent the two most popular methods of setting award levels currently being adopted by the states, the flat percentage-of-income model and the income shares model. The flat percentage-of-income model has been adopted by thirteen states. The income shares model has been adopted by twenty-three states (Munsterman and Henderson, 1987). The first standard is the Wisconsin percentage-of-income standard adopted in 1983. The obligation is simply a function of the number of dependent children and the gross income of the noncustodial parent. The Wisconsin standard sets the child support obligation at 17 percent of gross income for one child and 25, 29, 31, and 33 percent for 2, 3, 4, or 5 or more children, respectively. The second standard is one recently proposed in an OCSE study and adopted in the state of Colorado. The Colorado Child Support Guidelines (Williams, 1986) determines the needs or cost of the child(ren) based on the combined gross incomes of the custodial and noncustodial parents. The needs of the child(ren) are then shared proportionately by the parents based on the proportion of gross income each receives. If a remarried custodial parent does not have income, then one-half of a new spouse's income is considered available for support obligations.<sup>6</sup>

The third scenario applies the Wisconsin and Colorado standards to the noncustodial father's income in only those cases with a current obligation. In addition, the current collection rate is used to adjust the amount due to current levels of collection effectiveness.<sup>7</sup> The fourth scenario applies both standards, as in the prior scenario, but utilizes the collection rate of 100 percent. In the fifth scenario the Wisconsin Standard and Colorado Guidelines are applied to the income of the noncustodial father in every potentially eligible case, regardless

of whether or not there is currently an award, and 100 percent collection effectiveness is assumed. This scenario provides the theoretical upper limit of private child support transfers under those standards.

#### B. Calculating the Normative Standards

The data for the first two scenarios are available directly from the CPS-CSS data file. For the first scenario, current collections, the amount reported as received by the custodial parent is multiplied by the Census family weight,<sup>8</sup> and the result summed over all observations. The result is total current collections. The second scenario, 100 percent collection of what is currently due, is calculated in the same manner. The amount of child support due, as reported in the survey, is multiplied by the Census family weight and summed over all observations. The result is the total current amount of private child support due.

The methodology for determining the next three scenarios is not as straightforward, since it is not based on current child support obligations and collections. In order to apply the Wisconsin standard and Colorado guidelines to the noncustodial parents' income, the relevant income data must be available. As stated earlier, one of the weaknesses of the CPS-CSS is the lack of any data on the noncustodial parents. To overcome this weakness, the income information is estimated using an indirect methodology developed by Oellerich and Garfinkel (see Oellerich, 1984; Oellerich and Garfinkel, 1983; and Garfinkel and Oellerich, 1989). The method uses the characteristics of the women as proxies for the men's characteristics and an adjusted estimated

relationship between wives' characteristics and husbands' income. (For more detail of the methodology see Appendix A.)

To simulate the third child support scenario, the Wisconsin standard and the Colorado guidelines are applied to the estimated incomes of the noncustodial fathers who are currently obligated to pay support. The amount due based on the Wisconsin standard is simulated by simply multiplying the noncustodial father's income by the rate appropriate for the number of eligible dependent children. This amount is then multiplied by the current collection rate for the case to obtain the amount of expected transfer. The result for each sample case is then multiplied by the Census family weight and summed over all observations.

To simulate the Colorado guidelines for this scenario, the estimate of the noncustodial parent's income is combined with the total nonwelfare income of the custodial parent. If a remarried custodial parent has no income of her own, then one-half of the new spouse's income is deemed to be hers. The resulting total income is used to determine the child(ren)'s level of need. The standard of need, "Schedule of Basic Child Support," is provided as part of the guidelines and is based on the estimated cost of raising a child for given income levels. The noncustodian's obligation is determined by multiplying the need by the ratio of the noncustodian's income to the total income of the parents. The amount due is then multiplied by the current collection rate for the case to obtain the amount of expected transfer. The result for each sample case is then weighted by the Census family weight and the results summed over all observations.

