

Cost Avoidance and Cost Recovery in California's Child Support Program: SFY 2000-01

**Report Prepared for the
Child Support Directors Association
Of California**



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Abstract

In State Fiscal Year (SFY) 2000-01, the California Child Support Program collected \$1.9 billion in child support on behalf of families in California and retained about one third of this amount (\$664 million) in order to help recover the costs of benefits provided to current and former welfare recipients. The remaining \$1.3 billion in child support was distributed to families. The increased family financial stability and independence made possible by this child support resulted in at least \$233 million in cost avoidance to the government programs analyzed here—CalWORKs, the Food Stamp Program, Medi-Cal, SSI, and federal housing assistance. The \$233 million estimate was derived using the same approach as was used in a recent national study funded by the federal Office of Child Support Enforcement. The estimate should be viewed as a lower-bound estimate, because it does not capture all possible sources of cost avoidance, and does not capture the longer-term benefits of child support to families and children.

In addition to the child support collected on behalf of families in California, the California Child Support Program collected approximately \$11.4 million in child support for out-of-state custodial families currently receiving TANF or foster care assistance, and \$99.2 million in child support for out-of-state families not currently receiving assistance. This produced additional cost recovery and cost avoidance to states and the federal government, but is not captured in the estimates presented here.

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Background

California's Child Support Program works to promote family self-sufficiency and child well being through the collection and distribution of child support. In each county, local child support agencies work to establish paternity (when necessary), establish orders for support, and collect child support payments for families. Program leadership, oversight, and funding are provided at the state level by the California Department of Child Support Services, and at the federal level by the Child Support Enforcement (CSE) Program.

The CSE Program was established in 1975 in an effort by Congress to reduce public expenditures on welfare. Through a process referred to as "cost recovery," the government keeps most of the child support collected on behalf of current welfare recipients, and some of the child support collected on behalf of former welfare recipients, as reimbursement for the welfare benefits provided to the family.¹

Cost recovery remains an important component of the CSE Program. However, there has been increasing recognition of the importance of child support in helping families achieve and maintain self-sufficiency, and Congress has taken steps to increase the amount of child support distributed to families. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) included "family first" child support distribution rules that allow former welfare recipients to keep more of the child support collected on their behalf, and the Temporary Assistance for Needy Families (TANF) reauthorization bills currently before Congress include provisions that would

¹ In order to receive cash assistance under the California Work Opportunity and Responsibility to Kids (CalWORKs) program or the former Aid to Families with Dependent Children (AFDC) program, a custodial parent is required to assign her rights to child support to the government. With the exception of a \$50 monthly child support "pass-through", child support collected on behalf of a current CalWORKs recipient is retained by the government in order to help recoup the benefits provided to the recipient. Rules governing distribution of child support to former welfare recipients are complex, but in general, the government retains child support collected on obligations accrued during the assistance period and on collections obtained through the federal income tax intercept (Roberts 2000).

allow current and former welfare recipients to receive even more of the child support collected on their behalf.²

As more child support is targeted to helping families achieve and maintain self-sufficiency, less is available for cost recovery. Yet even the goal of promoting self-sufficiency suggests some financial benefits for government, as increased levels of financial stability and independence mean that families require less assistance from the government in other areas, such as food, housing, and medical assistance. These financial benefits—referred to here as “cost avoidance”—accrue not just from current or former welfare recipients, but also from families whose child support (when combined with other income) has enabled them to avoid welfare entirely and to reduce or eliminate their need for assistance from other government programs. Cost avoidance occurs when child support income reduces the benefit a family receives under a government means-tested transfer program, or is sufficient to render a family ineligible for assistance or to cause an eligible family to decide not to participate in the program. Any government program that counts a family’s income when determining eligibility or benefits, and that includes child support as part of that income, is a potential candidate for child support cost avoidance.³

Data on the extent of cost recovery is readily available, but cost avoidance estimates are much harder to obtain, and relatively little work has been done in this area.⁴ In order to provide greater insight into this issue, the federal Office of Child Support Enforcement (OCSE) recently contracted with the Urban Institute to develop a national cost avoidance estimate (Wheaton 2003). The Urban Institute study showed that cost avoidance is quite substantial, amounting to \$2.6 billion nationally in 1999.

In 2003, the Child Support Directors Association of California (CSDA) contracted with the Urban Institute to develop a cost avoidance estimate for California using the same methodology as had been used for the OCSE study.⁵ The results of that

² For further discussion of the TANF reauthorization bill, see Turetsky (2003).

³ Cost avoidance is possible even in programs that do not count child support when determining eligibility and benefits. For example, cost avoidance can occur if the additional income from child support is enough to cause a family to decide not to seek assistance. To the extent that child support affects behavior (such as by improving child educational outcomes or discouraging divorce and out-of-wedlock child bearing) other benefits to society may occur.

⁴ See Barnow et al (2000) for a comprehensive review of the cost avoidance literature.

⁵ See the Technical Appendix for a detailed discussion of the methodology used in this analysis.

study are presented here (for state fiscal year (SFY) 2000-01) and cover the following programs: the California Work Opportunity and Responsibility to Kids (CalWORKs) program, the Food Stamp Program, Medi-Cal, the Supplemental Security Income (SSI) program, and federal housing assistance.⁶ SFY 2000-01 was selected as the year for analysis because that was the most recent year for which data were available.⁷ The results likely understate the full extent of cost avoidance, as not all sources of cost avoidance are captured for some of the analyzed programs, and as additional cost avoidance occurs in programs not covered by the analysis.

