

The contribution of child support payments to the income packages of lone mothers in Australia

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This paper uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Project was initiated and is funded by the Australian Government Department of Social Services (DSS) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the author and should not be attributed to either DSS or the Melbourne Institute

Child support in Australia

- The Australian Child Support Scheme was originally introduced in 1988/89 to 'strike a fairer balance between public and private forms of support for children to alleviate the poverty of sole parent families' (CSA 2008)
 - Administered by the Child Support Agency, now known as the Department of Human Services – Child Support
 - Described by the EU-funded 'Child Support Worldwide' project as a 'high functioning system', but the
 - administrative complexity;
 - poor compliance and disproportionate burden of responsibility on those most vulnerable; and
 - significant data blind-spots are of continual concern that limit future, effective evidence-based policy reform

Types of child support arrangements

Benefit recipient	Required to seek child support	Assessment of payment amount	Receipt of payments
Yes	Yes, or only the minimum amount of Family Tax Benefit (Part A) is payable Can be exempt due to DV	Can use the DHS-CS or negotiate privately, as long as the assessment is not lower than the formula amount	Either through the DHS-CS or privately
No	No	Can use either the DHS-CS or privately arranged payments	Either through the DHS-CS or privately

The formula – a simplified version

- The Australian formula takes an 'income shares' approach
 - Both parents' income taken into consideration
 - Each receives an equal, exempt 'self support' amount
 - Percentage of overnight care then used to calculate liability referencing the 'costs of children'
- Child support can be paid as cash, or 'in kind'
 - Up to 30% of liability can be paid 'in kind' without the consent of the resident parent for a range of specified items
 - Up to 100% of liability with consent
- Minimum assessment was originally \$5/week, but this was indexed to the Consumer Price Index in the 2008 reform
 - Currently just over \$7/week
 - This contribution is waived for low-income non-resident parents with 'regular' overnight care (14% of nights, or 52 nights/year, or more)

Australian child support research

- Has tended to be 'broad and shallow' (Smyth 2002)
- Largely descriptive, and focused on economic winners and losers of the 2008 policy reforms (Cook, McKenzie & Knight 2011)
- More recent studies are emerging:
 - Australian Institute of Family Studies report on Wave 3 of the *Longitudinal Study of Separated Families* (Qu et al 2014)
 - ARC funded study of the impact of the formula changes (e.g. Smyth et al 2012; 2014; Vu et al 2014)
- No study has examined the poverty reduction effects
 - Poverty reduction was removed as a policy aim

Study Objectives

1. To assess the value of child support payments to the income packages of lone mothers
 2. To examine the impact and likelihood of child support payments on reducing poverty in lone mother households
- Replicating, in part, the methods used by Skinner and Main (2013) in their analysis of 2008-09 data from the UK Families and Children Study
 - adding a probit regression analysis to estimate the marginal effects of child support receipt on lone parent household poverty

Analytical approach

Lone mothers with a resident child whose other parent was living outside the household were selected from Wave K (2011) of the Household, Income and Labour Dynamics in Australia (HILDA) survey

1. Comparisons are made across pre child support equivalised household income quintile groups, before and after housing expenditures
2. Poverty grouping constructed using pre child support income
 - The poverty threshold equivalised income was \$462 (60% median equivalised household income)

Demographic summary

- 47% of those in receipt of child support had two resident children under age 18
- 77% of those in receipt of child support had liabilities determined by the DHS-CS
- Women over 40 represented:
 - the highest proportion of lone mothers
 - those most likely to be working more than 16 hours a week (welfare to work requirement)
- Women aged 35-39 are more likely to receive child support

1. The value of child support payments to the income packages of lone mothers

- In 2011, 55% of lone mothers reported receiving any child support
- The median payment received was \$89 a week
 - 25% received less than \$28 a week
 - 25% received greater than \$180 a week

Receipt of child support payments – Quintile groups

Total weekly pre child support equivalised income quintiles	Income quintile bands		Frequency those in receipt	% in receipt of child support	Median weekly CS payment	Mean CS payment
Lowest	\$67	\$321	60/82	73%	\$145	\$179
2	\$321	\$437	49/82	60%	\$69	\$103
3	\$438	\$580	54/82	65%	\$84	\$104
4	\$581	\$733	33/82	40%	\$69	\$94
Highest	\$734	\$2144	29/82	35%	\$65	\$108