The fourth scenario demonstrates the upper limit of private child support for those families currently due child support. The scenario applies the Wisconsin and Colorado standards, to determine levels of support, to only those families with a current support order. The collection rate is set at 100 percent. This allows a direct comparison between the current system of setting awards and the normative standards. In the fifth scenario the standards are applied to every case without regard to prior award or payment status. This scenario provides the upper limits of the private child support system if the Wisconsin or Colorado standards were universally applied and 100 percent of the resulting obligations were collected.

#### 4. RESULTS: CURRENT AND POTENTIAL LEVELS OF PRIVATE CHILD SUPPORT

The results of the simulations of current and potential levels of private child support appear in Table 2. The scenarios are represented in the rows of the tables. The three columns of the tables contain the results for the eligible families under each scenario, families not receiving AFDC, and AFDC recipient families.

Scenario 3 clearly illustrates the gains in private child support if current awards were set by and/or updated using either the Wisconsin or Colorado standards and current collection rates were maintained. Under the Wisconsin standard, transfers would double, an increase of \$6.5 billion, to \$13.33 billion. The Colorado standard would result in a 64 percent increase in transfers from the noncustodial fathers. Thus substantial increases in private child support transfers would be possible under this scenario. The fourth scenario demonstrates the

Table 2

Current Versus Potential Private Child Support Transfers  
(billions of 1983 dollars)

Scenario	Total Eligible Families (1)	Families Not on AFDC (2)	Families on AFDC (3)
1. Current transfers	6.83 (3.84)	6.26 (3.21)	.57 (.63)
2. Current obligations	9.68 (3.84)	8.52 (3.21)	1.16 (.63)
3. Uniform standard; current obligors; current collection rate			
Wisconsin	13.33	12.50	.83
Colorado	11.22 (3.84)	10.40 (3.21)	.82 (.63)
4. Uniform standard; current obligors; 100% collection			
Wisconsin	19.58	17.94	1.64
Colorado	16.70 (3.84)	15.07 (3.21)	1.63 (.63)
5. Theoretical upper limit			
Wisconsin	32.44	28.01	4.43
Colorado	28.03 (7.89)	23.92 (5.82)	4.11 (2.07)

Note: Numbers in parentheses are the number of eligible families (in millions) with an obligation.

effects of substituting for existing awards, obligations set by and/or periodically adjusted using either the Wisconsin or Colorado standard, and 100 percent collection effectiveness. The use of the Wisconsin standard would double existing award levels (row 2). When combined with 100 percent collection, the use of the Wisconsin standard would almost triple current payments (row 1). The impact of the Colorado guidelines would be somewhat smaller though still very substantial; an increase of \$7.0 billion over current award levels. It cannot be ascertained from the data if these differences are due to initially low award levels, the lack of systematic periodic updating, or some combination of the two.<sup>9</sup> These results demonstrate that the current ability of noncustodial fathers to pay child support, as measured by the Wisconsin and Colorado standards, is not adequately tapped by the current system of establishing and updating award levels.

The last scenario provides the most striking results. When compared to the current situation (rows 1 and 2), the current system of setting and collecting private child support does not approach the theoretical upper limits. A perfect system would be capable of transferring from \$28 to \$32 billion, depending upon which standard was applied. This is almost three times what is currently due (row 2) and more than four times what is transferred under the current system (row 1).

The differences in potential child support transfers between those currently with an award and those without an award can be gleaned from the fourth and fifth scenarios (rows 4 and 5). Under the Wisconsin standard, the 3.84 million families who currently have an award have potential child support income of \$19.58 billion. The child support

potential income for the 4.05 million families without a current award is \$12.86 billion. Thus the 51 percent of the eligible population without an award has only 40 percent of the total child support income potential. The proportions of the child support income potential for the Colorado standard are almost identical. There may be several concomitant reasons for this discrepancy. First and foremost is the lower incomes of the noncustodial fathers of those without awards. Second, many of families without an award are headed by never-married mothers; thus there are fewer children per family on average. In addition, never-married men have lower incomes than ever-married men. Third, a disproportionate number of those families without an award are black, and black males have lower incomes vis-à-vis white males.

