Child support and work incentives: A literature review

Michael Ridge, Damien O’Flaherty and Sarah Deasley

A report of research carried out by Frontier Economics on behalf of the Department for Work and Pensions
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The authors remain entirely responsible for the content and for any errors or omissions.
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## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFDC</td>
<td>Aid to Families with Dependent Children</td>
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<td>AFI</td>
<td>Assets for Independence Program</td>
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<td>CPS</td>
<td>Current Population Survey</td>
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<td>CSA</td>
<td>Child Support Agency</td>
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<tr>
<td>CTB</td>
<td>Council Tax Benefit</td>
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<tr>
<td>DWP</td>
<td>Department for Work and Pensions</td>
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<tr>
<td>EITC</td>
<td>Earned income tax credit</td>
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<td>FC</td>
<td>Family Credit</td>
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<tr>
<td>HB</td>
<td>Housing Benefit</td>
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<tr>
<td>IFS</td>
<td>Institute for Fiscal Studies</td>
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<tr>
<td>IS</td>
<td>Income Support</td>
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<td>JSA</td>
<td>Jobseeker’s Allowance</td>
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<td>LPS</td>
<td>Lone Parents Survey</td>
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<td>NRP</td>
<td>Non-resident parent</td>
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<tr>
<td>PWC</td>
<td>Parent with care</td>
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<tr>
<td>SIPP</td>
<td>Survey of Income and Program Participation</td>
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<tr>
<td>TANF</td>
<td>Temporary Assistance for Needy Families</td>
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<td>WFTC</td>
<td>Working Families’ Tax Credit</td>
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</tbody>
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Summary

In February 2006 Sir David Henshaw was asked to lead a redesign of the child support system. A key recommendation of the review was that child maintenance should be disregarded up to a high threshold in calculating Income Support (IS), and that child support should be disregarded entirely in calculating Housing Benefit (HB) and Council Tax Benefit (CTB). In the White Paper ‘A new system of child maintenance’ published in December 2006, it was announced that the Government will significantly increase the amount of maintenance that parents with care on benefit can keep before it affects the level of benefit they receive.

The Department for Work and Pensions (DWP) commissioned Frontier Economics to carry out a short review of the economic literature examining whether increasing the amount of maintenance that parents with care (PWCs) on benefit can keep will affect their decision to work and subsequently have an impact on employment rates.

Our approach to the study has been to:
• carry out a desk-based review of the literature;
• interview officials in DWP and HM Treasury; and
• interview leading academics in the field.

Drawing on the information provided by officials and academics working in the field, we have examined 15 published papers and reports that could potentially inform on the likely impact of increasing the levels of disregard.

The key question we have been asked to consider is what the literature says the impact would be of an increase in child maintenance disregards on employment rates. Increasing disregards could be expected to have two primary effects:
• it will increase non-work income for a subset of PWCs; and
• it may potentially increase child maintenance compliance by non-resident parents (NRPs) – further increasing income for PWCs.

A standard labour supply model tells us that an increase in non-work income is likely to reduce the incentives to work. Unfortunately, the theory does not tell us the magnitude of any negative effect on labour supply. In this literature review we look
at the empirical evidence already available to try and give some insight into the likely impact increasing child maintenance disregards will have on employment rates. We have only looked at the possible effects of increasing the disregards on employment rates; we have not looked at other aspects of the tax and benefit system.

The relevant literature on work incentives and child maintenance

The main studies that examine the issue relate to the UK and to a welfare policy experiment in the state of Wisconsin. However, even the American literature is of less relevance given substantial differences between the welfare system in the US and in the UK. Only one UK paper provides estimates of the likely magnitude of employment effects, and even these estimates must be treated with some caution (Paull, Walker and Zhu (2000)).

The paper by Paull, Walker and Zhu is of greatest relevance to understanding the impact of the proposed reforms. This paper uses a sample of lone mothers (and repartnered mothers) to analyse the potential effects of reforming the UK system of child support (as set out in the 1999 White Paper) on the size of maintenance liabilities, the amount paid and the net incomes of both the household containing the mother-with-care and the household containing the non-resident father. It considers the expected effect of disregard of child support in the income support system, on compliance and on work incentives.

The authors simulate the impact of different levels of maintenance disregard. The impacts are set out in the Table 1, and assume that compliance does not change as a result of the reform package.

### Table 1  Simulated employment effects

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Not in work</th>
<th>Part-time work</th>
<th>Full-time work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assume IS disregard is zero</td>
<td>53.2</td>
<td>25</td>
<td>21.9</td>
</tr>
<tr>
<td>IS disregard is increased to £10</td>
<td>55.1</td>
<td>23.3</td>
<td>21.6</td>
</tr>
<tr>
<td>IS disregard of £15</td>
<td>56.0</td>
<td>22.5</td>
<td>21.5</td>
</tr>
<tr>
<td>Baseline</td>
<td>55.1</td>
<td>23.3</td>
<td>21.6</td>
</tr>
<tr>
<td>HB disregard increased to full</td>
<td>53.7</td>
<td>25.4</td>
<td>20.9</td>
</tr>
</tbody>
</table>

*Source: Paull, Walker and Zhu (2000).*

The proportions in the table are of all mothers-with-care, including repartnered mothers and individuals receiving no maintenance. The table shows that increasing the IS disregard is likely to lead to an increase in the proportion of individuals who are not in work although the authors identify a number of limitations in this analysis. Roughly, the simulations show that a £5 increase in disregard appears to lead to an
increase of one percentage point in the proportion of people not in work. For Housing Benefit, the paper found that increasing the disregard in HB from the current level to a full disregard would lead to an increase in the proportion of people in work of around one and a half percentage points.

Paull et al. do not simulate the combination of a significant increase in the IS disregard with an increase to full in the HB disregard. It is not exactly precise, but the findings of Paull et al. could reasonably be interpreted as suggesting that a £20 IS disregard coupled with a full HB disregard are likely to have a broadly neutral impact on work incentives.

There are concerns about the applicability of these estimates to the policy proposal. These include limitations recognised by the authors that are likely to bias the results, and the authors state that it is not possible to predict the size or magnitude of the bias. The data for this paper is for 1997. Given the substantial changes that have taken place since then (not least in lone parent participation rates), one would need to rerun the analysis on more up to date data to be certain of the impacts the model would predict for today.

The key paper examining disregards in the US suggests that increasing the level of disregard is likely to have little or no impact on the employment rates of PWCs. This is the only available evidence of an increased disregard in a real world situation. However, there are differences between the US and UK welfare systems, suggesting that the findings from the US are unlikely to be directly relevant to the UK. In particular, the stringent time limits and job search criteria in the US system are likely to significantly limit the potential for increasing the disregard to lead to a reduction in employment rates for PWCs. For this reason, it is likely that the estimates from the US are likely to underestimate any employment effects of the proposed disregard.

Increased compliance arising from the higher disregards could reduce employment rates. This may be important because: (i) the US evidence suggests significant increased compliance from a full pass-through of maintenance payments; and (ii) the current low levels of compliance in the UK indicate considerable scope for improvement. (Paull et al. look at the impacts of increasing compliance, but the estimates are not very useful because the simulated compliance measure is a discrete zero or all measure which generates unintuitive employment impacts).

It is important to keep in mind that the Paull et al. simulations of the IS disregard are limited to relatively small changes and do not directly indicate the likely impact on work incentives for significant increases in out-of-work income above the simulated £15 disregard. In our interpretation of the Paull et al. results we have assumed that rises in income have a linear impact on work behaviour for a £20 IS disregard.

**Uncertainty of maintenance income and attitudes**

A number of commentators suggest that maintenance payments appear to be considerably more uncertain than other types of income. We understand, for example, that there are frequent changes in the timing of payments and the level of
payment made. In addition, the duration of maintenance payments can often vary substantially. This means that the estimates of employment effects set out already may overstate the true employment effect once the uncertainty associated with the maintenance payments is fully accounted for. This is because PWCs may place less weight on uncertain forms of income when considering whether to return to work or not.

Unfortunately, there is little evidence from the literature that has examined this issue in detail. Indeed, we have not identified any papers that provide a quantification of this potential effect. However, a number of papers including Paull, Walker and Zhu (2000), Jenkins and Millar (1989) and Bingley and Walker (1997) refer to the potential for this effect to reduce employment effects associated with child maintenance payments.

There is some small sample case study evidence on the attitudes of lone parents who had recently started work. Millar (2006) explores whether lone mothers who had recently started work, felt themselves to be better off in work, and what they meant by this. Greater income was a key reason why the women wanted to work. About half said they thought they were clearly better-off in work. However, the author notes that ‘in thinking about whether they were better-off or not, the women were not just making a simple financial calculation between income levels at different points in time, they were also taking into account other aspects of their situations, both financial and non-financial’. There are also other factors that are as important as financial work incentives when making work decisions: only one in five out of work PWCs who were not looking for work reported in the 2001 client survey (Table 8.7 in Wikely et al. (2001), said that they were not looking because they would be no or hardly better off working).

