

Instituting the particular means test that CBO simulated would have no effect on the number of families with incomes below the poverty threshold or on the poverty gap. Family incomes would rise a little less than if there was no means test.

Under the second means test, in which only the mother's income was counted, net costs (before revenues) of a medium-benefit, cooperators-allowed package would increase by \$0.5 billion, or 10 percent, compared with a means test that also counted a stepfather's income. Under the second test, about 250,000 more families would receive benefits, and family incomes would rise by slightly more than under the first test.

Advantages and Disadvantages. Means-testing the CSAP would reduce the cost of benefits and eliminate payments to families who were not in need of government assistance. By excluding higher-income families and targeting benefits toward those with lower incomes, the program might gain greater public acceptance in some quarters.

Nonetheless, the arguments against means-testing are strong enough that no supporter of a CSAP--whether a program proposed in recent bills or in academic studies--has advocated a means test. With such a test, one of the important aims of a CSAP, that of replacing unpaid child support, would be lost for moderate- and higher-income families. Also, if the program provided benefits only to low-income families, beneficiaries would be stigmatized and the CSAP seen as "just another welfare program," with an attendant loss of public support.

In addition to those drawbacks, a means test would add significantly to administrative complexity. It would require the CSAP to determine the eligibility of participants and to periodically verify their incomes. The administrative costs per participating family would rise considerably. However, because a means test would reduce the number of those families, overall administrative costs might rise or fall. With the means tests discussed above, administrative costs would probably increase because the tests would reduce the number of participating families by only about 10 percent to 15 percent, depending on the maximum benefit level (and still make administration more complex). In addition, it might also be impossible to operate the CSAP through a computerized child support system, thus requiring an entirely new bureaucracy. Finally, if the means test was viewed as a substitute for taxing CSAP benefits, then the lost tax revenues would have to be added to the program's net costs.

A means test would also lessen the number of hours participating families worked, but how it would affect work overall is hard to ascertain. Under a CSAP with a means test, a rise in a family's income would lead to the family's losing a portion of its benefits as well as having to pay income and payroll taxes on its additional income. The resulting "tax" rates could be quite high, which might make

TABLE 7. ESTIMATED COSTS AND EFFECTS OF MEANS-TESTING BENEFITS UNDER THREE STANDARD DESIGNS OF A CHILD SUPPORT ASSURANCE PROGRAM, 1995

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP with Means Test	Change from CSAP Without Means Test	CSAP with Means Test	Change from CSAP Without Means Test	CSAP with Means Test	Change from CSAP Without Means Test
Costs (Billions of dollars)^a						
Gross Costs ^b	2.1	-0.5	11.4	-1.2	18.1	-2.0
AFDC and Food Stamp Savings (-) ^c	<u>-1.0</u>	<u>0</u>	<u>-6.6</u>	<u>0</u>	<u>-10.2</u>	<u>0</u>
Net Costs Excluding Revenues	1.1	-0.5	4.8	-1.2	7.9	-2.0
Increase in Income Tax Revenues (-) ^d	<u>0</u>	<u>0.3</u>	<u>0</u>	<u>1.0</u>	<u>0</u>	<u>1.8</u>
Net Costs	1.1	-0.2	4.8	-0.2	7.9	-0.3
Effects on Families						
Number of Families Receiving Benefits (Millions)	2.0	-0.3	5.3	-0.5	6.2	-0.7
Average Annual Payment per Family (Dollars) ^e	1,050	-55	2,135	-35	2,935	-20
Percentage of Families Losing Eligibility for AFDC ^f	1.4	0	15.0	0	29.7	0

(Continued)

TABLE 7. CONTINUED

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP with Means Test	Change from CSAP Without Means Test	CSAP with Means Test	Change from CSAP Without Means Test	CSAP with Means Test	Change from CSAP Without Means Test
Effects on Family Incomes and Poverty Status (Percent)^g						
Change in Average Annual Income	h	h	1	h	2	-1 ⁱ
Change in Poverty Rate ^j	-1	h	-4	0	-7	0
Change in Poverty Gap ^k	-2	0	-11	0	-17	0