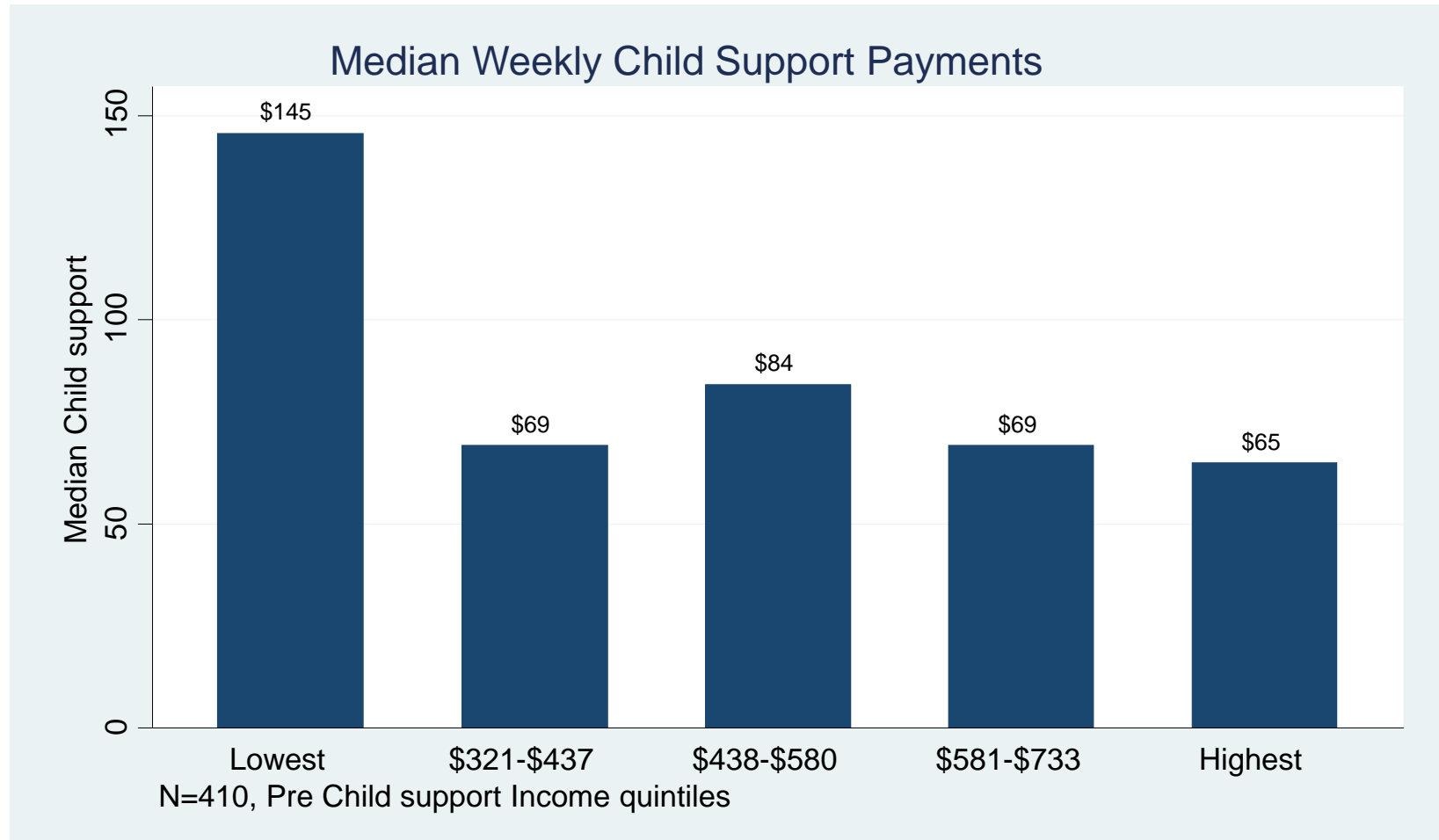
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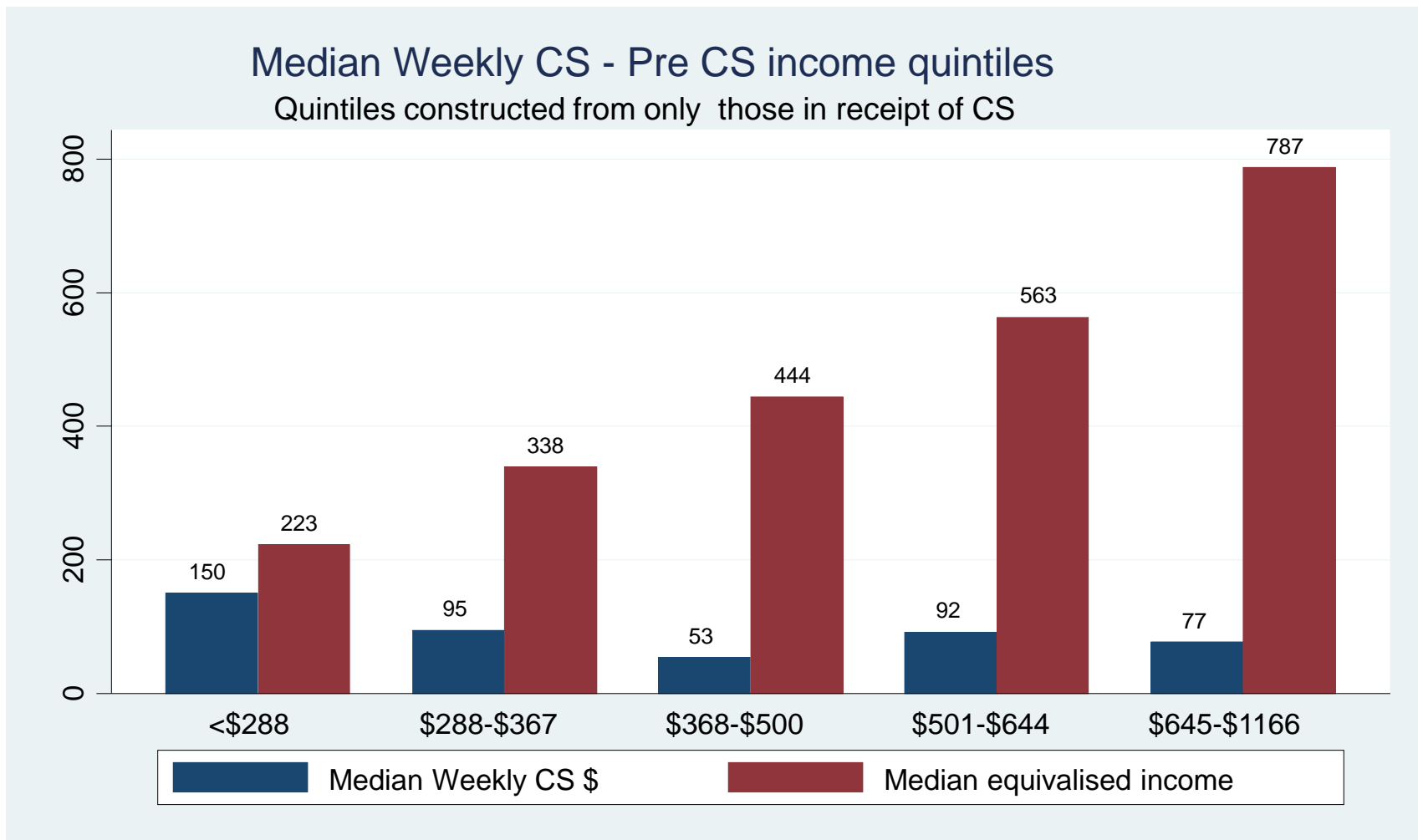
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Median weekly child support \$ by pre child support income quintile groups