California's Child Support Collections and Cost Recovery

In SFY 2000-01, California collected \$1.9 billion in child support on behalf of families in California, and retained about one third of that amount (\$664 million) in order to help recover the costs of benefits provided to current or former CalWORKs recipients, foster care and KinGap recipients, and Medi-Cal recipients (DCSS 2003).⁸ Of the total \$664 million in California's cost recovery, approximately 47 percent (\$315 million) went to the federal government, 47 percent (\$309 million) went to the California General Fund, and 5 percent (\$36 million) went to California's counties (DCSS 2003).⁹ In addition to the child support collected on behalf of families in California, the California Child Support Program collected approximately \$11.4 million in child support for out-of-state custodial families currently receiving TANF or foster care assistance, and \$99.2 million in child support for out-of-state families not currently receiving assistance.¹⁰

⁶ CalWORKs is the name of California's TANF program, and Medi-Cal is the name of the state's Medicaid program.

⁷ As discussed in the Technical Appendix, the cost avoidance estimates rely on data from the March 2001 and March 2002 Current Population Surveys. The March 2003 Current Population Survey (which provides data for calendar year 2002) was not available in time for use in this analysis.

⁸ About \$47 million of the total \$664 million in cost recovery was for the foster care and KinGap programs. KinGap (Kinship Guardianship Assistance Payment) provides assistance to families who provide guardianship to children who are related to them. About \$4 million of the total cost recovery was cash medical support forwarded to the Medi-Cal program to provide reimbursement for Medi-Cal services.

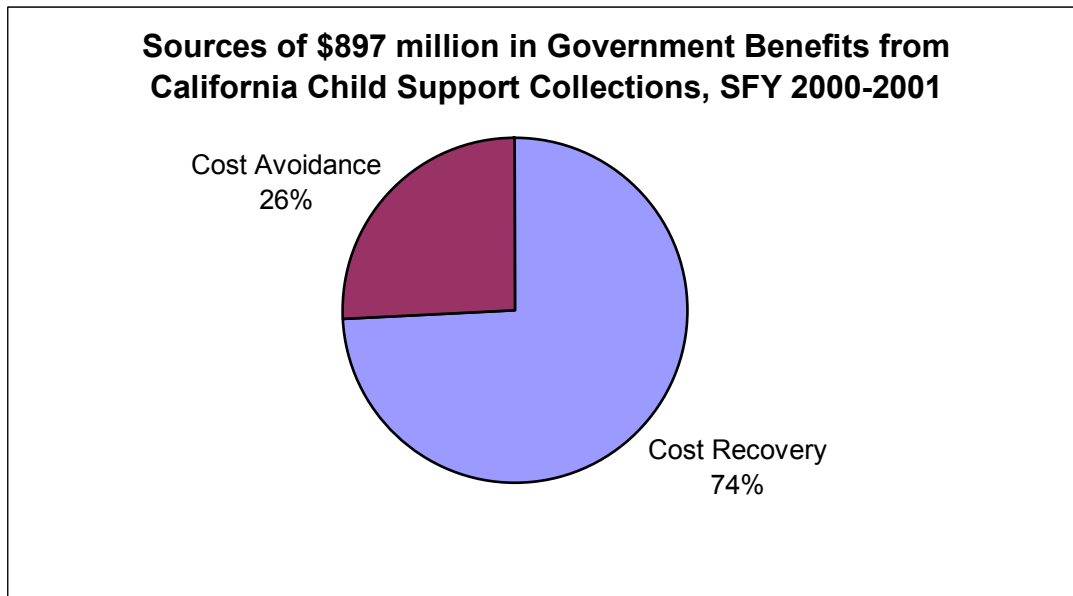
⁹ The remaining 1 percent was cash medical support forwarded to the Medi-Cal program.

¹⁰ Child support collected by California on behalf of custodial families in other states generates cost recovery and cost avoidance to the recipient state and the federal government, although this is not captured in the estimates presented in this report. Child support collected by other states on behalf of custodial families in California is included in the California child support collection, cost recovery, and cost avoidance numbers presented in this report.

California's Cost Avoidance

The two-thirds of California's child support collections not retained by the government for cost recovery is distributed to the families on whose behalf it is collected. In SFY 2000-01, California collected and distributed about \$1.3 billion to California families (DCSS 2003). Cost avoidance from these distributed collections amounted to \$233 million in SFY 2000-01, accounting for about 26 percent of the state's combined \$897 million in cost recovery and cost avoidance (figure 1).¹¹ Cost avoidance is highest in the CalWORKs program, followed by the Food Stamp Program, Medi-Cal, SSI, and federal housing assistance (figure 2).

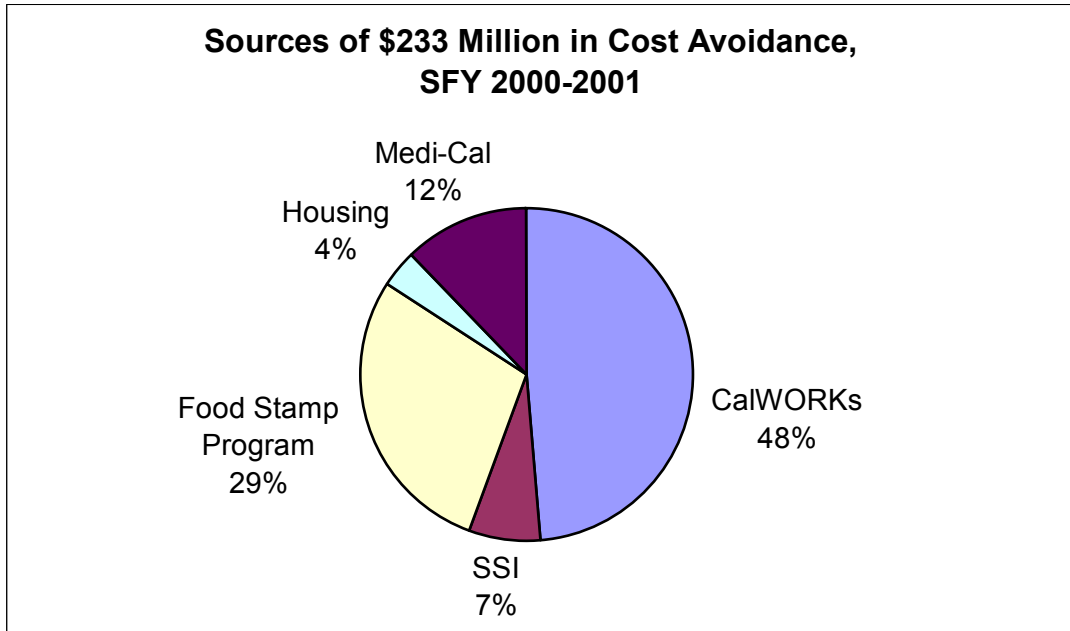
Figure 1: Government Benefits from California Child Support Collections



