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Separation and Income Support

Bruce Bradbury and Anna Zhu

Final report for the project:

The impact of separation and child support payment on income support receipt and income

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Summary

What is the impact of marital separation on income support receipt among Australian families with children? This report examines the patterns of income support receipt for parents after separation using administrative data.

Previous research has shown that fathers with child support obligations have lower levels of employment, and higher rates of income support receipt than similar men. However, this could reflect the characteristics of fathers who separate, rather than a direct effect of separation or child support obligations.

After separation, there are offsetting income and substitution effects influencing the labour supply decisions of both parents. For resident parents (usually mothers), labour supply could increase or decrease. Even if labour supply does not change, however, mothers will be more likely to receive income support payments after separation.

Though child support obligations may increase labour supply disincentives for fathers, these effects are outweighed by the disincentives facing partnered families (because of high levels of support to low income families with children). Replacement rate calculations suggest that there are incentives for fathers to *increase* their labour supply after separation.

There is some international evidence that men decrease their labour supply after separation. Australian research using HILDA finds little change in labour supply after separation (but the sample size is small). Silvey and Birrell used Child Support Agency (CSA) administrative data and report mixed findings. They find some evidence that the incomes of non-resident fathers increased by less than the average for their age group, but do not conclude that significant numbers of CSA registrants reduce their income to avoid child support obligations.

The Centrelink data used in this report comprises a sample of couples who, in June 2001, were receiving Family Tax Benefit (FTB) for one or more children aged under 10. Data on payments received is extracted for all fortnights between 1995 and 2006. A marital separation is defined as the first fortnight the mother is recorded as not living with the person she was living with in June 2001 (we ignore separations after December 2004 and exclude people who re-partner with the same person within 2 years of separating and couples where either partner died in our observation window).

The dependent variable is whether or not the person is receiving an income support payment in a particular fortnight. (Income support payments do not include supplementary payments such as FTB). Analysis is undertaken separately for the male and female partners.

The main results of the report are derived from a set of fixed-effects regression models describing income support receipt as a function of person-specific fixed-effects and time-varying covariates. This approach compares income support outcomes after separation with those before separation.

We control for changes in income support receipt rates across historical time and use a set of dummy variables flagging different periods before and after separation (for those who separate) to indicate the impact of separation on individual income support receipt patterns. We also examine the way the impact of separation differs across demographic groups.

After separation, women rapidly increase their likelihood of receiving income support by around 60 percentage points (almost 90% are receiving income support one month after separation). After this, their income support receipt steadily decreases, by about 7 percentage points per annum.

The increase in income support receipt is lower among women who had higher rates of income support receipt prior to separation. These include younger women, those with four or more children, those in defacto marriages, the overseas-born, and those living in more disadvantaged areas.

For men, there is a small drop in income support receipt after separation. We focus on unemployment payments received by men who do not have high income wives prior to separation. For this group, unemployment payment receipt falls by about 3 percentage points between one year before and 2 years after separation. The decrease in unemployment payment receipt is greatest among the most disadvantaged men. Overall, there is no evidence that separation increases income support among fathers.

Are these patterns what we might expect based on our analysis of financial incentives associated with separation? Here we have conflicting results. On the one hand, we find that the financial incentives to search for employment are greater for single rather than partnered men (even if the former have to pay child support). This is consistent with the observed fall in the probability of receiving unemployment payments after separation and suggests an elasticity of unemployment payment receipt with respect to the replacement rate of the order of two-thirds.

On the other hand, the variations within our sample do not mirror those that might be expected on the basis of different replacement rates. The incentives suggest that high wage men should be more likely to increase their labour supply – but our data suggests the opposite relationship. This could possibly be due to the operation of family income tests (though we attempt to control for this by removing men with high income wives from the sample).

1. Introduction

What is the impact of marital separation on income support receipt among Australian families with children? This report examines this issue using income support administrative data.

Income support policies are explicitly designed to provide support to the parent who continues to have primary responsibility for children. So an increase in income support receipt after separation among primary carers (usually mothers) is to be expected. However, there is also some suggestive evidence that fathers' labour supply and income support receipt might be affected by separation and associated child support obligations. A recent Ministerial Taskforce on Child Support pointed out that

Household Income and Labour Dynamics in Australia (HILDA) data for 2001 shows that, of the non-resident parents aged 18-64 who reported having a child support liability, 75.1 per cent were employed, 10.1 per cent were unemployed and 14.8 per cent were not in the labour force. The equivalent figures for those in the same demographic group but without a child support liability were 89.7 per cent employed, 3.5 per cent unemployed and 6.8 per cent not in the labour force (Ministerial Taskforce Report, 2005).

The report similarly notes that a high proportion of child support payers are also income support recipients.

Nearly 25 per cent of payers... are in receipt of some form of income support payments through Centrelink. The most common payment received by payers is Newstart Allowance (NSA), which 12.8 per cent of all payers receive (Ministerial Taskforce Report, 2005).

However, associations such as these do not necessarily imply that either separation generally, or child support obligations more specifically, actually cause an increase in income support receipt among non-resident parents (or a reduction in their labour supply). These patterns could arise from the different characteristics of the child support payers that exist prior to their separation.

In the next section we consider explanations for why we might (or might not) expect to find that separation has an impact on the labour supply and income support receipt of parents after separation. We then consider the methods and results of previous research.

In this report we use Australian administrative data on the income support payments administered by Centrelink to examine the income support receipt patterns of separating parents both before and after separation. These data are described in Section 5 and the fixed-effect regression framework used here described in Section 6. The basic results are shown in Sections 7 and 8 and results for different sub-sets of the population in Section 9. Section 10 concludes. Appendix A includes more information on Australian Child Support Policy.

2. The impact of separation on labour supply and income support receipt

What is the economic impact of separation? After separation, there are now two households, with additional housing costs and with a loss of scale economies in consumption and home production. These costs will be borne by one parent or spread between the two depending upon both the between-parent allocation of resources before separation and the between-household allocation of resources after separation. In particular, the allocation after separation will be heavily influenced by the tax-transfer system. If there is no re-partnering, the parent with whom the child or children mainly lives (the ‘resident parent’) will have access to additional income support and tax concessions associated with lone parenthood. The other parent will typically have child support obligations. Arrangements where care of the child(ren) is divided between the parents, can lead to a variety of tax-transfer relationships depending upon the nature of the caring relationship.

How might we expect separation to influence parental labour supply? After the parents separate:

- The average living standard of the people in the two households is likely to be lower. The additional resources provided to the household via the tax-transfer system are unlikely to compensate for the additional costs of running two households.
- Consumption levels of the former husband and wife are no longer linked via shared household production and consumption.
- The preferences of each member for the other’s consumption might change – though it is possible that these might already be quite negative immediately prior to the separation.

For both parents, the economic incentives associated with additional employment are now different. Consider first the situation after separation ignoring the effect of any income support, taxation or child support arrangements that vary with family type. In this case, the additional income from work is not shared with the other partner within the household. This will encourage labour supply. On the other hand, the loss in leisure or home production time is also not shared and must be born fully by the parent whose employment changes. This might be particularly important for the parent with caring responsibilities, who will now be unable to draw upon the time resources of the other parent for child care (or other time intensive activities). This will discourage labour supply. In addition, however, each separated parent will probably bear at least some of the additional costs associated with separation.¹ This reduction in their real income will encourage an increase in their labour supply. On balance, therefore, separation in itself could lead to either an increase or decrease in labour supply and will be more likely to lead to a decrease for the parent with caring responsibilities.

¹ If the parent were receiving a very small share of the household resources when they were partnered, then they could conceivably have a higher living standard after separation (particularly when transfers are included). This would reduce labour supply (and increase labour supply for their partner).

Taking transfers into account, after separation the parent with primary custody of the dependent children (usually the mother) will generally be eligible for lone parent income support payments (subject to income and asset tests). These income support payments are unlikely to be sufficient to fully offset the negative income effect associated with separation,² and so there may still be a labour supply disincentive. However, unless they were also receiving income support payments (or subject to the FTB(B) income test) prior to the separation, the high effective tax rates associated with benefit income testing will make additional employment less attractive. Hence, labour supply for the resident parent might change in either direction.

In the Australian environment, the probability of income support receipt is almost certain to increase after separation even if the mother's employment remains the same. Many mothers who were employed part-time will not receive income support when partnered because of their partner's income. After separation, however, their part-time employment income will not be high enough to prevent receipt of some income support.

For the parent without custody of a child (usually the father), the impact of child support obligations will vary depending upon their attitudes towards the recipient parent and child. If the non-resident parent no longer cares about the living standard of their partner after separation, then they will count this transfer much the same as an additional income tax. This will have an income effect encouraging labour supply and a substitution effect tending to discourage labour supply.³ Both these effects will be larger the greater are the child support obligations.

Because most payers of child support are likely to consider these payments as being similar to a tax, the results in this report are also relevant to questions about whether taxation of labour income is likely to reduce labour supply and (in particular) lead to an increase in income support receipt.

For the most part, we would expect changes in income support receipt among separating fathers to mirror the patterns of labour supply. Among men who remain out of the labour force or unemployed both prior to and after separation, a small fraction might be excluded from income support pre-separation because of the wife's income. In the analysis below, we exclude cases where the father is the primary carer⁴ of the children and also cases where the wife has a high income pre-separation in order to minimise the prevalence of such cases.

In summary, for resident parents, lower living standards will encourage increased labour supply, but greater child care obligations and higher marginal tax rates associated with

² This might not be the case if the father received only a small share of household resources prior to separation.

³ This will also depend on whether they care about the consumption level of their child and their views on how much of this additional income reaches the child rather than the former partner. If they place a positive value on the consumption of their former spouse and children, then the child support income test will also act as a tax on their labour supply (since some of their child support is being diverted away from consumption that they value).

⁴ More specifically, where they are the FTB customer.

benefit withdrawal might discourage it. Even if labour supply does not change, however, they will be more likely to receive income support payments after separation.

For the non-resident parent (generally described below as the father), it is less clear whether separation will increase or decrease the incentives to be employed or to claim income support.

One way to represent these labour supply incentives is via the *replacement rate*, the net income received when not employed, relative to the net income when employed. Household income when the father is partnered will be a function of the employment income of the father, e^f , the employment income of the mother, e^m , and household demographic characteristics, c (eg more children will mean higher family payments). We can summarise this household income as $Y^p(e^f, e^m, c)$. The father's living standard will be based on some fraction⁵ of this income, which will vary with family size, $\alpha^p(c) \cdot Y^p(e^f, e^m, c)$. When the father has no employment income, but household characteristics are otherwise the same, his living standard is $\alpha^p(c) \cdot Y^p(0, e^m, c)$. The ratio between these two quantities is the replacement rate when partnered, $R^p = Y^p(0, e^m, c) / Y^p(e^f, e^m, c)$.

The higher the replacement rate, the more the relative attractiveness of non-employment – hence this measure is often used as indicator of likely labour supply responses. However, this is only a summary measure of the overall budget constraint facing the father. In particular, for a given replacement rate, an absolute low living standard when not employed (ie low $\alpha^p(c) \cdot Y^p(0, e^m, c)$) might be expected to have an income effect which would encourage employment.

After separation, the father has a household income of $Y^s(e^f, e^m, c)$ where e^m is the income of the mother in the other household (because this will affect child support obligations). For simplicity, we assume he lives alone. His replacement rate in this situation can similarly be defined as $R^s = Y^s(0, e^m, c) / Y^s(e^f, e^m, c)$ and his living standard when not employed as $Y^s(0, e^m, c)$ (ie normalising the equivalence scale $\alpha^s(c)$ at unity for the single person household). We can also define a relative replacement rate as $RR = R^s / R^p$. When this is greater than one, the non-employment incentives are higher when single than when partnered.

Table 1 calculates these replacement rates for several hypothetical families with different levels of earned income, with one or three children, and for scenarios with and without child support obligations.

Including child support obligations in the calculation increases the replacement rate after separation (column f), particularly for large families. For example, for men with average earnings, the single person replacement rate goes from 36 per cent without child support to 50 per cent with child support. The operation of the child support scheme thus increases the incentives for separated fathers to not seek or maintain their employment.

⁵ For simplicity, we assume this does not vary with income level. This is a common equivalence scale assumption. In principle though, this could vary along with variations in both the household income level and the income relativity between husband and wife. If this were the case, then the replacement rate would also be a function of this income share function.

However, this is outweighed by the fact that the replacement rates are always higher for men in intact families. In all cases, the replacement rate is higher when the father is partnered than when he is single (and hence the relative replacement rate is less than 100). This remains the case even when we include our estimate of likely child support obligations. This pattern arises because partnered families with children receive a much higher level of income support than singles when they have no employment income, but only a smaller amount of additional income support when they have an earner in the household.

Note also that this relative replacement rate decreases as the father's earnings increase (and also as the number of children decreases). This is driven by the withdrawal of family payments when the father is employed in the partner household. Increasing child support obligations offset these effects, but only partially.

Table 1 Relative replacement rates for partnered and separated fathers, 2002

% of av. wage	Partnered			Single			Relative Replacement rate (%) = f/c
	Annual net income when		Replacement rate c = a/b	Annual net income when		Replacement rate (%) f = d/e	
	Unemp a	Employed b		Unemp d	Employed e		
With 1 child							
Excluding Child Support							
66	24,145	32,889	73	11,950	23,549	51	69
100	24,145	38,598	63	11,950	33,377	36	57
166	24,145	53,945	45	11,950	50,047	24	53
Including Child Support							
66	24,145	32,889	73	11,690	20,450	57	78
100	24,145	38,598	63	11,690	27,671	42	68
166	24,145	53,945	45	11,690	39,128	30	67
With 3 children							
Excluding Child Support							
66	30,752	39,495	78	11,950	23,549	51	65
100	30,752	43,655	70	11,950	33,377	36	51
166	30,752	56,070	55	11,950	50,047	24	44
Including Child Support							
66	30,752	39,495	78	11,690	18,039	65	83
100	30,752	43,655	70	11,690	23,233	50	71
166	30,752	56,070	55	11,690	30,636	38	70

Notes: The calculations are based on the following assumptions. There is one child aged under age 5, the mother has no earned or other market income, the father's income is earnings at the specified percentage of the average wage rate when working (zero when unemployed), the average wage is \$43,441 per annum, income support payments and child support rules as at 2002, the mother is the resident carer after separation and there are no shared care arrangements. Calculations are based on OECD (2002) plus authors' calculations of child support obligations.

This consideration of replacement rates suggests that the incentives to maintain or search for employment will actually be greater after separation. This relative employment incentive will be greater for high wage fathers and also slightly greater in smaller families. Though the operation of the child support system acts in the opposite direction, it does not outweigh this pattern. As noted above, however, the replacement rate is only one aspect of the budget constraint facing households. Among other features, the *level* of income when not employed might have an impact upon labour supply. To compare this between partnered and single situations, however, requires knowledge of $\alpha^p(c)$ – the effective fraction of household income received by the father. This encompasses both issues typically considered in the consumer equivalence scale literature, but also the father's valuation of the consumption of other family members – about which we have little information.

Finally, the discussion in this section has only considered the economic impact of separation. Even though our focus here is on economic outcomes, it is possible that the couple could also be influenced by other psycho-social factors associated with separation – such as the emotional trauma associated with marital breakdown itself. In general, we expect any such factors to increase the likelihood of income support receipt after separation, though we might also expect them to be attenuated over time.

3. Empirical identification strategies

Though the replacement rate calculations above provide suggestive evidence that there will be few incentives to reduce employment after separation, our lack of information about intra-household income distribution means that we cannot be confident of this. Similarly, we cannot predict a priori how these changes would vary between different sub-groups facing different child support obligations or different financial needs (eg those with few or many children).

As noted in the introduction, there is evidence that separation and child support obligations are associated with reduced labour supply. However, it is quite possible that this association is driven by other ‘confounding variables’ that influence both. In particular, it is well established that prior socio-economic disadvantage increases the risk of separation and is also associated with lower probabilities of current employment. Bradbury and Norris (2005) show that among families with children, those receiving income support payments are more than twice as likely to separate over a twelve month period as those not receiving income support. Hence, higher rates of non-employment and income support receipt are to be expected among the population of parents who have separated.

Selection effects such as this can be partly removed by controlling for observed characteristics (prior income support in this case). However, it is usually impossible to control for all the facets of social background that are likely to influence both separation and employment outcomes.

