



## Child Support Payments and the SSI Program

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*The Supplemental Security Income (SSI) program serves as an income source of last resort for elderly or disabled individuals, including blind or disabled children. In determining the benefit amount for a child, the program excludes one-third of child support payments from countable income. Legislation reauthorizing the 1996 welfare reform law contains provisions that would encourage states to allow children receiving Temporary Assistance for Needy Families (TANF) to keep more of the child support paid by an absent parent. These potential changes provide impetus to revisit the way the SSI program treats child support.*

This policy brief analyzes several options for increasing the SSI exclusion for child support.

- **Excluding all child support** from countable income would benefit all children who receive child support but would raise equity issues by allowing some individuals with higher income to receive a higher SSI benefit.
- **Excluding a larger percentage of child support** would make all children receiving child support better off, but children with larger support payments could exclude more income than those with smaller payments.
- **Excluding a flat amount of up to \$300** would also benefit all child recipients who receive child support.
- **Excluding smaller amounts—up to \$200 or \$100, for example**—would have a positive or neutral effect on most children but would harm a small number of children who currently receive support payments exceeding three times the excluded amount (\$600 for the \$200 exclusion and \$300 for the \$100 exclusion).

### Introduction

Under current law, the Social Security Administration (SSA) excludes one-third of child support payments received in a month on behalf of a child on Supplemental Security Income (SSI) from countable income in determining the SSI payment. Should the current treatment of child support payments in the SSI program change? How does it compare with policies in other means-tested programs? Are there ways to change

the treatment of child support payments that would result in higher SSI payments for the children most in need, provide better compliance with reporting requirements, and result in more absent parents making child support payments?

Legislation reauthorizing the 1996 welfare reform law contains provisions that would allow children receiving Temporary Assistance for Needy Families (TANF) to keep considerably more of the child support paid by an absent parent than current law allows. Allowing families to keep more child support promotes family self-sufficiency and would “allow noncustodial parents who pay child support to know that their support payments are being received by their children” (Senate Committee on Finance 2003).

To the extent that policymakers favor this type of incentive for families of children receiving SSI, this paper identifies several options for doing so. The options would eliminate or reduce the amount of child support counted against the monthly SSI benefit. This policy brief looks at the potential effects that implementing each option would have on the child as well as on the SSI program.<sup>1</sup> It presents these options for purposes of discussion, but it does not make recommendations.

Depending on the option chosen, changing the rules for counting child support in the SSI program could potentially resolve several concerns raised by the current policy. First, the current policy raises issues of horizontal equity by allowing children with child

support payments to receive higher benefits than children with equal income from other sources. However, public policy is better served if absent parents provide child support. In contrast to other types of income that the custodial parent or child may receive, child support seems to warrant more of an incentive and reward for its receipt. Consequently, some differential treatment for counting child support would seem to be acceptable public policy. The question is how much. A related issue is that children with larger child support payments may exclude significantly more support from their countable income than children receiving smaller support amounts. The result is that SSI children with larger child support payments have higher net income than those with smaller payments. The second issue to consider is that the general treatment of child support in means-tested programs may serve as a disincentive for custodial parents to pursue formal child support and to report on an accurate and timely basis the support payments they receive. For the SSI program in particular, current rules may discourage noncustodial parents from paying support, since two-thirds of the payment offsets the SSI benefit. A more generous child support exclusion may encourage absent parents to pay support and custodial parents to pursue it.

### ***Federal Policy on Child Support Enforcement***

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Congress created the Child Support Enforcement (CSE) program in 1975 as an attempt to reduce public expenditures on welfare by obtaining support from noncustodial parents to keep custodial parents and their children off welfare. State CSE agencies assist custodial parents in obtaining financial and medical support for children by locating noncustodial parents, establishing paternity and support obligations, and enforcing those obligations. Child support payments are included in calculating benefits under both the TANF and SSI programs. As discussed below, child support rules for the TANF program may change with the passage of pending legislation. In examining the proposed changes, it is useful to understand how the TANF program currently treats child support.

### ***Treatment of Child Support in the TANF Program***

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Current law requires TANF recipients who receive child support payments to assign the payments to the state government as an implicit reimbursement for welfare expenditures. States are required to give the federal

government a share of its child support collections that is proportionate to the share of the state's TANF program that is federally funded.

