Final Report

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

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By
Laura Wheaton and Elaine Sorensen

With
Victoria Russell and Jeff Versteeg

The Urban Institute

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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, 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.

[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.

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

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

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 in Child Support, Poverty, and Benefits If:			
	$100 Pass-through and Disregard		$400 Pass-through and Disregard	
Change Relative to 2002 in:	**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.

Introduction

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".[3]

The evolution of CSE from a revenue-producing device to a family-first program was driven by an increasing recognition among policy-makers of the importance of child support for the families who receive it, and by the transformation of welfare from a program that provided support indefinitely to a temporary assistance program geared toward moving families to work and self-sufficiency. With families no longer able to rely on welfare indefinitely, child support became a key factor in helping families achieve and maintain self-sufficiency. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) recognized the important role of child support in helping families achieve self-sufficiency and included "family first" distribution rules that enabled former welfare recipients to receive more of the child support collected on their behalf.

[3] "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.

Although the PRWORA changes increased the amount of child support flowing to former welfare families, certain types of past-due child support were exempted from the "family first" distribution rules and continue to be retained by the government as reimbursement for the family's welfare expenditures. PRWORA also eliminated the $50 "pass-through" policy, under which the first $50 per month of child support was "passed-through" to welfare families without affecting the amount of the welfare benefit. Although states were permitted to continue passing-through child support to families receiving welfare, the states are required to pay the federal government for the federal "share" of the child support collection.

Congress is currently considering legislation that would provide states with incentives to 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, should all states choose to adopt the new policy.

In section 1 of this report, we provide an overview of child support policy affecting current and former welfare recipients and discuss prior research concerning the benefits of child support. In section 2, we present our estimates of two hypothetical pass-through and disregard scenarios: 1) all states (that do not currently have a more generous policy) implement a $100 pass-through and disregard; and 2) all states (that do not currently have a more generous policy) implement a $400 pass-through and disregard. In section 3, we estimate the costs and benefits of distributing all FTRO child support collections made on behalf of former welfare families to those families. Our estimates do not capture the administrative expenses of these policy changes, but we consider some of the administrative implications in section 4. Section 5 concludes with a short summary of our findings.

1) Child Support Policy, Welfare, and the Benefits of Child Support

Below, we provide background information on child support policy for current and former welfare recipients, and provide a brief overview of current policy initiatives in this area. We also present findings from prior research concerning the financial and non-financial benefits of child support and the effects of alternative pass-through and disregard policies.

Child Support Policy for TANF Recipients

In order to receive welfare, a family is required to assign its right to child support to the state. Any child support collected on behalf of the family (including collections of child support debt owed prior to the point at which the family started receiving welfare) is shared between the state and the federal government, according to the state's Federal Medical Assistance Percentage (FMAP).[4] Under the Aid to Families with Dependent Children (AFDC) program, the first $50 in child support received each month was "passed through" to the family and disregarded when calculating the family's benefit.[5] The $50 pass-through was intended to provide an incentive for nonresident parents to pay child support and for custodial parents to cooperate in establishing a child support order. Otherwise, the family would receive no financial benefit from the nonresident parent's child support payment so long as the family remained on welfare. In several states where the AFDC payment standard exceeded the maximum AFDC payment, additional child support was transferred to families through state "fill-the-gap" rules. Any child support not transferred to a family through a $50 pass-through or "fill-the-gap" payment was shared between the federal and state governments in proportion to their assistance to the family.

The 1996 PRWORA legislation ended the AFDC program and replaced it with the Temporary Assistance for Needy Families (TANF) block grant. Under TANF, states are no longer required to pass through the first $50 in each month's collection of child support. States may choose to pass through child support to TANF recipients, but are required to first pay the federal government its share of the total amount of child support collected on behalf of welfare

[4] The FMAP, which varies by state, determines the federal matching funds for each state's Medicaid expenditures.
[5] The $50 pass-through and disregard was incorporated in federal regulations beginning in October 1976 (42 USCA s.657), although implementation across the states was gradual (Meyer and Cancian 2002). The Deficit Reduction Act of 1984 (PL 98-369) clarified policy and accounting practices regarding the $50 pass-through and disregard.

recipients. Because the federal share must be paid on the pass-through payments, the state share of collections is reduced by the full amount passed-through to families.

A state that passes through child support to families on TANF must decide how the child support will be counted when calculating eligibility and benefits for its TANF assistance program. A state may pass through child support to families without disregarding the amount when determining a family's TANF eligibility or benefits; it may also disregard any or all of the child support passed through to families. If the state does not disregard the child support, child support may reduce the TANF benefit dollar-for-dollar. Without the disregard, families receive the same amount of monthly income as in the absence of a child support pass-through, but less of the income is from welfare and more of it is from non-government sources, i.e., child support.

As of 2002, 26 states and the District of Columbia had stopped passing through child support to TANF families, and fifteen states had continued their $50 pass-through and disregard policy. Four states (Wisconsin, Minnesota, Connecticut, and Vermont) transferred the full child support payment to the family. Wisconsin disregarded the full amount of the child support in the benefit calculation, Minnesota did not disregard any of the child support, and Connecticut and Vermont disregarded the first $100 and $50 per month respectively. Five states (Delaware, Georgia, Maine, South Carolina, and Tennessee) transferred child support to families under "fill-the-gap" budgeting rules.[6] Two of these states (Delaware and Maine) also had a $50 pass-through and disregard. Appendix A lists each state's pass-through and disregard policy as of 2002.

Child Support Policy for Former Welfare Families

Upon leaving TANF, a family regains its right to currently owed child support and receives all of the collections of current child support made on its behalf. However, the state retains rights to child support arrears (debt) acquired while the family was on TANF.[7] In addition, the state retains rights to any "pre-assistance" arrears (arrears acquired prior to the

[6] The federal government shares in the cost of fill-the-gap child support payments for states that used fill-the-gap budgeting prior to PRWORA (U.S. Department of Health and Human Services 1997).
[7] For further discussion of assignment and distribution rules for former welfare families, see Roberts (2000), Turetsky (2000), and Wheaton and Russell (2004).

family's participation in TANF), so long as the arrears are collected through the FTRO.[8] The FTRO Program collects past-due child support from the tax refunds of nonresident parents who are required to pay child support. Pre-assistance arrears collected through any other method belong to the family.

When child support arrears are owed to both the state and the former welfare family, distribution rules determine who will be paid first. Prior to PRWORA, states were allowed to develop their own policies for determining who would receive arrearage payments first. States could choose to keep all arrearage payments and not distribute any child support arrears to families until all welfare benefits had been reimbursed.[9] PRWORA mandated that states use "family first" distribution rules, under which arrears payments first go to pay off the child support debt owed to former welfare families.

An important exception to the "family first" distribution rules is that child support collected through the FTRO goes first to pay off child support arrears owed to the state. Once all arrears owed to the state have been repaid, child support collected through the FTRO is distributed to families formerly on welfare. Because the federal government receives a share of any collections retained by the state, this provision increases the amount of child support collections returned to the federal government.

Current Policy Initiatives

As part of TANF reauthorization, Congress has considered various reforms aimed at simplifying child support distribution policy and transferring more child support to current and former welfare recipients. Among the items under consideration are proposals to: 1) encourage states to adopt (or increase) a child support pass-through by requiring the federal government to share in the cost of the pass-through; and 2) allow states to distribute to former welfare families all of the child support collected on their behalf.

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[8] Once the state has retained enough child support to reimburse all welfare benefits paid to the family, any remaining child support is assigned to the family.

[9] See Committee on Ways and Means (1998) for background information on distribution rules prior to PRWORA.

Prior Research into Benefits of Child Support Enforcement

Research shows that child support is an important income source for poor families who receive child support and do not receive welfare and for former welfare recipients who receive child support. Data from the National Survey of America's Families (NSAF) show that poor families who receive child support and do not receive welfare received an average of $2,674 in child support (35 percent of their income) in 1996 (Sorensen and Zibman 2000). Data from the Survey of Income and Program Participation (SIPP) show similar results, with child support accounting for 34 percent of average family income for former welfare recipients who received child support in the prior month (Miller, et al. 2005).

Child support represents a smaller share of the income of welfare families than of similar income families not receiving welfare because the government retains much of the child support collected on behalf of these families. Poor welfare recipients with child support income received an average of $812 (12 percent of their income), according to the NSAF. According to the SIPP, child support accounted for 14 percent of the prior month's income for welfare recipients receiving child support. These estimates may somewhat overstate the amount of child support received by welfare recipients, to the extent that some families report the full amount of child support collected on their behalf, rather than just the amount passed through to them.[10]

Research shows that child support enforcement provides additional benefits to custodial families and society beyond the immediate impact of raising the incomes of families with children.[11] Families receiving child support are more likely to leave welfare and less likely to return.[12] Child support reduces reliance on means-tested programs in addition to TANF, and produced an estimated $2.6 billion reduction in benefits under the TANF, Medicaid, Food Stamp, Supplemental Security Income (SSI), and public and subsidized housing programs in

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[10] Surveys such as the NSAF and SIPP tend to underestimate the number of TANF families receiving child support, perhaps because some families fail to distinguish between their TANF payment and child support pass-through amount and so report all of their income as TANF income. However, for those TANF families who do report child support, the average amount received will be overstated to the extent that some families report the full amount paid on their behalf, rather than just the amount received through the pass-through.

[11] See Barnow, et al. (2000), Garfinkel, et al. (2001), Lerman and Sorensen (2001), Roberts (2002), and Turetsky (2005) for a review of the literature concerning the benefits of child support enforcement.

[12] Garfinkel, et al. (2001) and Lerman and Sorensen (2001) describe prior research linking child support to reduced reliance on welfare. More recently, Miller, et al. (2005) shows that child support increases the likelihood of leaving welfare and reduces the likelihood of returning to welfare.

1999.[13] Child support has been shown to have a small, but positive impact on children's educational attainment and to contribute to increased contact between nonresident parents and their children.[14]

Prior Research into Alternative Pass-through and Disregard Policies

Several studies have examined the effects of alternative child support pass-through and disregard policies.[15] These studies clearly demonstrate that a more generous pass-through and disregard increases the amount of child support received by custodial parents on welfare.[16] This is to be expected, given the "mechanical effect" of these policies in distributing to families a larger share of the child support collected on their behalf.

Two studies have examined the effect of a more generous pass-through and disregard policy on payment of child support. The Wisconsin Child Support Demonstration Evaluation (CSDE) (Meyer and Cancian 2001) and a state administrative data study (Cassetty, Cancian, and Meyer 2002) show that a more generous pass-through and disregard policy results in a slight increase in the proportion of welfare recipients with child support collections made on their behalf.[17] This suggests that custodial parents are more likely to seek child support, and nonresident parents are more likely to provide child support, when the custodial family is able to receive more of the child support paid on its behalf.

