

Acknowledgements

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Report 4.

Table 1. Debt Reported by the CASES Consortium and IDB by County

Table 2. Number and Percent of Cases and Noncustodial Parents in the 2000

Executive Summary

I. Introduction

Child support arrears (past due support) have grown dramatically in California during the past 10 years. In March 2000, when the Collectibility Study began, California had \$4.5 billion in child support arrears. By FY 2001, the arrears had grown to \$17 billion, representing 20 percent of the nation's child support arrears. That same year, California had only 12 percent of the nation's caseload. Ten years earlier, in FFY 1992, California's arrears stood at \$2.5 billion, or 10 percent of the nation's arrears, and it had 10 percent of the

61 percent were found in three years of EDD quarterly earnings data (1997-1999). We found 59 percent of debtors in FTB's Wage Master File and 30 percent each year in California's income tax records (1996-1998). We found 27 percent of debtors in GCSE's quarterly earnings data for outside of California. These databases, all of which include earnings information, identified nearly 80 percent of California's child support debtors.

We also examined several data sources that did not report earnings or income, but reported bank accounts, Medi-Cal receipt-

amount of debt held among those who had some form of debt was only \$2,200.

Characteristics Used to Analyze Collectibility

Prior research on the collectibility of child support debt and tax debt suggests the

A Significant Share of the Debt is Owed by Parents with Low Income and High Debts

**Table 10. Estimating the Collectibility of California's Arrears
Using the Revised Micro- Using the Revised Su8 (Tj 138.75 Revise re h**

Assessing interest at 10 percent per year.

Analyzing 29 California LCS cases we find that 10 Percent of Assets accrued
Between November 2000 and October 2001 were held by Debtors Who
Could Not Afford to Pay their Child Support Obligations. Percent Held by
Debtors Who Do Pay their Order and Not

charged on unpaid child support, similar to the one charged by the FTB on tax underpayments, while penalties could be assessed if there is evidence of active evasion on the part of the noncustodial parent. This approach ensures that late payments reflect the time value of money, but does not penalize noncustodial parents for nonpayment unless there is reason to do so.

17. Apply Arrears Payments to Principal Before Interest

Report 1

Child Support Performance Measures and County Characteristics: How Related Are They?

c. Rate of Summons Served in FFY

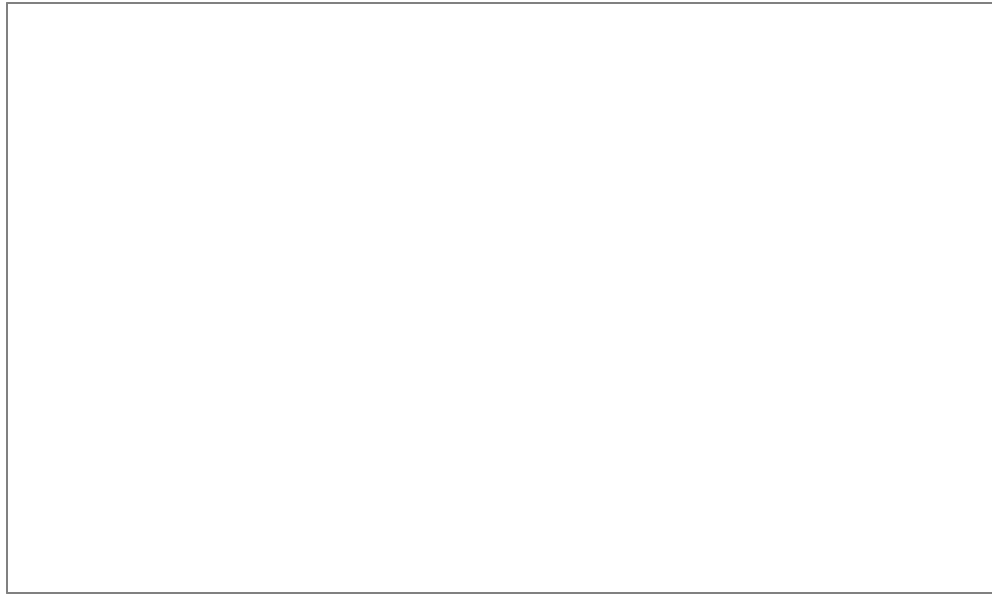
- Formula: Obligors or putative fathers served with a summons and complaint in the fiscal year divided by the number of IV-D cases needing paternity established or support orders at the end of the federal fiscal year.

