

CHILD SUPPORT

THE FINANCIAL COST TO THE TAXPAYER

A review of the unemployment and welfare costs of the
Child Support Agency

A Community Awareness Project

PIR INDEPENDENT RESEARCH GROUP
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Purpose of this report: This review is compiled in the interest of Australian taxpayers. It focuses on the economic cost of the Child Support Scheme to Australia. It identifies reasons why the scheme is not working, the financial cost is so high and cannot be sustained over the longer term.

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EXECUTIVE SUMMARY:

PIR analysis of the latest government figures released on the Child Support Agency clearly demonstrate the undisclosed burden on taxpayers created by the child support scheme. A project which began with high ideals has turned into a costly endeavour with no tangible benefits for children or their parents.

Amongst the key findings of this report are:

- Children of separated parents now receive less per child than prior to the creation of the \$240 million a year CSA bureaucracy with its 3,000 staff.
- For every dollar the CSA collects it costs \$5.58 in administration costs, welfare and lost taxation revenue.
- The cost of the scheme in administration, increased welfare and lost productivity was estimated at \$5,000 million for 2002/03.
- The number of payers earning less than half the national average wage is 45%.
- In all probability on average more than 70% of all the unemployed males in Australia over the age of 20 are child support payers.
- At least 39% of CSA payers are either unemployed, sporadically employed or on disability pensions.
- 47% of separated fathers did not file a tax return in 2003.
- An estimated 80% of payees are reliant on social welfare.

The research contained herein on the costs of the child support scheme in Australia combines with the extensive personal testimony relayed to government via parliamentary inquiries to fully justify the government's announcement of a Child Support Taskforce. Both the social and economic costs of the scheme defy all logic and are unsustainable.

Official government statistics reveal male participation in the workforce is declining at an alarming rate. PIR Independent Research has reached the conclusion that the child support scheme is the primary driver of unemployment in Australia.

- Payers faced with the daunting prospect of losing up to 62% of their after-tax wage calculated on their gross wage at marginal tax rates are opting out of the work force. On top of high income tax rates cutting in at low levels separated fathers can be left with less than 20 cents in the dollar. This provides strong disincentives to work.
- Payees are receiving considerable monies via parenting payments, family tax benefits, rental assistance and tax free child support payments from the payer, which can be sufficient to provide a reasonable lifestyle without the need to seek part or full-time work.

There are serious flaws in the research which was used to justify the creation of the Child Support Agency and serious flaws in the formula still used to calculate child support. But beyond this PIR Research believes that the Agency has been grossly mismanaged and by its own tactics and procedures has helped drive the high unemployment rate of its clients.

The Agency lacks transparency and proper accountability, and continues to apply excessive demands on payers with considerable hostility. The effect has been to cause a huge unemployment pool that if it continues to grow at its present rate, will cost taxpayers an estimated \$66 billion over the next ten years.

Far from saving the Australian taxpayer, as the child support scheme was intended to do, the figures point the other way. Behind these figures also lie enormous social costs.

The Australian government recently announced the Terms of Reference for a Ministerial Taskforce inquiring into the Child Support scheme. This followed the recent House of Representatives inquiry by the Family and Community Affairs Committee into child custody arrangements in the event of family separation and child support. The Committee made a number of recommendations in relation to the child support scheme including a comprehensive re-evaluation of the scheme, focussing on contemporary work, parenting and family structures as well as the income profiles of child support payers and payees.

The Terms of Reference include evaluating the existing formula percentages, doubling the minimum child support liability from its present \$5.00 per week for those on unemployment or welfare payments, and assessing the treatment of any overtime income and income from a second job. This latter would allow working parents, primarily fathers, to keep the income from their second jobs for the benefit of their second families.

Included in the Terms of Reference was examination of the need for ongoing research and monitoring programs for the scheme. PIR Research believes that before any such investigations, the government needs to carry out fully independent research, separate from the public service. PIR believe a full scale and completely objective audit of the scheme would reveal that far from saving \$193 million in the last financial year, as the government has claimed, the scheme is costing taxpayers more than \$5 billion a year. Despite an unprecedented flood of complaints to politicians and to government departments, neither the Commonwealth Ombudsman's Office or the National Audit Office have been effective in their assessments and monitoring of the troubled scheme.

BACKGROUND

Studies by the Child Support Agency itself confirm that Australians support the commonsense notion that parents should support their children after separation. But while introduced with the best of intentions, the schemes worldwide have a long and troubled history and have had many unintended consequences. The very first child support schemes were created by the Bolsheviks as a way of funding their opposition to the nuclear family, which they saw as a stumbling block to genuine social revolution. Just as research is now showing that the schemes are failing in their aim of reducing the cost of family separation in the west, in Russia they are believed to have been one of the significant factors behind their once massive black economy.

The schemes were adopted into the west with the assistance of left wing academics such as the US's Irwin Garfinkel, who advised the Australian government on the setting up of the scheme in this country. Child support schemes spread rapidly through America during the 1970s and throughout the western world in the following years.

The Child Support Scheme began in Australia in 1988 with the creation of the enabling legislation, following then Prime Minister Bob Hawke's bold claim that no child would live in poverty. It was rushed through the Australian parliament in a matter of six weeks; with some politicians complaining that there were not even enough copies of the proposal for them to properly assess it. Although child support was an initiative of the then Labor government, it

received bi-partisan support. The first part of the scheme enabling garnishee collection of court ordered child support was introduced in 1988. The second stage, the introduction of a formula whereby the government could determine the amount of child support to be paid followed in 1989. Considerable discussion has taken place into how monies can be seized from employees' wages without the support of a court order. The question still begs an answer. UK politicians on a recent visit to assess the effectiveness of the Australian child support scheme confirmed the need for a court order before their equivalent organisation could seize payers' funds or garnishee wages.

The Australian scheme was closely modelled on US versions, particularly Wisconsin, including formulas used to calculate levels of support. It was established to "strike a fairer balance between public and private forms of support to alleviate the poverty of sole parent families."

The formulas used for the assessment of child support remain to this day one of its most contentious aspects. The payee's income is not taken into account until it exceeds the "disregarded income" amount of \$36,213 (CSA 2003). After a figure based on 110% of the single unemployment rate (\$12,313 for 2003) has been exempted from the payer's gross income, the following percentages are applied beginning at 18% of gross income for one child, 27% for two, 32% for 3, 34% for 4, rising to 36% for five or more children. These percentages calculated as they are on gross income inevitably have a far greater impact when related to net income (see tables page 13), limiting expenditure for self-support or support of children when with the payer. They can in fact be higher if a parent makes an application to the Agency for an increase to cover extra costs or if the Agency decides a payer has a greater capacity to earn and deems them with a higher income than is shown on their income tax return.

The "capacity to earn" is the reason most cited for increasing a payer's payments and thereby the single greatest cause of creating an instant back debt, which then attracts punitive collection methods including sweeping of bank accounts and orders to sell assets including the family home. Back debts attract penalties which are then added to the debt. Debts also endure beyond bankruptcy.

The Wisconsin formula that was adopted in Australia was designed to cover low income families earning below \$20,000 per annum. Most fathers are not aware and do not take into consideration the impost of child support when they first separate or when going through the property division processes in the Family Court. Some find themselves considerably disadvantaged after electing to leave the family home for the payee's use, but still required to pay the mortgage, rates, insurances and their own accommodation costs. The costs relating to the family home are not always taken into account as being part of child support.

People on higher incomes are paying five times the amount of those on a lower income, far more than they would spend on their children in an intact family. The percentages do not follow the economic trend of declining as net income rises. Wealthier parents spend approximately twice as much on their children, but this should really be regarded as a discretionary option.

