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Child support

Jonathan Bradshaw

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Introduction

Child support is a private transfer, which for many people is mediated by the government, and which mainly benefits lone parents. Children in lone parent families represented 42 per cent of all poor children in 2003/4. Therefore child support might play an important part in reducing child poverty. Although this was not an aspiration of the 1991 Child Support Act it was certainly the main aspiration of the Child Support, Pensions and Social Security Act 2000. This paper is a review of the potential of child support in the strategy to end child poverty.

There are three ways by which child support might have an impact on child poverty.

First it might reduce child poverty directly and immediately by increasing the income of parents with care to such an extent that they are floated above the poverty threshold.

Second it might increase child poverty directly and immediately by making non-resident parents pay or pay more for the non-resident children and therefore reducing the income available to any children they have resident with them in their new family.

Third it might have an impact on child poverty in the long term by altering the behaviour of those involved – potential parents with care and potential non-resident parents. For women who are potential mothers/parents with care it might:

- Increase or reduce (depending on how it is structured – see later) their incentives to be employed. An increase in employment rates will generally be associated with a reduction in child poverty.
- Increase the incentives to leave partnerships, which would increase child poverty.
- Increase or reduce their incentives to re-partner. It might also have an impact on the motivation of potential partners. An increase in re-partnering of lone parents will all things being equal results in a reduction in child poverty.

However an effective child support system might increase births inside and outside marriage which would tend to increase child poverty.

For men who are potential fathers/non-resident parents an effective child support scheme might:

- Reduce their tendency to engage in unprotected sex and father children both in and out of partnerships. This would reduce child poverty.
- Reduce their capacity and willingness to partner or re-partner. This would probably increase child poverty. However some non-resident fathers might be encouraged to re-partner if it reduces their child support liability.
- Reduce their incentives to work and work more which would increase child poverty.

However before we come to consider these issues we face two critical problems in evaluating the poverty reduction potential of child support.

Child support policy is not working

Mrs Thatcher decided to reform the existing court based arrangements for child support and bring them into the social security system. Her scheme was not really motivated by a child poverty agenda – there was no disregard of child support for lone parents on Income Support. When the Labour Government came to power it set in place a reform of child support with the intention of simplifying the old system. Child support would be based on a simpler formula, there would be a £10 child maintenance premium (disregard) for lone parents on Income Support, and all payments from non-resident parents in employment would be disregarded for tax credit purposes. In many respects it was a better anti-child poverty measure, though it was less generous (average for one qualifying child £24 per child under the new scheme compared to £40 under the old scheme) to parents with care and also probably slightly more severe on non-resident parents.

However the new system has failed to deliver. It was due to be introduced from 2001 but finally began to operate in March 2003. Because of management and IT problems none of the performance targets are being met. The Work and Pensions Select Committee found only half of all applications have been cleared, case compliance was 50 per cent and cash compliance 43 per cent. Only 22 per cent of parents with care on IS were receiving child support (the target is 65 per cent). Over 700,000 cases were still stuck on the old system and so not benefiting from the premium.

The Work and Pensions Select Committee concluded at the end of the last parliament¹ that the CSA was “a failing organisation which currently

¹ House of Commons Work and Pensions Committee. The Performance of the Child Support Agency, Second Report of Sessions 2004-05. HC 44.

is in crisis...If the responses to our report do not provide the information necessary to make a judgement as to whether the CSA as currently constituted can be rescued, the Committee recommends that consideration be given to the option of winding up the Child Support Agency and plans made for an alternative.” A new chief executive was appointed to the Child Support Agency and undertook an urgent review but his plans involved an extra £300 million over three years to implement over and above the agency’s current annual budget of £400 million and then only half of lone parents and only a third of lone parents on benefit would receive any maintenance. So the Secretary of State announced (Hansard 9 February 2006) that there would be another review by Sir David Henshaw to completely redesign the child support system, to report by the summer recess.

The Secretary of State said in his announcement that £600 million of maintenance was collected, twice the level in 1997, but the “performance of the agency remains unacceptable”. Of the 670,000 cases assessed as having a positive maintenance liability only 400,000 are receiving any payments. £3 billion of debts has built up. Only 30 per cent of lone parents receive any maintenance and less than 15 per cent of lone parents on benefit receive any maintenance through the CSA. The Child Support Agency is currently developing a three year strategy to drive up its performance and implement the new scheme effectively. But no one really knows whether this will be successful.

Analytical difficulties

In evaluating most public social policies it is easy to assess the impact of transfers because they are public. Although in the case of child support we have data on child support payments and can assess their impact on the poverty of lone parent families, we do not have any data on the impact of these private transfers on the net income of non-resident fathers, their families and children and the extent to which paying child support to a previous family reduces them into poverty.