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d. Rate of Support Orders Established in FFY

- Formula: Number of IV-D cases with a support order established in the fiscal year divided by the number of IV-D cases needing a support order at the end of the federal fiscal year.

e. Percent of Cte2299scal y69 1



IV. Relationships between County and IV-D Caseload Characteristics and Child Support Performance

We examined the relationship between county and IV-D caseload characteristics and the county performance measures. Table 2 lists the twenty economic, social and demographic measures of county characteristics and the eight measures of IV-D caseload characteristics considered in the analysis.-

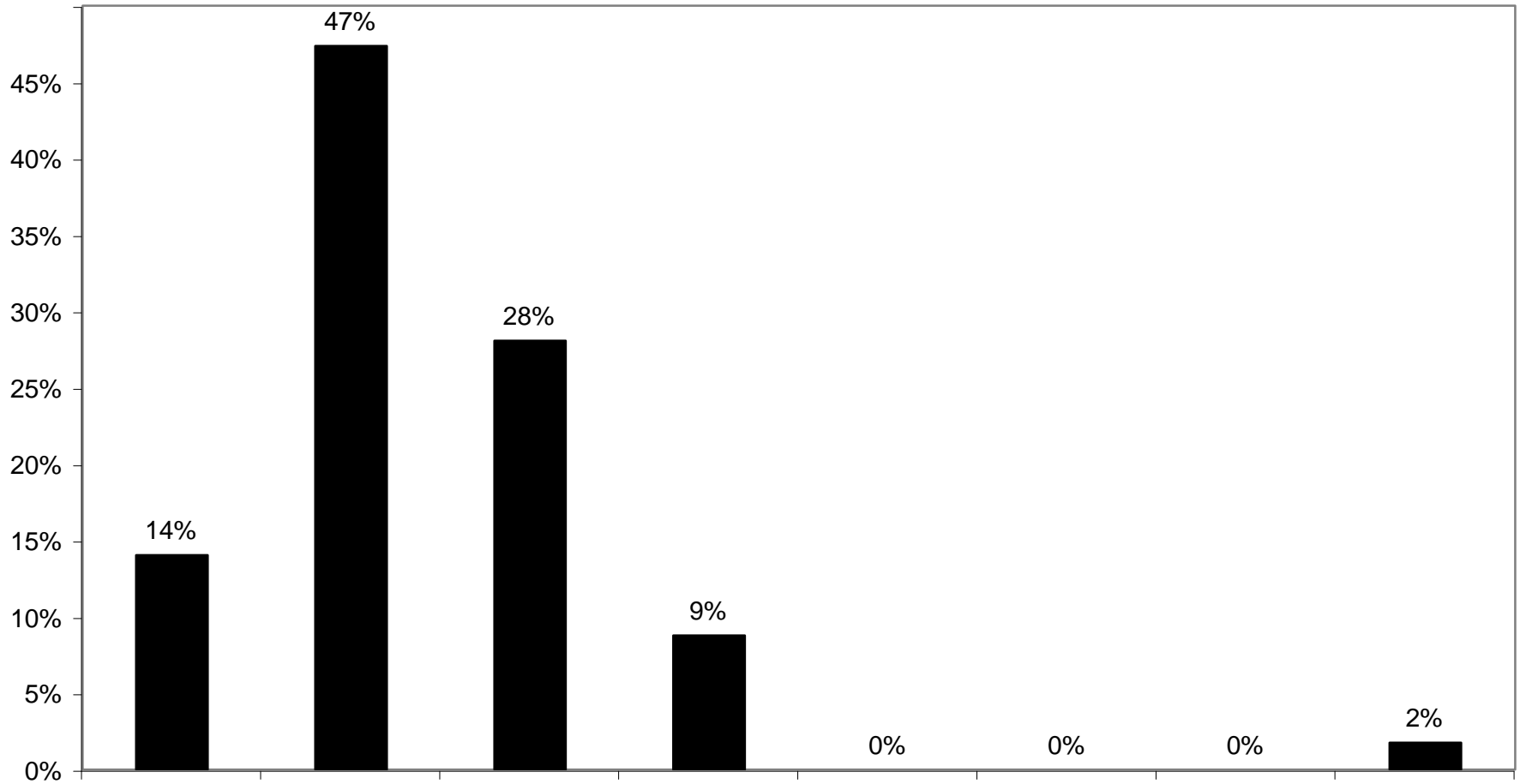
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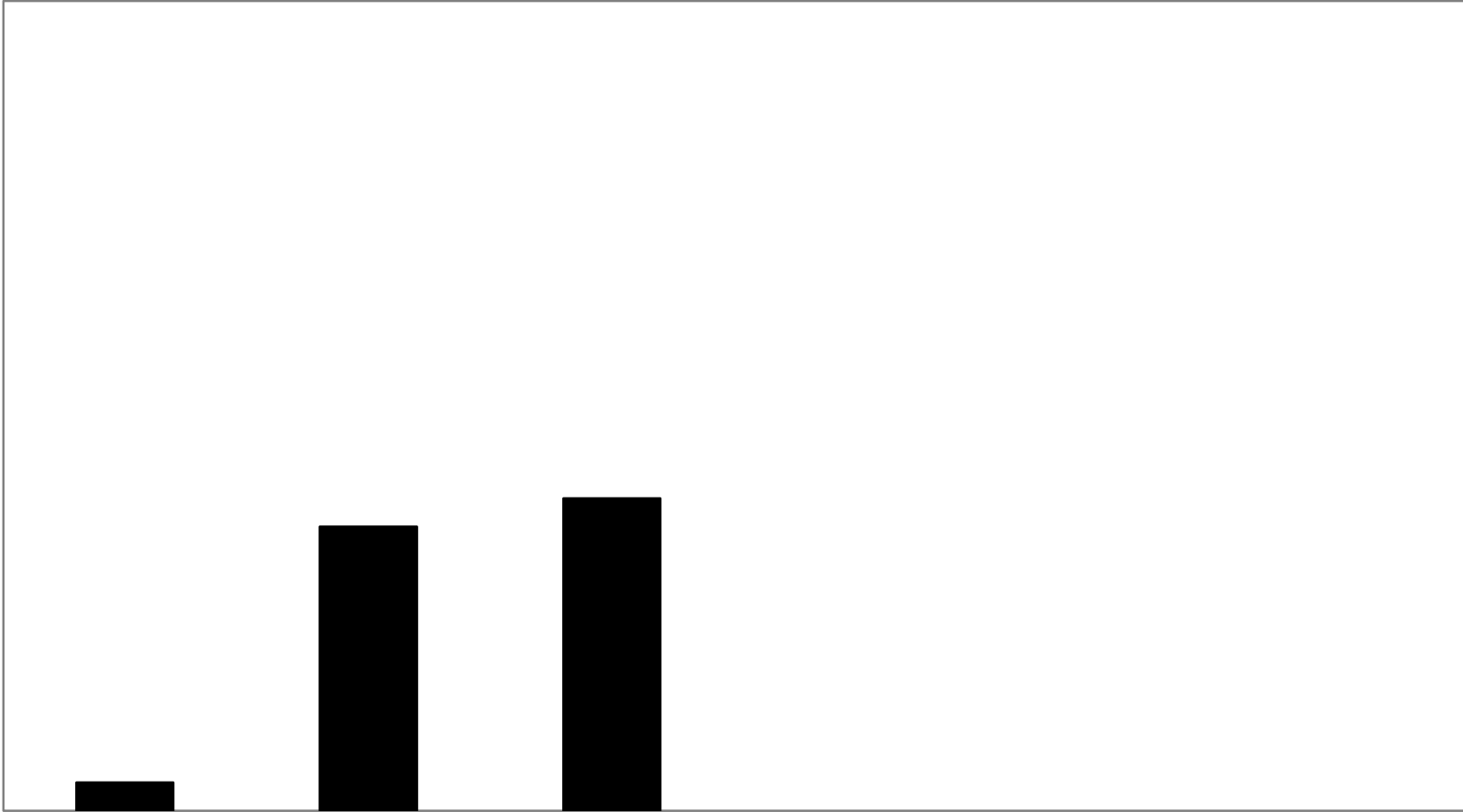
other and were significantly related to the same performance measures. In the final analysis, we used the per capita income measure because it had the strongest