One factor that may limit the potential for a behavioral response to a more generous pass-through and disregard policy is that many custodial parents and nonresident parents have little knowledge of child support pass-through and disregard rules and are unaware of changes to these rules. For example, the CSDE found that less than half of custodial mothers and about a quarter of nonresident fathers were able to correctly answer whether the custodial parent would receive

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[13] These estimates were produced in earlier work by Wheaton (2003), using the TRIM3 microsimulation model.
[14] Studies showing a link between child support and improved educational attainment include Knox (1996), Graham, et al. (1994), Knox and Bane (1994), and Badar and Brooks-Gunn (1994). Sorensen and Pomper (2002) and Peters, et al. (2003) provide evidence that child support contributes to increased contact between nonresident parents and their children.
[15] See Wheaton and Russell (2004) for a review of the child support pass-through and disregard literature.
[16] Non-experimental studies linking more generous pass-through and disregard policies to increases in the amount of child support received include Sorensen and Hill (2004), Cassetty (2002), and Cassetty, Cancian, and Meyer (2002). Experimental studies in Connecticut (Bloom, et al. 2002) and Wisconsin (Meyer and Cancian 2001) also demonstrate this effect.
[17] Much of our discussion of these two studies is drawn directly from Meyer and Cancian (2001 and 2002), with permission of the authors.

the full child support payment when the custodial mother was on welfare versus when she was not on welfare (Miller et al., 2005).

Wisconsin Child Support Demonstration Evaluation (CSDE)

In 1997, Wisconsin received a waiver from federal rules allowing it to pass through the entire amount of support collected to the custodial parent, and to disregard all child support in calculating the TANF benefit. One requirement of the waiver was to conduct an evaluation of this policy change, the Child Support Demonstration Evaluation (CSDE). A key component of the CSDE was a random-assignment experimental evaluation: although most parents in the state received the full amount of child support paid on their behalf (the experimental group), a randomly selected group of parents (the control group) received only a portion of what was paid (the greater of $50 or 41 percent of the amount paid). Families that were receiving AFDC at the time of the transition from AFDC to W-2 (Wisconsin Works, the state's TANF program) were randomly assigned to the experimental and control groups, as were families who requested information about W-2 over the first several months following the transition from AFDC to W-2.

The study found differences between the experimental and control groups in the percentage of nonresident fathers paying child support. In the full sample, these behavioral effects were statistically significant, but fairly small: 52 percent of fathers of children in the experimental group (full pass-through and disregard) and 50 percent of fathers of children in the control group (partial pass-through and disregard) 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 48 percent of fathers with children in the control group, paid child support in 1998. These differences remained significant and in many cases increased in 1999. The study also documented increases in child support received by custodial mothers, primarily reflecting the mechanical effect of the increased pass-through and disregard.

State Administrative Data Study

Whereas the CSDE provides valuable insight into a particular policy change affecting one state, the state administrative data study by Cassetty, Cancian, and Meyer (2002) produces more readily generalizable results. Using data for all states from 1985 to 1998, the study finds that a larger pass-through and disregard is associated with a statistically significant increase in the proportion of TANF cases with child support collections.[18] The coefficient suggests that a $100 increase in the pass-through and disregard is associated with a 1.5 percentage point increase in the proportion of AFDC/TANF cases with collections. Although a larger pass-through and disregard increases the likelihood of collection, it does not have a statistically significant effect on the average collection per case among cases with collections. As will be discussed in greater detail below and in appendix C, these results form the basis of our estimates of the behavioral response to a $100 and $400 pass-through and disregard policy.

2) Increasing the Child Support Pass-through and Disregard

In this section, we estimate the impact on families and government of two policy scenarios: 1) an increase of the child support pass-through and disregard to $100; and 2) an increase of the child support pass-through and disregard to $400. We begin by providing a short description of the data and methodology used for our estimates and an example of how a $100 pass-through and disregard would affect a hypothetical family. We then show the estimated effects of the $100 and $400 pass-through scenarios on average family income for TANF child support recipients assuming full implementation across all states, and compare the results for states without a pass-through and disregard to states with a $50 pass-through and disregard. Finally, we provide aggregate estimates of the net financial benefits to custodial families and the net financial costs to government, both with and without behavioral response.

Data and Methodology – TRIM3 Microsimulation Model

We use the TRIM3 microsimulation model (Transfer Income Model, Version 3) to generate the child support pass-through and disregard estimates. TRIM3 is a comprehensive

[18] These results reflect the effects of child support “fill-the-gap” payments as well as child support that is passed-through to the family and disregarded when calculating the TANF benefit.

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.[19] 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 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.

TRIM3 corrects for the underreporting of TANF receipt on the CPS. Eligible units that report receiving assistance from TANF on the CPS are automatically included in the TRIM3 simulated caseload, and additional participants are selected, as needed, in such a way that the size and composition of the simulated caseload matches that of the actual caseload as closely as possible. TRIM3 also corrects for the underreporting of child support by TANF recipients on the CPS. After the TRIM3 adjustments, each state comes close to targets, based on administrative data, for the number of TANF families with child support and the amount of child support collected on their behalf. Appendix B provides additional information on the methodology used to correct for underreporting of child support by TANF recipients.

To estimate the effect of a more generous child support pass-through and disregard, we first performed a “baseline” TRIM3 simulation, in which child support is treated according to the rules in effect in each state in 2002.[20] We then performed two “alternative” simulations, in which we simulated a $100 and $400 child support pass-through and disregard. We were careful not to make anyone “worse off” in the alternative simulations. For example, we allowed Wisconsin to keep its full child support pass-through and disregard. We compared the results of the alternative simulations to the results from the baseline simulation to obtain our estimates of the effect of the more generous pass-through and disregard policy. We performed Public and Subsidized Housing

[19] Documentation is available on-line at http://trim3.urban.org/T3Technical.CFM.

[20] TRIM3 captures the diversity in the treatment of child support in state TANF programs by modeling, for each state: 1) the maximum monthly dollar amount of child support transferred to the family; 2) the amount of transferred child support disregarded in determining eligibility; and 3) the amount of transferred child support disregarded in determining benefit levels. In addition, TRIM3 simulates the fill-the-gap policies in effect in five states in 2002, as well as rules in effect in two states that allow all child support to be transferred to children who are ineligible for TANF as a result of the state’s family cap policy.

and Food Stamp Program simulations in order to estimate the secondary impact of the change in pass-through and disregard rules on these programs.

We used results from Cassetty, Cancian, and Meyer (2002) to estimate the increase in the number of custodial families with a child support collection that would occur as a result of a more generous pass-through and disregard policy (i.e., the "behavioral response.") Based on the findings of Cassetty, Cancian, and Meyer, we estimate that a $100 pass-through and disregard would result in a one percentage point increase, nationally, in the proportion of TANF cases with child support collections (from 21 percent to 22 percent). A $400 pass-through and disregard would result in an estimated five and a half percentage point increase in the proportion of TANF cases with child support collections (from 21 percent to 26.5 percent). We selected additional TANF recipients within TRIM3 to receive this additional child support, and assigned each family a child support amount. We then reran the $100 and $400 pass-through and disregard simulations in order to examine the impact of behavioral response on the estimates. Appendix C provides additional details about the behavioral response methodology.

There are a few things that should be noted about our behavioral response methodology. First, the study by Cassetty, Cancian, and Meyer finds that a larger disregard increases the likelihood of collection, but finds no statistically significant effect on the average collection per case among cases with collections. Therefore, our behavioral response methodology assigns child support to some custodial families who do not currently receive child support, but does not increase the amount of child support collected on behalf of current recipients. Families assigned child support through the behavioral response methodology are assigned child support amounts that are similar to the amounts collected on behalf of current recipients.

The second thing that should be noted about our behavioral response methodology is that we assume that the increase in the number of TANF families with child support collections would occur because more TANF recipients would have child support collected on their behalf. An alternative possibility is that a higher child support pass-through and disregard would cause more families with child support to participate in TANF (or would cause families with child support to take longer to leave TANF). Either explanation could explain the findings by Cassetty, Cancian, and Meyer. The CSDE, however, finds no evidence that a higher pass-through and disregard delays departure from TANF, and finds some evidence that a higher pass-through and disregard may speed departure from TANF (Meyer and Cancian 2001). Given these findings, and the time-limited nature of the TANF program, we suspect that an increase in collections for TANF families would most likely come from an increase in collections for current TANF recipients, rather than an increase in the number of child support recipients who receive TANF.

Finally, our estimates do not capture the lasting impact (if any) of a behavioral response once a family has left TANF. Upon leaving TANF, a family receives all current child support paid on its behalf, so nonresident and custodial parents face the full incentive to pay and receive child support, regardless of the incentives faced while the custodial family was on TANF. Research has not yet demonstrated whether patterns of child support payment established through a behavioral response to a more generous pass-through and disregard policy lead to improved child support outcomes once the custodial family has left TANF. Therefore, we have not attempted to capture any such impact in this analysis.

Pass-through and Disregard Example

The impact of a change in child support pass-through and disregard rules in a particular family depends in large part on the baseline rules in effect in the family's state of residence. Table 1 illustrates the results of the baseline and $100 pass-through and disregard scenario for a hypothetical family under three different sets of baseline state child support pass-through and disregard rules. In this example, the family is assumed to have $200 in child support and no other income, and the TANF benefit is calculated as the payment standard ($300) minus net income.

The first panel of table 1 shows the results for the hypothetical family if the family resides in state "A", a state that currently retains all of the child support collected on behalf of the family. Under the baseline simulation, the family would not receive any child support and would receive $300 in TANF benefits ($300 payment standard - $0 net income) for a total of $300 in monthly income. Under the $100 pass-through and disregard simulation, $100 in child support would be transferred to the family and disregarded in calculating the TANF benefit. The family would continue to receive $300 in TANF benefits, for a total of $400 in monthly income. As a result, the family's monthly income would have increased by $100 relative to the baseline simulation.

Table 1: Results for Hypothetical Family under the Baseline and $100 Pass-through and Disregard Simulations, by Current State Child Support Policy

	Results for Hypothetical Family*	
	Baseline	**$100 Pass-through and Disregard****
State A: Current State Policy is No Child Support Pass-through		
Child Support Transferred to Family	$0	$100
TANF Benefit	$300	$300
Total monthly family income	$300	$400
State B: Current State Policy is a $50 Pass-through and Disregard		
Child Support Transferred to Family	$50	$100
TANF Benefit	$300	$300
Total monthly family income	$350	$400
State C: Current State Policy is to Transfer all Child Support to Family and to Count all Child Support in Benefit Calculation		
Child Support Transferred to Family	$200	$200
TANF Benefit	$100	$200
Total monthly family income	$300	$400

* Assumes the family has $200 in child support and no other income, and the TANF benefit is calculated as the payment standard ($300) minus net income.
** Assumes that state C would continue to transfer all child support to the family, but would now disregard $100 of the transferred child support.