Conclusion

There is very little evidence on the impact of changes in child maintenance on work incentives. A standard labour supply model would predict a negative impact on work incentives, but empirical evidence is required to test the theory and assess the size of the effect. The paper by Paull et al. is the only research that has provided estimates of the likely impact of changing the disregard on IS and HB in the UK. This suggests that a £20 disregard in IS and a full disregard in HB would have a broadly neutral impact on work incentives. At best the estimates in Paull et al. could only be regarded as an upper bound, however, because child support is an unstable form of income, lone parents may be less likely to take it into account when making work decisions. Indeed, it is quite possible that impacts estimated in this study could be significantly lower. The only available empirical evidence comes from the US which shows that increasing the level of the disregard had no adverse effect on employment rates. However, due to the different nature of the UK and US benefit systems, this result may not be directly relevant to the UK.
1 Introduction

1.1 Background and remit

In February 2006 Sir David Henshaw was asked to lead a redesign of the child support system. The review reported to the Secretary of State in July 2006. A key recommendation of the review was that child support should be disregarded up to a high threshold in calculating IS, and that child support should be disregarded entirely in calculating HB and CTB. The purpose of the increased disregard is to incentivise parents to make their own child support arrangements as such arrangements tend to result in higher satisfaction and compliance and allow individual circumstances to be reflected.

The Government response to this recommendation was that they would ‘...significantly increase the amount of maintenance that parents with care on benefits can keep, thereby ensuring that more maintenance paid flows directly to the parent with care for the benefit of their children, leading to a substantial reduction in child poverty’. In the White Paper ‘A new system of child maintenance’ published in December 2006, it was announced that the Government will significantly increase the amount of maintenance that parents with care on benefit can keep before it affects the level of benefit they receive.

The DWP has commissioned Frontier Economics to carry out a short review of the economic literature examining whether increasing the amount of maintenance that PWCs on benefit can keep will affect their decision to work and subsequently have an impact on employment rates.

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1 See http://www.dwp.gov.uk/childsupport/pdfs/Henshaw_complete22_7.pdf

1.2 Study approach

Given the limited time available for the study, it has been important to ensure that the key papers from the literature have been included in the review. Consequently, Frontier’s approach to the study has been to:

- **interview officials in DWP and HM Treasury.** The interviews have focused on the operation of the current scheme, the proposed changes to the scheme and previous research commissioned in this area;

- **interview leading academics in the field.** As part of the work we have spoken to a number of leading academics who have had research published in relation to this topic. The interviews focused on understanding the scope of the available literature, the methodological approaches taken in the research and the applicability of the research in this context;

- **carry out a desk-based review of the literature.** Drawing on the above interviews and an extensive search of relevant journal databases Frontier have compiled an extensive set of literature relating to this topic. Brief reviews of the key papers are provided in the Appendix.
2 Literature review and analysis

This chapter sets out the findings from the literature review and discusses their applicability in the context of the current reforms. The chapter is structured as follows:

• Section 2.1 provides a brief exposition of the current scheme and the proposed reforms;

• Section 2.2 provides some high level statistics setting out the likely numbers of people who could be affected as a context to the literature review;

• Section 2.3 provides the framework for analysis, identifying the key groups likely to be affected by the reforms, and the direction of the impact of the reforms; and

• Section 2.4 sets out the key findings from the relevant economic literature on work incentives and discusses their applicability to the proposed reforms. The section also discusses additional issues set out in the literature that are likely to have a bearing on the magnitude or direction of employment effects.

2.1 The current system and proposed reforms

Since 1993 the Child Support Agency (CSA) has been responsible for ensuring that PWCs who are in receipt of income-related benefits pursue child maintenance payments. It also enables parents who are not on benefit to use its services to arrange the payment of child maintenance.

Under the initial scheme, all maintenance payments made by NRPs went to the state in the case where the PWC was in receipt of IS payments. In 2003 a new scheme was introduced which, among other reforms, allowed for a weekly £10 maintenance disregard for PWCs on IS. This means that PWCs who are part of the ‘new-scheme’ can keep the first £10 of maintenance paid per week, but that all additional payments go to the state. Those PWCs who are still on the ‘old-scheme’ still have no disregard.
For the purposes of Child Tax Credit and Working Tax Credit, child maintenance is ignored whether the PWC is in work or not.

The relationship between HB and CTB is slightly more complex. For these benefits, if an individual’s assessed income exceeds a pre-determined level, their eligibility for benefit payments is reduced. When determining an individual’s assessed income, there is a weekly £15 maintenance disregard. This means that all maintenance payments over the first £15 are counted towards the individual’s assessed income for the purposes of determining the magnitude of benefit payment.

The Henshaw review recommends substantially increasing the levels of disregard for both IS and for HB and CTB. Specifically, the review’s recommendations were to disregard child support:

- up to a high threshold in calculating IS; and
- entirely in calculating HB and CTB.

The Government’s response to the Henshaw review undertook to implement ‘significantly higher and more generous disregard with respect to both new and old scheme cases’.  

2.2 High level statistics

This section sets out some high level statistics relating to PWCs and current child maintenance in order to provide some context to the literature review. The section starts with information regarding lone parents, before considering CSA data in detail.

2.2.1 Lone parents

Data from the spring 2006 Labour Force Survey shows there are currently 1.8 million lone parent households with dependent children, of these, 89 per cent (1.6 million) are female and 11 per cent (200,000) are male. It also reports that lone parent households care for around a quarter of all dependent children.

The Labour Force Survey estimates the employment rate for lone parents at 56.6 per cent, 0.4 per cent higher than the previous year and 5.2 per cent higher than in 2001. The employment rate for male lone parents is higher than female lone parents – 68.5 per cent compared to 55.5 per cent. Of those lone parents in work, 53.2 per cent work full-time and 46.8 per cent work part-time and again there is a difference between male and female behaviour. Nearly 90 per cent of lone fathers work full-time compared to just under 50 per cent of lone mothers. For both lone mothers and fathers, the majority who work part-time choose to do so because they do not want a full-time job.

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2.2.2 CSA data

Changing the level of the child support disregard in the calculation of IS, HB and CTB could have a potential impact on all PWCs who receive (or could receive) child support payments. However, in order to assess the potential scale of impact of the policy change, it would seem reasonable to focus on those PWCs whose cases are being handled by the CSA since, under the current rules, all PWCs on benefits are compelled to use the CSA.  

In September 2006, the CSA had a caseload of around 1.4 million. There were 1,173,500 cases with an assessment or calculation being handled by the CSA, of which 781,500 were under the old-scheme and 391,900 were under the new-scheme. In addition, there were a further 225,400 cases that were classified as being on pre-assessment or pre-calculation. The average age of the PWC is 39 years on the old-scheme and 33 years on the new scheme. Almost 95 per cent of PWCs are female.

The mean weekly liability for payment of child support under the old scheme and new scheme is very similar: £23 for new scheme and £22 for old scheme in September 2006. However, the distribution of payments differs, as illustrated in Figure 2.1 and Figure 2.2.

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4 Although those PWCs who are currently receiving child support payments through private arrangements could choose to receive benefits in the future, we consider that it is reasonable to assume that this group will be largely unaffected by the proposed policy change.

5 The number of cases is defined to include those with a Full Maintenance Assessment or an Interim Maintenance Assessment under the old scheme, or a Full Maintenance Calculation or a Default Maintenance Decision under the new scheme. All data on CSA cases have been provided by DWP.
Figure 2.1  Weekly maintenance liability (old scheme cases)

Under the old scheme, 54 per cent of cases have been determined as having no liability to make child support payments. Since these cases are not currently eligible for any disregard, it can be assumed that 46 per cent of old scheme cases may be affected by the change in policy. This represents approximately 364,000 cases, 301,000 of which are currently liable to receive over £10 per week.

Source: DWP (June 2006).
There is more likely to be a positive liability for child payments under the new scheme. However, 52 per cent of such cases already fall under the existing £10 level of disregard. There are currently approximately 184,000 new scheme cases that would potentially benefit from the increase in disregard.

Given that actual child support payments fall short of the assessed liability, it can be assumed that these figures are upper bounds on the number of CSA cases that can expect to be affected. In addition, not all cases are on benefit, or would be likely to return to benefit even following the proposed policy change. In February 2006, 47 per cent of those PWCs whose cases were being dealt with under the new scheme were in receipt of benefits. Of those, only 38 per cent were actually in receipt of child support.

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6 A PWC is deemed to be in receipt of benefit if they or their partner are on IS or Jobseeker’s Allowance (JSA) (income-based).

7 Those in receipt of child support are a subset of those liable for child support given the problem of non-payment of assessed child support.
2.3 Framework for analysis

The key question we have been asked to consider is what the impact would be of an increase in child maintenance disregards on employment rates. Increasing disregards could be expected to have two primary effects:

- it will increase non-work income for a subset of PWCs; and
- it may potentially increase child maintenance compliance by NRPs.

2.3.1 Increase in non-work income for a subset of PWCs

A standard labour supply model suggests that an increase in non-work income is likely to reduce the incentives to work. An increase is likely to affect both the decision on whether to work and how much to work. However, to understand the impact of this effect, it is helpful to categorise PWCs into the following groups:

- **In work, not receiving benefits, but in receipt of maintenance payments:** For this group, the proposed increase in disregards will have no impact on the income they receive. However, if the maintenance payment they receive is in excess of £10, then the proposal increases the income they could receive if they left work.