The aggregate results are further broken down into non-AFDC and AFDC families (columns 2 and 3, respectively) because ability to pay and collection effectiveness may differ substantially by the AFDC status of the custodial family. Several findings are worth highlighting. First, the effect of the standards on award levels differs dramatically between the two groups (compare rows 2 and 4). The Wisconsin standard would result in a 111 percent increase in award levels for families not receiving AFDC, while for families receiving AFDC the increase is just 41 percent. The Colorado standard would result in a 77 percent increase for families not receiving AFDC and 41 percent for those receiving AFDC. These differences in the impact of the standards between families not on AFDC and families that are recipients of AFDC may reflect the regressive nature of the current system of setting award levels. That is, it appears that low-income noncustodial fathers of children receiving AFDC

have obligations closer to their ability to pay as measured by either standard than do their non-AFDC counterparts.

Second, the effects of a perfect system (row 5) are far more dramatic, in percentage terms, for families on AFDC than for those not on AFDC. This indicates the difficulty currently encountered in securing awards and collecting private child support for AFDC families. The upper limit of child support utilizing the Wisconsin standard is \$4.4 billion or a 677 percent increase over current collections. The results for the Colorado standard are equally impressive, with child support totaling \$4.11 billion or 621 percent more than is currently transferred. For families not receiving AFDC the effects of this perfect system which incorporated the Wisconsin standard would result in a 347 percent increase in transfers, to \$28 billion, over current collections, whereas incorporating the Colorado standard would result in a 282 percent increase, to \$23.9 billion.

The results displayed in Table 2 demonstrate impressive gains in private child support. These gains result from the improvement in securing awards and collection performance combined with the universal application of the Wisconsin or Colorado standards. Overall, the potential of the private child support system (as measured by the two standards analyzed) far outweighs its current performance. Current transfers are but one-fifth to one-fourth of the theoretical limits of the private system, whereas current obligations tap just one-third of these limits. If current obligations were replaced by obligations both set by and updated to the Wisconsin or Colorado standards and collection was 100 percent effective, approximately three-fifths of the theoretical limits of the private child support would be potentially available to

custodial families. The dollar potential for families not on AFDC is far more dramatic than for those who are AFDC recipients, yet in percentage terms the potential increase is far greater for AFDC families. This reflects the lower incomes of noncustodial fathers of AFDC families and the difficulties inherent in securing private support for these families.

## 5. METHODOLOGY FOR THE SIMULATION OF ECONOMIC IMPACTS

Eight economic impacts of private child support transfers are estimated. AFDC impacts are assessed on three outcomes: (1) total number of families receiving AFDC; (2) total months that all families are on AFDC (family/months of AFDC); and (3) total AFDC benefits paid. Impacts on the economic well-being of families are measured by five outcomes: (1) mean child support income; (2) mean total family income; (3) number of poor persons in families potentially eligible for child support; (4) overall poverty rate for this group; and (5) their overall poverty gap.

### A. Impacts on AFDC Participation

The simulation of the AFDC outcomes is based on the AFDC participation model developed by Robins (1986). This AFDC participation model serves two purposes. First, it is used to predict the number of months in the year a part-year recipient family has received AFDC benefits and the amount of the monthly AFDC benefit. Second, the model is used to estimate the impacts of modified private child support transfers for both full- and part-year AFDC recipients.

The participation model is based on the assumption the families participate in the AFDC program if it improves their well-being. Implicit in the theoretical model are the behavioral responses to child support. That is, the theoretical model implies that receiving child support reduces the probability of being dependent on AFDC. The magnitude of the reduction depends upon not only the magnitude of the change in net nonwage income (e.g., child support) but also net wage income and other nonearned income.<sup>10</sup>

To predict the current number of months for part-year participants, the coefficients estimated in the participation model are combined with the characteristics of the families who are current recipients of AFDC. This produces a prediction of the proportion of the year a family participates in the program. The result is then multiplied by 12 to obtain the current number of months of program participation. The reported AFDC benefit is then divided by the number of months to obtain the monthly AFDC benefit. For full-year recipients, the reported AFDC benefit is divided by 12 to obtain the monthly benefit.

