

Executive Summary

With the introduction of Wisconsin Works (W-2) in 1997, Wisconsin initiated a radically new approach to public assistance for low-income families. W-2 replaced Aid to Families with Dependent Children (AFDC), the program that previously offered cash to low-income, primarily single-parent families. W-2 participants are placed into one of four tiers of a “self-sufficiency ladder.” The two upper tiers, Unsubsidized and Trial (subsidized) Jobs, provide case management and associated programs, but no cash payment. The two lower tiers, Community Service Jobs and W-2 Transitions, provide a cash payment in return for participation in work-like activities. W-2 also contains a unique child support component that is the subject of an experimental evaluation. This report presents the results of the first phase of the W-2 Child Support Demonstration Evaluation (CSDE). It includes results for cases that entered during the first three calendar quarters of the experiment. Future reports will present results of nonexperimental analyses and of experimental results for later-entering cases.

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 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 paid on behalf of their children is passed through to them and is disregarded in the calculation of their W-2 cash payments. In contrast, in most other states child support paid on behalf of children receiving cash assistance is kept by the government to offset welfare costs, and the family receives no additional income.

To evaluate the impact of the full pass-through, the W-2 child support policy was implemented as a random-assignment experiment. Most W-2 participants received a full pass-through of child support, but a randomly selected control group received a reduced amount. Because assignment to the experimental (full pass-through) and control (partial pass-through) groups was random, any differences in outcomes between the two groups can be attributed to the difference in the treatment of child support. The CSDE was designed to evaluate a variety of impacts of this new approach to child support, beginning with the direct effects of the new policy on child support paid and received. 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. To evaluate these effects we use the state’s administrative records and a survey of W-2 families.

As shown in Chapter I.4, we find substantial evidence of the expected direct effects. In 1998, mothers eligible for the full pass-through received about \$150 dollars more in child support than did those in the control group. Among those initially in a lower tier (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 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 evidence 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 received would reduce the need for cash payments. We find evidence of this

effect in 1998, with significant and larger differences among those mothers who received a W-2 cash payment 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 and reduced the incentive to work. 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. Most measures of nonresident fathers' relationships with the mother and child revealed few differences among the two groups. However, we find some evidence of higher informal transfers made by fathers in the experimental group, suggesting that formal and informal transfers are complements.

Finally, while 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 believe that the effects of the CSDE reported here are likely to understate the expected 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. 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.

For a number of reasons the effects of the CSDE may understate the effects of a full pass-through were it to be 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 Temporary Assistance for Needy Families (TANF), most states are neither passing through nor disregarding any child support. 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. 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. Some of the factors that suggest greater potential impacts in other states could also lead to higher costs than found here.

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 cost to government. While some factors might lead CSDE estimates to overstate potential effects, we expect that the effects in another state would be larger than those reported here. Indeed, in many ways it is striking that we find evidence of any 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, that this policy has potentially detrimental effects 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.