The second panel of table 1 illustrates the results if the hypothetical family resides in state “B”, a state that currently passes through $50 in monthly child support to the family and disregards the child support when calculating the TANF benefit. Under the baseline simulation, the family would receive $50 in child support and $300 in TANF benefits ($300 payment standard - $0 net income) for a total of $350 in monthly income. Under the $100 pass-through and disregard simulation, $100 in child support would be transferred to the family and disregarded in calculating the TANF benefit. The family would continue to receive $300 in TANF benefits, for a total of $400 in monthly income. As a result, the family’s monthly income would have increased by $50 relative to the baseline simulation.

A few states transfer all of the child support to the family, but then count some or all of the transferred child support when calculating the TANF benefit.[21] Our $100 pass-through and disregard scenario assumes that these states would continue to transfer all child support to the family, and would disregard the first $100 (if they are not disregarding at least that amount already). States that currently transfer all child support to the family and disregard at least $100 would be unaffected by the simulation. The third panel of table 1 shows the results for the hypothetical family if the family resides in state "C", in which all child support is passed through to the family, but none of the child support is disregarded when determining the TANF benefit. Under the baseline simulation, the family would receive $200 in child support income and $100 in TANF benefits ($300 payment standard - $200 in child support) for a total of $300 in monthly income. Under the $100 pass-through and disregard scenario, the family would receive $200 in child support income and $200 in TANF benefits ($300 payment standard - $100 in counted child support) for a total of $400 in monthly income. As a result, the family's monthly income would have increased by $100 relative to the baseline simulation.

Impact on Average Family Income of TANF Families With Child Support

Table 2 shows the estimated impact of a $100 and $400 child support pass-through and disregard on the average family income of TANF families who currently have child support collected on their behalf.[22] An estimated twenty-two percent of these families have incomes below 50 percent of the poverty threshold, 36 percent have incomes between 50 and 100 percent of the poverty threshold, and 21 percent have incomes between 100 and 200 percent of the poverty threshold.[23] Below, we present our estimates of the average amount of child support

[21] One state (Wisconsin) transfers the full amount of child support to the family and disregards all of the child support when calculating the TANF benefit.
[22] These are families who have child support collected on their behalf in at least one of the months during the calendar year in which they receive TANF. To the extent that there is an increase in child support collections as a result of a more generous pass-through and disregard (i.e., a "behavioral response") additional families would benefit. Although we are able to incorporate behavioral response into our overall estimates, sample-size limitations prevent us from showing the effect on average family income for families receiving child support as a result of the behavioral response.
[23] About one fifth of the simulated TANF child support recipients have annual family income (counting the income of all related persons in the household) above 200 percent of the 2002 poverty threshold (not shown). These tend to be cases where a higher-income family receives TANF for a grandchild or other related child in their care, a TANF family (such as a mother and child) live with higher-income relatives (such as the mother's parents), or a family receives TANF for only a few months of the year and has substantial income in non-TANF months.

collected on behalf of these families and show how average family income would be affected by a $100 and $400 pass-through and disregard.

Child Support Collected on Behalf of TANF Families

Families receive all of the currently due child support collected on their behalf during non-TANF months, as well as child support distributed through state pass-through and fill-the-gap policies during the months in which they receive TANF.[24] On average, families with incomes below 50 percent of the poverty threshold receive an estimated $572 of the $1,366 in annual child support collected on their behalf, those with incomes between 50 and 100 percent of the poverty threshold receive an estimated $731 of the $1,547 collected on their behalf, and those with incomes between 100 and 200 percent of the poverty threshold receive an estimated $889 of the $1,381 collected on their behalf. If we focus just on months of the year in which the family receives TANF, we find that families with incomes below 50 percent of the poverty threshold receive an estimated $245 of the $1,039 collected on their behalf (during months in which the family receives TANF), those with incomes between 50 and 100 percent of the poverty threshold receive an estimated $359 of the $1,175 collected on their behalf, and those with incomes between 100 and 200 percent of the poverty threshold receive an estimated $405 of the $896 collected on their behalf.

[24] Under certain conditions, families might also receive child support arrears during their non-TANF months, however our data only captures currently due child support.

Table 2: Estimated Impact on Average Family Income of $100 and $400 Pass-Through and Disregard

(TANF Families who Currently Have Child Support Collected on Their Behalf)

	Family Income as Percent of Poverty[1]		
	<50%	**50-<100%**	**100-<200%**
TANF Families with Child Support			
Number	133,239	220,741	124,379
Percent	22%	36%	21%
Average Annual Child Support			
For All Months			
Total in Baseline	$1,366	$1,547	$1,381
Distributed to Family[2]	$572	$731	$889
For Months Receiving TANF			
Total in Baseline	$1,039	$1,175	$896
Distributed to Family[2]	$245	$359	$405
Average Annual Cash Income			
Baseline	$5,584	$11,280	$17,180
$100 Pass-through and Disregard	$5,950	$11,579	$17,392
Average Increase	$366	$299	$212
Percent Increase from Baseline	7%	3%	1%
$400 Pass-through and Disregard	$6,398	$12,058	$17,665
Average Increase	$814	$778	$485
Percent Increase from Baseline	15%	7%	3%
Average Annual Income Including Food Stamps and Housing Subsidies			
Baseline	$11,381	$15,402	$18,854
$100 Pass-through and Disregard	$11,593	$15,580	$19,013
Average Increase	$212	$178	$159
Percent Increase from Baseline	2%	1%	1%
$400 Pass-through and Disregard	$11,857	$15,853	$19,225
Average Increase	$476	$451	$371
Percent Increase from Baseline	4%	3%	2%

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

[1]About one fifth of the simulated TANF child support recipients had annual family income (counting the income of all related persons in the household) above 200 percent of the 2002 poverty threshold (not shown). These tend to be cases where a higher-income family receives TANF for a grandchild or other related child in their care, a TANF family (such as a mother and child) live with higher-income relatives (such as the mother's parents), or a family receives TANF for only a few months of the year and has substantial income in non-TANF months.

[-2] Includes families where child support was collected, but none was distributed to the family.

There are three things about the above estimates that may seem, at first glance, a bit surprising. First, the estimate for the average annual amount of child support collected on behalf of TANF families with incomes between 50 and 100 percent of the poverty threshold ($1,547) is about 12 percent higher than the average amount estimated for the other two income groups. It is possible that this is a chance outcome for this particular sample, or this may reflect an underlying reality driven by child support, poverty, and TANF interactions. For example, a near-poor family with higher than average child support might be less likely to participate in TANF than a lower income family with a similar level of child support income. This could reduce the average amount of child support for TANF families in the 100 to 200 percent of poverty range relative to the average amount for TANF families in the 50 to 100 percent of poverty range.

A second unexpected result is that the annual amount of child support collected during months in which the family receives TANF is lower ($896) for the 100 to 200 percent of poverty group than for the under 50 percent of poverty group ($1,039), even though the total amount of child support collected over all months of the year is very similar. Much of this discrepancy is explained by the fact that families in the 100 to 200 percent of poverty group receive TANF for fewer months of the year, on average, than do families in the under 50 percent of poverty group.[25] Because these figures do not capture child support collected in non-TANF months, there are fewer months of child support to be added into the annual total for the 100 to 200 percent of poverty group than for the other two groups.

Finally, families in the 100 to 200 percent of poverty group are estimated to receive 45 percent ($405/$896) of the child support collected on their behalf during the months in which they receive TANF compared to 31 percent in the 50 to 100 percent of poverty group and 24 percent in the under 50 percent of poverty group. This is explained by the fact that a disproportionate share of the sample families in the 100 to 200 percent of poverty group live in states that transfer more than $50 per month to families—whether through a child support pass-through policy, "fill-the-gap" policy, or because the state transfers to families all of the child support collected on behalf of children who are subject to a family cap.[26] Fifty-three percent of

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[25] Families in the 100 to 200 percent of poverty group receive TANF for an average of 8.7 months per year, compared to 9.6 months for families with incomes under 50 percent of the poverty threshold, and 9.8 months for families with incomes between 50 and 100 percent of the poverty threshold.

[26] States that pass-through more than $50 include Connecticut, Minnesota, Nevada, Vermont, and Wisconsin. "Fill-the-gap" states include Delaware, Georgia, Maine, South Carolina, and Tennessee. California and Massachusetts

families in the 100 to 200 percent of poverty group live in a state that transfers more than $50 per month to families, compared to 45 percent of families in the 50 to 100 percent of poverty group and 19 percent of families with incomes below 50 percent of the poverty threshold.

Effect of an Increased Pass-through and Disregard on Average Family Income

An increase in the child support pass-through and disregard would benefit TANF families whose child support exceeds the amount of the current disregard. We estimate that, on average, annual cash income of TANF child support recipients with incomes under 50 percent of the poverty threshold would increase by about $366 (seven percent of their annual income) under the $100 disregard scenario, and by about $814 (fifteen percent of their annual income) under the $400 disregard scenario (table 2). Families with incomes between 50 percent and 100 percent of the poverty threshold would experience a three percent increase ($299) in average annual income under the $100 disregard scenario, and a seven percent increase ($778) in average annual income under the $400 disregard scenario. Families with incomes between 100 and 200 percent of the poverty threshold would experience a one percent ($212) and three percent ($485) increase in average annual income under the $100 and $400 disregard scenarios, respectively.[27]

The additional child support income distributed through a more generous child support pass-through and disregard policy would reduce TANF families' reliance on food stamps and housing subsidies.[28] Annual income (where food stamps and housing subsidies are counted as income) would increase by a smaller amount than would cash income, and the difference would reflect the increase in the family's self-sufficiency. For example, under the $100 pass-through and disregard scenario, families with incomes below 50 percent of the poverty threshold would receive an average increase of $366 in annual cash income. The average increase in annual income (including food stamps and housing subsidies) would be $212, due to reductions in food stamps and housing subsidies as a result of the additional cash income. The difference of $154

have a $50 pass-through, but transfer to families all of the child support collected on behalf of children who are subject to a family cap (i.e., children conceived after a family begins receiving welfare who are excluded from consideration when calculating the family's TANF benefit level).

[27] Some families with incomes above 200 percent of the poverty threshold would benefit as well.