The simulation of the AFDC impacts under the five scenarios has two parts. First, the monthly private child support amount is compared to the monthly AFDC benefit. If the child support amount exceeds the AFDC benefit, then the family is no longer eligible for AFDC because of the 100 percent marginal tax rate the AFDC program imposes on child support income. Because the first \$50 of child support received monthly is not taxed by the AFDC program, all AFDC simulations incorporate a \$50 monthly set-aside. The second part of the simulation methodology is applied to those families whose child support benefits are smaller than the AFDC benefit. The simulation differs for part-year and full-year

AFDC recipients. For part-year recipients, the Robins model is used to predict the proportion of the year a family participates in the AFDC program under each scenario. The result is multiplied by 12 to obtain the number of months a family participates. The cost of the AFDC program is obtained by multiplying the number of months by the monthly AFDC benefit. Note that part-year participants can increase as well as decrease their participation under alternative scenarios if estimated child support is below current levels.

Full-year recipients are assumed to differ in their AFDC participation response to changes in child support income. That is, some full-year families may be more entrenched in the program than others. The simulation methodology accounts for this entrenchment by incorporating a measure of the variability in response; the measure is the estimated error variance from the estimation of the Robins's AFDC participation model.

Given the number of months a family participates in the AFDC program and their monthly AFDC benefit, the computation of the three outcome measures is straightforward. First, the total number of AFDC families is a weighted count of all families who have a positive AFDC benefit under each scenario. Second, the total number of family/months of AFDC participation under each scenario is the number of months each family participates in the program multiplied by the Census family weight and summed over all observations. The third outcome measure, total AFDC benefits, is computed by multiplying, for each observation, the monthly AFDC benefit by the number of months of program participation times the Census family weight and summing over all observations.

**B. Impacts on Economic Well-Being of Custodial Families**

The five outcome measures of family economic well-being include (1) the mean private child support transfer; (2) the mean custodial family income; (3) the number of poor persons in families potentially eligible for child support; (4) the overall poverty rate for these families; and (5) their total poverty gap. Mean private child support transfer is computed by dividing the total private child support generated under each of the five scenarios by the total number of families with a child support award under each scenario. Mean custodial family income is calculated by computing the total family income for each family, summing over all Census family weighted observations and dividing by the total weighted number of families. The total custodial-family income for each family is the total of all earned and unearned income, including private child support and/or AFDC income. For those families who were AFDC recipients during all or part of the year, total family income includes the maximum of either the child support or AFDC transfer for each month multiplied by the number of months, taking into account the \$50 AFDC set-aside. The monthly child support transfer is simply the total child support due under a given scenario divided by 12, while the monthly AFDC benefit is determined by the AFDC simulation presented above.

The number of poor persons in families potentially eligible for child support, the third outcome measure, is the weighted count of all persons in those families whose total welfare and nonwelfare income is below the official poverty line appropriate for family size. The poverty rate is computed by dividing the total number of these poor persons by the total number of all poor and nonpoor persons in custodial

families. The last measure, the poverty gap, is determined for all custodial families whose total income is below the poverty line by subtracting the total family income from the poverty line. The result is weighted by the Census family weight and summed over all observations of custodial families under the poverty line.

## 6. SIMULATION RESULTS

### A. Impacts of Private Child Support on AFDC

The results for the simulation of the AFDC impacts of private child support appear in Table 3. The five child support scenarios are represented in the five rows of the table, and the columns contain the three outcome measures. Under the current system of private child support 2.07 million families report receiving at least some AFDC assistance during the year. The total number of family/months of AFDC participation is 21.3 million months, and the total reported benefits transferred to these families come to \$6.5 billion. If all that were owed to these families in private child support under the current system were paid (row 2), then the number of AFDC recipient families would be reduced by 4.8 percent, the number of family/months reduced by 4.6 percent, and the total AFDC benefits reduced by 3.5 percent; these results are similar to Robins's (1986) estimates.