Source: Urban Institute's TRIM3 Microsimulation Model, using data from the March 2001 and 2002 Current Population Surveys and the California CS 800 & 820 reports.

¹¹ Additional cost recovery and cost avoidance occurs as a result of child support collections made in California on behalf of custodial families in other states.

Figure 2: Sources of Cost Avoidance



Source: Urban Institute’s TRIM3 Microsimulation Model, using data from the March 2001 and 2002 Current Population Surveys and the California CS 800 & 820 reports.

CalWORKs

California experiences the greatest amount of cost avoidance (\$113.1 million in SFY 2000-01) in the CalWORKs program, which provides cash assistance and employment-related services to needy California families (table 1). Cost avoidance to the CalWORKs program occurs when child support income renders a family ineligible for cash assistance or is sufficient to cause an eligible family to decide not to apply for benefits.¹² Families who are able to avoid participation in CalWORKs as a result of their child support income also benefit in that they are able to avoid reliance on a time-limited benefit.¹³

¹² Other sources of CalWORKs cost avoidance, such as a reduced need for diversion payments (i.e., one-time, lump-sum payments intended to help families avoid receipt of cash assistance) or reduced need for subsidized child care, are not captured in this estimate.

¹³ With some exceptions, able-bodied adult CalWORKs recipients are subject to a 60-month time limit for cash assistance. However, the children of adult recipients who have reached the 60-month time limit can continue to receive coverage under a child-only grant (Montgomery et al 2002).

CalWORKs is funded by the federal government's TANF block grant, in combination with state and county funds. In order to receive the TANF block grant, California must meet a spending requirement called the maintenance of effort (MOE).¹⁴ California typically meets, but does not exceed, the MOE spending level required for receipt of the TANF block grant (California Budget Project 2001; LAO 2003; Finegold et al 2003). Therefore, child support cost avoidance to the CalWORKs program enables California to provide greater benefits and/or services under programs funded by TANF and MOE dollars than would otherwise be possible, but does not directly result in reduced expenditures at the state or federal levels.¹⁵ In tight fiscal times, cost avoidance to the CalWORKs program reduces the extent to which cuts must be made to CalWORKs benefit levels and services and/or to other programs that receive TANF and MOE funding.¹⁶

¹⁴ MOE and TANF funds can be spent on a broad array of social services. In SFY 2000-01, approximately 47 percent of California's CalWORKs and TANF funds was spent on cash assistance; another 19 percent was spent on child care; 14 percent was spent on employment and supportive services; 7 percent was spent on administration; and 13 percent was spent on other social service programs (California Budget Project 2001).

¹⁵ The California's Legislative Analyst's Office (LAO) has suggested two budgetary methods in which a reduction in spending on CalWORKs benefits might result in savings to the General Fund (LAO 2003). The first method involves identifying additional areas of state spending that satisfy the MOE requirement, so that benefit reductions could occur without requiring money to be spent elsewhere to satisfy the MOE requirement. The second method involves shifting funds to the Child Care and Development Fund Block Grant and performing additional budget manipulations. By reducing the need for cash assistance, cost avoidance might make reduced spending on CalWORKs benefits more feasible than would otherwise be the case, and therefore facilitate efforts such as these to produce savings to the General Fund.

¹⁶ California typically adjusts spending so as to not exceed the MOE requirement. For example, the 2002 Budget Act reduced support to key components of the CalWORKs program in order to avoid spending more than the TANF block grant and MOE requirement. Cuts included an eight-month delay in the cost-of-living adjustment for CalWORKs cash assistance (for savings of \$99.1 million); reduced funding for county CalWORKs administration (for savings of \$47.4 million); and reduced funding for adult education and community college services for CalWORKs recipients (for savings of \$74 million) (California Budget Project 2003). Had child support income not kept some families off the CalWORKs rolls, additional cuts would have been required.

Table 1: California Cost Avoidance: Federal and California Share, SFY 2000-01
(millions of dollars)

	Federal Share	California Share	Total
Entitlement Programs			
Food Stamps	66.7	0	66.7
Medi-Cal ¹	14.6	13.9	28.6
SSI ²	16.4	0	16.4
Total	97.7	13.9	111.6
Block Grant/Discretionary Programs			
CalWORKs	0	113.1	113.1
Housing ³	4.1	4.1	8.2
Total	4.1	117.2	121.3
All Programs	101.8	131.1	233.0

Source: Urban Institute's TRIM3 microsimulation model, using data from the March 2001 and March 2002 Current Population Survey. Results are adjusted to reflect levels of child support distributions reported in California's CS 800 & 820 reports for SFY 2000-01.

¹ Medi-Cal cost avoidance is split into federal and California shares in accordance with the FY2001 FMAP (federal medical assistance percentage).

² The estimates do not include the state supplemental portion of SSI.