Some of these unobserved background characteristics can be managed with the use of longitudinal data. Those characteristics which are fixed over time can be statistically controlled by examining the relationship between separation and the *change* in income support after separation. That is, we look at whether the likelihood of income support receipt after separation is higher or lower than before. If the influence of fixed factors such as social background is constant in the two periods, then this disappears when we examine difference in outcomes.⁶

However, there still remain some potential confounding influences that cannot be addressed in this way. This approach cannot control for unobserved characteristics that change over time and that influence both separation and employment. For example, if one of the parents became clinically depressed this might increase marital stress and lead to separation. At the same time, it might also cause problems in their workplace and lead to unemployment. Though we would observe an association between separation and reduced employment, it would be incorrect in this case to assume that the former caused the latter (or even the reverse).

This type of change can lead to biases in either direction depending on the timing of the events. Again using depression as an example; one scenario is that an unobserved shock such

⁶ In this example, we also need to assume that the confounding ‘fixed effect’ is additive (so that it disappears when differenced).

as a depression event leads to separation and then later leads to reduced employment and more income support receipt. The longitudinal difference estimator will then suggest that separation led to a reduction in employment. Another scenario is that a temporary depression event produces simultaneous stresses at home and work. The person might lose their job prior to separation occurring. After separation, the person might return to a more stable mental state, and regain employment. In this case, comparing employment immediately prior to separation with employment rates some time afterwards would suggest that separation caused an increase in employment.

Some of these changes in unobserved characteristics can be addressed by observing longer spells of data both before and after the separation. This extra data allows the researcher to test if the change is a short-term event and to take account of these short term fluctuations. In this case, since the economic impact of separation is hypothesised to last for a substantial period after separation (eg as long as child support is payable), it is possible to compare longer term outcomes with long-term outcomes prior to separation. This approach can then be used to control for any transient changes in unobserved characteristics that happen around the time of separation.

4. Previous research

Evidence of the impact of separation on labour market engagement can be found in the international literature.⁷ Kalmijn (2005), in a longitudinal study using Dutch data, finds that divorced men are more likely to experience periods of unemployment and job insecurity. The author argues that separation might affect labour market outcomes via the negative psychological and physical effects associated with the separation. Kalmijn's (2005) findings are echoed in a Canadian study by Mueller (2005) who reported a decrease in men's hours of labour supply by an average of 10 per cent following separation.

For women, the findings are more varied. In the UK, Jarvis and Jenkins (1999) find that women are more likely than men to stop working after separation. Van Damme et al (2006) in their cross-national study consider this result an outlier, with marginal increases in women's labour supply being a more common outcome in other countries. Mueller's Canadian study finds no significant change in women's labour supply. US research suggests that greater child support payments tend to reduce welfare receipt and increase the labour supply of the resident parent (Hu, 1999, Huang et al., 2004).

In Australia, recent research on this issue has drawn upon longitudinal data; using the Household Income and Labour Dynamics in Australia (HILDA) study and longitudinal administrative data. Redmond (2008) uses data from waves one to five of HILDA and examines employment changes where a separation has occurred between pairs of waves (approximately one year apart). He finds little change in employment patterns between the waves. If anything, there is some evidence of slight increases in labour supply by both resident and non-resident parents. This echoes earlier work by Harding and Kelly (2005), based on the first three waves of HILDA, which found negligible changes in men's labour force status after separation.

However, the number of separations included in the HILDA survey is relatively small.⁸ Across the first 5 waves, Redmond identifies only around 160 men and 190 women who are in the survey both before and after their separation (and who had joint biological children). This means that small changes in outcomes cannot be identified. In addition, there are high rates of attrition among separated parents (particularly the non-resident parents) and it is plausible that those who do not remain in the study might have different labour supply changes than those remaining.

Administrative data can potentially address both these issues. Silvey and Birrell (2004) use Child Support Agency (CSA) data on child support payers who registered in 1997. They compare the income levels of the non-resident payers around the time of separation with their incomes up to 2001. They conclude that there is no evidence of a tendency for payers to move into lower income categories.

⁷ This section draws upon the survey in Redmond (2008).

⁸ Though the sample size will increase with every future wave.

These findings do not confirm the suppositions of those who believe significant numbers of CSA registrants seek to evade their obligations by reducing their engagement in the labour market after separation. Indeed this evidence supports other research suggesting that poverty or ongoing financial pressures are driving separation (abstract).

However, the simple before and after comparison summarised in this statement does not control for the income growth that might otherwise have occurred. Among the general population of men with dependent children, we would expect to see significant nominal income growth across four years because of inflation, real income growth and the ageing of the sample. Indeed, Silvey and Birrell compare their data with Census trends over the same period and conclude that the incomes of the non-resident fathers increased by less than the average for their age group. If account were also taken of the ageing of the sample, this gap would be expected to be greater. These results suggest that separation might indeed exert a modest downward influence on non-resident parent incomes.

More generally, all of these previous Australian studies have been limited by the extent to which they have been able to place the income trends associated with separation in the broader context of individual's income or employment histories. The CSA data of Silvey and Birrell (2004) only starts at around the time of separation and continues for several years thereafter. The analysis based on HILDA data is even more restrictive, typically comparing only two income points around 12 months apart.

If incomes at the time of separation are atypically low (eg if unemployment increases the probability of separation) then we would expect to see an increase in income after separation even in the absence of any economic incentives. An observation of no change in income before and after separation could thus be consistent with a decrease in longer term average incomes after separation.

5. The Centrelink Data

The data used in this report were extracted from the administrative records of Centrelink, the Australian government agency responsible for delivery of most income support payments. All data were anonymised and the analyses undertaken under secure conditions.

The initial source data comprised couples who were receiving Family Tax Benefit (FTB) on 15 June 2001. From this population, the full population of people who separated from their partner over the ensuing 5½ years was selected, together with a 10 per cent sample of the remaining couples.⁹ Information on income support receipt for the person and their June 2001 (opposite sex¹⁰) partner was extracted for every two-week period between January 1995 and November 2006. Information on FTB receipt was also extracted from June 2001 onwards.

FTB (part A) is paid via Centrelink to families that include around 74 per cent of the Australian children aged under 10 who are living in couple families.¹¹ The exceptions are:

- Families with incomes over \$73,000 plus \$3,000 for each FTB child after the first (in 2001).
- A small fraction¹² that elects to receive their FTB payments annually through the tax system. Most of these customers have a relatively high income.
- Eligible customers who do not seek to claim their FTB payments.

The population of couples receiving FTB payments is thus representative of low and middle income couples with children, but not of the one-quarter of families with the highest living standards. (We do include some high-income families where there is only one high income earner, and hence the primary child carer is able to receive FTB part B).

⁹ The weighted number of observations for the initial sample used in this study – of couples receiving FTB part A and/or part B, closely accord with the numbers shown in FaHCSIA's report: *A statistical overview 2001*.

¹⁰ For the time period studied in this paper- between January 1995 and November 2006, customers in same-sex de-facto relationships were not recognised as partnered for Centrelink purposes.

¹¹ This estimate is based on the population of children aged under 10 years and residing in coupled households in June 2001. Our initial (weighted) sample includes 1,576,135 children aged under 10. The ABS Estimated Resident Population estimate of the population of children aged under 10 is 2,585,761 for June quarter 2001 (ABS, Australian Demographic Statistics, cat no.3103.0). The 2001 Census estimates that 82 per cent of children under 10 live in couple households (ABS, 2001 Census of Population and Housing). We apply this ratio to the ERP estimate to obtain a coverage rate of 74 per cent (for children in couple families). The coverage rate for *all* children under 10 will be higher than this because almost all children in lone parent families receive FTB. On the other hand, the coverage rate for older children will be lower (because parental incomes are higher) and the coverage rate for families will be less than the coverage rate for children because larger families have a higher income threshold.

¹² We do not have data on this for the 2001 period. However, FaHCSIA advise that in 2009 this was about 10 per cent of FTB recipients.

It is important to bear this sample selection in mind when considering the rates of income support shown in the remainder of this report. Rates of income support for the whole population will be much lower than those shown for our population of FTB recipients.

The linking of records across time relies on the identity management procedures of Centrelink. Identity management is a central function of the income support payment system as it is required to ensure that people do not receive multiple payments and to ensure that the income and asset tests associated with most payments can be accurately managed (and enforced by comparison with other data). Hence we are confident that the data here does contain accurate information on patterns of payment receipt over time. The Centrelink data, however, does not contain any information for periods where people are not receiving payment. Our analysis is designed around this limitation, but it does imply some caveats on the results. These are discussed below.

5.1 Base population

The starting point for our analysis is a base population of couples with young children where the mother is the primary child carer. More precisely, couples are included where:

- a partnered¹³ (legal or defacto) mother was receiving FTB on 15 June 2001 in respect of one or more children,
- the father did not receive FTB or Parenting Payment at any time during our observation window,
- the youngest FTB-eligible child was aged under 10 on 15 June 2001,
- the mother was aged under 55 and the father under 60 on 15 June 2001 and
- the mother was not receiving any child maintenance income.
- neither the mother nor the father are recorded as dying before end 2006.

These exclusions are made to ensure a more homogeneous population. FTB is paid to a child's nominated primary carer – the mother in almost all couple families. Male primary carers have characteristics that are very different to mothers and so are not considered here. Similarly, in this report we do not consider families where there appear to be joint caring arrangements after separation.

The exclusion of families without children under 10 is to ensure that increasing child age will not render any of the mothers ineligible for Parenting Payment over the whole of our observation window. Until July 2007 (for existing recipients) Parenting Payment was available to primary carers with at least one child aged under 16, subject to income and asset tests. To have some mothers becoming ineligible for income support because of their increasing child age would unduly complicate our discussion of the patterns of income

¹³ 'Partnered' represents those who reported to Centrelink that they were either legally married or living in de-facto marriage-like relationships.

support receipt after separation.¹⁴ Similarly, the cut-off based on parental age ensures that analysis is not complicated by either of the parents becoming eligible for Age Pension.

The exclusion based on maintenance income receipt excludes many of the families where the child is from a previous relationship. In these families, the current partner is not the father of the relevant child and will not have child support obligations for that child if they separate (though they might for other children). We don't have direct information on the biological or guardianship relationship between the FTB recipient and her partner.

Finally, we exclude couples where either parent dies. This is done for two reasons. First, in calculating income support receipt rates, it is most meaningful to have the current (living) population as the denominator. More importantly, mortality can bias the observed association between separation and income support receipt for fathers. The definition of separation that we use (see below) cannot distinguish marital separation from widowhood. Thus families where the father dies will all be recorded as a separation followed by no income support receipt.

Unfortunately we cannot exclude all families where the father dies. Date of death is attached to the personal payment records, but we do not have any payment records for fathers who have never received income support payments between 1995 and 2006. If we desire to examine the association between income support receipt and separation for the sub-population of people who do not die, then the inclusion of these men will introduce a small attenuation of any estimate of the change in income support receipt between pre and post-separation (since these extra cases have no income support receipt in both periods).

Starting from the population of all couples with FTB eligible children, the restriction to those with children under 10 excludes 27.2 per cent of the population, the exclusion of older parents a further 0.7 per cent of those remaining, the exclusion of those receiving child maintenance a further 5.8 per cent, the exclusion of father FTB recipients at 15 Jun 2001 a further 3.8 per cent, the exclusion of partners who died at any time during our analysis window a further 0.4 per cent, the exclusion of customers who died at any time during our analysis window a further 0.3 per cent and the exclusion of father FTB or parenting payment recipients at any time between January 1995 and December 2006 a further 6.3 per cent. The remaining base population sample then comprises 172,598 couples, representing a weighted population of 768,245 couples.

5.2 Separation

We define a *separation date* as the first fortnight where the customer is recorded as not living with the partner that she had on 15 June 2001, subject to two provisos.

- This separation occurs prior to 10 December 2004.

¹⁴ This restriction is less relevant for fathers, but for simplicity of presentation we use the same population for both. This restriction also has the effect of removing a potential selection bias among families with youngest child aged 16 or older in 2001. Because of the intersection with Youth Allowance entitlement, the population of mothers receiving FTB for children over 16 will tend to exclude lower income families.

- The customer does not re-partner with the same person within 2 years of their separation date.

Couples that separate between 15 June 2001 and 10 December 2004 (our *separation window*) and do not re-partner with each other within the following 2 years are described as *separators*. Couples that do not separate, or who separate after 10 December 2004 are described as *non-separators* (we ignore any separations after the first separation, or after 2004).

As noted above, we exclude cases where we know that the separation is due to the death of the father (ie widowhood). However, the data does include some widowhood separations where the father never received any income support payments. In these cases, the father will be recorded as receiving no income support both before and after separation.

The restriction of the separating population to those who separate prior to December 2004 is made in order to ensure that we have a post-separation observation window of at least 2 years for every couple separating.

A substantial number of couples that separate, re-partner with each other within two years (around 30%). These couples are excluded from the analysis.¹⁵ Many of these re-partner within a few weeks – though there also substantial numbers re-partnering after more than a year.¹⁶

Separation is often not a straight-forward event, particularly for defacto relationships. The administrative definition of a defacto marriage is that a person is in a marriage-like relationship with a person of the opposite sex.¹⁷ The Social Security Act includes a list of criteria to be considered to establish when this is the case. A couple are recognized as separated when the “couple are living separately and apart on a permanent or indefinite basis” (FaHCSIA, 2007).

For most (but not all) of the sample, there will be financial incentives to report separation as soon as possible and so the recorded separation date is likely to be close to the Centrelink concept of separation. If the mother will have a post-separation income that places her in the region where the higher rate of FTB(A) phases in (eg below \$41,899 with 2 young children in 2001) then she will receive more income support if she reports herself as being separated rather than partnered.

We speculate that the large number of re-partnerings with the previous partner observed in the data reflect relationships that are unstable in either an emotional or practical sense.

¹⁵ A case could be made that couples separating after 2004 should also be excluded from the non-separator population. However, this would make little difference to our analysis as most of the key results are derived from the separating sample. (The non-separating sample mainly helps to identify the impact of historical time on the outcomes).

¹⁶ We ignore any re-partnering after more than two years as we do not have this information for couples who separate late in the separation window and do not wish to treat people separating at different dates differently.

¹⁷ From mid-2009 (after our analysis period), same-sex partnerships are also included.

Volatile relationships or relationships that are emotionally stable but involve the partner being frequently absent for work or recreational purposes might only be reported to Centrelink during those periods where the person is clearly residing in the mother's household.

Some of the separations recorded in our data will be due to incarceration of the father (we are not able to identify these). Since the father cannot receive income support payments while in gaol, these cases will decrease the average income support receipt rate after separation. However, the exclusion of re-partnering couples from our analysis will remove many of these cases from our analysis.

Among our sample of separators, we also distinguish households according to whether the mother ever earned an income above \$900 for any of the fortnights during the two years before the separation date. These are households where it is likely that the husband would be excluded from income support prior to separation because of the family income test, even if he was otherwise eligible (eg unemployed). These families with high income wives are excluded from most of the analyses of fathers' income support receipt shown below.

The sample size and weighted population for the separating and non-separating sub-samples are shown in Table 2. These two groups (excluding the separators who re-partner) form the analysis population. For the separators, the weighted population is equal to the unweighted sample (we have a 100% sample). For most of the non-separators we have a 10 per cent sample and hence a weight of 10. However, the non-separating sample also includes some people who separated after December 2004 (who have a weight of 1). We use weights in the descriptive tables but not in the regression analysis.