Under a perfect system of private child support reflected in the scenario giving theoretical limits (row 5), AFDC participation would decline by 16 to 17 percent, or more than a quarter of a million families. AFDC benefit transfers would decrease by 30 to 33 percent, depending upon the uniform standard employed. This decrease in benefits

Table 3

## Impact of Potential Private Child Support Transfers on AFDC

Scenario	Number of AFDC Families (millions)	Total Family Months on AFDC (millions)	AFDC Expenditures (\$1983 billions)
1. Current transfers	2.07	21.30	6.50
2. Current obligations	1.97 (4.8)	20.31 (4.6)	6.27 (3.5)
3. Uniform standard; current obligors; current collection rate			
Wisconsin	2.01 (2.7)	20.78 (2.5)	6.39 (1.8)
Colorado	2.01 (3.1)	20.68 (2.9)	6.38 (1.8)
4. Uniform standard; current obligors; 100% collection			
Wisconsin	1.90 (8.5)	19.55 (8.3)	5.93 (8.9)
Colorado	1.88 (9.1)	19.38 (9.1)	5.91 (9.2)
5. Theoretical limit			
Wisconsin	1.74 (16.0)	17.77 (16.8)	4.35 (33.1)
Colorado	1.72 (16.8)	17.45 (18.1)	4.53 (30.4)

Note: Numbers in parentheses are the percentage reduction in each measure from the current payment scenario (row 1). Percentages are based on unrounded numbers.

amounts to a saving of \$1.97 to \$2.15 billion, again depending upon the normative standard. The number of family-participation months would decrease by more than 3.5 million, utilizing either the Wisconsin or Colorado standards. The replacement of current awards with obligations established using either the Wisconsin or Colorado standards and collecting 100 percent (row 4) would result in a savings of more than \$570 million in AFDC expenditures and a reduction of 170,000 to 190,000 in the number of AFDC families.

In sum, the results displayed in Table 3 indicate that private child support has the potential to make significant reductions in AFDC caseloads and costs. Also, it is obvious from these simulations that private child support is not a panacea. It will not replace the AFDC program; even at the limits of private child support, in excess of 80 percent of the caseload and two-thirds of the costs would remain.

**B. Economic Well-Being of Families Potentially Eligible for Child Support**

Table 4 contains the results of the simulations of the five private child support scenarios on the economic well-being of potentially eligible families. Again, the rows of the table represent the five scenarios while the columns contain the outcome measures.

The results displayed in Table 4 indicate that private child support has the potential to make important inroads in bettering the impoverished economic conditions of these families. If the private system could effectively secure all that is currently owed to these families (row 2) the poverty rate would be reduced by nearly 1 percentage point (or a quarter of a million persons) and the poverty gap

Table 4

Economic Impacts of Potential Private Child Support  
Transfers on Custodial Families

Scenario	Mean Private Child Support Transfers (\$1983)	Mean Total Income (\$1983)	Number Poor (millions)	Poverty Rate (%)	Poverty Gap (\$1983 billions)
1. Current transfers	1,779	9,542	10.16	38.9	13.64
2. Current obligations	2,552	9,864	9.92 (2.4)	38.0	13.02 (4.6)
3. Uniform standard; current obligors; current collection rate					
Wisconsin	3,473	10,397	9.56 (5.9)	36.6	12.72 (6.8)
Colorado	2,923	10,124	9.61 (5.4)	36.8	12.79 (6.3)
4. Uniform standard; current obligors; 100% collection					
Wisconsin	5,099	11,264	9.23 (9.1)	35.3	12.18 (10.7)
Colorado	4,348	10,717	9.23 (9.1)	35.3	12.23 (10.4)
5. Theoretical limit					
Wisconsin	4,110	12,514	8.26 (18.7)	31.6	9.38 (31.2)
Colorado	3,552	11,919	8.28 (18.5)	31.7	9.56 (29.9)

Note: Numbers in parentheses are the percentage reduction in each measure from the current payment scenario (row 1). Percentages are based on unrounded numbers.

would decline by \$620 million. Of course this impact pales when compared to the limits of the system employing either alternative normative standard (row 5). In this scenario mean family income would increase by more than \$2000, while 1.9 million persons would be lifted out of poverty. The poverty rate would fall more than 7.2 percentage points to about 32 percent, depending upon the standard employed. The poverty gap would be reduced by at least 30 percent. The effects of modifying existing orders plus 100 percent collection can be gleaned from the fourth scenario (row 4). This scenario would result in a reduction of 930,000 in the number of poor persons and reduce the poverty gap by more than \$1.4 million or 10 percent. Overall, private child support has the potential to produce significant reductions in the impoverished economic situation of many families potentially eligible for child support. Yet the fact remains in the face of these improvements that more than 31 percent of all persons living in families potentially eligible for child support would remain poor under even the most optimistic of scenarios.

