

## Chapter 5

### Summary and Conclusions

Recent welfare reforms have increased the potential importance of child support as an income source for low-income single-parent families. Time limits, work requirements, and the lack of an entitlement to cash assistance have made nonwelfare sources of income increasingly essential. In Wisconsin, relatively stringent work requirements have been combined with a uniquely generous approach to child support. Among most mothers participating in W-2, any child support received on behalf of their children is passed through to them and is disregarded in the calculation of their W-2 cash payments.

The Child Support Demonstration Evaluation (CSDE) was designed to evaluate the impact of this new approach to child support, which was adopted within the context of a new approach to welfare. The research aimed to evaluate the direct effects of the new policy on child support payments and receipts. In accordance with the initial evaluation plan, we have also tried to measure a wide range of potential secondary effects—on mothers' and fathers' employment and earnings, on parents' interactions, and on the well-being of their children.

#### I.5.1 Summary of Experimental Impacts

As shown in Chapter I.4, and as summarized in Table I.5.1, we find substantial evidence of the expected direct effects. In 1998, mothers subject to the full pass-through received about \$150 dollars more in child support than did those in the control group. Among all those who entered in a lower tier of W-2 (and thus subject to a reduced pass-through if they were in the control group), the difference was about \$200. Differences were somewhat smaller, but remained significant, in 1999. Although these differences in amounts of child support received by mothers are due in large part to the mechanical effect of the full pass-through, we also find significant increases in the percentage of nonresident fathers paying child support. These differences are statistically significant, but fairly small, in the full sample: 52 percent of fathers of children in the experimental group and 50 percent of fathers of children in the control group paid child support in 1998. However, among those more likely to be new to the child support and welfare systems, the differences were more substantial: among those cases in which the mother had not received AFDC in the two years prior to entering W-2, 58 percent of fathers with children in the experimental group, compared to only 48 percent of fathers with children in the control group, paid any child support in 1998. The differences remained significant and in many cases increased in 1999. Finally, we also find significantly higher rates of paternity establishment for those in the experimental group in 1998, although the difference declined and was not statistically significant for most groups in 1999.

As expected, we find less consistent indications of secondary effects, although in selected areas there is substantial evidence that the experiment had the expected impact. We hypothesized that an increase in child support receipts would reduce the need for cash payments. We find evidence of this effect in 1998, with significant and larger differences among mothers who entered in the lower tiers of W-2 and among mothers with a history of higher child support amounts. We also find some evidence of the expected effects on nonresident fathers' informal employment: fathers with children in the experimental group appeared to be substantially less likely to have informal earnings.

In other areas we find little consistent evidence of an experimental impact. There were few significant impacts on mothers' employment or earnings, perhaps because increases in child support receipt were not sufficiently large to have such secondary effects, or perhaps because the increase in child support simultaneously helped facilitate employment (as hypothesized) and reduced the incentive to work (as economic theory would suggest). We find few consistent impacts on child well-being—although there was some evidence of fewer health limitations and improved educational outcomes for children in the experimental group. Although most measures of nonresident fathers' relationships with the mother and

child revealed few differences among the two groups, we find some evidence of higher informal transfers made by fathers in the experimental group. In 1998, we also find marginally significant differences in coresidence among families that have no recent AFDC history; those in the experimental group are less likely to coreside. This finding is consistent with a view that increased child support receipt encourages mothers' independence and thus leads to lower rates of coresidence. Consequently, it may help to explain the unexpected finding that total family income in 1998 is lower among experimental group mothers with no recent AFDC history.

Finally, although we find significant differences in some of the components of total government costs, we find no difference in overall government costs. Although more child support is passed through to those in the experimental group, not all of this is at the expense of the government, since some consists of additional support that would not have been paid in the absence of the full pass-through. More important, the reform also generated cost savings in other areas, especially W-2 cash payments. We discuss the implications of these cost estimates in greater detail in Section I.5.3, below.

### I.5.2 Generalizing from CSDE Impact Estimates

As summarized above, we find fairly consistent evidence in support of the hypothesized direct effects of the experiment. We find consistent evidence for selected secondary effects as well. To what extent should these estimated effects (and lack of effects) inform our expectations regarding the likely consequences of adopting a full pass-through in other states? In answering this question, we first consider the extent to which the results summarized here are indicative of the expected long-term results of a full pass-through in Wisconsin. We then consider limitations in our ability to generalize from Wisconsin to other states.

