

Benefits and Costs of Increased Child Support Distribution to Current and Former Welfare Recipients

Executive Summary

The nation's Child Support Enforcement Program (CSE) is a national/state/local partnership that promotes family self-sufficiency and child well-being by locating parents, establishing paternity and support obligations, and enforcing those obligations. Over the past 30 years since its founding in 1975, CSE has substantially expanded its mission and target population. Originally, the program focused primarily on the welfare population and most collections went to reimburse the federal and state governments for the welfare benefits paid to custodial families. Today, less than 20 percent of the CSE caseload receives welfare and more than 36 percent of cases have never been on welfare (HHS 2003). While some child support continues to go toward reimbursing federal and state welfare expenditures, the vast majority of child support collected by the program (over 90 percent of collections) is distributed to families. As stated in the 2006-2009 CSE Strategic Plan, "Child support is no longer primarily a welfare reimbursement, revenue-producing device for the Federal and State governments; it is a family-first program, intended to ensure families' self-sufficiency by making child support a more reliable source of income".¹

Congress is currently considering legislation that would provide states with incentives to further increase the amount of child support distributed to current and former welfare recipients. In this report, we estimate the costs and benefits of two types of possible policy changes: 1) an increase in the amount of the child support "passed through" to current welfare recipients and disregarded in calculating their welfare benefits; and 2) an increase in the amount of child support distributed to former welfare families from amounts collected through the Federal Tax Refund Offset Program (FTRO). We do not attempt to estimate the costs of any specific policy proposal, but instead take a more general look at the possible effects of each type of policy change,

¹ "National Child Support Enforcement Strategic Plan FY2005-2009," downloaded from http://www.acf.hhs.gov/programs/cse/pubs/2004/Strategic_Plan_FY2005-2009.pdf on July 1, 2005.

should all states choose to adopt the new policy. Although we were not able to include administrative costs in our estimates, we do report findings from interviews with eight state CSE officials concerning the possible impact of these policy changes on administrative costs.

Below, we briefly describe the methodology used to generate our estimates. We then summarize the results of our pass-through and disregard analysis, discuss the possible effects of distributing all child support collected through the FTRO to former welfare families, and summarize the findings of our discussions with state CSE officials concerning the likely impact of these policy changes on administrative costs.

Methodology

Our estimates are generated using the TRIM3 microsimulation model (Transfer Income Model, Version 3). TRIM3 is a comprehensive microsimulation model, developed and maintained by the Urban Institute under contract with the Office of the Assistant Secretary for Planning and Evaluation of the U.S. Department of Health and Human Services.² For more than thirty years, the TRIM family of models has been used to estimate the effects of proposed changes to means-tested transfer programs and the tax system. TRIM3 captures state variation in program rules, including the detailed rules of state Temporary Assistance for Needy Families (TANF) programs. The estimates presented here use data from the March 2003 Current Population Survey (CPS), which provides detailed household and person-level income and demographic data for calendar year 2002.

We estimate the effect on families and government of three policy scenarios:

- All states (that do not currently have a more generous policy) pass-through to TANF families the first \$100 per month in child support collected on their behalf and disregard that amount when calculating the TANF benefit.
- All states (that do not currently have a more generous policy) pass-through to TANF families the first \$400 per month in child support collected on their behalf and disregard that amount when calculating the benefit.

² Documentation is available on-line at <http://trim3.urban.org/T3Technical.CFM>.

- All FTRO child support collections made on behalf of former welfare recipients are distributed to families.

Pass-through and Disregard Results

An increase in the child support pass-through and disregard would benefit TANF families whose child support exceeds the amount of their state's current pass-through and disregard (if any). Annual cash income for these families would increase, and food stamps and housing subsidies would decrease as a result of the additional cash income (although the decrease in food stamps and housing subsidies would be less than the increase in cash income). The reduction in food stamps and housing subsidies would represent an increased level of self-sufficiency among these families, and would also help to offset the costs to government of the forgone child support collections.

Research has shown that a more generous pass-through and disregard policy would provide an incentive for more custodial parents to seek child support and for more nonresident parents to pay child support. Our estimates show the effect of the change in pass-through and disregard policy both with and without this "behavioral response." Below, we list the key findings from the pass-through and disregard simulations. Except where noted, these findings reflect the results in the absence of "behavioral response" to a more generous pass-through and disregard.