## 7. CONCLUSIONS AND POLICY IMPLICATIONS

Several important conclusions can be drawn from this research. First, the current private child support system falls far short of its potential to transfer income from noncustodial to custodial families. While the current system transfers 71 percent of current total obligations, these current obligations account for 30 to 34 percent of the theoretical upper limits of private child support defined by two uniform normative standards adopted in Wisconsin and Colorado. Second,

the use of a uniform normative standard would result in substantial increases in private child support transfers, even if there were no other systematic improvements in child support awards or collection rates. The use of standards may alleviate perceived inequities and result in improved payment behavior on the part of noncustodians. Of course, if obligations as a proportion of income increase, there is a possibility that payment behavior may decline. Therefore improved collection mechanisms such as automatic income withholding should be required. The passage of the 1984 Social Security Amendments requiring individual states to establish uniform normative standards is a step toward more equitable obligations within states. In addition, the 1988 Family Support Act requires states to institute universal income withholding by 1994. Wisconsin, followed by several other states, including Arizona and Texas, has already adopted such laws.

Third, although private child support has the potential to make inroads in reducing the AFDC dependence and impoverished economic circumstances of eligible families, a significant number of families would remain dependent and/or poor. Private child support cannot be viewed as the sole answer for the economic plight of these families. If their economic situation is to be alleviated, it must be attacked by a program which combines increased work opportunities with increased public support and improved private child support.

## Appendix A

### Estimating the Income of Noncustodial Fathers

The methodology can be broken down into three steps. First, using ordinary least squares regression the relationship between men's income and women's characteristics is estimated. The sample for this estimation is made up of currently married couples with children under 18 years of age. The 1984 Current Population Survey March Demographic File provides the sample for the analysis. The dependent variable is the natural log of men's income from all sources except welfare. The independent variables are those usually found in human capital-income regressions. These include the age, education, number of dependent children, residence (city, SMSA, region) of the women, and several second-order and interaction terms. The regression analysis is performed separately for whites and nonwhites to avoid possible misspecification of the model due to the interaction of race with the other independent variables. The results of these regressions appear in Table A-1.

The second step is to combine the coefficients estimated in the first step with the characteristics of the custodial mothers in the CPS-CSS. Straightforward arithmetic is used to impute an income estimate for each observation.

The income estimates produced thus far are too high. The incomes are predicted from a regression using married couples. It is known that divorced, separated, and never-married men have lower incomes than their married counterparts. The third step of the methodology corrects for this overestimation. The imputed incomes for each case are reduced by

## Appendix A

Table A-1

Fathers' Income  
OLS Regression Results

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Dependent Variable: natural log of men's nonwelfare income

Variables	White	Nonwhite
Age	.08338 (.00817)	.09606 (.01423)
Age <sup>2</sup>	-.000926 (.000110)	-.00116 (.00019)
Education	.05122 (.00902)	.05995 (.00591)
Education < 9	-.24332 (.06760)	N.I.
Education 9-11	-.17061 (.03679)	N.I.
Education = 12	Reference	N.I.
Education > 12	.04804 (.03509)	N.I.
Race (other than white or black)	N.I.	.11589 (.05669)
Spanish	N.I.	.21509 (.04683)
NonCity	.12044 (.02674)	.10492 (.04407)
NonSMSA	-.19270 (.02249)	-.14543 (.05576)
Nonlarge SMSA	-.14188 (.03022)	.02374 (.05138)
Region NE	-.03488 (.02757)	.07695 (.06299)

Table A-1, continued

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Dependent Variable: natural log of men's nonwelfare income

Variables	White	Nonwhite
Region West	-.06399 (.02444)	.12507 (.06895)
Region South	-.02658 (.02983)	.00316 (.05338)
Region Central	Reference	Reference
One Child	Reference	Reference
Two Children	.06823 (.02169)	-.00983 (.04647)
Three+ Children	.05320 (.02717)	-.06098 (.05092)
Income Dummy	-5.9613 (.04351)	-5.6000 (.06196)
Constant	7.60293	6.8624
N	7383	1732
R <sup>2</sup>	.7305	.8362
MSE	.6491	.6148
F	1330.96	825.85

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Notes: Numbers in parentheses are standard errors.