³ Cost avoidance for the public and subsidized housing programs initially benefits local housing authorities, but may eventually result in lower federal spending. Therefore, a 50/50 split between the federal government and California is assumed.

Food Stamp Program

California's child support collections resulted in an estimated \$66.7 million in cost avoidance to the Food Stamp Program in SFY 2000-01. Cost avoidance to the Food Stamp Program occurs when child support lowers the amount of benefit a participating household receives, renders an otherwise eligible household ineligible, or is sufficient to cause an eligible household to decide not to participate. Cost avoidance to the Food Stamp Program would be even higher than \$66.7 million if it were not for the child support deduction available to noncustodial parents who pay child support.¹⁷ Because the

¹⁷ The Food Stamp child support deduction increases the amount of food stamp benefits received by noncustodial parents who pay child support that they are legally obligated to pay. This increases food stamp benefits in California noncustodial parent households by an estimated \$4.3 million, relative to what would have been received if no child support had been paid. The increase in food stamp benefits for noncustodial parent households somewhat reduces the extent of cost avoidance to the Food Stamp Program. In the absence of the child support deduction, total cost avoidance to the Food Stamp Program would have been \$71 million, rather than the \$66.7 million shown here.

Food Stamp Program is a federally funded entitlement program, the \$66.7 million in cost avoidance reflects direct savings to the federal government.¹⁸

Medi-Cal

Child support collected and distributed to families by California's Child Support Program reduced Medi-Cal costs by an estimated \$28.6 million in SFY 2000-01. Medi-Cal—California's Medicaid program—is a Federal-State matching entitlement program that provides medical assistance to low-income families. Cost avoidance to the Medi-Cal program occurs when child support income is sufficient to render a family ineligible for assistance or to cause an eligible family to decide not to enroll.¹⁹ Of the \$28.6 million in Medi-Cal cost avoidance in SFY 2000-01, \$13.9 million represents savings to California, and the remaining \$14.6 million represents savings to the federal government.²⁰

Medical support orders enforced by the Child Support Program provide an additional source of Medi-Cal cost avoidance not included in these estimates.²¹ Medical support orders provide children with access to their noncustodial parent's private health insurance coverage. A custodial parent who might otherwise enroll a child in Medi-Cal may be able to avoid Medi-Cal entirely if the child can be covered through the

¹⁸ Although cost avoidance to the Food Stamp Program primarily benefits the federal government, California may also receive some benefits (not captured here). California shares in the cost of administering the Food Stamp Program and so will share in any administrative savings that occur when child support keeps a family from participating in the Food Stamp Program. In addition, California may experience cost avoidance to the California Food Assistance Program (CFAP). The CFAP provides food stamp benefits to certain legal noncitizens who are ineligible for federally funded food stamps due to their immigrant status. California counts the portion of CFAP spending that goes to families with children toward its TANF MOE requirement (LAO 2002). Therefore, cost avoidance to the CFAP program frees up funds for other types of MOE spending rather than resulting in direct savings to the General Fund.

¹⁹ The cost avoidance estimate excludes children who are eligible for California's Healthy Families (SCHIP) program, but who would be eligible for Medi-Cal in the absence of their child support income. For these children, child support income has the effect of shifting costs from the Medi-Cal program to the Healthy Families program. A shift in costs from Medi-Cal to Healthy Families may be beneficial from the state perspective, given the higher federal match rate available under the Healthy Families program.

²⁰ Cost avoidance is distributed into California and Federal shares based on the FY2001 FMAP (Federal Medical Assistance Percentage).

²¹ The estimates do not capture the effects of medical support orders that require the noncustodial parent to provide health insurance coverage. However, they do capture the effects of child support orders that require the noncustodial parent to make regular cash contributions toward the child's medical expenses. California's \$664 million in cost recovery includes \$4 million in cash medical support that was forwarded to the Medi-Cal program to help reimburse the government for expenses paid under that program. In addition, the \$1.3 billion in child support distributed to California's families includes about \$3.6 million in cash medical support (DCSS 2003).

noncustodial parent's private health insurance. If the custodial parent chooses to enroll the child in Medi-Cal, Medi-Cal is only responsible for medical expenses not covered by the noncustodial parent's (or any other) health insurance plan.

Supplemental Security Income (SSI)

California's child support collections resulted in at least \$16.4 million in cost avoidance to the federal portion of the Supplemental Security Income (SSI) program in SFY 2000-01. SSI provides cash assistance to low-income aged and disabled individuals. The SSI program treats child support income as the income of the child, and so child support income affects the eligibility and benefits of disabled children, but not of disabled or aged adults.

Cost avoidance to the SSI program occurs when child support income lowers the benefit amount for a participating child, renders an otherwise eligible child ineligible, or is sufficient to cause an eligible child's family to decide not to participate in the program. Only the first source of cost avoidance—the reduction in benefits for participating children—is captured in the cost avoidance estimate. Furthermore, the cost avoidance estimate does not capture cost avoidance to California's SSI State Supplementary Payment Program (SSP).²² Therefore, SSI cost avoidance may be substantially higher than the \$16.4 million estimate shown here. SSI is an entitlement program; so the \$16.4 million in cost avoidance represents direct savings to the federal government. Cost

²² Cost avoidance for current SSI/SSP recipients is most likely smaller for the SSP than for the federal SSI program, given the way in which the federal and state portions of the benefit are calculated. Under the benefit levels in effect on January 1, 2001, the federal government guaranteed a monthly income of \$532 per disabled child. The SSP increased that guarantee to \$612, providing up to an additional \$80 in monthly assistance per disabled child (Social Security Administration 2001). Sixty-six percent of a child's child support income is counted in determining his or her income. If a child's counted monthly income (from all sources, including amounts deemed from parents) is less than the federal guarantee (\$532), then any child support income currently received by the child benefits the federal government, and not the state. This is because the federal government provides whatever aid is needed in order to bring the child's income up to \$532. The SSP only benefits from cost avoidance if the child's monthly countable income exceeds the federal government's income guarantee, so that the child only receives the SSP portion of the benefit. Only 16 percent of all California SSI/SSP recipients have incomes high enough that they just receive the SSP portion of the benefit (Social Security Administration 2002). Assuming this percentage holds true for child SSI/SSP recipients who receive child support income, then most of the benefits of cost avoidance for current SSI/SSP recipients will be born by the federal government. However, to the extent that child support income is sufficient to render a child ineligible for SSI/SSP, then cost avoidance definitely benefits the SSP, and may or may not benefit the federal portion of SSI (depending on whether or not the child's countable income, less child support income, is less than the federal guarantee).

avoidance to the SSP (not captured in this estimate) produces direct savings to California's General Fund.

