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Estimated Effects of the Optional Review of Child Support Orders for TANF Cases

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Executive Summary

Under the Family Support Act of 1988, state child support offices were mandated to review all child support orders in Aid to Families with Dependent Children (AFDC) cases at least every 36 months to determine if the orders needed to be modified. This mandatory review and modification process has been demonstrated to increase child support orders and to increase collection of child support in AFDC cases, thereby offsetting a proportion of state and federal program costs. Moreover, the increase in child support orders and collections that resulted from modifications may have enabled some AFDC families to exit from welfare and may have prevented former recipients from cycling back to the program.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) eliminated the AFDC program, allowing states to develop their own programs for low-income families, called Temporary Assistance to Needy Families (TANF). PRWORA also made the review and modification of child support orders in TANF cases optional rather than mandatory. States will be able to decide for themselves whether they will routinely review the child support orders of TANF recipients, and if so, how often. The purpose of this report is to estimate the fiscal effects of optional review.

We estimate the difference between a policy regime in which all welfare cases are reviewed every 3 years (the mandatory review regime) and one in which all states exercise their option and merely offer a review to welfare recipients upon request (the optional review regime). We estimate that under the mandatory review regime, 175,000 TANF child support orders would be modified each year, compared to 59,000 under the optional review regime. A mandatory review regime is predicted to generate an extra \$58–\$127 million in child support collections in the first year after modification. (We use both a “high” and a “low” estimate of collections because previous studies show large differences between states in the average increase in collections for modified orders.)

We then estimate the fiscal effects of the two policy regimes, examining governmental savings from several sources. First, as long as families continue to receive assistance under TANF (and as long as the collections are greater than the pass-through), increased child support collections accrue to the

government; we estimate this would total $43–74 million in the first year. A second source of savings occurs when families no longer require public assistance under TANF due to increased collections from modified child support orders; this is estimated to total $25–67 million in the first year. Third, a savings in the Food Stamp program would occur because increased child support can lead to higher income and thus lower Food Stamp benefits ($11–34 million in the first year). Fourth, a mandatory review process may result in nonresident parents being ordered to provide health insurance for their children, which would result in savings in the Medicaid program to the extent that private insurance is actually provided ($43 million in savings in the first year).

We combine these estimates of government savings with estimates of the cost of reviewing and modifying orders to get a total net fiscal effect. Finally, we look separately at effects on each state and on the federal government, factoring in changes in incentive payments. We project savings from each modification 3 years into the future because prior research has shown that the increased collections continue beyond the first year. We estimate that if all states had optional review regimes rather than mandatory review regimes, this would cost the states $136–$291 million annually, and the federal government $89–$184 million annually.

Because these estimates are based on a number of assumptions (discussed in the full report), we consider the sensitivity of our results to selected alternative assumptions. Unfortunately, the sensitivity tests we employ demonstrate that there is a great deal of uncertainty regarding the potential fiscal effects of optional review and modification; different assumptions lead to substantially different results. Nonetheless, the estimates provide some notion of the range of potential effects and may be helpful to state and federal policymakers in considering the advantages and disadvantages of an optional review regime. Moreover, the effects on governmental revenues are not the only relevant factors to consider in evaluating this policy. For example, if mandatory review increases collections but the collections accrue to the resident-parent family rather than to the government, the policy may still be advantageous in terms of increasing the well-being of economically vulnerable families.

Estimated Effects of the Optional Review of Child Support Orders for TANF Cases

OVERVIEW

Under the Family Support Act of 1988, state child support offices (IV-D offices) were mandated to review all child support orders in Aid to Families with Dependent Children (AFDC) cases at least every 36 months to determine if the orders needed to be modified. This mandatory review and modification process has been demonstrated to increase child support orders and to increase collection of child support in AFDC cases, thereby offsetting a proportion of state and federal program costs.[1] Moreover, there is some evidence that the increase in child support orders and collections that resulted from modifications may have enabled some AFDC families to exit from welfare and may have prevented former recipients from cycling back to the program.[2]

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) eliminated the AFDC program, allowing states to develop their own programs for low-income families, called Temporary Assistance to Needy Families (TANF). Another provision of PRWORA made the review and modification of child support orders in TANF cases optional rather than mandatory. Under PRWORA, states will be able to decide for themselves whether they will routinely review the child support orders of TANF recipients, and if so, how often. While we cannot know exactly what the impact of optional review will be unless it is fully implemented, we can speculate as to what the fiscal effects might be given the dynamics of child support under the former policy regime. Hence, the purpose of this

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[1]Studies evaluating the effect of mandatory review include: Caliber Associates, 1992, "Evaluation of Child Support Review and Modification Demonstration Projects in Four States," cross-site final report, Fairfax, VA; Daniel R. Meyer, Tom Corbett, Kathleen Kost, and Pat Brown, 1994, "The Wisconsin Order Revision Project: Final Evaluation," Institute for Research on Poverty, University of Wisconsin–Madison; David A. Price, Victoria S. Williams, and Robert G. Williams, 1991, "Oregon Child Support Updating Project: Final Report," report submitted to the Oregon Department of Justice, Policy Studies, Inc., Denver, CO.

[2]Meyer et al., 1994, and J. Venohr and D. Price, 1991, "Oregon Child Support Updating Project: Findings from the Third Year Research," report submitted to the Oregon Department of Justice, Policy Studies, Inc. But see Caliber Associates, 1992, which found no effect.

analysis is to estimate some of the potential fiscal effects of this policy change at both state and federal levels.

Our task is to estimate the difference between a policy regime in which all welfare cases are reviewed and one in which all states exercise their option and merely offer a review to welfare recipients upon request. We estimate the difference in the number of orders modified under the two regimes, and the resulting difference in child support collections, using both a “high” and a “low” estimate of collections. Based on these estimates, we then estimate the fiscal effects of the two policy regimes in terms of government savings at both state and federal levels.

We have estimated government savings from several sources. First, as long as families continue to receive assistance under TANF (and as long as the collections are greater than the pass-through), increased child support collections accrue to the government. A second source of savings occurs when families no longer require public assistance under TANF due to increased collections from modified child support orders. Third, a federal savings in the Food Stamp program would occur because increased child support can lead to higher income and thus lower Food Stamp benefits. Fourth, a mandatory review process may result in nonresident parents being ordered to provide health insurance for their children, which would result in state and federal savings in the Medicaid program to the extent that private insurance is actually provided.

We combine these estimates of government savings with estimates of the cost of reviewing and modifying orders to get the total fiscal effect. Finally, we look separately at effects on each state and on the federal government, factoring in changes in incentive payments. We project savings from each modification 3 years into the future because prior research has shown that the increased collections continue beyond the first year.[3] Based on this methodology, we estimate that the elimination of the mandatory review would cost the federal government $89–$184 million annually and state governments a

[3]Meyer et al., 1994

total of $136–$291 million annually. While these estimates are imprecise and based on a number of assumptions (discussed below), we believe the methodology has fewer flaws than others we considered. Moreover, we also examine the sensitivity of our results to selected alternative assumptions.

Because we want to estimate effects in each state, we need state-level data. We use published state-level data when they are available. When not available, we use information provided by individual states in response to a request sent to the director of the Child Support Enforcement program in each state (see Appendix 2). When states did not provide the requested information, we use other estimates, most of them based on the results of studies from the six states that piloted the mandatory review process in the late 1980s and early 1990s—Colorado, Delaware, Florida, Illinois, Oregon, and Wisconsin.

Before presenting our methodological approach, we first lay out the assumptions we have made to facilitate our analysis. We recognize that some of these assumptions are more plausible than others, and that they greatly simplify what is likely to be a much more complex situation. Nevertheless, given that a number of critical factors have yet to be determined and that we are lacking information in many cases, some basic assumptions are essential to the analysis.

- We assume that TANF caseloads will be similar to AFDC caseloads in terms of demographic characteristics. An obvious limitation of this assumption is that TANF recipients are likely to differ from AFDC recipients, in part because of the more stringent work requirements associated with PRWORA and in part because of the diversity of state programs under TANF. But we do not yet have accurate information on the characteristics of TANF recipients, and we believe AFDC recipients provide the best comparison group. Thus, we assume that the number and kinds of cases receiving IV-D services under TANF can be approximated by the number and kinds that received AFDC.

- We also assume that the child support situation of TANF recipients will be like that of AFDC recipients. This is clearly a simplification because PRWORA contains other provisions that should enhance child support collections, but we do not have a straightforward estimate of the effects of these other provisions on child support collections. Moreover, cases no longer have to show a substantial change in circumstances to have a modification considered, but again we have no estimates of these potential effects. Thus we assume that the results of mandatory review under TANF can be estimated from the results of mandatory review under AFDC.

- We assume that the level of TANF benefits and TANF recipiency patterns will be somewhat like AFDC benefits and AFDC recipiency patterns. Again this is imprecise because states have substantial freedom in changing benefit levels, and recipiency patterns could be altered dramatically by time limits and other factors. Nonetheless, we need an estimate of welfare use among welfare cases that had their orders modified, and we know of no other estimate than the limited information we have from the AFDC policy regime. Because of the uncertainty of this assumption, we check the sensitivity of our results to alternative assumptions in this area.

- We assume that states are similar enough in their child support policies that results from some states can be used to estimate likely results in others. (We make this assumption only when we do not have state-specific information.) Again this is clearly inexact because states show different child support outcomes; however, we know of no better alternative.

- We assume that federal incentive payments will continue to be based on the same schedule of collections to costs that was used in 1996 and that the Federal Medicaid Assistance Percentage (FMAP) will be maintained at the 1996 rates. While changes in the incentive payment formula may take effect as soon as fiscal year 2000, they are not yet finalized and thus we continue to employ the old formula in our estimates.

DETAILS OF APPROACH

Intermediate Estimates

In this section we provide a more detailed description of our approach and its rationale. The equations we use, the estimates we make for each element of each equation, and major limitations of the estimates are given in Appendix 1. We are interested in three final outcomes: child support collections, state savings, and federal savings. To estimate the final outcomes, we must make several intermediate estimates, as detailed below. For all outcomes, we are interested in the difference between a mandatory review regime and an optional review regime.

Child Support Collections: Mandatory Review

To estimate collections under a mandatory review regime (Equation 1A, Appendix 1), we need estimates of both the number of TANF cases likely to be modified and the amount of support likely to be collected per modified order. We use state-specific numbers on AFDC modification rates and post-modification collections when these were available. (Because these numbers are not reported to the Office of Child Support Enforcement, we asked states for this information.) When state-specific estimates were not available, we use estimates from child support studies that examined review and modification in three different states (Colorado, Oregon, and Wisconsin); this results in estimating that 6 percent of the AFDC/TANF cases are modified each year. Interestingly, 6 percent is also the average recent modification experience reported by the states. Appendix 1 explains our rationale.

We next estimate the increase in collections per modified case. While we would prefer to have state-specific numbers on pre- and post-modification collections, no state was able to provide this information. When states could provide the amount of the average order increase but not the amount collected, we multiply the amount of the order increase by 62 percent, the average percentage of the order increase collected in the six study states. For states for which we do not have order information, we estimate the increase in collections that would be expected given mandatory review using both a high ($97/month in 1996 dollars) and low ($42/month in 1996 dollars) estimate, based on the increases in monthly collections per AFDC case reported for the six study states and the estimates provided by the states regarding recent experiences with modifications. Again, this number has limitations outlined in Appendix 1; a major limitation is that the range of estimates is quite large.

Child Support Collections: Optional Review

Estimating the number of TANF orders that are likely to be modified under an optional review regime (Equation 1B, Appendix 1) is less straightforward than under a mandatory review regime. One possibility is to use what we know about the modification of non-AFDC orders, which were not subject to mandatory review. However, we have rejected this approach because TANF cases will almost certainly be different from previous non-AFDC cases. Thus we choose an alternate estimate, the percentage of orders that were modified among AFDC cases in the policy regime prior to the Family Support Act—that is, a regime in which AFDC could request a review but there was no mandate to conduct regular reviews. The best information we have is from three of the six state studies in which there was a control group of cases intentionally not reviewed by the project. Based on these results, we assume that 2 percent of TANF cases would be modified every year under an optional review regime.

Estimating the expected increase under optional review is more ambiguous. One possible approach is to take the average percentage increase reported among the states that had a control condition in which the project staff intentionally did not modify cases. Unfortunately, in reporting the average percentage increase among modified control condition orders, no distinction was made between AFDC and non-AFDC cases, and most of the modifications were for non-AFDC cases. A second possible approach is to use the modified non-AFDC orders in the six states for which data are available. Although these orders were modified under conditions resembling optional review, any systematic differences between non-AFDC and TANF cases that affect the amount of modification would be a source of bias. A third option is to assume that the actual amount of modification for TANF orders would be the same regardless of whether review was mandatory or optional. Thus, we could use the same average increases in monthly collections per case for optional and mandatory review. This will underestimate the increase in collections if parents do not request a review unless they expect the benefits to be substantial. Given that none of the alternatives is ideal, we have selected the third option. Thus, we use either the state-specific estimate or both a high ($97/month) and a low ($42/month) estimate for the increase in collections per modified case. Because the assumption of equal collections per modified case under mandatory and optional reviews is imprecise, we also test an alternate scenario in which mandatory reviews result in a $42/month increase in collections and optional reviews result in a $97/month increase in collections, as described in the sensitivity analysis section below.

