Appendix 4
Government Perspectives on Costs

This appendix presents a more detailed cost analysis than appeared in Table 3.38, which presented selected costs from the perspective of the government as a whole. Table A4.1 shows costs from both state and federal government perspectives.[52] In each case, we calculate the net cost of the experiment by subtracting control-group costs from experimental-group costs. We calculate a net cost per case, then multiply by the total number of cases to calculate a total cost.

The first panel of Table A4.1 shows the calculation of net state costs for each cohort, over the first five quarters of the experiment. Net state costs are calculated by adding the experimental-control differences in the state share of W-2 payments, Medicaid/BadgerCare payments and child care subsidies. We then add the state share of any payments made by noncustodial fathers to reimburse Medicaid. We also add an estimate of the state share of the administrative costs per case. Finally, we subtract federal incentive payments for child support and medical support. Income tax payments on earnings are not included in this calculation. For Cohort 1, savings in lower W-2 payments to the experimental group outweigh other costs, resulting in a net benefit to the state of about $41 per case. The total state benefit, based on the 12,542 experimental-group cases in Cohort 1, is $514,222. In Cohort 3, experimental-group members received a greater amount of W-2 and Medicaid/BadgerCare payments. Though these state costs were slightly offset by lower child care subsidies to experimental-group members, there is a net cost to the state for this cohort of $56 per case, or $63,056 for all 1,126 experimental-group cases in Cohort 3.

There are several reasons that the calculation of costs for Wisconsin may not represent the experience other states would have with a full pass-through policy. Key issues discussed in the Phase 1 Final Report include the speed with which mothers are moving off W-2, the lack of a large difference in the policies faced by the experimental and control groups, and the relative socioeconomic disadvantage of W-2 participants. Two less immediately striking differences in the Wisconsin system may also lead to cost differences. First, BadgerCare has a number of unusual features, including the eligibility of adults in families, and continued eligibility of higher-income families (with required copayments in some cases). There is also an automatic one-year extension of coverage when participants leave W-2 for work. Second, the administrative data system (CARES) does not automatically take into account child support income when determining eligibility for Food Stamps and Medicaid, the amount of Food Stamps authorized, or whether a copayment is required for Medicaid. Instead, each program relies on worker investigation and discretion. This may have implications for why the receipt of more child support for experimental-group members has not consistently reduced Medicaid and Food Stamp program costs.

The second panel of Table A4.1 shows federal costs. These costs are calculated by adding the experimental-control differences in the federal share of Food Stamp and Medicaid/BadgerCare payments and administrative costs, and medical support payments. We then add the incentive payments made to the state for child support and medical support. Finally, we subtract the experimental-control difference in

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[52]This analysis is related to the cost neutrality reports completed to show net federal excess costs of the demonstration, although there are several differences. In addition to showing state costs, the data for this analysis are organized by relative months rather than calendar months, and only include cases that entered as part of Cohort 1 or 3. Because of the restriction on date of entry, control cost estimation required for certain cases in the cost neutrality reports is not required here.

the share of current child support payments that goes to the federal government.[53] Again, the potential benefit of income tax payments is not counted.

For Cohort 1, federal costs are largely driven by the federal share of child support, resulting in a per case cost of $136 and a total cost for the 12,542 experimental-group cases of $1,705,712. In Cohort 3, the cost of the child support pass-through is supplemented by higher experimental-group medical assistance and Food Stamps payments. Although there are some small offsets with higher control-group costs, there is a net federal cost for Cohort 3 of $191 per case, and a total of $215,066 for the 1,126 experimental-group cases in Cohort 3.

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[53]The federal government receives only the control group's federal share of child support (the experimental group's federal share is paid to families). Thus in calculating the experimental-control difference in the federal share of child support for each case, the experimental mean is zero, the experimental-control difference is by definition negative, and the item counts as a net federal cost.

Table A4.1: Government Costs Through the Fourth Quarter after Entry

	Cohort 1			Cohort 3		
	Experimental	Control	Net Costs	Experimental	Control	Net Costs
Costs to the State						
W-2 payments (and AFDC)	$ 4,114	$ 4,190	-$ 77	$ 2,397	$ 2,342	$ 55
Medicaid benefits (state share)	2,197	2,188	9	1,841	1,786	55
Child care subsidies	2,497	2,471	26	2,472	2,519	-47
Medical support (state share)	28 [a]	32 [a]	-3	48 [a]	56 [a]	-7
Food Stamp administrative cost (state share)	155	154	1	124	125	-1
Medicaid administrative cost (state share)	223	221	2	198	199	-1
Benefits to the State[b]						
Medical support incentive payment	4 [a]	5 [a]	1	7 [a]	8 [a]	1
Total Cost per W-2 Case			-$ 41			$ 56
Number of Experimental and Nonexperimental Cases	12,542			1,126		
Total State Costs			$-514,222			$63,056

	Cohort 1			Cohort 3		
	Experimental	Control	Net Costs	Experimental	Control	Net Costs
Costs to the Federal Government						
Food Stamp benefits	$ 2,692	$ 2,690	$ 2	$ 1,878	$ 1,839	$ 39
Medicaid benefits (federal share)	3,142	3,129	13	2,629	2,550	79
Medical support (federal share)	40 [a]	45 [a]	-5	69 [a]	79 [a]	-11
Food Stamp administrative cost (federal share)	222	220	2	178	178	-1
Medicaid administrative cost (federal share)	319	316	3	283	284	-1
Medical support incentive payment	4 [a]	5 [a]	-1	7 [a]	8 [a]	-1
Benefits to the Federal Government:						
Federal share of current child support (paid to federal government)	0	121 [c]	121	0	86 [c]	86
Total Cost per W-2 Case			$ 136			$ 191
Number of Experimental and Nonexperimental Cases	12,542			1,126		
Total Federal Costs			$1,705,712			$215,066

[a] Medical support is lying-in costs and other medical expenses, reimbursed by the noncustodial parent to the state. The federal government pays the state a 15 percent incentive payment for these collections.

[b] An additional benefit to the state and cost to the federal government that is not shown is the child support incentive payment, made by the federal government to states and based on the amount of child support collected. This is now distributed on the basis of a state's collections relative to other states, and cannot be easily attributed to individuals. Because collections are higher for those in the experimental group, the experimental-control difference in the incentive payment, if shown in this table, would slightly decrease the per-case cost to the state, and slightly increase the per-case cost to the federal government.

[c] The federal share of current child support is 59 percent of payments made when a mother in the control group is in a lower tier. Note that only current support is included in this calculation, and in the calculation of the child support incentive.