Public and Subsidized Housing

Child support collected and distributed by California's Child Support Program produced an estimated \$8.2 million in cost avoidance to federally funded public and subsidized housing programs in SFY 2000-01.²³ Cost avoidance arises when child support income increases the household's rental payments—which are typically set at the larger of 10 percent of gross income or 30 percent of net income. An additional benefit of child support is that it may be sufficient to render some households ineligible for assistance, thus freeing up space for additional households to receive assistance.²⁴ Although the federal housing programs are discretionary programs, cost avoidance may indirectly reduce federal spending on housing assistance and help local housing authorities cover the operating costs associated with public housing.²⁵

Long Term Benefits of Child Support

Research shows that child support enforcement provides additional benefits to families and society beyond the immediate impact of raising the incomes of families with children and reducing reliance on government programs. Child support has been shown to have a small, but positive impact on children's educational attainment and to

²³ This includes households receiving either project-based assistance (public housing and Section 8 project-based) or household-based assistance (Section 8 certificates and vouchers).

²⁴ Housing assistance is not an entitlement program, and there is typically a waiting list for households seeking assistance. "Savings" from households rendered ineligible for housing assistance are not included in the cost avoidance estimate, as resources are simply reallocated to provide assistance to additional households.

²⁵ Under the Section 8 voucher program, Congress adjusts funding each year so as to cover the costs of all vouchers (Sard and Fischer 2003). Households that receive child support income are able to pay a higher portion of the rent than would otherwise be the case, thereby reducing the amount that must be covered by the federal government. Under the public housing program, the federal government provides operating subsidies to local housing authorities under a Performance Funding System Formula. However, the federal government does not always provide the full subsidy calculated by the formula, and adjustments for changes in rental revenues may lag by two to three years (GAO 1998). Therefore, the additional rents from child support income may initially help local housing authorities cover their operating costs and eventually be passed on as savings to the federal government in the form of lower operating subsidies.

contribute to increased contact between noncustodial parents and their children.²⁶ There is also evidence that child support enforcement has a small deterrent effect on out-of-wedlock childbearing and divorce.²⁷ Although potentially important, these benefits are difficult to quantify, and so are not included in the cost avoidance estimates presented here.

Conclusion

California's Child Support Program provides important financial benefits to both families and the government. In SFY 2000-01, the program recovered \$664 million in welfare costs and collected and distributed another \$1.3 billion in child support to families in California. The \$1.3 billion of distributed child support helped to increase families' financial stability and independence, which in turn produced at least \$233 million in cost avoidance to the government programs analyzed here—CalWORKs, the Food Stamp Program, Medi-Cal, SSI, and federal housing assistance. The \$233 million in cost avoidance should be viewed as a lower-bound estimate, because it does not capture all possible sources of cost avoidance, and does not capture the longer-term benefits of child support to families and children.

²⁶ See Barnow et al (2000), Lerman and Sorensen (2001), and Roberts (2002) for a review of the literature concerning the additional benefits of child support enforcement. 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 noncustodial parents and their children.

²⁷ Child support enforcement increases the costs of divorce and out-of-wedlock childbearing for the potential noncustodial parent, but decreases the costs for the potential custodial parent. The net effect of these differing incentives appears to be a slight reduction in the likelihood of divorce (Nixon 1997) and out-of-wedlock childbearing (Case 1998; Plotnick et al 1999). The potential availability of child support may encourage some custodial parents to leave an abusive relationship, although others may avoid seeking child support out of fear of retaliation.

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Technical Appendix

The cost avoidance estimates for this study 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.²⁸ For more than twenty 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. Cost avoidance estimates are produced using data from the March 2001 and March 2002 Current Population Surveys (CPS), which provide detailed household and person-level income and demographic data for calendar years 2000 and 2001. The methodology used is essentially the same as was used to derive a national cost avoidance estimate for the federal Office of Child Support Enforcement (Wheaton 2003).

Several steps are involved in estimating cost avoidance. First, TRIM3 must identify which CPS families receive child support through California's Child Support Program. TRIM3 must then simulate the reduction in transfer program benefits that results from receipt of child support. Child support is underreported on the CPS, so the simulated reduction in transfer program benefits can be expected to understate the extent of cost avoidance. To correct for this, cost avoidance attributable to California's child support collections is calculated by multiplying the TRIM3 "cost avoidance ratio"—the average reduction in transfer program benefits per dollar of child support (in California)—by the amount of child support distributed according to California administrative data. Further detail on each step is provided below. This is followed by a short discussion of the study's assumptions regarding the value of the food stamp child support deduction and the value of Medi-Cal coverage.

²⁸ Documentation is available on-line at <http://trim3.urban.org/T3Technical.CFM>.

Identifying Families who Receive Child Support through the Child Support Program

TRIM3 must first identify which families in California receive child support, and of these families, which receive child support through the Child Support Program (rather than through a private transaction). The CPS indicates whether a family receives child support, but does not indicate whether the child support is received through the Child Support Program. Therefore, this information is imputed onto the file using data from the 2000 CPS April/March Matched File (CPS-CSS), so that cost avoidance estimates can be restricted to families receiving child support through the Child Support Program.

