

Assessing Child Support Arrears in Nine Large States and the Nation

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EXECUTIVE SUMMARY

Despite record child support collections by state child support programs, considerable sums of child support go unpaid every year. These past due payments of child support, referred to as child support arrears, accumulate each year and have reached unprecedented levels in recent years. In September 2006, the federal Office of Child Support Enforcement (OCSE) reported that the total amount of child support arrears that had accumulated nationwide since the program began in 1975 had reached \$105.4 billion.

These large amounts of arrears are disturbing for many reasons. First and foremost, most of these arrears are owed to custodial families who would benefit if they were collected. Second, some of these arrears are owed to the government. If these arrears were collected, it would improve the cost effectiveness of the child support program. Finally, high arrears are often interpreted by the public as a sign of agency incompetence and a failure to serve custodial families, when, in fact, the picture is more complicated than that.

The purpose of this report is to provide information about the underlying characteristics of child support arrears in the nation and in nine large states to help OCSE and state child support programs (also known as IV-D programs) improve their ability to manage arrears. The nine study states are: Arizona, Florida, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas. They were selected because of their relative size. Collectively, they held 39 percent of the nation's arrears in FY 2006. Each of the study states volunteered to participate in the study and provided detailed administrative data about their obligors and the arrears they owed. These data were matched by OCSE to six quarters of national quarterly wage and unemployment insurance data. Based on these data, each study state was provided with a detailed analysis of their arrears. This report draws from those analyses.

The analysis is organized around three basic questions:

- 1) Who owes the arrears?
- 2) How collectible are the arrears?
- 3) Why have arrears grown so rapidly?

Below, we summarize our findings for each of these questions. The report concludes with a discussion of actions taken by the study states to manage their arrears. This discussion is also summarized below.

Who Owes the Arrears?

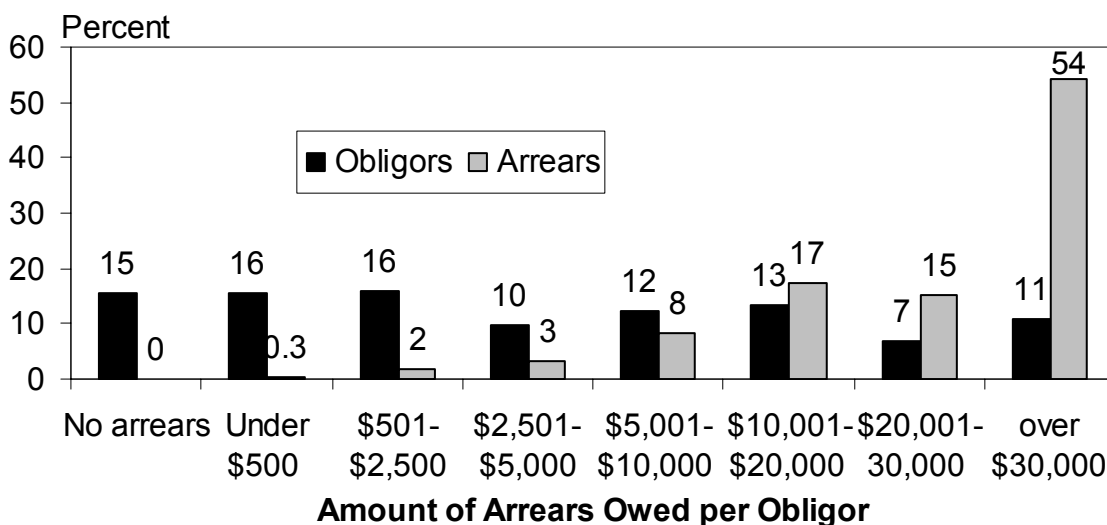
Child support arrears have a very distinct distribution.¹ Most of the arrears are owed by a relatively small number of non-custodial parents, each of whom owes a large amount of arrears. In the nine study states, 11 percent of the non-custodial parents with an

¹ Throughout this report, child support arrears include principal and interest unless otherwise noted.

obligation to pay child support, or obligors, owed 54 percent of the total arrears held by these states.² Each of these obligors owed over \$30,000 in arrears.