Table 2 Sample size (couples)

	Sample size	Weighted population
Base population	172,598	768,245
less separators who re-partner with original partner	23,717	23,717
= Analysis population	148,881	744,528
<hr/>		
Analysis population		
Non-separators (a)	94,593	690,240
Separators	54,288	54,288
Separator households where the mother earns a high income (b)	13,670	13,670
Separators excluding high-income-mother households (c)	40,116	40,116
Analysis population excluding high-income-mother households = (a)+(c)	134,709	730,356

5.3 Longitudinal data structure and time relative to separation

The longitudinal data and observation windows are summarised in Figure 1. The central bar shows the observation window for our data on income support receipt. For the customer and their partner as at 15 June 2001, we have information on any income support payments received for every fortnight between January 1995 and December 2006. (We also have

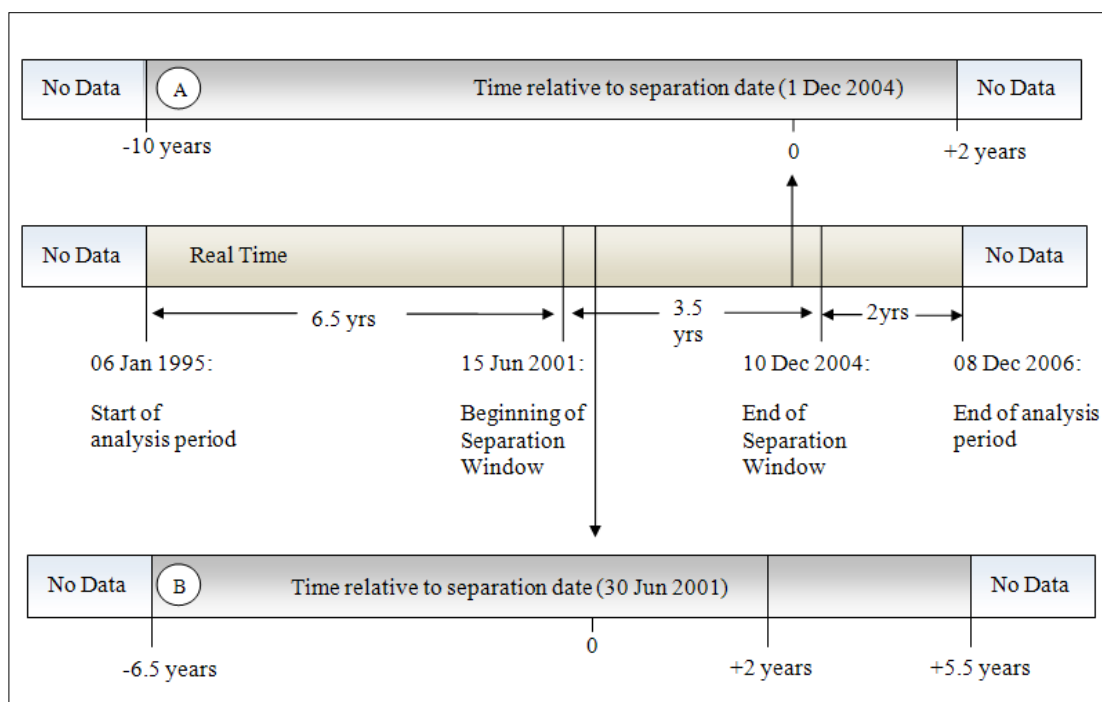
information on non-income support payments, such as FTB, received from June 2001 onwards).

The data used for analysis consists of records for each person/fortnight combination, containing both information which varies with time (such as date) and information which is fixed for each individual (such as gender).

The separation window covers the 3½ years between June 2001 and December 2004. For the separating population, their separation date is the first date in which they are not living with their June 2001 partner. For these people, *time relative to separation date* is defined as the date of each record minus the separation date. We define a set of binary (dummy) variables breaking this continuous variable into a number of discrete categories. These represent either individual fortnights (close to separation) or 6 fortnight spells further away from separation. There are 78 of these unevenly spaced dummy variables. We also use a summary set of dummy variables where time relative to separation is grouped into 7 categories. These are used to test for interactions with the fixed characteristics.

The figure illustrates the case of two separating couples. Couple A separates at the start of the separation window (30 June 2001), and B near the end (1 Dec 2004). For the first couple, we have data going back 6½ years prior to separation and forward 5½ years after separation. For couple B, we have data going back 10 years and forward for 2 years.

Figure 1 Longitudinal data structure



On average, we might expect the characteristics of couples A and B to be different. Couple B must have been partnered for at least 3½ years, while couple A might have only been partnered for one fortnight. Couples of type B will thus tend to be older and be in more stable relationships.

If we look at observations with time after separation of greater than two years, couples of type B will not be included. The further forward we go, the more the sample will be comprised of couples with shorter partnership durations. Similarly, if we look at observations with time before separation of greater than 6½ years, then they will include no short-duration partnerships. Because of these selection effects, in the analysis below less weight should be placed on the patterns of income support more than 6½ years before or 2 years after separation.

5.4 Income support receipt

Our dependent variables are whether or not the person (either the customer or her partner) is receiving one of several types of income support payment in a particular fortnight. Income support payments are those payments provided by Centrelink which are designed to provide primary income support to recipients. The main categories in our data are unemployment-related payments, parenting payments (both single and partnered), and disability payments (the names of the programs changed several times over the period). Income support payments do not include supplementary payments such as FTB and some payments made to parents with disabled children.

For both the FTB recipient and her partner as of 15 June 2001 we have information on all episodes of income support receipt between January 1995 and December 2006. For calculation purposes, we calculate dummy records for the fortnights where the person does not have any income support, with income support defined as non-receipt in these fortnights.¹⁸ Note that, for the early years of our sample, some people will not be receiving income support because they are below the younger age threshold for benefits or because they were still living with their parents.

5.5 Fixed characteristics

We define the following variables describing characteristics of the couple as of June 2001. These variables are chosen both to provide general descriptive information about the sample and also to allow for comparisons of outcomes between couples with different family characteristics and likely child support obligations. As defined here, these variables do not vary over time, and so are not included directly in the fixed effect regression, but are included in some estimates in interaction with the 7 time-varying dummy variables which flag time since separation.

Age: The ages of the women and men at 15 June 2001 are categorised into approximate quartiles.¹⁹

Number of Children: The number of children eligible for FTB Part A or FTB Part B.

¹⁸ After June 2001, we also have information on non-income support payments received (such as FTB). However, we do not use this information here.

¹⁹ Although age varies over time, we do not include age as a time-varying variable because its change across time is constant and therefore collinear with the real time variables.

De facto: Equal to one if the couple was in a defacto relationship, zero if legally married. This variable describes their status as at 29 June 2001 (the variable was only included in the Centrelink database from that date onwards). The variable is missing for around 1.5 per cent of the sample (they had separated in the first fortnight of our observation window). These cases are coded together with those legally married.

Socio-Economic Indexes for Areas (SEIFA) Advantage/Disadvantage Score: This score is based on the couple's postcode of residence at 15 June 2001. It is categorised into quintile groups, where the lowest quintile group represents couples who were residing in the most disadvantaged areas in Australia. The quintile calculations are done for the whole sample of couples receiving FTB on 15 June 2001, and so our sample does not have precisely 20 per cent of couples in each quintile group.

Overseas-born: Equal to one if the mother is born in a country other than Australia and zero if she is born in Australia. We do not examine the country of birth of the father because this is not reported for much of the sample (missing for 41% of the total analysis population).

6. Estimation method

We estimate the following linear probability model

$$y_{it} = \beta X_{it} + \delta_i + \epsilon_{it}$$

Where $y_{it} = 1$ if person i is receiving income support in fortnight t , zero otherwise, X_{it} are time-varying explanatory variables, δ_i are fixed over time individual characteristics (not necessarily observed) and ϵ_{it} is a random error term of mean zero. Estimation is undertaken separately for the women and men. The constant term is encompassed within the individual fixed effects.

The time-varying variables include measures of historical time (monthly dummies and a fifth-order polynomial of days after 15 June 2001)²⁰ and the set of dummy variables describing the number of days after separation. The dummy for 11 fortnights prior to separation is omitted. The separation dummies are all set to zero for people who do not separate. Some of our analyses also include the fixed characteristics described above in interaction with an abbreviated set of separation dummies. These represent the following 7 periods from separation: up to 1 year before (the omitted category), 1-3 years before, 3-6.5 years before, 6.5-10 years before, up to 1 year after, 1-2 years after and 2-6 years after.

Estimation is undertaken using SAS proc glm. This procedure converts the observed variables into mean deviations for each person and then uses ordinary least squares to estimate β . This approach means that we do not obtain direct estimates of δ_i .

The linear probability/OLS model is not ideal for the data here, but it is easy to estimate and for large samples its limitations are not important. Though the OLS model does not assume normally distributed errors, it does assume that the ϵ_{it} terms are independent and of constant variance. The dependent variable here is binary, which implies heteroscedasticity (unequal variances) of the error term. This does not bias the estimates, but is inefficient and will lead to underestimation of the coefficient standard errors (Wooldridge, 2002). Moreover, even though we include person-specific fixed effects in the model, it is likely that the error terms will be serially correlated. That is, for a given person, if we observe them to be receiving income support at time t we would expect the probability of them receiving income support to be higher at other times which are close to t than at times that are distant from t . Again, serial correlation does not bias estimates of the OLS model, but does bias the estimation of coefficient standard errors (Deaton, 1997). We do not estimate a dynamic model because of the issues of bias that arise from including a lagged form of the dependent variable (Deaton, 1997).

However, for the very large sample used in the analysis here, the variance of the parameter estimates is not an issue. Of more interest is whether the differences observed in the coefficients are of substantive importance. For both this reason and because of the biases

²⁰ The historical time dummies also encompass the fact that the sample is aging over time.

described in the previous paragraph we do not report any estimates of coefficient standard errors.

7. Characteristics in 2001

The characteristics of the separating and non-separating samples in June 2001 are shown in Table 3.

The differences between separators and non-separators reflect results found previously (eg Bradbury and Norris, 2005). Those separating tend to be younger than non-separators, with over half of the separating women aged under 35. Note that both samples only include those with children under 10, and so the population is younger than the overall population of FTB recipients. Most families have one or two children, though 25 to 30 per cent have three or more.

A small fraction of the sample was receiving only FTB part B. These are high-income families where the combined income of the parents was above the FTB threshold, but where the mother's income was low. Just over half of the non-separators and 42 per cent of the separators were receiving only the base rate of FTB(A) – ie were 'middle income families'. In both samples, a bit more than a quarter were receiving the higher rate of FTB(A) with the mother not receiving any income support payments (eg low-wage employed families). Receipt of income support payment, is however, substantially more likely among the separating couples (29 vs 16%).

Similarly, defacto relationships are much more likely among separators, where almost 30 per cent were not legally married prior to separation. Around a quarter of women were not born in Australia (the proportion is slightly lower for the separators than the non-separators).

Table 3 Characteristics in 2001 of the analysis population

Fixed characteristics as at 2001	Non-Separators	Separators
<i>Age of the customer</i>		
Age<30	11.3	25.5
30≤Age<35	26.3	26.8
35≤Age<40	31.7	25.3
Age≥40	30.7	22.4
<i>Age of the partner</i>		
Age<30	24.7	39.8
30≤Age<35	29.0	25.3
35≤Age<40	27.3	20.1
Age ≥ 40	19.1	14.8
<i>Number of FTB-eligible children</i>		
1 FTB-Eligible child	24.9	34.1
2 FTB-Eligible children	44.6	40.2
3 FTB-Eligible children	22.1	18.4
4 or more FTB-Eligible children	8.3	7.4
<i>Level of FTB Part A</i>		
FTBA base rate	53.7	42.4
FTBA more than base rate	27.2	27.2
FTBA more than base rate and IS	16.4	29.0
FTB(B) only	2.6	1.3
<i>Country of birth</i>		
Customer is overseas born	25.3	22.9
<i>Marital status</i>		
Defacto relationship	11.3	29.6
Married	88.7	70.4
<i>SEIFA quintile</i>		
1st (bottom) SEIFA quintile	18.1	21.1
2nd SEIFA quintile	19.4	20.3
3rd SEIFA quintile	20.4	21.3
4th SEIFA quintile	20.6	19.7
5th (top) SEIFA quintile	21.6	17.6

Notes: See Section 5 (and Table 2) for population definition and sample size. Marital status as 29 June 2001, all other variables as at 15 June 2001. About 1.5% of cases have missing marital status. These are included as 'Married' here.

8. Income support receipt and separation

8.1 Income support receipt over time

Figure 2 shows the probability of income support receipt for the women in our sample (the FTB customers) within each of the fortnights between January 1995 and December 2006. For the non-separators, this rises to around 18 per cent in the late 1990s, before falling to 13 per cent in 2005. This trend reflects both changes in the labour market over this period (unemployment was generally falling), but also the fact that the age of the sample increases over time. In the early years, some of the women were still living with their own parents.

Figure 2 Probability of income support receipt by date, women

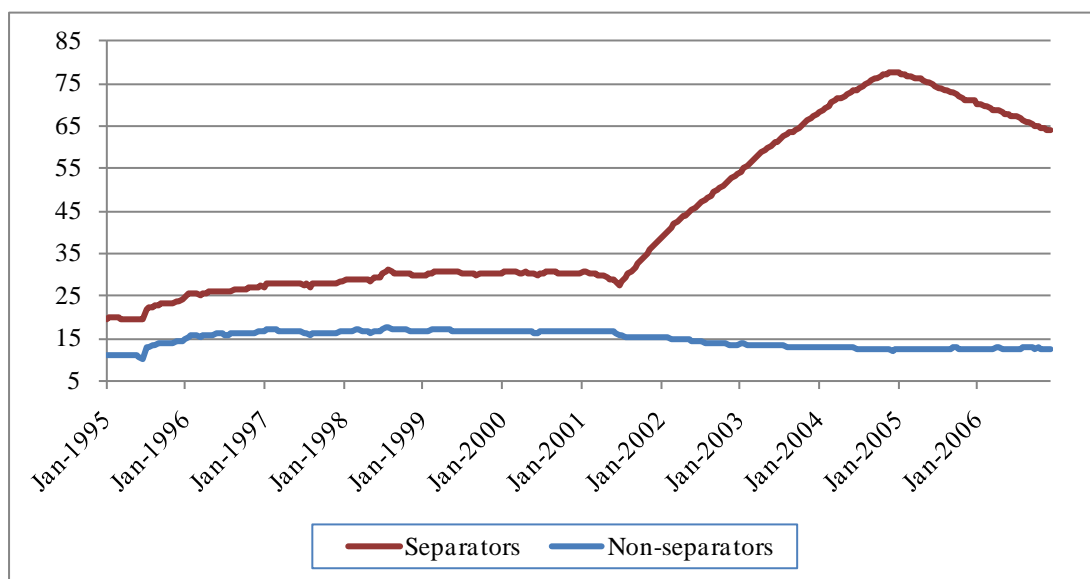
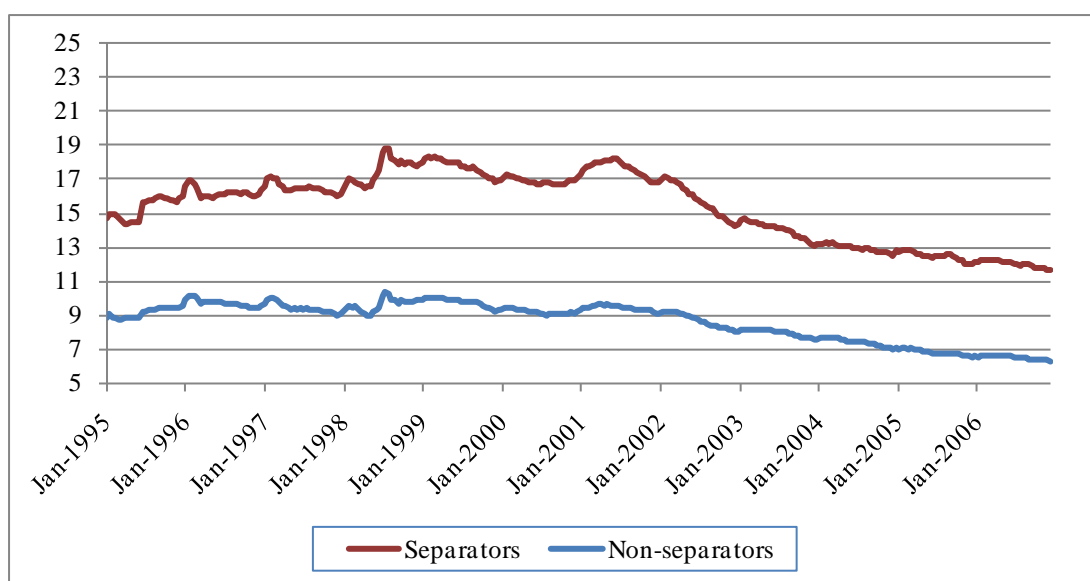


Figure 3 Probability of income support receipt by date, men



Separators are defined as those who separate between June 2001 and December 2004. For this population, the proportion on income support steadily increases as we move across this window (ie as the proportion that has separated increases). By January 2005 (when all have separated), over three quarters are receiving income support. This drops thereafter.