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

NOTE: The means test phases out benefits at a rate of 21 percent on incomes at or above 200 percent of the poverty threshold. Income of the mother and stepfather, if one is present, is counted. 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. Because of the means test, benefits were considered nontaxable.
- 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. Estimates reflect changes for all families who are potentially eligible for child support.
- h. Less than 0.5 percent or 0.5 percentage points.
- i. In 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.

that family decide to work less. If the family was also in the phaseout range of the EITC and received other means-tested benefits, its "tax" rate could exceed 100 percent. Yet under a CSAP with no means test, participating families who were not receiving AFDC might work less (see the later discussion), so the effect of a means test on how much families worked would be indeterminate. The means test could encourage families who were receiving CSAP benefits to work less, but it could also lead some families that the test made ineligible for a CSAP to work more.

A means test would penalize married people in some instances because marriage could raise the family's income, thus reducing its benefits. Counting only the mother's income for purposes of determining benefits would eliminate the marriage penalty. However, if the family included a stepparent, total family income would be a fairer measure of that family's resources.

Integrating a CSAP with Other Government Programs

One issue in designing income security programs is the interaction of one program's benefits with those of another--in this case, CSAP benefits and benefits in means-tested programs like AFDC and Food Stamps. (For example, families who are receiving AFDC automatically receive Medicaid; Social Security benefits and unemployment compensation both reduce AFDC dollar for dollar; and each dollar of AFDC is fully counted as income in determining food stamp benefits, reducing those benefits by about 30 cents.)

What portion of the benefits from a CSAP was counted in the AFDC and Food Stamp programs would have major effects on the costs of a CSAP as well as on the benefits received by AFDC or food stamp recipients. A CSAP could also affect Medicaid: whether families who were participating in a CSAP but who lost their AFDC benefits retained their eligibility for Medicaid would be an important policy decision. Even the number of checks a family received could have an impact: whether families who were receiving AFDC and who remained eligible for that program after receiving their CSAP benefits got only an AFDC check or checks from both programs might be important.

Recent bills that have proposed demonstrations of a CSAP and studies in the academic literature differ widely on the issue of integrating benefits. Most of the bills proposed counting less than 100 percent (typically, 50 percent) of the benefits from a CSAP in determining AFDC payments over at least some income ranges.²⁰ Moreover, if a family lost its AFDC because of the benefits from a CSAP, the mother

20. Several bills would have given the Secretary of Health and Human Services discretion to count less than 100 percent of CSAP benefits.

or other caretaker would have continued to be eligible for AFDC. Some bills would also have allowed the family to remain eligible for Medicaid and for other government programs if it lost its eligibility for AFDC. By contrast, studies by some researchers proposed offsetting AFDC by a dollar for each dollar of benefits from a CSAP and in many cases were silent about eligibility for other programs.

In the earlier estimates presented in this memorandum, each dollar of CSAP benefits was fully counted as income in determining AFDC and Food Stamp payments. In the AFDC program, a dollar of CSAP benefits would reduce AFDC by a dollar. In the Food Stamp program, that dollar of CSAP benefits taken alone would reduce food stamps by about 30 cents for families who were not receiving AFDC. However, for families who were receiving AFDC, the level of food stamps would remain unchanged because the decline in AFDC payments--also counted as income in the Food Stamp program--would be fully offsetting. An alternative would be to count 67 percent of any CSAP benefits as income in the AFDC program but continue to count all of the benefits in determining the amount of food stamps a family received. (The AFDC program currently counts 67 percent of earned income, after certain deductions, during the first four months of receipt; thereafter, it counts 100 percent of a marginal dollar of earnings.) Under both of the above options, a family would receive checks from both the AFDC program and the CSAP as long as it continued to be eligible for AFDC.