The survey analysts can estimate the impact of what child support payment does achieve (see below) and the modellers can estimate what child support might achieve – for the caring parent. But they cannot estimate what child poverty is generated by child support payments or what more capacity non-resident parents have to pay. Also rarely can any of these estimates take any account of behavioural effects.

Perhaps as a result of the hiatus in policy there has been very little new research on child support since the new scheme came in. The argument has been that research should wait until it is “bedded down”. As a result

there have been no studies that would help us answer the behavioural questions identified above. However in the US there has been work on the impact of child support (which has been reviewed by Hanewall and Lopoo (forthcoming)):

- on marriage and divorce (Carlson et al 2004; Hoffman and Duncan 1995; Sigle-Rushton and Garfinkel 2001);
- on fertility (Aizer and McLanahan 2004; Plotnick et al 2004; Bloom et al 1998; Case 1998);
- on labour force participation (Freeman and Waldfogel 1998; Rich, Garfinkel and Gao 2004; Waller and Plotnick 2001; Graham and Beller 1989).

Direct impact on child poverty

Paull et al (2000) estimated that if there was an 80 per cent compliance rate for the new scheme the child poverty rate for mothers with care would decrease by three percentage points.

For this paper we have undertaken new analysis of the Family Resources Survey 2003/4 to assess the impact of maintenance on the child poverty rates of parents with care. In order to do this we have estimated child poverty rates including and excluding maintenance for a child. This is not an entirely satisfactory method for two reasons – first it does not allow for any behavioural change and second because if lone parents on Income Support were receiving child maintenance over £10 per week and it was taken away, it would be replaced by Income Support. However as we have seen, only a third of parents with care on Income Support are receiving any child support. Half are receiving £5 or less and the proportion getting more than £10 is likely to be very small.

In Table 1 only 4.4 per cent of couple families and 22.8 per cent of lone parent families are receiving any child maintenance. For those receiving child maintenance it reduces child poverty rates (threshold=equivalent income less than 60 per cent of the median before housing costs) by 1.5 per percentage points or 7 per cent overall. It reduces child poverty by 13.9 per cent in lone parent families and 2.5 per cent in couple families.

Table 1
Contribution of child maintenance to the reduction in child poverty rates
2003/4

| | % families receiving child maintenance | Child poverty rate without child support | Child poverty rate with child support | % difference |
|--------------------------|--|--|---------------------------------------|--------------|
| Children in couples | 4.4 | 16.3 | 15.9 | 2.5 |
| Children in lone parents | 22.8 | 37.3 | 32.1 | 13.9 |
| All children | 9.0 | 21.4 | 19.9 | 7.0 |

Source: Author's analysis of the Family Resources Survey 2003/4

However this takes no account of the impact on the non-resident fathers' children. I had an MA student from the CSA who selected 81 cases from CSA administrative records, matched caring parent and non-resident parent and simulated the impact of the old and new scheme on the net incomes of parents with care and non-resident families (McFadden 2004). The conclusions he reached are that:

- No parents with care on Income Support were lifted out of poverty by the £10 disregard, and if there had been a 100 per cent disregard of the child support paid still none would have been lifted out of poverty.
- Two out of the six parents with care not on Income Support were lifted out of poverty by the new scheme. The other 30 were not in poverty.
- Two non-resident parents who were not in poverty before the new scheme were pushed into poverty after it.

Comparative evidence

The most recent comparative study of child support regimes is Corden (1999). Although in need of updating this study concluded that the most effective child support regimes were ones that were guaranteed by the state.² That is the state paid some or all of the child support automatically to the caring parent and through the tax system or in other ways recouped the (non) payments from the non-resident parent.

In the UK a guarantee for those on Income Support, given existing rules, could only increase income by £10. The £10 disregard is a potential block on poverty alleviation on Income Support. For those in employment and for those that might enter employment, a guarantee is probably a much more effective mechanism. But at present we do not know very much about who might benefit from it because of lack of research and