- **In work, receiving HB or CTB and in receipt of maintenance payments:** For this group, the impact of the proposal depends on whether their current income is such that they receive full or partial HB or CTB, and whether their maintenance payment is in excess of £15. For those receiving full benefit, the proposed reform will have no impact on the income they receive. However, if the maintenance payment they receive is in excess of £10, then the proposal increases the income they could receive were they not in work. For those receiving partial benefit and maintenance greater than £15, the proposed reform will increase their in-work income. However, their in-work income will increase by less than the increase in the income they could receive were they not in work\(^8\).

- **On income support, receiving maintenance payments:** For this group, the actual income they will receive is increased assuming their maintenance payment is in excess of £10. The income they could receive in work may potentially increase. However, for this to be the case, their income in employment would have to be such that they receive only partial HB or CTB, and the maintenance payment they receive would have to be greater than £15. Even in this case, potential in-work income increases by less than the income they will receive on maintenance support.

- **Not receiving maintenance payments:** For this group, changing the disregard levels will have no impact, unless it encourages the NRP to pay.

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\(^8\) Assuming a similar level of disregard applies for IS and HB and CTB.
The preceding points show that for almost every scenario the non-work income of a PWC is increased relative to the income they would receive in work. The standard labour supply model would suggest that this is likely to lead to a negative impact on employment rates. However, the theory does not give any indication of the size of the impact on employment. In Section 2.4 we outline the likely size of these impacts and the extent to which there may be mitigating factors.

### 2.3.2 Increasing child maintenance compliance

The second effect of the proposed reforms is the potential to increase child maintenance compliance. In this case, it is anticipated that NRPs may be more likely to make payments if they know that their children could benefit directly from the payment.

However, in terms of employment effects, an increase in compliance is likely to exacerbate the effects set out in the section above. In particular, it would either:

- increase the numbers of PWCs receiving maintenance and so increase the number of people in each of the top three categories above; or
- increase the level of maintenance received by PWCs, thereby exacerbating the differentials identified above.

An increase in compliance should also reduce the uncertainty of maintenance payments which could see PWCs placing more weight on maintenance when making decisions about whether to work or not. While we have not been asked to consider the impact of increased compliance as part of the literature, we consider the possibility of such a potential impact where appropriate.

### 2.4 Key findings from the literature review

This section sets out key findings from the literature in relation to the impact of increasing maintenance disregards on work incentives. It is worth noting that very little research exists which has considered this question in detail. However, to undertake the literature review we have considered a number of papers relating both to academic research and work commissioned as part of policy evaluation in the UK and US. The papers that have been considered in detail are included in summary form in the Appendix.

The main studies that examine the issue relate to the UK and to a welfare policy experiment in the state of Wisconsin. However, the American literature cannot be applied directly to the UK given the differences between the welfare system in the US and in the UK. Only one paper provides estimates of the likely magnitude of employment effects, and even these estimates must be treated with a degree of caution.

Finally, a number of papers – largely non-economics-based – have considered other factors which may have impact on the magnitude of the effect of a maintenance
disregard on work incentives. The key focus of this literature is on the variability and uncertainty of maintenance payments.

In the remainder of this section, therefore, we:

- set out a detailed summary of the key UK paper, and discuss its applicability to the current proposals;
- set out a detailed summary of the key US paper, and discuss its applicability to the current proposals; and
- discuss other elements of the literature likely to have a bearing on the proposals.

### 2.4.1 Paull, Walker and Zhu, Child support reform: some analysis of the 1999 White Paper

The paper by Paull, Walker and Zhu (2000), is of greatest relevance to understanding the impact of the proposed reforms. This paper uses a sample of lone mothers (and repartnered mothers) to analyse the potential effects of reforming the UK system of child support (as set out in the 1999 White Paper) on the size of maintenance liabilities, the amount paid and the net incomes of both the household containing the mother-with-care and the household containing the non-resident father. It considers the expected effect of disregard of child support in the income support system on compliance and on work incentives.

The authors use a discrete choice model of labour market status, which models the probabilities of each individual being a full-time worker, a part-time worker or a non-participant as a function of observed characteristics (the number of children in each of three age ranges) and the net incomes that individuals would expect to command in each status. The modelling assumes a specific form for preferences that correspond to a labour supply function that is linear in the net wage rate and the level of unearned income.

Calculations of the parameters of individual preferences over hours of work and net income permit the probabilities of choosing each labour market state to be simulated using the calculated net incomes in each state and the number of children in each age range.

Estimates of the parameters of individual work preferences are taken from Preston and Walker (1999). Whilst undoubtedly the best relevant evidence on the labour supply of lone parents, the authors note, however, that the analysis suffers from four deficiencies:

- they assume that unobservable characteristics associated with participating in welfare programmes (e.g. self-confidence) are uncorrelated with labour market status;
- the unobservable characteristics associated with being in receipt of child support (e.g. assertiveness) are also assumed to be uncorrelated with labour market status;
the estimates assume that all that matters for determining labour market status
choices is the levels of net income corresponding to each choice and not the
composition of that net income (e.g. welfare payments may be more reliable
than earnings which may be more reliable than maintenance payments); and

- the modelling is based on a discrete choice methodology. The authors note that
the ‘resulting simulations should be regarded as indicative rather than definitive’.

Nevertheless, using these parameters, Paull et al. simulate the impact of different
levels of maintenance disregard. The impacts are set out in Table 2.1, and assume
that compliance does not change as a result of the reform package.

Table 2.1 Simulated employment effects

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Not in work</th>
<th>Part time work</th>
<th>Full time work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assume IS disregard is zero</td>
<td>53.2%</td>
<td>25%</td>
<td>21.9%</td>
</tr>
<tr>
<td>IS disregard is increased to £10</td>
<td>55.1%</td>
<td>23.3%</td>
<td>21.6%</td>
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<tr>
<td>IS disregard of £15</td>
<td>56.0%</td>
<td>22.5%</td>
<td>21.5%</td>
</tr>
<tr>
<td>Baseline</td>
<td>55.1%</td>
<td>23.3%</td>
<td>21.6%</td>
</tr>
<tr>
<td>HB disregard increased to full</td>
<td>53.7%</td>
<td>25.4%</td>
<td>20.9%</td>
</tr>
</tbody>
</table>

Source: Paull et al.

The baseline in the table is IS disregard of £10 and HB disregard of £15 (that is, the
same as line 2). Simulated changes in IS disregard hold the HB disregard at £15 and
the simulated change in HB disregard holds the IS disregard at £10.

The proportions in the table are of all mothers with care including repartnered
mothers and individuals receiving no maintenance. The table shows that increasing
the IS disregard is likely to lead to an increase in the proportion of individuals in
receipt of maintenance who are not in work. Roughly, the simulations show that a
£5 increase in disregard appears to lead to an increase of one percentage point in the
proportion of people not in work although the authors identify a number of
limitations in this analysis as outlined below.

However, it is interesting to note that the reduction appears to come from part-time
work rather than from full-time workers. In particular, we see that an increase of £15
in the level of disregard leads to a less than half a percentage point reduction in the
proportion of people in full-time employment.

For HB, the paper found that increasing the disregard in HB from the current level to
a full disregard would lead to an increase in the proportion of people in work of
around one and a half percentage points. However, it also leads to a reduction in the
proportion of people in full-time employment, as more individuals choose to work
part-time. Paull et al. do not simulate the combination of a significant increase in the
IS disregard with an increase to full in the HB disregard. It is not exactly precise, but
the findings of Paull et al. could reasonably be interpreted as suggesting that a £20
IS disregard coupled with a full HB disregard are likely to have a broadly neutral
impact on work incentives.
The paper also recognises the possibilities of the effects on compliance and provides estimates which allow for an increase in compliance as a consequence of a change in disregard. Increased compliance arising from the higher disregards could reduce employment rates. This may be important because: (i) the US evidence suggests significant increased compliance from a full pass-through of maintenance payments; and (ii) the current low levels of compliance in the UK indicate considerable scope for improvement. (Paull *et al.* look at the impacts of increasing compliance, but the estimates are not very useful because the simulated compliance measure is a discrete zero or all measure which generates unintuitive employment impacts).

It is important to keep in mind that the Paull *et al.* simulations of the IS disregard are limited to relatively small changes and do not directly indicate the likely impact on work incentives for significant increases in out-of-work income above the simulated £15 disregard. In our interpretation of the Paull *et al.* results we have assumed that rises in income have a linear impact on work behaviour for a £20 IS disregard.

**Applicability to the current proposals**

There are a number of reasons to treat the above results with some caution when considering their applicability to the current reforms:

- **Old data:** the data for this paper is for 1997. Given the substantial changes that have taken place since then (not least in lone parent participation rates) one would need to rerun the analysis on more up to date data to be certain of the impacts that the model is predicting.

- **Recognised limitations:** the limitations listed above that the authors recognised are likely to bias the results. However, as the authors note, it is impossible to predict the size or magnitude of the bias. However, the uncertainty of maintenance payments relative to other forms of income could potentially have a substantial impact on the magnitude of employment effects.

- **Magnitudes of disregard:** the magnitudes of increase in disregard under consideration with the current proposals are substantially larger than those simulated in the Paull *et al.* paper. While the labour effects of a disregard are relatively linear for the simulations considered, it is not clear whether this would hold for greater magnitudes.

In the following section we consider the other literature of relevance (relating primarily to the Wisconsin policy experiment). While this shows employment effects that are substantially lower, there are a number of strong arguments to suggest that this analysis is less relevant to the UK.