We find that under a more generous child support pass-through and disregard:

- *Average annual cash income would increase for TANF families who have a child support collection made on their behalf.* The average increase in annual cash income would be 7 percent (15 percent in the \$400 scenario) for families below 50 percent of poverty, 3 percent (7 percent in the \$400 scenario) for families between 50 and 100 percent of poverty, and 1 percent (3 percent in the \$400 scenario) for families between 100 and 200 percent of poverty.
- *The increase in average annual cash income for TANF families with child support collections would be greater in states that do not currently have a child support pass-through than in states that currently have a \$50 pass-through and disregard.* Average annual cash income for poor TANF families with a child

support collection would increase by 6 percent in states with no pass-through (12 percent in the \$400 scenario) and by 3 percent in states with a \$50 pass-through and disregard (8 percent in the \$400 scenario).

- *About two-thirds of the additional cash income received by TANF families would go toward reducing the poverty gap (the amount of income needed to raise poor families out of poverty). Nationally, TANF families would receive an estimated \$176 million in additional cash income under the \$100 scenario (table ES-1). About two thirds of this amount (\$113 million) would go toward reducing the poverty gap and about 5,000 families would be removed from poverty. Under the \$400 scenario, TANF families would receive an estimated \$417 million in additional cash income. About \$272 million would go toward reducing the poverty gap and 21,000 families would be removed from poverty.*
- *About one third of the additional cash income received by TANF families would increase family self-sufficiency by reducing food stamp benefits and housing subsidies. Housing subsidies and food stamp benefits would be reduced by about \$60 million as a result of the \$100 pass-through and disregard and \$146 million as a result of a \$400 pass-through and disregard.*
- *A “behavioral response” to a more generous pass-through and disregard would increase the number of TANF families with a child support collection. A \$100 pass-through and disregard would increase the number of TANF families with a child support collection by an estimated 28,000 (153,000 under the \$400 scenario).*
- *Additional child support collections made as a result of a “behavioral response” would further increase pass-through and disregard payments to custodial families, and would reduce the net costs to government, causing net benefits to families to exceed net government costs. Under the \$100 pass-through and disregard scenario, net benefits to custodial families (increased cash income less reductions in food stamps and housing subsidies) would increase from an estimated \$116 million (if no behavioral response) to \$141 million, and net costs to government would fall from \$116 million to \$94 million. Under the \$400*

pass-through and disregard scenario, net benefits to custodial families would increase from an estimated \$271 million to \$463 million and net costs to government would fall from \$271 million to \$199 million.

- A “behavioral response” would result in further reductions to the poverty gap. The poverty gap would fall by an additional \$19 million (\$99 million under the \$400 scenario), compared to what would occur in the absence of a behavioral response. Under the \$400 scenario, an additional 3,000 families would be removed from poverty due to the behavioral response.

Table ES-1: Estimated Change in Child Support, Poverty, and Benefits Under Four Child Support Pass-through and Disregard Scenarios

(Dollars are in Thousands)

| Change Relative to 2002 in: | Change in Child Support, Poverty, and Benefits If: | | | |
|---|--|---------------------|----------------------------------|---------------------|
| | \$100 Pass-through and Disregard | | \$400 Pass-through and Disregard | |
| | No Behavioral Response | Behavioral Response | No Behavioral Response | Behavioral Response |
| TANF Households with Child Support Collection | 0 | 28,000 | 0 | 153,000 |
| Child Support Collections | 0 | \$46,787 | 0 | \$264,101 |
| Cash Income to Families | \$175,997 | \$207,100 | \$416,950 | \$661,526 |
| Poverty Gap | (\$112,782) | (\$131,884) | (\$271,655) | (\$370,968) |
| Families in Poverty | (5,000) | (5,000) | (21,000) | (24,000) |
| Housing Subsidies | (\$13,935) | (\$14,605) | (\$31,745) | (\$42,794) |
| Food Stamp Benefits | (\$46,011) | (\$51,513) | (\$114,525) | (155,713) |
| Net Benefit to Custodial Families | \$116,051 | \$140,982 | \$270,680 | \$463,019 |
| Net Cost to Government | \$116,051 | \$94,195 | \$270,680 | \$198,918 |

Source: TRIM3 Microsimulation model, using data from the 2003 March Current Population Survey.

Our estimates of the percentage increase in average cash income from a \$100 and \$400 pass-through and disregard policy may seem smaller than expected when compared to research that shows that child support makes up 35 percent of the family income of poor non-welfare recipients that receive child support, and 12 percent of the family

income of poor welfare recipients (Sorensen and Zibman 2000). However it is important to remember that we are showing percentage increases in family income resulting from a more generous pass-through and disregard policy. Child support that is already distributed to families under current state pass-through and disregard policies (and child support that is transferred to families in months in which the family does not receive TANF) is not factored into the percentage increase.

