

How each of these alternatives would affect families and their incomes and how much each would cost would depend on both the number of children in families who were potentially eligible for child support and the distribution of child support awards and payments. CBO estimated that in 1995, most women (57 percent) had only one child who was eligible for child support, another 29 percent had two eligible children, and 15 percent had three or more children.¹⁵ Consequently, the level of the benefit for the first child, and to a lesser degree that of the second child, would have the greatest effects. Providing benefits for additional children would have only modest impacts.

The amounts of annual awards in 1995 were clustered in the \$1,500 to \$3,999 range for women with one child; they increased for women with more children (see Table 3). But because of the failure of many noncustodial fathers to pay some or all of the child support they owed, actual payments of child support were considerably lower. In fact, one-fifth of all payments were less than \$1,500. Among all mothers with awards, 47 percent would be eligible for a CSAP with the low maximum benefit, 53 percent would qualify for a CSAP with the medium benefit, and 72 percent would be eligible for a CSAP with the high benefit.

Costs and Effects on Families. If a low maximum benefit was combined with requiring a child support award for eligibility, the result would be a CSAP with modest costs--for 1995, an estimated \$2.6 billion. (That figure is only a fraction of the costs in other income support programs.) The CSAP's net costs, after taking into account savings in the AFDC and Food Stamp programs, would amount to \$1.6 billion before including the gains in revenues that would result from taxing CSAP benefits and \$1.3 billion after including those gains (see Table 4). An estimated 2.4 million families--fewer than one-fifth of those who were potentially eligible for child support--would receive benefits averaging \$1,105 a year.

Raising the maximum benefit to the medium level would increase the gross and net costs of the CSAP by about 75 percent to \$4.5 billion and \$2.8 billion, respectively. Most of the increased costs would reflect larger payments to families--averaging \$1,650 a year--but a portion of the increase would reflect the additional 400,000 families who would begin to receive benefits. Because new families become eligible for benefits as the maximum benefit increases, costs rise more than proportionately. Thus, under the high maximum benefit, net costs would climb to \$5.3 billion, almost double those for the medium benefit. The number of families who were receiving benefits would increase by almost a million to 3.7 million--about one-quarter of all families who were potentially eligible for child support--and their

15. The distribution of the number of children is almost identical for women who have child support awards and all potentially eligible women. Thus, the discussion above would also apply to a CSAP that was confined to children with child support awards.

TABLE 3. ESTIMATED DISTRIBUTION OF CHILD SUPPORT AWARDS AND PAYMENTS BY NUMBER OF CHILDREN, 1995 (In percent)

Amount of Award or Payment	Awards to Women				Payments to Women			
	With One Child	With Two Children	With Three or More Children	All	With One Child	With Two Children	With Three or More Children	All
Less than \$1,500	8	a	a	5	25	13	15	20
\$1,500-\$1,999	13	2	1	8	14	9	8	12
\$2,000-\$2,499	21	6	4	14	18	9	9	14
\$2,500-\$2,999	18	11	7	14	13	9	10	12
\$3,000-\$3,499	13	19	11	15	10	13	9	11
\$3,500-\$3,999	10	14	13	12	8	10	10	8
\$4,000-\$4,499	7	13	11	10	5	11	9	7
\$4,500-\$4,999	3	12	12	7	2	8	8	5
\$5,000 or More	<u>6</u>	<u>23</u>	<u>40</u>	<u>15</u>	<u>4</u>	<u>17</u>	<u>23</u>	<u>11</u>
All Brackets	100	100	100	100	100	100	100	100

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTES: Distributions are for women who have child support awards or who receive child support payments.

Sample sizes were limited for families with two children in the low dollar brackets and for families with three or more children in all dollar brackets.

a. Less than 0.5 percent.