The formulas were introduced on the broad understanding that they would be adapted to Australian circumstance following local research into the cost of children. While there have been a number of such studies, these adaptations have never been accepted by the government for a variety of reasons. Neither can the CSA produce the working papers for the existing formula calculation, claiming they have been lost.

The scheme saw rapid expansion. More than 530,000 families dealt with the Agency in its first decade. The number of clients tripled in a single five year period in the 1990s to reach almost 400,000 by 1996, including 12% of the nation's children. With more than 5,000 new cases launching monthly, the figure has now increased to about 20% of the nation's children.

The rapid expansion of the Agency caused many administrative problems. A new computer system caused significant difficulties and for many years staff worked with both computer records and hard copy files to hand.

The total number of payers and payees is now 1.26 million, impacting on more than 1.03 million children with more than \$1.9 billion a year now being transferred from non-custodial parents. There is no requirement for the custodial parent to demonstrate how the money is spent.

When extended families, including grandparents, are taken into account the scheme impacts on more than seven million Australians.

From its very inception in Australia the scheme has been controversial. The Joint Select Committee (JSC) conducted an inquiry into child support in 1994 and received a record response of 6,197 submissions. Recommendations from that extensive inquiry for the social consequences of the scheme to be considered were ignored.

As the tables below help demonstrate, a significant proportion of payers (90% fathers) now struggle through financial hardship. Children are not better off as a result of the scheme. Children of separated parents now receive less in 2004 dollars under the scheme than before it was implemented. The weekly amount paid to a child under a court order has reduced from \$48.64, (CPI indexed from \$35.35 in 1995) to just \$36.13 currently collected by the CSA according to child support formula.

The scheme was not meant to be intrusive into people's lives and was not meant to be a deterrent to employment. It is only in later years, since 1997, that the Child Support Agency has vigorously pursued payers by increasing their deemed income on the basis of their capacity to earn. This has had the impact of increasing their debt level, which is then used as reasoning for CSA to demand harsher penalties against alleged non-payers, who are more likely to be parents unable to pay, rather than unwilling to pay. Its implementation was without proper democratic consultation with all stake holders, particularly fathers' groups.

While politicians report that up to 30% of their electoral time can now be spent sorting out the problems their constituents have with the Agency, it is also the source of a massive number of complaints to the Commonwealth Ombudsman's Office³.

Prior to the scheme's introduction three issues in the area of child support were of particular concern: the non-payment of maintenance; the low levels of maintenance payments; and reliance on social welfare payments by custodial parents. The research was conducted by charitable organisations, presumably interviewing their own clientele comprising of mothers, many of whom would already be on government support or a low income. To admit to receiving monies for child support in those days did reduce the pension amount paid to the parent for their own support. Fathers were not consulted.

The objectives of the scheme were to ensure that parents share in the cost of supporting their children, according to their capacity to pay; that adequate support is available for all children not living with both parents; that Commonwealth involvement and expenditure is limited to the minimum necessary to ensure children's needs are met; that incentives for both parents to participate in the workforce are not impaired; and the overall arrangements are simple, flexible, efficient and respect personal privacy.

Not one of these objectives has been addressed by the child support scheme.

On the following page figures taken from the Child Support Agency “Facts and Figures 2002/03” publication, together with the extended figures provided by PIR Research are shown. They suggest the scheme is in fact costing the taxpayer a considerable sum when all costs, both direct and indirect are taken into account.

CHILD SUPPORT SCHEME - FACTS AND FIGURES 2002/03

No. of CSA payer parents June 2003 ¹	630,701
No. of CSA payee parents June 2003 ¹	626,739
No. of children subject to child support ¹	1,034,593
Total CSA collection 2002-03 ¹	\$1,944 million
Average collected per child per week ²	\$36.13
No. CSA payers not lodging tax returns ¹	296,853 (47%)
No. of CSA payers earning less than half of average weekly earnings (\$752.30 ABS 2/7/03) ²	283,815 (45%)

The Agency's caseload has risen at a phenomenal rate, more than tripling in a five year period early in its history. The increase has now slowed:

CALCULATIONS AND ESTIMATED COSTS OF THE SCHEME

No. of CSA payers –male gender ²	567,630 (90%)
Total number of payers (both genders) not fully employed ²	245,973
Estimate number CSA male payers not fully employed ²	221,375 (39%)
Total males aged 20+ unemployed (ABS)	275,200
CSA not fully employed males as a percentage of national male 20+ unemployed ²	80%
Cost of child support 2002/03 welfare cost and lost productivity cost ²	\$5,000 million
Agency cost per \$1 collected via CSA collection ²	\$5.58
Cost of child support per Australian taxpayer 2002/03 ²	\$500.00
Total cost of child support over previous ten years ²	\$32,000 million
Project cost of child support over next ten years ²	\$66,000 million

The cost of providing welfare payments for 80% of payees who are in receipt of government benefits has not at this stage been calculated or factored in.

Other key statistics of note:

- \$844.1million was left outstanding in unpaid child support¹.
- 38.2% per cent of payers (248,809) paid at or below the minimum child support payment of \$5 per week¹.
- Only 4.3% of CSA registrants in 2002-03 could come to a mutual agreement on the right balance between income and payments through Child Support Agreements¹.
- 96% of children spent more than 70% of time with the resident parent¹.
- The Child Support Agency ranked only behind Centrelink in the number of complaints passed on to the Commonwealth Ombudsman (2432 complaints received - Annual Report 2002-03)³.
- Staff: 3,000¹.
- Total budget: \$240 million approx¹.
- Five per cent of clients demand a review each year. Over a 10 year period, assuming 25% get two reviews, then about 40% of clients totally disagree with their assessments².
- The average single parent spends twelve years on welfare.

MEANINGFUL RESEARCH AND DATA IS NOT AVAILABLE

Whilst the CSA produces considerable research and data, it is skewed in a way that cannot be interpreted to effectively benchmark and monitor the performance of the Child Support Agency. An independent review is required to ensure that continuing selectivity is not applied to data and reports generated.

The earliest work on the costs of the scheme to the Australian taxpayer was conducted by researcher Malcolm Mathias in the mid-1990s, although his findings were ignored by government.

In his publication *Family Breakdown in Australia* he wrote:

Non-custodial parents are forced out of the workforce

There is a base level expense which both parents must pay, not just the custodial parent. Similarly, there are real costs associated with having the children on access, which are not currently recognised by the Child Support Assessment process. The long term financial viability of non-custodial parents is threatened by the excessively high demands of the Child Support Scheme "formula." The inevitability of the long term financial demise of non-custodial parents is not "in the best interests of the children." Child Support payments of 50% of current levels would better reflect "sharing" the cost of parenting. Similarly, maintaining payments of 50% of current levels for the full 18 years of a child's life must be better than 100% for only five years.

For example:

\$10,000 per year @ 50% = \$5,000	\$10,000 per year @ 100% = \$10,000
Maintained for 18 years	Burnt-out and bankrupt after 5 years
\$5,000 per year over 18 years = \$90,000	
\$10,000 per year over only 5 years = \$50,000	

It is in the best long term interests of the children and both parents that payments are maintained for as long as possible. Short term gain for the custodial parent becomes long term pain for the children and the non-custodial parent in the longer term.

After only five years the financial burden becomes too great, and many non-custodial parents are forced to look at other financial and "life" options. Many non-custodial men are forced to live in cheap accommodation (or move back in with often pensioner parents), are compelled to leave paid employment, forced into bankruptcy, lose contact with their children, lose any prospect of a comfortable retirement and a growing number ultimately commit suicide.