Costs and Effects on Families. Altering from 100 percent to 67 percent how CSAP benefits were counted in the AFDC program would affect savings for AFDC and food stamps only (among the costs that CBO measured in this analysis). Moreover, that alteration would affect only families who were receiving AFDC. Savings in that program would drop by \$0.3 billion to \$2.5 billion, depending on the standard design package (see Table 8). A rise in the incomes of families who were receiving AFDC would lead to a decline in their food stamp benefits, adding slightly to savings in the Food Stamp program. As a result, the net costs of a CSAP (before figuring its effects on revenues) would increase by 17 percent to 28 percent, compared with a program that counted 100 percent of CSAP benefits in the AFDC program.

Under the alternative option (counting only 67 percent of benefits), many fewer families--roughly one-half fewer--would lose their AFDC. In addition, poverty rates and gaps would decline more steeply, and family incomes would rise by larger amounts.

Advantages and Disadvantages. Reducing AFDC by less than the full amount of CSAP benefits would allow families who continued to receive AFDC to benefit to some degree from a CSAP. With an offset of less than 100 percent, the incomes of some of the poorest families would increase. Also, families who were receiving

TABLE 8. ESTIMATED COSTS AND EFFECTS OF COUNTING AS INCOME IN THE AFDC PROGRAM 67 PERCENT OF BENEFITS UNDER THREE STANDARD DESIGNS OF A CHILD SUPPORT ASSURANCE PROGRAM, 1995

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent
Costs (Billions of dollars)^a						
Gross Costs ^b	2.6	0	12.6	0	20.1	0
AFDC Savings (-)	-0.5	0.3	-3.7	1.8	-5.6	2.5
Food Stamp Savings (-)	<u>-0.2</u>	<u>-0.1</u>	<u>-1.3</u>	<u>-0.2</u>	<u>-2.1</u>	<u>c</u>
Net Costs Excluding Revenues ^d	1.9	0.3	7.6	1.7	12.4	2.5
Effects on Families						
Percentage of Families Losing Eligibility for AFDC ^e	1.0	c	7.0	-8.0 ^f	15.6	-14.1 ^f

(Continued)

TABLE 8. CONTINUED

	Low Maximum Benefit, Award Required		Medium Maximum Benefit, Award or Cooperation Required		High Maximum Benefit, Award or Cooperation Required	
	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent	CSAP Counting 67 Percent	Change from CSAP Counting 100 Percent
Effects on Family Incomes and Poverty Status (Percent)^g						
Change in Average Annual Income	h	h	2	h	3	1 ^f
Change in Poverty Rate ⁱ	-1	h	-5	-1 ^f	-8	-1 ^f
Change in Poverty Gap ^j	-3	-1 ^f	-16	-6 ^f	-24	-8 ^f

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.

- 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. Less than \$50 million or 0.05 percentage points.
- d. Revenues were not available for this option.
- e. The percentage of families who lose AFDC benefits is based only on those families who are receiving AFDC and who are also eligible to receive child support.
- f. In percentage points.
- g. Estimates reflect changes for all families who are potentially eligible for child support.
- h. Less than 0.5 percent or 0.5 percentage points.
- i. The poverty rate is the percentage of families whose incomes fall below the poverty threshold.
- j. The poverty gap is the aggregate difference between the poverty threshold for a family of a given size and its income.

AFDC would have more of an incentive to secure child support awards.²¹ But the net costs of a CSAP would rise substantially without a dollar-for-dollar offset, and fewer families would lose their eligibility for AFDC. In addition, for some families who were receiving AFDC, CSAP benefits would be treated more favorably than child support paid by noncustodial parents.