Recall, however, that our initial population is of low and middle-income families who receive FTB. None of the families who do not receive FTB would be receiving income support prior to separation, and they would also have a low rate of income support receipt after separation. If this group were included in the denominator, then the rate of income support receipt would be around three-quarters of that shown here.

Figure 3 shows the corresponding pattern for men. Note that the vertical scale on this figure is different to that for women. Prior to separation, men are less likely than women to be receiving income support payments. For example, women married to low-wage or low-income self employed men can sometimes receive Parenting Payment while the husband would not be eligible for Newstart Allowance because of work test restrictions.

Just as for their partners, the rate of income support receipt among the non-separators generally declines over time (particularly after 2001). After 1998, those who separate are about 10 percentage points more likely to be on income support – though the gap is smaller in the earlier years.

Interpretation of these figures is made difficult by the varying separation dates across the sample. In the remaining figures, we focus on the impact of separation, and arrange the data relative to the separation date. Figure 4 shows the probability of income support for women who separated, according to the number of years before or after separation. Immediately prior to separation, just over a quarter were receiving income support. In the months immediately after separation, this rises to almost 85 per cent. It then falls steadily thereafter, by about 5 percentage points per annum.

Because separation can take place any time between mid 2001 and end 2004, the data shown in the extremities of this figure (that is, prior to 6½ years before separation and after 2 years after separation) is based on a subset of couples that tend to have either shorter or longer durations of marriage prior to separation. Outside this window therefore, caution should be exercised in interpreting the graphs, as they might not be representative of all separating couples.

The pattern for men is shown in Figure 5. The changes are much smaller (again, note the different scale). The sharp drop in income support receipt immediately after separation partly reflects missed entitlements to payments associated with moving address. However, there also appears to be a more sustained drop of almost two percentage points (comparing one year before with 3 months after).

The representation shown in Figure 4 and Figure 5 is analogous to that found in a fixed-effect regression with separation as the only time-varying covariate (see box). This means that the figures can be interpreted as showing the effect of separation while holding all individual-level observed and unobserved fixed characteristics constant.

However, this does not control for time-varying characteristics – the most obvious of which are changing labour market conditions. For example, among the men, there appears to be slight increase in income support probability prior to separation, and a possible decrease over the next two years, but these patterns could be due to changing labour market conditions over this period.

Figure 4 Female separators: Probability of income support by time before and after separation

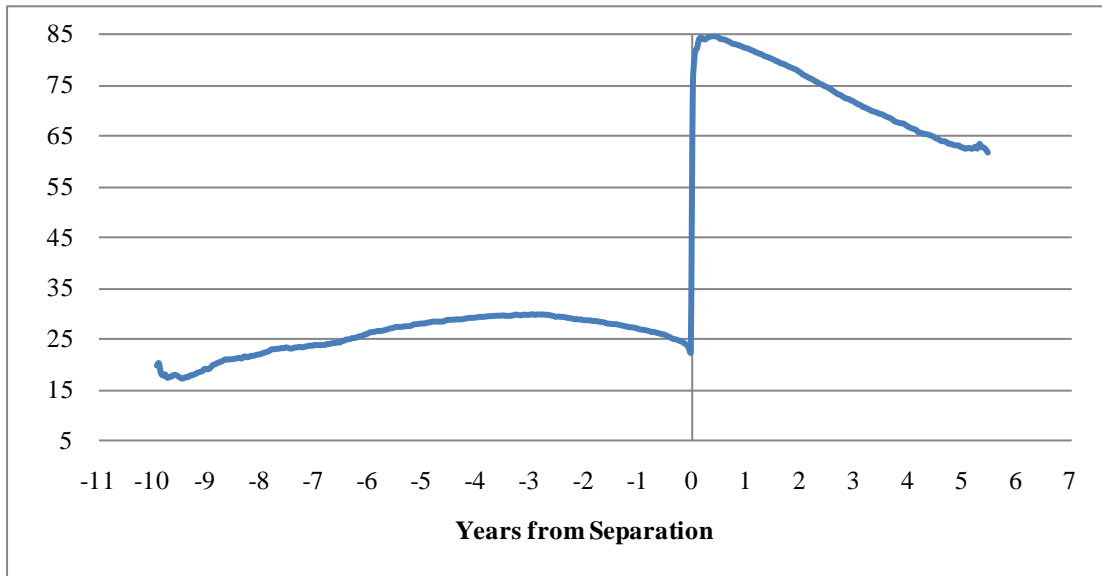
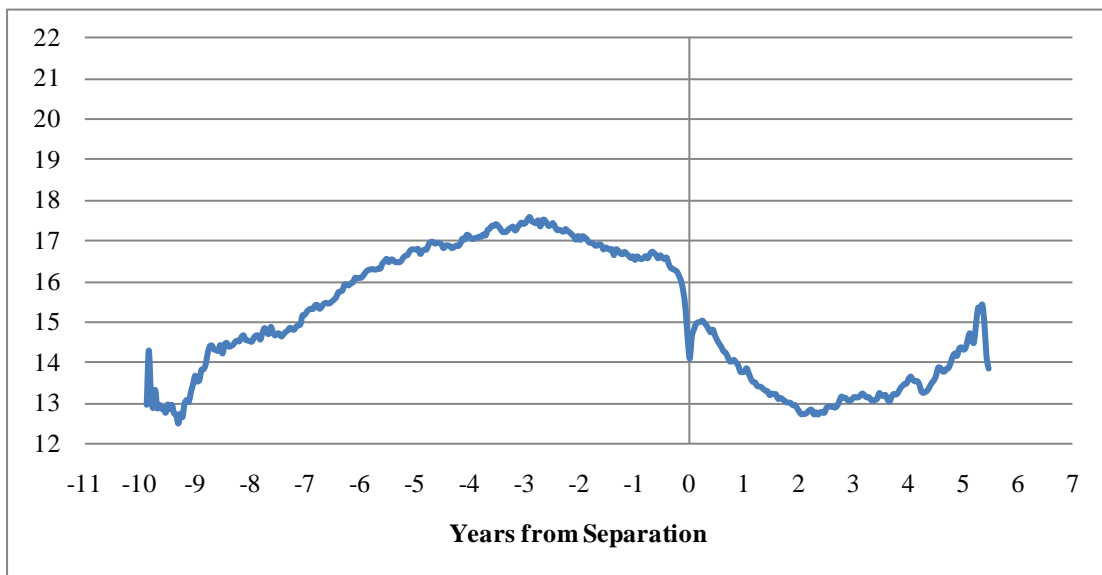


Figure 5 Male separators: Probability of income support by time before and after separation



The diagrammatic representation of single variable fixed-effect models

The representation shown in Figure 4 and Figure 5 can be interpreted as showing the estimates that would be derived from a fixed-effect regression model with only a single dichotomous time-varying covariate. Let

$$y_{it} = \alpha + \beta S_{it} + u_i + e_{it}$$

where $y_{it} = 1$ if person i was receiving income support at time t , $S_{it} = 1$ if they were separated at time t (zero otherwise in both cases), u_i is observed or unobserved fixed personal characteristics and e_{it} a random error of mean zero.

Consider a sample where everyone separates at some time, represented for person i by T_i . That is, $S_{it} = 0$ if $t < T_i$, $S_{it} = 1$ if $t \geq T_i$. Now, for person i , take the difference of equation (1) between time periods, T_i and $T_i - 1$ (the separation date and the date immediately before separation).

$$\begin{aligned} y_{iT_i} - y_{iT_i-1} &= \beta(S_{iT_i} - S_{iT_i-1}) + (e_{iT_i} - e_{iT_i-1}) \\ &= \beta(1 - 0) + (e_{iT_i} - e_{iT_i-1}) \end{aligned}$$

Taking expectations over all people and replacing with their sample estimator yields

$$\overline{y_{T_i}} - \overline{y_{T_i-1}} = \hat{\beta}$$

The effect of separation is estimated by the difference between the mean of the outcome variable before and after separation. Hence, this difference is represented in the figure by the difference between the proportion before and after separation. Similarly, this reasoning can be extended to a comparison of any two points before and after separation, and to a model where there are multiple mutually exclusive indicators of different amounts of time before and after separation.

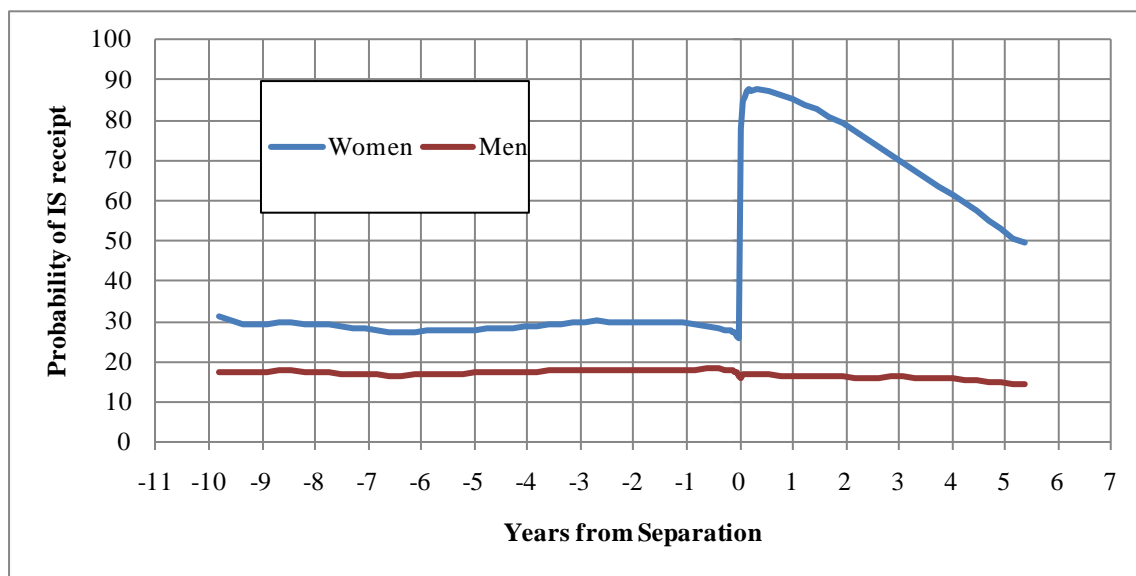
Note that these results only apply to a balanced panel where everyone separates. If, some cases are not included in the sample (eg outside the -6.5 to $+2$ window in the present example) then selection effects could bias the results.

8.2 The impact of separation

In the remaining results we control for the changing labour market environment using the fixed effect regression model described in Section 6 above. Figure 6 shows the estimated values of the time-from-separation dummy variables for women and men. These variables describe individual fortnights close to separation and 6 fortnight intervals further away from separation. The reference period is the 6 fortnight period centred on 11 fortnights prior to separation. To these estimates, we have added the average income support receipt probability as at 15 Jun 2001. The curves thus show the predicted probability of separation for a couple that separated in mid-November 2001.

Examining the curve for women in Figure 6, the pattern is broadly similar to that in Figure 4 where there is no control for historical time. However, here the likelihood of income support receipt prior to separation is flatter. The increase in income support receipt after separation is similar (about 60 percentage points), though the rate of fall in income support receipt afterwards is steeper (about 7 percentage points per annum here).

Figure 6 Probability of income support receipt before and after separation, controlling for historical time

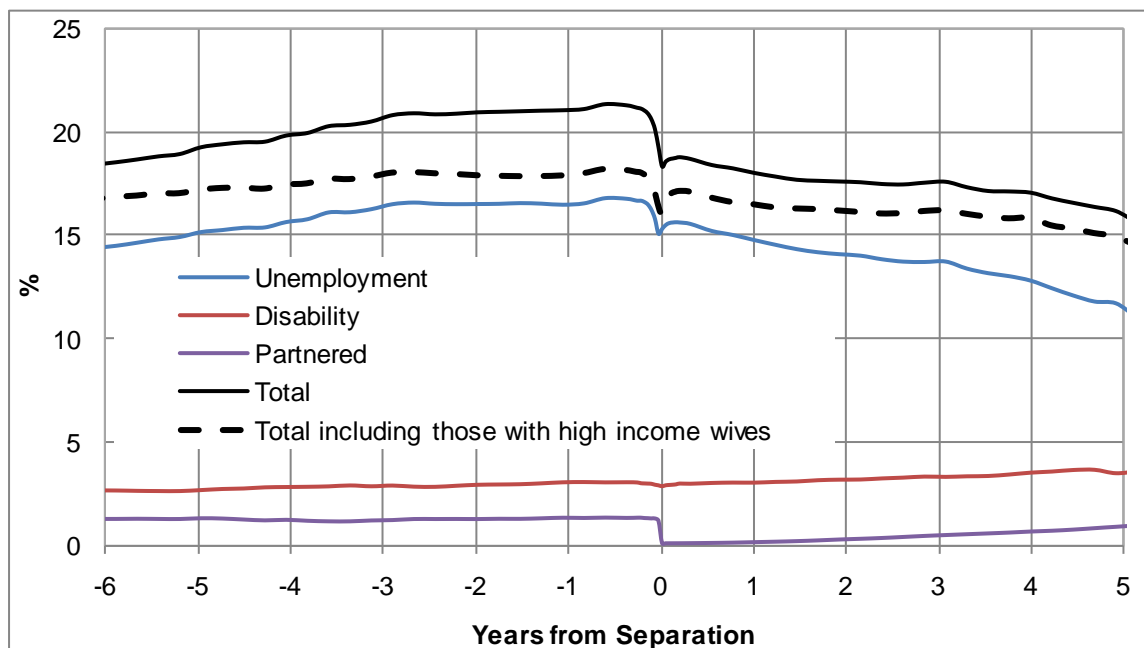


Compared to women, the changes in men's income support receipt are small, with a small decrease in income support receipt after separation.

One complicating factor is that some men who were otherwise eligible for income support might not receive any payments prior to separation because their wife had an income that was sufficiently high to preclude them under the income test. These men would thus be more likely to receive income support after separation, even if their labour market status had not changed. In most of the subsequent analysis of father's income support, we therefore exclude men whose wife had an earned income amount above \$900 for any of the fortnights during the two years before the separation date.

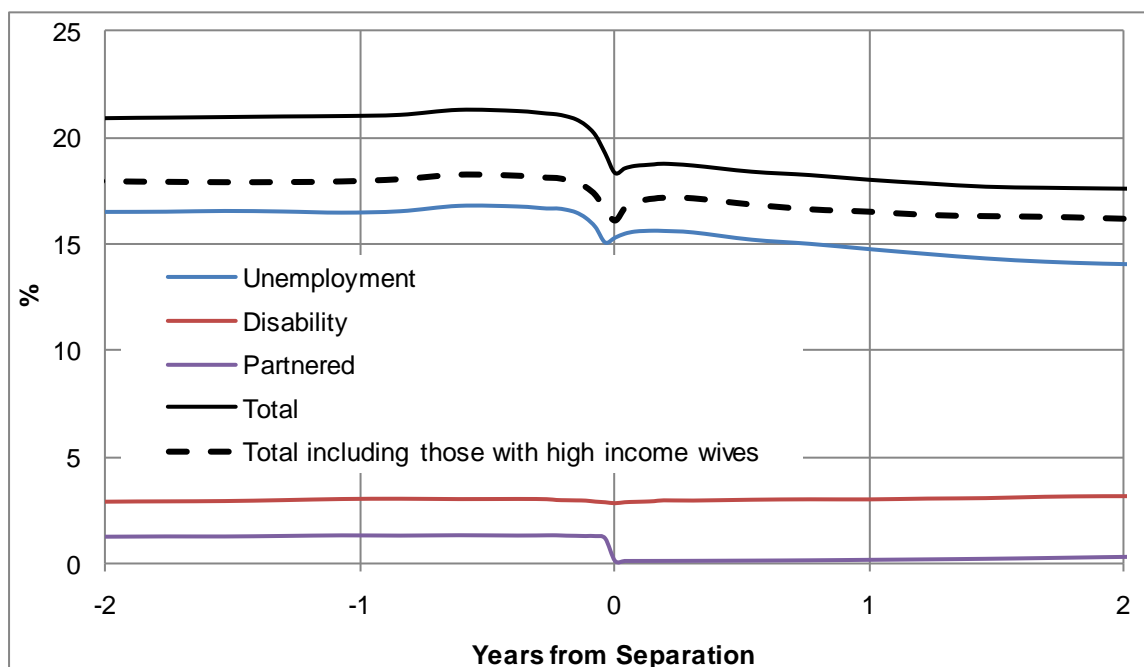
The two 'total' lines in Figure 7 show the impact of this selection. (Figure 8 presents the same information for just the two years before and after separation). The dashed line is the same line as shown in Figure 6. The solid line, which excludes men with high income wives, is generally higher than the dashed line because of assortative mating. It also falls more after separation, reflecting the interactions described in the previous paragraph. Indeed, the drop after separation is quite substantial, amounting to about 3 to 4 percentage points.