Under the former program of Aid to Families with Dependent Children (AFDC), states were required to pass through to the family the first \$50 of child support received each month and exclude that amount in determining eligibility and benefits. The amount passed on to the family was disregarded when determining the federal share of a state's collection. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 eliminated the pass-through requirement in the new TANF program. States may pass some or all child support payments to families receiving TANF, but any support paid to families must be paid out of the state's share of collections. As of 2003, 28 states had eliminated the pass-through and exclusion for child support collections.<sup>2</sup> The majority of states continuing to pass through child support have maintained the \$50 pass-through and the excluded amount, but a few states allow families on TANF to keep higher amounts of child support (Roberts and Jordan 2004).

Eliminating the child support pass-through is seen as a disincentive for noncustodial parents of children on welfare to participate in the formal child support system. Since support paid through that system yields little or no additional income for their children, many of those parents prefer to make informal contributions (Sorensen and Lerman 1998). Research suggests that many noncustodial fathers make noncash contributions, because those contributions allow them to meet their children's needs more directly. Evidence also indicates that child support enforcement discourages some fathers from working in the formal sector and increases informal work activity (Waller and Plotnick 2001). Informal agreements, however, put the custodial parent at risk of noncompliance with TANF requirements. Informal payments are likely to be smaller and are made at the discretion of the noncustodial parent, leaving the custodial parent little means to pursue nonpayment (Turetsky 2000).

The treatment of child support payments for TANF recipients may change with the reauthorization of the 1996 legislation. H.R. 4, the Personal Responsibility, Work, and Family Promotion Act of 2003, was passed by the House on February 13, 2003. The bill would encourage states to give the custodial parent a larger portion of the child support payment (\$100 or \$50 plus the pass-through allowed by the state as of December 31, 2001, whichever is greater) by waiving the federal government's share of any child support collections that

are passed on to the family. On October 3, 2003, the Senate Committee on Finance reported a version of the bill that would waive the federal share of child support passed on to TANF families—up to \$400 per month in the case of a family with one child, and up to \$600 per month in the case of a family with two or more children.

Proponents of these proposals believe that it would provide an incentive for more absent parents to make payments, because less of their payment would be counted against the TANF benefit. Proponents also believe that more custodial parents would seek CSE services if the custodial parent kept an increased portion of the child support payment. There is some evidence to support this position. Sorenson and Halpern (1999) found that the \$50 pass-through program increased the likelihood of receiving child support. For example, of the never-married mothers on TANF, the likelihood of receiving child support increased by 4.5 percent under a pass-through program. In addition, Wisconsin received a federal waiver that allowed a full pass-through of child support collections to TANF recipients on an experimental basis. Reports of the experiment show that the full pass-through encourages recipients to cooperate with establishing paternity and results in collecting higher amounts of child support (Meyer and Cancian 2002).

### ***Treatment of Child Support in the SSI Program Under Current Law***

Although filing for child support is a condition of eligibility for TANF, it is not so for the SSI program. TANF recipients must assign the right to any child support collected to the TANF agency, while SSI recipients are required to report this income to SSA. Despite these differences in program design, both programs operate in fundamentally similar ways, using child support payments to offset benefits.

When determining a child's monthly SSI benefit, program rules under the Social Security Act exclude from countable income one-third of the child support payment received from the absent parent. The remaining child support payment is subject to the \$20 general income exclusion. The balance reduces the child's monthly SSI benefit dollar for dollar. The example in Box 1 shows how child support payments are counted for a child who has no other income.

Children who receive both SSI and child support payments have more available income

#### **Box 1. Current computation for child support payments (in dollars)**

This example assumes that the child has no other income.

Monthly federal benefit rate for 2004	564.00
Average child support payment for June 2003	<b>199.00</b>
Minus 1/3 of the child support payment	-66.33
Minus the \$20 general income exclusion	<u>-20.00</u>
Total countable income	=112.67
SSI benefit (564.00 – 112.67)	<b>451.33</b>
Total income available to child (199.00 + 451.33)	<b>650.33</b>

NOTE: This calculation is for the federal Supplemental Security Income payment only. Some states provide supplemental payments to children, enabling them to receive higher benefits.

than children who do not receive child support payments. Roughly 12 percent of children who receive SSI (25 percent of those living with one parent) receive an average monthly child support payment of \$199 (as of June 2003).<sup>3</sup>

Table 1 shows steady increases in the percentage of children who receive both SSI and child support and in their average monthly child support payment.