[28] An extra $100 in unearned income would typically result in a $30 increase in rental payments required of a family in public or subsidized housing, and a $30 reduction in the food stamp benefits of a family receiving food stamps. Families living in public housing or receiving a housing subsidy pay the greater of 10 percent of gross income or 30 percent of adjusted income on rent. Food stamp benefits are reduced by 30 percent of net income.

($366-212) represents the average gain in self-sufficiency—the substitution of child support income for publicly funded food stamps and housing subsidies. On average, more than 40 percent of the additional income received by poor families through a $100 or $400 pass-through and disregard would go toward reducing reliance on food stamp and housing subsidies. A smaller amount (about 25 percent) of the additional income for families between 100 and 200 percent of poverty would go toward reducing reliance on food stamps and housing subsidies, due to the lower likelihood of housing subsidy and food stamp receipt in this income range.

Our estimates of the average increase in annual cash income under a $100 or $400 pass-through and disregard may seem smaller than expected when compared to the maximum possible increase in annual cash income under these scenarios. In the absence of any behavioral response, the maximum possible increase in annual cash income under the $100 disregard is $1,200 (12 x 100) and the maximum increase in annual cash income under the $400 disregard is $4,800. However, there are several reasons a family may receive less than the maximum increase in annual cash income, including: 1) the family's monthly child support collection is less than $100 (or $400); 2) the family does not receive child support in all months of the year; 3) the family receives TANF for only part of the year (the pass-through and disregard policy only affects the family's income in TANF months); and/or 4) the family lives in a state that already has a child support pass-through and disregard.[29]

In addition, our estimates of the percentage increase in average cash income 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. It is also possible that the survey-based estimates of Sorensen and Zibman include some child support arrears, whereas our child support estimates are adjusted so as to reflect levels of current child support collected on behalf of TANF recipients. Our

[29] For example, the maximum possible increase in annual cash income in a state with a $50 disregard is $600 under the $100 disregard scenario, and $4,200 under the $400 disregard scenario.

estimates of the average level of annual child support collections made on behalf of TANF recipients for months in which they receive TANF ($1,039 for families less than 50 percent of poverty, $1,175 for families with incomes of 50 to 100 percent of poverty, and $896 for families with incomes of 100 to 200 percent of income) are similar to the average collection of $1,137 estimated using 2002 OCSE data.[30]

Impact in States with no Pass-through Versus States with $50 Pass-through

As suggested by the example in table 1, the effect of an increase in the child support pass-through and disregard would be greater in states that do not currently pass-through and disregard child support than in states that currently have a $50 pass-through and disregard. Table 3 shows average annual income under the $100 and $400 pass-through disregard scenarios for poor families, by whether the state has no pass-through or has a $50 pass-through and disregard.[31] States that do not fit neatly into either category (including fill-the-gap states) are not shown separately, but are incorporated into the final column.[32]

We estimate that implementation of a $100 disregard would raise average annual cash income of poor TANF child recipients by $496 (six percent) in states with no pass-through and by $263 (three percent) in states with a $50 pass-through. Implementation of a $400 disregard would raise average annual cash income by $936 (12 percent) in states with no pass-through and by $740 (8 percent) in states with a $50 pass-through and disregard. The percentage increase in average annual cash income is higher for states without a pass-through, both because the absolute change in income is greater in these states, and because baseline average annual cash income is lower.

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[30] See appendix B for information on how the $1,137 target was derived.
[31] Sample size limitations prevented us from showing this detail by poverty level.
[32] Footnotes in table 3 provide additional information about the criteria for including a state in a particular column and list the states represented in the $0 and $50 pass-through and disregard columns.

Table 3: Estimated Impact on Average Family Income of $100 and $400 Disregard for Poor Families, by State Pass-through Policy in 2002.

(TANF Families who Currently Have Child Support Collected on Their Behalf)

	Families Below 100% of Poverty		
	State Child Support Pass-through And Disregard Amount (2002)[1]		
	$0	**$50**	**All**
Average Annual Cash Income			
Baseline	$7,696	$9,650	$9,136
$100 Pass-through and Disregard	$8,192	$9,913	$9,460
Average Increase	$496	$263	$324
Percent Increase from Baseline	6%	3%	4%
$400 Pass-through and Disregard	$8,632	$10,390	$9,928
Average Increase	$936	$740	$792
Percent Increase from Baseline	12%	8%	9%
Average Annual Income Including Food Stamps and Housing Subsidies			
Baseline	$12,888	$14,246	$13,889
$100 Pass-through and Disregard	$13,148	$14,411	$14,079
Average Increase	$260	$165	$190
Percent Increase from Baseline	2%	1%	1%
$400 Pass-through and Disregard	$13,379	$14,695	$14,349
Average Increase	$491	$449	$460
Percent Increase from Baseline	4%	3%	3%

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

[1] To be included in the $0 pass-through column, a state must count all child support when determining eligibility and must not transfer any child support to the family. States included in the $0 pass-through column are: Arizona, Arkansas, Colorado, District of Columbia, Florida, Hawaii, Indiana, Kansas, Louisiana, Maryland, Mississippi, Missouri, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Utah, Washington, Wyoming. Fill-the-gap states are excluded from this column. To be included in the $50 pass-through column, a state has to have a $50 disregard for eligibility determination, transfer the first $50 per month of child support to the family, and disregard that amount in determining the amount of the TANF benefit. States included in the $50 pass-through column are: Alaska, California, Illinois, Massachusetts, Michigan, New Jersey, New York, Rhode Island, Texas, Virginia, West Virginia. States that did not meet all of the above criteria (and fill-the-gap states) are excluded from this column. All states (including those omitted from the $0 and $50 columns) are included in the final column.

Aggregate Results – without Behavioral Response

We estimate that nationally, $612 million in currently due child support collections were made on behalf of 605,000 TANF families in 2002.[33] Under the child support pass-through and disregard rules in effect in 2002, an estimated $191 million (31 percent) of the $612 million in child support collections made on behalf of TANF families was passed through to families, with the remaining $421 million being retained by the government. In the absence of any behavioral response, a $100 child support pass-through and disregard would have increased the amount distributed to families by an estimated $164 million (table 4). A $400 pass-through and disregard would have increased the amount distributed to families by an estimated $390 million.

A $100 or $400 pass-through and disregard would result in higher TANF benefits for some states. These are states that currently pass-through all child support to families, but disregard less than $100 (or $400) when calculating the amount of the TANF benefit.[34] We estimate that TANF benefits in these states would increase by $12 million under the $100 pass-through and disregard scenario, and by $27 million under the $400 pass-through and disregard scenario.

The additional child support distributions and TANF benefits would increase the total cash income of TANF families by an estimated $176 million under the $100 pass-through and disregard scenario, and by an estimated $417 million under the $400 pass-through and disregard scenario. The additional cash income would reduce the poverty gap (the total dollars required to raise the incomes of poor families up to the poverty threshold) and would remove some families from poverty altogether. The poverty gap would be reduced by an estimated $113 million under the $100 pass-through and disregard scenario and by an estimated $272 million under the $400 pass-through and disregard scenario. Under both scenarios, the estimated reduction in the poverty gap is equal to about two-thirds of the additional child support and TANF benefits that would be paid to families. We estimate that about 5,000 families would be removed from poverty under the $100 pass-through and disregard scenario, and 21,000 families would be removed from poverty under the $400 pass-through and disregard scenario.

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[33] As is discussed in Appendix B, this is about 4 percent higher than our estimate of the actual number of TANF families with a collection in 2002, and about 7 percent lower than our estimate of the actual amount of current support collected for these families.
[34] See "State C" in table 1 for an example of this.

About one third of the increase in child support distributions and TANF benefits would go toward reducing reliance on food stamp benefits and housing subsidies, thereby increasing family self-sufficiency. We estimate that a $100 pass-through and disregard would have resulted in a $14 million reduction in housing subsidies and a $46 million reduction in food stamp benefits, yielding a net financial benefit of the policy change to custodial families (and a net cost to government) of approximately $116 million.[35] Implementation of a $400 pass-through and disregard would have resulted in an estimated $32 million reduction in housing subsidies and a $115 million reduction in food stamp benefits, yielding a net financial benefit of this policy change to custodial families (and a net cost to government) of approximately $271 million.

Table 4: Estimated Change in Child Support, Poverty, and Benefits Under Four Child Support Pass-through and Disregard Scenarios

(Dollars are in Thousands)

	Change in Child Support, Poverty, and Benefits If:			
	$100 Pass-through and Disregard		**$400 Pass-through and Disregard**	
Change Relative to 2002 Baseline in:	**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
Distributed to Families	$163,769	$194,872	$389,987	$640,309
Retained by Government	($163,769)	($148,085)	($389,987)	($376,208)
TANF Benefits	$12,228	$12,228	$26,963	$21,217
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.

[35] We do not include administrative costs in these estimates.

Aggregate Results – with Behavioral Response

The estimates discussed above assume no "behavioral response." As previously mentioned, the increase in the child support disregard could provide an incentive for more custodial parents to seek child support and for more nonresident parents to pay child support. To the extent that this additional child support would be passed through to custodial families and disregarded when determining their TANF benefit, the cash income of custodial families would increase. Child support retained by the government would help to reduce the net cost to government of the change in pass-through and disregard policy, as would reductions in food stamps and housing subsidies to custodial families receiving additional support.

It should be noted that the additional child support that would be collected as a result of behavioral response would represent an additional cost to nonresident parents and the families with which they reside. Although this could result in increase material hardship for some nonresident parents, this is not captured in our poverty estimates.[36] Furthermore, our estimates do not capture the fact that food stamp benefits would increase for some of the nonresident parents, due to the fact that legally obligated child support payments are deducted from a household's income when calculating the amount of the food stamp benefit.

Based on the work of Cassetty, Cancian, and Meyer (2002) we estimate that a "behavioral response" to a $100 pass-through and disregard would increase the number of TANF families with a child support collection by 28,000 and that $47 million would be collected for these families (table 4). Some of the additional child support would be distributed to custodial families, which would increase the net benefit to custodial families of this policy change from $116 million to $141 million. Government would retain its share of the additional child support, and the portion distributed to families would result in further reductions in food stamp benefits and housing subsidies. This would lower the estimated net cost to government of this policy change from $116 million to $94 million. The additional child support received as a result of a

[36] Our data do not contain information on the nonresident parents and the families with which they reside, so we are unable to show the effect that payment of child support would have on their available income. It should be noted that the standard poverty definition used by the Census Bureau does not take into consideration child support paid by a nonresident parent when determining the nonresident parent's poverty level.

"behavioral response" would reduce the poverty gap by an additional $19 million relative to the estimate without behavioral response.