### 2.4.2 Evidence from the US

In addition to the UK experience, a number of US studies have considered the impact of increasing maintenance disregards on work incentives. The key papers relate to the experience in Wisconsin, which conducted a policy experiment to understand the impact of allowing PWCS on benefits to retain different levels of maintenance payment.
The most detailed analysis has been undertaken by Cancian and Meyer (2003) who carried out an evaluation of the programme for the Institute for Research on Poverty. A brief summary of the key findings of this work and its applicability to the UK is set out below.

**Background**

As in the UK, in most US states, Temporary Assistance for Needy Families (TANF) participants do not receive any of the child support paid on behalf of their children – it is kept by the government to offset welfare costs and the family receives no additional income. This no pass-through policy is to generate revenue to offset public assistance and child support enforcement costs in the short run. However, individual states can take the decision to pass through maintenance if they wish, as long as they absorb the cost of this policy themselves rather than at a federal level.

In Wisconsin the programme, known as W-2, attempted to replicate the ‘real world of work’ by tying assistance payments to hours of participation, rather than family size. Consistent with this, custodial parents are allowed to keep all the child support paid on behalf of their children, and it does not affect cash benefit calculations (100 per cent disregard) just as would occur in the ‘real world of work’.

Participants are placed in one of four tiers of a ‘self-sufficiency ladder’: The upper two tiers provide case management and associated programmes, but no cash benefit. The two lower tiers provide cash in exchange for participation in work-like activities.

**Participant tiers**

Upper tiers (no cash assistance):

1. Care Management Services – help most job-ready applicants find unsubsidised jobs on the open market or improve current job status.
2. Trial Jobs – work experience, with the state partially subsidising the employer.

Lower tiers (cash assistance):

3. Community Service Jobs – assigned by the W-2 agency for which participants receive a monthly W-2 payment.
4. W-2 Transition – for those least able to work, because of their own or their child’s disability. They receive a slightly lower W-2 monthly payment.

Cash assistance without a work requirement is available for parents caring for newborns.

Assistance with childcare costs is also available for those with incomes at 185 per cent of the federal poverty line or lower, regardless of participation in any W-2 tiers. Co-payments are required though, and depend on family income and size.
From October 1997 to June 2002 the child support component of W-2 was operated as a waiver demonstration programme with a required evaluation based on the random assignment of participants to experimental and control groups. The experimental group received all child support paid on their behalf, and the control group received a reduced pass-through when they were in the bottom two tiers, though not the top two. After random assignment ended in 2000, all new W-2 cases received full pass-through, and in 2002 all cases did.

**Approach**
Regression analysis was used in an attempt to isolate any effects due to implementation changes from those due to demographic differences between cohorts.

Data used was drawn from administrative records in Wisconsin’s public assistance information system, CARES, and in the child support information system, KIDS.

**Findings**
In cohort 1 (those entering prior to July 1998) mothers eligible for the full pass-through received about $150 more in child support than did the control group. Differences were smaller but remained significant in 1999. Although these increases are largely due to the mechanical effect of full pass-through, there was also a significant increase in the proportion of non-custodial fathers paying child support, especially for those new to the child support and welfare systems. Finally, a significantly higher rate of paternity establishment was observed in the experimental group in 1998, though this declined to a not statistically significant level in 1999.

There were also secondary effects, though to a lesser extent. The increase in child support reduced the need for cash payments, especially for mothers who received a W-2 cash payment and among mothers with a history of higher child support amounts. There was also some evidence that fathers in the experimental group were less likely to have informal earnings, and there was also some evidence of higher informal transfers by fathers in the experimental group, implying formal and informal transfers are complements.

However, there were few significant impacts on mothers’ employment or earnings – possibly because child support increases were too small to have an effect, or because child support simultaneously helped facilitate employment and reduced the incentive to work. Little impact on child well-being was found, though some impact on health and education was in evidence.

The general conclusion of phase I was that increasing the child support pass-through and disregarding it in the calculation of cash payments increases the payment and receipt of child-support.
In cohort 3 (the second state-wide cohort), the results were similar but some effects were smaller and not statistically significant. For example, mothers in the experimental group in cohort 3 were no more likely to receive a payment. There is evidence in cohort 3 that mothers receiving more than $1,000 did have a reduction in earnings of a similar order.

Where demographic differences were controlled for, there were significant differences between the effects in the two cohorts in a number of areas: a larger experimental impact in cohort 1 on mothers receiving support, and a larger impact on cohort 3 of receiving medical assistance. In cohort 1, but not in cohort 3, experimental cases were less likely to receive W-2 and overall there were lower increases or decreases in receipt of all public assistance programmes in cohort 1, but increases in cohort 3.

Among those with a history of higher support, there were larger experimental impacts on the amount of child support received for both cohorts.

It was expected that experimental effects would be stronger for cohort 3 than for cohort 1 because of improvements in W-2 and child support pass-through policy implementation, but this is generally not the case, indeed the effects were often larger for cohort 1. However, survey evidence shows that in Milwaukee, W-2 case managers’ understanding of the experiment was poor and indeed declined between surveys.

Results of the evaluation suggest the policy of full pass-through was a success – beneficial effects included low-income mothers receiving more child support especially where the mother was new to the welfare system, many fathers being more likely to pay and children being more likely to have paternity established. This was achieved at relatively little cost to the government. Child support administrators also claim that full pass-through makes for a simpler administration system, which should also induce savings.

**Applicability to the UK**

The US TANF provides income support to low-income families both in and out of work. The TANF system allows states considerable freedom to determine generosity, work requirements, eligibility and other TANF rules. This freedom means we cannot offer a consistent description of US welfare, however most states provide a maximum credit to low-income families subject to resource limits, time limits and work or job-search requirements. The credit is then tapered away as incomes rise, possibly after an initial disregard.

Job-search requirements are mirrored in the UK, though in the US there are also often work requirements for those receiving TANF assistance to undertake ‘work activities’. Recipients must work as soon as they are job ready, or no later than two years after coming on assistance. Single parents are required to participate in work activities for at least 30 hours and failure to participate in work requirements can result in a reduction or termination of benefits, unless a single parent with a child
under six cannot find appropriate childcare. Something similar is seen under the New Deal in the UK, though only for those on JSA for a specified period beforehand.

Time limits (lifetime time limits) are not found in the UK and this is a fundamental difference between the two systems which prevents fair comparisons being made. Families in the US with an adult who has received federally-funded assistance for a total of five years (or less at state option) are not eligible for cash aid under TANF. States may extend assistance beyond five years to no more than 20 per cent of their caseload, or extend it using state-only funds. In the UK, JSA has job-search requirements, but no time limit. IS is available for those unable to work or work full-time, such as lone parents or the disabled, who have low incomes. Again, there is no time limit on claims.

Food stamps, Medicaid and housing subsidies are available to low income families. Food stamps count TANF payments as income and depend on certain job-search or training conditions, but Medicaid is related to low incomes – all TANF recipients and young children in low income families are eligible for Medicaid. HB, CTB and other in-kind benefits are available in the UK, dependent on income.

The key paper examining disregards in the US suggests that increasing the level of disregard is likely to have little or no impact on the employment rates of PWCs. This is the only paper which uses a real world situation to assess the impact of increasing the disregard on employment rates. However, the above section shows that there are substantial differences between the US and UK welfare systems, suggesting that the findings from the US are unlikely to be relevant to the UK. In particular, the stringent time limits and job-search criteria in the US system are likely to significantly limit the potential of increasing the disregard to lead to a reduction in employment rates for PWCs. For this reason, it is likely that the estimates from the US will substantially underestimate any employment effects of the proposed disregard.

2.4.3 Additional factors likely to impact on employment effects

The previous sections showed that there is relatively scant evidence on the impact of increasing disregards on the employment participation of PWCs. Moreover, the evidence from papers that are relevant is not fully applicable to the current proposals. This evidence suggests that increasing the disregards is likely to have a limited negative effect on the numbers of PWCs working full-time, but could reduce the number of part-time workers.

However, evidence from other, more qualitative work, raises two further issues that could impact on these findings:

- the impact of maintenance payment uncertainty on employment decisions; and
- the attitudes to work of lone parents who have recently started work.
2.4.4 Uncertainty of maintenance payment

Maintenance payments appear to be considerably more variable than other types of income. We understand, for example, that there are frequent changes in the timing of payments and the level of payment made. In addition, the duration of maintenance payments can often vary substantially.

This variability is likely to have a bearing on the employment decisions of PWCs. In particular, it is likely to be the case that the uncertainty associated with any increased maintenance payments will go some way to offsetting any potential negative employment response. If the PWC is not sure they will receive payments, then they are less likely to give up employment as if in certain anticipation of the increased income.

The upshot of this line of argument is that the estimates of employment effects set out in the previous section may overstate the true employment effect once the uncertainty associated with the maintenance payments is fully accounted for.

Unfortunately, there is little evidence from the literature that has examined this issue in detail. A number of papers including Paull, Walker and Zhu (2000), Jenkins and Millar (1989) and Bingley and Walker (1997) refer to the potential of this effect to reduce employment effects associated with child maintenance payments. Graham and Beller (1989) using data in the US between 1979 and 1982, find that increase in income from child support appears to reduce hours less than an equal increase in other non-wage income. Based on their calculations (and holding AFDC participation constant), a $1,000 per year increase in non-wage income other than child support would reduce average labour supply by 52 hours per year (or by slightly over four per cent) whereas an increase of $1,000 per year of child support would reduce labour supply by only six hours per year (or less than 0.5 per cent).