Governmental Fiscal Effects: Mandatory Review

We have identified five sources of government savings. We divide the savings from these sources between the federal government and each state as outlined in Appendix 1. The five sources of savings are:

1. Increased child support collections will offset a portion of governmental costs.

2. Increased child support will enable some families to leave TANF, thereby reducing TANF expenditures.

3. If a modification results in increased income to a family that received food stamps, this will decrease costs in the Food Stamp program.

4. If a modification results in the nonresident parent providing private health insurance, this will decrease Medicaid expenditures.

5. Increased child support collections will lead to increased incentive payments from the federal government to the states.

We also recognize that the review and modification process has direct costs. Hence, we incorporate an estimate of these costs into our estimates of fiscal effects.

<u>Savings from Increased Collections: Mandatory Review</u>. We estimate the first of these sources of savings, collections among families remaining on TANF under a mandatory review regime, using Equation 2A (see Appendix 1). We distinguish between families remaining on TANF and those who have gone off TANF because most child support collections for families remaining on TANF accrue to the government, while collections for families no longer on TANF go directly to the family. To estimate the proportion of the increased collections that occurs while a family continues to receive TANF, we use results from Wisconsin showing that families stayed on AFDC on average 6.9 months in the first year after their order was modified, or 58 percent of the time.[4] Because collections were roughly constant over the period studied, if families stay on TANF for 58 percent of the first year post-modification, this implies that 58 percent of the increased collections occur when a family continues to receive TANF. Because the 58 percent figure is from Wisconsin, and because Wisconsin's average increase in collections among modified cases was fairly high ($95/month), the 58 percent is most relevant only when

[4]While no comparable figure is reported in the other studies, the Oregon report (Venohr & Price, 1991) shows that 61 percent of AFDC cases with modified orders had not left AFDC within the first year. We use the Wisconsin number because the Oregon number does not include information on the extent to which cases that left AFDC later returned to the program.

we are estimating the "high collections" scenario ($97/month). When we estimate the "low collections" scenario ($42/month), we assume that cases would remain on TANF longer, and thus estimate that 75 percent of the collections would accrue to the government.

Even when families continue to receive TANF, child support collections benefit the state (and federal) government only to the extent that the payment is higher than the pass-through. We assume that all of the increase in child support collections resulting from the order being modified accrues to the government. Part of our rationale is that the previous studies generally showed that child support collections for modified AFDC cases were already higher than the pass-through prior to modification. To the extent that this continues under TANF, the entire increased collection would offset costs as long as the family remained on TANF. Moreover, while many states have not yet decided whether they will continue the pass-through now that it is no longer mandatory, few states (other than Wisconsin) appear likely to substantially increase the pass-through, and so most (if not all) of the increase in collections would accrue to the government. Therefore, we assume that 58 percent (or 75 percent) of the increased collections accrues to the government, and we divide this between federal and state shares based on the FMAP. Appendix 1 describes this approach in more detail and outlines its major limitations, which include the possibility that patterns of TANF recipiency will differ from patterns of AFDC recipiency. (Note that we also check the sensitivity of our results to alternative assumptions in this area, as described below.)

<u>Savings from Decreased TANF Recipiency: Mandatory Review</u>. The second fiscal component, savings that result from families enabled to leave TANF due to an increase in child support, is estimated by Equation 3A (see Appendix 1). Here we use the same approach outlined in Equation 2A to estimate the percentage of time a family whose child support order was modified stays on TANF (58 percent or 75 percent). These percentages imply that 42 percent (or 25 percent) of the time, families with modified orders would no longer be receiving TANF. Some families would have gone off TANF for a percentage

of this time whether or not a modification had been made; only the time off TANF beyond this baseline percentage can be attributed directly to the modification. Again we use results from Wisconsin showing that an average AFDC case at a point in time receives benefits for 83 percent of the next year and thus does not receive benefits for 17 percent of the next year.[5] Thus we estimate that 8–25 percent of the time (25 percent minus 17 percent and 42 percent minus 17 percent) a family would no longer be receiving TANF benefits *because* the modification enabled them to leave the rolls. (This is another area in which we check the sensitivity of our results to alternative assumptions.)

When a family exits TANF *because of* a modification, the government saves an amount equal to the family's former TANF benefit (net of child support collected) in each month that the family is no longer receiving assistance. We estimate the amount of TANF benefits a family was receiving with the average AFDC benefit (net of child support collected) in each state.[6] This estimate is obviously inexact in that TANF benefits may not be similar to AFDC benefits; however, because final TANF benefits have not yet been determined in many states, AFDC benefits are used as an approximation. All these savings accrue to the state (not the federal government) because of the block-grant structure of TANF. Again, the specifics of the estimate and its limitations are outlined in Appendix 1.

<u>Savings in the Food Stamp Program: Mandatory Review</u>. To estimate the reduction in Food Stamp expenditures (Equation 4A, Appendix 1) under mandatory review, we begin by estimating the percentage of time a family would continue to receive TANF benefits. We do this because when a family continues to receive TANF, increased collections merely offset TANF expenditures (assuming the family

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[5] Maria Cancian and Daniel R. Meyer, 1995, "A Profile of the AFDC Caseload in Wisconsin: Implications for a Work-Based Welfare Reform Strategy," Special Report #67, Institute for Research on Poverty, University of Wisconsin–Madison. The Oregon report (Venohr and Price, 1991) shows that 22 percent of non-modified AFDC orders left AFDC within one year. Again we use the Wisconsin estimate because the Oregon number does not account for the time not receiving nor those who return to AFDC.

[6] For this estimate we must make an adjustment to reconcile the difference between the way the child support system defines a "case" and the way AFDC (and presumably TANF) defines a "case," as detailed in Appendix 1.

was already receiving the pass-through), and the family's income is not changed. If the family's income does not change, then the amount of Food Stamp benefits it receives does not change, and there are no savings in the Food Stamp program. On the other hand, when families leave TANF, their income presumably increases, and thus the amount of Food Stamp benefits they receive should decrease by about 30 cents for each additional dollar of income, with resulting program savings. The problem with this approach is that post-modification income is unknown. Hence we make several assumptions in estimating Food Stamp savings, which we outline in Appendix 1. One key assumption is that resident parents begin to work 30 hours/week at the minimum wage. Obviously, a major limitation of this approach is the imprecision of our estimate of post-modification income; this is another area in which we check the sensitivity of our results to alternative assumptions. All savings in the Food Stamp program benefit the federal government.

<u>Savings in the Medicaid Program: Mandatory Review</u>. Our estimate of Medicaid savings (Equation 5A, Appendix 1) recognizes that savings occur if an order is modified to include health insurance and the nonresident parent actually provides it. We estimate that in 51 percent of the cases with modified orders, the nonresident parent is newly required to provide health insurance, an estimate based on the mean percentage of orders modified to include health insurance from four of the six study states. We estimate that health insurance will actually be provided in only 56 percent of the cases in which the modification requires it; thus we estimate that Medicaid savings will occur in 29 percent of all modifications (56 percent of 51 percent is 29 percent). This estimate is based on a national survey (the Current Population Survey–Child Support Supplement) in which resident parents indicated whether the nonresident parent was actually providing health insurance that was ordered. We calculate Medicaid savings using each state's state-specific Medicaid expenditures per AFDC child and the number of children per case. We recognize that our approach will overestimate Medicaid savings to the extent that child support orders are increasingly likely to include medical insurance when they are first established.

(In contrast, relatively few of the old orders in the four state studies included medical insurance). Hence, our estimate of savings is probably best interpreted as an upper bound.[7] Medicaid savings are divided between the state and the federal government based on the FMAP.

Changes in Incentive Payments to the States: Mandatory Review. The final source of savings reflects the fact that increased child support collections will lead to increased incentive payments from the federal government to the states (Equation 6A, Appendix 1). Although the incentive structure is being reviewed and may change, we use a slightly simplified version of current policy to estimate the incentive payments.

Direct Costs of Review and Modification: Mandatory Review. To estimate the costs of review and modification (Equation 7A), we use the results from the four states that provided estimates of steady-state AFDC modification costs and adjust them for inflation. Specifically, we estimate a direct cost of $630/modification. This cost is shared between the state and federal government based on the FMAP. Note that these cost figures generally did not include court costs, but only costs to the IV-D agency. Moreover, there are potential *indirect* costs of review and modification that we do not consider here. For example, the increased payments due to modifications may lead to nonresident parents receiving higher benefits in the Food Stamp program, or working less (leading to lower income tax receipts, etc.); we ignore all these costs.

Governmental Fiscal Effects: Optional Review

The *components* of savings and costs are identical under the mandatory and optional review regimes. As discussed above, the key difference between the optional and mandatory review regimes is the percentage of cases modified. We have already provided our rationale for assuming that collections

[7]This is also an overestimate of savings to the extent that families would have gone off Medicaid with or without a modification to their order. Because the eligibility limits for Medicaid are generally more generous than for AFDC or TANF, the extent of this overestimate is probably not too serious.

per modified case will be identical under the mandatory and optional reviews. Given identical collections per modified case, we see no reason to propose other differences. Thus, our estimates of the percentage of time a modified case continues to receive TANF benefits, the average amount of TANF savings per modified case, the amount of income following a modification, and the likelihood that ordered health insurance will be provided given that a case is modified are identical to those given above under the mandatory review regime, with estimates shown in Equations 2B–6B (see Appendix 1). We do not, however, use the same figure as the mandatory regime for Equation 7B, estimating the direct costs of review and modification under an optional review. We make this adjustment because the costs per modification under a mandatory regime include costs for reviewing all cases, while under an optional regime all cases would not be reviewed. We arbitrarily assume that the cost of review and modification can be approximately split between review and modification, and thus the cost per modification in an optional regime will be half that of the mandatory regime, or $315/case.

Time Frame

The results of the Wisconsin Order Revision Project[8] suggest that the benefits of increased collections will be evident for at least 2 years post-modification, and may endure even longer. In contrast, the costs of modification are incurred just once, while the review is conducted. We assume that benefits will continue for 3 years following a modification, and we use a discount rate of 8 percent. The structure of the timing of costs and benefits is identical under optional and mandatory review. In both regimes, we assume that it takes about 6 months to process a modification. If cases are reviewed throughout the year, nothing will be collected in the first year for cases reviewed in the last half of the first year, and among those reviewed during the first half, an average of one-fourth of a year's collections occurs. Thus, our estimates for the first year reflect one-eighth of the increased yearly collections, but the full costs of

[8]Meyer et al., 1994.

modification. In the second and third years, the full increase in yearly collections is counted, but no modifications costs. Finally, we assign seven-eighths of the increase in yearly collections to the fourth year. This accounts for 3 complete years of increased collections. The estimates of savings from collections while a case remains on TANF (Equations 2A and 2B, Appendix 1) and savings from cases leaving TANF because of a modification (Equations 3A and 3B, Appendix 1) are particularly imprecise in the later periods. We use the estimates based on the first year post-modification because no estimates of AFDC use in the second and third years post-revision are available. More cases would go off TANF as time passes since the revision, making estimates of savings while on TANF (Equation 2A and 2B) too high and savings from cases leaving TANF because of a revision (Equations 3A and 3B) too low. However, Equations 3A and 3B are also likely to overestimate savings because some cases would have exited TANF even in the absence of a revision. Because there are no published estimates of AFDC receipt beyond the first year post-modification, we assume that savings in the first year can be used to estimate savings in the second and third years. Because of the imprecision of these estimates, this is another area in which we check the sensitivity of our results to alternative assumptions.

Final Estimates

Differences in Child Support Collections: Mandatory and Optional Review Regimes

Once the estimates for each review regime have been made, the effect of optional review is simply the difference in annual collections summed over the 3-year period, and appropriately discounted (Equation 8, Appendix 1).

Differences in State and Federal Costs: Mandatory and Optional Review Regimes

Once the estimates for each review regime have been made, and the timing of benefits and costs identified, the fiscal effect of optional review is straightforward. We first calculate net savings to the states under the mandatory review regime, adding the state share of savings from increased collections and from Medicaid to the entire savings from decreased TANF use. We then add the increased incentive payments from the federal government and subtract the state share of the direct costs. We follow a similar procedure for the optional review regime, and the fiscal effect of changing to optional review on states is simply the difference (Equations 9A, 9B, and 9C, Appendix 1).

The estimate of federal costs is also straightforward. We calculate net savings to the federal government under the mandatory review regime by adding the federal share of savings from increased collections and from Medicaid to the estimate of Food Stamp savings. We then subtract incentive payments and the federal share of direct costs. We follow a similar procedure for the optional review regime, and the fiscal effect of changing to optional review on the federal government is simply the difference (Equations 10A, 10B, and 10C, Appendix 1).

BASE RESULTS

Table 1 shows our base results, including information for both the “low collections” scenario and the “high collections” scenario. (In the low scenario, the average increase in collections among states in which we do not have a state-specific estimate is $42/month/modified case, and cases receive TANF for 75 percent of the 3 years after a modification. In the high scenario, the average increase in collections among states in which we do not have a state-specific estimate is $97/month/modified case, and cases receive TANF for 58 percent of the 3 years after modification.) Appendix Tables 1A–3B provide state-specific numbers.