The CPS-CSS collects detailed child support information from custodial mothers and custodial fathers. There is no specific question about whether a custodial parent receives Child Support Program services. However, this can be inferred using an approach developed by Matthew Lyon (1999). A custodial parent is counted as receiving Child Support Program services if anyone in the family receives CalWORKs or Medi-Cal. Those without CalWORKs or Medi-Cal are counted as receiving Child Support Program services 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.

TRIM3 assumes that all families receiving CalWORKs or Medi-Cal receive their child support through the Child Support Program.²⁹ A logit model (estimated on the CPS-CSS data) is used to impute whether custodial mothers not in families receiving CalWORKs or Medi-Cal receive their child support through the Child Support Program (table 2).³⁰ The model controls for the mother’s demographic, income, and child support characteristics. The model is estimated for the nation as a whole, but with a control variable for residence in California.³¹ Custodial fathers who are not in families receiving

²⁹ A family is considered to receive CalWORKs or Medi-Cal if it is simulated to receive assistance from either program in the TRIM3 “baseline” simulation (described in the next section).

³⁰ The model is essentially the same as that described in Wheaton (2003), except that it is updated to 1999 data (the 2000 CPS-CSS), creates a separate dummy variable for California, and collapses certain age and poverty level categories. For further explanation of the variables used in the model, see Wheaton (2003).

³¹ The dummy variable for California is statistically significant at a level of 0.0277. All else equal, custodial mothers who receive child support and are not in families that receive TANF or Medicaid are 30 percent as

CalWORKs or Medi-Cal are identified as receiving their child support through the Child Support Program based on national probabilities that vary by poverty level.³² Because the CPS-CSS does not contain information on nonparent caretakers, the only nonparent caretakers identified as receiving their child support through the Child Support Program are those in families receiving CalWORKs or Medi-Cal.

Table 2: Logit Model: Is Child Support Received through Child Support Program? (Child Support Recipient Mothers in Families Without TANF or Medicaid)

	Parameter Estimate	Standard Error	Wald Chi-Square	Pr > Chi-Square	Odds Ratio
Intercept	-0.3230	0.6484	0.2482	0.6184	.
Child Support Characteristics					
Not Due Child Support	-0.6278	0.3478	3.2590	0.0710	0.534
Receive Less Than Due	1.2152	0.2253	29.0888	<.0001	3.371
Child Support / Other Family Income (excluding SSI and TANF)					
< .05	-0.0933	0.3789	0.0607	0.8054	0.911
.05 - < .15	-0.1231	0.3432	0.1285	.7200	0.884
.15 - < .30	-0.1840	0.3614	0.2593	0.6106	0.832
Percent of Poverty					
< 150%	-0.3592	0.4776	0.5657	0.4520	0.698
150% - < 200%	0.3186	0.4014	0.6300	0.4273	1.375
200% - < 300%	0.4712	0.3002	2.4634	0.1165	1.602
300% - < 500%	0.3181	0.2578	1.5221	0.2173	1.375
Age of Mother					
<30	-0.3116	0.4564	0.4661	0.4948	0.732
30 – 34	-0.00178	0.3619	0.0000	0.9961	0.998
35 – 39	0.4974	0.3104	2.5680	0.1090	1.645
40 – 44	-0.00829	0.2802	0.0009	0.9764	0.992
Race and Ethnicity					
Hispanic	0.0678	0.3662	0.0343	0.8530	1.070
African-American	0.6481	0.3471	3.4863	0.0619	1.912

Continued

likely to have received their child support through the Child Support Program if they live in California than if they live in the Northeast (the omitted category).

³² The analysis relies on national probabilities described in Wheaton (2003), because sample size limitations in the source data made it impossible to develop probabilities specifically for California.

Table 2 (continued)

	Parameter Estimate	Standard Error	Wald Chi-Square	Pr > Chi-Square	Odds Ratio
Region					
Midwest	0.3793	0.2652	2.0459	0.1526	1.461
South	-0.0606	0.2713	0.0500	0.8231	0.941
California	-1.1860	0.5387	4.8468	0.0277	0.305
Other West	0.1052	0.3007	0.1223	0.7265	1.111
Marital Status					
Divorced	-0.3304	0.2334	2.0048	0.1568	0.719
Separated	-1.0760	0.4153	6.7137	0.0096	0.341
Never Married	0.2621	0.3768	0.4841	0.4866	1.300
Educational Attainment					
Less than High School	0.6220	0.4999	1.5485	0.2134	1.863
Some College	0.0175	0.2090	0.0070	0.9331	1.018
Bachelor Degree +	-0.1847	0.2677	0.4759	0.4903	0.831
Urban/Rural Status					
SMSA	0.059	0.2238	0.0696	0.7920	1.061
Not Identifiable	0.1495	0.2788	0.2876	0.5917	1.161
Number of Custodial Children					
One	-0.00963	0.3416	0.0008	0.9775	0.990
Two Kids	-0.2101	0.3337	0.3967	0.5288	0.810
Age of Oldest Custodial Child					
Under 6	0.6258	0.4532	1.9068	0.1673	1.870
6 to 10	0.00135	0.2952	0.0000	0.9964	1.001
11 to 15	-0.2386	0.2408	0.9820	0.3217	0.788
Household Food Stamps or Housing Assistance	1.7379	0.5171	11.2970	.0008	5.685

N = 641

-2 Log Likelihood: intercept only 886.478

intercept and covariates 782.194

chi-square for covariates 104.2837 with 33 DF (p=0.0001)

