



Australian Government

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

Update to the population impact of the new child support formula

29 July 2009

1. Introduction

This report compliments the August 2008 report, which provided 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.

A key objective of the child support reforms is to improve compliance with child support obligations. This includes not only ensuring that parents pay their full assessment on time, but also that the assessment is an accurate reflection of a parent's capacity to pay. With this in mind, the Child Support Reforms provided additional resources for enforcement activities which, to date, has yielded \$235 million in extra child support since the measures began in July 2006. From 1 July 2009 the Child Support Agency has been provided with a further \$223.2 million to maintain customer service standards and address the build up of child support debt.

The report released in August 2008 compared **actual** new child support assessments effective at 1 July 2008, and **modelling** of the FTB that would be payable on the basis of these assessments compared to **actual** child support assessments effective at 30 June 2008, and **modelling** of the FTB that would be payable on the basis of these assessments. This report was more reflective of the impact of the reforms as parents' income, care arrangements and for almost all the age of their children remained static for this analysis.

This report examines **actual** new child support assessments effective at 31 December 2008, and **modelling** of the FTB that would be payable on the basis of these assessments compared to **actual** child support assessments effective at 30 June 2008, and **modelling** of the FTB that would be payable on the basis of these assessments.

This analysis examines the circumstances of individuals six months after Stage 3 of the reforms was implemented. During this time around 4 per cent of children in this cohort turned 13, this can increase both Family Tax Benefit and the child support payable as the higher costs of teenagers is recognised in both systems. Over 80 per cent of receiving and paying parents have newer income details available, for over 70 per cent this newer income was higher than the previously available income details. This increase in income means the increase in resources available for parents also increases the available resources for the child. Another change which influences the outcome of the analysis is where 1 in 4 receiving parents (25 per cent) changed their Family Tax Benefit estimate; this change may alter the amount of Family Tax Benefit payable to receiving parents.

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; and
- 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 and 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 didn't 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, raising suspicions that these parents may be artificially reducing their income in a way that does not represent their real capacity to pay child support. 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. Under the **new scheme**, around 70,000 paying parents have been assessed to pay \$21.50 per week per child.
- **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 45 per cent had a **net increase** in combined child support and Family Tax Benefit in the six months to 31 December 2008. Approximately 45 per cent had a **net reduction** and 10 per cent had no change. This differed from the previously released analysis which did not include six months of parents’ circumstances altering. The previous result showed 37 per cent had a net gain, 49 per cent had a net loss and 13 per cent had no change.

For paying parents the latest analysis is similar to the first report as around 49 per cent had a **net increase** in combined child support and Family Tax Benefit in the six months to 31 December 2008. Approximately 32 per cent had a **net reduction** and 19 per cent had no change. The previous report showed 51 per cent had a net increase, 33 per cent had a net reduction and 16 per cent experienced no change.

Table 1: Overall results - net change for receiving and paying parents 30 June 2008 to 31 December 2008

	Net Gain		Net Loss		No Change	
	No.	%	No.	%	No.	%
Receiving parents	250,000	45	251,000	45	57,000	10
Paying parents	284,000	49	185,000	32	108,000	19
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB 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 31 December 2008 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.
\$0.01 - \$10.00	82,700	89,800	-	172,500
\$10.01 - \$20.00	55,200	61,100	-	116,300
\$20.01 - \$30.00	34,700	33,300	-	68,000
\$30.01-\$40.00	29,300	19,600	-	48,900
\$40.01 - \$60.00	27,900	21,200	-	49,100
More than \$60.00	20,000	25,600	-	45,600
Total	249,800	250,600	57,000	557,400
Overall percentage	45%	45%	10%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB 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.
\$0.01 - \$10.00	51,200	50,900	-	102,100
\$10.01 - \$20.00	95,200	60,100	-	155,300
\$20.01 - \$30.00	50,700	20,200	-	70,900
\$30.01-\$40.00	28,100	29,400	-	57,500
\$40.01 - \$60.00	29,200	18,300	-	47,500
More than \$60.00	29,300	6,400	-	35,700
Total	283,800	185,200	108,000	577,000
Overall percentage	49%	32%	19%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Circumstances of receiving parents:

Around 312,900 (56 per cent) of all receiving parents in this analysis receive income support payments (not including family assistance). Table 4 shows that around 44 per cent of parents who receive income support payments and child support have a net gain, and around 46 per cent have a net loss. Of these parents with a net loss, around 65 per cent had a decrease of \$20 per week or less between 30 June and 31 December 2008.