2.4.5 Attitudes of lone parents

Work by Millar (2006) explores whether lone mothers who had recently started work felt themselves to be better off in work, and what they meant by this. Greater income was a key reason why the women wanted to work. About half said they thought they were clearly better-off in work. However, the author notes that ‘in thinking about whether they were better off or not, the women were not just making a simple financial calculation between income levels at different points in time, they were also taking into account other aspects of their situations, both financial and non-financial’. Three financial factors were felt to be important: income security, debts and budgeting, especially for additional costs in work.

For most of the women, the fact that they were not better off or only marginally better off was compensated for by other aspects of being in work. Social contact, improved self-esteem and autonomy, and feeling they had a purpose in life were all important. Some were also looking to the future, hoping to buy their own home and planning for their pensions.
On the other hand, many of the women were anxious about leaving the relative security of IS for often insecure temporary jobs, about managing financially while waiting for wages and tax credits and about coping with the demands of work.

It is noted that for many of the women, the move off IS and into jobs of 16 hours plus was part of a gradual process of re-entering employment, rather than an abrupt shift from no paid work to full-time jobs.

By the time the women were interviewed (about 10-12 months after they had left IS for work), seven of the women were out of work again, six had changed jobs, two had substantial time off, three had changed their hours of work and five expected their jobs to end soon.

Most of the women worked part-time, with just 13 in jobs of over 30 hours per week.
Appendix
Summary of key papers

**Title of study**
Better-off in work? Work, security and welfare for lone mothers

**Author(s)**
Jane Millar

**Date**
2006

**Source**
‘Cash and Care: policy challenges in the welfare state’, edited by Caroline Glendinning and Peter A. Kemp, Bristol: Policy Press

**Categorisation**

*Country/region*
UK

**Questions posed**
Explores whether lone mothers who had recently started work felt themselves to be better off in work, and what they meant by this.
Methodology and assumptions

Methodology
In-depth interviews with 50 lone mothers who had recently started work of 16 hours or more a week.

Assumptions and associated limitations
Most of the sample had school age children only as the sample was selected to include families with at least one child between 8 and 14. Of the sample of 50, only 19 were receiving child support, although not always regularly.

Results and implications

Employment rates of PWCs
Greater income was a key reason why the women wanted to work. About half said they thought they were clearly better-off in work. However, the author notes that ‘in thinking about whether they were better-off or not, the women were not just making a simple financial calculation between income levels at different points in time, they were also taking into account other aspects of their situations, both financial and non-financial’. Three financial factors were felt to be important: income security, debts and budgeting, especially for additional costs in work. For most of the women, the fact that they were not better off or only marginally better off was compensated for by other aspects of being in work. Social contact, improved self-esteem and autonomy, and feeling they had a purpose in life were all important. Some were also looking to the future, hoping to buy their own home and planning for their pensions. On the other hand, many of the women were anxious about leaving the relative security of IS for often insecure temporary jobs, about managing financially while waiting for wages and tax credits and about coping with the demands of work. It is noted that for many of the women the move off IS and into jobs of 16 hours plus was part of a gradual process of re-entering employment, rather than an abrupt shift from no paid work to full-time jobs. By the time the women were interviewed (about 10-12 months after they had left income support for work), seven of the women were out of work again, six had changed jobs, two had substantial time off, three had changed their hours of work and five expected their jobs to end soon. Most of the women worked part-time, with just 13 in jobs of over 30 hours per week.
Title of study
Future policy options for child support: The views of parents

Author(s)
Adele Atkinson, Stephen McKay and Nicola Dominy

Date
2006

Source
DWP Research Report No 380

Categorisation
Country/region
UK

Questions posed
The DWP commissioned the Personal Finance Research Centre to provide independent evidence of parents’ views of possible policy options for reforming the CSA.

Methodology and assumptions

Methodology
Summary of the views of 31 parents who attended one of five focus groups. These consisted of two groups with PWC: one with NRPs, one with a mix of CSA clients; and one with intact families.

Assumptions and associated limitations
The results are not meant to provide an indication of the proportion of people who may react in a particular way, and the findings cannot necessarily be generalised.

Results and implications

Employment rates of PWCs
They note that most parents did not realise that maintenance is currently offset against benefits. Of those that did understand this, some of the PWCs in receipt of benefits were finding ways of receiving maintenance payments without the CSA being involved (typically by asking the NRP to buy specific items). Views on offsetting were mixed. For the most part parents tended to think that PWCs in receipt of IS should be allowed to keep all child maintenance. Some, however, considered that the overall income of the PWC should be monitored as there was a point at which it was no longer appropriate for PWCs to get Government support. In the focus groups, nobody suggested that offsetting maintenance for benefits recipients
might discourage a PWC from seeking work, or that the current system incentivised
them to search for a job. The authors note that whether or not parents will change
their behaviour depends on at least three things: 1) the extent of their knowledge of
the interactions between benefits, tax credits and child support; 2) their ability to
undertake a ‘better-off’ calculation of their own circumstances; and 3) their
willingness and ability to modify their circumstances when their economic situation
changes.

Other implications of interest
There was no strong feeling that a change in policy would increase compliance
amongst non-paying NRPs. Most agreed with the current system of allowing
parents to keep all of the maintenance money if they were receiving tax credits. The
fact that the current treatment of maintenance payments for tax credit purposes
creates a significant incentive for parents to return to work was not mentioned by
any of the participants.
Title of study
Welfare reform and lone parents employment in the UK

Author(s)
Paul Gregg and Susan Harkness

Date
2003

Source
CMPO Working Paper Series No. 03/072

Categorisation
Country/region
UK

Questions posed
In 1997 the incoming Labour government initiated a series of policy reforms aimed at reducing child poverty. In particular, Working Families’ Tax Credit was introduced to improve financial incentives to work and the New Deal for Lone Parents and Jobcentre Plus to introduce active case management into the welfare system and encourage single parents to move back to work. A key element of their strategy was to increase employment rates among families with children. This paper evaluates how this package of policy impacted on lone parents’ employment rates, earnings and hours of work.

Methodology and assumptions

Methodology
The methodology used is similar to that of Eissa and Leibman (1996, see above) who take a difference-in-difference approach to assess the impact of policy on employment. Singles without children are used as a comparison group, because they share many characteristics with lone parents but are relatively unaffected by the policy change. In order to take account of differences in observed characteristics between lone parents and the comparison group the authors use propensity score matching. This allows for the construction of a counterfactual – what would have happened to lone parents’ employment without policy changes. The expected employment outcome for lone parents in the absence of policy change (the counterfactual) is estimated as the current employment outcome for the benchmark group, conditioned on observable characteristics, which is then adjusted for pre-policy differences in employment and for a pre-policy rate of convergence or divergence of employment rates of lone parents and the benchmark group.
Assumptions and associated limitations
The counterfactual group (in this case singles without children) is assumed to share as many characteristics as possible with the focus group, with the only difference being the experience of policy. To the extent that policies may have affected the employment of singles without children, they will tend to bias downwards the estimates of the impact of policy reform on lone parents’ employment.

Results and implications

Employment rates of PWCs
Their results show that, of the 11 percentage point rise in the rate of employment of lone parents between 1992 and 2002, five percentage points can be attributed to policy reform. They note this was in spite of significant rises in the level of support for non-working lone parents claiming IS. They find that hours of work among those already working more than 16+ hours a week appear to be broadly constant with no evidence of a windfall effect, which has resulted from increased benefits being given to those already in work, leading to a reduction in their working hours.

Other implications of interest
The effect of policy change has been greatest among those with children under five, where the effect on employment is predicted to be just under 6%. Those with children over 10 have made relatively little gain in employment since 1998. The employment effect has also been marginally greater for relatively well educated lone parents, probably reflecting the weak gains to work that remain at relatively low wage levels and the fact that WFTC extends quite far up the income distribution. Those lone parents still outside work are increasingly less well skilled and concentrated in rented housing, and are observed to be a group for whom work incentives remain weak.
Title of study
The effect of child support on welfare exits and re-entries

Author(s)
Chien-Chung Huang, James Kunz, Irwin Garfinkel

Date
2002

Source

Categorisation
Country/region
US

Questions posed
This paper examines whether child support affects the likelihood of leaving and re-entering welfare.

Methodology and assumptions
Methodology
The full sample consists of 1,068 mothers observed at the beginning of a welfare spell over the 1979-1996 period. More than 99% of the mothers (1,057) left welfare, according to the definition used. These 1,057 mothers are included in analyses of re-entries. The primary analysis technique is Cox’s proportional hazard model. The independent variables in the model include personal characteristics (that are expected to affect the probability of exiting and re-entering welfare – age, race, education, marital status, number of children, and whether the mother lived in an urban area at the beginning of the spells) and state environment. They also include a measure of ‘distaste’ for benefits and a measure of ‘competence’.