Mathias reported that by June 1997 almost 30% of payers appeared to be unemployed with the case load increasing by 5,000 to 6,000 cases per month. He included the following commentary:

Agency figures showed that 129,174 non-custodial parents now have a "Nil-Liability." That is, these non-custodial parents earn less than \$9,006 and consequently pay no child support.

	CSA Collect	%	Private Collect	%	Total	Total %
Liability	173,925	66.57	136,829	76.58	310,754	70.6%
Nil Liability	87,332	33.42	41,842	23.41	129,174	29.4%
Total	261,257	99.99	178,671	99.99	439,928	100%

Table 1.3 on page 6 of CSA Client Profile Series No 1 shows: Active CSA Cases with current "liability" and current "nil liability."

These statistics suggest that 129,174 non-custodial parents earn less than the \$9,006 threshold figure at which they become liable to pay Child Support. The vast majority of these will in all probability be drawing unemployment benefits from the Department of Social Security.

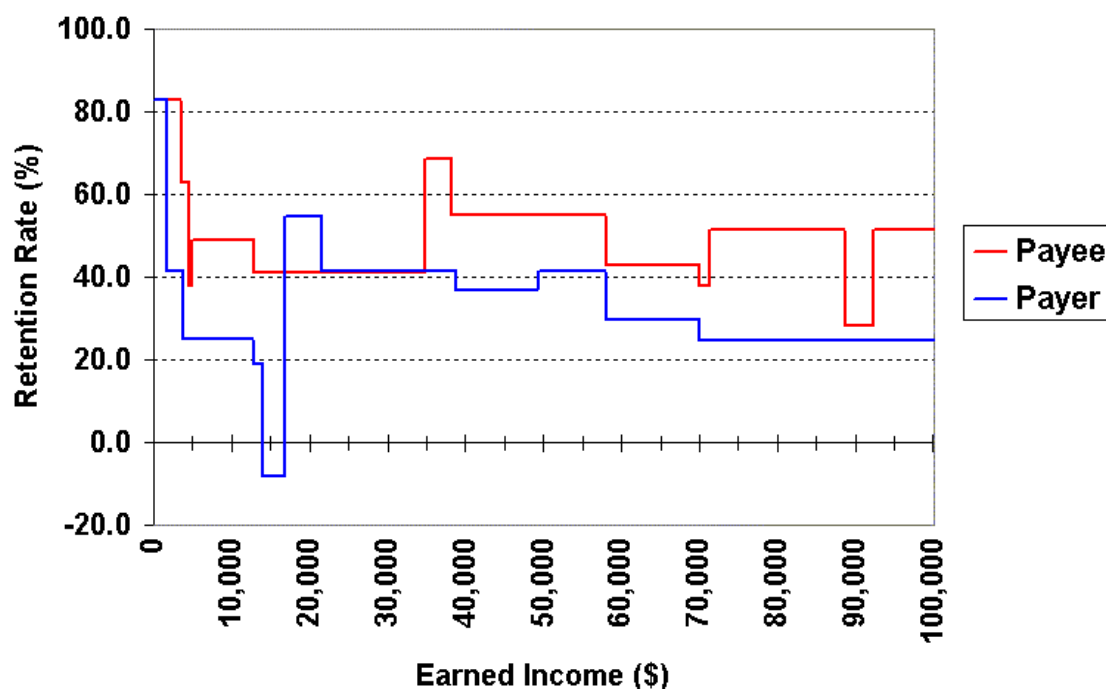
These CSA statistics suggest that unemployment among non-custodial parents is running at approximately 30% at a time when the national average is approximately 8%. This suggests that the disincentive to work created by the Child Support Scheme is sufficiently strong for 22% (30% - 8% = 22%) of non-custodial parents (96,660) to opt for the dole rather than have their wages taken by the combination of the Australian Taxation Office, the Child Support Scheme, compulsory superannuation, compulsory Medicare, and the expenses of earning a living.

The performance of the CSA in collecting \$1 billion from non-custodial parents was proudly announced recently. Not announced were the unemployment benefits for the 129,174 non-custodial parents, costing the government \$1.163 billion. The cost of running the CSA has been estimated at \$200 million per annum, giving the Federal Government a bill of \$1.363 billion. How does the Government justify this false economic logic? Where is the economic rationale in continuing the Child Support Scheme if people are forced to opt out of it? Where is the economic engine for Australia if a growing portion of the community can't afford to work? The CSA "Formula" must be changed substantially.

As PIR has demonstrated by the most recent figures extracted from the *Child Support Scheme - Facts and Figures 2002-2003* publication, the situation has only deteriorated since this pioneering work was done. The number of parents paying minimal rates because of low income or not fully employed has increased to 39%; the cost of collecting each \$1 of child support has increased to \$5.58, yet the collection rate has not improved.

ANALYSIS OF INCOME RETENTION RATES – CSA PAYERS & PAYEES:

A useful benchmark to be considered is the income retention rate expressed as a percentage of each additional dollar of earned income that the earner is able to retain. The following chart displays the income retention rates for a child support payer providing child support to a payee who earns \$20,000 per year and a child support recipient (payee) who is supported by a payer earning \$30,000 per year. In both cases, there are two children involved, nominally 8 years old, who spend 80 nights per year with the payer. The table takes into account income tax, child support, the Family Tax Benefit, Parenting Payment, and Newstart Allowance.

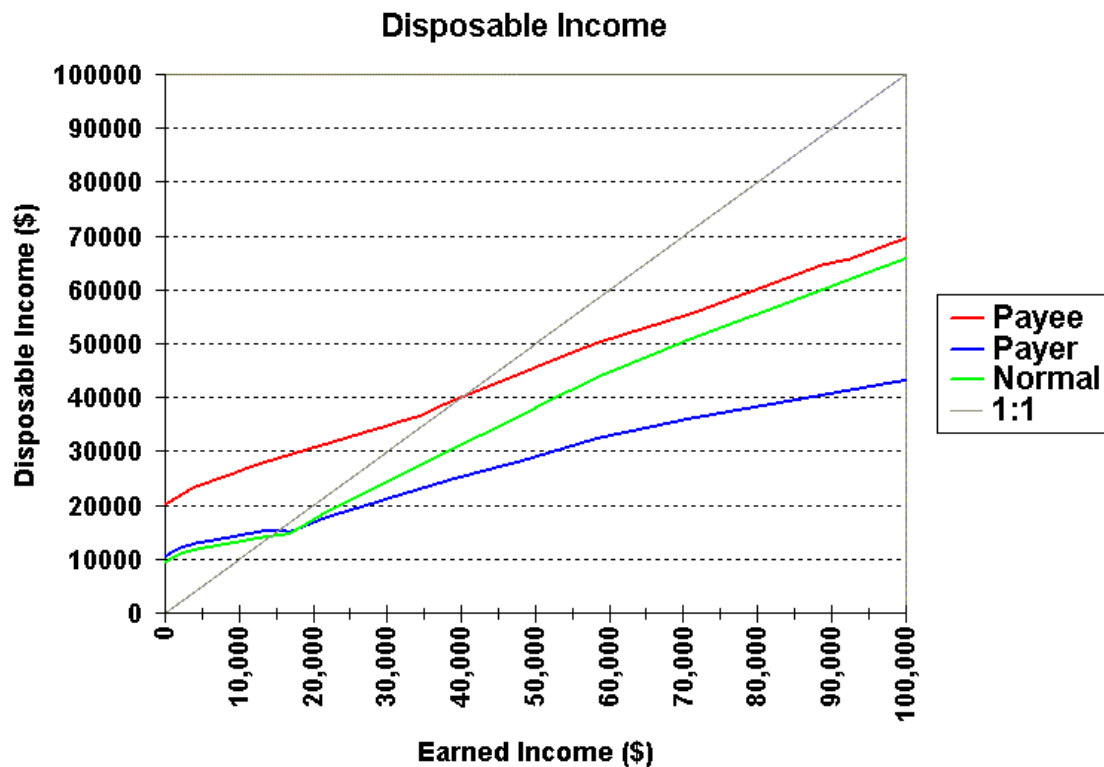
Income Retention Rates

The chart displays three interesting features. First, the payer receives less than 50% of any increase in his earned income at virtually all income levels. Second, the retention rate for payers earning around \$15,000 per annum is negative.