We estimate that a "behavioral response" to a $400 pass-through and disregard would increase the number of TANF families with a child support collection by 153,000 and that $264 million would be collected for these families. As a result, the estimated net benefit to custodial families of the $400 pass-through and disregard would increase from $271 million to $463 million, and the estimated net cost to government would decrease from $271 million to $199 million. The additional child support received as a result of "behavioral response" would reduce the poverty gap by an additional $99 million relative to the simulation without behavioral response, and another 3,000 families would be lifted above the poverty line.

3) Distributing Federal Tax Refund Offsets to Former Welfare Families

In this section, we estimate the effect on families and government if all federal tax refund offsets made on behalf of former welfare families in 2002 had been distributed to those families.[37] Our estimates are "upper-bound" estimates in that they assume that, if given the option, all states would choose to distribute federal tax refund offsets to former welfare families, and none of the child support would be retained by the government (even after the family's share of the arrears had been repaid). As under current law, states would continue to retain offsets made on behalf of current TANF recipients and distribute all offsets to families who have never received TANF.

Data and Methodology

The March CPS does not ask whether a family formerly received welfare or whether a federal tax refund offset was collected on the family's behalf. Therefore, we impute this information onto the file using data from the 2000 CPS April/March Matched File (CPS-CSS), the 2001 panel of the Survey of Income and Program Participation (SIPP), and 2002 state

[37] Under current law, some former welfare families receive federal tax refund offsets because all arrears owed to the government have been repaid. We do not include these families in our estimates. Rather, we estimate the effect of distributing federal tax refund offsets to former welfare families who do not currently receive an offset.

administrative data from Massachusetts.[38] We adjust the results of these imputations so as to come close to state and national targets for the number and amount of offsets retained by the government on behalf of former welfare recipients in 2002.[39] Appendix D provides additional detail on the methodology used to derive the state and national targets and to impute the federal tax refund offsets.

To simulate the effect of distributing offsets to former welfare recipients, we add the imputed offset amounts to other family income, and use the TRIM3 microsimulation model to simulate the impact that this additional income would have on eligibility and benefits for Supplemental Security Income (SSI), Food Stamps, Medicaid, and the State Children's Health Insurance Program (SCHIP).[40] By comparing the results of these simulations to the TRIM3 "baseline" simulations for these programs (in which former welfare families do not receive the federal tax refund offset), we can assess the likely impact of distributing offsets to former welfare families.

We assume that the federal tax refund offset would be treated in accordance with the lump-sum income rules of the means-tested-transfer programs, because the offset is usually distributed as a single lump-sum payment and would most likely be unexpected by the recipient. The SSI program counts lump-sum income as income in the month received (amounts under $20 per quarter are disregarded), whereas the Food Stamp Program counts lump-sum income as a resource in the month received. Treatment of lump-sum income by Medicaid and SCHIP varies by state and type of eligibility. Unanticipated lump-sum income does not affect the rental payments of families living in public housing or receiving housing assistance.

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[38] We used administrative data from Massachusetts because we did not have access to any other state or national administrative data that had the information necessary for our imputations. As noted in the text, we adjust the results of the imputation so as to hit state and national targets for the number and amount of federal tax refund offsets.

[39] The state and national targets are themselves estimates, because although OCSE reports the number and amount of federal tax refund offsets retained by the government, it does not distinguish between offsets made on behalf of former and current TANF recipients. Our estimates assume that federal tax refund offsets retained by the government in 2002 are divided into current and former welfare amounts in the same ratio as are total arrearage collections.

[40] We did not simulate TANF or public and subsidized housing, because distribution of federal tax refund offsets to former welfare families should not directly affect either of these programs. TANF recipients are not affected (because the policy change affects former welfare recipients). Unexpected lump-sum income (such as a federal tax refund offset) does not affect the rental payments of families living in public housing or receiving housing assistance. A substantial federal tax refund offset might indirectly affect the TANF program by enabling a former welfare recipient to avoid returning to TANF, but this is not captured in our estimates.

If a family spends the federal tax refund offset in the month it is received, then any reduction in eligibility and benefits should be temporary. However, if a family saves some of the federal tax refund offset, then this amount would contribute to the family's resources and might affect transfer program eligibility in future months. Our estimates do not capture this potential effect. All families are assumed to spend the entire federal tax refund offset in the month received.[41]

Impact on Custodial Family Income

We impute a total of $660 million in federal tax refund offsets to about 669,000 former welfare families, for an average offset of $987 per family (table 5).[42] Under current law, these collections are split between the federal and state governments in accordance with the Federal Medical Assistance Percentage (FMAP). Under our simulation, these collections are distributed to the families.

About 38 percent of the families assigned 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. The average offset assigned to families with incomes between 100 and 200 percent of poverty ($1,140) is somewhat higher than the average offset assigned to poor families ($905) and to families with incomes above 200 percent of the poverty threshold ($890).[43]

We estimate that the average annual cash income of poor families receiving the federal tax refund offset would increase by 10 percent as a result of receipt of the offset (from $8,919 to $9,811). 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

[41] This assumption seems reasonable for families receiving assistance from means-tested transfer programs. Research on families' intended use of EITC refunds shows that paying bills was the top priority for half of surveyed families, and only 12 percent listed saving as their top priority (Smeeding, Ross Phillips, and O'Connor 2000). In 2002, 71 percent of food stamp households with children had no countable resources, and another 26 percent had countable resources under $500 (Rosso and Faux 2003), suggesting that most food stamp households do not maintain savings.

[42] These amounts are quite close to the amounts estimated for 2002 using OCSE data (described in appendix D), where we estimated that about $659 million in federal tax refund offsets were collected on behalf of about 664,000 families. Our imputation methodology did not permit us to match the OCSE derived estimates exactly.

[43] Unfortunately, no "real world" data are available on the financial characteristics of the former welfare recipients who would receive the offset. These results are the outcome of our federal tax refund offset imputations (which do not control for income or poverty status), and do not necessarily reflect the real-world distribution of federal tax refund offsets by family poverty level.

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 (table 6). In other words, about a third of federal tax refund offset dollars distributed to former welfare recipients would go toward lifting the incomes of families up toward the poverty line.

Table 5: Estimated Effect on Family Income if All Federal Tax Refund Offset Collections Were Distributed to Former Welfare Families in 2002

	Family Income as a Percent of Poverty			
	<100%	100-<200%	200%+	Total
Former Welfare Families Assigned Offset				
Number	257,051	244,725	167,166	668,942
Percent	38%	37%	25%	100%
Amount of Offset				
Total (thousands)	$232,631	$278,986	$148,777	$660,395
Average	$905	$1,140	$890	$987
Average Family Cash Income				
Without Offset	$8,919	$22,846	$42,807	$22,482
With Offset	$9,811	$23,965	$43,691	$23,456
Average Increase	$892	$1,119	$884	$974
Percentage Increase	10%	5%	2%	4%
Average Family Income Including Food Stamps and Housing Subsidies				
Without Offset	$13,564	$23,593	$42,824	$24,545
With Offset	$14,449	$24,706	$43,708	$25,513
Average Increase	$885	$1,113	$884	$968
Percentage Increase	7%	5%	2%	4%

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

As will be discussed in greater detail below, the additional income from the federal tax refund offset would cause temporary reductions in SSI and food stamp benefits for some families and would cause some Medicaid and SCHIP recipients to temporarily lose their coverage. As a result, average family income would not increase by the full amount of the offset. For example, although poor families would receive an average offset of $905, their average cash income would increase by $892, due to reductions in SSI benefits for some families. The difference of

$13 ($905-892) represents the average gain in self-sufficiency—the substitution of child support income for publicly funded SSI benefits.

The bottom panel of table 5 shows the estimated impact of the federal tax refund offset on family income when food stamps and housing subsidies are counted as income. Poor families would have a smaller percentage increase in income under this definition of income than when just cash income is considered (7 percent versus 10 percent), primarily because the base level of income is higher ($13,564). Under this definition of income, the $905 average offset for poor families would produce an $885 increase in average family income, due to reductions in SSI and food stamp benefits for some families. The difference of $30 ($905-885) represents the average gain in self-sufficiency—the substitution of child support income for publicly funded SSI and food stamp benefits. The results for non-poor families are essentially the same regardless of the definition of income used, because far fewer of these families receive food stamps or housing subsidies.

The Federal Tax Refund Offset and Means-Tested Transfer Programs

Reductions in SSI and food stamps would reduce net government costs and net family benefits of distributing FTRO collections to former welfare families to an estimated $649 million, slightly less than the increase in FTRO collections distributed under this policy scenario (table 6). We have not attempted to estimate the benefits or costs associated with the temporary loss of SCHIP or Medicaid eligibility. Below, we provide additional detail on the effect that receipt of the federal tax refund offset would have on eligibility and benefits for SSI, the Food Stamp Program, Medicaid, and SCHIP.

SSI

Under SSI program rules, child support income is treated as the income of the child and so affects the eligibility and benefits of disabled children receiving support, but not other household members. Children potentially affected are those who currently receive SSI, but who formerly received welfare and have child support collected through the FTRO. The SSI program disregards one-third of child support income when calculating eligibility and benefits. If the child has no other income, then an additional $20 of child support is disregarded through the general income exclusion. Any remaining child support income reduces the SSI benefit dollar-for-dollar. Lump-sum income of less than $20 per quarter is disregarded entirely.

Distribution of the federal tax refund offset to SSI children formerly on welfare would have resulted in an estimated $9.2 million reduction in SSI benefits in 2002 (table 6), which is less than two percent of the annual SSI benefits received by these children. Of the approximately 43,000 SSI children simulated to receive the federal tax refund offset (not shown), an estimated 12,000 (28 percent) would lose one month of SSI benefits, and 24,000 (55 percent) would experience a one-month reduction in SSI benefits due to the federal tax refund offset. The remaining 17 percent of the children would be unaffected because their share of the federal tax refund offset is small enough to be disregarded under SSI rules.[44]

Table 6: 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)

	Former Welfare Families Simulated to Receive a Federal Tax Refund Offset		
	Without Offset	**With Offset**	**Change**
Federal Tax Refund Offset	0	$660,395	$660,395
Annual SSI Benefits	$562,720	$553,544	($9,176)
Annual Food Stamp Benefits	$723,128	$720,477	($2,651)
Net Government Cost/Family Benefit	$1,285,848	$1,934,416	$648,568
Poverty Gap	$2,039,163	$1,825,015	($214,149)
Families in Poverty	257,051	238,183	(18,868)
Source: TRIM3 Microsimulation model, using data from the 2003 March Current Population Survey.			