The first panel of Table 1 shows that we estimate about 175,000 orders would be modified each year under a mandatory review regime, compared to 59,000 under an optional review regime, a difference of about 116,000 orders. The next row shows that the difference between the mandatory and optional review regimes in the number of modifications is predicted to lead to a difference in child support collections of $58–$127 million in the first year. Appendix Tables 1A and 1B show that because

TABLE 1
Estimated Differences between a Mandatory and an Optional Review Regime

Annual Modifications		Orders modified
Mandatory review regime		174,800
Optional review regime		58,648
Difference		116,152

	Low Collections	High Collections
First-Year Effects		
Difference in collections	$58	$127
Additional savings due to mandatory review:		
Savings from TANF collections	$43	$74
Savings from TANF recipiency	25	67
Food Stamp savings	11	34
Medicaid savings	43	43
Additional direct costs due to mandatory review	-92	-92
First-year total savings due to mandatory review	30	126
Annualized 3-Year Effects		
State savings due to mandatory review	136	291
Federal savings due to mandatory review	89	184

Note: All savings and costs in millions of dollars.

of our assumptions, we predict more modifications and more collections in every state under the mandatory review regime. A portion of the increased collections benefits the family directly, while the rest accrues to the government, as discussed earlier.

The next panel of Table 1 examines the governmental savings derived from the modifications, again focusing on the first year post-modification. Savings from collections among cases remaining on TANF are substantial, \$43–\$74 million in the first year. Savings from decreased TANF recipiency are somewhat lower, \$25–\$67 million the first year. Savings in the Food Stamp program are the smallest element of savings, \$11–\$34 million, while savings in the Medicaid program are larger, \$43 million. But a mandatory review regime has additional costs as well as additional savings, and the direct costs are estimated at \$92 million in the first year. Thus, first-year governmental savings are predicted to total \$30–\$126 million. Appendix Table 2A shows that in the "low collections" scenario, government savings occur in the first year in 45 of the 51 states (counting the District of Columbia as a state); in the remaining states, the first year would show a deficit. (Even in the six states with first-year deficits, net savings are predicted to occur as collections continue beyond the first year.[9]) Appendix Table 2B shows that in the "high collections" scenario, governmental savings are predicted in every state in the first year.

The bottom panel of Table 1 shows that if all states have a mandatory review regime, this would save them \$136–\$291 million per year in the aggregate. Appendix Tables 3A and 3B show that the largest effects are in California (\$25–\$64 million) and Florida (\$16–\$36 million); in the high scenario, Ohio, Pennsylvania, and Washington are also predicted to have more than \$10 million of savings. Finally, if all states have a mandatory review regime, we predict that it would save the federal government \$89–\$184 million per year over an optional regime.

[9]The states with first-year losses are Arizona, Michigan, Mississippi, Tennessee, Wisconsin, and Wyoming. This occurs primarily because these states have about three times as many AFDC child support cases as AFDC cases. Thus, every child support order modified produces savings in only one-third of an AFDC/TANF case.

SENSITIVITY TO ALTERNATIVE ASSUMPTIONS

While the results presented here are based on many imprecise estimates, we want to highlight the potential effects of different assumptions in five critical areas: collections per modified case in an optional review regime, post-modification income (used for calculating Food Stamp savings), different patterns of welfare use between TANF and AFDC, and the number of cases that will be subject to mandatory review and modification under TANF. Table 2 shows the basic assumptions we make in these areas and the results of alternative assumptions, as described below.

In our base estimates, we assume that collections per modified case in the optional review regime are similar to collections per modified case in the mandatory review regime, generating both a low and a high estimate. But it is possible that recipients will request a review in an optional regime only if they expect the modification to be larger than average, and thus collections per modified case in the optional regime could be larger than in the mandatory regime. Our first sensitivity test (Alternative 1) therefore uses the “low collections” per modified case for the mandatory regime and the “high collections” for the optional regime. The table shows that this results in substantially lower savings both for the states and for the federal government. New York now shows a loss from mandatory review even when collections continue for 3 years (not shown on table).

The next sensitivity tests concern post-modification earnings. Our estimate of savings in the Food Stamp program is particularly imprecise because it requires an estimate of post-modification, post-TANF income, for which we have no estimates from the study states. For our basic results, we assumed that post-modification income when a woman was no longer receiving TANF could be estimated by the average new child support amount plus earnings that would result from working 30 hours per week at $5.15/hour. This base assumption results in the mandatory regime generating Food Stamp savings of $11–$34 million in the first year post-modification. If we instead assume that women work full-time at the same wage, the savings would be $16–$48 million. Alternatively, if women work half-time at the

TABLE 2
Sensitivity to Alternative Assumptions

Assumptions

Basic Assumptions
A. Same collections/modified case mandatory and optional
B. Post-modification earnings 30 hours/week @$5.15/hr
C. Post-modification welfare use high scenario 58 percent yr 1, 58 percent yr 2, 58 percent yr 3
D. Post-modification welfare use low scenario 75 percent yr 1, 75 percent yr 2, 75 percent yr 3
E. No-modification welfare use both scenarios 83 percent yr 1, 83 percent yr 2, 83 percent yr 3
F. 6 percent modified mandatory review, 2 percent modified optional review

Alternative 1: Different collections/modified case. Assumptions same as Basic except:
A. Optional: $97/month/case. Mandatory: $42/month/case
Alternative 2: Higher post-modification earnings. Assumptions same as Basic except:
B. 40 hours/week @ $5.15/hr
Alternative 3: Lower post-modification earnings. Assumptions same as Basic except:
B. 20 hours/week @ $5.15/hr
Alternative 4: Separate effects each year. Assumptions same as Basic except:
C. Post-modification welfare use high scenario 58 percent yr 1, 34 percent yr 2, 20 percent yr 3
D. Post-modification welfare use low scenario 75 percent yr 1, 54 percent yr 2, 39 percent yr 3
E. No-modification welfare use both scenarios 83 percent yr 1, 71 percent yr 2, 61 percent yr 3
Alternative 5: Shorter-term recipiency. Assumptions same as Basic except:
C. Post-modification welfare use high scenario 58 percent yr 1, 29 percent yr 2, 0 percent yr 3
D. Post-modification welfare use low scenario 75 percent yr 1, 38 percent yr 2, 0 percent yr 3
E. No-modification welfare use both scenarios 83 percent yr 1, 42 percent yr 2, 0 percent yr 3
Alternative 6: Fewer cases modified. Assumptions same as Basic except:
F. 2 percent mandatory regime; 1 percent optional regime

Results

	State Savings	Federal Savings
Basic Assumptions	$136–291	$89–184
Alternative 1: Different collections/modified case	50	38
Alternative 2: Higher post-modification earnings	136–291	102–221
Alternative 3: Lower post-modification earnings	136–291	76–148
Alternative 4: Separate effects each year	181–327	103–191
Alternative 5: Shorter-term recipiency	117–200	74–123
Alternative 6: Fewer cases modified	31–69	19–43

Note: All savings in millions of dollars.

same wage, the savings would be $6–$20 million. Looking over the 3 years in which a modification has an effect (and considering the discount factor), Alternatives 2 and 3 on Table 2 show that total federal savings increase $13–37 million with a full-time assumption and decline by a comparable amount with the half-time assumption.

In our basic results, we assume a modification will generate increased collections and increased savings for 3 additional calendar years. The assumption that modified orders would continue to generate increased collections does not seem to be particularly problematic, since in Wisconsin there was not much of a decline in collections over the first 2 years. But the assumption that the increase in savings generated by the modified orders would remain constant for 3 years is more questionable because of the assumptions about post-modification (and non-modification) AFDC/TANF receipt. We assume that TANF is received in 58 percent of the months post-modification in the base "high" results and 75 percent of the months in the base "low" results. In both cases we assume that without a modification, a case would receive TANF in 83 percent of the months. These assumptions are problematic for two reasons: first, estimates of the percentage of time receiving AFDC over 3 years differ from the percentage of time over 1 year, and, second, TANF recipiency will probably be shorter-term than AFDC recipiency. We deal with these two issues separately.

First, we extrapolate from the Wisconsin data to estimate welfare recipiency patterns over a period of 3 years. This results in an estimate of modified cases receiving AFDC in 37 percent of months in the high scenario, 56 percent of months in the low scenario, and 72 percent of months for non-modified cases.[10] These assumptions obviously change our estimates of savings. In our base results, we

[10]We determine these figures using unpublished data from Wisconsin and extrapolating from the first 2 years into the third. Modified cases in Wisconsin received AFDC for 58 percent of the first year and 34 percent of the second year; thus second-year use was equal to first-year use divided by 1.7. If this same ratio continues, third-year use would be 20 percent (34 percent divided by 1.7), and the 3-year average would be 37 percent. Additional analysis of general AFDC use in Wisconsin (the figures used to determine what AFDC use would have been in the absence of a modification) shows that typical cases received AFDC for 83 percent of the first year and 71 percent of the second year. If this ratio continues, third-year use would be 61 percent, and the 3-year average would be 72

predict that a mandatory review regime would yield savings from increased collections while on TANF of $112–$193 million over a 3-year period (number not on table). Under the alternative assumption, the time receiving welfare declines, so savings from collections while receiving TANF declines as well to $83–$123 million. On the other hand, larger savings derive from decreased TANF recipiency. In the base results we showed 3-year savings from decreased TANF recipiency of $65–$175 million. The alternative assumption yields 3-year savings of $126–$249 million. Combining the TANF savings with Food Stamp and Medicaid savings and changes in incentive payments, we estimate $34–$36 million *more* in total savings for the states, as shown under Alternative 4 on Table 2. However, because the federal government does not benefit directly from lower TANF recipiency (except to the extent that it results in Food Stamp savings and decreased incentive payments), savings for the federal government are fairly similar or a little higher.

Moreover, because TANF has time limits, TANF recipients will receive benefits for shorter periods of time than AFDC recipients did. Three key assumptions from our base runs are: (1) cases with modified orders receive TANF for 58 percent/75 percent (high collections/low collections) of the first 3 years post-modification; (2) non-modified cases receive TANF for 83 percent of the next 3 years; and (3) increased collections and Medicaid savings continue for 3 years. One method of accounting for decreased TANF use would be to change these three estimates as follows: (1) modified cases receive TANF for 58 percent/75 percent of the first year post-modification, then half this amount for the second year (29 percent/37.5 percent), then do not receive TANF at all in the third year; (2) non-modified cases would receive TANF for 83 percent of the first year, half this amount for the second (42.5 percent), and not at all in the third year; and (3) increased collections and Medicaid savings continue for 3 years.

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percent. We have no estimates of AFDC use post-modification in a state with lower collections; if we assume that use begins at 75 percent in the first year (our base assumption) and declines at a rate halfway between the "high collection"-modification rate and the no-modification rate, this would result in receiving benefits for 54 percent of the second year, 39 percent of the third, and 56 percent over the entire 3 years.

Alternative 5 on Table 2 shows our results. In the "low collections" scenario, this results in $15–19 million less savings for both the states and the federal government. In the high scenario, the effect is more dramatic because Medicaid savings play a smaller role than in the low scenario; the alternative assumptions result in lowered savings estimates of $91 million for the states and $61 million for the federal government.

Another crucial assumption that is particularly problematic has to do with the number of cases that will be affected by mandatory review and modification in a TANF (rather than an AFDC) policy regime. In our base results, we assume that 6 percent of TANF cases are modified each year. One way we arrived at this figure was to assume that one-third of TANF cases would be reviewed each year and that 18 percent of these reviewed cases would be modified. (The 6 percent also reflects more recent experience in selected states). But under TANF, not all cases are likely to stay on the rolls until their order is 3 years old, and thus fewer TANF cases than AFDC cases may be reviewed under a mandatory regime. A simple example may clarify the issue. Divide new TANF cases into five groups: (1) those with orders more than 3 years old, (2) those with orders 2–3 years old, (3) those with orders 1–2 years old, (4) those with orders less than 1 year old, and (5) those without orders. Mandatory review and modification clearly affects the first group, because under a mandatory regime their orders would be reviewed immediately whereas under an optional regime this would not necessarily occur. Mandatory review and modification would only affect the portions of groups 2–4 that are still receiving benefits when their cases are 3 years old, and would have no effect on cases that stop receiving benefits prior to their 3-year review. Finally, for the fifth group, even if the child support agency is successful in having an order established within the first year of TANF, the time for mandatory review would not occur until the fourth year, and many cases would probably be off TANF by then, given the 5-year lifetime limit. Thus a mandatory review regime would have *no effect* on many of the cases in this group.

Given this dynamic, one approach would be to estimate the percentage of new TANF cases in each of the five groups and the percentage of the fifth group that is awarded a child support order, and then, for groups 2 through 5, estimate the likelihood of their continuing to receive benefits at the point when the 3-year review would occur. Unfortunately, we do not yet know what the age distribution of child support orders will be under TANF nor how long TANF cases are likely to remain active given that a case has already been active for a certain period of time. One crude way to take this into account would be to assume that the mandatory review and modification process affects fewer cases, or, equivalently, that the modification rate is lower, say, arbitrarily, 2 percent rather than 6 percent.[11] Note though that the same dynamics mean that fewer cases would be modified under an optional regime (cases do not receive TANF long enough for the resident parent to pursue a revision). If we therefore arbitrarily estimate that only 1 percent of orders are modified under an optional regime, we can recalculate savings and costs. This lowers the number of modifications due to a mandatory regime from 116,000 to 29,000. It also changes the fiscal effects dramatically, as shown under Alternative 6 on Table 2, resulting in savings of only \$31–69 million for the states and \$19–43 million for the federal government.