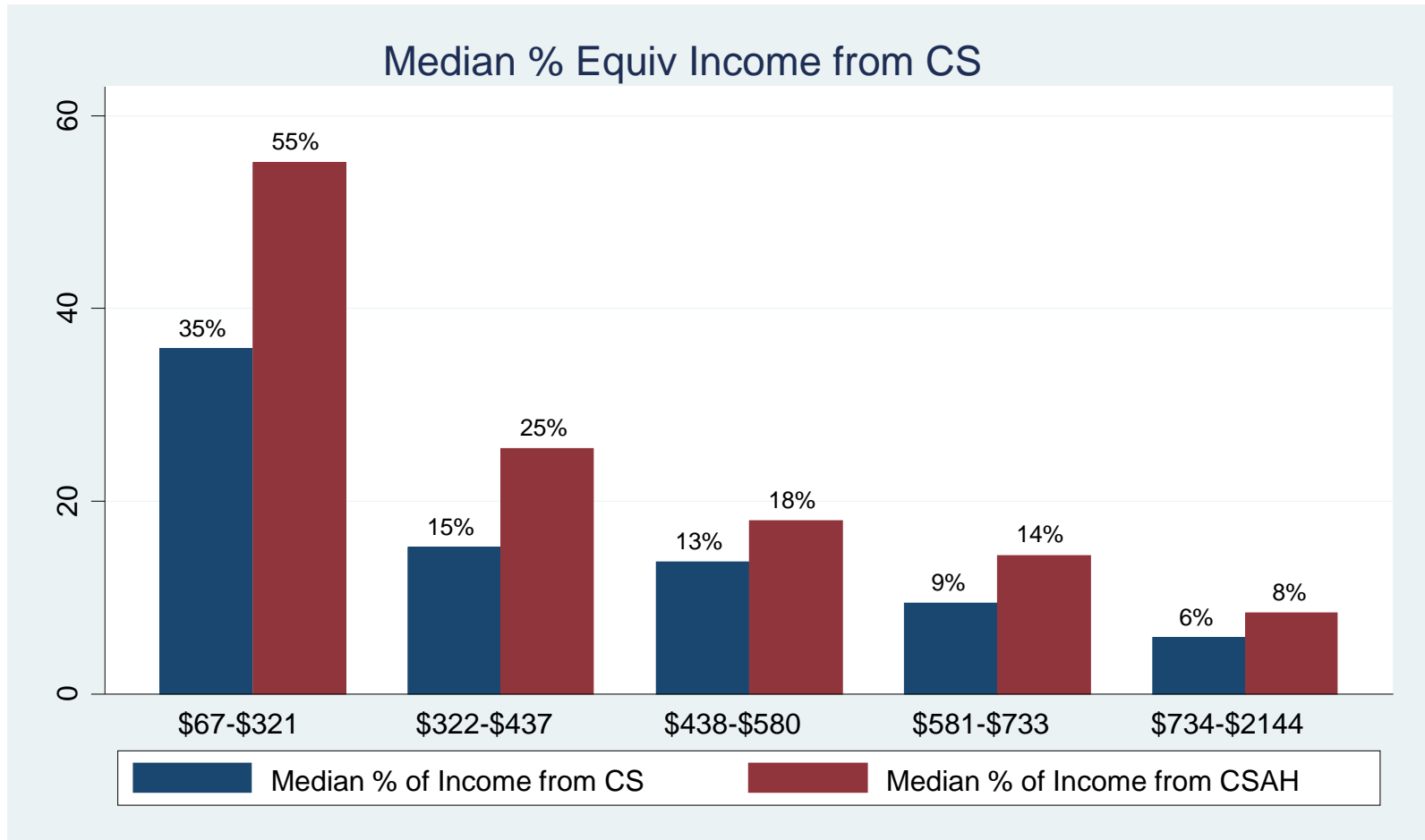
The value of lone mothers' child support relative to their pre-child support income