This means that a payer who earns around \$15,000 per annum can increase his disposable income by reducing his earned income. Third, the retention rate for payers earning between \$70,000 and \$126,600 is a mere 24.5%. It is difficult to imagine anybody in this income bracket going to any significant effort to increase his earnings.

ANALYSIS OF DISPOSABLE INCOME – CSA PAYERS & PAYEES:

Further analysis is essential to illustrate the amount of disposable income which is the amount of money that a person is able to spend. The following chart displays the disposable incomes of the hypothetical child support payer and payee in the preceding chart. It also displays the disposable income of a normal single person unaffected by child support; and the notional 1:1 line, representing the situation where an earner is able to retain all his earned income.



It is curious that a low-income payer of child support has a slightly higher disposable income than a normal single person; a situation that quickly reverses at around \$18,000 per annum. This phenomenon is caused by apportionment of the Family Tax Benefit for the 80 contact days.

It is clear from this chart that both payers and payees who are dependent on welfare suffer no financial disincentive to have children, whereas payers who are able to support themselves suffer a severe penalty.

INCOME RETENTION RATES AND DISPOSABLE INCOME TABLES FOR CSA PAYERS & PAYEES:

The following table displays a broader multi-dimensional view of the situation for one, two and three children and multiple combinations of payee and payer earnings.

No of Child-ren	Payer Earnings (\$)		Retention Rate (%)					Disposable Income (\$)				
			Payee Earnings (\$)					Payee Earnings (\$)				
			0	15,000	25,000	50,000	75,000	0	15,000	25,000	50,000	75,000
1	0	Payee	83.0	41.1	41.1	68.5	51.5	16,261	24,527	28,637	41,473	56,308
		Payer	83.0	83.0	83.0	83.0	83.0	10,568	10,568	10,568	10,568	10,568
	15,000	Payee	83.0	41.1	41.1	68.5	51.5	16,370	24,636	28,746	41,473	56,308
		Payer	0.9	0.9	0.9	18.9	18.9	15,346	15,346	15,346	15,455	15,455
	25,000	Payee	83.0	41.1	41.1	59.5	51.5	17,764	26,029	30,139	42,317	56,590
		Payer	50.5	50.5	50.5	50.5	64.0	20,170	20,170	20,170	21,234	21,796
	50,000	Payee	83.0	41.1	41.1	59.5	42.5	20,869	29,134	33,244	46,817	59,402
		Payer	50.5	50.5	50.5	50.5	50.5	32,289	32,289	32,289	33,354	35,604
	75,000	Payee	83.0	41.1	41.1	59.5	42.5	25,369	33,634	37,744	51,317	63,902
		Payer	33.5	33.5	33.5	33.5	33.5	42,624	42,624	42,624	43,689	45,939
2	0	Payee	83.0	41.1	41.1	68.5	51.5	16,261	24,702	28,812	41,473	56,308
		Payer	83.0	83.0	83.0	83.0	83.0	10,568	10,568	10,568	10,568	10,568
	15,000	Payee	83.0	41.1	41.1	68.5	51.5	16,555	24,996	29,106	41,473	56,308
		Payer	-8.1	-8.1	-8.1	18.9	18.9	15,161	15,161	15,161	15,455	15,455
	25,000	Payee	83.0	41.1	41.1	55.0	51.5	18,425	26,866	30,976	42,869	56,861
		Payer	41.5	41.5	41.5	41.5	61.8	19,085	19,085	19,085	20,682	21,525
	50,000	Payee	83.0	41.1	41.1	55.0	38.0	24,203	32,645	36,755	49,619	61,079
		Payer	41.5	41.5	41.5	41.5	41.5	28,955	28,955	28,955	30,552	33,927
	75,000	Payee	83.0	41.1	41.1	55.0	38.0	30,953	39,395	43,505	56,369	67,829
		Payer	24.5	24.5	24.5	24.5	24.5	37,040	37,040	37,040	38,637	42,012
3	0	Payee	83.0	41.1	41.1	68.5	51.5	16,261	24,878	28,988	41,473	56,308
		Payer	83.0	83.0	83.0	83.0	83.0	10,568	10,568	10,568	10,568	10,568
	15,000	Payee	83.0	41.1	41.1	68.5	51.5	16,657	25,274	29,384	41,473	56,308
		Payer	-13.1	-13.1	-13.1	18.9	18.9	15,059	15,059	15,059	15,455	15,455
	25,000	Payee	83.0	41.1	41.1	52.5	51.5	18,792	27,409	31,519	43,176	57,012
		Payer	36.5	36.5	36.5	36.5	60.5	18,483	18,483	18,483	20,376	21,375
	50,000	Payee	83.0	41.1	41.1	52.5	35.5	26,056	34,673	38,783	51,176	62,011
		Payer	32.0	32.0	32.0	36.5	36.5	27,188	27,188	27,188	28,995	32,995
	75,000	Payee	83.0	41.1	41.1	52.5	35.5	34,056	42,673	46,783	59,176	70,011
		Payer	19.5	19.5	19.5	19.5	19.5	33,937	33,937	33,937	35,830	39,830

Calculations include Income Tax, Family Tax Benefit, Parenting Payment, Newstart Allowance and child support paid by the payer. Pharmaceutical Allowance and Rent Assistance are not included.

When the payer and payee's earnings are equal, the difference in disposable income is more than twice the nominal amount of child support. The factor of two comes from the payer's income being reduced by the amount of the child support, while the payee's income is increased by the amount of the child support. The 'more than' comes from the secondary benefits associated with child custody such as the Family Tax Benefit.

DISPOSABLE INCOMES OF CHILD SUPPORT PAYERS
Formula Calculations on Gross and Net

In Australia child support calculations are based on Gross income (Gross = Before Tax is taken). The percentage rates are 18% for one child, 27% for two children, 32% for three, 34% for four and 36% for 5 and more. When these percentages which are calculated on gross income, are used on net incomes (Net = After tax is taken) the real rates of child support payments emerges.