CONCLUSION

Using our base assumptions, we estimate that a mandatory review regime in all states would save states \$136–\$291 million and the federal government \$89–184 million over an optional review regime. But the sensitivity analyses show that there is a great deal of uncertainty about the potential fiscal effects; if the pessimistic alternative assumptions were combined, mandatory review and modification may actually cost, rather than save, governmental resources. Even with this uncertainty, the estimates still provide some notion of the range of potential effects and may be helpful to state and federal

[11]For states with state-specific numbers, we multiply the ratio of their own rate to the default rate (6 percent) by the new default rate (2 percent).

policymakers in considering the advantages and disadvantages of an optional review regime. Moreover, the effects on governmental revenues are not the only relevant factors to consider in evaluating this policy. For example, if mandatory review increases collections but the collections accrue to the resident-parent family rather than to the government, the policy may still be advantageous in terms of increasing the well-being of economically vulnerable families.

APPENDIX TABLE 1A
Collections First Year after Modification
Difference Between Mandatory and Optional Review Regimes
Low Collections Scenario

State	Total AFDC/TANF Orders	Mandatory Modifications	Mandatory Collections	Optional Modifications	Optional Collections
AL	26778	1607	810	536	270
AK	8894	534	269	178	90
AR	15339	920	464	307	155
AZ	17608	1056	532	352	177
CA	426109	25567	12886	8522	4295
CO	22130	1328	669	443	223
CT	29497	2065	2131	590	609
DE	8446	507	255	169	85
DC	9138	548	276	183	92
FL	419317	25159	12680	8386	4227
GA	77076	4625	2331	1542	777
HI	7962	478	241	159	80
ID	7271	436	220	145	73
IL	82755	3310	3813	1655	1907
IN	54023	3241	1634	1080	545
IA	27736	1664	839	555	280
KS	16296	978	493	326	164
KY	37283	2237	1127	746	376
LA	70121	4207	2120	1402	707
ME	21239	1274	642	425	214
MD	84019	5041	2541	1680	847
MA	40368	4037	1599	807	320
MI	136225	8174	4119	2725	1373
MN	35778	2147	1082	716	361
MS	40066	2404	1212	801	404
MO	55984	3359	1693	1120	564
MT	6374	446	75	127	21
NE	6596	396	199	132	66
NV	10688	641	323	214	108
NH	6958	417	210	139	70
NJ	74399	4464	2250	1488	750
NM	9181	551	278	184	93
NY	161046	4831	2435	3221	1623
NC	57412	3445	1736	1148	579
ND	3674	220	111	73	37
OH	149577	8975	4523	2992	1508
OK	17201	1032	520	344	173
OR	25917	4924	236	518	25
PA	134949	8097	4081	2699	1360
RI	11363	682	344	227	115
SC	31050	1863	939	621	313
SD	4221	253	128	84	43
TN	68709	4123	2078	1374	693
TX	78440	4706	2372	1569	791
UT	16498	990	499	330	166
VT	5760	346	174	115	58
VI	52078	3125	1575	1042	525
WA	73889	4433	2234	1478	745
WV	11794	708	357	236	119
WI	133960	8038	4051	2679	1350
WY	3204	192	97	64	32
TOTAL	2932396	174800	88503	58648	30576

Note: Collections are in thousands of 1996 dollars.

APPENDIX TABLE 1B
Collections First Year after Modification
Difference Between Mandatory and Optional Review Regimes
High Collections Scenario

State	Total AFDC/TANF Orders	Mandatory Modifications	Mandatory Collections	Optional Modifications	Optional Collections
AL	26778	1607	1870	536	623
AK	8894	534	621	178	207
AR	15339	920	1071	307	357
AZ	17608	1056	1230	352	410
CA	426109	25567	29759	8522	9920
CO	22130	1328	1546	443	515
CT	29497	2065	2131	590	609
DE	8446	507	590	169	197
DC	9138	548	638	183	213
FL	419317	25159	29285	8386	9762
GA	77076	4625	5383	1542	1794
HI	7962	478	556	159	185
ID	7271	436	508	145	169
IL	82755	3310	3813	1655	1907
IN	54023	3241	3773	1080	1258
IA	27736	1664	1937	555	646
KS	16296	978	1138	326	379
KY	37283	2237	2604	746	868
LA	70121	4207	4897	1402	1632
ME	21239	1274	1483	425	494
MD	84019	5041	5868	1680	1956
MA	40368	4037	1599	807	320
MI	136225	8174	9514	2725	3171
MN	35778	2147	2499	716	833
MS	40066	2404	2798	801	933
MO	55984	3359	3910	1120	1303
MT	6374	446	75	127	21
NE	6596	396	461	132	154
NV	10688	641	746	214	249
NH	6958	417	486	139	162
NJ	74399	4464	5196	1488	1732
NM	9181	551	641	184	214
NY	161046	4831	5624	3221	3749
NC	57412	3445	4010	1148	1337
ND	3674	220	257	73	86
OH	149577	8975	10446	2992	3482
OK	17201	1032	1201	344	400
OR	25917	4924	236	518	25
PA	134949	8097	9425	2699	3142
RI	11363	682	794	227	265
SC	31050	1863	2169	621	723
SD	4221	253	295	84	98
TN	68709	4123	4799	1374	1600
TX	78440	4706	5478	1569	1826
UT	16498	990	1152	330	384
VT	5760	346	402	115	134
VI	52078	3125	3637	1042	1212
WA	73889	4433	5160	1478	1720
WV	11794	708	824	236	275
WI	133960	8038	9356	2679	3119
WY	3204	192	224	64	75
TOTAL	2932396	174800	194115	58648	66843

Note: Collections are in thousands of 1996 dollars.

APPENDIX TABLE 2A
Fiscal Effects First Year after Modification
Difference Between Mandatory and Optional Review Regimes
Low Collections Scenario

State	TANF Savings Increased Collections	Savings Decreased TANF	Savings Food Stamps	Savings Medicaid	Incentive Payments	Direct Costs	Total Savings
AL	405	75	139	295	52	844	70
AK	134	146	28	277	17	280	306
AR	232	313	179	156	30	483	397
AZ	266	14	32	89	34	555	-154
CA	6443	5697	755	4634	831	13422	4105
CO	335	141	155	336	43	697	270
CT	883	1580	558	844	114	1115	2750
DE	128	50	41	144	16	266	97
DC	138	89	35	205	18	288	179
FL	6340	2258	1307	5877	818	13208	2574
GA	1165	413	378	1331	150	2428	859
HI	120	237	32	214	16	251	352
ID	110	34	31	79	14	229	26
IL	1106	837	477	675	143	1564	1530
IN	817	268	194	905	105	1702	481
IA	419	201	163	519	54	874	429
KS	246	107	70	257	32	513	167
KY	564	191	229	659	73	1174	468
LA	1060	160	245	1076	137	2209	332
ME	321	170	84	432	41	669	339
MD	1270	535	275	1507	164	2647	940
MA	959	1789	426	2415	124	2289	3300
MI	2060	427	191	635	266	4291	-978
MN	541	474	132	581	70	1127	600
MS	606	51	112	268	78	1262	-225
MO	846	339	361	973	109	1763	756
MT	40	66	34	133	5	241	32
NE	100	55	30	143	13	208	120
NV	162	68	47	180	21	337	120
NH	105	72	29	110	14	219	96
NJ	1125	610	341	1205	145	2344	937
NM	139	104	34	175	18	289	163
NY	609	862	190	1699	79	2029	1330
NC	868	208	213	692	112	1808	172
ND	56	25	18	60	7	116	44
OH	2262	1051	615	2325	292	4712	1541
OK	260	168	141	458	34	542	486
OR	159	788	338	1833	20	2939	179
PA	2040	1136	476	1998	263	4251	1400
RI	172	130	37	344	22	358	326
SC	469	124	133	557	61	978	305
SD	64	39	29	121	8	133	119
TN	1039	143	261	485	134	2164	-235
TX	1186	366	618	1734	153	2471	1433
UT	249	70	58	194	32	520	52
VT	87	121	29	120	11	181	175
VI	787	281	172	609	102	1640	208
WA	1117	1066	348	1019	144	2328	1222
WV	178	76	64	186	23	372	133
WI	2025	700	239	898	261	4220	-358
WY	48	13	6	26	6	101	-7
TOTAL	42862	24936	11127	42686	5529	91650	29962

Note: Collections and savings are in thousands of 1996 dollars.

APPENDIX TABLE 2B
Fiscal Effects First Year after Modification
Difference Between Mandatory and Optional Review Regimes
High Collections Scenario

State	TANF Savings Increased Collections	Savings Decreased TANF	Savings Food Stamps	Savings Medicaid	Incentive Payments	Direct Costs	Total Savings
AL	723	234	466	295	93	844	875
AK	240	455	100	277	31	280	793
AR	414	979	616	156	53	483	1682
AZ	476	42	106	89	61	555	159
CA	11507	17802	2914	4634	1484	13422	23434
CO	598	442	515	336	77	697	1193
CT	883	1580	558	844	114	1115	2750
DE	228	157	140	144	29	266	403
DC	247	280	122	205	32	288	565
FL	11324	7057	4537	5877	1461	13208	15586
GA	2081	1290	1283	1331	269	2428	3557
HI	215	740	121	214	28	251	1039
ID	196	107	106	79	25	229	260
IL	1106	837	477	675	143	1564	1530
IN	1459	836	671	905	188	1702	2169
IA	749	628	550	519	97	874	1572
KS	440	335	241	257	57	513	759
KY	1007	598	773	659	130	1174	1862
LA	1894	499	827	1076	244	2209	2087
ME	574	532	291	432	74	669	1161
MD	2269	1671	950	1507	293	2647	3749
MA	959	1789	426	2415	124	2289	3300
MI	3679	1335	659	635	475	4291	2017
MN	966	1480	467	581	125	1127	2367
MS	1082	158	378	268	140	1262	625
MO	1512	1058	1212	973	195	1763	2992
MT	40	66	34	133	5	241	32
NE	178	171	104	143	23	208	388
NV	289	213	162	180	37	337	506
NH	188	224	100	110	24	219	402
NJ	2009	1905	1170	1205	259	2344	3945
NM	248	324	121	175	32	289	579
NY	1087	2694	677	1699	140	2029	4129
NC	1550	651	723	692	200	1808	1807
ND	99	79	61	60	13	116	184
OH	4039	3284	2116	2325	521	4712	7054
OK	465	527	477	458	60	542	1385
OR	159	788	338	1833	20	2939	179
PA	3644	3551	1664	1998	470	4251	6607
RI	307	408	132	344	40	358	833
SC	838	387	455	557	108	978	1260
SD	114	121	101	121	15	133	323
TN	1855	448	871	485	239	2164	1496
TX	2118	1143	2069	1734	273	2471	4594
UT	446	218	196	194	57	520	534
VT	156	378	104	120	20	181	575
VI	1406	877	599	609	181	1640	1851
WA	1995	3330	1218	1019	257	2328	5235
WV	318	238	220	186	41	372	591
WI	3618	2188	848	898	467	4220	3331
WY	87	41	21	26	11	101	74
TOTAL	74080	67174	34087	42686	9556	91650	126378

Note: Collections and savings are in thousands of 1996 dollars.

APPENDIX TABLE 3A
Summary Collections and Fiscal Effects
Difference Between Mandatory and Optional Review Regimes
Low Collections Scenario

State	Collections Difference	State Savings Mandatory	Federal Savings Mandatory	State Savings Optional	Federal Savings Optional	State Savings Difference	Federal Savings Difference
AL	1405	1013	1543	388	632	624	910
AK	467	1273	678	452	254	821	424
AR	805	1779	1077	638	410	1140	667
AZ	924	382	518	157	253	225	264
CA	22360	39055	13271	14361	5766	24695	7505
CO	1161	1576	1363	592	527	983	836
CT	3962	8667	4115	2569	1269	6097	2847
DE	443	631	466	237	182	394	284
DC	480	916	563	334	217	582	347
FL	22003	26023	19745	9837	8061	16187	11684
GA	4044	4795	5123	1783	2009	3012	3114
HI	418	1486	567	520	214	966	353
ID	382	338	382	127	159	210	224
IL	4963	8690	5332	4606	2927	4084	2405
IN	2835	3234	3246	1207	1293	2027	1953
IA	1455	1963	2074	719	801	1244	1273
KS	855	1095	947	407	376	688	571
KY	1956	2040	2963	750	1152	1289	1811
LA	3680	2750	4521	1040	1825	1710	2696
ME	1114	1597	1534	581	597	1017	937
MD	4409	6560	4266	2451	1687	4109	2580
MA	3329	10440	5201	2215	1167	8225	4034
MI	7148	5122	2663	2094	1360	3029	1303
MN	1877	3515	1877	1275	747	2240	1129
MS	2102	940	1594	371	726	568	869
MO	2938	3743	3977	1389	1537	2354	2440
MT	139	369	345	118	126	251	218
NE	346	550	478	200	184	350	294
NV	561	811	567	304	223	507	344
NH	365	622	347	229	138	393	210
NJ	3904	6089	3909	2264	1537	3825	2371
NM	482	712	705	253	277	459	428
NY	2113	14834	8357	10396	6078	4437	2278
NC	3013	2662	2902	1017	1199	1644	1703
ND	193	227	256	83	101	144	155
OH	7849	10267	8490	3809	3386	6458	5104
OK	903	1435	1929	511	719	924	1210
OR	550	3402	2565	422	370	2980	2196
PA	7081	10478	6483	3892	2612	6586	3871
RI	596	1324	915	474	344	850	571
SC	1629	1542	2294	571	903	971	1390
SD	221	379	447	136	166	243	281
TN	3605	2257	2677	904	1174	1353	1504
TX	4116	5147	7132	1898	2689	3248	4443
UT	866	708	899	265	374	443	524
VT	302	746	429	263	165	483	264
VI	2733	3199	2050	1227	851	1972	1200
WA	3877	7441	3623	2708	1445	4732	2178
WV	619	651	874	237	346	414	528
WI	7029	6357	3658	2465	1717	3892	1941
WY	168	144	101	56	46	88	55
TOTAL	150776	221976	152037	85806	63317	136170	88721

Note: Collections and savings are in thousands of 1996 dollars.