**Table 1.  
Children receiving both SSI and child support and their average child support payment**

Date	Receiving both SSI and child support		Average child support payment (dollars)
	Number	Percentage of all child recipients	
June 1996	81,810	8.2	156
December 1996	82,640	8.3	159
June 1997	85,440	8.5	161
December 1997	75,750	8.6	168
June 1998	80,690	8.9	172
December 1998	82,010	9.3	171
June 1999	85,410	9.8	177
December 1999	84,100	10.0	176
June 2000	88,010	10.4	181
December 2000	89,950	10.7	182
June 2001	95,260	11.1	184
December 2001	99,830	11.4	188
June 2002	104,470	11.6	192
December 2002	107,520	11.8	194
June 2003	114,170	12.1	199

SOURCE: Social Security Administration. 1996–2003. *Children Receiving SSI*. Semiannual report. Baltimore, Md.: SSA, Office of Policy.

Studies indicate that many custodial parents of children on SSI do not pursue child support from the absent parent or do not report the child support payments they receive. For example, a 1999 study conducted by the General Accounting Office (GAO) in three of the four states with the largest number of children receiving SSI (New York, Florida, and Texas) found that less than half of the SSI children who live in single-parent households received CSE services. A 1999 study done by the Social Security Administration of about 1,500 single-parent households showed that 47 percent of the custodial parents had not pursued child support and that approximately two-thirds of those households might receive support if they pursued it.

In the three states selected for review, GAO also found that about two-thirds of parents who receive child support for children who get SSI do not report the child support payments to Social Security. Related to the underreporting is a high volume of overpayments associated with child support. Nonreporting or late reporting of all types of income is a problem for the SSI program. For most other forms of income, such as wages, there is a centralized system for verifying receipt. By contrast, no such system exists for child support, and SSA therefore relies heavily on self-reporting. In fiscal year 2000, there were about 660,000 overpayments, totaling \$39 million, associated with child support payments.

### *Options for Changing the Treatment of Child Support in the SSI Program*

The amount of child support SSI children receive under current law varies considerably (Chart 1). Almost two-

thirds of SSI children reported as receiving child support receive monthly payments of \$200 or less. Three-quarters of the children who receive monthly payments of \$200 or less do not have any other countable income, including any income from the custodial parent deemed available to the child (deemed income). A change in the amount of child support that is counted when determining children's SSI benefits could have a significant impact on the total household income for these families.

Excluding one-third of the child support payments raises issues of horizontal equity, because SSI children who receive child support are eligible for higher benefits than their peers who receive equal income from other sources. For example, excluding one-third of child support payments allows a child to receive up to \$874.50 in child support and still be entitled to a monthly benefit of \$1 and thus maintain Medicaid eligibility. Other SSI children with unearned income other than child support can only receive income up to \$583 and still be entitled to a monthly benefit of \$1. Furthermore, the more child support an SSI child receives, the larger the amount of the child support payment that will be excluded when determining the SSI benefit amount. For example, if a child receives child support payments of \$750 a month and has no other income, Social Security does not count \$270 of the support payment. A child whose only income is a child support payment of \$150 can exclude only \$70. Therefore, the child receiving the \$750 child support payment has \$200 a month more in total income (\$834) than the child with the \$150 payment (\$634).

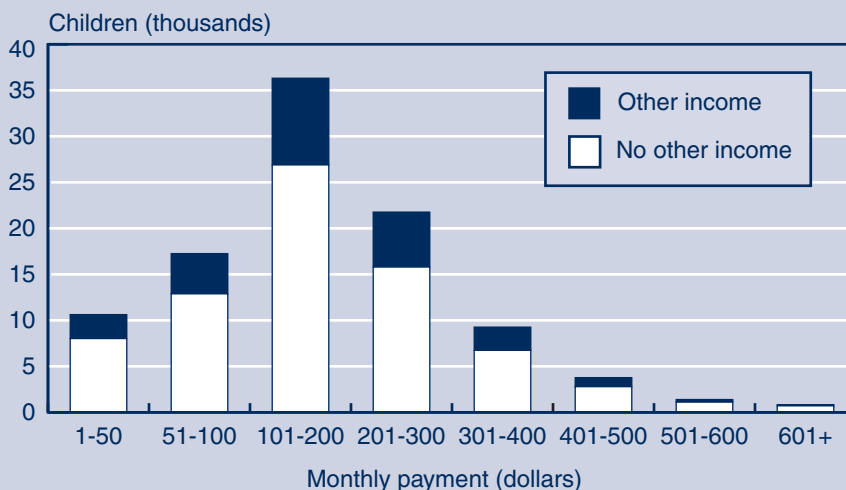
Several options would allow children receiving SSI to keep more of the child support paid by an absent parent. Option 1 would exclude all child support from countable

income, Option 2 would increase the percentage of child support excluded, and Option 3 would replace the current rule of excluding one-third of child support with a fixed dollar exclusion.

