



**Australian Government**

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**Department of Families, Housing,  
Community Services and Indigenous Affairs**

# **Changes to the child support population: Distributional Impact Modelling**

**30 April 2010**

## **1. Introduction**

This report compliments previously published reports, which detailed the population-level impact of changes to the Child Support Scheme that took effect on 1 July 2008, based on the combined outcome of the child support and Family Tax Benefit (FTB) changes. Financial outcomes of the child support changes cannot be viewed in isolation from FTB. This is partly because changes in the amount of child support received may alter the amount of FTB payable, and partly because the reforms to the child support system included important changes to FTB eligibility rules.

This first report examines **actual** child support assessments effective at 30 June 2008, and **modelled** the FTB that would be payable on the basis of these assessments. It compared this to **actual** child support assessments generated under the new formula and effective on 1 July 2009, the FTB was **modelled** on the basis of these assessments.

This analysis examines the circumstances of individuals 12 months after Stage 3 of the reforms was implemented. It examines **actual** new child support assessments effective at 30 June 2008, and **modelled** the FTB that would be payable on the basis of these assessments. It compares this to **actual** child support assessments effective on 30 June 2009 and **modelled** the FTB that would be payable on the basis of these assessments.

The analysis does not reflect the amount of child support that was transferred or the FTB that was paid. It is limited to child support liabilities under the new formula and the FTB payable based on these liabilities. In practice, many paying parents are not compliant with their child support obligations.

## **2. The new child support formula: what's different?**

The new formula for assessing child support is based on recommendations of the Ministerial Taskforce on Child Support which conducted a comprehensive review of Australia's child support system in 2004-05. The Taskforce found that the Child Support Scheme needed to re-balance the share of responsibilities between resident parents, non-resident parents and the taxpayer in light of current economic and social conditions as well as community attitudes. The changes were also closely connected to a broader set of changes in the family law system for separated families. These changes recognised the significance for children's wellbeing of factors such as the frequency and quality of their relationships with both their parents and their parents' ability to successfully co-parent.

## **3. New Principles**

On this basis, the new Scheme is underpinned by a new set of principles that the Taskforce considered were more consistent with contemporary conditions and attitudes. They argued that a child support system should:

- Continue to be based on the 'continuity of expenditure' principle - that wherever possible, children should enjoy the benefit of a similar proportion of the income of each parent to that which they would have enjoyed if their parents had lived together.
- Be based, as much as possible, on what it costs to raise children.
- Enable parents to share the cost of supporting their children according to their capacity to pay.
- Recognise that provision of care is a contribution to the cost of children.
- Minimise the extent to which financial concerns influence agreements about parenting arrangements and care.

- Treat children in first and subsequent families as equally as possible.
- Take account of the contribution made by Government to the costs of raising children.

This new set of principles has driven the following key differences between the old formula and the new formula:

### 1. Costs of children:

- The **old formula** was not based on the costs of children. It used a fixed percentage of the paying parent's income regardless of his or her income level, and did not differentiate between the costs of older and younger children.
- The **new formula** is based on evidence about the costs of children. It recognises that parents spend more money on their children as their income rises, but less as a proportion of their overall income. It also recognises that older children cost more than younger children, and takes account of the contribution Government makes to the cost of children through FTB.

### 2. Recognising care:

- The **old formula** recognised the costs of care when a parent had care for more than 30 per cent of nights.
- The **new formula** recognises care above 14 per cent of nights (one night per week).
- Under the **old system**, parents who had more than 10 per cent of care were entitled to a pro-rata amount of FTB.
- Under the **new system**, parents are only entitled to a share of FTB if they have 35 per cent of care or more, because the costs of providing care at lower levels are now recognised in the child support formula.

### 3. Equal treatment of parents' incomes:

- The **old formula** treated parents' incomes very differently. It disregarded a significant proportion of a resident parent's income (around \$45,500) compared to a lower amount for the non-resident parent (around \$14,500).
- The **new formula** treats both parents' incomes in the same way, allowing the same self-support amount for each parent. It then combines both parents' remaining incomes to establish the level of resources available to raise their children and the corresponding costs of children. Each parent's percentage share of the combined income represents their capacity to pay.