APPENDIX TABLE 3B
Summary Collections and Fiscal Effects
Difference Between Mandatory and Optional Review Regimes
High Collections Scenario

State	Collections Difference	State Savings Mandatory	Federal Savings Mandatory	State Savings Optional	Federal Savings Optional	State Savings Difference	Federal Savings Difference
AL	3245	2167	3531	773	1295	1394	2236
AK	1078	2742	1113	942	399	1800	714
AR	1859	4804	3069	1647	1074	3157	1995
AZ	2134	820	1300	303	514	517	786
CA	51640	98754	29037	34260	11021	64494	18015
CO	2682	3374	3168	1192	1129	2182	2040
CT	3962	8667	4115	2569	1269	6097	2847
DE	1024	1295	997	458	359	837	638
DC	1107	1925	1059	670	382	1254	677
FL	50817	55829	40743	19772	15060	36057	25683
GA	9341	10041	10412	3532	3772	6510	6640
HI	965	3683	1052	1253	376	2430	676
ID	881	774	862	273	318	501	543
IL	4963	8690	5332	4606	2927	4084	2405
IN	6547	6730	6339	2373	2324	4358	4015
IA	3361	4272	4229	1489	1520	2783	2709
KS	1975	2392	1960	839	714	1553	1246
KY	4518	4368	6077	1527	2190	2842	3887
LA	8498	5405	8717	1926	3224	3480	5493
ME	2574	3492	2848	1212	1035	2280	1813
MD	10182	13449	8347	4748	3047	8701	5300
MA	3329	10440	5201	2215	1167	8225	4034
MI	16509	12326	7152	4495	2856	7831	4296
MN	4336	8423	3867	2911	1411	5512	2456
MS	4856	2028	3824	734	1469	1294	2355
MO	6785	7928	8523	2784	3053	5144	5470
MT	139	369	345	118	126	251	218
NE	799	1169	908	407	327	762	581
NV	1295	1688	1199	596	433	1092	766
NH	843	1419	744	495	270	924	474
NJ	9016	13318	8424	4674	3042	8644	5382
NM	1113	1742	1301	596	476	1146	825
NY	4879	31490	13551	21500	9541	9989	4010
NC	6958	5692	6256	2028	2317	3664	3939
ND	445	513	519	179	189	335	330
OH	18127	22728	17553	7962	6407	14765	11146
OK	2085	3176	3695	1091	1308	2085	2388
OR	550	3402	2565	422	370	2980	2196
PA	16354	23655	13634	8285	4995	15371	8639
RI	1377	2718	1501	939	539	1779	962
SC	3763	3174	4391	1115	1602	2059	2788
SD	512	794	827	274	293	520	534
TN	8327	4974	6719	1809	2521	3164	4198
TX	9506	9996	14622	3515	5185	6481	9436
UT	1999	1600	1890	563	705	1038	1185
VT	698	1887	849	643	305	1244	544
VI	6311	7023	4639	2502	1714	4521	2925
WA	8955	18405	8327	6363	3013	12042	5314
WV	1429	1502	1809	521	657	981	1152
WI	16235	15516	8902	5518	3465	9998	5437
WY	388	332	230	119	89	213	141
TOTAL	331272	463101	298273	171733	113793	291367	184479

Note: Collections and savings are in thousands of 1996 dollars.

APPENDIX 1
ESTIMATING METHODOLOGY

EQUATION #1A AND #1B EXAMINE CHILD SUPPORT COLLECTIONS AMONG MODIFIED CASES

Equation #1A: **Increased Collections from TANF Cases: Mandatory Review** = [Number of TANF Cases with Child Support Order] × [Percentage of Orders Modified: Mandatory Review] × [Average Increase in Collections for TANF Cases with Modified Orders]

Elements:

A. Number of TANF cases with child support order

- State-specific number of IV-D AFDC cases with a child support order in 1995.
  - Source: Table 33: Average Annual Child Support Caseload with Orders Established (Form OCSE-156, Line 4A).
- Limitations:
  - Imperfect overlap between TANF and AFDC caseloads.
  - Differences between states in the definition of a "case."
  - More cases may gain orders under PRWORA.

B. Percentage of orders modified: mandatary review

- Preferred estimate: State-specific percentage of AFDC cases that were reviewed in each state
  - Our letter to state CSE administrators asked for the number of AFDC cases reviewed and modified (OCSE does not require states to report these numbers separately).
  - Appendix 2 shows that we received information from five states on the percentage of orders modified: 4% in IL, 10% in MA, 7% in MT, 19% in OR, and 2% in NY. In addition, in 7% of the orders in CT, a modification was initiated.
- Estimate when preferred estimate not available: Percentage of AFDC orders modified from studies in selected states. An alternate but equivalent approach is to estimate the percentage of AFDC orders modified out of the orders that were selected for review; presumably one-third of orders are selected for review since orders are to be reviewed every 3 years.

- Four States Review and Modification Demonstration Projects (Caliber Associates, 1992, Table V-21, p. 159) shows the number of AFDC cases modified as a percentage of cases selected: 12% in Colorado, 18% in Delaware, 4% in Florida, and 19% in Illinois. Oregon Updating Project (Price et al., 1991, Table I , p. iv) result was 20%. Wisconsin Order Revision Project (Meyer et al., 1994, Table 6, p. 62) result was 19%.

- Adjustments. In the four-state study, “selected” cases included those terminated prior to a review because a review would not have been appropriate (the order was less than 2.5 years old, for example). If we want the percentage of modifications among cases reviewed, we need to recalculate the percentage of cases modified (Caliber Associates, Table V-9, p. 133, and Table V-20), resulting in: 14% in CO, 42% in DE, and 43% in IL. We did not calculate a revised percentage in FL because the reasons for termination were unknown in nearly half the terminated cases. We believe DE and IL figures overestimate the percentage of cases likely to be modified because they reviewed only cases in which the probability of modification was high.

- Thus the mean percentage of cases modified out of cases reviewed from CO, OR, and WI is 18%. If one-third of cases are reviewed, we estimate that 6% of all orders are modified each year. Note that the more recent numbers we received from all states except Oregon (which appears to have a very unusual practice) suggest that the 6% estimate is appropriate.

- Limitations:

  - Does not fully account for changes in stock and flow of cases as new orders are established and old cases are closed (OCSE Twentieth Annual Report to Congress, Tables 47 and 63; this report, for the period ending September 30, 1995, is available on the Internet at <http://www.acf.dhhs.gov/programs/CSE/annrptb.html>).

  - Differences across study states due to variation in case selection process, including criteria for selection (e.g., age of order), variation in the treatment of interstate cases and in the review and modification process, including exclusionary criteria, utilization of automated pre-screening, and method (e.g., stipulation, mediation, or judicial processing).

  - Study states may not be representative.

  - The percentage based on the study states may be too low because 8% to 29% of AFDC cases were still pending when projects ended and may have eventually been modified (see Caliber Associates, 1992, Table V-21, p. 159; Price et al., 1991, Table I, p. iv; and Meyer et al., 1994, Table 6, p. 62). On the other hand, the percentage from the study states may be too high because project cases included orders that were more than 3 years old and had not yet been subject to mandatory review.

C. Average increase in collections from TANF cases with modified orders

- Preferred potential estimate: State-specific increased collections for AFDC cases with modified orders in 1995

  - Our letter to state CSE administrators asked for the average increase in collections from modified AFDC orders (OCSE does not require states to report this number), but no state was able to provide this.

- One estimate when preferred estimate not available: State-specific average increase of modified AFDC orders times percentage of modification collected (based on six study states)

  - Our letter to state CSE administrators asked for the average increase of modified AFDC orders.

  - Appendix 2 shows that we received information from four states on the average increase of modified orders: $155/month in IL, $53 in MA, $23 in MT, and $6 in OR. In addition, CT initiated modifications averaging an increase of $138/month (but the amount of actual modifications is unknown).

  - Comparing the average increase in AFDC orders to the average increase in collections among the six study states reveals the following percentages: 80% in CO (97/122), 61% in DE (51/84), 42% in FL (41/98), 62% in IL (89/143) (Caliber Associates, 1992, p. 211), 53% in OR (46/87) (Price et al., 1991), and 73% in WI (85/116) (Meyer et al., 1994, p. 63). We use the mean, 62%.

  - Thus we estimate average increases in collections of $96 in IL, $33 in MA, $14 in MT, and $4 in OR. Moreover, if the dollar amount of modifications in CT was the same as the dollar amount requested, this would translate into an increase of $86.

- Another estimate when preferred estimate not available: information from six study states on increased collections for AFDC cases with modified orders.

  - Four States Review and Modification Demonstration Projects (Caliber Associates, 1992, Table V-47, p. 211) shows average monthly increase in collections of $97 in CO, $51 in DE, $41 in FL, and $89 in IL. The Oregon Updating Project (Price et al., 1991) shows a net increase in AFDC orders × Compliance rate with prior AFDC orders = $81 × .57 = $46 (see Table 10, p. 82). The Wisconsin Order Revision Project (Meyer et al., 1994, p. 65) shows an average increase of $85.

  - Because these estimates are from the early 1990s, we update to 1996 dollars with the Consumer Price Index, providing estimates of $112 in CO, $47 in FL, $59 in DL, $102 in IL, $55 in OR, and $95 in WI.

- Selected estimate: Combine information from CSE administrators with study states.

  - Because the range is fairly large, we use both a high estimate and a low estimate. For the high estimate, we use $97, the mean of the four states with high estimates—the study estimates from CO and WI, the newly reported estimate from IL, and the newly reported full amount from CT. For the low estimate, we use $42, the mean of the five states with low estimates—the study estimates from DL, FL, and OR, and the newly reported estimates from

MA and MT. (We do not use the newly reported estimate from OR because it apparently has an unusual practice.)

- Limitations of these estimates:
    - Results from study states and reporting states may not be representative.
    - State averages do not reflect distribution of changes which included both increases and decreases in the amount of support ordered.
    - Treatment of cases where decrease in order was indicated differed across states.
    - Assumes average amount of modification and average collections will not change under TANF.
    - Adjusting for inflation may not be appropriate.
- General limitations:
    - Dynamics of child support review and modification may differ under TANF in which case AFDC orders would be poor proxy.
    - Collection rates may depend on how states decide to treat the $50 pass-through. Specifically, if states discontinue the pass-through, nonresident parents may be particularly reluctant to pay child support through the formal system, none of which directly benefits their children, than they already are. This suggests that the increase in collections from modified orders would be lower under TANF than under AFDC.

Equation #1B: **Increased Collections from TANF Cases: Optional Review** = [Number of TANF Cases with Child Support Order] × [Percentage of Orders Modified: Optional Review] × [Average Increase in Collections for TANF Cases with Modified Orders]

Elements:

A. *Number of TANF cases with child support order*

- Same as Equation #1A.A.

B. *Percentage of orders modified: optional review*

- Preferred estimate: Percentage of cases modified in control conditions of Four States Review and Modification Demonstration Projects (Caliber Associates, 1992). Table V-41 (p. 197) shows that over an 18-month period: 2% of cases intentionally not reviewed by the project were modified in CO, 2% in FL, and 4% in IL. We estimate that cases would be modified at a rate of 3% in 18 months or 2% per year if review and modification were optional.

- Limitations:
  - Figures include both AFDC and non-AFDC cases.
  - Small samples.
  - States may not be representative.
- Alternative estimate: State-specific percentage of non-AFDC orders that were modified in 1995. Not selected because non-AFDC cases are a poor proxy for TANF cases under optional review.