**Option 1. Exclude all child support from countable income.** This option would provide the greatest incentive for absent parents to provide child support. It would increase the total income available for the child's care and thereby encourage more custodial parents to seek out CSE services, knowing that the child support would not affect the SSI benefit for their child.

Option 1 would increase program costs for current SSI child beneficia-

**Chart 1.**  
Number of SSI child recipients with payments from absent parents, by amount of payment, June 2002



Source: Social Security Administration, SSI Characteristic Extract Record, 10 percent data.

ries receiving child support by about \$136 million annually.<sup>4</sup> (Program costs from new recipients are difficult to estimate. Previous studies have shown that many SSI children receive child support that is not reported. Therefore, the number of new applicants who would be eligible as a result of this increased exclusion may not be as significant as one might expect.) This option would also simplify administration of the SSI program, because SSA would no longer need to verify child support income or process overpayments related to child support.

As with current policy, this option would present some issues of horizontal equity. For example, a child who now receives \$874.50 a month in child support and \$1 in SSI benefits would, under this option, receive the full SSI monthly benefit of \$564, for a total of \$1,438.50. In addition, the total income for some children would significantly exceed the total income for adults receiving SSI. For example, if both members of a married couple were eligible for SSI benefits and received at least \$20 in unearned income, their total income guarantee for 2004 would be \$866. Option 1 would also increase the differential treatment of income from the custodial and noncustodial parent. In the example above, assume that the monthly child support payment of \$874.50 represents one-third or less of the absent parent's earnings. A disabled child living with a parent with comparable earnings would not be eligible for SSI benefits, because a portion of the earnings of the custodial parent would be subject to deeming.<sup>5</sup>

**Option 2. Exclude a larger percentage of child support payments.** This option would increase the SSI benefits for children receiving child support by excluding a larger share of the child support payments. This option would also present issues similar to those in Option 1 by excluding a much larger amount of child support for children who receive larger child support payments. By excluding, for example, one-half of child support payments from countable income, a child could receive up to \$1,166 per month from an absent parent and still receive \$1 in SSI. Children receiving the average child support payment of \$199 per month would see their SSI benefit increase by \$33.17 per month, and children receiving monthly child support of \$40 or less would have all of their child support excluded. This option would increase program costs for current SSI child beneficiaries receiving child support by about \$38 million annually.

Another variation would be to exclude two-thirds of child support payments received. A child could receive up to \$1,749 in child support without losing eligibility for SSI. Children who receive less than \$60 per month in child support and have no other income would be able to

exclude all of their child support. Program costs for current beneficiaries would increase by \$76 million per year.

**Option 3. Exclude a flat amount of child support payments rather than a percentage.** A third option for replacing the current one-third exclusion would be to exclude a flat amount of child support payments from countable income. This option is similar to the proposed TANF provision that allows a flat amount of child support to be passed on to the child. For example, SSA could exclude (up to the first) \$300, \$200, or \$100 of child support. The flat amount could be tied to the cost-of-living adjustment.

*Exclude up to \$300.* In effect, the maximum excludable amount for child support payments is \$291.50 for 2004, so an exclusion of \$300 would not adversely affect any SSI children. All children with countable child support payments (any balance after applying the general income exclusion) would benefit from this option. The total monthly child support payment would be excluded for about 85 percent of children with reported child support. A child receiving \$883 in child support would still qualify for a monthly SSI benefit of \$1 under this option—comparable with the total income possible under the current rule. Program costs for current beneficiaries would increase by about \$117 million annually. Like the first option, this option would also provide a considerable incentive for the custodial parent to work with CSE agencies.

*Exclude up to \$200.* Excluding \$200 would adversely affect less than 1 percent of the SSI children receiving child support—those receiving more than \$600 monthly in child support. Children receiving more than \$783 in child support would no longer be eligible for SSI. Those children represent less than 0.2 percent of all children with reported child support. The \$200 exclusion would cost the program approximately \$89 million annually for current beneficiaries and would target the neediest of the SSI children who receive child support. A child receiving \$200 monthly in child support and no other income would receive \$113.33 more in SSI benefits under this option. Since 99 percent of current SSI children receiving child support would benefit from this option, one would expect that more custodial parents not receiving child support payments would avail themselves of CSE services to increase the total income for the household.