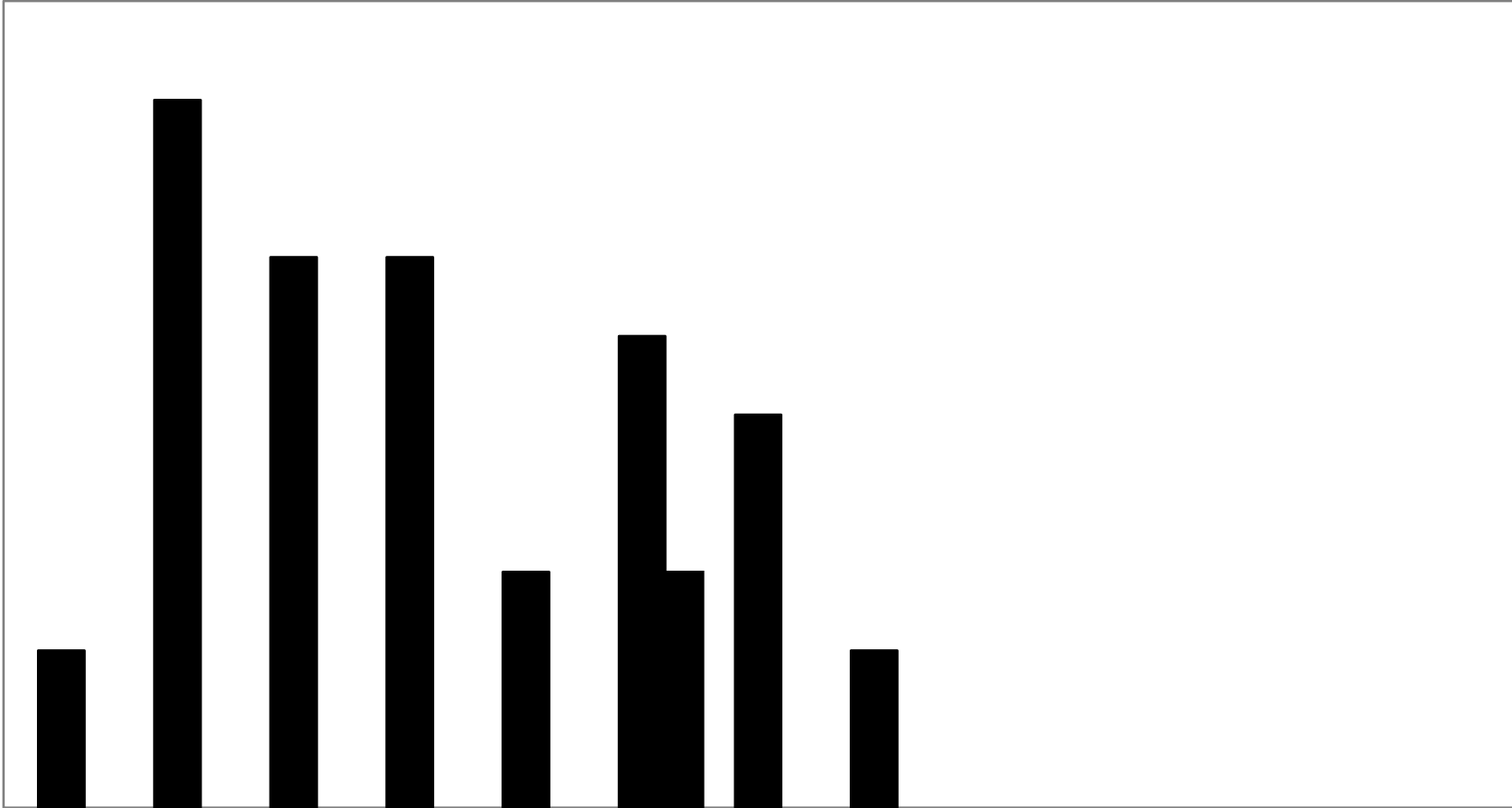
Table 5. Regression Models

APPENDIX A

Figure1. Percent of Counties by Collections Rate







the Treasury, Financial Management Services (FMS)). Updated information is turned from these agencies to the IDB, which, in turn, creates reports on any intercepts. Any collections are sent directly to the LCSAs.