The arrears distribution found in the nine study states is similar to that found in other states and for the nation as a whole. In California, 11 percent of the non-custodial parents who owed arrears owed a total of 45 percent of the state’s arrears in March 2000 and each of those debtors owed over \$40,000 in arrears.³ Using data from the federal tax refund offset program in April 2006, researchers found that 43 percent of the nation’s certified arrears were owed by just 10 percent of the debtors, each of whom owed over \$40,000 in certified arrears.⁴

Chart 1. Percent of Obligor and Arrears in Nine States, by Amount of Arrears Owed: 2003/04



Source: Data are from Arizona, Florida, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas.

On the other hand, most of the obligors in the nine study states owed relatively small amounts of arrears. In fact, 15 percent of the obligors did not owe arrears at the time of the study. Another 16 percent of obligors owed less than \$500 in arrears. Adding obligors across the first four categories of arrears in the chart above shows that 57 percent of the obligors in the nine study states owed \$5,000 in arrears or less. These findings are also corroborated by other research on national certified arrears.⁵

Given that most obligors owe relatively modest amounts of arrears, one can easily understand why a casual observer might conclude that arrears should be easy to collect. Unfortunately, as we discuss below, this is not correct. While most obligors

² The data from the nine study states reflects either FY 2003 or CY 2004.

³ Sorensen, Elaine, Heather Koball, Kate Pomper, and Chava Zibman. “Examining Child Support Arrears in California: The Collectibility Study.” March 2003.

⁴ Dennis Putze, “Who Owes the Child Support Debt?” Presented at the Peer to Peer Training Conference sponsored by the federal Office of Child Support Enforcement (San Diego, CA) May 16, 2006.

⁵ Ibid.

owe modest amounts of arrears, they owe a small percentage of the total arrears held by state child support programs. In the nine study states, the 57 percent of obligors who owed up to \$5,000 in arrears owed less than 6 percent of the total arrears held by these states.

In the nine study states, the obligors who owed over \$30,000 in arrears, whom we refer to as high debtors, were quite different from other obligors. A major difference was the amount of reported income that high debtors had compared to other obligors.⁶ Nearly three quarters of the high debtors had no reported income or reported incomes of \$10,000 a year or less. In contrast, one fifth of obligors with no arrears had reported incomes this low. High debtors were also more likely than other obligors to have multiple current support orders, interstate orders, and orders that had been in effect for at least 10 years. In addition, they were less likely than others to have paid support in the last year and to have a ZIP code on record.

Just as high debtors tended to have no or low reported income, arrears tended to be concentrated among obligors with these characteristics. In the nine study states, 70 percent of the arrears were owed by obligors who had either no reported income or reported income of \$10,000 a year or less. It is probably not surprising to many readers that arrears tend to accumulate among individuals with no or low reported income because the most effective means of collecting support, wage withholding, is not effective among this population. Although some of these individuals may have unreported income (or assets), it tends to be very difficult to collect support from these individuals, which is evident when you compare payment rates among obligors by the amount of reported income that they have. In eight study states, 93 percent of obligors with reported incomes over \$10,000 a year paid child support in the past year, but only 57 percent of obligors with no or low reported income paid child support in the past year.⁷

Some child support professionals have suggested that states should examine obligors by their ability and willingness to pay child support.⁸ We attempted to stratify obligors in this manner, but found it difficult to do so given the data that we had available. In an effort to shed light on this idea, we divided obligors by the amount of reported income that they had and whether or not they paid child support. However, having no or low reported income does not necessarily mean individuals have no or a limited ability to pay child support. These individuals may have other sources of income beyond that which we had access to or they may have assets, which we had no information about. Nonetheless, it is instructive to see how arrears are distributed by reported income and payment behavior.