Using the above methodology, TRIM3 is able to identify \$885 million in California child support distributions (to families not receiving CalWORKs cash assistance) for calendar year 2000, and \$1,265 million in child support distributions for calendar year 2001, for a two-year average of \$1,075 million. According to California administrative data, \$1,227 million in child support was distributed to families not currently receiving assistance in SFY 2000-01 (DCSS 2003). This suggests that TRIM3 captures about 88 percent (1,075/1,277) of California's child support distributions to

families not receiving assistance. In addition, TRIM3 identifies \$12 million in California child support distributions to families receiving CalWORKs cash assistance in calendar year 2000 (not counting amounts retained by the government), and \$40 million in calendar year 2001, for a two-year average of \$26 million. California administrative data show that \$38 million in child support was distributed to CalWORKs recipients in SFY 2000-01, suggesting that TRIM3 captures about 68 percent (26/38) of California's child support distributions to families receiving assistance.

It is not unexpected that the TRIM3 data should fall short of the total amount of distributed child support, and that the shortfall is greatest for families receiving CalWORKs cash assistance. With the exception of income from wages and salaries, income amounts are typically underreported in household survey data. The CPS captured an estimated 71 percent of property income, 88 percent of transfer income, and 77 percent of pension income in 1996 (Roemer 2000). Wheaton (1997) estimates that child support on the March 1992 CPS is underreported by as much as 21 to 27 percent relative to child support reported on the 1992 CPS-CSS. Because CalWORKs recipients do not typically receive the full amount of child support paid on their behalf (most just receive the \$50 pass-through) they are more likely to fail to report receipt of child support than are families who do not currently receive assistance.

Simulating the Reduction in Transfer Program Benefits

TRIM3 simulates the total reduction in transfer program benefits attributable to child support by subtracting total program benefits under a "baseline" simulation, in which child support is paid, from total program benefits under an "alternative" simulation, in which no child support is paid. The data used by the TRIM3 model reflect the calendar year. Baseline and alternative simulations are run for two calendar years—2000 and 2001. The federal and state program rules simulated for each year are the rules that were in effect for the majority of the state for the majority of the calendar year.

For each simulation, TRIM3 performs the same basic steps a caseworker would perform in determining eligibility and establishing the benefit level, using the rules in effect in California. The model first divides the household into relevant "filing units"—

the group or groups of people in the household who would file together as a unit when applying for assistance. TRIM3 then determines whether members of the filing unit meet any relevant eligibility requirements, such as those related to age, disability, immigrant and citizenship status, and work status. Income and assets tests are conducted in order to determine whether the unit meets financial eligibility requirements. If so, a benefit amount is calculated.

Not all units eligible for assistance choose to participate, so TRIM3 must select participants from among those found eligible. Eligible units that report receiving assistance from a particular program on the CPS are automatically simulated to participate in the baseline simulation. Additional participants are selected, as needed, in such a way that the size and composition of the simulated baseline caseload matches that of the actual caseload as closely as possible.

For the alternative simulation, child support is set to zero, and eligibility and benefits are recalculated. Units are allowed to change their participation decision in response to a change in their eligible benefit level. For example, a unit may have been eligible for a very low food stamp benefit in the baseline, and so have chosen not to participate. Without child support income, the unit becomes eligible for a higher food stamp benefit, and may decide to participate. If a unit starts participating in one program, then that may increase the likelihood of participating in other programs. For example, most CalWORKs recipients participate in the Food Stamp Program. So most units that start participating in CalWORKs in the alternative simulation are simulated to participate in the Food Stamp Program as well.

Developing Cost Avoidance Ratios

Because child support is underreported on the CPS, the simulated reduction in transfer program benefits (attributable to receipt of child support through California's Child Support Program) can be expected to understate the extent of cost avoidance. The results presented in this report correct for the problem of underreporting by adjusting the TRIM3 estimates using data on child support distributions obtained from California's CS 800 & 820 reports for SFY 2000-01 (DCSS 2003). Cost avoidance estimates are

calculated by multiplying the TRIM3 cost avoidance ratio (the average reduction in transfer program benefits per dollar of child support) by the total amount of payments distributed to families as reported in the California data.

In order to obtain a larger sample and to best approximate the California fiscal year (which runs from July 2000 to June 2001), the TRIM3 cost avoidance ratio reflects a two-year average (for calendar years 2000 and 2001).³³ The average is calculated by summing the reduction in transfer program benefits attributable to child support (for the two years of data), and dividing this by the two-year sum of the child support collections identified in TRIM3. The resulting cost avoidance ratios are shown in table 3.

Table 3: Cost Avoidance Ratios, California SFY 2000-01

	Current CalWORKs Families	Former/Never CalWORKs Families*
CalWORKs	Na	0.092
SSI	0.15	.009
Housing	0.052	0.005
Food Stamp Program**	0.198	0.052
Medi-Cal	0	0.023
Total*	0.4	0.181
Source: TRIM3 Microsimulation Model using data from the March 2001 and March 2002 CPS.		
* Families not currently receiving CalWORKs cash assistance, who receive child support through California's Child Support Program.		
**Figures in this table do not capture the offsetting effect of the Food Stamp Program's child support deduction for noncustodial parents who pay child support.		

³³ The underlying sample for the cost avoidance ratio estimate is 91 families in 2000 and 161 families in 2001. The larger sample size for 2001 was made possible by an increase in the overall sample size in the March Current Population Survey introduced with the 2001 calendar year data (March 2002 CPS).