The IDB does not reflect all of the child support arrears in California. Counties are

Table 1. Comparison of 1999 Arrears from IDB and CSSTAR

LCSA	IDB	CSSTAR	Ratio
Alameda	506,212,812	549,687,514	92%
Alpine	1,582,915	1,560,972	101%
Amador	16,474,559	16,641,437	99%
Butte	121,328,490	220,205,845	55%
Calaveras	19,426,673	20,905,923	93%
Colusa	6,044,915	5,885,161	103%
Contra Costa			

0.252 Tw () Tj 92.25 0 TD 0.247 Tc 0 Tw (55%) Tj

Sixty-one percent of California's child support debtors (509,095) have a current child support order. Among those with a current order, the median amount due is \$300 a month. In other words, half of the debtors with current orders are suppose to pay less than \$300; half are suppose to pay \$300 or more. Table 7 gives the distribution of current child support orders for child support debtors.

The IDB reports a birth year for 75 percent of the debtors. The median age for those with a birth year is 39 years old. Sixteen percent of the debtors are under 30; 14 percent are 50 years old or older; 70 percent are in their thirties and forties.

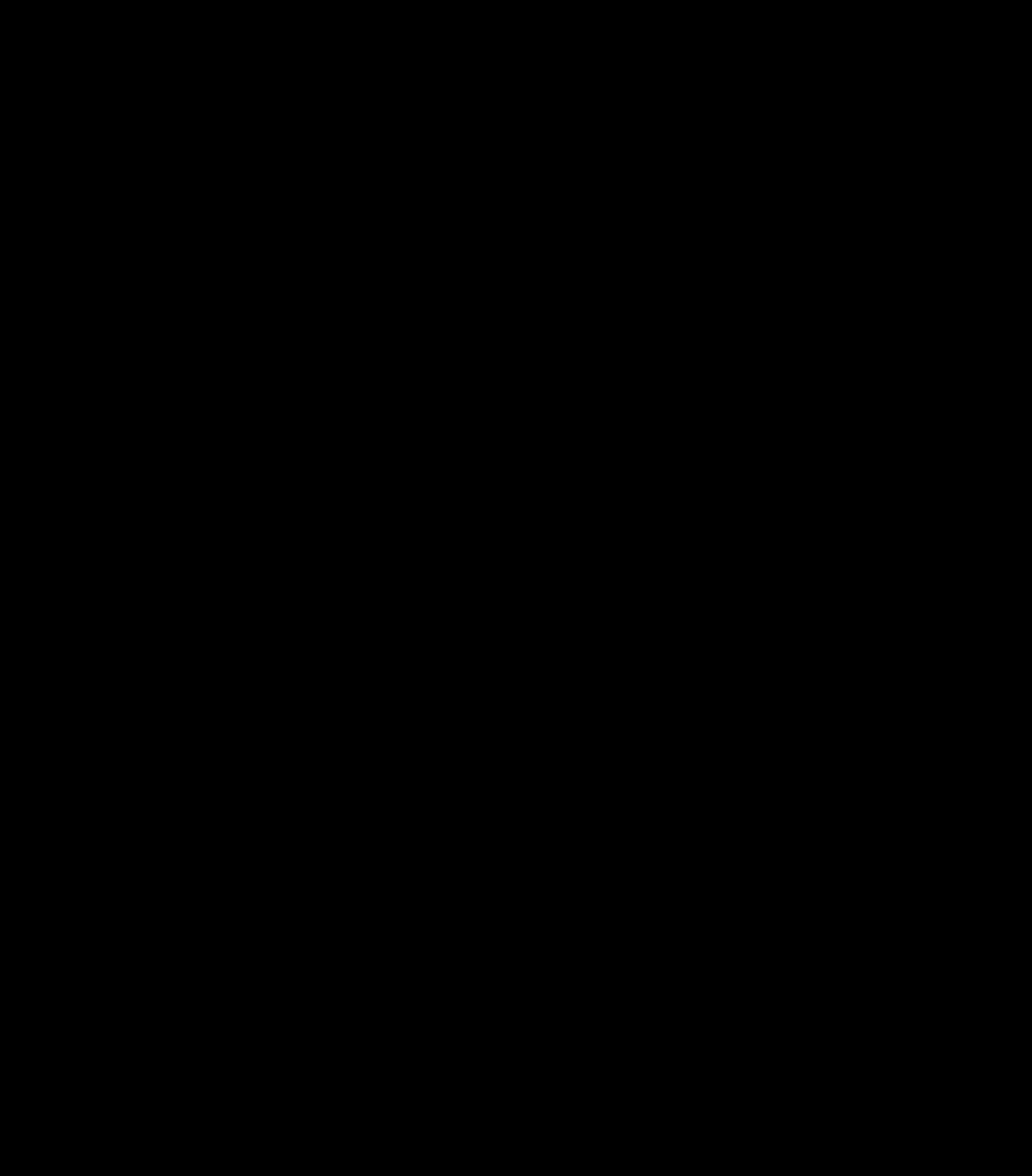
IV. Other Data Sources that Will be Used in the Collectibility Study