N.I. means not included in the model.

the regression-controlled mean difference between the incomes of divorced, separated, or never-married men and married men's income. The regression-controlled mean differences are estimated using ordinary least squares dummy variable regression. The sample for this estimation is made up of a sample of self-identified ever-married noncustodial fathers in the 1976 Survey of Income and Education combined with married men with children and never-married men. The dependent variable is the natural log of men's income from all sources except welfare. The independent variables are the same as those included in the step 1 regression with the addition of a set of dummy variables for marital status. The resulting regression-controlled mean differences are presented in Table A-2.

To apply these corrections, the marital status of the men is assumed to be the same as that of the custodial mothers for those who are separated and never married. For never-marrieds, this will most likely lead to an underestimate of noncustodian's income, because some never-married women may have mated with ever-married men, who have higher incomes. Where the custodial mother is either divorced or remarried, the noncustodian is assumed to be either divorced or remarried. To determine the number of divorced and remarried men, the probability of remarriage is estimated independently in a manner similar to the income regression (see Oellerich, 1984, for the details). This probability is combined with the Census family weight to assign some portion of the noncustodians the lower income of the divorced status and the remainder of the men the higher income of the remarried men. Remarried men have the same income on average as married men.

## Appendix A

Table A-2

## Marital Status and AFDC Status Regression

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Dependent Variable: Natural Log of Annual Income of Men

Variables	<u>Marital Status</u>		<u>AFDC Status</u>	
	White (1976 SIE)	Nonwhite	White (1979 CPS-CSS)	Nonwhite
Age	.07972 (.00308)	.04872 (.01041)	.02619 (.0208)	-.0632 (.07441)
Age <sup>2</sup>	-.0009982 (.0000312)	-.0006179 (.000115)	-.00034476 (.000222)	.000459 (.000659)
Age*Education	.00148 (.00009)	.00112 (.000314)	.00101 (.000595)	.00259 (.002655)
Education < 9	-.10232 (.02951)	.02918 (.1000)	-.32782 (.18151)	1.06146 (1.0534)
Education 9-11	-.15142 (.01917)	-.10701 (.06295)	-.11419 (.08927)	.32022 (.34252)
Education > 12	-.056271 (.01645)	.11863 (.06583)	.08559 (.08485)	.09431 (.39639)
Non-Central City	-.16936 (.01665)	-.23008 (.0800)	.06346 (.07574)	-.14493 (.27316)
Non-SMSA	-.03644 (.01722)	.10943 (.06341)	-.06212 (.06212)	-.33731 (.32569)
2 Children	---	---	.01231 (.06294)	-.11549 (.25498)
3+ Children	---	---	.06232 (.07393)	.18084 (.2925)
Northeast Region	---	---	-.02421 (.08485)	.35425 (.37441)
South Region	---	---	.03443 (.07147)	-.3532 (.2839)
West Region	---	---	.01854 (.07681)	.5486 (.30954)

Table A-2, continued

Dependent Variable: Natural Log of Annual Income of Men				
Variables	<u>Marital Status</u>		<u>AFDC Status</u>	
	White (1976 SIE)	Nonwhite (1976 SIE)	White (1979 CPS-CSS)	Nonwhite (1979 CPS-CSS)
Income Dummy	-4.70438 (.03961)	-3.92412 (.09033)	---	---
Divorced	-.26646 (.03146)	-.37883 (.09033)	---	---
Separated	-.23966 (.06915)	-.51656 (.11182)	---	---
Never-Married	-.68797 (.01606)	-.91063 (.1182)	---	---
AFDC Recipient	---	---	-.43357 (.08537)	-.44746 (.28329)
Intercept	7.3776	7.78489	8.69303	10.00843
R <sup>2</sup>	.5720	.7486	.1779	.2973
F Test	2216.38	350.38	9.169	1.299
Number of Observations	21570	1544	608	58
Mean of Dependent Variable	9.516	9.2119	9.581	9.385

Note: Standard errors are in parentheses.

Source of data: Regression 1 (Col. 1 & 2) Marital Status: 1976 Survey of Income and Education.