C. *Average increase in collections from TANF cases with modified orders*

- Preferred estimate: Same as Equation #1A.C: state-specific increased collections for AFDC cases with modified orders in 1995, or state-specific estimate of amount of order increase times 62% of order collected, or a high estimate ($97/month) and a low estimate ($42/month).
- Limitations:
  - Assumes that average modification amounts would remain the same under optional review as under mandatory review. However, if parents request that an order be reviewed only when the likelihood of a substantial modification is high, then the average modification amount would probably increase under optional review.
  - Assumes that PRWORA will not change collection rates.

EQUATION #2A AND #2B EXAMINE SAVINGS FROM INCREASED CHILD SUPPORT COLLECTIONS IN MODIFIED CASES

Equation #2A: Savings from Increased Collections: Mandatory Review = [Increased Collections from TANF Cases with Modified Orders: Mandatory Review] × [Percentage of Increased Collections Accruing to Government]

A. *Increased collections from TANF cases with modified orders: mandatory review*

- Estimated from Equation #1A.

B. *Percentage of increased collections accruing to government:*

- Increased collections accrue to the government only when a family continues to receive TANF benefits and when the amount collected is greater than the pass-through.

- Option #1: We could assume that all families with modified orders remain on TANF for the duration of the order. This is the assumption made in both the Oregon and Four States studies. But this assumption is unrealistic since we know that the AFDC status of families sometimes changes after an order has been modified and TANF cases may be more likely to leave TANF following a modification, given time limits.

- Option #2 (Preferred): We recognize that some families will go off TANF while a modified order is in effect and that the government is only entitled to collections from these families while they remain on TANF. We therefore estimate the percentage of collections that occur while a family is off TANF with the percentage of collections that occurred while a family was off AFDC following modification.

    - The Wisconsin Order Revision Project (Meyer et al., 1994) indicated that families who were on AFDC in the month an order was modified received welfare payments for an average of 6.9 months during the first year after the modification was effective (Table 10, p. 66). Thus, we assume that TANF cases would be active (i.e., receiving cash assistance) in the same percentage of post-modification months. Because collections among modified orders did not vary much from month to month (see Meyer et al., 1994, Figure 5), the percentage of time receiving benefits is an adequate estimate of the percentage of collections that could offset benefits. Thus we assume the government is entitled to 58% (i.e., 6.9/12) of the total increase in collections.

    - Increased collections from modified orders were relatively high in Wisconsin ($95 in 1996 dollars). Thus an estimate of later AFDC use based on Wisconsin only is appropriate when we simulate a high increase in collections ($97). It is not appropriate when we simulate a low increase in collections ($42) because we would expect fewer cases to go off welfare if collections increase by a smaller amount. Although we do not know what the percentage of months in which payments are made would be if the increase in collections is low; presumably it would be more than 58%. Hence, we assume a split of 75%-25% when we simulate a low increase in collections.

    - We assume that all of the increased collection while a family remains on TANF accrues to the government. Part of our rationale is that most modified cases in the modification studies were receiving the full amount of the pass-through pre-modification. Moreover, to the extent that states decrease the pass-through under PRWORA, the amounts passed through to families will likely be small.

- Limitations:

    - Wisconsin results may not generalize to other states if the percentage of months in which welfare payments are made is correlated with AFDC benefits. Wisconsin is a relatively high benefit state; the percentage of months in which families receive benefits may be different in states where AFDC benefits are relatively low. In particular, we would expect ongoing recipiency in a smaller percentage of months in states where benefits are low because families in those states are more likely to become ineligible for AFDC given even a modest increase in collections.

- Percentages were calculated based on AFDC payments, so dynamics may be different under TANF.

- Estimates ignore fill-the-gap states in which recipients get to keep a higher percentage of payments (and the government share is lower).

Equation #2B: Savings from Increased Collections: Optional Review = [Increased Collections from TANF Cases with Modified Orders: Optional Review] × [Percentage of Increased Collections Accruing to Government]

A. Increased collections from TANF cases with modified orders: optional review

- Estimated from Equation #1B.

B. Percentage of increased collections accruing to government:

- Because we assume no difference in the amount of modifications between the mandatory and optional regimes for modified cases, we assume later welfare patterns of modified cases are also identical.

- Same as Equation #2A.B.

EQUATION #3A AND #3B EXAMINE SAVINGS FROM DECREASED TANF RECIPIENCY

Equation #3A: Savings from Decreased TANF Recipiency: Mandatory Review = [Number of TANF Cases Modified: Mandatory Review] × [Percentage of Time Enabled to Leave TANF Because of Modification] × [Average Net TANF Benefit] × [Case Correction Factor]

Elements:

A. Number of TANF cases modified: mandatory review

- This is derived from Equation #1A and is the product of element A times element B.

B. Percentage of time enabled to leave TANF because of modification

- Estimated through two components: the percentage of time not receiving TANF post-modification minus the estimated percentage of time the family would have been off TANF even without a modification.

- Percentage of time not receiving TANF post-modification: See Equation #2A.B, in which we make two estimates for the percentage of time post-modification a family is off TANF, 42% (high collections) and 25% (low collections), based on the Wisconsin experience (Meyer et al., 1994).

- Percentage of time a family would have been off TANF even without a modification: We use another study from Wisconsin[12] in which the average AFDC case remained on AFDC for 83% of the next 12 months (and therefore was off AFDC 17% of the time). We also have information from AFDC dynamics in four states (Arkansas, California, Maryland, and Virginia) from the control groups of four welfare-to-work initiatives evaluated by the Manpower Demonstration Research Corporation (MDRC). Unfortunately, the only data available to us have AFDC amounts per quarter, not per month. In the first year after random assignment, the control groups received AFDC for an average of 90% of the quarters in the first year in AR, 92% in CA, 91% in MD, and 87% in VA. Because the number receiving in a quarter must be at least as high as the number receiving in a month, these numbers are roughly comparable to Wisconsin's 83%.

- Thus we estimate the percentage of time enabled to leave TANF because of a modification to be 42% minus 17%, or 25% ("high collections" scenario) or 25% minus 17%, or 8% ("low collections" scenario).

- Limitations:

    - See Equation #2A.B.

    - The Wisconsin modification study did not have a comparison group of cases from which to estimate what the percentage of months without payment would have been without review and modification. Thus this percentage had to be drawn from another study.

    - Wisconsin results may not generalize to other states, although the limited information from MDRC suggests this estimate is reasonable.

    - TANF dynamics may be different from AFDC dynamics, particularly because of time limits.

C. Average Net TANF benefit

- Estimated with state-specific average net AFDC benefits. We begin with the average amount of AFDC benefit for an AFDC family from 1995, taken from the *1996 Green Book*, Table 8-23. We then subtract the average child support per AFDC family that accrues to the government. We estimate this number by taking the total amount of distributed AFDC child support collections in 1995 from the OCSE's Twentieth Annual Report to Congress, Table 6, and subtracting the amount that would pass through to families if every AFDC family for whom a collection was made (*1996 Green Book*, Table 9-15) received at least $50/month, and then dividing by the number of AFDC cases.

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[12]Maria Cancian and Daniel R. Meyer, 1995, "A Profile of the AFDC Caseload in Wisconsin: Implications for a Work-Based Welfare Reform Strategy," Special Report #67, Institute for Research on Poverty, University of Wisconsin–Madison.

- Adjustments: We do not adjust for inflation because average AFDC benefits seldom were adjusted to keep pace with inflation.

- Limitations:

  - TANF benefits may differ from AFDC benefits.

  - Average AFDC benefits depend on family size, earned income, various income disregards, etc., and all of these may differ for TANF recipients, even if the benefit level and formula remained identical.

D. Case Correction Factor

- Because sometimes more than one child support case is present in an AFDC/TANF case, we cannot simply assume that the modification of a single child support case will result in an amount of savings based on the benefits received by a single AFDC/TANF case. Therefore, we discount the AFDC/TANF savings number by a state-specific fraction that comes from the number of AFDC cases divided by the number of child support cases. For the number of AFDC child support cases, we use a number from OCSE's Twentieth Annual Report to Congress, Table 32. For the number of AFDC cases, we use the *1996 Green Book*, Table 8-23.

- We make this adjustment so that we do not overestimate savings.

- Limitation:

  - The number of AFDC cases includes some cases that do not have a living nonresident parent. Moreover, some of the AFDC numbers include foster care cases, which may or may not be child support cases.

Equation #3B: Savings from Decreased TANF Recipiency: Optional Review = [Number of TANF Cases Modified: Optional Review] × [Percentage of Time Enabled to Leave TANF Because of Modification] × [Average Net TANF Benefit] × [Case Correction Factor]

Elements:

A. Number of TANF cases modified: optional review

- This is the product of the first two elements of Equation #1B.

B. Percentage of time enabled to leave TANF because of modification

- Same as Equation #3A.B.

C. Average TANF benefit

- Same as Equation #3A.C.

D. Case correction factor

- Same as Equation #3A.D.

EQUATION #4A AND #4B EXAMINE SAVINGS IN THE FOOD STAMP PROGRAM

Equation #4A: Savings on Food Stamp Expenditures: Mandatory Review = [Number of TANF Cases with Modified Orders: Mandatory Review] × [Percentage of Months TANF Cases Show Income Increases Due to a Modification] × [Percentage of the Months with Increased Income Due to a Modification in which Food Stamp Benefits Are Received] × [Increase in Net Income] × [Rate of Food Stamp Reduction per Dollar of Increased Net Income] × [Case Correction Factor]

Elements:

A. Number of TANF cases with modified orders: mandatory review

- Same as Equation #3A.A.

B. Percentage of months TANF cases show increased income due to a modification

- As long as families were already receiving the pass-through, they show an increase in income from a modification only when they are off TANF. (This is because when families remain on TANF any increase in child support accrues to the government, not the family, leaving total income unchanged). Thus we estimate the percentage of months in which an increase in income due to a modification could occur as we did in Equation #3A.B, 25% ("high collections" scenario) and 8% ("low collections" scenario).

- Limitation:

    - See Equation #3A.B.

C. Percentage of the months with increased income due to a modification in which Food Stamp benefits are received

- We assume all families with increased income due to a modification continue to receive food stamps. We do so because the income limits for food stamps are higher than for AFDC, and because we have no information on later Food Stamp use among AFDC cases in which the child support order was modified. Note that we make no assumptions about families who would leave the Food Stamp program without a modification, since these savings are identical under mandatory and optional review regimes.

- Limitation:

  - If families do go off the Food Stamp program because of a modification, there would be additional savings in the Food Stamp program.

D. Increase in Net Income

- We have a state-specific estimate of pre-modification income based on three components. First, we know the state-specific AFDC benefit per family from the *1996 Green Book*, Table 8-23. Second, we assume that families whose orders were modified received the full pass-through prior to modification, so they receive $50/month in child support. Third, we calculate average monthly earnings for AFDC recipients in 1994 from the *1996 Green Book*, Table 8-34. Monthly pre-modification income is the sum of these three components.

- But we have no information on post-modification income. One potential estimate (not selected) would be to assume that earnings do not change pre- and post-modification. Then post-modification income for families who go off AFDC because of a modification is simply the new amount of child support collected (based on the current amount of child support collected per AFDC cases with a collection plus the increase due to the modification) plus pre-modification earnings (the state-specific average monthly earned income for AFDC cases). But this method results in post-modification income being *lower* than pre-modification income. Because it seems unreasonable that a family would leave AFDC for less income than they were receiving, we do not use this estimate.

- Preferred estimate of post-modification income: We assume that in the months that families are off TANF due to a modification, they receive child support and earnings. We calculate estimated child support as the state-specific average amount of child support collected among AFDC cases in which a collection was made, based on OCSE's Twentieth Annual Report to Congress, Table 6, and the *1996 Green Book*, Table 9-15, and add the increased child support collected per modified case, from Equation #1A.C. We estimate earnings as earnings from a minimum-wage job worked 30 hours per week ($5.15/hour × 30 hours/week × 4 1/3 weeks/month).

- Limitations:

  - We are using mean values rather than distributions. To the extent that families who go off TANF do not have average earnings, average collections, or average AFDC benefits, our results will be misleading.

  - The estimate of post-modification income is particularly imprecise.

E. *Rate of Food Stamp reduction per dollar of increased net income*

- 30 cents per dollar.

- Source: *1996 Green Book*

F. *Case correction factor*

- The definition of a Food Stamp case is quite similar to the definition of AFDC cases.

- Same as Equation #3A.D.

Equation #4B: Savings on Food Stamp Expenditures: Optional Review = [Number of TANF Cases with Modified Orders: Optional Review] × [Percentage of Months TANF Cases Show Income Increases Due to a Modification] × [Percentage of the Months with Increased Income Due to a Modification in which Food Stamp Benefits Are Received] × [Increase in Net Income] × [Rate of Food Stamp Reduction per Dollar of Increased Net Income] × [Case Correction Factor]

Elements:

A. *Number of TANF cases with modified orders: optional review*

- This is the product of the first two elements of Equation #1B.

B. *Percentage of months TANF cases show income increases due to a modification*

- If child support collections per modified case are identical for optional and mandatory review, TANF dynamics should also be similar.

- Same as Equation #4A.B.

C. *Percentage of the months with increased income due to a modification in which Food Stamp benefits are received*

- Same as Equation #4A.C.

D. *Increase in net income*

- Same as Equation #4A.D.

E. *Rate of Food Stamp reduction per dollar of increased net income*

- Same as Equation #4A.E.

F. *Case correction factor*

- Same as Equation #4A.F.