This section describes the numerous statewide data sets that we examinherors with c5 0 TD 0 Tc p

with c5 0aildus5 0 TDharacquaizeCoe underindividualde TD 0.0052 Tc -0.2121 Tw (mon1IDB reporrho h2s chi

Table 8. Number and Percent of Debtors in Each Administrative Data Set

Administrative Data Set	Number of Debtors Matched to IDB	Percent of Debtors Matched to IDB
EDD Quarterly Earnings File (1997-99)	511,790	61%
Wage Master File (1998)	489,750	59%
California Income Tax (1998)	250,336	30%
California Income Tax (1997)	247,899	30%



of

Table 9. Annual Earnings in 1999 for Child Support Debtors and Other California Workers

	Child Support Debtors	Other California Workers
Number with positive 1999 earnings ³		

percent of California's child support arrears are owed to the government; only 30 percent is classified as non-TANF and owed to families.

-

Endnotes

¹ California Franchise Tax Board. 1999. "Improving the Collection of Child Support Arrearages in California." (June).

Once a debtor i

recent income in earlier years was \$12,754. Only seven percent of debtors without recent income had a positive bank account balance, which is about half the percentage figure for debtors with recent income.

About half (53 percent) of the debtors without recent income have a child support order; for those with a child support order, the median amount is \$277 a month. This median amount is only \$25 a month less than the median child support order for debtors with recent income. Thus, debtors without recent income who have a child support order are expected to pay approximately the same amount in current support as debtors with recent income.

Examining Debtors with Recent Income

Table 5 reports the median amount owed in child support arrears and the median amount owed in current support by income level for debtors who do have recent net income. It also reports the ratios of the amount owed in arrears and current support to net income. In general, debtors with recent income owe a median amount of \$8,118 in child support arrears, which is somewhat lower than the median amount for all debtors (\$9,447). The debt-to-net income ratio for all debtors with recent income is .89, meaning that this group of debtors holds 89 cents of debt for each dollar of net income. For those who have a monthly child support order, the median monthly order amount is \$305, which represents 35 percent of their net income.

Table 5 also shows, however, that for debtors with net incomes below \$5,000, child support arrears are exceedingly large relative to their annual income. We calculate a debt-to-net income ratio for these debtors of 7.58, which means that for every dollar of net income these debtors owe \$7.58 in child support arrears. In contrast, debtors with incomes over \$70,000 have a debt-to-income ratio of .05, meaning that for every dollar of their net income they owe 5 cents in child support arrears. Even in absolute terms, low-income debtors have more child support debt than high-income debtors. Table 5 shows that the median debt for noncustodial parents with net incomes below \$5,000 is \$10,790, while the median debt for noncustodial parents with net income over \$70,000 is half that amount.

