

Potential Effects of a Self-Support Reserve in Wisconsin

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Short Abstract

New policy requires states to reconsider how much child support they require from low-income noncustodial parents (NCPs) and encourages the use of a Self-Support Reserve (SSR), an amount of income set aside for the NCP's own needs before child support is assessed. SSRs trade off improving economic well-being of NCPs at the expense of CPs and children. We use unique administrative data on matched pairs of Wisconsin parents to simulate child support orders and income under various SSR designs. We address the characteristics of NCPs whose orders would change; how often NCPs, CPs, and children might be helped or hurt by an SSR; the relative well-being of all parties; and how the SSR design itself matters. Preliminary analysis suggests NCPs have higher average, but lower median, earnings than CPs; application of an SSR would leave NCPs with lower net earnings than CPs, but with substantial variation under alternative SSR designs.

Extended Abstract

Background and Motivation: High divorce rates and an increasing proportion of births to unmarried parents, have led to an increase in single-parent households in the U.S. where most children spend at least some time living apart from one of their parents (Andersson, Thomson & Duntava, 2017). Children living with a single parent are particularly economically vulnerable, with more than one in three living in poverty (Grall, 2018). With limited public income support available, private child support—typically from a nonresident father—is essential to many children's economic wellbeing. However, increasing awareness of the challenging economic circumstances of many noncustodial parents (NCPs) highlights a complicated policy challenge for the formal child support system: order amounts must balance the NCP's ability to pay while supporting a reasonable standard of living for the child and the custodial parent (CP). On one hand, setting the support level too high may increase the likelihoods that the NCP: (1) cannot meet his or her basic needs with remaining income; and (2) will be unable to make required payments to the child and CP. On the other, the child support formulas in each state (guidelines) are intended to ensure that children and CPs receive enough support to meet a child's basic needs; setting the support level too low may disadvantage the child, and be unfair to the CP.

Given the combination of the increased rates of economic vulnerability for families in the child support system and the potential impact of child support on both CPs and NCPs, understanding how policy for low-income NCPs impacts the economic well-being of the NCP as well as the CP and child is crucial. Prior studies suggest that, for divorced families, custodial mothers are worse off than noncustodial fathers, but that the child support system plays an important role in mitigating this inequality (e.g. Bartfeld, 2000; Ha, Cancian, & Meyer, 2018). For never-married families, however, fathers begin with an economic advantage, but, once child support is taken

into account, custodial mothers are, on average, relatively better off (Ha, Cancian, & Meyer, 2018). This emphasizes the tension inherent in child support policy for low-income NCPs.

A recent update to federal regulations further underscores the need to consider how guidelines should treat low-income NCPs, and the importance of better understanding family composition and income in order to avoid unintended consequences. The new federal regulations require states to ensure that their child support guidelines “take into consideration the basic subsistence needs of the noncustodial parent (and at the State’s discretion, the custodial parent and children) who has a limited ability to pay by incorporating a low-income adjustment, such as a self-support reserve or some other method determined by the state” (Federal Register 81, 244: p. 93494).

One policy approach to be considered is the use of a self-support reserve, or SSR, to ensure that the NCP’s basic needs are met. States that use SSRs allow an individual to keep a certain threshold of income, and child support orders do not apply below that income. The consequence is that the child does not receive any financial support when NCP earnings are below the SSR amount, and, depending on the design and the NCPs income, child support amounts may be generally lower. To understand the consequences of incorporating an SSR in child support guidelines, it is essential to understand the characteristics of cases that might be affected by the application of such guidelines, including the pre-child support incomes of both the CP and NCP. Given high rates of complex families—in which the NCP owes support to children in multiple families, and/or the CP receives support from multiple NCPs—it is also important to account for child support owed to or from other parents. Only with information on both parents, and both parents’ other partners, is it possible to evaluate the potential impact on the economic well-being of the NCP, CP and the child. However, few data sources include all the necessary information.