Figure 7 Men: Probability of income support receipt before and after separation, controlling for historical time



Notes: All lines, other than the dashed line, exclude men with high income wives.

Figure 8 Men: Probability of income support receipt, before and after separation, controlling for historical time (detail)



Notes: All lines, other than the dashed line, exclude men with high income wives.

The remaining lines in these two figures disaggregate the ‘total’ line for men without high income wives according to type of income support payment received. Payments are grouped

into the categories unemployment (mainly Newstart, but also education and youth allowances), disability (mainly Disability Support Pension, but also Sickness Allowance), partnered (partner of person on low income, partner of Newstart recipient etc) and miscellaneous (negligible – not shown in the figures). The ‘Unemployment’, ‘Disability’ and ‘Partnered’ lines in the figures add up to the ‘Total’ line. For more details of the payment classification, see Appendix B.

Each of these payment categories has a different trajectory around the time of separation. Partnered payments drop from around 1.5 per cent of the population to zero – because the father is no longer partnered. Prior to separation, these men were receiving payment on the basis of a previous payment entitlement received by their wife, subject to income and assets tests. These payments have been closed to new entrants since July 1995.

Disability-related payments are flat at around the time of separation. Over the longer time-period, they show a slight upward trend, but this is essentially the same before and after separation.

Unemployment-related payments are the most relevant to questions of labour supply. Between 6 and 3 years prior to separation, rates of unemployment payment receipt steadily rise. This, however, is because many of the sample were still living at home with parents during this period, and so excluded from income support payments by parental income tests. There is a slight rise in unemployment payment receipt in the year prior to separation (about a quarter of a percentage point), suggesting that some separations might be triggered by increased unemployment of the husband. However this increase is small. Only about 1.6 per cent (ie 0.25/16) of separations among unemployment payment recipients were associated with an increase in unemployment payment receipt in the year prior to separation.

9. Impact heterogeneity

How do these impacts vary across different demographic groups? The regression results above control for all fixed personal characteristics (observed and unobserved). We cannot include the direct effects of fixed characteristics (such as birth date) in the regression because they are already implicitly included. However, we can examine interactions between fixed characteristics and time-varying characteristics such as date relative to separation.

Two approaches can be used. One is to conduct a separate analysis for each sub-population defined by the fixed characteristic. This was done above when considering separate outcomes for men and women. An alternative is to introduce interaction terms into the regression. When examining just one interaction variable, the results from the two approaches will be very similar. When using more than one interaction variable, the results show the different outcomes in sub-groups of the population while also holding the other interaction characteristics fixed. We present results using both approaches.

9.1 Mothers

Figure 9 shows the probability of receiving income support for women of different age groups (age defined as at June 2001). Mothers aged under 30 were much more likely to be receiving income support, both before and after separation – going from 40 per cent receipt to over 90 per cent. For mothers aged between 30 and 40, the increase in income support was greater (around 65 percentage points) but from a lower base – in the low 20s. Mothers aged over 40 had smaller increase in receipt, but were more likely to remain in receipt of income support in the subsequent years. Overall, the younger the mother, the higher the rate of income support immediately after separation and greater the rate of exit from benefit thereafter.

The results in Figure 9 are calculated by fitting the estimation model separately to each age group. Figure 10 shows comparable results from the interaction regression model. These results differ in several respects. First, all results in Figure 10 are presented as differences from the probability 11 fortnights prior to separation – hence all lines run through zero at this point. Second, the interactions terms are based on broader intervals of time and so the curves show a stepped pattern of differences from each other.²¹ Finally, these results show the impact of being in different age groups while holding constant all the other interaction terms. More specifically, they show the predicted relative probability of income support receipt for women of different ages for women who were legally married, Australian born, with one FTB-eligible child and residing in the middle SEIFA quintile. One implication of the latter point is that the meaningful information in this figure is the difference-in-differences – how

²¹ To reduce computational burden, the interactions only cover the following categories: 1 year before (the omitted category), 1-3 years before, 3-6.5 years before, 6.5-10 years before, 1 year after, 1-2 years after and 2-6 years after. This means that the curves drawn are forced to be parallel to each other within each of these windows. The drop in income support receipt for the younger women at around 3 years prior to separation reflects the fact that many of them have very young children, and were less likely to receive income support prior to becoming a mother.

much the curves differ in their increase after separation. The absolute level of the increase would be different if a different value had been chosen for the reference category.

In general, the interaction results in Figure 10 tell the same story as the sub-group results in Figure 9. The increase in income support receipt is smallest for the younger mothers, but the rate of subsequent exit is slowest for the oldest.

Figure 11 and Figure 12 show corresponding figures describing the impact of family size. Women with four or more children are more likely to be receiving income support both prior and after separation. However, their higher pre-separation rate means that the increase in their participation associated with separation is less. The exit rate from benefit is also lower for women with many children.

Figure 13 and Figure 14 show the impact of marital status. Women who were legally married are less likely than those in defacto partnerships to be receiving income support before and after separation, but their increase in income support is greater.

Similarly, Australian-born women have lower rates of income support receipt prior to separation, but a greater increase in income support after separation (Figure 15 and Figure 16). Overseas-born women have a slower rate of exit from benefit in the years after separation.

Figure 17 and Figure 18 show the association between income support receipt patterns and the socio-economic status of the postal area in which they lived (in 2001). As might be expected, those in the more disadvantaged regions were more likely to receive income support both before and after separation. Rates of exit from benefit after separation were slightly greater for those in the more advantaged areas.

9.2 Fathers

For men, we focus on patterns of unemployment payment receipt for those men who did not have high income wives prior to separation (the 'Unemployment' line in Figure 7).

Men aged under 30 are much more likely to be receiving unemployment payments, both before and after separation (Figure 19). Among this age group, there is a fall in income support of around 3 percentage points immediately after separation. For the older groups, there is more constancy of income support receipt – with a small increase for the oldest group. All age groups experience a small but steady decline in income support receipt in the subsequent years.

Figure 20 shows the patterns from the interaction model. Here the pattern is apparently very different, with most age groups increasing their receipt of income support. However, this reflects the levels of the other controlling variables. The values chosen as reference (married, Australian-born wives, one child, middle SEIFA quintile) represent categories where there is an increase in income support receipt. Instead, the meaningful result from the interaction figures is found in the difference-in-difference patterns – which show that the increase, controlling for these other influences, is greatest for the oldest fathers. From this perspective, the patterns are very similar to those shown in Figure 19 where we don't control for the other characteristics.

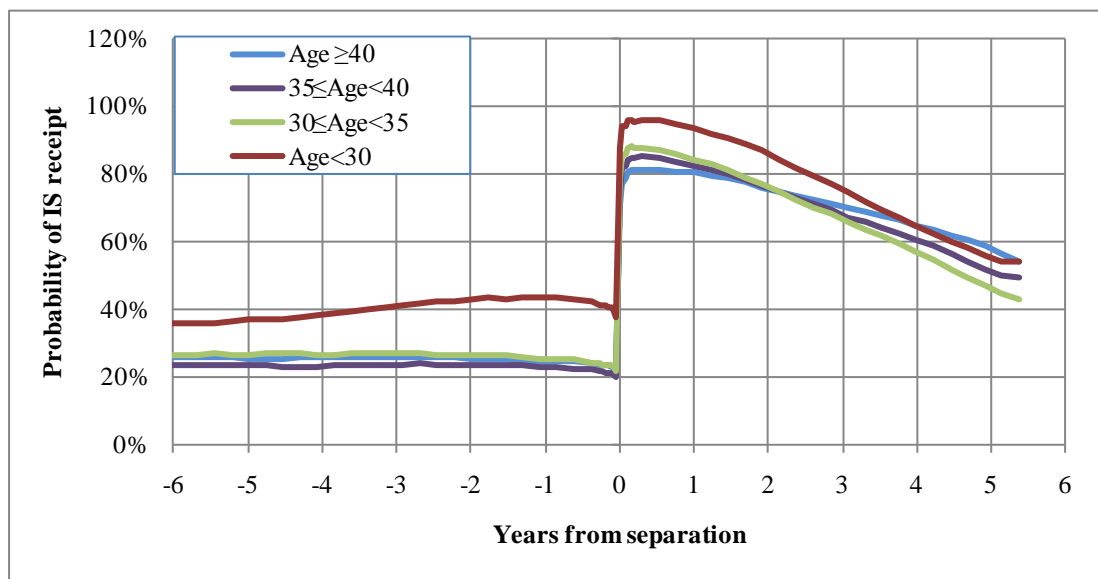
Figure 21 and Figure 22 describe the impact of family size. Men with four or more children are most likely to be receiving unemployment payments, particularly before separation, while men with two children are least likely. All family sizes experience a drop in income support receipt after separation. This is smallest for those with 2 children and greatest for those with 4 children – where the drop is quite considerable. The difference-in-difference pattern from Figure 22 is similar, except that here the relative fall is smallest for those with one child (ie the one child line is highest after separation).

Men in defacto relationships have a much higher rate of unemployment payment receipt both before and after separation (Figure 23). After separation, their payment probability drops by around 3 percentage points. Married men, on the other hand, do not experience an immediate drop – though there is a steady fall in income support receipt in the following two years. (This continues after the two-year point, but as noted earlier this could be contaminated by selection effects). The difference-in-difference story from Figure 24 is similar.

Men with wives born overseas are more likely to be unemployment payment recipients and also more likely to have a reduction in income support after separation (Figure 25).

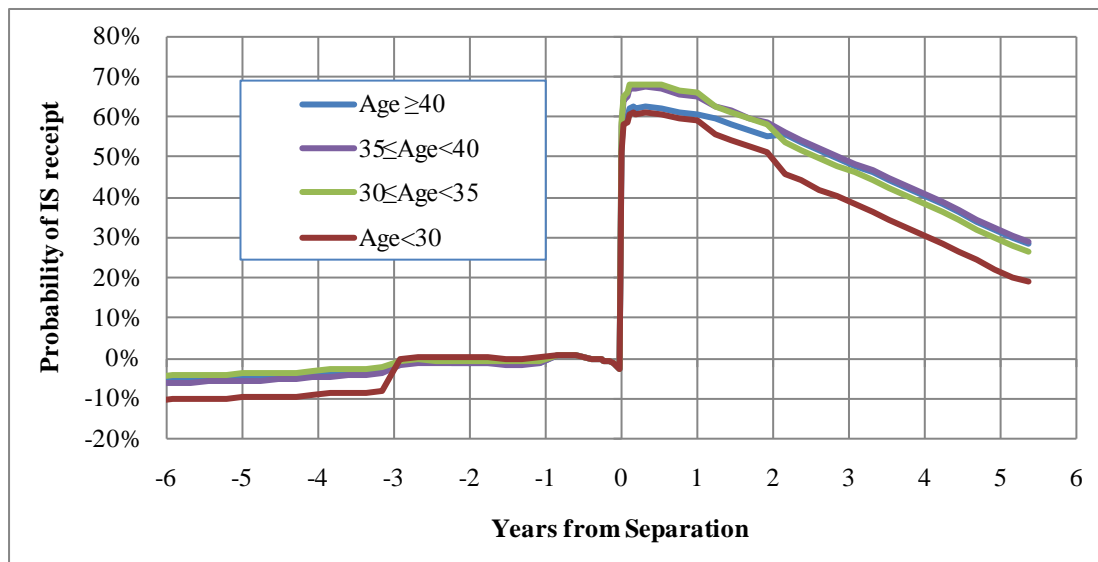
As expected, men from more disadvantaged areas are more likely to be receiving income support (Figure 27). They also experience the largest drop in unemployment payment receipt after separation while those living in the most disadvantaged areas maintain a constant level of receipt. The small increase in payment receipt prior to separation is also most evident in the most disadvantaged regions. This is particularly evident when we control for other characteristics (Figure 28).

Figure 9 Women: Probability of income support receipt for different age categories, controlling for historical time



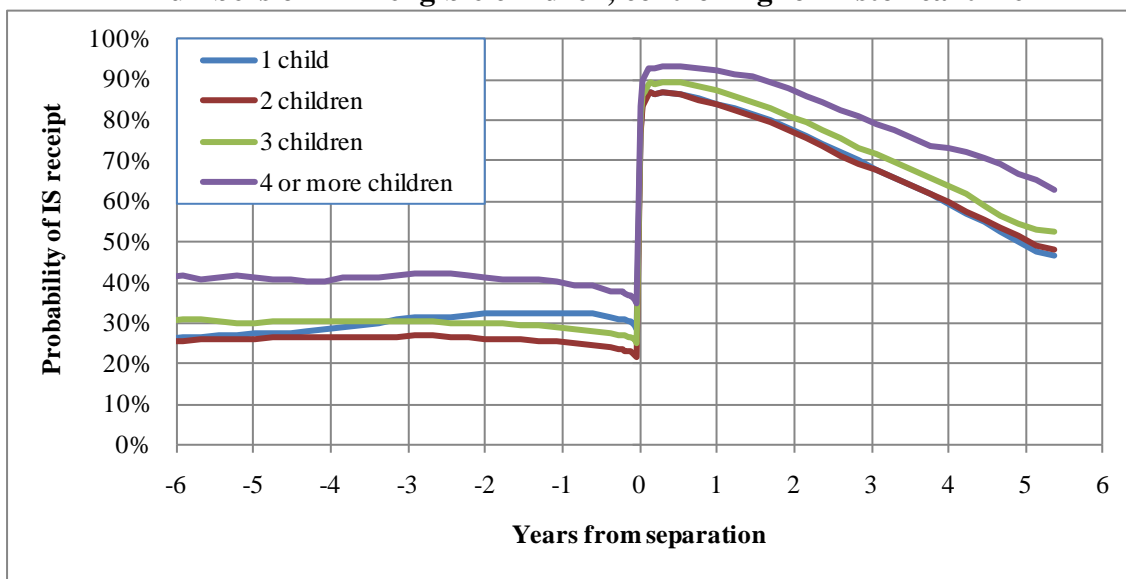
Note: The curves represent the results from the four separate regressions for the different age groups.

Figure 10 Women: Relative probability of income support receipt for different age categories, controlling for historical time and other interaction terms.



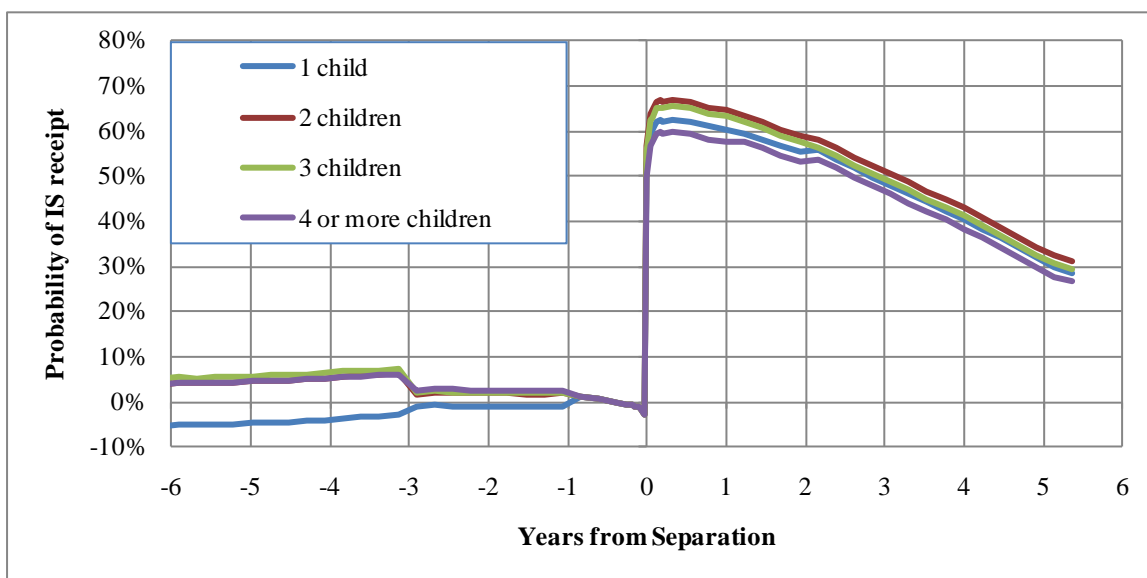
Note: The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for women who were married, Australian-born, with one FTB-eligible child, and resided in the 3rd SEIFA quintile in 2001.