Assumptions and associated limitations
The main data used in this study comes from the 1979 through 1996 waves of the National Longitudinal Survey of Youth (NLSY). It is therefore not a representative sample of all welfare recipients in any given year; rather it is representative of the welfare experiences of women who were aged 14 to 22 in 1979. Welfare exit is defined as three consecutive months of non-receipt. Both state child support legislation and expenditure are used to represent a state’s vigoroussness in child support enforcement. The data predates legislative changes that gave the states full discretion with regard to how much child support to pass through to recipients.
Results and implications

*Employment rates of PWCs*

The results indicate that both the child support payments a mother received and state child support enforcement have strong effects on women’s decisions about exiting and re-entering welfare. Women with $1,000 child support payments in the previous year were 18% more likely to exit welfare and 12% less likely to re-enter welfare. Compared with women in states that pursued child support least vigorously, women in states that had passed extensive child support enforcement legislation and spent more money on child support enforcement were 79% more likely to exit welfare and about 60% less likely to re-enter welfare.

*Other implications of interest*

Overall, the mean duration for welfare spells was 32.1 months and the duration of time off welfare among those who left welfare was 57.9 months. Most young women in the sample consecutively used welfare as a short-term transitional programme – they usually relied on welfare for less than two years. Recidivism is most likely to occur within two years of having exited. It is also more likely to occur in certain subgroups. Women who stay off welfare continuously for three years are relatively unlikely to return. The high return rate within two years is suggested to be because these women have never achieved real independence from welfare.
Title of study
Taxes, welfare and work by single mothers

Author(s)
Bruce D. Meyer

Date
2001

Source
NBER Research Summary

Categorisation
Country/region
US

Questions posed
The paper summarises the study of three types of changes in single mothers’ rewards for work between 1984 and 1996, and identifies the effects of these policies on the work choice of single mothers. The policy changes are: 1) large increases in the earned income tax credit (EITC); 2) expansions in the Medicaid program and cuts in benefits for those not working, making work more attractive for low income single mothers; and 3) increases in funding for childcare and in job training for single mothers.

Methodology and assumptions
Methodology
The author constructs measures of the work incentives facing single women for each year between 1984 and 1996 in every US state. The variables used in the empirical analysis incorporate Federal and state income taxes and EITCs, Assets for Independence Program (AFI) and food stamp benefits, Medicaid coverage and welfare waivers that led to time limits, work requirements or disqualification of recipients. The effects of child care and training programmes are also examined. Summary measures of changes in work incentives are calculated by combining changes in tax and benefits and averaging them over an (unchanging) earnings distribution of single women.
Results and implications

Employment rates of PWCs

He estimates that the changes in tax, welfare, Medicaid and child care increased the financial reward for working by $3,258 between 1984 and 1996, 18% of average annual pre-tax and transfer earnings of single mothers. Single mothers with two or more children experienced the sharpest decrease in tax. Between 1984 and 1996, the proportion of single mothers working in an average week increased from 0.58 to 0.64, and the proportion working at any time during the year rose from 0.73 to 0.82. The relative increase in employment of single mothers accelerated after 1991 (relative to single women without children, black men and married mothers). These results are little changed when demographic and business cycle characteristics are taken into account. EITC and other tax changes account for more than 60% of the increase in employment of single mothers (relative to single women without children). These results are similar over time and across specifications. Welfare waivers and other changes in AFDC account for smaller, though still large, shares of the increase in employment. Changes in Medicaid, training and child care programmes account for smaller shares. Effects on total hours worked are very similar to results for employment as a whole.

Other implications of interest

Policies that ‘make work pay’ are effective in increasing work by single mothers. Work can therefore be encouraged by making employment more attractive through tax incentives as well as by making welfare less attractive.
Title of study
Child support reform: some analysis of the 1999 White Paper

Author(s)
Gillian Paull, Ian Walker and Yu Zhu

Date
2000

Source
Fiscal studies, Vol. 21, no. 1, pp 105-140

Categorisation

Country/region
UK

Questions posed
This paper uses a sample of lone mothers to analyse the potential effects of reforming the UK system of child support (as set out in the 1999 White Paper) on the size of maintenance liabilities, the amount paid and the net incomes of both the household containing the mother-with-care and the household containing the non-resident father. It considers the expected effect of disregard of child support in the tax-benefit system on compliance and on work incentives.

Methodology and assumptions

Methodology
A discrete choice model of labour market status is used which models the probabilities of each individual being a full-time worker, a part-time worker or a non-participant as a function of observed characteristics (the number of children in each of three age ranges) and the net incomes that individuals would expect to command in each status. The modelling assumes a specific form for preferences that correspond to a labour supply function that is linear in the net wage rate and the level of unearned income. Calculations of the parameters of individual preferences over hours of work and net income permit the probabilities of choosing each labour market state to be simulated using the calculated net incomes in each state and the number of children in each age range.
Assumptions and associated limitations

The data set excludes lone mothers who have never had a cohabitating relationship. Estimates of the parameters of individual work preferences are taken from Preston and Walker (1999) and suffer from four deficiencies: First they assume that unobservable characteristics associated with participating in welfare programmes (e.g. self-confidence) are uncorrelated with labour market status. Second, the unobservable characteristics associated with being in receipt of child support (e.g. assertiveness) are also assumed to be uncorrelated with labour market status. Third, the estimates assume that all that matters for determining labour market status choices is the levels of net income corresponding to each choice and not the composition of that net income (e.g. welfare payments may be more reliable than earnings which may be more reliable than maintenance payments). Fourth, the modelling is based on a discrete choice methodology. The authors note that the ‘resulting simulations should be regarded as indicative rather than definitive’. The reforms that are assessed include the introduction of a £10 disregard for IS and to increase the current family credit disregard of £15 such that the WFTC will disregard all child support payments, no matter how large. There was no change to the current £15 disregard in the assessment for HB.

Results and implications

Employment rates of PWCs

If compliance was unchanged, the proposed package of reforms would slightly increase the proportions of mothers- with-care working part-time and of mothers-with-care working full-time, reducing the fraction not working to 55.1% (from 56.2%). If compliance increases (to 80%) the proportion not working declines to 53.3% although this is at the expense of an increase in part-time working at the expense of full-time working. The paper also illustrates the effect that different policies can be expected to have on employment rates. For example, they note that the introduction of a full disregard for HB has a theoretically ambiguous impact on work incentives but is found, via the simulations, to increase part-time work at the expense of both not working and working full-time. They also note it has little effect on poverty but is costly to the government.

Other implications of interest

Changes in compliance will be very important for the impact of the proposed child support reform on net incomes and poverty rates and for the cost of the reform to the government.
Title of study
Child support, welfare dependency, and women’s labor supply

Author(s)
Wei-Yin Hu

Date
1999

Source
The Journal of Human Resources, Vol. 34, No. 1. pp 71-103

Categorisation
Country/region
US

Questions posed
The study seeks to evaluate the potential effectiveness of alternative child support policies in reducing welfare programme participation. It considers women’s decisions regarding welfare participation, labour force participation and annual hours of work following marital breakup.

Methodology and assumptions
Methodology
Econometric analysis that uses separate equations to determine the decision to work versus the number of hours worked for women not on AFDC. Rather than including a predicted wage rate for non-workers, she substitutes in the exogenous determinants of pre-tax wages (age, education, race, unemployment rates and geographical dummy variables). It also undertakes the analysis based on the subgroup of women in their first two years following marital break-up to try to take into account the federally mandated work requirements of the TANF scheme.

Assumptions and associated limitations
This study analyses the labour supply and welfare choices of unmarried women who have experienced a marital break-up (a subgroup where the expected time on welfare is lower than the case for those PWCs who were never married). She justifies this on the basis that although never-married mothers comprise a significant portion on welfare, fewer than one in five of them receive child support payments. Cross-state study undertaken during a period when AFDC was in place with a $50 per month disregard for child support payments.
Results and implications

Employment rates of PWCS

The labour supply effects ‘are small in size’. Higher child support payments would increase average hours of work by a small amount. There is a larger elasticity of expected hours for those on AFDC (-0.1237) relative to those not on AFDC (-0.0261) which she explains by the fact that welfare disproportionately attracts those with greater income elasticities. The probability of working while on AFDC is -0.0149 whilst it is -0.0366 off AFDC. A strong result from this study is that the distribution of child support payments can be as important as the overall average of support payments. The largest increases in labour supply would arise from increasing child support payments to women who currently receive none.

Other implications of interest

Higher child support payments would decrease welfare participation: in particular, a $1,000 increase in child support would decrease AFDC participation by about four percentage points on average. Child support income is found to discourage remarriage, indicating that the ‘independence’ effect dominates the ‘attractiveness’ effect.
Title of study
Labour supply response to the earned income tax credit

Author(s)
Nada Eissa and Jeffrey B. Liebman

Date
1996

Source

Categorisation
Country/region
US

Questions posed
This paper examines the impact of the Tax Reform Act of 1986 (TRA86), which included an expansion of the EITC, on labour force participation and hours of work of single women with and without children. It compares the change in labour supply of single women with and without children in order to estimate the labour supply effects of the EITC. The EITC was generally expected to encourage labour force participation since it is only available to taxpayers with earned income, and the additional after-tax income created by the EITC could make it worth entering the labour force.

Methodology and assumptions

Methodology
The paper uses single women with children as the treatment group and single women without children as the control group. The difference in labour force participation of these two groups provides an estimate of the effect of TRA86. Data used is from the March Current Population Surveys 1985-87 and 1989-91, totalling 67,097 observations. A regression is run to control for demographic characteristics (unearned income, number of children, family size, number of pre-school children, age, education and race).