[44] The SSI program disregards unexpected lump-sum income amounts of less than $20 per quarter. Although a nonresident parent must owe arrears of at least $150 ($500 for non-TANF cases) in order for collections to be made through the FTRO, amounts collected through the program may be less than that. In addition, we assume that a federal tax refund offset made on behalf of multiple children within the same family would be divided equally among the children, and only the SSI child's "share" of the offset would be counted in determining his or her eligibility and benefits.

Food Stamp Program

The Food Stamp Program counts lump-sum income as a resource in the month received. Most food stamp households with children have little or no countable resources,[45] so could receive a substantial federal tax refund offset without exceeding the $2,000 resource limit.[46] Resources do not affect the benefit level, so receipt of the federal tax refund offset should not affect a family's food stamp benefit, so long as the family remains eligible for food stamps.[47]

Food stamp reporting requirements further reduce the likelihood that a federal tax refund offset would affect a food stamp household's eligibility. Most states do not require families to report their financial circumstances each month. Instead, families are certified to receive food stamps for a period of three or more months, and are only required to report changes in financial circumstances under certain conditions, which vary by state.[48] Some families who would fail the resource test as a result of the federal tax refund offset are able to remain eligible because they do not meet the conditions that would require them to report the change in their financial circumstances.

We estimate that distribution of the federal tax refund offset to former welfare families would have resulted in a $2.7 million reduction in food stamp benefits in 2002 (table 6). This amounts to a reduction of less than half a percent in the annual food stamp benefits received by these households. Of the approximately 216,000 food stamp households that would receive the federal tax refund offset (not shown), nine percent would lose a month of food stamp benefits.

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[45] In 2002, 71 percent of food stamp households with children had no countable resources, and another 26 percent had countable resources under $500 (Rosso and Faux 2003),

[46] Households with an elderly member are subject to a $3,000 resource limit. Beginning in October 2002, households with a disabled member are also eligible for the $3,000 resource limit, but we do not capture this in our estimates.

[47] Under certain circumstances, receipt of the federal tax refund offset can indirectly cause a reduction in the food stamp benefit, by causing the family to have to report the change in their financial circumstances. Some families who had experienced an increase in income since their last food stamp certification would now be found to be eligible for lower benefits. Had the federal tax refund offset not caused the families to have to report their income to the Food Stamp Program, these families would have continued to receive higher benefits until the next recertification.

[48] For example, the household might be required to report their financial circumstances if income exceeded 130 percent of poverty, if the household experienced an increase in earned income of $100 or more, if the household experienced an increase in unearned income of $100 or more, or if the household experienced a change in job status. The Food Stamp Program State Options Report (USDA 2002) summarizes state reporting requirements in effect in 2002.

Three percent would experience a one-month increase in their food stamp benefits to partially compensate for the reduction in their SSI benefits.[49]

Medicaid and SCHIP

About one-third of state Medicaid programs and two-thirds of state SCHIP-funded separate programs provide 12 months of continuous eligibility (Ross and Cox 2004).[50] Families who receive a federal tax refund offset during a period of continuous eligibility would experience no change in their Medicaid or SCHIP eligibility. For the remaining families–those who are scheduled for recertification and those who are in states without continuous eligibility–the federal tax refund offset would be treated in accordance with the lump-sum income rules.

Treatment of lump-sum income in state Medicaid and SCHIP programs varies by state and type of eligibility. The most common approaches are to: 1) add lump-sum income to other income and divide by the income eligibility limit in order to determine the number of ineligible months; 2) count lump-sum income as income in the month received; 3) disregard lump-sum income entirely; and 4) count lump-sum income as a resource in the month received.

Nearly all states use the first of the above approaches when determining mandatory section 1931 Medicaid eligibility.[51] Counting lump-sum income as income in the month received is the most common approach when determining state-optional Medicaid eligibility and eligibility under SCHIP-funded Medicaid expansion programs, although about one in four states disregards lump-sum income entirely. Slightly over half of SCHIP-funded separate programs disregard lump-sum income entirely, with most of the remaining states counting lump-sum income as income in the month received.

We estimate that about 8 percent (83,000) of the 1.1 million persons receiving Medicaid in the month their family received the federal tax refund offset would lose a month of Medicaid

[49] We estimate that a small number (about half a percent) of food stamp households receiving the federal tax refund offset would experience a reduction in their food stamp benefits. For these households, the federal tax refund offset was sufficiently large to trigger a reporting requirement, and an increase in other income since the last certification resulted in a lower benefit being calculated. Had the federal tax refund offset not triggered a reporting requirement, these families would have continued to receive higher benefits until the next recertification.

[50] Most states have 12 month reporting periods for Medicaid and SCHIP (some have 6 month reporting periods). However, unless a state provides continuous eligibility, families are required to report changes in income and may be rendered ineligible within the 12-month period.

[51] We contacted state Medicaid and SCHIP officials and reviewed state manuals in order to find out how states treat lump-sum income when determining Medicaid and SCHIP eligibility.

eligibility.[52] Of these, about half would be eligible for SCHIP. We estimate that about two percent of the 97,000 children receiving SCHIP in the month their family received the federal tax refund offset would lose a month of SCHIP eligibility.

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.

4) Effects on Administrative Costs

Our estimates do not capture the impact on administrative costs of the policy changes examined here. Changes in child support pass-through and disregard policy and changes in the rules regarding distribution of the FTRO to former TANF families would have implications for administrative costs. Computer procedures would need to be changed, staff would need to be trained in the new procedures, and the new rules would need to be explained to clients and the public. In addition to these one-time transitional costs, on-going operational administrative costs could be affected. Receipt of child support through a pass-through and disregard or FTRO distribution could change the amount of time caseworkers spend answering clients' questions. In addition, the new child support policy might increase the number of families with monthly fluctuations in income, requiring additional administrative effort to recalculate eligibility and benefits for means-tested transfer programs.

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 selected these states because they reflect a diversity of approaches to child support pass-through and disregard policy. We asked a series of questions about current

[52] In some cases, a person made ineligible for Medicaid under one set of Medicaid eligibility rules may still be eligible under another set of Medicaid eligibility rules. For example, a person made ineligible under mandatory section 1931 rules might remain eligible under state optional rules. We do not count these persons as losing eligibility. Although the lump-sum rules used in most mandatory section 1931 programs could potentially render a person ineligible for Medicaid for more than one month, we found such occurrences to be very rare-in part because persons losing eligibility for mandatory section 1931 eligibility were found eligible under state-optional rules (which generally had less restrictive lump-sum income rules).

administrative costs associated with these policies and the possible effects on these costs if the policies were changed. At the outset of our telephone interviews, we explained to the child support administrators that we were primarily interested in the possible impact of policy changes on administrative costs associated with customer service. We focused on customer service because we thought that it was the most likely operational cost to be affected if these policies changed. However, we also discussed administrative costs associated with staff training and computer costs. Furthermore, we explained that we understood that any policy change would result in considerable administrative costs during the implementation phase, but we wanted to focus the discussion on administrative costs that would persist after the policy was fully implemented, in what we called a "steady state" environment.

The states that we interviewed have taken different approaches to their pass-through and disregard policies, as shown in table 7. Three of these states (Connecticut, Georgia, and Vermont) had a waiver prior to the enactment of PRWORA to pass through all child support to AFDC families and to disregard a portion of the child support when calculating the AFDC benefit. All of these waivers have since ended. Currently, Connecticut has a $50 disregard, Georgia has a fill-the-gap policy, and Vermont continues to pass through the full amount of the child support collection and to disregard $50 a month when calculating the TANF benefit. Wisconsin continues to operate under a waiver to pass through and disregard all child support to TANF families, although this waiver will expire December 31, 2005. Illinois and Pennsylvania have continued a $50 pass-through and disregard, similar to the policy in place prior to PRWORA, while Washington has eliminated its pass-through and disregard. Minnesota has a full pass-through and no disregard.

Nearly all respondents noted that the on-going administrative costs associated with the distribution rules that were enacted as part of PRWORA are quite high and burdensome. In particular, they said that the rules for allocating arrears and payments depend upon so many factors – when the child support was initially due, when the money is collected, and how it is collected – that it is practically impossible to explain the rules to customers and new staff. In fact, several respondents said that many of their line-level employees still do not understand the distribution rules.

Table 7: Pre-PRWORA and Current Child Support Pass-through and Disregard Policy for Eight Interviewed States

State	Pre-PRWORA Policies		Current Policies (2005)	
	Pass-Through	Disregard	Pass-Through	Disregard
Connecticut	Full	$100	$50	$50
Georgia	Full	$50	Fill the gap	Fill the gap
Illinois	$50	$50	$50	$50
Minnesota	$50	$50	Full	No
Pennsylvania	$50	$50	$50	$50
Vermont	Full	$50	Full	$50
Washington	$50	$50	No	No
Wisconsin	Full	Full	Full	Full

In contrast, most of the respondents said that the administrative cost associated with their current pass-through and disregard policy is relatively small, largely because the TANF child support caseload represents a very small portion of the overall child support caseload. Most states that have a $50 pass-through and disregard policy mentioned that automation has reduced the administrative costs associated with this policy because they no longer cut checks, relying instead on debit cards and automatic deposits. However, the respondent from Georgia said that their "fill-the-gap" policy has high administrative costs because caseworkers must calculate the amount of the "fill-the-gap" payment.

In general, most respondents seemed to agree that a pass-through and disregard policy that distributes nothing to TANF families would be less expensive to administer than a $100 or $400 pass-through and disregard.[53] The respondent from Washington, the only state in our survey that has a no pass-through and disregard policy, was the clearest on this point. He stated unequivocally that customer service costs had declined substantially as a result of the state's no pass-through and disregard policy. In addition, the respondent from Minnesota said that she thought that Minnesota's full pass-through and no disregard policy had lower administrative costs than their previous $50 disregard policy. Respondents from states with a $50 disregard seemed to echo this view. Although these respondents recognized that they would have to

[53] We did not ask states to consider the administrative cost implications of a full pass-through and disregard, although Wisconsin indicated that it had found a full pass-through and disregard to be cheaper to administer than a $50 pass-through and disregard.

explain to TANF families why they received none of the child support paid on their behalf, at least this policy would end the recurring calls where families ask why they hadn't received their $50. Apparently, these latter calls generate considerably more customer service costs than the initial explanation of pass-through and disregard policy. The respondents pointed out that TANF families come to expect to receive the additional $50 in child support every month even though their child support payments are often received on an irregular basis. This discrepancy between expectations and actual payments generates customer service costs.