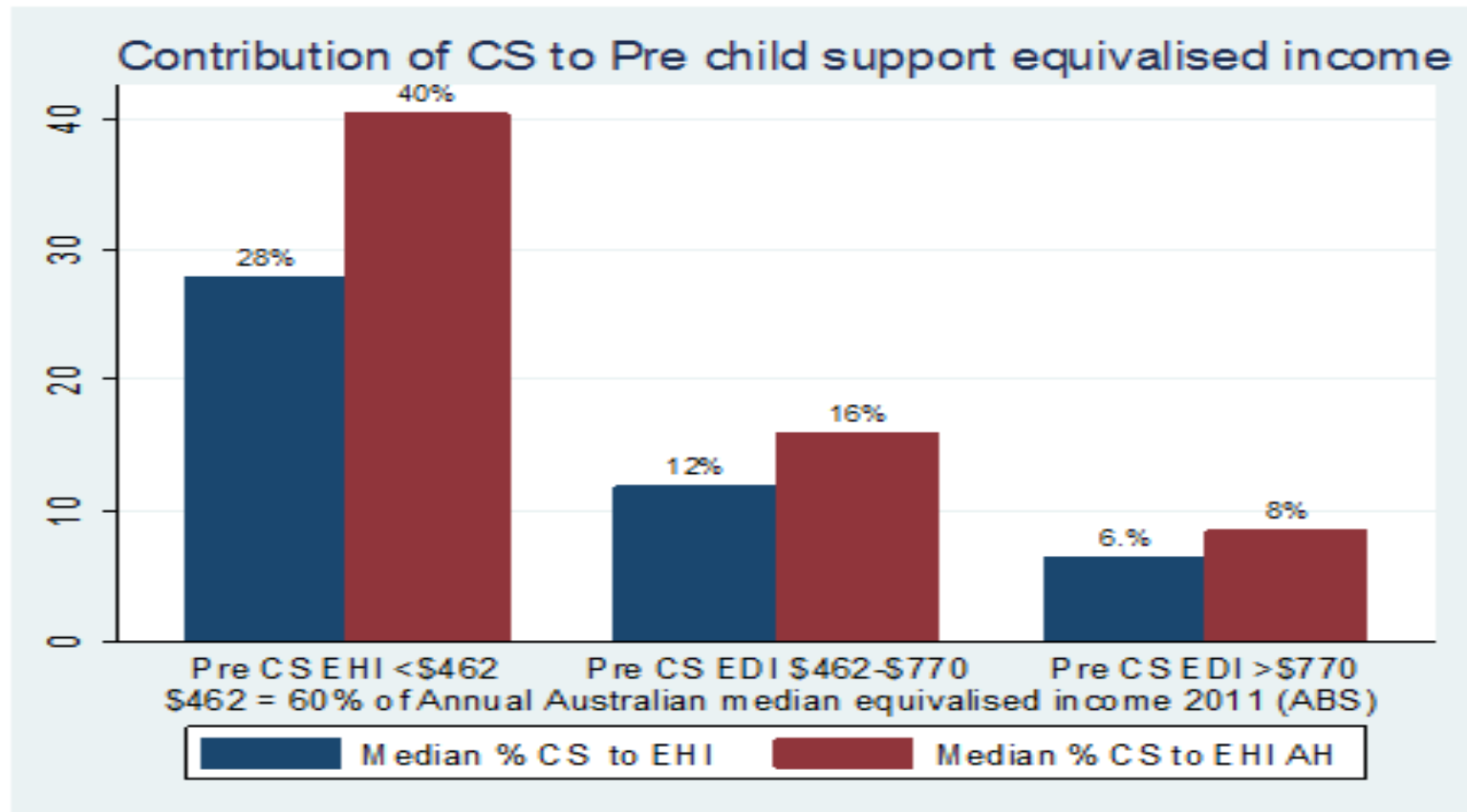
2. Contribution of child support to the income packages of lone mothers