*We believe that the effects of the CSDE reported here are likely to understate the potential effects of the policy change in Wisconsin.* First, our analysis shows larger effects among cases new to the welfare system. We expect that the effects of the experiment might be greater among those who have not already established behavioral patterns in response to the old system—a growing proportion of all cases over time.<sup>112</sup> Second, W-2 involved dramatic changes in the administration and structure of welfare programs and payments. Especially in Milwaukee, where most participants reside, it appears that many caseworkers did not initially understand the CSDE or explain the implications of their experimental status to clients. In preliminary analysis of cases assigned as part of a later cohort of participants, after W-2 was more fully implemented and staff received additional training, we find evidence of greater effects.<sup>113</sup>

For a number of reasons *the effects of the CSDE may understate the effects that a full pass-through might have were it implemented in other states.* First, the difference in the pass-through to those in the experimental and control groups in Wisconsin was more modest than the likely difference in other states. Even those in the control group of the CSDE received the greater of up to \$50 per month or 41 percent of child support paid. Under TANF, most states are not passing through any child support. A move to a full pass-through would therefore be a larger policy change in most other states, and would

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<sup>112</sup>In addition, some fathers of those in the experimental group have amounts owed to the state for payments they did not make when the mother was receiving AFDC. Because of this, any amount they pay that is in excess of what is currently due to the mother is distributed between the mother and the state. Thus, even among experimental-group cases, some payments may not be passed through to the mother. If the full pass-through were policy, in the long run there would be no past-due amounts of child support owed to the state, making the eventual effect of a full pass-through larger than what we have observed here.

<sup>113</sup>Because random assignment was mistakenly discontinued in Milwaukee on July 8, 1998, the original sample of CSDE cases, analyzed here, includes cases that entered relatively early in the implementation of W-2. With this in mind, random assignment was restarted statewide on January 1, 1999, and continued through June 30, 1999. Wisconsin was recently awarded federal funds to extend the CSDE analysis to include these later cases.

probably generate a greater response.<sup>114</sup> Second, to the extent that participants in other states might receive cash payments for a longer period, the effects of the policy change might also be greater. In Wisconsin, members of the control group were subject to the reduced pass-through only while participating in the lower tiers of W-2. Because of the structure of W-2 (including the absence of an earnings disregard, unique to Wisconsin), Wisconsin participants leave cash assistance more rapidly than do participants in most other states. Third, because Wisconsin's caseload decline has been so steep, the state's current TANF recipients may be more disadvantaged than those in other states. This may mean that the amount of child support that nonresident parents could potentially pay may be lower, and thus the effects of a full pass-through may be lower in Wisconsin than elsewhere.

Finally, many indicators show that Wisconsin is among the most effective states at collecting child support. This may mean that the child support system in Wisconsin is more automatic and less voluntary than elsewhere. If so, fewer fathers in Wisconsin may be participating in the informal sector, both because the probability of their being detected is higher and because the penalties that follow being detected are more stringent. If this is true, the effects of a full pass-through may be larger in a state in which more individuals are in a position to move into the formal child support system in response to incentives. On the other hand, if one effect of the reform is to bring new cases into the formal child support system, Wisconsin may be better able to ensure that child support payments continue, and thus the effects may be greater in Wisconsin than in a state in which ongoing enforcement is less effective.

### **I.5.3 Generalizing from CSDE Cost Estimates**

One striking result of the CSDE is that government costs were not found to be significantly higher for those in the experimental group. In other words, the full pass-through and disregard increased the child support received by low-income women with children without significantly increasing government costs. In this section we consider the extent to which this cost-neutrality result is due to conditions specific to context of the CSDE, and we discuss the implications for expected costs if a similar reform were to be adopted by other states.

Two elements of the CSDE that may have mitigated the impact of the experiment could have particular consequences for cost estimates. First, not *all* of the child support payments end up benefitting the family, even among those in the experimental group. As we have noted above, in the experimental group some payments were retained by the government, primarily those that came from federal tax intercepts and any payments that were in excess of the amount currently due. If a full pass-through were completely implemented, eventually there would be very few cases with debts owed to the state.