Respondents did not think that customer service costs would increase much, if at all, if the disregard was increased from $50 to $100. They thought that the difference between $50 and $100 was insufficient to generate substantially more calls from TANF families. However, respondents had mixed views about increasing the disregard from $50 to $400 a month. Some respondents were concerned that this was a large enough increase that it would generate substantially more calls from TANF families about their child support. They thought that TANF families would come to expect to receive the full amount of their child support every month (up to $400/month), although child support payments for TANF families tend to be very irregular. Thus, increasing the pass-through and disregard would increase expectations, but child support payments would still be infrequent and often less than the full amount due. This could result in more TANF families calling about their child support.

Other respondents, however, thought that a large disregard would reduce administrative costs compared to a partial disregard or a "fill-the-gap" policy. The respondent from Wisconsin, the one state that has had experience with a large disregard, said that administrative costs decreased as a result of going from a $50 disregard to a full disregard. The Wisconsin respondent said that the most important change was that TANF families no longer ask why they do not receive all of the child support paid on their behalf. She did acknowledge that TANF families do call and ask why they haven't received the full amount of child support due, but she viewed these calls as simpler to answer than trying to explain why the government retains all but $50 of the child support paid on the family's behalf. Furthermore, she noted that all families call and ask why they haven't received their child support. She did not think TANF families were any more likely to call with this type of question than non-TANF families. In other words, she said that as a result of the full pass-through and disregard policy in Wisconsin, administrative costs associated with TANF families are the same as those associated with non-TANF families, which are considerably less than the costs under the $50 disregard policy.

Nearly all of the respondents said that administrative costs associated with the FTRO program are relatively minor. They noted that during tax season, questions about this policy increase, but relative to other administrative costs associated with the distribution rules, these costs are not viewed as large. However, respondents generally thought that distributing FTRO payments to former welfare families rather than retaining these payments could reduce administrative costs. They thought that questions asked by former welfare families would change from “Why haven’t I received my payment?” to “Why haven’t I received my payment yet?” Respondents indicated that the latter question is simpler and quicker to answer and that it may be less frequently asked. Thus, administrative costs would probably decline with this change. Wisconsin is the only state that currently has a policy of distributing arrears payments collected through the FTRO to former welfare families. The Wisconsin respondent agreed that the questions asked by former welfare families have changed and that the current questions are easier and quicker to answer, which has reduced customer service costs associated with the FTRO program.

We asked respondents whether they thought that administrative costs would change for other agencies if the pass-through and disregard or FTRO distribution rules were changed. Generally speaking, the respondents thought that TANF administrative costs would not be affected as long as the policies did not affect TANF benefits or eligibility. For example, the CSE Director for Wisconsin said that administrative costs for Wisconsin’s TANF program did not increase as a result of a full child support pass-through, because Wisconsin disregards all child support when calculating TANF eligibility and benefits.

Because a full pass-through, coupled with a partial or no disregard, does affect TANF benefits, we were interested in what respondents from Minnesota and Vermont had to say concerning the impact of their state’s policy on TANF administrative costs. The respondent from Minnesota said that TANF administrative costs has increased as a result of the full pass-through because the child support passed through to the TANF family affects the family’s TANF benefit a couple of months later and this lag has led to an increase customer calls. In contrast, the respondent from Vermont said that Vermont's TANF agency has experienced little, if any increase in administrative costs as a result of the state's full pass-through policy. Vermont avoids the problem that Minnesota experiences by passing the child support money to the TANF program and letting the TANF program coordinate its disbursement with the reduction in TANF benefits.

Respondents thought that the Food Stamp Program could experience increased administrative costs and increased error rates if more child support is passed through to TANF and former welfare families and the child support information is self-reported. All of the states that we spoke to about this issue, however, transmit child support information electronically to the Food Stamp Program. Therefore, respondents did not expect that administrative costs for the Food Stamp Program would increase.

In sum, most respondents thought that a no pass-through and disregard policy would have the lowest administrative costs and that going from this policy to a \$50 (or \$100) per month pass-through and disregard policy would increase administrative costs. Furthermore, most respondents thought that a small increase in the disregard, from say \$50 to \$100 per month, would not increase administrative costs. Respondents differed, however, regarding the likely impact on administrative costs if the disregard was increased from \$50 to \$400 per month. Some respondents thought that this would increase administrative costs, while others thought it would decrease administrative costs. Notably, the respondent from Wisconsin, which is the only state that has first-hand experience with a large disregard, said that administrative costs were lower with a full disregard than with a \$50 disregard policy. On the other hand, everyone agreed that distributing FTRO collections to families first would decrease administrative 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 FTRO policies were changed.

5) Conclusion

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) distribution of child support collected through the FTRO Program to former welfare families. Our estimates are "upper bound" estimates in that they assume that all states would choose to adopt a more generous pass-through and disregard policy and to distribute all child support collected through the FTRO Program to former welfare families.

We estimate that the average annual income of TANF child support recipients below 50 percent of the poverty threshold would increase by 7 percent under the $100 pass-through and disregard scenario and by 15 percent under the $400 pass-through and disregard scenario, with families between 50 and 200 percent of poverty receiving a smaller percentage increase in their average annual income. The percentage increase would be greater in states that do not currently have a child support pass-through, and somewhat smaller in states that currently have a $50 pass-through and disregard. About two-thirds of the additional income that would be distributed as a result of a more generous pass-through and disregard policy would go toward lifting the incomes of poor families up toward the poverty line. One third of the additional cash income received by TANF families through a $100 or $400 pass-through and disregard would go toward reducing their reliance on food stamps and housing subsidies.

A more generous pass-through and disregard policy would provide an additional incentive for custodial families to cooperate with child support enforcement and for nonresident parents to pay child support. Based on research by Cassetty, Cancian, and Meyer (2002), we estimate that a $100 pass-through and disregard would result in a one-percentage point increase, nationally, in the proportion of TANF cases with child support collections (from 21 percent to 22 percent). A $400 pass-through and disregard would result in an estimated five and a half percentage point increase in the proportion of TANF cases with child support collections (from 21 percent to 26.5 percent). The additional child support collected on behalf of these families, and the associated reductions in TANF benefits, food stamp benefits, and housing subsidies, would help to offset the costs of a more generous pass-through and disregard policy.

Distributing all federal tax refund offsets to former welfare families would increase the average annual income of families receiving the offset by about 4 percent. Poor families receiving the federal tax refund offset would experience an estimated 10 percent increase in their annual income. About one third of the distributed dollars would go to lifting the incomes of poor 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 federal tax refund 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.

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.

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Appendix A: State Pass-through and Disregard Policies in 2002

Table A-1 shows the child support pass-through and disregard policies in effect in each state in 2002. This information was obtained from the Welfare Rules Database (WRD), with follow-up clarification with state child support officials, where needed. The first column of the table shows the monthly amount of child support transferred to the family under the state's child support pass-through policy. The second column shows the amount of the passed-through child support that is disregarded when calculating the TANF benefit. The third column indicates whether a state has a "fill-the-gap" child support policy.

Table A-1: State Pass-through and Disregard Policies, 2002.

	Monthly Child Support Transferred to Family	Disregarded for Calculating the TANF Benefit	Fill-The-Gap State (X = "yes")
Alabama	50	0	
Alaska	50	50	
Arizona	0	0	
Arkansas	0	0	
California	50	50	
Colorado	0	0	
Connecticut	All	100	
Delaware	50	50	X
District of Columbia	0	0	
Florida	0	0	
Georgia	0	0	X
Hawaii	0	0	
Idaho	0	0	
Illinois	50	50	
Indiana	0	0	
Iowa	0	0	
Kansas	0	0	
Kentucky	0	0	
Louisiana	0	0	
Maine	50	50	X
Maryland	0	0	
Massachusetts	50	50	
Michigan	50	50	
Minnesota	All	0	
Mississippi	0	0	

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	Monthly Child Support Transferred to Family	Disregarded for Calculating the TANF Benefit	Fill-The-Gap State (X = "yes")
Missouri	0	0	
Montana	0	0	
Nebraska	0	0	
Nevada	75	75	
New Hampshire	0	0	
New Jersey	50	50	
New Mexico	50	50	
New York	50	50	
North Carolina	0	0	
North Dakota	0	0	
Ohio	0	0	
Oklahoma	0	0	
Oregon	0	0	
Pennsylvania	50	50	
Rhode Island	50	50	
South Carolina	0	0	X
South Dakota	0	0	
Tennessee	0	0	X
Texas	50	50	
Utah	0	0	
Vermont	All	50	
Virginia	50	50	
Washington	0	0	
West Virginia	50	50	
Wisconsin	All	All	
Wyoming	0	0	
Source: The Welfare Rules Database, http://anfdata.urban.org/WRD, Copyright (C) 2004, The Urban Institute, plus additional communication with state child support officials, where needed.			

Appendix B: Correction for Underreporting of Child Support

TANF recipients tend to underreport their child support income when reporting income in the CPS survey. Some may fail to report any of the child support collected on their behalf, and others may report just the pass-through amount. To correct for this underreporting of child support, we first developed state-level targets for the number of TANF families with a child support collection and the amount of child support collected. We then assigned additional child support to TRIM3 TANF families so as to come as close as possible to the state-level targets. Each of these steps is described in greater detail below.

Developing the TANF Child Support Targets

According to OCSE data, there were 806,207 current assistance cases with a child support collection in fiscal year 2002, and collections of current support for current assistance cases amounted to $776 million (HHS 2003). However, inter-state cases and collections are double-counted in these figures, because they are reported once by the state that initiates the case, and once by the state that receives the case.

To estimate the number of unique TANF cases with a child support collection, we subtracted 116,000 current assistance cases with a collection initiated in another state (obtained from unpublished OCSE data) from the 806,207 current assistance cases with child support. We also subtracted cases in Guam, Puerto Rico, and the Virgin Islands, because the CPS does not contain data for the U.S. territories. This produces an estimate of about 685,100 current assistance cases with a child support collection. To convert child support cases to families, we assumed a ratio of 1.17 cases to family (based on our analysis of multiple-order TANF families in the 2000 CPS-CSS). This yields a target of 583,000 TANF families with a child support collection.

To obtain the target for the amount of child support collected on behalf of TANF families, we backed out dollars from collections for cases initiated in another state and excluded Guam, Puerto Rico, and the Virgin Islands. We did not have data on the amount of a state's collections for cases initiated in another state. Therefore, we assumed that the percentage of a state's current assistance collections that was initiated in another state matched the percentage of the state's current assistance cases with a collection that was initiated in another state. This resulted in a target of $663 million in current support collected on behalf of TANF families.

Assigning Additional Child Support to CPS Families

About 276,000 families in the 2002 TRIM3 TANF caseload report that they receive child support. The total child support reported by these families (for months in which they are simulated to receive TANF)[54] is about $332 million. This is about half of the target for the number of TANF families with a child support collection and the target for the total amount collected. We take the following steps to assign additional child support to TANF families on the CPS.