EFFECTS OF TAXATION AND MANDATORY CSA FORMULAE DEDUCTIONS

No of Children	Gross Income	Marginal Tax Rate	Net % Income	Child Support %	Income Retention Rate
1	\$0 - \$6,000	Nil	100.0%	18.0%	82.0%
2	\$0 - \$6,000	Nil	100.0%	27.0%	73.0%
3	\$0 - \$6,000	Nil	100.0%	32.0%	68.0%
1	\$6,001 - \$21,600	18.5%	81.5%	22.1%	63.5%
2	\$6,001 - \$21,600	18.5%	81.5%	33.1%	54.5%
3	\$6,001 - \$21,600	18.5%	81.5%	39.3%	49.5%
1	\$21,601 - \$58,000	31.5%	68.5%	26.3%	50.5%
2	\$21,601 - \$58,000	31.5%	68.5%	39.4%	41.5%
3	\$21,601 - \$58,000	31.5%	68.5%	46.7%	36.5%
1	\$58,000 - \$70,000	43.5%	56.5%	31.9%	38.5%
2	\$58,000 - \$70,000	43.5%	56.5%	47.8%	29.5%
3	\$58,000 - \$70,000	43.5%	56.5%	56.6%	24.5%
1	\$70,000 Plus	48.5%	51.5%	35.0%	33.5%
2	\$70,000 Plus	48.5%	51.5%	52.4%	24.5%
3	\$70,000 Plus	48.5%	51.5%	62.1%	19.5%

*Marginal tax as for 2004/05 rates include Medicare levy;

*Real gross income may have been affected adversely since inception of The Child Support Act in 1989, due to the introduction of compulsory superannuation now 9%;

*Child Support legislation expresses payment as % of gross income. The correct and most relevant is the % paid, expressed as a % of net (after tax) income.

THE LAFFER CURVE IDENTIFIES ECONOMIC DISINCENTIVES TO PAY:

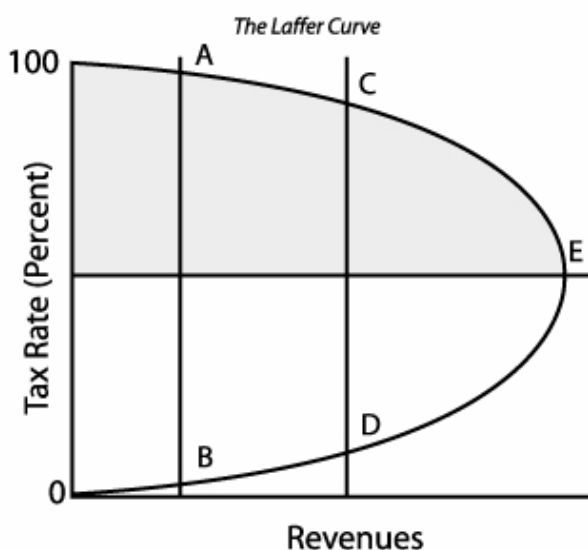
There are always two tax rates that yield the same revenues. The Laffer curve is an economic theory which demonstrates that beyond a certain taxation level, workers are less productive because too much of their financial incentive is confiscated by government.

Although there is dispute over whether child support should be considered a tax, the same theory can be applied. Above a certain income child-support ratio, non-resident payers are disinclined to continue the effort to provide financial support and in 39% of cases opt out of the workforce completely.

Combined with punitive property settlements, up to 90% to the wife in recent judgements, most paying parents' resistance and hostility to the Agency is compounded by the bitterness of court disputes and the assumed adversarial nature of the Agency.

As a consequence, these payers may seek to minimise their income to limit payment of their child support "tax". Whether they are pushed on to the dole or purposely restrict their opportunities for career advancement, the effect is the same: children are not offered a realistic level of payments.

A fairer balance needs to be found between incomes levels and child support payments. As they now stand, child support payments are a very strong disincentive to work.



The Laffer curve: 'E' could be any value, but represents the optimum tax rate where the maximum amount of tax revenue can be collected. At points A and C, reducing the tax rate can increase the amount of tax collected.

Further strong evidence to demonstrate the Laffer Curve theory, resistance to work and diminishing returns comes directly from the CSA 2002/03 report:

- ♦ 41% of CSA payers have Garnishees (Employer Withholding) on their wages.
- ♦ 8% have had their tax refunds intercepted.
- ♦ 9% of the CSA Gross Maintenance debt is from payers who now live overseas.
- ♦ Only 4% of parents have agreed on the level of child support payable through registered Child Support Agreements.

THE MOUNTING CSA PAPER DEBT:

In its current form, the Child Support Scheme demands unsustainable payments from parents who are frequently struggling to support themselves. The practice of imposing compounding monthly fines on those who fall behind exaggerates claimed debt levels.

In 2002-03, 45% of CSA payers (283,815) earned half or less of average weekly earnings². In the same year, 296,853 child support payers out of 630,701 (47%) did not lodge tax returns¹. This indicates their declared annual income was below the minimum taxable level of \$6000. Even those who did lodge tax returns, 18.2% were receiving benefits from Centrelink, at an average of \$4103 per annum¹.

For the payers unable to pay, a debt is accumulated against their name, which can be recouped from income and assets, even after the payer has died. A significant number of claims of insensitivity on the part of the Child Support Agency in pursuing debt from the grieving relatives of dead payers have been made by both constituents and their parliamentary representatives.

Payers can have their income deemed regardless of their tax returns, and even if they are unemployed. Debt can then accumulate against these deemed incomes despite the payer not actually earning this money.

In an audit into Client Service in the Child Support Agency, the Australian National Audit Office noted an increase in the in debt level in recent years. "The percentage of payers with child support debts of under \$500 rose from 22 per cent in June 1999 to 38 per cent in June 2001. Largely as a result of this, the overall percentage of payers who had debts rose from 56 per cent in June 1997 to 74 per cent in June 2001⁴."

The report published as a result of the recent parliamentary inquiry into joint custody and child support, "Every Picture tells a story"⁵ recognised that in many instances, the level of child support from low-income payers was too low "to provide meaningful contribution" to the cost of raising a child, but also that a higher amount "may create hardship" for a person unemployed through no fault of their own.

The imposition of unpayable debts on a provider of child support cannot result in any meaningful increase in the amount of support provided. Instead it overwhelms and demoralises the payer and compromises his earning ability, thereby putting not only the recipient of child support on welfare, but the payer as well.

Any increase to the number of people receiving welfare support, is of concern to the long-term viability and sustainability of the welfare system. Around 2.6 million people of workforce age are currently on income support in Australia. A considerable number of payee parents also have little incentive to work. For example a payee with two children and the payer earning \$70,000pa would have to earn close to \$50,000 pa to gain as much tax free income as is paid in Parenting payment, Family Tax Benefit A & B, rent assistance plus child support of nearly \$300 per week.

Over the last 30 years, Australia's spending on welfare payments has increased from around 3 per cent of gross domestic product (GDP) to more than 7 per cent of GDP.

According to the department of Family and Community Services, this increase in welfare dependence "included a greater take-up of benefits by lone parents (consistent with trends on lone parenthood)". Reform to the Child Support Agency would free-up funding currently spent unnecessarily supporting child support payers pushed on to the welfare system.

CSA ATTEMPTS TO COUNTER THE CRITICS

In March 2004, Dr Robert Birrell from Monash University's Centre of Population and Urban research teamed up with CSA analyst Jerry Silvey to conduct a longitudinal report into the financial circumstances of separated parents registered with the CSA over four years⁶. They concluded that CSA registrants do not seek to evade their obligations by reducing their engagement in the labour market after separation.

There are many instances in the report and its conclusions which are problematic. For example, the report purports to take into account income levels prior to separation. These income levels were taken from most recent tax returns, or from the initial registration interviews with the CSA. This ignores the key fact that 45 percent of payers did not lodge tax returns, making their incomes prior to and after divorce virtually impossible to track.

Secondly, to determine the adverse effect on payer's personal income following registration to the CSA, a control group –unexposed to the CSA- was needed.

Silvey & Birrell rely on the general population which currently sustains a divorce rate of around one in three for first marriages⁷. The researchers note that "nearly 90 percent of all separated parents are estimated to register with the CSA". To this end, the control group could not have been independent of the CSA registrants in the general population.

But the report does acknowledge that low-income fathers are not seeking to evade child support liabilities. Instead they are simply unable to afford the additional burden. "A father living on such a low income and paying the legally required child support amount would be struggling to meet his own living expenses".