Assumptions and associated limitations
The data used means that there is an assumption of no contemporaneous shocks and no underlying work trends, although long-run trends in labour force participation are separately tested.
Results and implications

Employment rates of PWCs

They found that the welfare reform led to a statistically significant 2.8% increase in the relative employment rates of lone parents between 1984-86 and 1988-90. The increase in participation was larger for women with less than high school education (who were more likely to be affected by the EITC) than it was for those with more. Single women without children did not alter participation, implying there is no aggregate effect to take account of. In general a participation, but not an hours effect was observed. At odds with theoretical predictions, there was no evidence that the expansion of the phase-out region reduced work hours for eligible women. This could be because many EITC recipients do not know they receive credit or how it works, and only need to perceive they are better off working than on welfare to change their participation decision. It could also be due to measurement error, as participation is easier to measure than hours worked. It is also possible an unknown positive shock affected the findings.

Other implications

They found that females with unearned income, older of interest women and those with pre-school children are less likely to participate, and more educated women are more likely to be in the labour force.
Title of study
Labour supply incentives and recent family credit reforms

Author(s)
Alan Duncan and Christopher Giles

Date
1996

Source

Categorisation
Country/region
UK

Questions posed
The paper evaluates the 1995 £10 per week increment to Family Credit (FC) for recipients in full-time work in terms of its distributional impact and its effect on female participation and labour supply.

Methodology and assumptions

Methodology
The introduction of the increment to FC was a response to concerns that FC created labour market inflexibility among those eligible for benefit. It was designed to mitigate the effects of the high marginal withdrawal rates associated with the reduction of FC as hours and gross income rise. In response, the government introduced a new 30 hour rule into FC from July 1995 to increase the generosity of FC by £10 per week for those claimants working over 30 hours a week. To prevent the increase in FC from being deducted from HB or CTB, the £10 per week credit was excluded from means tests for these benefits. The paper uses the Institute for Fiscal Studies (IFS) tax benefit model, TAXBEN, to estimate costs and distributional consequences of the reform taking no account of any effect on work incentives. Data used was from the 1993 Family Expenditure Survey. The 30 hour premium was simulated as an extension of the April 1993 tax and benefit system to ensure the tax system remained consistent with the prices and wages in the data. The empirical specification used for simulation derives from a one-period optimising model of the consumption and labour supply decision of married women and lone parents in the UK. They select 3,490 married women and lone parent households from the 1993 Family Expenditure Survey. They choose the following set of conditioning variables: the level of non-work income; age; years of education; the age of the youngest child in each family; the number of children; marital status; maintenance receipt; the predicted gross wage; part-time and full-time replacement rates.
Assumptions and associated limitations

It is assumed that all income-related benefits were claimed by those entitled (although DSS data suggests only two-thirds actually take up FC). Two-thirds of lone parents are unwaged and therefore ineligible for FC. The discrete model simulations suffer from the problem of coherency because the simulated increase in part-time work of lone parents can only arise from a reduction in the simulated attractiveness of non-participation and not an increase in the attractiveness of part-time work.

Results and implications

Employment rates of PWCS

Overall they find small and potentially negative labour supply results. For both lone parents and married women’s labour supply the income effect dominates. The paper predicts the change in policy will result in a grossed-up equivalent of 33,000 lone parents increasing their labour supply to around the 30 hour a week point from a lower hours level, and 24,000 reducing their supply from a greater hours level. They conclude that the reform will not provide sufficient incentive to make work attractive or overcome fixed costs of work (such as childcare costs) for the 66% of lone parents not currently in the labour market.

Other implications of interest

The presence of young children in the household reduces the probabilities of both full-time and part-time work relative to non-participation.
Title of study
Child support reform and the labour supply of lone mothers in the United Kingdom

Author(s)
Paul Bingley, Gauthier Lanot, Elizabeth Symons and Ian Walker

Date
1995

Source

Categorisation
Country/region
UK

Questions posed
The paper analyses the impact of the 1993 changes to UK child support (CS) using a labour supply model for lone mothers. The authors assess the determinants of labour force participation and welfare dependency in the UK.

Methodology and assumptions
Methodology
In order to take account of the complex nature of lone parents’ budget constraints, the authors estimate a Multinomial Probit Random Utility Model of non-participation, full-time and part-time work. They consider labour supply as a discrete choice problem, between these discrete alternative levels of hours of work. The modelling estimated the effects of the budget constraint, demographic variables and child support on labour supply. Child support was incorporated into the budget constraint, and the authors attempted to see if there were any additional effects on the labour market behaviour of those who receive child support from those who do not. The model was used to simulate the impact of replacing the existing child support payments with amounts suggested under 1993 legislation. Under this scheme child support payments would be means tested against the absent parent’s income and would depend on the needs and means of the caring parent. This would be accompanied with a new child support disregard in the HB and FC, but not in IS. Data used is from the Family Expenditure Survey datasets pooled over 1979 to 1988, giving a sample of 2,933 lone mothers.
Assumptions and associated limitations
They simplify the analysis by considering labour supply as a discrete choice problem involving a choice between a number of discrete alternative levels of hours of work.

Results and implications

Employment rates of PWCs
Those who receive more child support are more likely to work relative to the group who do not. Receipt of child support halves the probability of not working. This supports the argument that it is the uncertainty of current child support payments that is important. For those who do not work, child support is likely to result in part-time rather than full-time work being undertaken. There is a conventional negative income effect associated with child support when it comes to hours of work for participants, but child support has a positive effect on participation because of the absence of a disregard for it in the IS programme. The effect on participation for those currently receiving child support pre-reform is quite dramatic, because these individuals now typically receive much larger amounts and receive it with certainty. They respond by relying on it more heavily, to an extent that offsets the effects of increases in net income. For the CS=0 group, the reform attracts low wage women into full-time work and increases FC payments, because it disregards child support. Part-time women become entitled to more FC because of the reduction in the hours limit for FC entitlement.

Other implications of interest
The presence of young children has a large negative effect on the participation probability, though conditional on participation, full-time work is not significantly affected. In general the probability of working is very sensitive to the age of the youngest child. The 1993 reform was predicted to transfer some of the cost associated with CS from the government to the absent parent, saving the Exchequer approximately £900m per year.
Title of study
Child support and welfare dynamics: evidence from Wisconsin

Author(s)
Daniel R. Meyer

Date
1993

Source
Demography, Vol. 30, No. 1

Categorisation
Country/region
US (Wisconsin)

Questions posed
This paper estimates the effect of child support on exiting and re-entering welfare for a sample of divorced women in Wisconsin from 1980 to 1989.

Methodology and assumptions

Methodology
He uses two discrete-time event history models: one modelling exiting welfare and one modelling re-entering welfare. Welfare spells are a function of both time-varying variables (such as the amount of child support, the age of the youngest child and the unemployment rate) and variables that are fixed over time (such as race).

Assumptions and associated limitations
The data only includes lone parents who were once married. An exit occurs when a woman is off AFDC for two consecutive months.
Results and implications

Employment rates of PWCs

Over the whole sample, those who receive a small amount of child support (between $1 and $100 per month) are less likely to exit than those that receive nothing at all. As child support increases, women become more likely to exit, but a woman is not significantly more likely to exit welfare unless she is receiving $300 per month ($1,988). Considering only those women whose spell on AFDC began after the court petition date (a much smaller sample) a small amount of child support does not affect exiting although a large amount of child support increases the probability of exiting. Receiving child support significantly decreases the likelihood of returning to welfare. However, receiving a large amount does not make one less likely to return than using a small amount. Women who had received child support for three or more of the previous six months are significantly less likely to re-enter, even when the current amount received is held constant. This may suggest that regularity of child support is effective in keeping women off welfare.
Title of study
Lone mothers’ employment and full-time work probabilities

Author(s)
Stephen P. Jenkins

Date
1992

Source
The Economic Journal, Vol. 102, No. 411, pp 310-320

Categorisation

Country/region
UK

Questions posed
The paper models employment probabilities for UK lone mothers using the 1989 Lone Parents Survey (LPS).

Methodology and assumptions

Methodology
The theoretical model of labour supply underpinning the paper assumes the principal economic influences on employment rates are: 1) the IS paid at zero hours of work; 2) the wage rate; 3) childcare and other work expenses; 4) non-labour income, including maintenance; 5) in-work benefit entitlements (FC and HB); 6) the availability of jobs. These six factors are all measured to derive the labour supply model used to obtain employment probabilities. The probability of full-time work and employment per se are modelled separately, where it is assumed each can be summarised as a linear function of the variables described above (1-6) plus an error term.

Assumptions and associated limitations
This paper is based on data for 1989 and therefore, maintenance is counted as income for IS purposes, meaning increases do not affect IS guarantee levels (i.e. there is no disregard). The impact of maintenance is measured using two variables: the weekly average equivalent amount received, and whether receipt is regular. However, maintenance receipt is assumed to be exogenous.
Results and implications

Employment rates of PWCs

Higher IS is shown to have a disincentive effect, though more for full-time work than work *per se*. Maintenance levels do not have a statistically significant association with employment probabilities, though the sign is positive. Higher maintenance is, however, significantly associated with lower full-time work probabilities, as would be predicted by the income effect. In addition, he finds that receiving maintenance regularly raises the probability of full-time work significantly.