Developing the California Cost Avoidance Estimate

Once the cost avoidance ratios have been obtained, they are multiplied by the amount of child support distributed to families according to California administrative data in order to obtain estimates of the total amount of cost avoidance (table 4). The 37.9 million in child support payments distributed to families currently receiving CalWORKs is obtained from the CS 800 & 820 reports (DCSS 2003) by adding together \$28.6 million in payments for the \$50 disregard, \$1.5 million in “pass-on” payments, and \$7.8 million in “excess” payments. The \$1,231 million in child support payments distributed to families who formerly or never received CalWORKs assistance is obtained by adding together \$1,227 million in “never and former assistance” nonassistance collections and \$3.6 million in “medical support never and former assistance” as reported in the CS 800 & 820 reports (DCSS 2003). Once the total cost avoidance estimate has been obtained, it is allocated into federal and state shares as described in the main body of this report.

Estimating the Effect of the Food Stamp Deduction

California child support collections (made on behalf of custodial families living in California) result in an estimated \$71 million in benefit reductions to the Food Stamp Program. However, this is offset to a certain extent because noncustodial parents who pay child support are able to deduct the payment when calculating their food stamp benefit, thus increasing the amount of food stamps received by noncustodial parent households. TRIM3 does not simulate the food stamp child support deduction, so a rough approximation is made for the purpose of this analysis. First, all persons claiming the child support deduction are assumed to pay child support through the Child Support Program.³⁴ The aggregate amount of the deduction is calculated for the nation as a whole using data from the FY 2000 and 2001 Food Stamp Program Quality Control Sample (U.S. Department of Agriculture 2001 and 2003). The amount received by noncustodial parents in California is estimated by multiplying the national aggregate by the percentage

³⁴ The data used to estimate the effect of the child support deduction do not indicate whether a noncustodial parent pays child support through the Child Support Program, or whether the support is paid privately. To the extent that some of these parents pay child support privately, total food stamp cost avoidance, net the child support deduction, would be higher than that shown in this analysis.

Table 4: California Cost Avoidance, by Assistance Status SFY 2000-01
(millions of dollars)

	Current CalWORKs Families	Former/Never CalWORKs Families *	Total
Child Support Payments Distributed to Families	37.9	1,231	1,269
Cost Avoidance:			
CalWORKs	0	113.1	113.1
SSI	5.7	10.7	16.4
Housing	2	6.3	8.2
Food Stamp Program	7.5	63.4	71
Net CS Deduction			66.7
Medi-Cal	0	28.6	28.6
Total			233
<p>Source: Child support payment data is obtained from the California CS 800 & 820 Reports as summarized by DCSS (2003). Cost avoidance estimates are derived by multiplying cost avoidance ratios estimated by the TRIM3 microsimulation model by the total amount of child support distributed to families.</p> <p>* Families not currently receiving CalWORKs cash assistance, who receive child support through California's Child Support Program.</p>			

of food stamp households residing in California.³⁵ The deduction is assumed to increase the noncustodial parent's food stamp benefit by 30 percent of the deducted amount, resulting in an estimated \$4.3 million in additional food stamp benefits for noncustodial parents in California due to payment of child support.

Simulating the Value of Medi-Cal Coverage

Savings to the Medi-Cal program are estimated by multiplying the average monthly Medi-Cal insurance value by the number of months during the year in which child support income keeps a child or adult from enrolling in Medi-Cal. The average

³⁵ Due to sample size limitations in the Food Stamp Quality Control data, it was not possible to directly calculate the aggregate amount of the child support deduction in California. Therefore, we make the

monthly insurance value is estimated using administrative data that show the total number of non-institutionalized Medi-Cal enrollees in the average month of the year and the total annual cost of providing Medi-Cal coverage to non-institutionalized persons. To obtain the average monthly insurance value, the total annual costs are divided by twelve times the average monthly number of Medi-Cal enrollees. The calculation is done by person type: disabled, elderly, non-disabled child, and non-disabled and non-elderly adult.

The Medi-Cal insurance values used for this analysis were developed by adjusting 1999 Medi-Cal insurance value estimates to 2000 and 2001 levels using tabulated data from the Medicaid Statistical Information System (MSIS).³⁶ The 1999 estimates had been developed previously by staff in the Health Policy center of the Urban Institute, and reflect the average monthly cost of Medi-Cal coverage for the non-institutionalized population in California.³⁷ We used the MSIS data to calculate the percentage increase in average monthly Medi-Cal costs from 1999 to 2000 and 2001, and applied this percentage increase to our 1999 Medi-Cal insurance value estimates.³⁸ The resulting average monthly insurance value estimates used in this study are shown in table 5.

simplifying assumption that California's share of the aggregate amount of the child support deduction is equal to its share of the total food stamp caseload.

³⁶ The tabulated data were downloaded from the Centers for Medicare & Medicaid Services (CMS) website in October and November of 2003.

³⁷ TRIM3 estimates do not cover the institutionalized population, so we calculate Medi-Cal insurance values in such a way as to reflect the costs of providing Medi-Cal coverage to the non-institutionalized population.

³⁸ We used this approach because the available MSIS tabulations did not provide sufficient detail to allow an independent estimate of the Medi-Cal insurance value for the non-institutionalized population. For each year of MSIS data, we calculated an approximate average monthly insurance value, in which the numerator (Medi-Cal expenditures) excluded expenditures to nursing home facilities, homes for mentally retarded, and mental health facilities and the denominator (Medi-Cal enrollees) included the institutionalized, but excluded section 1115 family planning waiver adults. We then calculated the percentage year-to-year increase in these Medi-Cal insurance values, and applied the percentage increase to our 1999 estimate of the average monthly insurance value for the Medi-Cal noninstitutionalized population.

Table 5: Estimated Medi-Cal Average Monthly Insurance Values

	2000	2001
Child (non-disabled)	\$98	\$111
Adult (non-disabled, non-Aged)	\$171	\$178
Aged	\$343	\$408
Disabled	\$598	\$664
Source: Urban Institute estimates for the non-institutionalized population using data from the Medicaid Statistical Information System (MSIS).		