

# The Story Behind the Numbers

## Understanding and Managing Child Support Debt

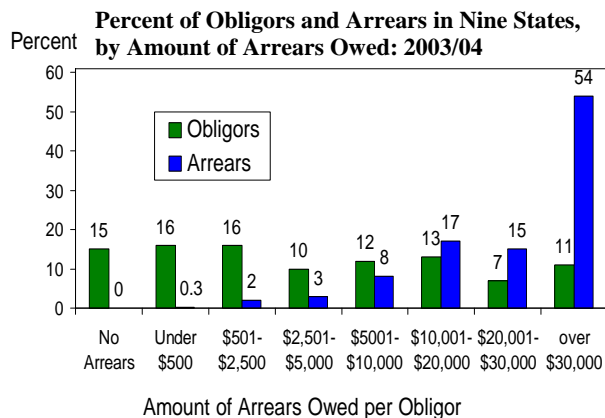
### Child Support Debt Exceeds \$100 Billion

As of September 2006, \$105 billion in arrears has accumulated nationwide since the child support program began in 1975.

To better understand the composition of child support arrears and who owes them, the Office of Child Support Enforcement (OCSE) and Health and Human Services' Office of the Assistant Secretary for Planning and Evaluation contracted with the Urban Institute to do an in-depth study of arrears in nine large States. The nine States are Arizona, Florida, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas. This brief provides an overview of the results from this recently published report. The entire report, "Assessing Child Support Arrears in Nine Large States and the Nation," is available on the OCSE website at [http://www.acf.hhs.gov/programs/cse/pubs/#hhs\\_report](http://www.acf.hhs.gov/programs/cse/pubs/#hhs_report).

### Who Owes the Arrears?

The majority of obligors (non-custodial parents with an obligation to pay child support) owe small amounts of child support debt. The chart below shows that 57 percent of obligors owe \$5,000 or less in arrears. This amount owed represents less than 6 percent of the total arrears in these nine States.



On the other hand, the majority of the arrearage is owed by a relatively small number of obligors, each of whom owes a large amount of arrears. In the nine study States, 11 percent of the obligors owed 54 percent of the arrears held by

these States. Each of these obligors owed over \$30,000 in arrears.

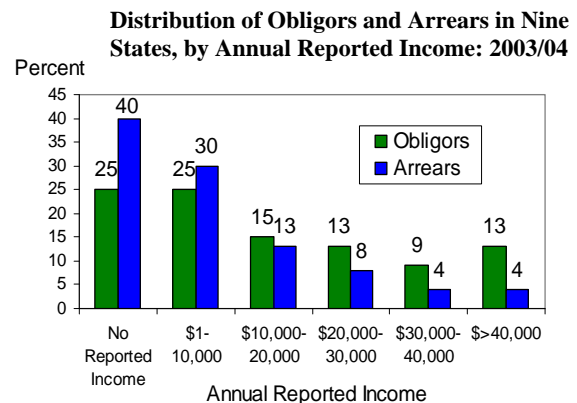
Obligor that owed over \$30,000 in arrears were more likely than other obligors to have the following characteristics:

- No or low reported income
- Did not pay support in last year
- No address or an out-of-state address
- Multiple current support orders

And, high debtors were more likely to be associated with cases where:

- the current support order has terminated (arrears-only cases),
- current support orders were high relative to their reported income,
- the age of the current support order was older,
- their IV-D case was opened at least a year before or after the order was established, or
- there was a two-state interstate case.

Obligor with no or low reported income hold most of the arrears. To determine reported income, obligors were matched with six quarters of National Quarterly Wage and Unemployment Insurance files. Combined, obligors with no reported income or reported income below \$10,000 per year accounted for half of the obligors, and they owed 70 percent of the arrears in the study States.



Not all earnings are reported to State Quarterly Wage files. Only wages for "covered"

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employment (i.e., employment subject to the State Unemployment Insurance Tax) are required to be reported. For example, earnings for the self-employed and independent contractors are not covered. Federal and military employment are not reported to State Quarterly Wage files. However these were included in the match done by OCSE for the Urban Institute Study. Some earnings that should be reported by employers may not be reported, and earnings from illegal activities or those being paid “under the table” are not reported.