Other implications of interest

Higher wages and lower childcare costs are both associated with higher work probabilities. Estimates for the region and rural/urban location dummy variables support the argument that the availability of jobs is an important determinant of lone mothers’ employment rates. Lone mothers with a pre-school child are much less likely to work than mothers with an older child. However, having pre-school children reduces the probability of full-time work more than it reduces the probability of employment. Never-married mothers are less likely to work than separated or divorced mothers.
Title of study
The effect of child support payments on the labour supply of female family heads – an econometric analysis

Author(s)
John W. Graham and Andrea H. Beller

Date
1989

Source
The Journal of Human Resources, Vol. 24, No. 4, pp 664-688

Categorisation
Country/region
US

Questions posed
They note that 1984 Census Bureau statistics show that women who receive child support payments have higher earnings and work longer hours than woman who do not. They, therefore, seek to investigate whether child support – unlike other non-wage income – does not deter work effort or whether women that receive it are simply different.

Methodology and assumptions

Methodology
They use 1979/1982 Current Population Survey (CPS) data on divorced or separated women to estimate the determinants of hours worked when AFDC participation and child support are endogenous. They note that child support is the quintessential example of an uncertain income source and therefore, the use of actual rather than expected child support income in an hours regression introduces measurement error which can be shown to bias the income effect to zero. They, therefore, construct an instrument for expected child support by using the fitted regression values from a regression that relates actual child support receipts to a vector of the mother’s socio-economic characteristics which proxy her needs, the absent father’s ability and desire to pay support and the state’s legal environment.

Assumptions and associated limitations
Although they assume that child support income is endogenous, due to lack of data on the absent father, they model the receipt of child support as a function of the behaviour of the mother only.
Results and implications

Employment rates of PWCs

They find evidence of unobservable differences between women who receive child support and those who do not. Controlling for these, both child support and other non-wage income appear to reduce hours worked. However, they find that an increase in child support appears to reduce hours worked (and thus earnings) by less than an equal increase in other non-wage income. Based on their calculations (and holding AFDC participation constant), a $1,000 per year increase in non-wage income other than child support would reduce average labour supply by 52 hours per year (or by slightly over 4%) whereas an increase of $1,000 per year in child support would reduce labour supply by only six hours per year (or less than 0.5%). The authors put forward two propositions as to why child support differs from other non-wage income: First that to ensure that the absent father continues to pay the child support he owes, the mother tends to spend it on goods and services consumed only by the children such as childcare services that enable her to work longer hours. Second, that because many fathers fail to pay all the child support they owe, many mothers may view child support income as a less certain income source than other forms of income and thus, labour market earnings represent a form of self-insurance against the possibility that expected child support payments may not be received.
Title of study
W-2 Child Support Demonstration Evaluation – Phase II

Author(s)
Maria Cancian and Daniel Meyer

Date
2003

Source
Institute for Research on Poverty

Categorisation
Country/region
US

Questions posed
The report evaluates the impact of the Wisconsin Works (W-2) programme. This programme has both relatively stringent work requirements and a generous approach to child support with full disregard.

Methodology and assumptions

Methodology
To evaluate the impact of full pass-through, the W-2 child support policy was initially implemented as a random-assignment evaluation. From September 1997 to June 1999, most cases entering W-2 were assigned to receive a full pass-through of any child support paid, but a randomly selected group was assigned to receive a reduced amount. These assignments remained in place until June 2002 when all cases began to receive the full pass-through. Because assignment to the experimental (full pass-through) and control (partial pass-through) groups was random, any differences in outcomes between the two groups can be attributed to the difference in the treatment of child support. In addition, an inadvertent suspension of random assignment in Milwaukee in the latter half of 1998 offered an opportunity to provide additional training to workers about the imperfectly understood pass-through policy, and to then create a new, later-entering cohort after random assignment was restarted in 1999. Although inclusion in the earlier or later cohort was not random, regression analysis was used in an attempt to isolate any effects due to implementation changes from those due to demographic differences between cohorts. Data used was drawn from administrative records in Wisconsin’s public assistance information system, CARES, and in the child support information system, KIDS.
Assumptions and associated limitations

Work or work-like activities are a prerequisite for cash assistance. W-2 attempts to replicate the ‘real world of work’ by tying assistance to hours of participation, rather than family size. However, cash assistance without a work requirement is available for parents caring for newborns. Participants are placed in one of four tiers of a ‘self-sufficiency ladder’. The upper two tiers provide case management and associated programs, but no cash benefit. The two lower tiers provide cash in exchange for participation in work-like activities. Participant tiers: Upper tiers (no cash assistance): 1) Care Management Services – help most job-ready applicants find unsubsidised jobs on the open market or improve current job status; 2) Trial Jobs – work experience, when the state partially subsidises the employer. Lower tiers (cash assistance): 3) Community Service Jobs – assigned by the W-2 agency for which participants receive a monthly W-2 payment; 4) W-2 Transition – for those least able to work, because of their own or their child’s disability. They receive a slightly lower W-2 monthly payment. Assistance with childcare costs is also available for those with incomes at 185% of the Federal poverty line or lower, regardless of participation in any W-2 tiers. Co-payments are required though, and depend on family income and size.

Results and implications

Employment rates of PWCs

In cohort 1 (those entering prior to July 1998) mothers eligible for the full pass-through received about $150 more in child support than did the control group, resulting in higher incomes. Differences were smaller but remained significant in 1999. There were few significant impacts on mothers’ employment or earnings, possibly because child support increases were too small to have an effect, or because child support simultaneously helped facilitate employment and reduced the incentive to work. Results were similar for the later cohorts. However, they do note that cohort 3 mothers with over $1,000 of child support paid by non-custodial fathers who were getting the full pass-through, reported earnings $953 less than the control group (the difference being statistically significant at the .07 level). They acknowledge that it may be that these mothers who were getting larger amounts of child support pass-through were able to work less.

Other implications of interest

They found that the experiment has the expected direct impact of increasing the amount of child support that mothers received among both of the cohorts analysed. This reflected both the direct mechanical effect of the full pass-through treatment but may also be due to effects on paternity establishment and child support payment. For children who enter W-2 without a legally identified father, they find that children in full pass-through families are more likely to have paternity established. The effects on the payment of child support by non-custodial fathers are not consistent. For the early cohort they find a significantly higher proportion of non-custodial fathers paid support in the first year. However, they find no significant
impacts for the later cohort. They do not find any significant difference in the overall government costs for the full pass-through and partial pass-through policies. Although more child support is passed through to those in the experimental group and is, therefore, not kept by the government, some of this money comes from additional support that would not have been paid in the absence of the full pass-through.
Title of study
The interaction of child support and TANF: evidence from samples of current and former welfare recipients

Author(s)
C. Millar, M. Farrell, M. Cancian and D. Meyer

Date
2005

Source
MDRC

Categorisation
Country/region
US

Questions posed
The report examines the interaction of child support and welfare receipt. In particular, it seeks to understand how child support receipt may vary before and after leaving welfare.

Assumptions and methodology
Methodology
Five sources of data are used, covering a number of different populations across different time periods between 1996-2001. These data include waiver evaluations from four states – Connecticut’s Jobs First program, Florida’s Family Transition Program, the Minnesota Family Investment Program, and Vermont’s Welfare Restructuring Project. Each of the programmes started in the mid-1990s and was evaluated using a random assignment design. Each data source is used according to its relevance for each research question. All of the programmes included financial incentives, in the form of enhanced earnings disregards relative to AFDC system, and either a mandate to work or participate in services or a time limit on benefit receipt.

Assumptions and associated limitations
They note that some of the samples represent very narrow slices of the child support-eligible population and some rely on survey reports of child support receipt, rather than administrative records data. In addition, given the different demographics associated with each data source, the child support outcomes are likely to differ across them.
Results and implications

Employment rates of PWCs

They find that across most samples, child support receipt has little effect on employment status. For the Survey of Income and Program Participation (SIPP) sample using the non-instrumented models they show that child support receipt increases the likelihood of leaving welfare, reduces the likelihood of returning and has no significant effect on the likelihood of working. In the instrumented models, child support continues to increase the likelihood of leaving welfare and now has a statistically significant effect on work. The Urban Change data (using non-instrumented models) show that the receipt of child support in wave 1 increases the likelihood of welfare receipt at wave 2 and has no effect on work. The Wisconsin Child Support Demonstration Evaluation and Parents’ Fair Share program showed few effects on mothers’ employment and earnings.

Other implications of interest

Several demographic characteristics of custodial mothers are associated with the likelihood of receiving child support, such as education level, race/ethnicity and marital status. They find that child support distribution policy does make a difference – more generous pass-through and distribution policies increase payment rates by fathers and receipt rates by mothers. The data suggests that child support receipts are unreliable, though there has been some long-term reliability improvement. Child support can strengthen family self-sufficiency, that is, the likelihood of leaving welfare is raised and the likelihood of returning to it lowered. However, data from Wisconsin suggests this is short lived – consistent work/welfare effects were not identified, possibly because of the unreliable nature of child support. Also, the lack of understanding among parents of child support rules could explain the lack of strong welfare effects.
References


Sir David Henshaw (July 2006) *Recovering child support: routes to responsibility*.


