

## EXECUTIVE SUMMARY

### Introduction

In the summer of 1980, a research team from the Institute for Research on Poverty under contract with the Wisconsin Department of Health and Social Services engaged in a project to examine the existing Wisconsin child support system and design and evaluate alternatives to it. This report presents the preliminary findings of the research, program design, and evaluation effort.

The report consists of three volumes. Volume I contains the Executive Summary, the main body of the report, and a draft of the law which would enact a new child support program.

Volume II contains a proposal for a demonstration of the child support program in several Wisconsin counties and a set of issues papers on each major program recommendation. Volume III contains research papers prepared as background for the main report plus a set of papers prepared for the spring 1981 child support conference.

### Weaknesses of the Current Child Support System

The U.S. Child Support System fosters parental irresponsibility. It is inequitable and therefore exacerbates tensions between former spouses. Finally, it impoverishes children. While Wisconsin is much better than average, the same criticisms apply here--only with less force.

Evidence of parental irresponsibility is contained in national statistics. Only 59% of women potentially eligible to receive support have child support awards. Of those awarded child support, only 49% received the full amount due them, and 28% received nothing. Child support is

collected from only 10% of the absent fathers of AFDC children. In Wisconsin, it is collected from 15%.

The child support system is inequitable because the amount of support an absent parent pays depends not just on ability to pay, but on the varying attitudes of local judges, district attorneys, and welfare officials, the beliefs and attitudes of both parents, the current relationship between the parents, and the skills of their respective lawyers. Nearly every absent parent can find someone earning more who pays less. Nearly every custodial parent knows someone who is receiving more though the child's father earns less. Because of this and the absence of firm determinative legislative guidelines, child support is a major source of continuing tension between many former spouses.

Finally, the widespread failure of the system to ensure that absent parents pay child support impoverishes their children and shifts the burden of financial support to the public sector. Nearly half of all children living in female-headed households are poor and on welfare. Welfare--which was designed to aid those not expected to work--is no longer the best way to provide aid to children with single mothers, because we now expect single mothers to work.

In view of the fact that nearly one of every two children born today will spend some time in a single parent family before reaching age 18, the inadequacy of our child support system constitutes a major social problem.

#### Goals and Constraints for a New Child Support Program

The principal goals underlying the proposed reform are to establish and collect child support equitably and efficiently, to assure a minimal level of child support to children with a living absent parent, and to

reduce the number of single-parent families on welfare. The major constraints are to avoid (1) increasing costs to general taxpayers; (2) overtaxing absent parents; and (3) harming AFDC beneficiaries.

#### Recommendations For a New System

Our analysis suggests these goals and constraints would best be obtained by enacting legislation which would create a new system of establishing, collecting, and distributing child support payments. The objective of establishing equitable parental financial responsibility is best served by legislating a simple normative formula for child support. The most effective way of collecting the support from the absent parent would be to assess it as a tax and collect it through a wage withholding system. The best way of guaranteeing a minimum level of support to all children with a living absent parent, and reducing the dependence of such children on welfare, would be to pay benefits to all eligible children, rich and poor alike. In short, under the new child support program all absent parents are required to share their income with their children. All children with absent parents are entitled to the child support paid by their absent parent or a publicly guaranteed minimum, whichever is larger. In cases where the absent parent cannot pay child support equal to the minimum, a supplement should be provided out of general revenues that otherwise would be spent on welfare. Finally, in order to avoid public subsidies to families who are not in need, and to reduce budget costs, the custodial parent would be subject to a special surtax in cases where the absent parent pays less than the minimum.

We make no recommendations on the level of either tax rates on absent parents or minimum child support benefits. Instead we report the effects

on public savings or costs of adopting alternative tax rates and minimum benefit levels. (In a subsequent report we will also show the effects on the economic well-being of children and welfare caseloads.) Ultimately, these fundamental decisions about tax rate and benefit levels will emerge from the political process.

#### Rationale for Key Recommendations

There are three major arguments for establishing child support obligations by legislation rather than judicial discretion. First, because of the large financial obligation already borne by the state, the apportionment of support for poor children among the custodial parent, the absent parent, and the public is more appropriately a legislative function. Second, the use of courts is too costly to society and the families affected, both in direct fiscal impact and judicial time. Third, a legislated formula would reduce inequity.