#### 4. **Similar treatment of children from second families:**

- Under the **old formula**, paying parents with new biological (or adopted) children were given a fixed increase in the amount of income that was exempted for calculating child support liabilities. For paying parents with higher incomes, the amount allowed for the support of new children was too low compared to the amount paid for their child support children; for paying parents with lower incomes, the amount allowed for the support of new child was too high compared to the amount paid for their child support children. In the latter case, many resident parents received little or no child support.
- Under the **new formula** the costs of all children are calculated according to the same 'cost of children' table, regardless of whether they are in a first or new family. The cost of new children is deducted from the parent's child support income prior to calculating the amount payable for the children of the first family.

#### 5. **Flexibility for changing care arrangements:**

- Under the **old system**, FTB was shared in direct proportion to the amount of care provided, from 10 per cent of nights. This meant that very small changes in care could result in a change in FTB payable. This could cause significant conflict between parents.
- The **new system** better aligns care percentages between child support and FTB, and creates broader bands within which changes in care do not affect payments.

#### 6. **Recognise the contribution of Government to the costs of raising children:**

- Since the formula was established, the contribution of Government to the costs of children has increased substantially. For example, the Taskforce noted that in the 10 years between 1993-4 and 2003-4, expenditure on family payments increased in real terms by about 115 per cent. The **old formula** did not take any account of the fact that the family benefits which formed part of the total household income of the intact family are paid mainly to the primary caregiver following separation.
- The **new formula** recognises that while child support payments are private transfers, family benefits need to be taken into account in working out how much needs to be transferred from the non-resident parent's household to the resident parent's household. As a result, the costs of children table on which the new formula is based uses 'net' costs of children, which are the gross costs, minus the contribution of Government through FTB Part A.

In addition to these major differences, there are some changes not directly related to the operation of the new formula that will drive losses and gains for parents:

- **'Fixed assessment' (\$21.50 per week, per child)** – This measure is directed towards paying parents who report very low incomes but do not receive an income support payment. To pay a lower amount of child support than the fixed assessment, parents must prove they are not artificially reducing their income. Under the **old scheme**, many paying parents were assessed at the minimum rate on the basis of a low taxable income, but did not receive an income support payment.

- **More than one child support family ('multiple cases')** – Under the **old scheme**, where paying parents assessed to pay the minimum assessment had more than one child support family ('multiple cases'), their payment was divided evenly between parents to whom they had child support liabilities. This meant that the minimum payment of around \$6.50 per week would be shared between two or more receiving parents. In the **new scheme**, each 'case' (up to a maximum of three) will receive the full amount of child support, ensuring that children get the full amount of child support payable and do not miss out because of a parent's other child support cases. This may result in a doubling or tripling of payments from \$2 or \$3 to \$6.50 a week.

#### 4. Results

##### Overall results - receiving and paying parents

The latest analysis includes the impact of both changes as a result of the reforms and changes in circumstances. For receiving parents around 47 per cent had a **net gain** in combined child support and Family Tax Benefit in the 12 months to 30 June 2009. Approximately 44 per cent had a **net loss** and 8 per cent had **no change**. The previous result showed 45 per cent had a net gain, 45 per cent had a net loss and 10 per cent had no change.

For paying parents the latest analysis is similar to the first report as around 50 per cent had a **net gain** in combined child support and Family Tax Benefit in the 12 months to 30 June 2009. Approximately 32 per cent had a **net loss** and 18 per cent had **no change**. The previous report showed 49 per cent had a net increase, 32 per cent had a net reduction and 19 per cent experienced no change.

**Table 1: Overall results - net change for receiving and paying parents 30 June 2008 to 30 June 2009**

	Net Gain		Net Loss		No Change	
	No.	%	No.	%	No.	%
<b>Receiving parents</b>	254,300	47	238,300	44	44,500	8
<b>Paying parents</b>	286,400	50	180,900	32	103,800	18

Source: CSA data extracts 31 May 2008 and 30 June 2009.