How would costs differ if all child support—including tax intercepts and payments on arrearages—went to the custodial parent rather than to the government? Although it is impossible to precisely estimate the total impacts, the CSDE experience provides the basis for some general conclusions. We know that the per-case amount retained by the government for those in the experimental group was \$129 in the first year after entry and \$145 in the second year.<sup>115</sup> If these amounts were no longer retained, and there were no other behavioral effects, this would increase our estimate of net costs per case from \$100 to \$229 in the first year and from \$35 to \$180 in the second. Were this the only change, both cost differences would be statistically significant. However, this change would also increase the amount of support received by those in the experimental group, even in the absence of behavioral effects, and this would decrease Food Stamp costs (because the additional child support income results in

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<sup>114</sup>In addition to the greater effects that might result from a shift to full pass-through, the contrast between a full and zero pass-through would likely be easier to communicate to workers and clients.

<sup>115</sup>These numbers are based on relative years. The numbers reported in Table I.4.7, based on calendar years, are quite similar, \$126 in 1998 (compared to \$129 in the first year after entry) and \$147 in 1999 (compared to \$145 in the second year after entry).

lower Food Stamp payments) and could decrease W-2 and Medicaid/BadgerCare participation (some mothers could become ineligible owing to the increased income). Moreover, if no child support was retained for those in the experimental group, there could be an even larger increase in the likelihood of paying support or in the amount paid, which would further decrease costs.

A second aspect of the CSDE may have reduced the impact of the policy on government costs. The control group in the CSDE is subject to a relatively generous policy, receiving up to \$50 per month or 41 percent of what is paid, whichever is more. In contrast, most states do not pass through any child support, retaining the full amount paid. Thus, part of the reason for the lack of expense associated with the Wisconsin reform is that so much is passed through (and little is retained) for those in the control group.

How would costs differ if the comparison (control) group received no child support during periods in which the resident parent was receiving a payment from W-2? The amount of support received by the control group can be decomposed into two parts, an amount received during periods in which the family was in an upper tier or off W-2 (and thus would have been received whether there was a partial pass-through or no pass-through) and an amount received during periods in which the family was in a lower tier of W-2. The amount received during lower-tier periods was \$112 in the first year and \$79 in the second. If all else remained equal, but the full amount of child support was retained for those in the control group, this would add about \$112 to the first year's net cost, increasing our per-case estimate of total government cost from \$100 to \$212, and adding \$79 to the second year's cost, increasing our estimate from \$35 to \$114. But if all payments were retained for those in the control group, other effects would occur as well. Food Stamp costs for the control group would increase somewhat, because these families would have lower incomes. Perhaps more important, the amount of child support paid may be lower among control-group families; recall that we have shown that payments are linked to the generosity of the pass-through. The lower amounts paid would then mean lower amounts retained, increasing costs for the control group, and lower amounts paid may also mean that families in the control group remain in W-2 longer, further increasing costs for this group.

In summary, the experiment gives an accurate estimate of the difference in government costs of a full pass-through of child support as compared to a partial pass-through. We find that the differential costs of the full pass-through are not significantly different from zero. We conducted two simple simulations to provide upper-bound estimates of costs for more powerful interventions. First, if the experimental-group members really received the entire amount paid on their behalf (with nothing at all retained by the government), the mechanical effect would be to increase costs somewhat, by about \$130–\$150 per family. However, our other estimates suggest that there would be at least some offsetting receipts, so that this is an overestimate of the net increase in costs. Second, if control-group members were to receive nothing during periods in which they were in a lower tier, this would decrease costs among the control group by about \$80–\$110, thus increasing the costs of the reform. But again, other effects of this change would offset a portion of these increased costs, making the \$80–\$110 an overestimate of the cost differential.

#### **I.5.4 Policy Implications**

The results of the CSDE presented here demonstrate that Wisconsin's full pass-through has been able to increase child support amounts received among an economically vulnerable population, to increase child support collections, and to have a variety of other positive effects. These benefits have come at little additional cost to government. Although some factors might lead CSDE estimates to overstate potential policy effects, we expect that the effects of a full-pass-through policy in another state would be larger than those reported here. Indeed, in many ways it is striking that we do find evidence of substantial effects, given the implementation problems, the lack of a large difference in the policies faced by the experimental and control groups, the speed with which mothers are moving off W-2, and the relative socioeconomic disadvantage of W-2 participants.