TABLE 4. ESTIMATED COSTS AND EFFECTS OF CHANGING THE MAXIMUM BENEFIT LEVEL IN A CHILD SUPPORT ASSURANCE PROGRAM, 1995

	Award Required			Cooperators Allowed		
	Low Maximum Benefit	Medium Maximum Benefit	High Maximum Benefit	Low Maximum Benefit	Medium Maximum Benefit	High Maximum Benefit
Costs (Billions of dollars)^a						
Gross Costs ^b	2.6	4.5	8.4	8.2	12.6	20.1
AFDC Savings (-) ^c	-0.8	-1.4	-2.4	-3.7	-5.5	-8.1
Food Stamp Savings (-) ^c	<u>-0.2</u>	<u>-0.3</u>	<u>-0.7</u>	<u>-0.6</u>	<u>-1.1</u>	<u>-2.0</u>
Net Costs Excluding Revenues	1.6	2.8	5.3	4.0	6.0	9.9
Increase in Income Tax Revenues(-)	<u>-0.3</u>	n.a.	n.a.	n.a.	<u>-1.0</u>	<u>-1.8</u>
Net Costs	1.3	n.a.	n.a.	n.a.	5.0	8.1
Effects on Families						
Number Receiving Benefits (Millions)						
Families	2.4	2.8	3.7	5.4	5.8	6.8
Children	4.1	4.9	6.4	9.6	10.4	12.0
Families receiving AFDC	0.9	1.1	1.3	3.0	3.1	3.3
Average Annual Payment (Dollars) ^d						
Per family	1,105	1,650	2,255	1,525	2,170	2,955
Per child	630	930	1,315	855	1,210	1,680
Per family receiving AFDC	1,225	1,860	2,730	1,745	2,510	3,590
Percentage of Families Losing Eligibility for AFDC ^e						
	1.4	3.3	8.4	6.7	15.0	29.7

(Continued)

TABLE 4. CONTINUED

	Award Required			Cooperators Allowed		
	Low Maximum Benefit	Medium Maximum Benefit	High Maximum Benefit	Low Maximum Benefit	Medium Maximum Benefit	High Maximum Benefit
Effects on Family Incomes and Poverty Status^f						
Change in Average Annual Income per Family						
Dollars	140	245	475	360	555	945
Percent	g	1	1	1	2	3
Change in Poverty Rate (Percent) ^h	-1	-2	-4	-3	-4	-7
Change in Poverty Gap (Percent) ⁱ	-2	-4	-6	-7	-11	-17

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children; n.a. = not available.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government--federal, state, or local--finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- e. The percentage of families who lose their AFDC is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. Estimates reflect changes for all families who are potentially eligible for child support.
- g. Less than 0.5 percent.
- h. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- i. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

annual payments would rise to \$2,255 on average. With more people receiving benefits and a higher average benefit level, increases in the incomes of beneficiaries and reductions in the number of families living below the poverty level would, of course, be larger. For example, poverty rates among all families who were potentially eligible for child support would decline by 1 percent, 2 percent, and 4 percent, respectively, for the low, medium, and high maximum benefit levels.

The same general patterns that come from boosting the level of the maximum benefit would occur if cooperators were allowed to participate in a CSAP. For example, the net costs (before figuring any gains in revenues) would rise from \$4.0 billion for the low maximum benefit to \$6.0 billion for the medium maximum benefit and \$9.9 billion for the high benefit. The number of families who gained eligibility as the level of the maximum benefit increased would be the same as under a program that confined eligibility to families who had awards. (Because cooperator families by definition are receiving no child support payments, a rising maximum benefit will not make any more of them eligible for a CSAP.)

Under a CSAP that capped benefits at the amount of a family's child support award, costs would drop and some families would lose their eligibility (see Table 5). The gross costs of such a program with a medium maximum benefit level would be \$3.8 billion; the net costs would be \$2.5 billion. Those costs represent reductions of \$0.7 billion and \$0.3 billion, respectively, compared with a CSAP that has a medium maximum benefit and requires an award for eligibility, but has no cap. Under a program with a cap, more than 450,000 families who received the full amount of the child support payments due them would lose all CSAP benefits.

Advantages and Disadvantages. On the one hand, the higher the level of a CSAP's maximum benefit, the larger would be the number of families who received benefits and the larger would be their average benefit. Other effects would be greater reductions in the number of families with incomes below the poverty threshold and a bigger increase in the number of families who lost their AFDC benefits. On the other hand, as the amount of the CSAP's maximum benefit increased, so would its costs, as would the component of it that is a pure income supplement, making it more like a welfare program. In addition, any intended or unintended behavioral effects might be magnified. For example, a large maximum benefit might induce more mothers to secure awards, but at the same time, it might also induce more mothers to work fewer hours. (The potential behavioral effects of a CSAP are discussed later.)