Note: These figures are based on modelled FTB and actual changes in child support assessments. Columns and rows may not add to totals due to rounding. The full list of caveats should be considered when interpreting this data

Tables 2 and 3 show the magnitude of change for parents in the child support system based on 30 June 2008 and 30 June 2009 circumstances. In the majority of cases, for both receiving parents and paying parents, the changes are for \$20 per week or less, and in a large proportion of cases, the changes are less than \$10 per week.

**Table 2. Receiving parents: net gains and losses by change per week**

\$ per week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
<b>\$0.01 - \$10.00</b>	86,700	81,500	-	168,200
<b>\$10.01 - \$20.00</b>	51,700	50,200	-	101,900
<b>\$20.01 - \$30.00</b>	33,700	30,800	-	64,500
<b>\$30.01 - \$40.00</b>	27,600	20,400	-	48,000
<b>\$40.01 - \$60.00</b>	29,600	23,600	-	53,200
<b>More than \$60.00</b>	25,000	31,900	-	56,900
<b>Total</b>	254,300	238,300	44,500	537,100
<b>Overall percentage</b>	47%	44%	8%	100%

Source: CSA data extracts 31 May 2008 and 30 June 2009.  
Note: These figures are based on modelled FTB and actual changes in child support assessments. Columns and rows may not add to totals due to rounding. The full list of caveats should be considered when interpreting this data

**Table 3. Paying parents: net gains and losses by change per week**

\$ per week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
<b>\$0.01 - \$10.00</b>	50,000	48,800	-	98,700
<b>\$10.01 - \$20.00</b>	94,700	59,000	-	153,700
<b>\$20.01 - \$30.00</b>	50,600	19,500	-	70,000
<b>\$30.01 - \$40.00</b>	28,300	29,000	-	57,300
<b>\$40.01 - \$60.00</b>	29,800	17,900	-	47,700
<b>More than \$60.00</b>	33,000	6,800	-	39,700
<b>Total</b>	286,400	180,900	103,800	571,100
<b>Overall percentage</b>	50%	32%	18%	100%

Source: CSA data extracts 31 May 2008 and 30 June 2009.  
Note: These figures are based on modelled FTB and actual changes in child support assessments. Columns and rows may not add to totals due to rounding. The full list of caveats should be considered when interpreting this data

***Circumstances of receiving parents:***

Around 297,200 (55 per cent) of all receiving parents in this analysis receive income support payments (this does not include family assistance). Table 4 shows that around 48 per cent of parents who receive income support payments and child support have a net gain, and around 45 per cent have a net loss. Of these parents with a net loss, around 59 per cent had a decrease of \$20 per week or less between 30 June 2008 and 30 June 2009.

**Table 4: Receiving parents on an income support payment who receive child support: net gains and losses by change per week**

<b>\$ per week Net Change</b>	<b>Net gain</b>	<b>Net loss</b>	<b>No change</b>	<b>Total</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
<b>\$0.01 - \$10.00</b>	55,400	50,400	-	105,800
<b>\$10.01 - \$20.00</b>	25,400	29,300	-	54,800
<b>\$20.01 - \$30.00</b>	18,900	17,600	-	36,500
<b>\$30.01 - \$40.00</b>	15,200	11,300	-	26,500
<b>\$40.01 - \$60.00</b>	16,600	12,400	-	29,000
<b>More than \$60.00</b>	11,200	14,000	-	25,200
<b>Total</b>	142,700	135,100	19,400	297,200
<b>Overall percentage</b>	48%	45%	7%	100%

Source: CSA data extracts 31 May 2008 and 30 June 2009.

Note: These figures are based on modelled FTB and actual changes in child support assessments. Columns and rows may not add to totals due to rounding. The full list of caveats should be considered when interpreting this data

***Circumstances of paying parents:***

Around 126,200 (22 per cent) of all paying parents in this analysis receive income support payments (this does not include family assistance). Table 5 shows that around 19 per cent of parents who receive income support payments and pay child support had a net gain, and around 34 per cent had a net loss, almost half (47 per cent) experienced no change. Of these parents with a net loss, around 72 per cent had a decrease of \$20 per week or less between 30 June 2008 and 30 June 2009.