EQUATION #5A AND #5B EXAMINE SAVINGS IN THE MEDICAID PROGRAM

Equation #5A: Savings on Medicaid Expenditures: Mandatory Review = [Number of TANF Cases Modified: Mandatory Review] × [Percentage of TANF Orders Modified to Include Medical Insurance] × [Percentage of TANF Cases Where Medical Insurance Is Actually Provided Given that an Order Was Modified to Include Medical Insurance] × [Average Number of Children per TANF Child Support Case] × [Average Medicaid Expenditure per TANF Child]

Elements:

A. *Number of TANF cases modified: mandatory review*

- This is the product of the first two elements in Equation #1A.

B. *Percentage of TANF orders modified to include medical insurance*

- Potential estimate: State-specific percentage of AFDC modified orders modified to include medical insurance.
    - Our letter to state CSE administrators asked for the percentage of modifications which included new orders for medical insurance. But Appendix 2 shows that only two states provided this information, IL and MT, and both reported that health insurance was ordered in every modified case. While a state may choose to add a health insurance order into every case, the likelihood that insurance will actually be provided is probably lower in these states than in states that add orders only when there is a reasonable probability that insurance will actually be provided.
- Alternative estimate: Percentage modified to include medical insurance in studies from selected states.
    - Caliber Associates (1992) report 81% in CO, 35% in DE, and 48% in IL (not available in FL) (Table VIII-29, p. 175). Price et al. (1991) report 63% in OR (Figure 10, p. 76). Meyer et al. (1994) report 73% in WI (Table 14, p. 70).

- Use 63%, median of all five states.

- Limitations:
  - Data do not indicate the number of cases in which medical insurance was actually obtained.
  - States had different policies for ordering that medical insurance be provided.
  - Wisconsin's number does not distinguish between AFDC and non-AFDC cases.
  - Percentage of orders modified to include medical insurance could decrease over time if medical insurance is increasingly included when orders are first established. However, an examination of the percentage of cases established with medical insurance and the percentage of orders enforced or modified with medical insurance since 1992 does not reveal a consistent trend.

C. Percentage of TANF cases where medical insurance is actually provided given that an order was modified to include medical insurance

- Potential estimates based on Wisconsin Parent Survey: 4%–28% of children covered by Medicaid only could be covered by nonresident parents' insurance.[13]

- Alternative estimate (preferred) based on Current Population Survey–Child Support Supplement (CPS-CSS): In 1991–92, the resident parent reported that the nonresident parent provided health insurance in 56% of AFDC cases in which the nonresident parent was supposed to provide health insurance.

- Use 56% (CPS-CSS estimate) because it reflects situation in all states.

- Limitations:
  - Estimate based on self-reports by resident parent.
  - As states increase the number of cases in which health insurance is ordered, the percentage of these in which insurance is actually provided may decline.

D. Average number of children per TANF child support case

- We have the state-specific average number of children in an AFDC case, from Characteristics and Financial Circumstances of AFDC Recipients Report: FY 1993, Table 6. (Reports on characteristics and financial circumstances of AFDC recipients, for various fiscal years, are available on the Internet at <http://www.acf.dhhs.gov/programs/ofa/reports.htm>.)

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[13]Daniel R. Meyer, 1997, "Health Insurance and Child Support," *Health Affairs* 16:207–217.

- But this number must be adjusted for the differences between AFDC cases and child support cases. We use the same case correction factor we used in Equation #3A, element D.

- Limitation:

  - TANF families may not resemble AFDC families.

E. Average Medicaid expenditure per TANF child

- We use a state-specific estimate of the average Medicaid expenditure per AFDC child. (FY 1994 expenditures provided in *1996 Green Book*, Table 16-23).

- We update this figure to 1996 dollars with the Consumer Price Index.

Equation #5B: Savings on Medicaid Expenditures Under Optional Review = [Number of TANF Cases Modified: Optional Review] × [Percentage of TANF Orders Modified to Include Medical Insurance] × [Percentage of TANF Cases Where Medical Insurance Is Actually Provided Given that an Order Was Modified to Include Medical Insurance] × [Average Number of Children per TANF Child Support Case] × [Average Medicaid Expenditure per TANF Child]

Elements

A. Number of TANF cases with modified orders: optional review

- This is the product of elements A and B from Equation #1B.

B. Percentage of TANF orders modified to include medical insurance

- Same as #5A.B.

C. Percentage of TANF cases where medical insurance is actually provided given that an order was modified to include medical insurance

- Same as #5A.C.

D. Average number of children per TANF child support case

- Same as #5A.D.

E. *Average Medicaid expenditure per TANF child*

- Same as #5A.E.

EQUATIONS #6A AND #6B EXAMINE INCENTIVE PAYMENTS FOR INCREASED COLLECTIONS

Equation #6A: Incentive Payments for Increased Collections: Mandatory Review = [Increased Collections: Mandatory Review] × [Percentage of Increased Collections Accruing to Government] × [Incentive Percentage]

Elements:

A. *Increased collections: mandatory review*

- Estimated from Equation #1A.

B. *Percentage of increased collections accruing to government*

- Same as #2A.B (58% “high collections” scenario, 75% “low collections” scenario).

C. *Incentive percentage*

- The incentive formula is based on a ratio of the state’s total AFDC collections to total expenditures. States also receive incentive payments based on non-AFDC collections, but these incentive payments are capped at 115% of AFDC incentive payments. Nearly all states receive 6% of both AFDC and non-AFDC collections, but nearly all states have their non-AFDC incentives limited by their AFDC incentives. Thus an increase in collections for an AFDC case increases the AFDC incentive by 6% and allows states to claim an additional 115% of 6% for their non-AFDC collections. Thus we estimate that increases in collections while a case remains on TANF increase incentive payments by 6% + 1.15*6%, or a total of 12.9%.

- Limitations:

    - Ratio could change under new policy so states would not be entitled to the same percentage of the gross federal share as in 1995. Incentive Funding Work Group recommended changes in system that would take effect beginning in fiscal year 2000 based on performance standards. This change is under congressional consideration at this writing.

    - Simplification of assuming 6% for all states rather than state-specific estimates.

    - Simplification of assuming all states incentive payments are capped by AFDC collections.

Equation #6B: Incentive Payments for Increased Collections: Optional Review = [Increased Collections: Optional Review] × [Percentage of Increased Collections Accruing to Government] × [Incentive Percentage]

Elements:

A. *Increased collections: optional review*

- Estimated from Equation #1B.

B. *Percentage of increased collections accruing to government*

- Same as #2A.B (58% “high collections” scenario, 75% “low collections” scenario).

C. *Incentive percentage*

- Same as #6A.B.

EQUATIONS #7A AND #7B EXAMINE DIRECT COSTS OF REVIEW AND MODIFICATION

Equation #7A: Direct Costs of Review and Modification: Mandatory Review = [Number of Cases Modified: Mandatory Review] × [Cost of Review and Modification per Modified Case: Mandatory Review]

Elements:

A. *Number of cases modified: mandatory review*

- This is the product of elements A and B from Equation #1A.

B. *Cost of review and modification per modified case: mandatory review*

- Preferred estimate: state-specific average cost to review and modify AFDC order.
  - Our letter to state CSE administrators asked for an estimate of this. Appendix 2 shows that only Montana provided an estimate; we use Montana’s figures to estimate a cost of about $900 per modification.
- Estimate when preferred estimate not available: Average cost to review and modify AFDC order based on steady-state operations costs from studies in selected states. From Caliber Associates (1992), average costs for four states were: $521 in CO, $672 in DE, $565 in FL, and $432 in IL

(Table VIII-12, p. 308). Translating these figures to 1996 dollars provides estimates of $599 in CO, $650 in DL, $773 in FL, and $497 in IL. Although Price et al. (1991) do report operations costs for modifying AFDC orders (see Table 14, p. 100), the process never reached a steady state. Moreover, while the total operations costs for the final 6 months of the study are given to estimate what the costs would be in a steady state, AFDC and non-AFDC cases are combined. Estimates from Meyer et al. (1994) are similarly limited in that the costs of modifying AFDC and non-AFDC cases are not distinguished.

- Therefore, use mean costs from four states, $548, or, in 1996 dollars, $630/modified case.
- Limitations:
  - Rates vary depending on the modification process (i.e., administrative vs. judicial).
  - States may not be representative.

Equation #7B: Direct Costs of Review and Modification: Optional Review = [Number of Cases Modified: Optional Review] × [Cost of Review and Modification per Modified Case: Optional Review]

Elements:

A. Number of cases modified: optional review

- This is the product of elements A and B from Equation #1B.

B. Cost of review and modification per modified case: optional review

- Estimated based on studies of steady-state costs of mandatory review in selected states. The mandatory review estimate (see Equation #7A.B) is $630/case. However, because this includes costs of reviewing all cases, even the ones that were not modified, costs per modified case under optional review would be lower. We arbitrarily estimate half the cost, $315/modified case.
- Alternative estimate: steady-state costs of modification in non-AFDC cases from selected states. This would have the advantage that this approximates an optional review regime. However, the types of cases were different (non-AFDC instead of AFDC), and the four-state study found that these types of cases were generally more complicated (and thus costs per modified case were generally higher than for AFDC cases). Thus we do not use these estimates, but instead select the estimate based on a population that is more similar ($315/modified case).
- Limitation:
  - Estimate is arbitrary.

EQUATION #8 EXAMINES DIFFERENCES IN CHILD SUPPORT COLLECTIONS BETWEEN A MANDATORY AND AN OPTIONAL REVIEW REGIME

Equation #8: Difference in Collections from TANF Cases with Modified Orders Under Mandatory Versus Optional Review =

Year 1: [Increased Collections: Mandatory Review] – [Increased Collections: Optional Review] × 1/8

Year 2: [Increased Collections: Mandatory Review] – [Increased Collections: Optional Review]/1.08

Year 3: [Increased Collections: Mandatory Review] – [Increased Collections: Optional Review]/[1.08 × 1.08]

Year 4: [Increased Collections: Mandatory Review] – [Increased Collections: Optional Review] × [7/8] / [1.08 × 1.08 × 1.08]

Elements:

A. *Increased collections: mandatory review*

- Result of Equation #1A.

B. *Increased collections: optional review*

- Result of Equation #1B.

C. *Timing factors*

- The length of time between case selection and modification varied among the study states. Caliber Associates (1992) report the mean time from selection to modification for AFDC cases as 260 days for CO, 160 days in DE, 153 days in FL, and 158 days in IL (p. 168). Price et al. (1991) do not separate timing for AFDC and non-AFDC cases, but report a median of 176 days between selection date and modified order date (p. 88). Meyer et al. (1994) report a median of 73 days between a decision to review and the date a modification is effective for AFDC cases. But in every state some cases were still pending at the close of the study period, and these were cases likely to take a long time, so all of these estimates are likely to be too short. We estimate that the time between review and modification will be about 6 months.

- How long increased collections will occur after a modification is unknown. The longest time reported was 2 years, in the Wisconsin demonstration. Meyer et al. (1994) report that increased collections generally continued for 2 years, with a small decline in the second year (see Figure 5). We estimate that increased collections will continue for 3 years, but then drop off completely.

- AFDC and TANF use in the second and third year post-revision are unknown. As time passes, more revised cases will leave TANF, and this would make the savings due to collections from cases remaining on TANF (Equations #2A and #2B) in the second and third years lower than in the first year. However, more revised cases leaving TANF would also make savings from decreased TANF recipiency higher (Equations #3A and #3B). Further, more cases would leave TANF without a modification as time passes, lowering savings from decreased TANF recipiency due to a modification (Equations #3A and #3B). While we do not presume that these effects exactly offset each other, we have no good data on which to make estimates, and therefore assume that these savings continue at the same level.

- The appropriate discount rate is unknown. We select 8%, the rate used in the Caliber Associates (1992) study.

- Year 1: If cases are reviewed throughout the year and it takes 6 months for a review and modification to occur, then nothing at all will be collected during the first year for cases reviewed during the last half of the year. Cases reviewed and modified during the first half will have collections beginning at various points during the last half of the year. These cases will average averaging one-fourth of a year's collections. If half the cases have no collections, and half have collections for one-fourth of the year, this means that during the first year, one-eighth of a year's collections will occur.

- Year 2: This year has a full year of collections, but the dollars are discounted by 8%/year.

- Year 3: This year has a full year of collections, but the dollars are discounted by 8%/year.

- Year 4: Under a 3-year time frame for collections, this year has 7/8 of a year of collections (the remainder of year 1 collections). These dollars are discounted by 8%/year.

- Limitations:

  - The average time taken to review a case may become shorter as states routinize the process. However, to the extent that modifications require court action that are not expedited, fairly lengthy processes will continue.

  - No demonstration followed modified cases for a long enough period to determine the point at which increased collections no longer occurred.

  - The second and third year estimates of savings from increased collections while receiving TANF and while off TANF are particularly imprecise.