Although the decision on the size of the maximum benefit is largely a normative one, it could be based on several variables that would help to determine the nature of the CSAP. For example, if a state undertook a demonstration of a

TABLE 5. ESTIMATED COSTS AND EFFECTS OF CAPPING BENEFITS FROM A CHILD SUPPORT ASSURANCE PROGRAM AT THE AMOUNT OF A FAMILY'S CHILD SUPPORT AWARD, 1995

	With a Cap on Benefits	Change from Benefits Without a Cap
Costs (Billions of dollars)^a		
Gross Costs ^b	3.8	-0.7
AFDC Savings (-) ^c	-1.1	0.3
Food Stamp Savings (-) ^c	<u>-0.2</u>	<u>0.1</u>
Net Costs Excluding Revenues ^d	2.5	-0.3
Effects on Families		
Number Receiving Benefits (Millions)		
Families	2.3	-0.5
Families receiving AFDC	0.8	-0.2
Average Annual Payment per Family (Dollars) ^e		
	1,675	-25
Percentage of Families Losing Eligibility for AFDC ^f		
	2.6	-0.7 ^g
Effects on Family Incomes and Poverty Status (Percent)^h		
Change in Average Annual Income	1	i
Change in Poverty Rate ^j	-2	i
Change in Poverty Gap ^k	-3	1 ^g

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Estimates are based on the medium maximum benefit. Costs and effects are only for families who include a custodial mother. AFDC = Aid to Families with Dependent Children.

- a. Costs do not include administration of a CSAP or potential savings in other government programs such as Medicaid. In addition, costs do not take into account which level of government—federal, state, or local—finances the program.
- b. After recouping CSAP benefits from child support payments. Families and children whom the costs cover include those who received some benefits during the year but no benefits for the entire year after recoupment.
- c. Savings assume that a dollar of benefits from a CSAP is counted as a dollar of nonwage income.
- d. Revenues were not available for this option.
- e. After recoupment and before reductions in AFDC benefits. Payments thus do not represent an increase in family income.
- f. The percentage of families who lose their AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- g. In percentage points.
- h. Estimates reflect changes for all families who are potentially eligible for child support.
- i. Less than 0.5 percentage points.
- j. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- k. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

CSAP, it might want to tie the maximum benefit to award amounts, to AFDC benefit levels, or to the costs of raising a child in that state.

Given the distribution of award amounts, a larger maximum benefit would increase the pure income supplement aspects of a CSAP. Based on the estimated distribution of award amounts in Table 3, the low maximum benefit would provide benefits greater than awards for only about 6 percent of families who were potentially eligible for a CSAP (assuming that no families without awards, such as cooperators, were allowed to participate). Under the medium maximum benefit, about one-fifth of families would receive CSAP benefits greater than the amount of their award. Almost 60 percent would receive more than their award under the high maximum benefit.

The relationship between CSAP benefits and maximum payments in the AFDC program could also be important. If the maximum benefit from a CSAP fell below the maximum payment from AFDC in a state, few families who were receiving AFDC would become ineligible for it. In only seven states, most of which are in the South, does the medium maximum benefit of \$2,000 a year for one child exceed the January 1995 maximum payment from AFDC for a two-person (one-child) family.¹⁶ Those states accounted for 13 percent of all AFDC cases in fiscal year 1994. The medium maximum benefit of \$3,000 a year for two children rises above the AFDC payment for a three-person (two-child) family in eight states. Thus, the low and medium maximum benefit levels would do little to reduce participation in AFDC, particularly if cooperators were not eligible for a CSAP.¹⁷

Apart from their overall levels, maximum benefits could be varied among different family sizes. For example, the maximum benefit for the first child compared with the amount for additional children could be set in alternative ways that would leave the net costs of the program unchanged. One reasonable approach to establishing that benefit structure would be to approximate the estimated costs of raising children of various ages; another approach would relate the structure of benefits to state guidelines for child support. Altering the benefit structure would change the distribution of CSAP payments among families with different numbers of children. It might also change the program's behavioral effects--for example, the

16. Note that the AFDC benefit is for two people, the adult caretaker and the child, whereas the benefit from the CSAP pertains only to the child.