A FURTHER SIGNIFICANT ISSUE – SUICIDE/DEATH RATES AMONG CSA CLIENTELE:

In the course of our investigation, PIR has become aware that fathers and family law reform groups have consistently reported over many years that relationship breakdown and the resultant involvement of the Child Support Agency is a major contributory factor to the suicide or death from stress related illness of paying parents. It has been claimed that at least three clients of the Child Support Agency suicide each day. The three a day figure is arrived at by deducting those who are too young or too old to be likely clients of the Agency from the overall suicide figures and then taking 70% of the remainder in the prime divorce age range as likely to be clients. Professor Pierre Baume from the Centre for Suicide Prevention, Griffith University had previously found that 70% of adult male suicides were preceded by a relationship breakdown.

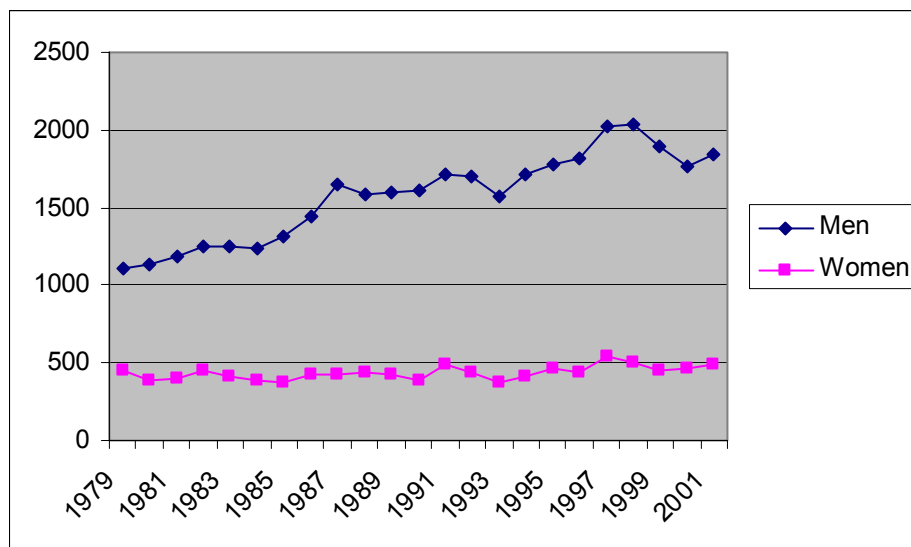
Some groups claim that the mortality rate of child support payers is likely to be higher than the suicide figures alone suggest; with for example the divorce age group being the only age group showing an increase in fatal car accidents and it also being an age group with significant health issues. The CSA has repeatedly refused to attend the inquests of child support payers, claiming confidentiality.

Despite ongoing requests from a number of quarters, the Agency itself, and the politicians responsible for it, have consistently refused to release any data on these deaths until recently.

After the installation of a new computer system CSA claims it is now able to supply the relevant data.

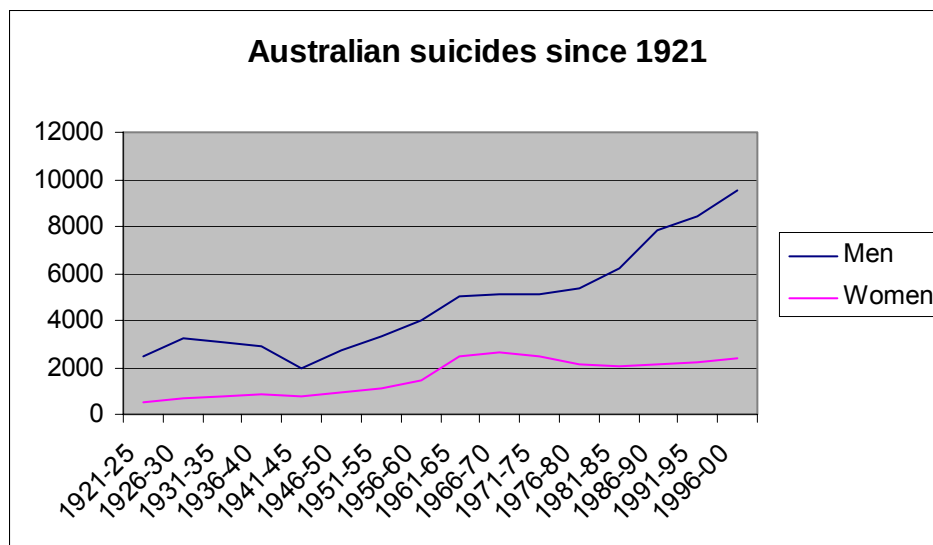
Researcher and economist John Coochey said “the CSA has reported that 6.1% of terminating cases do so because of the death of either the payer or payee parent. This is more than double the rate within that cohort of the general population. Across the life of the scheme CSA calculated that 22,765 cases have terminated because of the death of a parent. Assuming the 6.1% figure is consistent since the beginning of the scheme this means that of the 68,244 cases terminated during 2002/03, 4162 did so as a result of the death of one of the parents. These figures are not as precise as I would like, but there can be little doubt that the very high death rate amongst CSA clients is due to the high suicide rate among paying parents.”

Suicide rates: Men and Women Aged 20+



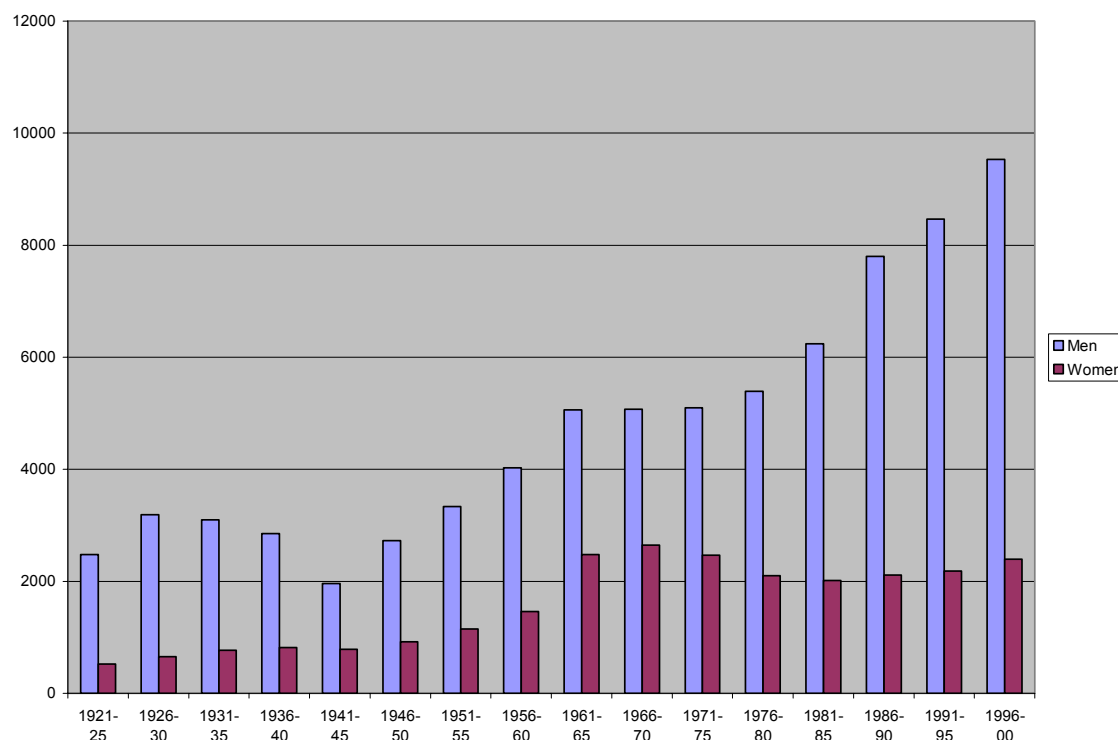
Source: ABS/Australian Institute of Health and Welfare

In four yearly increments, the rapid rise in male suicides since the introduction of the Family Law Act in 1975 and the CSA in the late 1980s is clearly evident:



Source: ABS/Australian Institute of Health and Welfare

The chart below, based on the same data, also helps to illustrate the rapid rise in suicide levels since the introduction of the Child Support Agency for those aged over 20. With youth suicides static or decreasing, all this increase has been driven by men in the divorce age bracket.