EQUATIONS #9A–#9C EXAMINE DIFFERENCES IN STATE SAVINGS BETWEEN A MANDATORY AND AN OPTIONAL REVIEW REGIME

Equation #9A: State Savings: Mandatory Review =

Year 1: {[State Savings from Increased Collections: Mandatory Review] + [Savings from Decreased TANF Recipiency: Mandatory Review] + [State Savings on Medicaid Expenditures: Mandatory Review] + [Incentive Payments for Increased Collections: Mandatory Review]} × 1/8 − [State Direct Costs of Review and Modification: Mandatory Review]

Year 2: {[State Savings from Increased Collections: Mandatory Review] + [Savings from Decreased TANF Recipiency: Mandatory Review] + [State Savings on Medicaid Expenditures: Mandatory Review] + [Incentive Payments for Increased Collections: Mandatory Review]}/1.08

Year 3: {[State Savings from Increased Collections: Mandatory Review] + [Savings from Decreased TANF Recipiency: Mandatory Review] + [State Savings on Medicaid Expenditures: Mandatory Review] + [Incentive Payments for Increased Collections: Mandatory Review]}/[1.08 × 1.08]

Year 4: {[State Savings from Increased Collections: Mandatory Review] + [Savings from Decreased TANF Recipiency: Mandatory Review] + [State Savings on Medicaid Expenditures: Mandatory Review] + [Incentive Payments for Increased Collections: Mandatory Review]} × [7/8] / [1.08 × 1.08 × 1.08]

Elements:

A. State savings from increased collections: mandatory review

- Total savings from increased collections under mandatory review are estimated in Equation #2A.

- The Federal Medicaid Assistance Percentage (FMAP) determines a state-specific share of collections retained by the state and the federal government (*1996 Green Book*, Table 8-18).

- Limitation:

    - Distribution of state and federal shares could change under PRWORA.

B. Savings from decreased TANF recipiency: mandatory review

- Estimated from Equation #3A.

- Under block-grant funding of PRWORA, all savings from decreased TANF recipiency accrue to the state.

C. State savings on Medicaid expenditures: mandatory review

- Total savings on Medicaid expenditures estimated from Equation #5A.

- State share determined by FMAP (see Equation #9A.A).

D. Incentive payments for increased collections: mandatory review

- Incentive payments from federal government to state estimated by Equation #6A.

E. State direct costs of review and modification: mandatory review

- Total direct costs of review and modification estimated by Equation #7A.

- Costs in child support program divided between state and federal government by FMAP (see Equation #9A.A).

F. Timing factors

- Timing of savings from increased collections reflects timing of collections (see Equation 8).

- Timing of savings from decreased TANF recipiency (see Equation 8).

- Timing of savings on Medicaid expenditures reflects timing of modifications/collections (see Equation 8).

- Timing of incentive payments reflects timing of collections (see Equation 8).

- State direct cost occur in the first year.

Equation #9B: State Savings: Optional Review =

Year 1: {[State Savings from Increased Collections: Optional Review] + [Savings from Decreased TANF Recipiency: Optional Review] + [State Savings on Medicaid Expenditures: Optional Review] + [Incentive Payments for Increased Collections: Optional Review]} × 1/8 − [State Direct Costs of Review and Modification: Optional Review]

Year 2: {[State Savings from Increased Collections: Optional Review] + [Savings from Decreased TANF Recipiency: Optional Review] + [State Savings on Medicaid Expenditures: Optional Review] + [Incentive Payments for Increased Collections: Optional Review]}/1.08

Year 3: {[State Savings from Increased Collections: Optional Review] + [Savings from Decreased TANF Recipiency: Optional Review] + [State Savings on Medicaid Expenditures: Optional Review] + [Incentive Payments for Increased Collections: Optional Review]}/[1.08 × 1.08]

Year 4: {[State Savings from Increased Collections: Optional Review] + [Savings from Decreased TANF Recipiency: Optional Review] + [State Savings on Medicaid Expenditures: Optional Review] + [Incentive Payments for Increased Collections: Optional Review]} × [7/8] / [1.08 × 1.08 × 1.08]

Elements:

A. State savings from increased collections: optional review

- Total savings estimated from Equation #2B.
- State share determined by FMAP.

B. Savings from decreased TANF recipiency: optional review

- Estimated from Equation #3B.
- Under block-grant funding of PRWORA, all savings from decreased TANF recipiency accrue to the state.

C. State savings on Medicaid expenditures: optional review

- Total savings on Medicaid expenditures estimated from Equation #5B.
- State share determined by FMAP.

D. Incentive payments for increased collections: optional review

- Incentive payments from federal government to state estimated by Equation #6B.

E. State direct costs of review and modification: optional review

- Total direct costs of review and modification estimated by Equation #7B.
- Costs in child support program divided between state and federal government by FMAP.

F. Timing factors

- Under an optional regime, it may take less time for a review and modification to occur, in that the time to review all cases is not needed. But to the extent that the main portion of timing has to do with the court process, the timing could be similar. We estimate that all timing factors are similar between the mandatory and optional regimes.

- See Equation 9A.F.

Equation #9C: Difference in State Savings, Mandatory Review and Optional Review = [State Savings: Mandatory Review] − [State Savings: Optional Review]

Elements:

A. *State savings: mandatory review*

- Estimated from Equation #9A.

B *State savings: optional review*

- Estimated from Equation #9B.

EQUATIONS #10A– #10C EXAMINE DIFFERENCES IN FEDERAL SAVINGS BETWEEN A MANDATORY AND AN OPTIONAL REVIEW REGIME

Equation #10A: Federal Savings: Mandatory Review =

Year 1: {[Federal Savings from Increased Collections: Mandatory Review] + [Savings from Food Stamp Expenditures: Mandatory Review] + [Federal Savings on Medicaid Expenditures: Mandatory Review] − [Incentive Payments for Increased Collections: Mandatory Review]} × 1/8 − [Federal Direct Costs of Review and Modification: Mandatory Review]

Year 2: {[Federal Savings from Increased Collections: Mandatory Review] + [Savings from Food Stamp Expenditures: Mandatory Review] + [Federal Savings on Medicaid Expenditures: Mandatory Review] − [Incentive Payments for Increased Collections: Mandatory Review]}/1.08

Year 3: {[Federal Savings from Increased Collections: Mandatory Review] + [Savings from Food Stamp Expenditures: Mandatory Review] + [Federal Savings on Medicaid Expenditures: Mandatory Review] − [Incentive Payments for Increased Collections: Mandatory Review]}/[1.08 × 1.08]

Year 4: {[Federal Savings from Increased Collections: Mandatory Review] + [Savings from Food Stamp Expenditures: Mandatory Review] + [Federal Savings on Medicaid Expenditures: Mandatory Review] − [Incentive Payments for Increased Collections: Mandatory Review]} × [7/8] / [1.08 × 1.08 × 1.08]

Elements:

A. Federal savings from increased collections: mandatory review

- Total savings from increased collections under mandatory review are estimated in Equation #2A.
- FMAP determines a state-specific share of collections retained by the state and the federal government.
- Limitation:
    - Distribution of state and federal shares could change under PRWORA.

B. Savings from Food Stamp expenditures: mandatory review

- Savings estimated from Equation #4A.
- All savings in the Food Stamp program accrue to the federal government.

C. Federal savings on Medicaid expenditures: mandatory review

- Total savings on Medicaid expenditures estimated from Equation #5A.
- State share determined by FMAP (see #9A.A).

D. Incentive payments for increased collections: mandatory review

- Incentive payments from federal government to state estimated by Equation #6B.

E. Federal direct costs of review and modification: mandatory review

- Total direct costs of review and modification estimated by Equation #7B.
- Costs in child support program divided between state and federal government by FMAP.

F. Timing factors

- See Equation 9A.F.

Equation #10B: Federal Savings Under Optional Review =

Year 1: {[Federal Savings from Increased Collections: Optional Review] + [Savings from Food Stamp Expenditures: Optional Review] + [Federal Savings on Medicaid Expenditures: Optional Review] − [Incentive Payments for Increased Collections: Optional Review]} × 1/8 − [Federal Direct Costs of Review and Modification: Optional Review]

Year 2: {[Federal Savings from Increased Collections: Optional Review] + [Savings from Food Stamp Expenditures: Optional Review] + [Federal Savings on Medicaid Expenditures: Optional Review] − [Incentive Payments for Increased Collections: Optional Review]}/1.08

Year 3: {[Federal Savings from Increased Collections: Optional Review] + [Savings from Food Stamp Expenditures: Optional Review] + [Federal Savings on Medicaid Expenditures: Optional Review] − [Incentive Payments for Increased Collections: Optional Review]}/[1.08 × 1.08]

Year 4: {[Federal Savings from Increased Collections: Optional Review] + [Savings from Food Stamp Expenditures: Optional Review] + [Federal Savings on Medicaid Expenditures: Optional Review] − [Incentive Payments for Increased Collections: Optional Review]} × [7/8] / [1.08 × 1.08 × 1.08]

Elements:

A. *Federal savings from increased collections: optional review*

- Total savings from increased collections under optional review are estimated in Equation #2B.
- Federal share determined by FMAP (see Equation #9A.A).

B. *Savings from Food Stamp expenditures: optional review*

- Savings estimated from Equation #4B.
- All savings in the Food Stamp program accrue to the federal government.

C. *Federal savings on Medicaid expenditures: optional review*

- Total savings on Medicaid expenditures estimated from Equation #5B.
- Federal share determined by FMAP (see Equation #9A.A).

D. *Incentive payments for increased collections: optional review*

- Incentive payments from federal government to state estimated by Equation #6B.

E. Federal direct costs of review and modification: optional review

- Total direct costs of review and modification estimated by Equation #7B.
- Costs in child support program divided between state and federal government by FMAP.

F. Timing factors

- See Equation 9B.F.

Equation #10C: Difference in Federal Savings, Mandatory Review and Optional Review = [Federal Savings: Mandatory Review] − [Federal Savings: Optional Review]

Elements:

A. Federal savings: mandatory review

- Estimated from Equation #10A.

B. Federal savings: optional review

- Estimated from Equation #10B.

APPENDIX 2
SUMMARY OF RESPONSES FROM STATES

1. ALABAMA:

- Does not have requested information.

2. ARIZONA:

- Arizona provided limited information on 7 of its 15 counties. In these counties, the state modified half the cases it reviewed during FY 97, but this figure includes both AFDC and non-AFDC, and no information is available on amounts or on the percentage of cases that were reviewed.

3. CONNECTICUT

- Between 12/94 and 9/96, Connecticut "initiated modifications" in 3,603 AFDC orders, 32 percent of the AFDC cases that were "eligible for review." If all of these cases were modified this would average about 164 modifications/month, or 1,965/year, which would be 7 percent of all AFDC orders. Unfortunately, the child support database includes neither the number of modifications that were actually made nor the actual amount of the modification. Among cases where an adjustment was initiated in the 1/95–5/96 period, 71 percent were initiated as increases averaging $65, and 29 percent were initiated as decreases averaging $50. Thus the overall average increase, if the initiated amounts were realized, would be $32. These are weekly figures, which translate into initiating average increases of $283/month and decreases of $217/month, for an overall initiated increase of $138/month.

4. FLORIDA

- Unable to provide requested information.

5. ILLINOIS

- Illinois reviewed approximately 16,000 cases in FY 97 and modified 19 percent of them. We estimate that 3.7 percent of all AFDC orders were modified. The average upward modification was $157 and the average downward modification was $18. About 99 percent of the modified cases were upward modifications; thus the average change per modified order would be an increase of $155. All modified orders included a request for health insurance.

6. KENTUCKY

- Could not separate orders enforced and modified.

7. LOUISIANA

- Does not have requested information.

8. MASSACHUSETTS

- In FY 95-96, Massachusetts modified 3,994 orders. We estimate this to be about 9.9 percent of their AFDC orders. Of these, 62 percent were increases averaging $196 and 38 percent were decreases averaging $179. Overall, this amounts to an average increase of $53/month.

9. MINNESOTA

- Uses cost-of-living adjustment. Does not have other requested information.

10. MONTANA

- In FY 97, Montana modified 33 percent of the AFDC cases it reviewed; we believe that 22 percent of the state's AFDC orders were reviewed, so the estimated modification rate is 7 percent. The average amount of modification was an increase of $23/month. The cost per review was about $300, so the cost per modification was about $900. Every case modified included a medical insurance provision.

11. NEVADA

- Total number of reviews: 935 in 1995 and 1,389 in 1996. No information on the number of modifications that resulted. No other requested information was available.

12. NEW YORK

- Reviewed 14,573 current AFDC cases between April 1995 and May 1997. Of these, 7,055 were modified and 2,920 were still pending. We estimate that 2–3 percent of AFDC orders were modified each year, and use 3 percent in our estimates. No information on amount of modification.

13. NORTH CAROLINA

- Does not have requested information.

14. OREGON

- Between 10/96 and 9/97 (excluding 7/97), Oregon modified 4,472 cash TANF cases, which we estimate to be about 19 percent of their TANF orders. Of these modifications, 2,853 (64 percent) were increases, averaging $74/month, and 1,619 (36 percent) were decreases, averaging $114/month. Thus the overall change is an increase of $6/month.

15. PUERTO RICO

- Reviewed 21 of 66,521 cases in 1996. Percentage of modified AFDC cases that have health insurance added is 0.03 percent.

16. SOUTH CAROLINA

- Does not have requested information.

17. VIRGINIA

- Does not have requested information; plans to continue regular review.

18. WASHINGTON

- Does not have requested information.