Distributing All FTRO Child Support Collections to Former Welfare Families

The Federal Tax Refund Offset Program collects past-due child support from the federal income tax refunds of nonresident parents who are required to pay child support. Under current law, most FTRO child support collections made on behalf of former welfare recipients are retained by the government as reimbursement for the welfare benefits formerly received by these families. We estimate that if all offsets collected on behalf of former welfare families in 2002 were distributed to these families, about \$660 million in additional offsets would be distributed to about 669,000 former welfare families (table ES-2), for an average distribution of \$987 per family.

Table ES-2: Estimated Impact on SSI Benefits, Food Stamp Benefits, and Poverty of Distributing all Federal Tax Refund Offset Collections to Former Welfare Families

(Dollars are in thousands)

| Change Relative to 2002 in: | Change in FTRO Distributions, Poverty, and Benefits |
|--|--|
| Former Welfare Families Receiving FTRO | 668,942 |
| FTRO Distributions to Former Welfare Families | \$660,395 |
| Poverty Gap | (\$214,149) |
| Families in Poverty | (18,868) |
| Annual SSI Benefits | (\$9,176) |
| Annual Food Stamp Benefits | (\$2,651) |
| Net Government Cost/Family Benefit | \$648,568 |
| Source: TRIM3 Microsimulation model, using data from the 2003 March Current Population Survey. | |

We estimate that about 38 percent of the former TANF families who would receive an offset are poor, 37 percent have incomes between 100 and 200 percent of the poverty threshold, and 25 percent have incomes above 200 percent of the poverty

threshold. Average annual cash income of poor families receiving the offset would increase by 10 percent as a result of receipt of the offset. The average annual cash income of families between 100 and 200 percent of poverty would increase by about 5 percent, and the average annual cash income of families above 200 percent of poverty would increase by about 2 percent. We estimate that distribution of the offset to poor families who formerly received welfare would reduce the poverty gap by \$214 million and lift 19,000 families out of poverty. In other words, about a third of the offset dollars distributed to former welfare recipients would go toward lifting the incomes of families up toward the poverty line.

Because the federal tax refund offset would be received as a single lump sum and would be subject to transfer program rules governing treatment of lump sum income, reductions in means-tested transfer benefits would be minimal. However, some families would experience a temporary reduction in benefits or loss of eligibility. Most SSI recipients receiving the offset would experience a one-month reduction in benefits. Nine percent of food stamp recipients receiving an offset would lose a month of eligibility, as would 8 percent of Medicaid recipients and two percent of SCHIP recipients. Reductions in SSI and food stamps would reduce net government costs and net family benefits associated with this policy change to an estimated \$649 million, slightly less than the increase in FTRO collections distributed to former welfare families. We have not attempted to estimate the benefits or costs associated with the temporary loss of SCHIP or Medicaid eligibility. This would depend, in part, on whether Medicaid and SCHIP recipients would require medical services during the month of lost eligibility, whether they would defer medical treatment until the next month of eligibility, and whether deferring treatment would affect the overall costs of treating their condition.

Effects on Administrative Costs

Our estimates do not capture the impact on administrative costs of the policy changes examined here. In order to learn more about the possible impact of these policy changes on administrative costs, we interviewed the CSE Director or the Director's designated representative in eight states (Connecticut, Georgia, Illinois, Minnesota, Pennsylvania, Washington, Wisconsin, and Vermont). We focused on customer service

costs that would persist after the policy was fully implemented, in what we called a “steady state” environment.

Respondents speculated that there would be little change in customer service costs if there were a small increase in the pass-through and disregard (e.g. \$50 to \$100 per month), but disagreed about the effects of a larger pass-through and disregard. Notably, the respondent from Wisconsin, which is the only state that has first-hand experience with a large disregard, said that customer service costs were lower with a full disregard than with a \$50 disregard policy. On the other hand, everyone agreed that distributing all FTRO collections to former TANF families would decrease customer service costs. Respondents did not anticipate any large impact on administrative costs for TANF or the Food Stamp Program if the pass-through and disregard or the FTRO policies were changed.

Conclusion

Over the years, the Child Support Enforcement Program has been transformed from a program whose primary aim was to reimburse the government for welfare expenditures to a program geared toward helping families achieve and maintain self-sufficiency. Recent policy proposals that provide for a more generous pass-through and disregard policy, and extend "family first" distribution rules to child support collections made through the FTRO, would increase family income and self-sufficiency and reduce poverty, although government costs would increase.