In most states TANF participants do not receive any of the child support paid on behalf of their children. This no-pass-through policy generates revenue to offset public assistance and child support enforcement costs in the short run. Our results suggest, however, potentially detrimental effects of this policy on developing child support as a long-run income source for single mothers and their children. Given the time-limited nature of cash assistance, the benefits to government of retaining child support are also quite limited. In contrast, the benefits to children of establishing paternity and setting a pattern of child support payments are potentially more enduring. Especially for this reason, a full pass-through seems to be a policy worthy of serious consideration by other states.



Table I.5.1, continued

	All		Entered in Lower Tier		No Recent AFDC History		Order at Entry		Higher Child Support History	
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
<b>Effects on Government Costs (Table I.4.7)</b>										
Average Total Costs from Program Participation										
Average Amount of Child Support Retained by the State	---	---	---	---	---	---	---	---	---	---
Average Amount of Total Government Costs										
<b>Effects on Earnings and Program Participation of Nonresident Fathers (Table I.4.8)</b>										
Percentage with Earnings (Administrative Data)										
Number of Employers in a Year (Administrative Data)										
Number of Months Worked (Survey)				--						--
Hourly Wage Rate for Current or Last Job (Survey)	-		--				-	-		
Average Earnings (Administrative Data)										
Percentage with Informal Earnings (Survey)		--		--		--		-		
Percentage Participating in Any Program in 1998 (Survey)		na		na		na	++	na		na
Percentage Participating in W-2, FS, or Medicaid (Administrative Data)							-	---		-
<b>Effects on the Income and Economic Hardship of Nonresident Fathers (Table I.4.9)</b>										
Average Total Personal Income, Net of Child Support Paid (Administrative Data)										
Average Total Family Income, Net of Child Support Paid (Survey)				--				-		
Percentage Reporting a Food, Shelter, or Telephone Hardship (Survey)						-				
<b>Effects on Nonresident Fathers' Social and Economic Involvement with Child (Tables I.4.10 - I.4.13)</b>										
Percentage of Families in Which Mother, Father, and Child Lived Together All Year										
Percentage of Families in Which Child Lived with Both Parents 7 or More Mos.						-				
Percentage in Which Child Lived with Both Parents/Had Frequent Contact with Father				-				-		+
Mean No. Days Father Saw Child during the Time They Lived Apart									+	
Percentage of Fathers Cared for Child So Mother Could Work/Go to School/Seek Work										
Percentage of Mothers Who Think Child's Father Does Good Job as a Parent								++	+	++
Percentage of Mothers Reporting High Conflict on at Least 1 Child-Rearing Issue	-							---	--	
Percentage of Families in Which There Were Any Informal Transfers						+				
Mean No. Different Types of Informal Transfers					+					
Percentage in Which the Total Value of Informal Transfer was \$500 or Greater		+++		+++					+++	+

**Table I.5.1, continued**

	All		Entered in Lower Tier		No Recent AFDC History		Order at Entry		Higher Child Support History	
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
<b>Effects on Child Well-Being (Tables I.4.14 - I.4.16)</b>										
Percentage of Mothers Reporting That Child Was in Fair or Poor Health										
Percentage of Mothers Reporting That Child Had Limitations	---	-	---				---	--		
Percentage of Mothers Reporting Child's Health Improved in the Last Year	na		na	--	na		na		na	-
Percentage of Mothers Reporting Child Uninsured at Some Point in Year										
Percentage of Mothers Reporting Attending at Least 1 PTA/PTO Meeting Last Year							++		+++	
Percentage of Mothers Reporting Reading to Pre-School-Age Child Daily										
Child's GPA (Children Aged 10 or More)	na		na		na		na		na	
Percentage of Mothers Reporting Child Missed 10 or More Days of School	---		-							
Percentage of Mothers Reporting Child Received Special Education										

<b>Key:</b>	Positive	Negative
Significant at the 1% level	+++	---
Significant at the 5% level	++	--
Significant at the 10% level	+	-
Not applicable	na	na

Blanks indicate that the difference was not statistically significant.