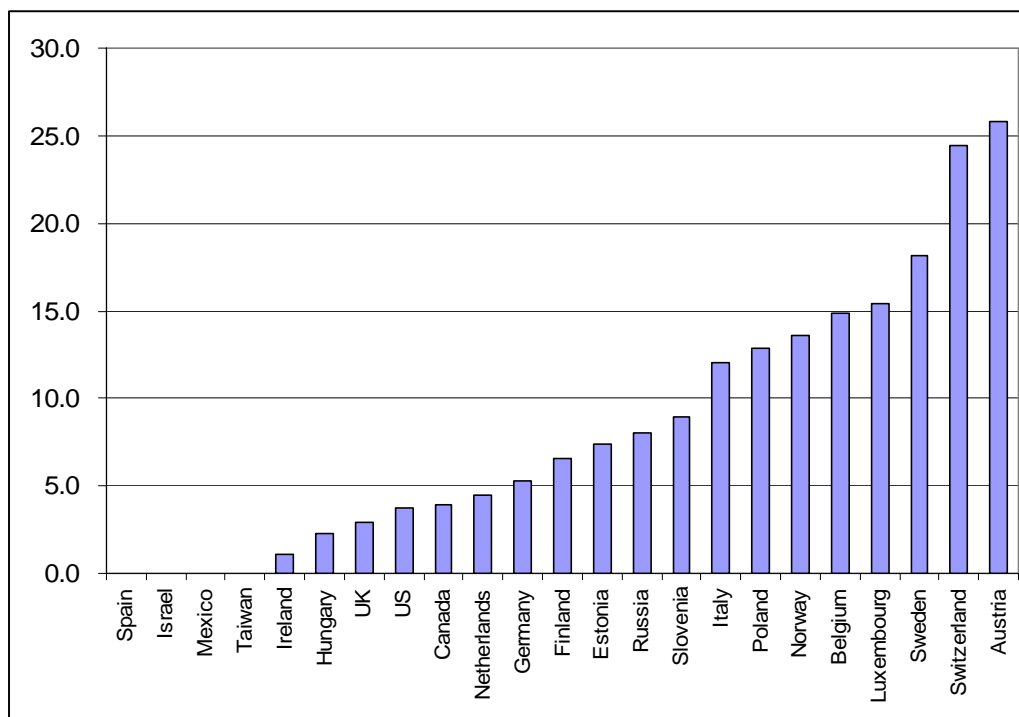
² Austria, Denmark, Finland, Germany, Israel, Luxembourg, Norway and Sweden have guaranteed schemes (Bradshaw and Finch 2002).

the Child Support Agency only deals with private cases at the request of one of the parties.

There is comparative evidence of what child support might deliver in terms of poverty reduction. One of my doctoral students, Jun Rong Chen, has used Luxembourg Income Study analysis to show the contribution of child support (and alimony) to pre-transfer child poverty reduction in 23 countries around 2000. It can be seen from the chart that Child Support delivers 25 per cent of child poverty reduction in Austria, 24 per cent in Switzerland, 18 per cent in Sweden and only 2.9 per cent in the UK. So Child Support policy can make an impact but in many countries it makes little impact - the UK is not the worst performer.

Chart 1

Contribution of child support to pre transfer child poverty reduction



Source: Author's analysis of the Luxembourg Income Study circa 2000

Realism

If the Child Support Agency was applying the new scheme to non Income Support cases efficiently and in large numbers it would probably have a bigger impact on child poverty in employed lone parent households because all the money transferred would be disregarded for tax credit purposes. But then we do not know what impact it would have on child poverty in the non-resident parent family.

Only 33,000 parents with care on Income Support were receiving the benefit of the £10 disregard at the time of the Select Committee inquiry. This is partly because the CSA was not passing though their entitlement. However it should also be recognised that few non-resident parents, particularly the non-resident ex-partners of resident parents on Income Support have much capacity to pay child support – 45 per cent have no employment income and Bradshaw et al (1999) found very few had any significant paying capacity given their new responsibilities. The Australian Child Support Agency has 100 per cent pass through of child support payments and perhaps we should have the same. However it might not have much impact on poverty rates but might reduce incentives to get into employment.

Conclusion

Child support policy (and research) has been in limbo for far too long pending the Child Support Agency getting its act and computer systems properly operational.³ No policy maker has been much interested in research until the old cases have been transferred and the CSA is reaching its targets. There are doubts about whether this will ever be achieved and, following Henshaw, we might have a completely new system. It is not really clear yet whether the CSA is a failure of policy, or a failure of management, or a failure of the computer system, or a failure to understand the capacity of public policy to succeed in this private area.

However it is worth considering what the existing system might do to maximise its anti poverty power.

1. Make sure that all parents with care know that they can retain all the child support they might receive when they are employed more than 16 hours per week.
2. The £10 disregard in income support cases could be increased or a 100 per cent pass through adopted. Whether this makes a contribution to poverty reduction would depend on:
 - a. what proportion of non-resident parents are paying or could pay more than £10 per week;

³ The Families and Children Study is potentially a very useful resource for analysing child support, not least because it interviews the same families each year. An analysis of FACS focusing on child support could include a baseline analysis of the 2001 and 2002 data, analysis of the 2003 and 2004 data and analysis of changes in the panel 2001/2 to 2004.

Child support

- b. the relationship between the Income Support scales, what they could pay and the poverty threshold;
- c. the behavioural response of caring parents who might benefit from this. Would they be less likely to enter employment?
- d. the impact of non-resident parent's payments on their own families and children.

There probably is potential to reduce child poverty with an effective child support regime. But at present the UK's is not effective and we need much better evidence about the capacity of non-resident fathers to pay, the behavioural/labour supply consequences of their payments, and the impacts of their payments on child poverty in caring and non-resident families.

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