The estimates throughout this memorandum do not include any savings in the Medicaid program or in other government entitlements that would result from families' becoming ineligible for AFDC (and thus often ineligible for those other programs). The additional savings could bring down the costs of a CSAP substantially. However, losing those other benefits would make some families who were receiving AFDC less likely to pursue child support awards or to participate in a CSAP, if they had the choice.²²

A third issue in program integration concerns the number of checks that would be sent each month to a family who was receiving AFDC. Consider what would happen if a family received payments for both CSAP benefits and AFDC in the same month. If the family's earnings increased, it would lose its eligibility for AFDC faster because the government would use all of its earnings to reduce the smaller AFDC payment and none to reduce the CSAP benefits (assuming they were not means-tested).²³ Even without any earnings, a mother with CSAP benefits and a much smaller AFDC payment might see more of a potential for a job and a life off welfare. But allowing a family who was receiving AFDC to remain in both programs would raise administrative costs. It might also change the relative shares of financing

21. There are other methods of providing an incentive to secure awards. Increasing the amount of child support that could be retained by AFDC families would be one; providing a one-time, or phased-out, payment when paternity was established would be another.

22. Two factors may affect how families view the potential loss of Medicaid. First, under current law, states must cover all children under age 19 who were born after September 30, 1983, in families with income below the poverty level. States must also cover pregnant women and children under age 6 in families with income below 133 percent of the poverty level. (States have the option to cover pregnant women and infants under 1 year of age in families with income below 185 percent of the poverty level. In addition, some states now have waivers that enable them to cover pregnant women and children at higher income levels.) Second, including coverage for children under the noncustodial parent's health insurance policy when child support awards are issued or modified is likely to become more widespread.

23. For example, assume that a mother who is receiving only AFDC earns \$100 a month and receives \$400 a month from the AFDC program. Her earnings will result in a decrease of \$100 in her AFDC benefit. (Deductions from earnings are ignored in this example.) She will then have a total income of \$400 and remain eligible for AFDC. If that same mother received CSAP benefits of \$350 and an AFDC payment of \$50 (her total benefits equaling \$400), the added earnings of \$100 would make her ineligible for AFDC, and her total income would rise to \$450 (as long as the CSAP benefits were not means-tested).

of the federal and state governments, assuming that such shares differed between the AFDC program and the CSAP (see the discussion in the next section).

Other Design Issues

In designing a new income security program, dozens of issues would have to be addressed. Two such matters would be of considerable importance. First, how and by whom would a CSAP be administered and financed? Second, how would benefits from a CSAP be treated relative to regular child support?

Administration and Financing. Many options are available for both the administration of a CSAP and its financing. Existing national programs for income security run the gamut of choices from full federalization to joint federal/state operations. The Social Security system is administered and funded entirely by the federal government. The Supplemental Security Income (SSI) program, which aids low-income aged, blind, and disabled people, is federally administered and funded, but some states supplement the federal benefits. In the Food Stamp program, the federal government provides financing and sets rules and requirements but turns administration over to the states.²⁴ The AFDC program at present is a true hybrid, with both federal and state governments setting certain policies and financing benefits and administration in varying degrees. However, federal involvement would diminish greatly if a block grant was enacted for the program.

It would be possible to implement a nationwide CSAP following any of those models, or none of them.²⁵ Another choice is a block-grant approach, in which the federal government pays for the program but states implement and administer its policies. One factor may complicate the choice of administration and financing. A CSAP must be closely integrated with the child support system. (Its monthly benefits would depend on the amount of child support paid in any month; recoupment might depend on payments of past-due child support; and eligibility would probably depend on whether a child had an award or the custodial parent cooperated in securing one.) The system of child support is itself a hybrid, with policies and practices set by federal, state, and local governments and with joint financing of the Child Support Enforcement program.

24. The federal government pays for all benefits, and the states share about equally in the costs of the program's administration.

25. Of course, a CSAP need not be implemented nationally. States could be given the option of operating one with some federal financing. Moreover, states could begin a CSAP on their own at any time if they were willing to pay its costs.