- In 2011/12 the median Australian equivalised household income was estimated to be \$770 (£380)
 - 60% of median (poverty threshold) was \$462 (£227)
- 81% of lone mother households in our sample had equivalised incomes of less than the national median
 - 43% were below the poverty threshold
 - 38% were below the median
 - 18% were above the median

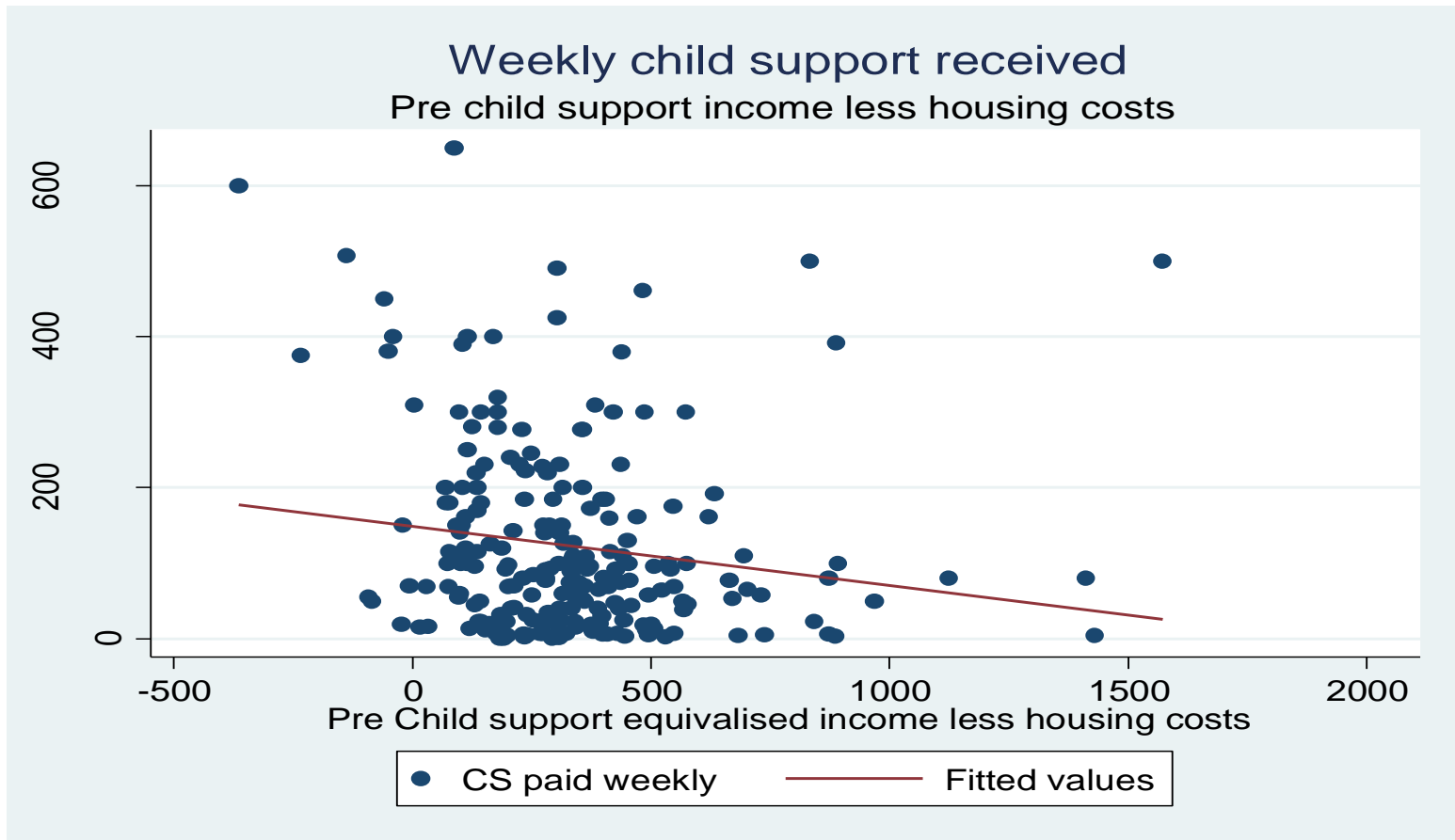
Median % of equivalised income from child support according to pre-child support income quintiles, before and after housing costs



Median weekly \$ of child support by pre child support Poverty groups



Child support paid - Pre child support income after housing costs



Poverty Reduction?