Regression 2 (Col. 3 & 4) AFDC Status: 1979 Current Population Survey Child Support Supplement.

The income methodology thus far provides a point estimate of income for each observation. Because each sample observation represents a distribution of many custodial families in the population and not all of the concomitant noncustodians have the same income, a measure of variability is included for each observation. The variance is estimated by the mean squared error of the regression. Thus the distribution of noncustodial fathers' income for each observation is defined as distributed natural log normal with a mean equal to the point estimate and a variance equal to the mean squared error of the regression. These income distributions provide the necessary data to apply the Wisconsin and Colorado standards and develop estimates of potential child support under the third, fourth and fifth scenarios.

## Notes

<sup>1</sup>These percentages and those in the remainder of this paragraph were computed by the authors using data reported by the Office of Child Support Enforcement in their annual reports to Congress. Dollar increases have been adjusted using the consumer price index to determine real growth. U.S. Department of Health and Human Services, Office of Child Support Enforcement (1982 and 1985).

<sup>2</sup>The numbers in this paragraph were computed by the authors from the microdata tapes for the 1979 and 1984 Current Population Survey Matched March Demographic File and April Child Support Supplement.

<sup>3</sup>Reciprocity rates computed by the authors from U.S. Bureau of the Census (1985, 1989); Table A.

<sup>4</sup>The source for these data is U.S. Department of Health and Human Services, Social Security Administration, 1985, Table 196.

<sup>5</sup>Several other weaknesses of the data source include the following: first, the child support data were obtained from women 18 and over, thereby excluding women under 18 with children eligible for child support. Second, data were collected for the most recent divorce or separation, thereby excluding information concerning child-support eligibles from prior unions. These two weaknesses combined result in an undercount of potential eligible families, the amounts of child support owed and collected, and the amount of AFDC assistance paid to families eligible for child support.

The fourth weakness results from the annual reporting of both AFDC and child support. Annual reporting creates a problem when one tries to adjust family incomes from increases in child support and concomitant decreases in AFDC payments, because AFDC uses a monthly accounting period. This weakness is overcome by incorporating into the microsimulation models a monthly AFDC participation model developed by Robins (1986). The fifth weakness is due to presumed underreporting of private child support by AFDC recipients. This may occur because AFDC recipients do not directly receive private child support payments. Upon acceptance of AFDC assistance, the eligible family assigns its rights to child support to the state, which then receives payments from the noncustodian, so it is likely that the custodial family is unaware of the amount paid to the state. Furthermore, payments received directly by the family may go unreported, since disclosure would subject the mother to the 100 percent tax rate imposed by the states on child support in excess of \$50 per month. An upper-bound estimate of the underreporting in 1983 is 35 percent. This is the ratio of the difference between that reported in the survey (\$.57 billion) and the amount reported by OCSE for fiscal 1983 (\$.88 million) to the OCSE amount. The CPS figure is based on 2.07 million families, whereas the OCSE figure is based on an AFDC caseload of 5.83 million families. In addition, the OCSE amount includes arrears collected during the fiscal year.

<sup>6</sup>We do not adjust incomes for prior support obligations or health insurance premiums. Neither work-related child care expenses nor

extraordinary educational and health expenses are included in the child(ren)'s needs as provided for in the guidelines.

<sup>7</sup>The current collection rate for each case is the ratio of current amount paid to current amount due as reported by the custodial mother.

<sup>8</sup>The Census family weight is the sample weight provided in the microdata tape which is used to produce population estimates from the sample data.

<sup>9</sup>Work in determining the effect of inflation and other factors on the erosion in the value of awards under the current system is currently under way; see Robins (1989).

<sup>10</sup>The coefficients used in this paper are updated estimates of Robins's original model and are based on data from three CPS-CSS match files, for 1979, 1982, and 1984 (the original Robins, 1986, estimates are based only on the 1982 match file). The methodology used to derive the updated estimates is described in Robins (1987). Because the 1979 CPS-CSS match file doesn't identify number of months on AFDC during the survey year, a probit model (rather than a tobit model) is used to estimate the updated (normalized) coefficients. The standard error used in the simulations for this paper is taken from the original tobit estimates given in Robins (1986).

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