Dr Robert Kelso, a public sector ethics consultant summed up the situation as follows:

"It would appear the senior officers of the Agency have not fully informed successive ministers as to the keeping of records on the deaths. Clearly there has been no public policy response to these deaths. There has been no critical incident team to deal with the trauma to parents, children and extended family.

There also appears to be no policy mechanism in place to prevent the taxpayer from having to carry the burden of cost other than the aggressive and ham-fisted approach at making claims against the dead person's estate.

This is just another example of a refusal by the government to admit the full costs and liabilities of operating this scheme. It has clearly never paid for itself in an economically rational way."

A BURDEN ON TAXPAYERS:

Although now one of the country's most controversial and complained about institutions, the Child Support Scheme was introduced with high hopes and bi-partisan support. Brian Howe, then Minister for Social Security, wrote at the time of its introduction in the late 1980s:

"The Child Support Scheme will deliver fair, adequate, secure and regular child support (or maintenance) to children of separated parents. Assessment of the level of support by the Child Support Agency under a formula set out in legislation is a fundamental change from the procedures we have been used to in Australia. It will mean that the Child Support system becomes more accessible and certain. Parents will be able to settle their child support affairs without the need for the trauma and expense of court processes."

But like many a good intention, the scheme has had serious unintended consequences. The anger manifest at “information nights” held by the Agency, the sheer volume of complaint on talkback radio, the increasing media attention and the moving testimony at the recent House of Representatives’ Inquiry are all testaments to good intentions gone wrong. The government’s announcement of a Taskforce to investigate the scheme, including the formula on which calculations are made, is long overdue.

The operations of the Agency are now tarnishing the reputation of the Department of Family and Community Services and distorting good governance. There is little point wasting taxpayer resources trying to create greater incentives for working age Australians when the number one driver of unemployment is the Government’s very own Child Support Scheme.

For example, the Australian Government is providing strong financial incentives to create 175,000 jobs in the mining and construction industry. But this makes absolutely no sense when you consider that through the Child Support Agency (CSA) they have driven 221,000 able bodied males on to social welfare at an estimated total cost of around \$435 per week per person. The take is now \$36 per child; less in 2004 dollars than when the scheme was launched 15 years ago.

PIR Independent Research Group first became aware of the extent of the problems associated with child support five years ago. Our first detailed analysis of child support figures for the 2000/01 financial year indicated that instead of actually saving taxpayers \$166 million, as the Child Support Agency claimed in their publications, it had, as the fundamental cause of the high unemployment rates amongst separated males, in fact cost Australian Taxpayers a whopping \$3700 million in just one year. That situation has continued to deteriorate.

The project to tease out the exact costs of the Agency has met with a completely unco-operative response from the Child Support Agency. It is PIR’s belief that the CSA’s defensive approach to releasing statistical information on their operations is effectively concealing the negative impacts of the scheme and is contrary to the Agency’s oft repeated claim of administrative transparency. PIR made a ‘formal complaint’ to the Commonwealth Auditor General and in turn Mr Bob Charles, Chairman of the Joint Committee of Public Accounts & Audit. Additionally, the Productivity Commission has also been asked to investigate this major disincentive to participation in the workplace and its impacts on productivity.

PIR figures for the year to June 2003, clearly demonstrate the burden on taxpayers created by the child support scheme.

Payers on average weekly earnings are being pushed onto welfare to escape the daunting prospect of losing up to 51% of their after-tax wage through scaled child support payments. Australia’s high marginal tax rates up to 47% cutting in at one and a half times average earnings exacerbates the impact of the formulae of 18, 27, 32, 34 and 36 per cent of gross income deducted from net for one to five or more children respectively.

That is, a payer on a slightly above average income with two children is paying an effective tax rate of 74%, without the Medicare levee of 1.5%. With four children the figure rises to a total of 84.5%. This is a massive disincentive to work.

According to PIR calculations, male child support payers in 2002-03 translated to more than 70% of the national male unemployment rate of males over 20 years of age.

The welfare burden created is immense. In one year alone, the cost of child support in terms of welfare costs and productivity losses for payers was \$5,000 mil. Together with forgone PAYE tax this equates to \$5.58 spent for every one dollar collected².

The disincentives to work can be compounded by the Child Support Agency's practice of calculating payments on the payer's perceived capacity rather than on their tax return or their actual earnings, and in a significant number of cases deeming income in the absence of tax returns or appropriate evidence. The failure to recognise the high costs of contact also compounds the problem.

Other factors contributing to the low participation rate in the employment market of child support payers include the adversarial nature of family law and the perceived antagonistic nature of the Agency which creates resentment and manufactures a reluctance to pay. The failure of previous inquiries to recommend any linkage to either child contact or to any accounting of how the money is spent may also contribute to a feeling of disempowerment and promote the withdrawal of labour.

The Child Support Agency's inefficiency was never more apparent than last year when the debt level reached one billion dollars. At that time CSA refocused the organisation and job descriptions changed to direct staff to concentrate on debt collection. However despite their best efforts and the additional \$30 million dollars earmarked in 2003 budget for CSA's debt collection program, it is ironic that the greatest lowering of the debt level occurred through reassessment of liabilities. A sure sign that initial liabilities, some falsely created under the judgmental "capacity to earn" criteria, are well beyond the capacity of many paying parents.

At the same time Employee Withholding (EW's) teams were created to hunt down any payers who had some level of debt, even a small amount.

Informed sources, including former CSA staff, report the Agency has a very high staff turnover and low morale. The levels of dissatisfaction among CSA staffers is growing, yet those who take the trouble to constructively criticize CSA will 'cross the line' as far as the CSA hierarchy are concerned and will incur a 'needs development' notation on their file. If there are more than three occurrences, then the hapless, yet conscientious, in our opinion, employee will be sent for retraining to indoctrinate them into embracing the flawed scheme without further question.

The unemployed and low income earners continue to swell the ledgers of the Child Support Agency. Perhaps to offset the growing non-payers list, CSA has been actively encouraging payees who are already receiving their payments directly from the other parent, to list their child support assessment for collection through the Agency. This common practice inflates the numbers of the Agency and would appear to be contrary to the initial aims of the scheme to respect people's privacy.

The CSA is already asking for greater punitive powers to punish those who cannot pay or those who have fallen out of the workforce. Nine per cent of the debt is from Australians living overseas. Passports can already be seized and the cancellation of driver's licenses and other permits are in the pipeline. The present Howard government has begun arresting child support payers with significant "debts" as they leave the country. The debt endures beyond bankruptcy.

If CSA is allowed to continue to misuse their power to impose or deem ever higher child support payments on those who are already paying or who are caught in the PAYE tax system as a way to compensate for the loss of payments from those unemployed and low income earners who are on their books, it will not be long before these parents realise life on unemployment benefits may be a preferable alternative to the stress and deprivation of working for little financial gain.