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

\$ per week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	51,700	56,300	-	108,000
\$10.01 - \$20.00	27,700	37,500	-	65,200
\$20.01 - \$30.00	19,300	19,300	-	38,600
\$30.01-\$40.00	16,100	10,600	-	26,700
\$40.01 - \$60.00	15,200	10,700	-	25,900
More than \$60.00	8,700	10,900	-	19,600
Total	138,800	145,200	28,900	312,900
Overall percentage	44%	46%	9%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB The full list of caveats should be considered when interpreting this data				

Circumstances of paying parents:

Around 120,000 (21 per cent) of all paying parents in this analysis receive income support payments (not including 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 33 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 and 31 December 2008.

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

\$ per week Net Change	Net gain	Net loss	No change	Total
	No.	No.	No.	No.
\$0.01 - \$10.00	9,700	20,200	-	29,900
\$10.01 - \$20.00	8,500	10,900	-	19,400
\$20.01 - \$30.00	3,200	2,200	-	5,400
\$30.01-\$40.00	1,400	4,800	-	6,200
\$40.01 - \$60.00	1,200	3,400	-	4,600
More than \$60.00	1,200	1,700	-	2,900
Total	25,200	43,300	61,700	130,100
Overall percentage	19%	33%	47%	100%
Numbers and percentages may not add due to rounding Results are actual child support and modelled FTB 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 700,100 cases. The cases used in this analysis are those that were previously presented in the July analysis, that are still current cases in the December dataset. All cases included are registered with the CSA and have their child support liabilities assessed using the administrative formula.

The analysis does not reflect the amount of child support that *will* be transferred or the FTB that *will* be 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. However, CSA data also shows that approximately 87 per cent of CSA Collect customers pay some child support, and approximately 65 per cent of CSA Collect customers pay more than 75 per cent of their liabilities in any financial year.

Differences between this analysis and the previous report (August 2008):

- The previous analysis compared projected 30 June 2008 liability (and modelled FTB) with the projected 1 July 2008 liability (and modelled FTB). This provided a comparison between pre-Stage 3 and post-Stage 3 outcomes.
- The current analysis compares the 30 June 2008 liability (and modelled FTB) from previous analysis with the 31 December 2008 liability (and modelled FTB). This provided a comparison between pre-Stage 3 outcomes and outcomes six months after the reforms were introduced.

Some reasons why the current analysis differs from the previous analysis include:

- more paying parents are being assessed on a higher default income, than was the case previously;
- more recent income details are used due to new child support periods having commenced between 1 July 2008 and 31 December 2008;
- more parents have relevant dependants;
- care arrangements have altered during the first six months of the scheme;
- more children over 13 years of age resulting in higher child support and FTB (as six months have elapsed and the same cohort is being examined in both analysis). This will affect around 35,200 cases;
- more children are over 5 years of age resulting in less FTB Part B being paid (as six months have elapsed and the same cohort is being examined in both analysis). This will affect around 16,700 cases; and
- more children are over 16 years of age resulting in less FTB Part A being paid – 12,700 children turned 16 between July and December 2008 and remained in the FTB system. As the datasets are based on a point in time it is not known how many cases have been affected by a child turning 16 and leaving the system by moving onto Youth Allowance.

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.
- From the dataset used for the modelling, (ie the 700,100 quoted above), there are 41,000 cases in July that did not have a matching December case and 56,000 December cases that did not have a matching case in July.

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 December 2008. Therefore, the modelling reflects paying parents' and receiving parents' circumstances on this date. Accordingly, any changes to receiving parents' or paying parents' circumstances after this 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;
- where adjusted taxable income information is not available, child support income is substituted;
- gross fringe benefits were used in the modelling of FTB; this means that the recent change to continue basing FTB on net fringe benefits rather than the gross fringe benefits is not reflected in this model;
- data held in the CSA system is used to populate the child support liabilities and data held in the Centrelink system is used to calculate the FTB outcomes. The information held in these systems may differ for items such as shared care details; and
- 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 1,900 receiving parents became paying parents under the new rules and 2,400 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;

- 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;
- the model does not take account of the effects of other changes in taxation arrangements, government benefits, or growth in earnings; and
- 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.