In an attempt to learn more about persons with no reported wages, OCSE conducted a similar analysis at the National level. OCSE matched debtors (non-custodial parents that owe child support arrears) that States submitted to the Federal Offset file with four quarters of Quarterly Wage files. The match results showed that about 63 percent of the debtors had no reported income or annual income of \$10,000 or less, and they owed 70 percent of the debt. Twenty-nine percent had reported earnings between \$1 and \$10,000, and 34 percent had no reported earnings.

Further analyses by OCSE indicate that at least some of these debtors with no reported income (according to Quarterly Wage records) have other sources of income. OCSE conducted matches of these debtors with other databases, and found that:

- many had bank accounts,
- a significant number were receiving Social Security benefits which are attachable to pay child support,
- some were employed as private contractors,
- some appeared in the National Directory of New Hires, indicating new employment (further analysis showed that about 20 percent were working in the subsequent year according to Quarterly Wage records),
- for others, a Federal tax refund offset to pay child support occurred, and
- others were incarcerated.

While these obligors may have other income that is not reported in the Quarterly Wage files, it will not be as easy for child support enforcement

agencies to enforce these orders. They will have to use tools other than Quarterly Wage matches and wage withholding to find the income and enforce these obligations.

## **How Likely is it that Existing Arrears will be Collected?**

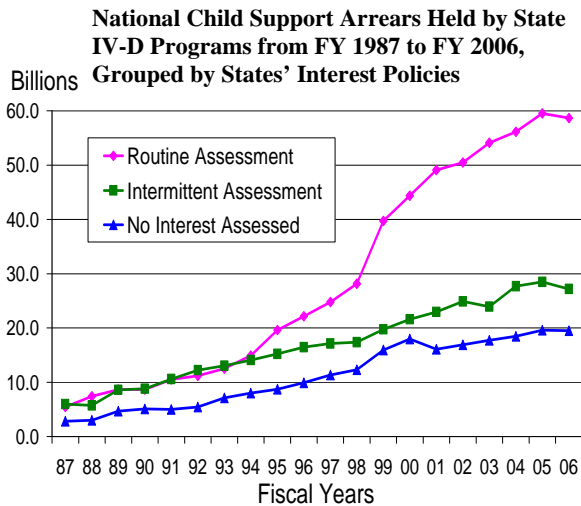
In order to estimate the extent to which the States are likely to collect the existing arrears over the next ten years, a simulation model was developed and run for seven study States. Two of the States did not provide the data needed to run the model. The first year of the simulation was based on actual data from the previous 12 months. For years 2 through 10, the model used a set of assumptions about payment rates, payment growth, and order amounts. The combined results of the simulation models across seven States estimate that less than half of the arrears owed at the time the data were extracted will likely be collected within 10 years. In addition, it is predicted that new arrears will accrue, and that the total arrears in these seven States will grow by at least 50 percent over 10 years. It is important to note that this assumes that current trends will continue.

## **Reasons for Arrears Growth**

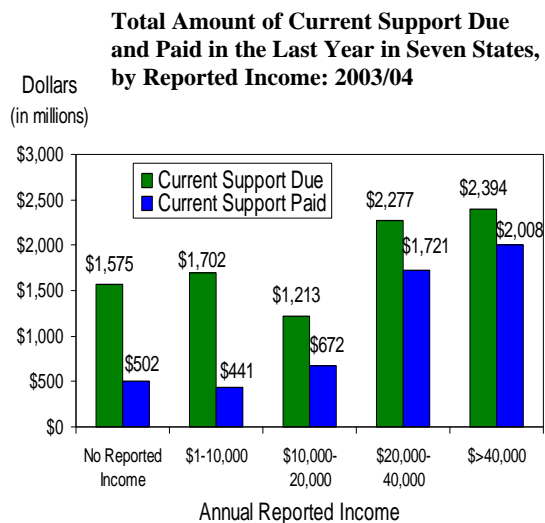
Charging interest routinely results in significantly higher arrears. Currently, 18 States charge interest on a routine basis. Most of these States charge interest every month on any unpaid child support. Eighteen additional States and Guam charge interest intermittently. In these States, interest is typically assessed only when the IV-D program requests that the court convert the arrears to a final judgment because the ongoing support order is ending. In 14 States, Puerto Rico, the Virgin Islands, and the District of Columbia, the IV-D program does not charge interest. The following national chart illustrates that States that charge interest on a routine basis have experienced a much larger increase in arrears than other States.