Child support collection in Australia has reached a critical stage. It is feeding directly into the country's declining fertility rates; impacting on the formation of first and second families.

Most payers want child support to be based on a fixed cost per child related to age, not scaled to income. According to Farr and Buurman⁸, the costs of children do not increase with increases in household income above a certain range. Despite this, the child support paid by the non-resident parents continues to increase. "Consequently as household income increases in this range, more of the costs of children are paid by the non-resident parent leaving less for the resident parent to pay."

The report of the parliamentary inquiry into child custody arrangements in the event of family separation was tabled on 29 December 2003. The "Every picture tells a story⁵: Inquiry into child custody arrangements in the event of family separation" report noted there are "many child support payers who believe that they pay far more than the cost of raising their children".

The report described as "imperative" the need to model the specific cost of raising a child to establish "what the impact would be if child support payments were based upon those results". This modelling has not been done.

CONCLUSION:

With a general interest in seeing the children of separated parents well cared for, media interest has come in slowly behind community outrage on the impacts and operations of Australia's child support scheme. Taxpayers not involved with the CSA are completely uninformed in the way the child support scheme operates and are largely unaware of the consequences on paying parents and on the community at large. It is the Government's obligation to ensure that transparent reporting is immediately implemented; taxpayers will then clearly understand that they can no longer afford the financial and social costs and the continuing drain on public sector resources.

Our report clearly demonstrates the burden created by the child support scheme on Australian taxpayers – a scheme which has already cost \$32 billion and a further \$66 billion in the next decade. From a financial viewpoint alone the Scheme costs defy all economic logic and simply can not be sustained.

The Prime Minister John Howard has announced a Taskforce to be headed by Professor Patrick Parkinson to undertake a re-evaluation of the child support scheme to be completed by March 2005. Successive governments have ignored the recommendations of the 1994 Joint Select Committee inquiry into the child support scheme. The Taskforce needs to examine closely the unintentional impact of the scheme, which has been to promote welfare dependency and significantly increase unemployment levels. There needs to be an entirely independent review audit of the costs of the scheme, taking into account the welfare costs for both payer and payee. From this information a financial model needs to be developed in order to reveal a more precise costing as well as a fully transparent system for ongoing monitoring of the scheme.

The government needs to put a stop to the confusion and controversy over the costs of children, with different scales being applied by the Family Court and the Child Support Agency in contrast to those used by Centrelink.

As the Prime Minister John Howard has recently noted, the House of Representatives committee of course encountered much criticism of the Child Support Agency. He is one of the few politicians who have been around long enough to have voted for the original legislation.

At a recent speech announcing the Taskforce, Howard said: “The Child Support Agency of course represents a principle that we in Australia adopted for the first time back in the mid-1980s, it was adopted by the former government, I must say with our support from opposition because I thought it was a sound principle and I was certainly an advocate at the time for the principle that people should be required to meet their financial obligation as parents. There is no easy solution to the dilemma of the Child Support Agency, except of course the total assumption by the general body of taxpayers of the responsibility of paying for the care of children and I don't think that's either a sound principle or something that a majority of the Australian people would support.”

But as the figures in this review demonstrate, the taxpayers of Australia are already paying a very high undisclosed price indeed.

TESTIMONIALS ON DISINCENTIVES TO WORK:

Prime Minister John Howard:

“As a local Member of Parliament, probably the most vitriolic criticisms of government agencies that I've encountered from constituents, largely but not exclusively from men, is directed towards the Child Support Agency.”

Alby Schultz, MP for Hume:

“This anti-male culture is contributing to the destruction of careers, mental health problems and it would appear to national male suicide rates. The system is not fair, not just and certainly not equitable between men and women. It is demonstrably wrong to have a system in place under which in some instances a man must pay \$2100 a month for his three children plus support himself and his new partner.

”As if the loss of all things materialistic and his children was not enough he is now being prevented from embarking on a new life because of these unrealistic expectations from the Child Support Agency,” Mr Schultz said. “The CSA must be dismantled and reconstructed. The system as it is being administered is not fair, it is unjust and it is inequitable.

It is obvious there is discrimination and a mindset against men, to the point where it is really disturbing.”

Fathers and family law reform groups around Australia are consistent in their hostility to the operations of the Child Support Agency. It has also spawned groups such as Fairness in Child Support in working class districts such as Wollongong on the NSW South Coast.

Sue Price, Co-founder Men's Rights Agency:

The CSA's motto is “Helping parents manage their child support responsibilities”, but the Agency walks a fine line between imposing and collecting child support and undue interference in a person's way of life. Similarities in their method of operation could be aligned with INVOLUNTARY SERVITUDE & PEONAGE - a condition of compulsory service or labor performed by one person, against their will, for the benefit of another person due to force, threats, intimidation or other similar means of coercion and compulsion directed against them.

After creating the liability between the parents, CSA then acts as debt collector, meanwhile creating further debt by reassessment and imposing fines for late payment. CSA regularly penalizes payer parents if they change jobs and find they are earning a lesser salary, by

deeming them to pay child support on their previously higher income. Considerable scepticism is encountered when trying to explain to CSA the reasons for the change, even if the change has taken place on medical advice.

The control CSA exerts to pressure people to stay in a job that is causing stress, is akin to forced labour. Any government organization with this amount of power should be independently audited to ensure staff interests, which include the provision of monetary returns in the form of performance bonuses are not influencing their decision making. The amount of money collected is part of the criteria used to establish 'performance'.

Of particular concern is CSA's ability to determine income on the basis of "capacity to earn" - a not so subtle change away from parliament's original intentions that payment should be based on a "capacity to pay". Misuse of this power has resulted in fathers being forced to pay on the basis of income levels they are just not earning."

Most fathers want to share in the support their children, but child support needs to be set at a reasonable level, based on the cost of raising a child at different ages.

Geoff Brayshaw, Australian Family Support Services Association:

The primary commitment that the CSA have in response to their charter is "helping parents manage their responsibilities". The only incentive for a payer is to pay the designated amount or the debt will accrue. This debt attracts interest at the CSA designated amount and is routinely collected from grieving relatives upon the death of the payer. There is no incentive for payers and payees to participate in the workforce.

Barry Williams, President Lone Fathers Association, ACT:

"Excessively high effective marginal tax rates are an abomination. It's like killing the goose that laid the golden eggs. Everyone understands that. Add to the cost of earning a living, clothes, transport, lunches and so on, up to 48.5% in tax and Medicare levy, then up to an additional 36% for child support calculated on gross and taken out of net, and then add on top of this HECS debts or other loans, and workers are effectively paying out almost 100% of their wage without any personal benefit. No matter how hard you're working, you're not seeing any of it. If this is not a disincentive to work, then what is?"

John Flanagan, Fairness in Child Support:

"The statistics show that children would be 37% better off if the Child Support Agency did not exist. The recent Committee inquiry into child custody has recommended that the Child Support Agency be given increased enforcement powers. These powers include removal of driver's licenses and access to credit information, etc. These are a violation of our civil liberties."

Warwick Marsh, the Fatherhood Foundation:

The CSA is poorly managed, has failed both fathers and mothers and has done little to alleviate the poverty that characterises post-separation families. The child support formulas are seriously flawed and unworkable. Mothers are receiving less now than when the CSA was first established. Not only have the children's relationship with their fathers been impaired but the children also bear the brunt of lower support. More than 40% of child support payers are now effectively unemployed.

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RICHARD A CRUICKSHANK
Managing Director
September 2004

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