Poverty – Pre child support income	Frequency	Frequency after CS included
1= < \$462 (below poverty threshold)	178 (43%)	131 (32%)
2= \$463- \$770	159 (38%)	187 (45%)
3= \$771 <	74 (18%)	93 (23%)

Further analysis: Determinants of poverty reduction

- Descriptive analysis does not enable us to reveal if child support reduces other government benefits
 - Under Australian system the amount received is proportional to both parents relative income and can affect the marginal value of additional work for both

Probit regression analysis

- To examine possible implications of child support receipt on poverty, we need to control for
 - Interaction of child support, labour force participation and government transfers (Hanewell & Lopoo 2008)
 - A range of socio economic characteristics and predictors of poverty
- Four probit models were developed to test if poverty in lone parent families is significantly reduced by child support receipt
- The dependent variable is a binary variable which = 1 if equivalised household income is less than \$462 after child support, if received
 - i.e. the household is in poverty

Model 1 - Weekly amount of CS: none, below median, above

Receipt of child support as a predictor of poverty reduction is modelled according to whether it was received and, if so, if the amount was above or below the sample median

Model 2 - Continuous variable of CS \$

Child support is captured through weekly dollar values received

Model 3 - Any CS received

Child support is captured through a binary variable =1 if Child support is received, = 0 if not

Model 4 - Significant variables only

Repeats model 1 but drops a number of predictor variables that were insignificant at the $p < .05$ level

Determinants of poverty for lone parent households

- The socio-demographic characteristics of mothers controlled for in the analysis include:
 - Maternal age
 - Educational qualification
 - Housing tenure
 - Housing costs
 - Current partnership status
 - Frequency child sees other parent
 - Current marital status
 - Country of birth
 - Labour force status of both the resident and non resident parent
 - Weekly gross salary
 - Weekly household public financial transfers including family benefits
 - Number of children

Results: Summary

DV = 1 if in Poverty Equiv income <\$462	Model 1	Model 2	Model 3	Model 4
Child support received:				
Ref: None				
2.Below Median Child support \$	-0.433*			-0.385
	(0.233)			(0.219)
3..Above Median Child support \$	-0.683**			-0.590**
	(0.260)			(0.246)
Child support \$ weekly		-0.00372**		
		(0.00104)		
If child support received. Ref: None			-0.537**	
			(0.206)	

Results summary – Co-variates

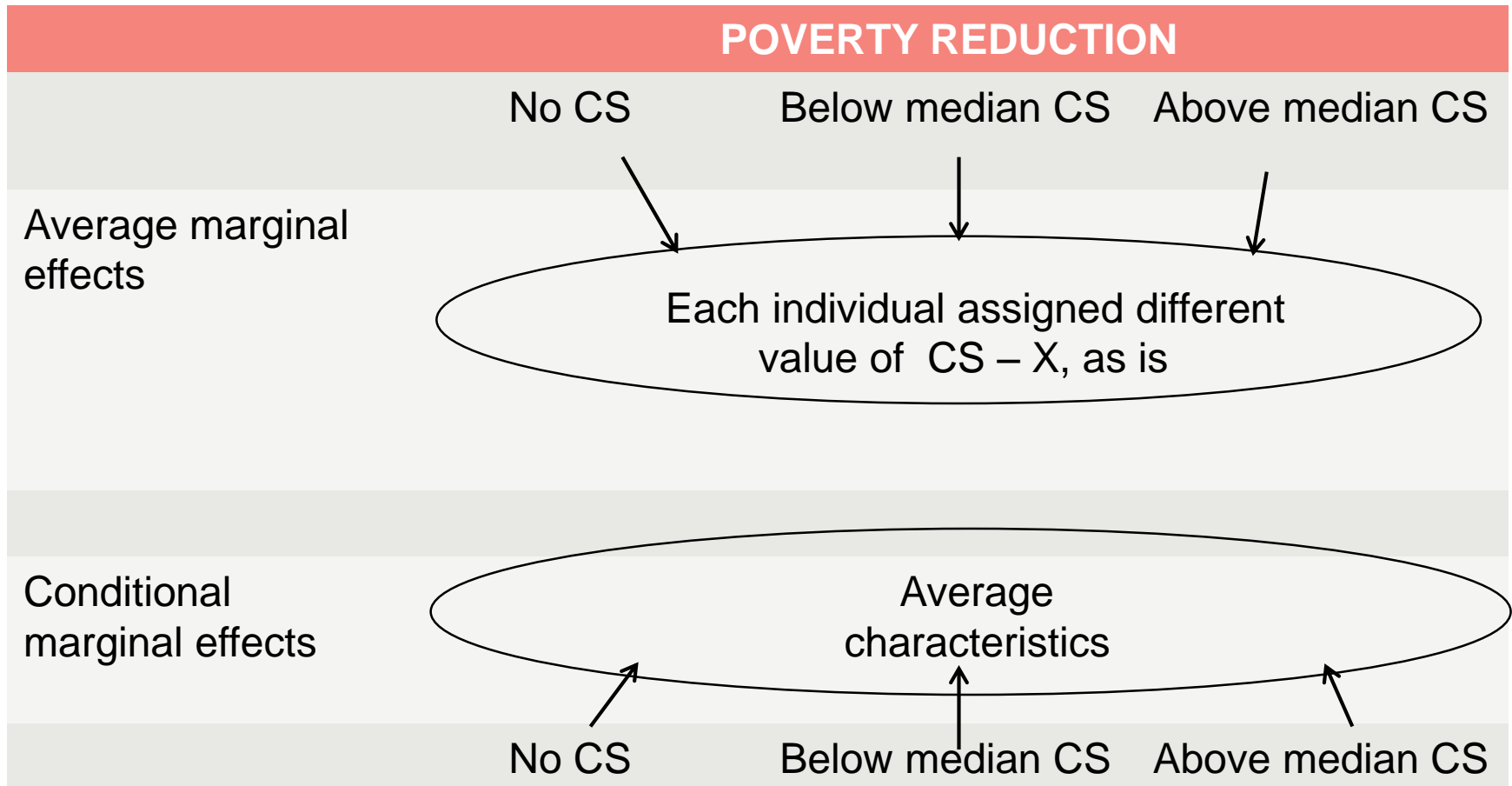
Significant explanatory variables	(1)	(2)	(3)	(4)
Frequency child sees other parent Ref: Never				
4. At least once a month	0.906*	0.934*	0.879*	0.727
Current marital status: Ref: Separated				
Never married and not living with someone	0.459	0.438	0.508*	0.480*
Labour force status - broad: Ref: Employed				
2.Unemployed	0.809*	0.985**	0.867*	0.671
3.Not in the labour force	0.557*	0.575*	0.590*	0.556*
Works more than 16 hours	-0.832**	-0.790*	-0.818**	-0.750**
Current weekly gross wages & salary – all jobs	-.00112**	-0.00117**	-0.00110**	-0.00106**
r ² _p	0.428	0.447	0.426	0.404