Two of the nine study States charge interest routinely and reported that interest represented over 20 percent of the total arrears.

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Another factor that is a major contributor to arrears is the lack of compliance with current support orders. Although the nation has seen a steady improvement in the percent of current support collected in recent years, about 40 percent of current support still goes unpaid each year. The difference between current support due and current support paid is a primary driver behind arrears growth, especially among obligors with no or low reported income. The following chart shows the difference between current support due and paid for a 12-month period in seven States, by income range.



Another key reason why arrears have been growing is that the percent of arrears collected

each year is relatively low. In the past few years, arrears across all IV-D programs have been growing at about 5 percent per year. The national collections rate on arrears during this period has been about 6 percent. It is estimated that arrears must be collected at a rate of 12 percent per year in order to stop arrears from growing.

## Arrears Management Strategies

The nine study States have undertaken numerous actions to manage their arrears. Some of their efforts are summarized below:

### Prevent arrears from accruing in the first place.

All of the study States have moved in varying degrees toward using Quarterly Wage data to help set realistic orders.

States are trying to increase parental participation in the order establishment process by making documents easy to understand.

Two of the study States, Texas and Michigan, revised their retroactive support statutes in the past few years. Prior to these changes, both States were allowed to seek retroactive support back to the date of the birth of the child. Now, Texas may go back up to four years prior to the date of filing, and Michigan may go back to the date of filing unless there is willful avoidance.

A variety of early intervention strategies have been adopted by the study States in order to intervene early enough after the order is established to minimize delinquency in the first place through direct customer contact.

Most of the States have programs that provide employment services and case management to unemployed or under-employed NCPs who are unable to pay their child support.

### Manage Existing Arrears

Three provisions of the Deficit Reduction Act of 2005 should help States collect more arrears:

- The threshold for denying passports was reduced from \$5,000 to 2,500.
- The Act authorizes the use of the Federal Tax Offset program to collect child support

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arrears owed to adult children in non-TANF cases effective October 1, 2007.

- The act authorizes OCSE to match cases with arrears to information maintained by insurance companies effective October 1, 2005.

Some States revised their regulations concerning interest. Michigan recently reduced its interest rate from 8 percent to a variable rate tied to the 5-Year U.S Treasury Note, and Texas reduced its interest rate from 12 to 6 percent.

Several States have implemented “Arrears Amnesty” programs and “Arrears Compromise” programs. Arrears Amnesty programs allow obligors to come forward and start to correct their delinquencies without fear of being arrested. For example, Lehigh County in Pennsylvania operated an amnesty program for one week in June 2006. Obligor who had failed to appear for scheduled hearings or had failed to comply with contempt orders were informed that a bench warrant had been issued for their arrest. They had the opportunity to dispose of the warrant by reporting to the child support agency and agreeing to a repayment plan.

Debt compromise programs provide a way to reduce or eliminate arrears owed to the government, usually in exchange for compliance with a payment plan. Various States have passed legislation and implemented programs that created ways to reduce arrears permanently assigned to the government. States often require that obligors comply with various requirements such as a lump-sum payment towards arrears, or meeting a payment plan to improve payments toward current support.

## Conclusion

It is important to note that many factors contribute to arrears and thus multiple strategies are needed to address it. Also, even though there are common factors affecting arrears, the study found there was a great deal of variation among the States. It is important for a State to learn what factors are contributing to arrears and design its arrears management program accordingly.

Arrears have been accumulating for over thirty years. There is not going to be one quick, easy solution. The ultimate goal is to make child support a reliable source of income for children.

U.S. Department of Health and Human Services  
Administration for Children and Families  
Office of Child Support Enforcement  
<http://www.acf.dhhs.gov/programs/cse/>



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