*Exclude up to \$100.* If the exclusion were \$100, child support payments for about 28 percent of SSI children would be totally excluded. A child currently receiving \$100 in child support (and no other income)

would receive a \$46.67 increase in his or her monthly SSI benefit. Children whose child support payments were between \$100 and \$300 would also receive a higher monthly SSI benefit, with more of their child support being excluded as countable income. This exclusion, therefore, would either benefit or not disadvantage the 85 percent of all SSI children who receive child support payments of \$300 or less. (Children receiving \$300 in monthly child support payments and children with payments totally excluded under the general income exclusion would have no change in their monthly benefit.) Although not as generous as the other options, this option would still provide more of an incentive for many parents to seek CSE services than currently exists. The estimated annual program cost of this option for current beneficiaries is about \$28 million.

Excluding \$100 would be equivalent to the current one-third exclusion for children receiving child support payments of \$300. Therefore it would adversely affect children now receiving more than \$300 per month (about 15 percent of all SSI children with reported child support). For example, children receiving \$400 in child support (and no other income) would see their total monthly income decrease by \$33.33. (The majority of children with child support payments above \$300 report payments in the \$301 to \$400 range.) The effect would be more significant for the 6 percent of SSI children who receive payments that are more than \$400, and some would lose their entire SSI benefit and possibly their Medicaid coverage. For example, children receiving \$684 or more in child support payments would no longer be eligible for SSI. About 0.5 percent of all SSI children with reported child support receive \$684 or more.

## ***Policy Implications***

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How would these options affect horizontal equity in the SSI program, the payment of child support, and incentives to report its receipt?

### ***Improving Horizontal Equity in SSI***

Excluding all child support payments would increase differences in income between children who receive child support and other SSI recipients. Although most children who receive child support do not receive large payments, some children would be able to receive large amounts of child support while remaining eligible for SSI. An exclusion based on a flat amount (Option 3) would mitigate the differences in income levels more than would an exclusion based on a higher percentage (Option 2) or a total exclusion of child support payments (Option 1).

## ***Encouraging Noncustodial Parents to Pay Support***

Research shows that fathers are more willing to establish paternity and pay support when their payments directly benefit their children. Similarly, custodial parents may be more likely to pursue child support payments when the financial incentives for their children are greater. Any of the options discussed could increase the monthly SSI benefit for children receiving child support, thus providing an immediate benefit to children already receiving support and possibly resulting in more children receiving support.

## ***Addressing Nonreporting Issues***

Totally excluding child support (Option 1) would provide the maximum incentive for absent parents to pay child support and would eliminate the need for custodial parents to report child support to SSA. In addition, the overpayment workload existing as a result of the current policy would be eliminated, which would help offset the additional costs associated with the option. Finally, this option goes farthest toward Social Security's continuing goal of simplifying the SSI program. Option 1 also is the most costly. The other options also have the potential to increase the amount of child support that SSA excludes from countable income, providing greater incentive for custodial parents to report this income to SSA accurately and on a timely basis.

## Notes

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<sup>1</sup> For an in-depth analysis of child support issues in the SSI program and other options for increasing the receipt of child support payments for SSI children, see Wilschke 2001/2002. Options included in that article range from requiring cooperation with Child Support Enforcement (CSE) agencies and providing better information to custodial parents about the availability of CSE services and SSI reporting requirements.

<sup>2</sup> Alabama retained the pass-through, but the amount is counted as income.

<sup>3</sup> About 63 percent of children receiving SSI live with one parent, usually their mother.

<sup>4</sup> Program cost estimates are based on benefits paid in 2002.

<sup>5</sup> SSA includes, or deems, the income and resources of parents of minor children and ineligible spouses of married individuals when determining an individual's eligibility for SSI and the amount of his or her payment.

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This brief was prepared by Susan Wilschke and Richard Balkus of the Social Security Administration's Office of Disability and Income Assistance Policy.

Questions about the analysis should be directed to them at 202-358-6275. For additional copies of this brief, call 202-358-6274, fax 202-358-6192, or e-mail [op.publications@ssa.gov](mailto:op.publications@ssa.gov).

**Social Security Administration**

Office of Policy  
500 E Street, SW, 8th Floor  
Washington, DC 20254

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