This study seeks to understand the trade-offs inherent in low-income NCP policy, and, in particular, how the implementation of an SSR would impact the economic well-being of (1) the NCP, and (2) the child and CP. We are interested in understanding the proportion, and characteristics of NCPs whose orders would change with the application of alternative SSRs, as well as the implications of alternative SSRs for the relative economic well-being of both parents and the child. We address how often NCPs, CPs, and children might be helped or hurt by the implementation of an SSR (in absolute terms), the relative well-being of both parties, and how the SSR design itself matters. We use comprehensive administrative data from Wisconsin to address these questions empirically, and to support simulations of alternative policies.

Data, Sample, Measures, and Approach: We use a unique set of data derived from the state of Wisconsin administrative systems, primarily from the child support enforcement data that is incorporated into Wisconsin’s Multi-System Person File (MSPF), a set of merged administrative records. The MSPF allows us to match 160,214 pairs of CPs and NCPs and access information from the Child Support System regarding child support orders and payments, earnings records from the Unemployment Insurance System, and data on public benefits such as SNAP and TANF. Our sample is the stock of cases with child support orders in 2016, including 139,642 NCPs and 141,885 who contribute to the matched sample of NCP-CP pairs.

The WI data is well suited for this analysis in comparison to other data sets because we have wage and benefit data on matched pairs of parents and their other parenting partners, if any.

Thus, we are able to simulate the impact of hypothetical orders on the economic well-being of both CPs and NCPs, taking into account other partners. This offers a unique opportunity to understand the impact of a variety of child support policy options on low-income parents.

In line with our research aims, we simulate several potential SSR policy designs and conduct interrelated analyses for each option. First, we estimate the number and proportion of child support cases in Wisconsin that would be affected by application of each SSR option, and provide descriptive information on the characteristics of these cases. Second, we simulate child support orders given application of each option (and change relative to the orders that would result from the current low-income adjustment). Third, we compare CP family earnings to NCP earnings, given application of each option and relative to pre-child support earnings and to the current guidelines. (Our preliminary results do not consider benefits, so only earnings and child support are considered income.) We consider both changes to the poverty gap (the income necessary to reach the poverty line), and whether application of each SSR reduces or increases the disparity in family-size adjusted income between the NCP and CP family.

Finally, one of the key concerns motivating reconsideration of child support orders for low income NCPs is that they may be discouraged from paying support given high orders—especially across multiple families. Some have argued that “right-sizing” child support orders will result in actual payments being higher, even if (or because) orders are smaller. With this in mind, we also estimate the change in compliance required to offset the decline in orders associated with an SSR. That is, we ask: “How much more likely would an NCP have to be to pay their full order (or how much higher of a proportion of their order would they have to pay) such that the child would receive as much child support given the lower order due to the application of the SSR?”

Potential SSRs Simulated: We consider SSRs that are based on 75%, 100%, and 125% of the federal poverty threshold. In each case, no child support is owed until NCP earnings reach the SSR. But SSR designs also vary based on how earnings just above the SSR are incorporated; we consider three variants. In scenario 1, the first dollar of the NCP’s earnings above the SSR is the first dollar in earnings considered in setting the order amount. In Wisconsin, this means that the NCP would owe between 11% and 17% on any earnings above the SSR for one child. In Scenario 2, once the NCP’s earnings are above the SSR, the NCP owes the maximum amount possible to “catch up” to the guidelines order amount based on total earnings. This amount is capped at current federal maximum of 60% of income. Essentially, the NCP owes 60% of all earnings above the SSR until the order amount accounts for what would have been owed in the absence of the SSR. Scenario 3 is similar to Scenario 2, but with no cap on the maximum owed. Once the NCP’s earnings are above the SSR, every dollar the NCP earns above the SSR is dedicated to child support owed until the order reaches the amount that would have been owed in the absence of the SSR.