Figure 11 Women: Probability of income support receipt for families with different numbers of FTB-eligible children, controlling for historical time



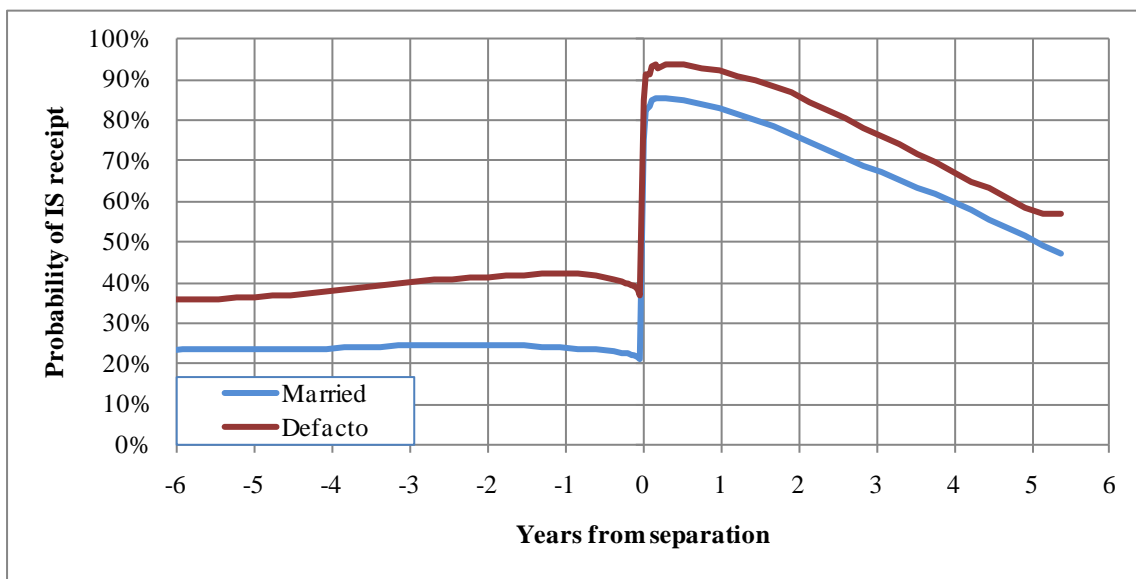
Note: The curves represent the results from the four separate regressions for families with different numbers of FTB-eligible children.

Figure 12 Women: Relative probability of income support receipt for families with different numbers of FTB-eligible children, controlling for historical time and other interaction terms.



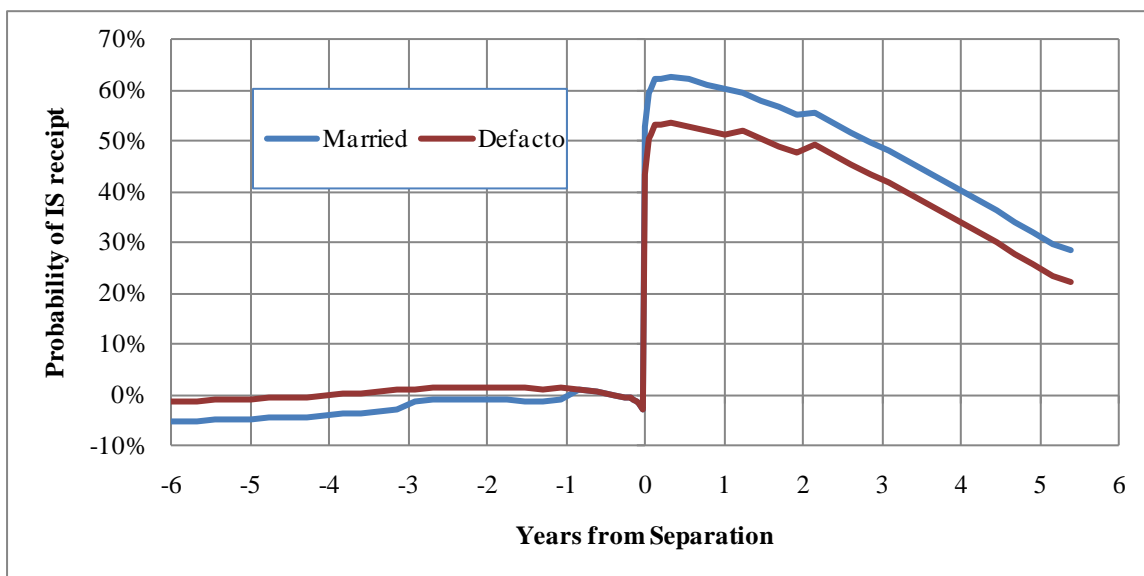
Note: The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for women who were married, Australian-born, resided in the 3rd SEIFA quintile and were aged 40 or older in 2001.

Figure 13 Women: Probability of income support receipt by marital status, controlling for historical time



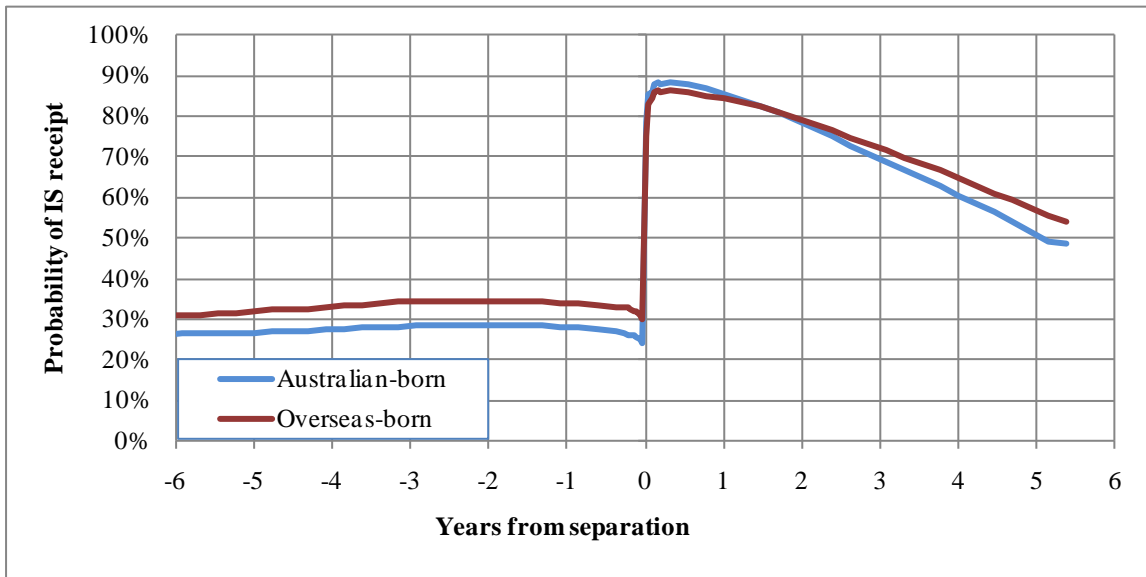
Note: The curves represent the results from the separate regressions by marital status.

Figure 14 Women: Relative probability of income support receipt by marital status, controlling for historical time and other interaction terms.



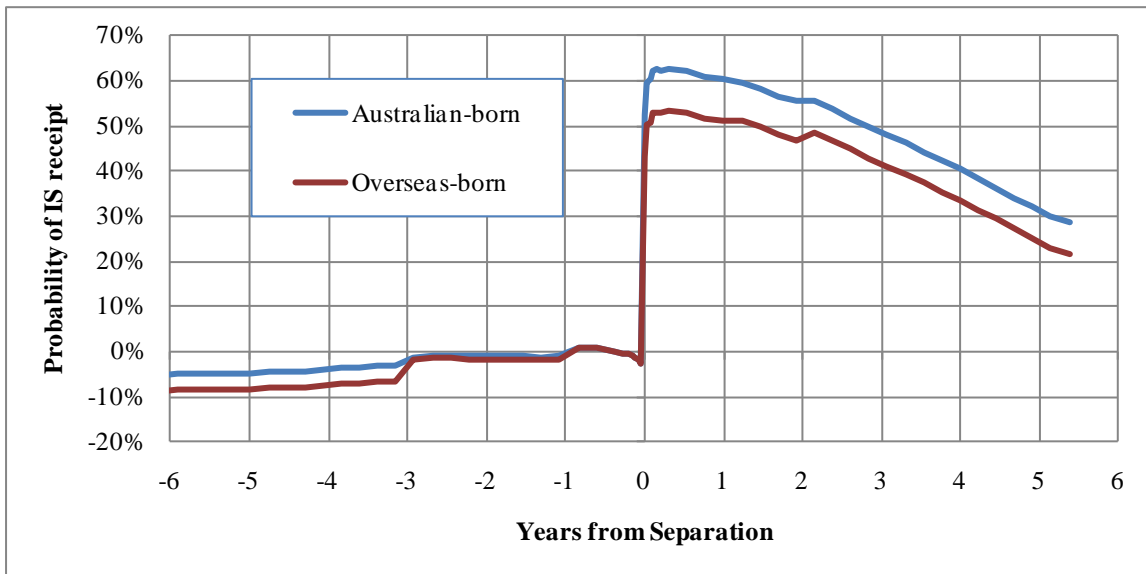
Note: The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for women who were Australian-born, with one FTB-eligible child, resided in the 3rd SEIFA quintile and were aged 40 or older in 2001.

Figure 15 Women: Probability of income support receipt by customer’s country of birth, controlling for historical time



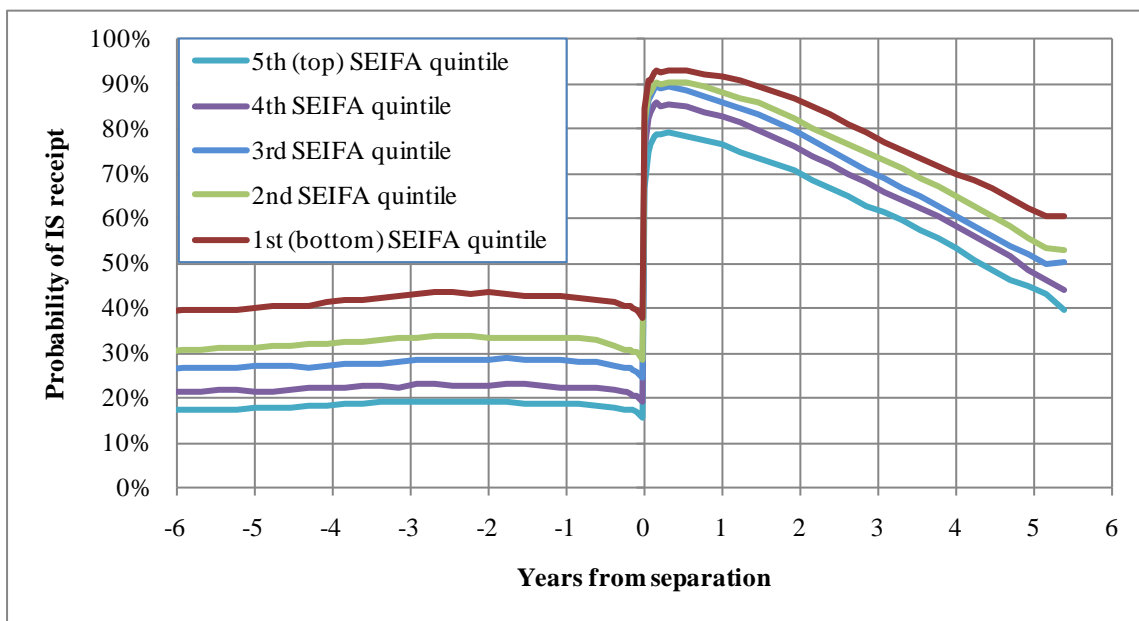
Note: The curves represent the results from the separate regressions by customer’s country of birth.

Figure 16 Women: Relative probability of income support receipt by country of birth, controlling for historical time and other interaction terms.



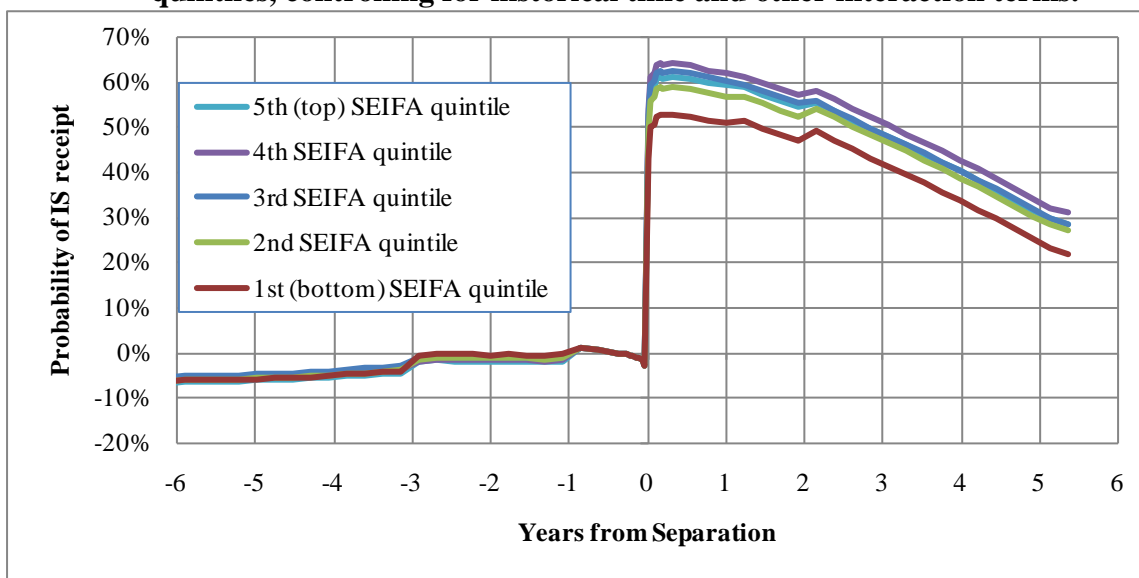
Note: The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for women who were married, with one FTB-eligible child, resided in the 3rd SEIFA quintile and were aged 40 or older in 2001.

Figure 17 Women: Probability of income support receipt by different SEIFA quintiles, controlling for historical time.



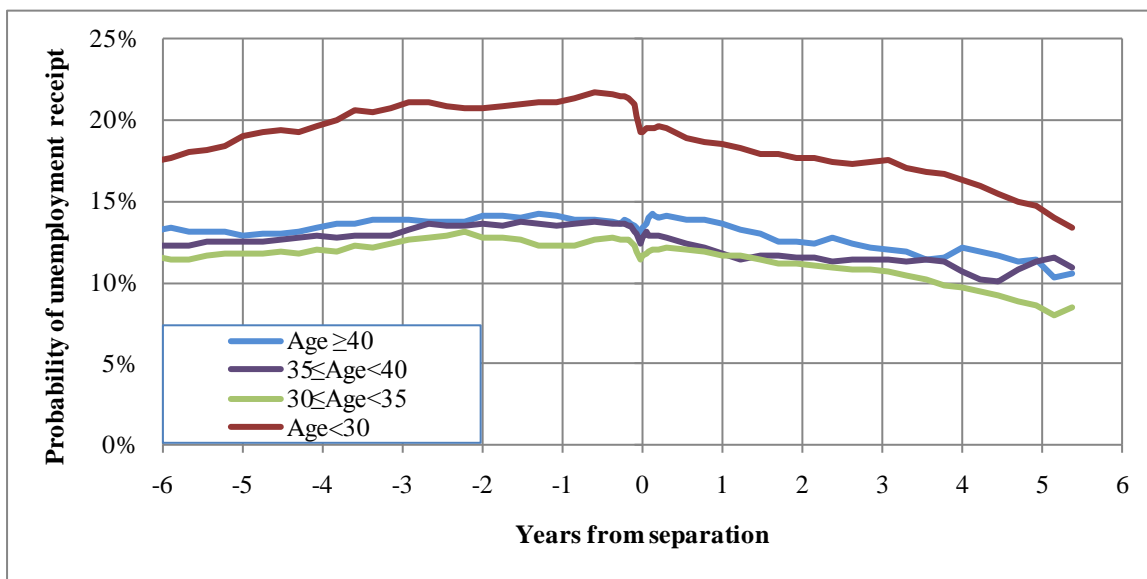
Note: The curves represent the results from the five separate regressions for each SEIFA quintile.