1) Selecting additional TANF families to receive child support:

For each custodial TANF family that does not report child support, we compare the probability that the TANF family actually has child support to a random number to determine whether or not the family will be assigned child support. The probability that a custodial family that receives TANF and does not report receiving child support actually has child support was calculated by comparing the number of child support recipients in the 2000 TANF microdata to the number of CPS child support recipients simulated to receive TANF in the 2000 TRIM3 TANF baseline. We restricted the comparison to the set of states in the TANF microdata that capture 80% or more of child support collections according to the OCSE data. Separate probabilities were calculated for the following family types: married couple, single mother, single father, and other relative caretaker. Single mothers were further disaggregated into Hispanic, non-Hispanic black, and non-Hispanic white/other.

2) Imputing Average Monthly Child Support Amount

If a custodial TANF family is imputed to receive child support, or reports child support but appears to be reporting the pass-through amount, we use an OLS model to impute the log of the monthly amount (per child) of child support collected on the family's behalf. The OLS model

[54] TRIM3 allocates child support across the months of the year based on patterns of receipt observed in the Survey of Income and Program Participation (SIPP).

was estimated on the 2000 TANF microdata (restricting the sample to states that capture 80% or more of child support collections according to OCSE data). TRIM3 restores variation to the predicted amount, and the resulting estimate is converted to a dollar amount representing the total monthly amount of child support collected on behalf of the family.

The child support variable imputed from the TANF microdata represents total child support, including arrears. Our child support pass-through and disregard simulations assume that only current support would be passed through to families. We split the total imputed child support into arrears and current support components based on patterns observed in administrative data from Illinois, Massachusetts, New Jersey, and Texas.

3) Assigning the number of months of child support:

The TANF microdata do not indicate how many months a custodial parent receives child support. Therefore, we used 1998 and 1999 data from the SIPP to impute this information. The imputation relies on three look-up tables—one for families receiving TANF for all 12 months of the year, one for families receiving TANF in 7 to 11 months of the year, and one for families receiving TANF in 1 to 6 months of the year. The look-up table for families receiving TANF for all 12 months of the year indicates the probability that a family received child support in 1, 2, …12 months. The look-up tables for families receiving TANF in 1 to 6 months and in 7 to 11 months indicate the probability that a family received child support in various "percentages" of the TANF months. A family's random number is compared to the various probabilities in order to determine the number of TANF months in which the family will be assigned child support.

4) Aligning to Targets

We adjust the results of our imputations so as to come as close as possible to targets, by state. Due to the complexity of the imputations, and the fact that we use reported child support for families who do not simply report the pass-through amount, it is not possible to hit all targets precisely. For the 2002 simulations presented in this report, we overshot the national target for the number of TANF families with a child support collection (583,000) by about 4 percent, producing a simulated TANF caseload in which about 605,000 TANF families have a child support collection made on their behalf. The total amount of child support collected on behalf of

TANF families in the TRIM3 data ($612 million) is about 7 percent below the national target ($663 million). The average child support collection for TANF families in the TRIM3 data ($1,015) is about 11 percent below the target amount ($1,137).

Appendix C: Behavioral Response Methodology

Incorporating behavioral response into the pass-through and disregard estimates required two steps: 1) estimating the expected level of increase in the number of TANF families who have child support collected on their behalf; and 2) assigning the additional child support to TANF families within TRIM3. Each of these steps is described in greater detail below.

Estimating the Increase in Child Support Collections for TANF Families

Our estimate of the behavioral response to a $100 and $400 child support pass-through and disregard is based on the work of Cassetty, Cancian, and Meyer (2002).[55] Using state-level administrative data from 1985 to 1998, Cassetty, Cancian, and Meyer find that a larger disregard is associated with a statistically significant increase in the proportion of cases with collections. Their findings suggest that a $100 increase in the child support disregard is associated with a 1.5 percentage point increase in the proportion of AFDC/TANF cases with collections. Although a larger disregard increases the likelihood of collection, the study found no statistically significant effect on the average collection per case among cases with collections.

Not all states would require a full $100 increase in child support in order to bring their disregard up to $100. In 2002, 16 states had a $50 disregard, one state had a $75 disregard, one state had a $100 disregard, and one state disregarded all child support. Taking into account this variation in baseline state child support disregard levels, we would predict (based on the work of Cassetty, Cancian, and Meyer) that an increase to a $100 disregard would result in a one percentage point increase, nationally, in the proportion of TANF cases with child support collections relative to the baseline simulation (from 21 percent to 22 percent). An increase to a $400 disregard would result in an estimated 5 and a half percentage point increase in the proportion of TANF cases with child support collections (from 21 percent to 26.5 percent).

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[55] Wheaton and Russell (2004) discuss the various experimental and non-experimental studies examining the relationship between child support pass-through and disregard policy and payment of child support. We based our estimates on the work of Cassetty, Cancian, and Meyer (2002) because it is the only study in the non-experimental literature that focuses on the effect of an increase in the child support disregard on payment of child support. Other studies focus on the effect of an increase in the child support disregard on *receipt* of child support, which reflects not only the change in payment behavior but also the mechanical effect of the disregard policy in transferring more money to families. Because we are able to model the mechanical effect of the disregard policy directly, the appropriate estimate for our purpose is the estimate of the effect of the disregard policy on whether or not child support is paid.

Assigning Child Support to Additional TANF Recipients in TRIM3

We selected additional TANF recipients to receive child support, so that the proportion of TANF cases with child support collections increased to 22.1 percent (for the $100 disregard simulation with behavioral response) and 26.5 percent (for the $400 disregard simulation with behavioral response). Recipients were selected so as to capture state variation in the expected increase in TANF child support recipients. As noted above, Cassetty, Cancian, and Meyer found no statistically significant relationship between the disregard amount and the amount of child support collected, per case. Therefore, the amount of child support assigned to each new recipient was characteristic of current amounts of child support assigned to existing recipients with similar demographic characteristics.[56]

When assigning child support to additional TANF recipients, we only assigned child support to months of the year in which the family was simulated to receive TANF in the baseline simulation, and we did not assign child support to the family if it meant that the family would cease participating in TANF in all months of the year. These choices were made for methodological reasons. Although it is possible that a behavioral response to an increased pass-through and disregard would result in enough child support for a family to leave TANF and would continue to result in higher child support amounts in non-TANF months, we do not have an estimate for the extent to which this would occur. We may partially capture this effect in that we allow families assigned child support to stop participating in some (but not all) of their months of TANF and we capture the effects of the additional child support in all months in which the family received TANF in the baseline simulation. Nevertheless, we may understate the effects of behavioral response on family income and transfer program benefits by not fully capturing the effects on families who would leave TANF as a result of additional child support collected as a result of a "behavioral response."

[56] Child support amounts were imputed onto TRIM3 TANF families using a logit model estimated from the 2000 TANF microdata.

Appendix D: Federal Tax Refund Offset Imputation Methodology

The March CPS does not ask whether a family formerly received welfare or whether a federal tax refund offset was collected on the family's behalf. Therefore, we impute this information onto the file using data from the 2000 CPS April/March Matched File (CPS-CSS), the 2001 panel of the Survey of Income and Program Participation (SIPP), and 2002 state administrative data from Massachusetts. We adjust the results of these imputations so as to come close to state and national targets for the number and amount of federal tax refund offsets retained by the government on behalf of former welfare recipients in 2002. Below, we describe our methodology for deriving the state and national targets and for imputing the federal tax refund offset to former welfare families.

Deriving the Federal Tax Refund Offset Targets

The OCSE FY 2002 Annual Statistical report (U.S. Department of Health and Human Services [HHS] 2003) provides state-level data on the amount of child support collected through the federal tax offset program and the total number of tax offsets, but does not disaggregate the collections retained by the government into current and former assistance amounts.[57] Our estimates assume that these collections are divided into current and former assistance amounts in the same ratio as are total arrearage collections. For example, if OCSE data show that 87 percent of a state's combined current and former assistance arrearage collections are made on behalf of former assistance cases, then we assume that 87 percent of the federal tax refund offset collections retained by the government are made on behalf of former welfare families.[58] Using this assumption, we estimate that about $659 million in federal tax refund offset collections for about 664,000 former welfare families were retained by the government in 2002 in order to help

[57] Tables 77 and 78 of the FY 2002 Annual Statistical Report provide data on total federal tax refund offset collections by whether they are "TANF" (retained by the government for current or former assistance cases) or "Non-TANF" (distributed to families). States are asked to identify cases as "TANF" or "Non-TANF" when submitting the case to the FTRO, but are not asked to indicate whether a "TANF" collection is for a current or former welfare case. To our knowledge, information on the distribution of "TANF" federal tax refund offset collections into current and former assistance cases is not available at the federal level.
[58] Table 63 of the FY 2002 Annual Statistical Report shows the distribution of arrearage collections to current, former, and never assistance cases. Urban Institute tabulations of administrative data from Massachusetts show that the distribution of retained federal tax refund offset collections into current and former assistance cases closely matches the distribution of total arrearage collections into current and former assistance cases, at least for that state.

reimburse the government for the TANF expenditures incurred while these families were on TANF.

Assigning Federal Tax Refund Offset Amounts to CPS Families

In order to assign federal tax refund amounts to families in the CPS, we first had to identify which families were likely former welfare recipients, and which of these were likely to have had federal tax refund offsets retained by the government. The March CPS does not provide information on past receipt of TANF or on IV-D status, so this information had to be imputed. We used data from the 2000 CPS April/March Matched File (CPS-CSS) to impute IV-D status to custodial families, and used data from the 2001 panel of the Survey of Income and Program Participation (SIPP) to impute which of the IV-D families are former welfare recipients.[59] We used administrative data from Massachusetts to impute whether a former welfare IV-D family had a federal tax refund offset collection made on their behalf and retained by the government in 2002, and to impute the amount of the collection. We adjusted the results of these imputations so as to capture state variation in the number and amount of federal tax refund offset collections. Our imputations assigned a total of $660 million in federal tax refund offsets to 669,000 former welfare families, which is within one percent of the targets that we derived from the OCSE data.

[59] Neither the CPS-CSS nor the SIPP directly asks respondents about IV-D status. However, IV-D status can be inferred using an approach developed by Matthew Lyon (1999). A custodial parent is counted as receiving IV-D services if anyone in the family receives TANF or Medicaid. Those without TANF or Medicaid are counted as IV-D if they respond that they have had contact with the government regarding child support, do not know whether they are supposed to receive child support because “a child support agency filled out the paper work”, or were supposed to receive child support through a child support, welfare, or other public agency.