The debt-to-income ratios for low-income debtors are exceedingly high relative to similar ratios calculated for low-income families holding private debt, such as credit card balances, installment loans, and home-secured debt. According to research reported in the Federal Reserve Bulletin, less than half of families with incomes below \$10,000 held any form of private debt in 1998. The median amount of debt held among those who had some form of debt was only \$2,200 and their debt-to-income ratio was .9.²

One factor that appears to be contributing to the large arrears of low-income obligors is the high current support orders that they face. Table 5 shows that individuals who have a child support order and have incomes below \$5,000 have a median child support order of \$280 a month. These orders are twice as high as the debtors' net monthly income. Even debtors with net incomes between \$5,000 and \$10,000 who have a child

Income is a strong predictor of paying off one's debts, so much so that the private sector uses income to determine access to loans. In its review of unpaid tax

Simulation Results Regarding the Collectibility of California's Arrears

Our next task is to estimate how much California can realistically expect to collect of the \$14.4 billion in child support arrears. We estimate potential collections over a 10-year period since child support debt in California has no statute of limitation. We limited our estimation to 10 years because the methodology that we employ is not flexible enough to project far into the future. We should note that after the first year or two, the amounts that we estimate that could be collected decline dramatically, and, by the end of the tenth year, are quite small. This is because most debtors have relatively small debts, and, in our simulation, they pay these debts off relatively quickly. Remember, as we noted earlier, half of debtors have debts below \$10,000. These are large sums of money, but many debtors can pay these amounts off. It is the 30 percent of debtors 95.25 -1 -14 notbuhilda

Endnotes

¹ We should note t

We also find that everyone did not pay 30 percent of their net income toward child support, arrears, and interest, or any other fixed percentage figure. Instead, the percent of net income devoted to child support, arrears and interest falls as a parent's net income rises. Parent debtors who have a child support order and net incomes over \$30,000, for example, are only paying 19 percent of their net income toward child support, arrears, and interest.

V. Revising the Simulation Model

The primary revision to the microsimulation involved changing our assumptions regarding how much parent debtors could pay toward their arrears. Instead of assuming that parent debtors paid 30 to 50 percent of their net income toward current support, interest, or arrears, we assume that all parent debtors in 5aestatent oCali, fniaet

order was sl

the custodial parent. These assumptions should yield the

parents from paying arrears and current support and, possibly, drive them to the underground economy and away from their children.

How did we determine that 27 percent of child support arrears were interest? -

The

Data Base) does not indicate how much of arrears are interest. However, we obtained information from 27 LCSAs in two of California's Child Support Consortia

– CASES and StarKIDs.¹² Using these data, we calculated the percent of arrears that are interest in these LCSAs. We then estimated an ordinary least square regression on the 27 LCSAs. The dependent variable was the percent of arrears that

have to be delivered to the person named in the proceeding, referred to as personal service. If a complaint cannot be

presumed to generate a minimum MBSAC order.²³

12

child support authorities from benefiting from their evasion. However, it appears that charging back support deters noncustodial parents from paying child support. A recent study by the Office of Inspector General for the U.S. Department of Health and Human Services found that obligors who were charged ca419 3 less likely to parent. A recent

Our regressions include the following control variables:

1. the welfare status of the custodial parent,
2. the current net income of the noncustodial parent,
3. whether there is a current order,
4. the number of children covered by the current order,
5. whether the original order was for arrears only, or for both arrears and current support, and
6. whether a wage withholding order is currently in place.

The reason we control for these characteristics is because we think they will influence payment behavior and the amount of arrears owed. We expect to find that debtors with children currently or formerly on welfare will be less likely to pay child support and will have higher arrears than debtors with children who have never been on welfare, even after controlling for other factors, because it is likely that some of their payments will go to the government rather than their children, which could discourage them from paying support and increase their arrears. We expect to find that payment rates increase and arrears decline as income rises since debtors have a greater ability to pay as income rises.