**Table 5: Paying parents on an income support payment who receive child support: net gains and losses by change per week**

<b>\$ per week Net Change</b>	<b>Net gain</b>	<b>Net loss</b>	<b>No change</b>	<b>Total</b>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
<b>\$0.01 - \$10.00</b>	9,500	19,800	-	29,200
<b>\$10.01 - \$20.00</b>	8,300	10,700	-	19,000
<b>\$20.01 - \$30.00</b>	3,100	2,100	-	5,100
<b>\$30.01 - \$40.00</b>	1,400	4,700	-	6,000
<b>\$40.01 - \$60.00</b>	1,200	3,400	-	4,500
<b>More than \$60.00</b>	1,200	1,800	-	3,000
<b>Total</b>	24,600	42,300	59,300	126,200
<b>Overall percentage</b>	19%	34%	47%	100%

Source: CSA data extracts 31 May 2008 and 30 June 2009.

Note: These figures are based on modelled FTB and actual changes in child support assessments. Columns and rows may not add to totals due to rounding. The full list of caveats should be considered when interpreting this data

## 5. Caveats

The analysis presented in this section is based on actual child support liability changes for 537,100 receiving parents and 571,100 paying parents. The cases used in this analysis are those that were previously presented in the July 2008 analysis, which are still current cases in the June 2009 dataset. All cases included are registered with the Child Support Agency and have their child support liabilities assessed using the administrative formula.

The analysis does not reflect the amount of child support that was transferred or the FTB that was paid. It is limited to child support liabilities under the new formula and the FTB payable based on these liabilities. In practice, many paying parents are not compliant with their child support obligations.

Limitations of the information presented are as follows:

- Approximately 44,000 cases were excluded as they were reciprocal cases with a nil liability. These records are registered for administrative purposes and were not affected by the change to the formula.
- Paying parents and receiving parents may be involved in more than one child support case. For example, they may be paying more than one person, receiving child support from more than one person or paying one person and receiving from another. This means that there are fewer receiving parents than cases and fewer paying parents than cases.

Data rules used in model:

- The CSA data includes parents whose child support is collected privately or collected by the CSA.
- The analysis was based on data extracts from May 2008 and June 2009. Therefore, the modelling reflects paying parents' and receiving parents' circumstances at the time at which the data was extracted. Accordingly, any changes to receiving parents' or paying parents' circumstances between, or after these extraction are not reflected in the modelling.
- The FTB outcomes are modelled using 2008-09 rates, thresholds and income estimates and are based on those parents who claimed FTB, not those who were entitled to claim but did not.
- Income support recipients are identified using the CSA flag. The flag is generated from the CSA daily interface batch with Centrelink.

## Data terms and reporting:

- Numbers and percentages may not add to totals due to rounding.
- For the paying parent and the receiving parent, the figures represent the changes in child support liabilities and modelled FTB outcomes. This means that 'net loss' and 'net gain' for the paying parent reflect changes in both child support liability and modelled FTB outcomes. The terms 'receive less' and 'receive more' for the receiving parent refer to the combination of changes in child support entitlement and modelled FTB outcomes.
- As a result of Stage 3 of the Child Support Scheme Reforms, approximately 2,200 receiving parents became paying parents under the new rules and 2,600 paying parents became receiving parents under the new rules. This reversal of roles between these paying parents and receiving parents has resulted in these parents appearing to receive substantially more or paying substantially less.
- This modelling reflects Stage 3 of the Child Support Scheme Reforms. Therefore reforms implemented in Stage 1 (1 July 2006), such as the income cap reduction or the minimum payment measures, are not reflected in this model.
- All outputs from this model incorporate large scale rounding. Generally, numbers are rounded to the nearest 100 and percentages are rounded to the nearest whole per cent.
- The model does not take account of the effects of other changes in taxation arrangements, government benefits, or growth in earnings.
- It is not possible to present separately the impact of one aspect of the changes to the formula (such as level of care or age of children) independently of the others.