17. A CSAP could be designed so that states were allowed to supplement its benefits. In that case, more families would become ineligible for AFDC. A state might want to supplement CSAP benefits if its AFDC payments fell to low levels after a CSAP was in place. Allowing supplementation could complicate the administration of a CSAP, however, if the program was fully federally financed and administered. Moreover, if the states had a major role in administering and financing a CSAP, the level of benefits might be allowed to vary among them, as it does in the AFDC program.

incentives to have a first child out of wedlock would change compared with the incentives to have additional children out of wedlock.

Capping the benefits from a CSAP for families at the amount of their child support award would eliminate the pure income supplement component of the program and ensure that it provided benefits only as a substitute for support that was not paid by the noncustodial parent. (In other words, no family would receive benefits unless it had an award and its child support payments fell below the amount of its award.) The cap would reduce the costs of the program and permit it to pay a larger maximum benefit--thus replacing more unpaid child support--without simultaneously increasing the pure income supplement. However, benefits would be greater for higher-income than for lower-income families. In addition, benefits would decline for a large number of families, fewer families would leave the AFDC program, and mothers without child support awards (for example, cooperators) would presumably be unable to participate. Moreover, capping benefits would eliminate the leveling effect of a CSAP, which comes from a fixed maximum benefit that evens out payments to families in similar circumstances but with widely varying award amounts. (Awards vary significantly among and within states because they are set at the local level by individual judges. However, they are nonetheless subject to state guidelines.)

Imposing a Means Test

Instituting a means test would confine benefits to families with low or moderate incomes, depending on the nature of the test. Means tests can be designed in many ways. Some tests, such as the one used in the AFDC program, reduce benefits rapidly as a family's income increases; in the case of AFDC, benefits are reduced dollar for dollar for unearned income as well as for earned income after certain exclusions. Other tests reduce benefits gradually. For example, the earned income tax credit (EITC) phases out benefits at a rate of 21 percent for families with two or more children. (In other words, for every increase of a dollar in countable income beyond a certain level, EITC benefits decline by 21 cents until a family's income reaches a level that makes the family ineligible for the program.) The lower the rate at which benefits are reduced, the larger is the number of families who are eligible for the program, given the maximum benefit.

The restrictiveness of a means test would also depend on how much of a family's income the CSAP counted in determining benefits. For example, existing means-tested programs like AFDC and Food Stamps do not count certain kinds of income (such as the earnings of children who are students). In addition, they treat some types of income more favorably than others (for instance, earnings or, in the AFDC program, a stepparent's income).

The range of possible variations in the design of a means test is enormous. For illustrative purposes, CBO evaluated the following two tests:¹⁸

- o The first means test would begin phasing out benefits when a family's income reached 200 percent of the poverty threshold. The phaseout rate would be 21 percent, and the test would count all of the income of the mother and stepfather, if one was present.
- o The second test would use the same threshold and phaseout rate but count only the income of the mother.

Thus, the benefits from a CSAP received by families with incomes below 200 percent of the poverty threshold would be unchanged. Families with incomes above 200 percent of the poverty threshold would receive less in benefits: every dollar of countable income above that level would reduce the benefits those families received by 21 cents. How much families lost would depend on their incomes relative to their benefits, which would reflect, in turn, the CSAP's maximum benefit and what those families received in child support. If their incomes were high enough or their benefits low enough, some families would lose all of their benefits and become ineligible for the CSAP. Others would simply receive lower benefits.

In part, the distribution of incomes of families who were eligible for benefits from a CSAP would help determine whether policymakers favored a means test and how the test affected costs and families. Based on the TRIM2 estimates, in 1995, about 45 percent to 55 percent of families who were eligible for CSAP benefits had family incomes of \$20,000 a year or less before receiving any benefits (see Table 6). About 15 percent to 20 percent had estimated incomes of more than \$50,000 a year; from 6 percent to 9 percent had incomes of more than \$75,000 a year.¹⁹ With an increase in the CSAP's maximum benefit from the medium to the high level, the proportion of eligible families who had higher incomes would rise modestly. If the CSAP required a child support award for eligibility, families with higher incomes would make up a larger proportion of all families who received benefits, in part

18. Table A-3 presents the effects of another means test that would phase out benefits at a rate of 21 percent beginning with \$1,000 of monthly income and count the income of the mother and stepfather, if one was present. The effects of that test on net costs (before gains in revenue) and on the number of participating families, compared with a CSAP that did not have a means test, were roughly double the effects of the first test discussed here.