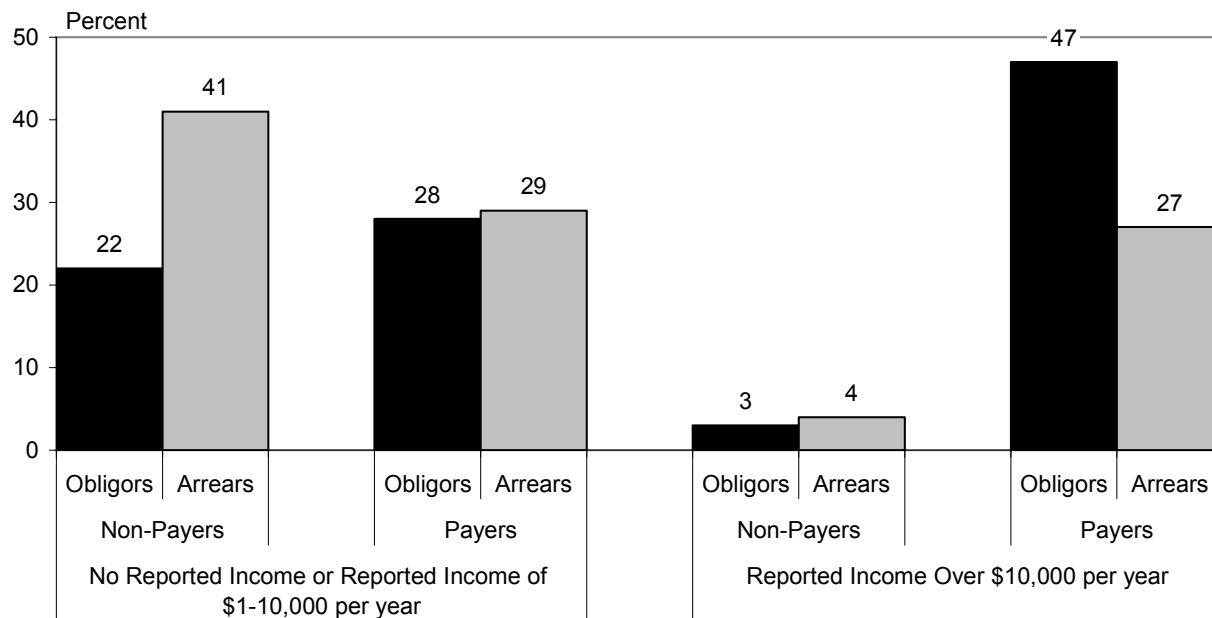
⁶ As noted in the text, six quarters of quarterly wage and unemployment insurance data were matched by OCSE to each of the study state data files. The Urban Institute used these matched data to create an annualized income variable for each obligor. The annualized income variable includes quarterly wages and unemployment compensation. We refer to this annualized income variable as “reported income” throughout this report.

⁷ New York is not included here because it did not provide 12 months of payment data.

⁸ For example, see Center for the Support of Families, “Child Support Delivery Study: Final Report and Recommendations.” Prepared for the Minnesota Division of Child Support Enforcement. January 1999.

We find that, when obligors were divided by their payment behavior and reported income amounts, the only group of obligors who owed significantly more arrears than it represented in the obligor population was those who had no reported income or reported income of \$10,000 a year or less and did not pay child support in the past year. In eight study states, 22 percent of the obligors fell in this category, but they owed 41 percent of the arrears in these states.⁹ These findings suggest that this group of obligors – those with no or low reported incomes who do not pay child support -- are the most difficult to collect from. Another large group of obligors (28 percent) had no or low reported incomes and paid child support in the past year. These obligors owed roughly a proportional share of the arrears (i.e. 29 percent). Thus, this group of obligors – those with no or low reported incomes who paid child support – were not contributing disproportionately to arrears in these states. This suggests that these study states did not have as difficult a time collecting from these obligors as they did from those with no or low reported income who did not pay child support for a year.

Chart 2. Percent of Obligor and Arrears in Eight States, by Annual Reported Income and Payment Status in the Last Year: 2003/04



Source: Child support data are from Arizona, Illinois, Florida, Michigan, New Jersey, Ohio, Pennsylvania, and Texas. Reported income is based on six quarters of national quarterly wage and unemployment insurance data from OCSE.