The three levels of SSR combined with the three scenarios for treating earnings above the SSR result in nine possible orders. These nine orders can be quite different from the current Wisconsin low-income adjustment and from each other. For example, an NCP with earnings of \$700/month who owes support to only one child would have a monthly order of \$78.54 according to the current Wisconsin guidelines. In contrast, this NCP would not owe support in

any SSR we simulate, as earnings are below 75% of the poverty threshold. An NCP owing to only one child but with earnings of \$1200/month would owe \$176.76 according to the current guidelines. Under the nine scenarios we consider, orders would range from \$0 (all three scenarios with SSRs of 125% of poverty) to \$176.76 (SSR of 75% of poverty, scenario 3).

Preliminary Results: We document the difference in NCP and CP earnings given alternatives scenarios, and the implications for relative earnings—using both actual earnings (see Table 1) and income-to-needs as reflected in the official poverty line (not shown). Our preliminary analysis suggests that NCPs have higher average earnings, but somewhat lower median earnings, than CPs (comparing earnings adjusted for family size shows a substantial advantage for NCPs). Using the current child support guidelines, which include an adjustment for low income, the table shows that NCPs paying full child support would be predicted to have average net earnings-less-child-support of \$1,564. Applying our three SSR designs, with the SSR set at 100% of the federal poverty line, would leave the NCP with \$1,576 to \$1,676 in earnings-less-child-support. The second panel shows that CPs receiving all child support would be expected to have net earnings-plus-child-support of \$2,088 under current guidelines and between \$1,948 and \$2,069 with our three SSR designs set at 100% of the federal poverty line. There is more substantial variation when we consider alternative SSR designs (mean child support owed varies from \$294 to \$456 per month).

Table 1: Noncustodial and Custodial Parent Earnings after Paying/Receiving Support

| | Noncustodial Parent | | Custodial Parent | |
|---|---------------------|---------|------------------|---------|
| | Mean | Median | Mean | Median |
| Monthly earnings in 2016, no child support | \$2,004 | \$1,023 | \$1,571 | \$1,199 |
| Child support from WI low-income guidelines | \$1,564 | \$765 | \$2,088 | \$1,676 |
| Child support from Scenario 1 at SSR 75% FPL | \$1,658 | \$888 | \$1,969 | \$1,547 |
| Child support from Scenario 2 at SSR 75% FPL | \$1,573 | \$801 | \$2,074 | \$1,659 |
| Child support from Scenario 3 at SSR 75% FPL | \$1,572 | \$796 | \$2,076 | \$1,661 |
| Child support from Scenario 1 at SSR 100% FPL | \$1,676 | \$904 | \$1,947 | \$1,526 |
| Child support from Scenario 2 at SSR 100% FPL | \$1,579 | \$822 | \$2,066 | \$1,650 |
| Child support from Scenario 3 at SSR 100% FPL | \$1,576 | \$814 | \$2,069 | \$1,655 |
| Child support from Scenario 1 at SSR 125% FPL | \$1,715 | \$945 | \$1,899 | \$1,476 |
| Child support from Scenario 2 at SSR 125% FPL | \$1,595 | \$871 | \$2,044 | \$1,623 |
| Child support from Scenario 3 at SSR 125% FPL | \$1,590 | \$861 | \$2,051 | \$1,632 |

Notes: N=160,214 NCP-CP pairs.

Given the high proportion of children, and especially low-income children, living apart from a parent, the child support system is a critical part of the economic support strategy for many families. There has been much debate about whether the child support system expects too much, or too little, from NCPs, and recent changes in federal regulations require that every state reconsider their policy with this issue in mind. To inform this process, we use uniquely comprehensive data from a single state, Wisconsin, to consider the consequences of alternative policies for NCPs, CPs and their children. We highlight the importance of considering family complexity—i.e. that many NCPs owe support to more than one family, and many CPs are owed support by more than one partner. Our study provides valuable insights into the relative economic advantage of custodial mothers and noncustodial fathers and the role of policy in exacerbating or mitigating any disadvantage.

References

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