19. Some eligible families would choose not to participate in a CSAP; probably more families with higher incomes than with lower ones would make that choice. Thus, TRIM2 estimated that among families who actually participated in the CSAP, a smaller proportion than that for eligible families--11 percent to 14 percent, depending on the standard design package--would have incomes greater than \$50,000 a year.

TABLE 6. ESTIMATED INCOME DISTRIBUTION AND POVERTY STATUS OF ELIGIBLE FAMILIES UNDER THREE STANDARD DESIGNS OF A CHILD SUPPORT ASSURANCE PROGRAM, 1995 (In percent)

	Low Maximum Benefit, Award Required	Medium Maximum Benefit, Award or Cooperation Required	High Maximum Benefit, Award or Cooperation Required
Income Distribution			
\$10,000 or Less	25	37	34
\$10,001-\$20,000	19	20	19
\$20,001-\$30,000	15	13	13
\$30,001-\$50,000	20	16	17
More than \$50,000	<u>21</u>	<u>15</u>	<u>18</u>
All Brackets	100	100	100
Family Income as a Percentage of the Poverty Threshold^a			
100 Percent or Less	32	45	41
101 Percent to 200 Percent	25	23	23
More than 200 Percent	<u>43</u>	<u>32</u>	<u>36</u>
All Categories	100	100	100

SOURCE: Congressional Budget Office based on estimates from the Urban Institute's TRIM2 microsimulation model.

NOTE: Estimates of income are before receipt of benefits from a child support assurance program.

a. The poverty threshold, which varies by family size, was projected by CBO to be about \$12,000 for a family of three in 1995.

because most families who were receiving AFDC and whose incomes were low would lose their eligibility.

Among families who were eligible for CSAP benefits, between approximately 30 percent and 45 percent--depending on the standard design package--had estimated family incomes of more than 200 percent of the poverty threshold in 1995. Because families with higher incomes would probably participate in a CSAP at lower rates than would other families, TRIM2 estimated that a smaller proportion of families who were participating in the program--from 25 percent to 33 percent--had incomes above 200 percent of poverty. Under the means test that would count both the mother's and the stepfather's income, virtually all of those families would either lose eligibility for the CSAP or have their benefits reduced. If only the mother's income was counted, some of those families would retain the full amount of their benefits.

Costs and Effects on Families. Under the first means test, which would count both the mother's and the stepfather's income, the gross costs of the program (and its net costs after calculating savings from the AFDC and Food Stamp programs but before figuring revenue gains) would decline by \$0.5 billion, \$1.2 billion, and \$2.0 billion for the three standard design packages, respectively (see Table 7). Those savings represent almost 20 percent of gross costs for the low benefit, award-required package but 10 percent of gross costs for the other two packages that allow cooperators. Many of the cooperators--and most important, families who were receiving AFDC--would not be affected by the means test. In fact, savings in the AFDC and Food Stamp programs from the CSAP would remain unchanged under the first means test. With those savings unchanged, the net costs before gains in revenues for the three standard design packages would decline by 20 percent to 30 percent.

Allowing for changes in revenues, however, would alter that picture considerably. If the means test substituted for taxes on benefits, the reduction in the costs of the program after figuring in the losses in revenues would drop to \$0.2 billion to \$0.3 billion a year. At that level, this means test, on balance, might cost money because the added costs of administering the test could more than offset program savings.

Under the first means test, about 350,000, or 14 percent, of families participating in a low-benefit, award-required CSAP would lose their eligibility for the program. For the medium- and high-benefit, cooperators-allowed packages, about 475,000 and 650,000 families, respectively, would lose eligibility--an 8 percent to 10 percent reduction. However, among families whose incomes were high enough to make them subject to the means test, much larger proportions--between 33 percent and 43 percent--would become ineligible.