Figure 18 Women: Relative probability of income support receipt by different SEIFA quintiles, controlling for historical time and other interaction terms.



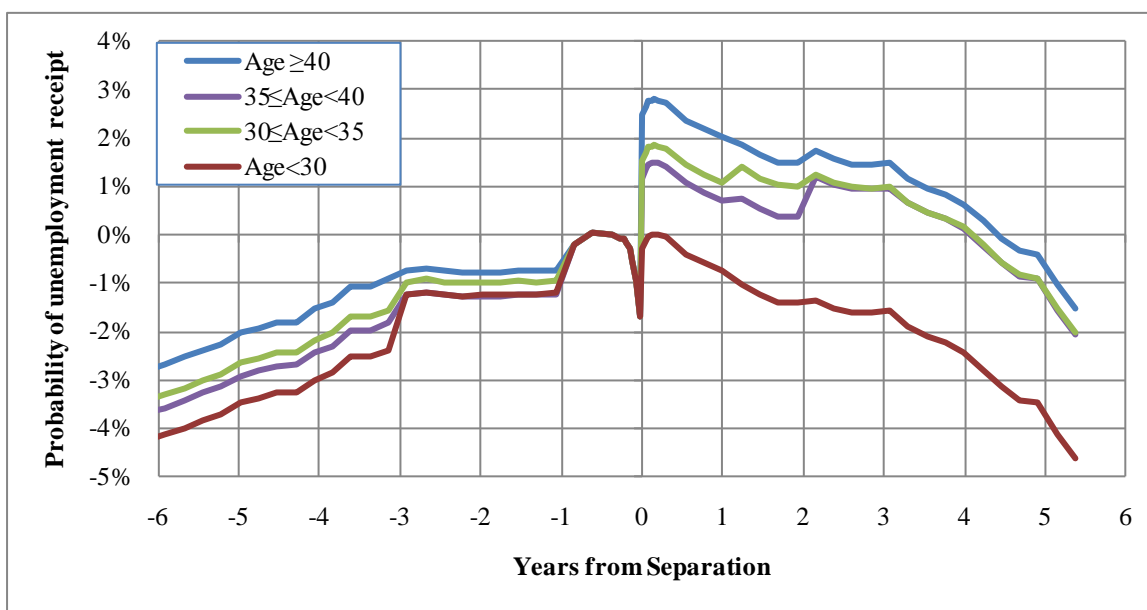
Note: The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for women who were married, Australian-born, with one FTB-eligible child, and were aged 40 or older in 2001.

Figure 19 Men: Probability of unemployment payment receipt for different age categories, controlling for historical time



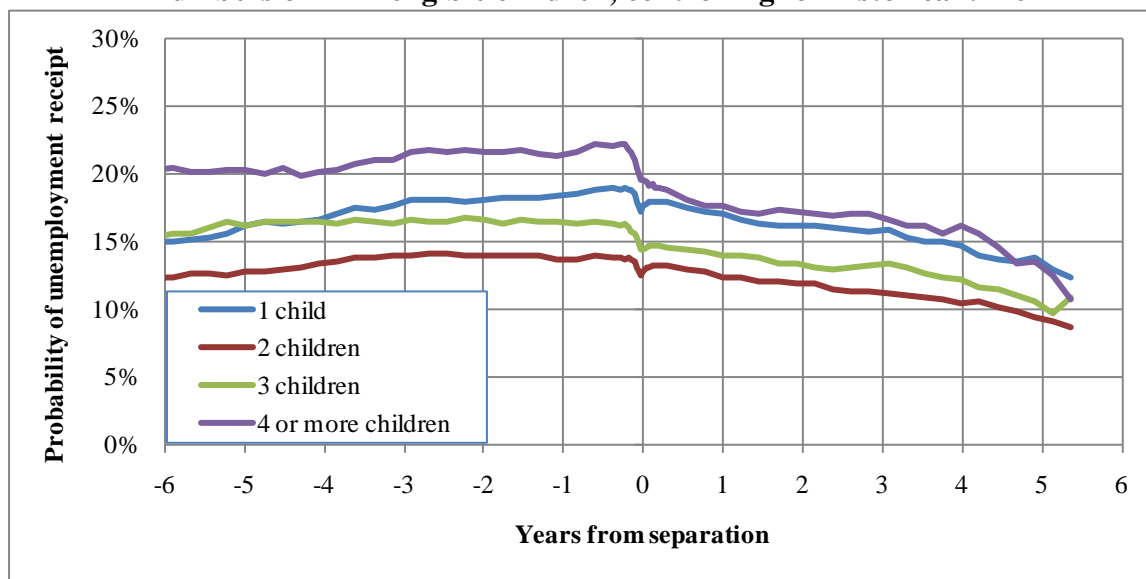
Note: For men who did not have high income wives prior to separation. The curves represent the results from separate regressions for the different age groups.

Figure 20 Men: Relative probability of unemployment payment receipt for different age categories, controlling for historical time and other interaction terms



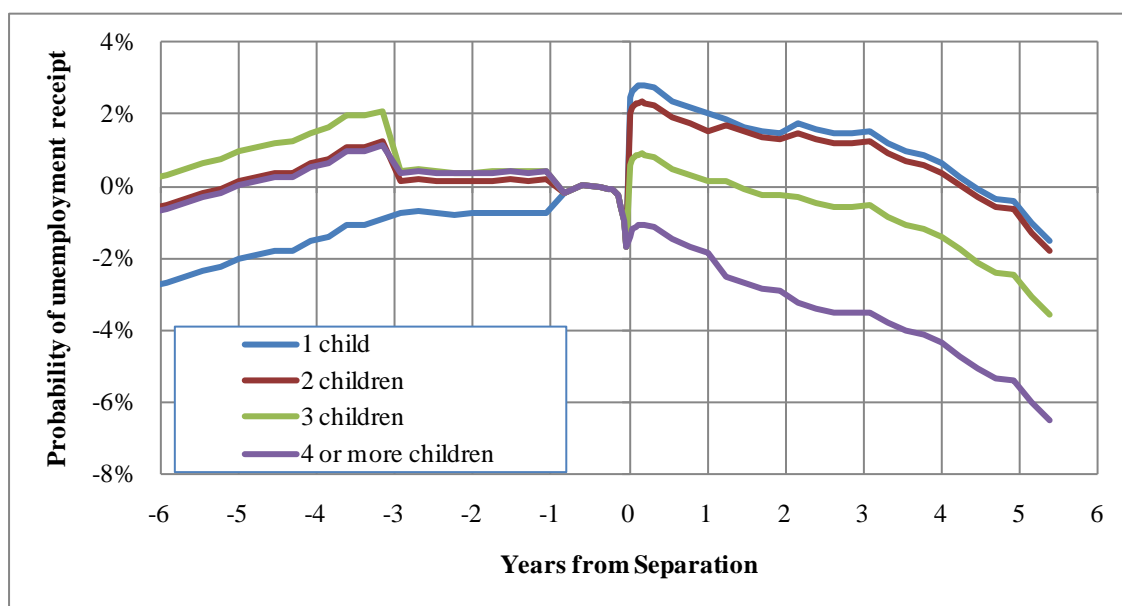
Note: For men who did not have high income wives prior to separation. The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for men who were married, had Australian-born wives, with one FTB-eligible child, and resided in the 3rd SEIFA quintile in 2001.

Figure 21 Men: Probability of unemployment receipt for families with different numbers of FTB-eligible children, controlling for historical time



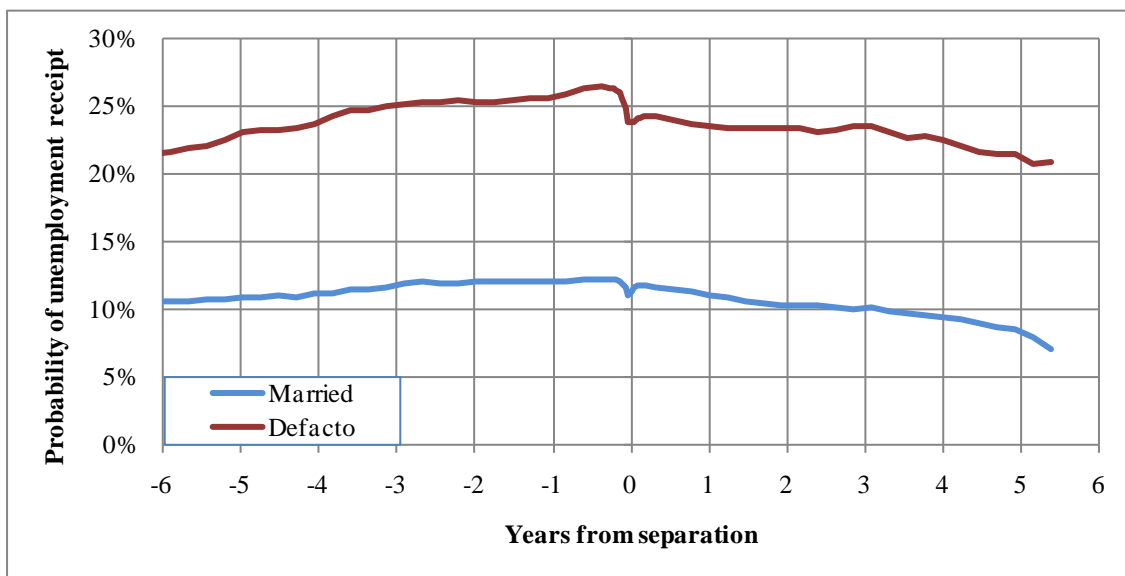
Note: For men who did not have high income wives prior to separation. The curves represent the results from the four separate regressions for families with different numbers of FTB-eligible children.

Figure 22 Men: Relative probability of unemployment receipt for families with different numbers of FTB-eligible children, controlling for historical time and other interaction terms



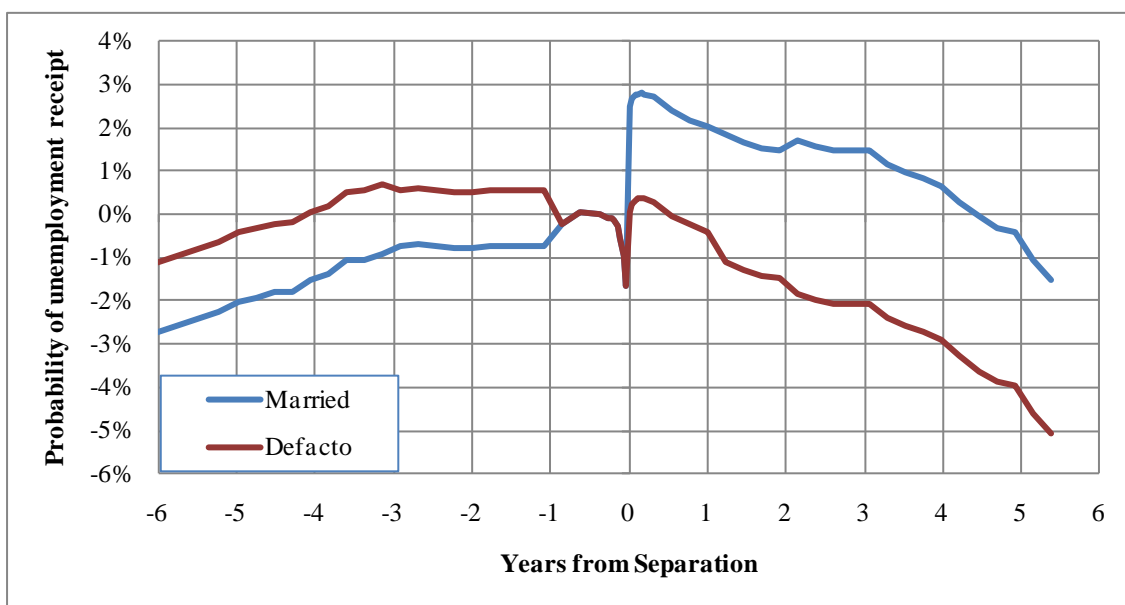
Note: For men who did not have high income wives prior to separation. The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for men who were married, had Australian-born wives, resided in the 3rd SEIFA quintile and were aged 40 or older in 2001.

Figure 23 Men: Probability of unemployment receipt by marital status, controlling for historical time



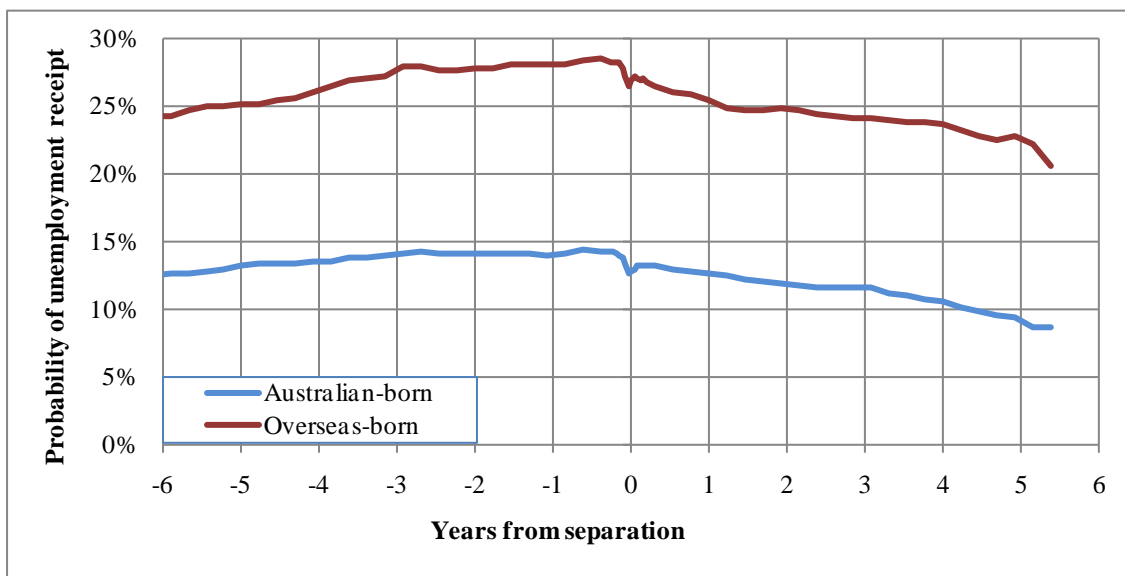
Note: For men who did not have high income wives prior to separation. The curves represent the results from the separate regressions by marital status.

Figure 24 Men: Relative probability of unemployment receipt by marital status, controlling for historical time and other interaction terms



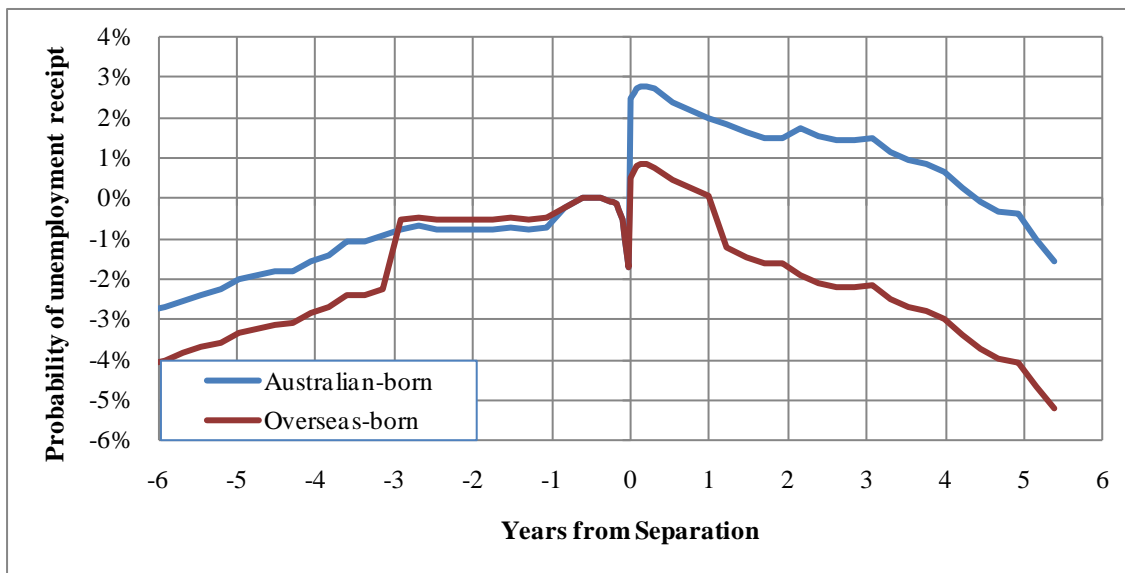
Note: For men who did not have high income wives prior to separation. The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for men who had Australian-born wives, with one FTB-eligible child, resided in the 3rd SEIFA quintile and were aged 40 or older in 2001.