After controlling for other factors, we expect to find that payment rates are higher and arrears are higher when a debtor has a current support order because our payment rate reflects current and arrears payments and debtors with a current and arrears order are likely to have greater arrears than arrears-only debtors, all else being equal. We expect arrears to increase as the number of children subject to the order increases, even after controlling for other factors, because the order amount increases with the number of children. We do not have an expectation regarding the relationship between payment rates and the number of children subject to the order, once other factors are taken into account. We expect debtors whose original order is for arrears only to be less likely to pay support, but to have lower arrears than other debtors for the same reasons given above regarding debtors with a current support order. Finally, as we discuss more thoroughly below, we expect that debtors with a wage withholding order in place to be more likely to pay support and have lower arrears, all else equal.

In Ten California LCSAs, Debtors were Significantly Less Likely to Pay Child Support and Had Significantly Higher Arrears if their Orders were set by Default, their Orders were set at MBSAC Levels, or they were Assessed Back Support than Similarly Situated Debtors who were not affected by these Policies

We find that default orders, orders set at MBSAC levels, and back support are all associated with significantly lower payment rates and higher arrears balances, even after controlling for other intervening factors, in the ten LCSAs for which we have complete information. Specifically, as Table 6 shows debtors with default orders were 17 percent less likely to pay support over a 12-month period and had arrears balances that were 26 percent higher than other similarly situated debtors without default orders.

Debtors with default orders set at MBSAC levels were 27 percent less likely to pay

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inadequate and

As noted above, California's threshold states that an order must change by 30 percent of the current order and by \$50 a month. California applies this threshold to all requests for review and adjustment, regardless of the three-year cycle. We should note,

findings strongly suggest that all debtors who had their orders set at MBSAC levels

owed rewards irresponsible behavior and discourages obligors from paying on time,

Make Equitable Adjustments to Existing Arrear2 Balances. Massachusetts is considering adopting a policy whereby state-owed arrear2 are adjusted if a debtor's arrear2 reflect periods in which the child support order greatly exceeded the debtor's ability to pay. For example, if a debtor spent several year2 in prison and never had his/her child support order modified during that period, any state-owed arrear2 accrued during that period would be forgiven by the child support agency.

We recommend that the California Legislature give DCSS the authority to consider all of these options. The last one, in particular, deserves consideration since we show that child support orders for low-income obligor2 in California have tended to exceed de25 wed arrear2 accrued

- ***Eliminate the Use of MBSAC in Determining Presumed Income and Instead:***

1. *Maximize the use of all income data sources, including income history, when setting orders; always review quarterly earnings and tax information*
2. *Presume income at full-time minimum wage if actual income or income history is not found; allow one year to set aside presumed income and notify obligors of set-aside when making first collection*

- ***Ask Employers for the Wage Rate and Estimated Weekly Hours of New Employees on the New Hire Directory Form and Make this Information Available to LCSAs to Help in the Process of Setting Orders***

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Endnotes

Little Hoover Commission. 1997. *Enforcing Child Support: Parental Duty, Public Priority*. Report
May. -

¹⁹ See U.S. Department of Health and Human Services, Office of Child Support Enforcement. 2002.

³⁷ Office of Child Support Enforcement. 1999. *Compromise of Child Support Arrears*. PIQ-99-03. March. Washington, D.C.: U.S. Department of Health and Human Services.

³⁸ See U.S. Department of Health and Human Services, Office of Child Support Enforcement. 2002. *Managing Child Support Arrears: A Discussion Framework*. <http://www.acf.dhhs.gov/programs/cse/pubs/2002/reports/arrears/index.html>.

³⁹ *Ibid.*

⁴⁰ *Ibid.*

⁴¹ For a description of the Maryland program, see Maryland Child Support Enforcement Administration. 2000. *State Owed Child Support Arrears Leveraging Program*.

a valid SSN, we estimate 1,634,253 noncustodial parents in theD /F1 12 Tf - Tw 1 Tf 0 Tw () Tj E

Endnotes

¹ See Report 2.

² Sorensen, Elaine and Chava Zibman. 2001. "Getting to Know Poor Fathers Who Do Not Pay Child Support." *Social Service Review* 75(3): 420-434.