The principal argument for using general revenues to supplement inadequate child support payments from absent parents is that doing so will reduce welfare costs and caseloads.

The argument for universal, automatic income assignment for child support obligations is that effective and efficient collection of child support is essential. However, it is possible that improving the response to delinquent payments in the current collection system through the use of a fully automated and computerized system may achieve significant efficiency gains without universal withholding. Consequently, we recommend that both collection approaches be tried on an experimental basis in several Wisconsin counties.

## Savings of a New System

Crude cost estimates suggest that a new child support program could result in modest to substantial savings. The estimates are crude for several reasons. First, the data used are for 1975. Substantial changes in the eligible population have since occurred. Second, because there are no direct data on the incomes of absent parents, we had to rely on the characteristics of custodial parents to estimate this crucial piece of information. Third, in the absence of any experience with the effectiveness of the new collection system, we could only guess as to how much more efficient the new system would be. Despite these and other shortcomings, we believe the cost estimates give us the right order of magnitude. Table 1 presents estimates for four different proposals, ignoring administrative costs. In all cases, it is assumed that 100% of potential absent-parent tax revenue is collected.

In the first two plans, minimum benefits are equal to \$3500 for the first child and \$1500 for each subsequent child. In the third and fourth plans, minimum benefits are equal to \$2000 for the first child and \$1000 for each subsequent child. Tax rates on the absent parent are 20% for one child, 30% for two children, and 40% for three or more children in plans 1 and 3; and 15% for one child, 25% for two children, and 30% for three or more children in plans 2 and 4. Tax rates on custodial parents, not shown in the table, are one-half those on absent parents. Gross benefits paid out are given in column 1, absent-parent and custodial-parent tax revenues in columns 2 and 3, AFDC savings in column 4, and net savings in column 5. Net savings equal the sum of absent- and custodial-parent tax revenues and AFDC savings minus gross benefits. In column 6 the percentage of absent parents who pay as much or more than the minimum

Table 1

Estimated Benefits and Costs of Alternative Child Support Reform Plans for Fiscal 1980 (\$ millions)

Description of Plan			(1) Benefits	(2) Tax on Absent Parent	(3) Tax on Custodial Parent	(4) AFDC Savings	(5) Net Savings (2)+(3)+(4)-(1)	% Who Pay Minimum	
								(6) Absent Parent	(7) Absent Parent Plus Custodial Parent
Benefit	Tax Rate %								
1st Child	\$3500	20	590	419	83	169	81	40	57
2nd Child	1500	10							
Maximum		40							
1st Child	3500	15	547	340	81	165	39	30	44
2nd Child	1500	10							
Maximum		30							
1st Child	2000	20	461	393	46	146	125	60	77
2nd Child	1000	10							
Maximum		40							
1st Child	2000	15	397	314	48	122	87	51	68
2nd Child	1000	10							
Maximum		30							

is presented. Column 7 presents the percentage of cases where the absent plus custodial parent tax equals the child support minimum.

Savings range from a low of \$39 million to a high of \$125 million. These figures are nontrivial. They amount to one-seventh to two-fifths of current AFDC federal and state expenditures in Wisconsin in 1980.

The estimates of savings are too high because they assume that 100% of absent-parents' liability for child support will be collected. Currently, about 65% of this liability is collected. Our best guess is that under the new system we will collect 80% of potential revenue from absent parents. In this case, net savings for the four plans would equal \$27, \$-8, \$80, and \$48 million.

#### What Remains to Be Done

The contrast between the dismal reality of the current system and the bright promise of the proposed reform is sufficient to warrant refinement of the cost estimates, limited demonstrations of the reform, and continued work on program design. The savings, or cost estimates, can be improved by making use of newly available data sources which have larger samples and better measures of the income of absent fathers.

While the report makes many recommendations, there are issues which are not addressed. Because bright promises can often turn into dismal reality, the proposed new system should be tried in a small number of counties before it is adopted for the whole state. Ultimately, program design recommendations will have to be reconsidered in response to feedback from the broader community.