Figure 25 Men: Probability of unemployment receipt by partner’s country of birth, controlling for historical time



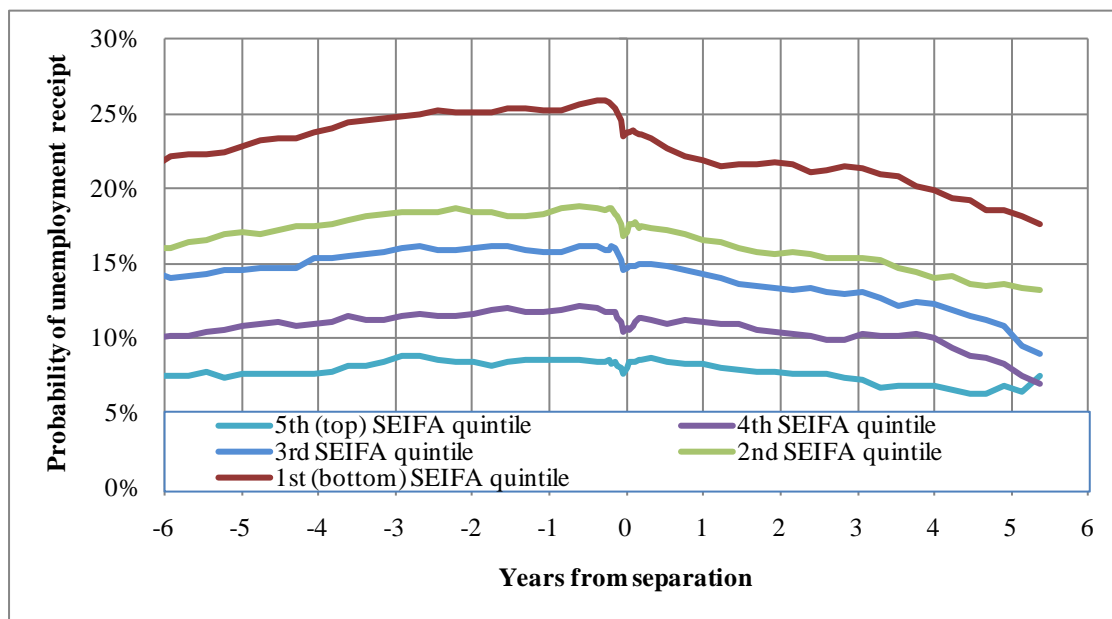
Note: For men who did not have high income wives prior to separation. The curves represent the results from the separate regressions by customer’s country of birth.

Figure 26 Men: Relative probability of unemployment receipt by partner’s country of birth, controlling for historical time and other interaction terms



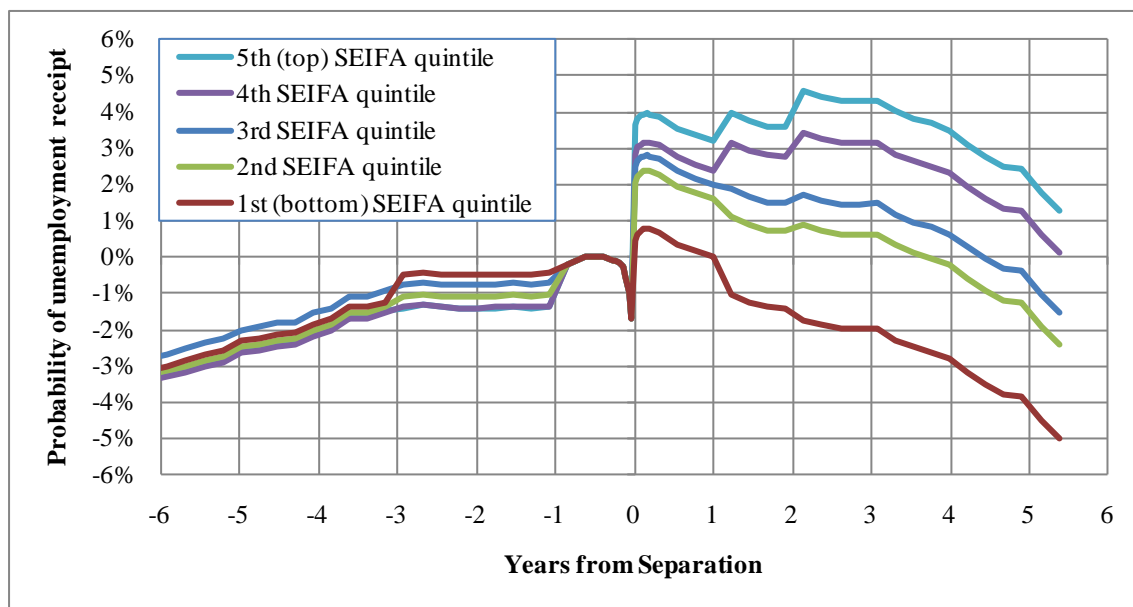
Note: For men who did not have high income wives prior to separation. The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for men who were married, with one FTB-eligible child, resided in the 3rd SEIFA quintile and were aged 40 or older in 2001.

Figure 27 Men: Probability of unemployment receipt by different SEIFA quintiles, controlling for historical time.



Note: For men who did not have high income wives prior to separation. The curves represent the results from the five separate regressions for each SEIFA quintile.

Figure 28 Men: Relative probability of unemployment receipt by different SEIFA quintiles, controlling for historical time and other interaction terms.



Note: For men who did not have high income wives prior to separation. The curves show the predicted probability of income support receipt relative to the probability approximately 11 fortnights prior to separation for men who were married, had Australian-born wives, with one FTB-eligible child, and were aged 40 or older in 2001.

10. Summary and discussion

After separation, mothers rapidly increase their likelihood of receiving income support by around 60 percentage points. Almost 90 per cent are receiving income support one month after separation. After this, their income support receipt steadily decreases, by about 7 percentage points per annum.

It is important to remember, however, that these results are for a selected sub-population: mothers in traditional gender role families, with young children, not receiving any child maintenance prior to separation and receiving Family Tax Benefit. The quarter of the population not receiving Family Tax Benefit would be much less likely to be receiving income support after separation. If these families were included in the denominator, the income support rate could be as low as three-quarters of that shown here.

The increase in income support receipt is greater among those mothers with the lowest rates of income support receipt prior to separation. These include older women, those with few more children, those legally married, the Australian-born, and those living in more advantaged areas. In this sense, the income support system can be seen as providing greater insurance against marriage breakdown for more economically advantaged women. These more advantaged women also have faster exit rates from benefit, with slower exit rates for older women, those with larger families and those born outside Australia.

For fathers, the overall pattern is one of decreasing income support receipt after separation. To the extent to which separated fathers have higher rates of income support receipt than non-separated fathers, this is because the former are much more likely to be receiving income support prior to separation. In mid 2001, prior to separation, 18 per cent of the men who would separate at some stage in the next 4½ years were receiving income support payments, compared to 9 per cent of men who did not separate (Figure 3). Overall, there is no evidence that separation increases income support among fathers.

However, income support and employment patterns might differ from each other because of the operation of family income tests. Although our design removes families where the high income of the wife would have prevented the husband from receiving income support when partnered, it is possible that some such cases remain in our sample. For example, because of high asset values or levels of wife income that would result in a level of unemployment payment that would be so low as to discourage take-up. Moreover, our conclusion that separation does not lead to increased income support receipt does not explicitly address the question of the impact of child support obligations per se. Can the variation in income support patterns across different population groups shed light on this?

In Section 2 we considered the financial incentives associated with separation and child support obligations. In purely financial terms, the changes in financial incentives associated with separation, per se, outweigh those due to child support. If income support and labour supply changes were to follow the changes in replacement rates associated with separation, we might expect to find that higher wage fathers would be more likely to seek employment

and less likely to receive income support after separation. A similar, but weaker effect might be expected for fathers with fewer children.²²

Though we don't have data on wage rates, the variation across variables likely to be correlated with wages suggest the opposite pattern. The decrease in unemployment payment receipt is greatest among the most disadvantaged men, those in the bottom SEIFA quintile, younger, in defacto relationships, with more children and overseas born.

It is possible that some effect of financial incentives might be masked by an interaction with the benefit income test as described above. That is, there might be a greater increase in labour supply among high wage men, but this might not be reflected in the income support data because some were not eligible prior to separation. Our data selection attempts to exclude this possibility, but we cannot rule it out entirely.

Summing up, we can assert with some confidence that the high rates of income support receipt found among separated men (and hence among child support payers) are not due to separation (or anything associated with this, such as child support obligations). Rather, this result is due to the fact that men receiving income support are more likely to face a marital (or defacto) separation.

The more general question of whether male labour supply and income support receipt respond to the financial incentives associated with separation is less clear.

On the one hand, we find that the financial incentives to search for employment (as measured by the replacement rate) are greater for single rather than partnered men (even if the former have to pay child support). This is consistent with the small fall in the probability of receiving unemployment payments after separation – a drop of about 3 percentage points between one year prior and two years after separation (Figure 3). This suggests an elasticity of unemployment payment receipt with respect to the replacement rate of the order of two-thirds.²³

On the other hand, the variations within our sample do not mirror those that might be expected on the basis of different replacement rates. The incentives suggest that high wage men should be more likely to increase their labour supply – but our data suggests the opposite relationship. This could possibly be due to interactions with other aspects of the income support system – even though we have tried to control for this. We leave these more general questions for future research.

²² That is, these are the cases where the relative replacement rate in Table 1 is lowest.

²³ The drop of 3 percentage points is about 20% of the average unemployment benefit rate (as a percentage of the population) in Figure 3. For average wage men, the drop in the replacement rate (ie 100 minus the last column of Table 1) is 29 to 32% (for 1 or 3 children).

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Appendix A The Australian child support system, 2001 to 2008

The Child Support Scheme in Australia emphasises the need for continued shared parental responsibility after the event of separation and provides a framework for mandatory financial arrangements between the resident and non-resident parents. The Child Support Agency (CSA) administers the Child Support Scheme, assisting with the calculation of the child support amount and transferral of child support payments between separated parents. Where possible, the CSA encourages separated parents to manage these child support responsibilities themselves. Otherwise, the CSA relies on a formula-based approach to calculate the payment-related child support responsibilities of the non-resident parent.

The child support formula prior to July 2008 comprises the following elements:

- A Non-resident parent's Child Support Income. This is the sum of the non-resident parent's *taxable income* (based on the last financial year of income) and *supplementary income* which includes any foreign income exempt from tax, any rental property losses, plus any reportable fringe benefits (over the amount of \$1000) for the relevant tax year.
- B Non-resident parent's Exempted Income Amount (calculated as a fixed amount plus a percentage if the non-resident parent has other biological children living with him/her)
- C Resident parent's Child Support Income. This is the sum of the resident parent's taxable income and supplementary amounts for the last relevant year of income.
- D Resident parent's Disregarded Income Amount
- E Child Support Percentage – 18% for one child; 27% for two children; 32% for 3 children; 34% for 4 children; and 36% for 5 or more children.

Annual child support CS payable: if $C \leq D$, $CS = [A - B] \times E$

if $C > D$, $CS = ([A - B] - [C - D] \times 0.5) \times E$

There are a few qualifications to this basic formula:

- Annual child support payable is subject to a minimum (\$339 per year in 2008) for which every non-resident parent is liable.
- Where $C > D$, the annual rate of child support cannot be less than 25% of the annual rate that would be payable if $C \leq D$.
- Non-resident parent's income above the cap of 2.5 times all employees average annualised weekly total earnings is ignored for child support purposes.
- Shared care arrangements can affect the amount of liability for non-resident parents. There are several defined levels of care including 'substantial' care, 'shared' care and 'major' care. These classifications change the child support percentages to reflect

shifts in the financial burden as a result of changes in the child's dependency on the non-resident parent.

The basic parameter values used in child support assessments over the 2001 to 2007 period are show below.

	2001	2002	2003	2004	2005	2006	2007	2008
Exempt income amount								
No relevant dependent child	\$11,271	\$11,740	\$12,315	\$12,950	\$13,462	\$13,983	\$14,646	\$15,378
With relevant dependent child	\$18,813	\$19,597	\$20,557	\$21,622	\$22,480	\$23,349	\$24,464	\$25,689
Additional exempt income amount for relevant dependent child, or child in shared care of non-resident and resident:								
Child under 13 years*	\$2,049	\$2,169	\$2,235	\$2,307	\$2,362	\$2,424	\$2,489	\$2,570
Between 13 and 15 years*	\$2,857	\$3,025	\$3,119	\$3,219	\$3,296	\$3,380	\$3,504	\$3,705
16 years and over*	\$4,276	\$4,454	\$4,672	\$4,914	\$5,109	\$5,307	\$5,560	\$5,838
<i>* child's age 12 months after the start of the child support period.</i>								
Disregarded income amount	\$33,717	\$35,012	\$36,213	\$38,168	\$39,312	\$41,881	\$43,654	\$45,505
2.5 x all employees average weekly total earnings	\$108,732	\$113,542	\$119,470	\$126,659	\$130,767	\$139,347	\$109,135 (Non-resident's income cap from 1 July 2006)	\$113,763 (Non-resident's income cap from 1 July 2006)
Minimum annual rate of child support	\$260	\$260	\$260	\$260	\$260 (\$320 for any part of child support period after 1 July 2006)	\$260 (\$320 for any part of child support period after 1 July 2006)	\$333	\$339

Appendix B: Benefit types by benefit class for fathers

Benefit Class	Benefit Type	First date recorded	Last date recorded	N person-fortnights
Unemployment/youth	AUS: Austudy	3-Jul-98	8-Dec-06	131067
	JSA: Job Seeker Allowance	6-Jan-95	14-Feb-97	352060
	NMA: Newstart Mature Age Allowance	24-Aug-01	8-Dec-06	2535
	NSA: Newstart Allowance	6-Jan-95	8-Dec-06	3295544
	YAL: Youth Allowance	3-Jul-98	8-Dec-06	90141
	YTA: Youth Training Allowance	6-Jan-95	31-Jul-98	22324
Disability/sickness	DSP: Disability Support Pension	6-Jan-95	8-Dec-06	1022225
	SA: Sickness Allowance	6-Jan-95	24-Apr-98	32291
	SKA: Sickness Allowance	8-May-98	8-Dec-06	50917
Partner Allowance	PA: Partner Allowance	6-Jan-95	24-Apr-98	11697
	PGA: Parenting Benefit	8-May-98	21-Apr-00	6
	PGL: Partner of person on low income	7-Jul-95	8-Dec-06	180035
	PGN: Partner of Newstart (NMA, NSA, SKA, AUS) recipient	7-Jul-95	8-Dec-06	143445
	PGP: Partner of Pension (PEN, DSP, AGE) recipient	21-Jul-95	8-Dec-06	41400
	PGY: Partner of dependent YTA/YAL recipient	26-Feb-99	7-Sep-01	88
	PTA: Partner Allowance	8-May-98	5-Aug-05	267
	Misc	AGE: Age Pension	23-Jun-06	8-Dec-06
Misc	DR: Drought Relief Payment	17-Mar-95	24-Apr-98	11107
	DRP: Drought Relief Payment	8-May-98	11-Sep-98	465
	ECP: Exceptional Circumstances Payment	11-Sep-98	8-Dec-06	18609
	EMG: Emergency and General Assistance	19-May-00	8-Dec-06	5211
	PGU: Unknown	11-Jan-02	2-Sep-05	17
	SPB: Special Benefit	6-Jan-95	24-Apr-98	7361
	SPL: Special Benefit	8-May-98	8-Dec-06	13136