* p< .05, ** p<.01

Marginal effects

- **Average marginal effects** essentially compares the poverty reduction effects of our three groups, one that doesn't receive child support, one that receives below median child support and one that receives above median child support
 - they have the exact same values on the other variables
 - the only difference between the groups will be the receipt and level of child support
- **Conditional marginal effects** looks at the effect on poverty reduction of an 'average' lone mother, conditional upon different levels of child support, in our case none, below median and above median.

Marginal effects



Marginal effects

DV = 1 if in Poverty Equiv income <\$462		Average Marginal effects (%)	Conditional Marginal effects (%)
Model 2: Child support weekly \$ received	-.0037**	-.07	-0.10
Model 3: Receiving any CS	-.537**	-11	-16
Child support received (Model 4)			
Ref: None			
2. Below Median Annual Child support \$	-0.385	-8.25	-12
3. Above Median Child support \$	-0.590*	-12.5	-17
Never married and not living with someone Ref: Separated	0.480*	-11	-15.4
Labour force status - broad Ref: Employed			
2. Unemployed	0.671	16.5	22
3. Not in the labour force	0.556*	13.6	17
Works more than 16 hours	-0.750**	-16	-22
Current weekly gross wages & salary - all jobs	-0.00106**	-.025	-.03

Conclusions

- The analysis shows that a high proportion (43%) of lone mothers were in poverty prior to receiving child support payments
 - Australia has lower pre-child support poverty rates than the UK (66%)
- The relative contribution of child support to income packages is important for women whose household income is below the poverty threshold (35% pre housing; 55% after housing costs)
 - Child support is a valuable resource to those in lower income groups that are receiving it
 - 55% of lone mothers report receiving payments (compared to 34% in the UK)
- There is evidence of a reduction in poverty rates once child support payments are factored in
- **Child support is a significant determinant of poverty reduction among lone parent households**