Due to insufficient data, we cannot conclude that all obligors with no reported income or reported income of \$10,000 a year or less and did not pay child support for a year are “unable to pay child support”. Some of these obligors may be self-employed or working in industries that are not covered by quarterly wage data. Others may be working in covered industries, but are working under the table. Still, some may be engaged in

⁹ New York is not included in chart 2 because we did not receive 12 months of payment data.

illegal activities. It may be that individual obligors within this group have large amounts of unreported income and sizable assets, but the group as a whole appear less able to pay child support than other groups of obligors. This conclusion is based on the median order amounts that these obligors were expected to pay, which were considerably lower than the median order amounts of other obligors, including those who had no or low reported income and paid support. Specifically, in seven study states, the median order for obligors with no or low reported income who did not pay child support for a year was \$180 per month, which was \$59 per month lower than the median order for obligors with no or low reported income who paid support.¹⁰ In addition, we should note that other research has found that 10 percent of debtors who did not match to four quarters of quarterly wages were institutionalized, 9 percent were receiving Social Security Administration benefits, and 6 percent were receiving Supplemental Security Income benefits, suggesting that about a quarter of the obligors without reported quarterly wages are either disabled or incarcerated.¹¹ Another study of debtors with no reported wages for four quarters looked at their income in the following year.¹² Less than half of these obligors had any income in the following year. And of those that did have income, the amounts were low (median \$7,500). Because this group of obligors – those with no or low reported income who did not pay child support for a year -- is contributing disproportionately to arrears, it is important that child support enforcement agencies focus on these obligors and learn more about them.

Chart 2 also shows that a very small percent of obligors in eight study states had an ability to pay child support (i.e. their reported incomes were over \$10,000 a year), but they did not pay child support for a year. Only 3 percent of the obligors fell in this category in the eight states and they owed 4 percent of the arrears in these states. In contrast, nearly half of the obligors (47 percent) had an ability to pay child support (i.e. their reported income was over \$10,000 a year) and they paid child support in the last year. They owed 27 percent of the arrears in these states, a much smaller proportion of the arrears than their relative share of the obligor population.

State Variation in Arrears

We find that the study states varied by the characteristics of their obligors and this variation helped explain differences in the amount of arrears held by states. The extent to which obligors matched to quarterly wage and unemployment insurance data varied by state, with New York having the lowest match rate at 68 percent and Pennsylvania having the highest match rate at 80 percent. Of course, the more obligors who match to quarterly wage data the easier it is to collect support and keep arrears under control. Thus, based on this measure, Pennsylvania had an easier time managing its arrears than New York.

¹⁰ Florida was not included here because we did not receive order amounts from this state.

¹¹ U.S. DHHS, OCSE, "Story Behind the Numbers: Who Owes the Child Support Debt?" July 2004.

¹² Karen Gardiner, Mike Fishman, Sam Elkin, and Asaph Glosser. *Enhancing Child Support Enforcement Efforts Through Improved Use of Information on Debtor Income*. Final Report prepared for the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. October 2006. <http://aspe.hhs.gov/hsp/07/CSE-enhancement/debtor>

States also varied by the extent to which their obligors had arrears-only cases. In Illinois, Michigan and New York about a quarter of the obligors had arrears-only cases, but in other states, such as Ohio, considerably fewer obligors had arrears-only cases. While obligors with arrears-only cases are no longer accumulating new arrears, they tended to owe large amounts of arrears. Thus, states that have larger percentages of arrears-only cases tended to have higher arrears than states that did not.

Another characteristic that varied among the states was the proportion of obligors with a current support order who had more than one current support order, meaning that they had more than one family for whom they owed current support. In Arizona, 8 percent of the current support obligors had two or more current support orders, the lowest percentage among the study states. The highest percentage figures were in Illinois, New Jersey, and Ohio. Each of these states had 15 percent of their current support obligors with two or more current support orders. These obligors tended to owe about twice as much of the arrears owed by current support obligors than they represented in the population. Thus, in Illinois, New Jersey, and Ohio, current support obligors with two or more current support orders owed over 30 percent of the arrears owed by current support obligors.

Differences in state policies also influenced the amount of arrears each state held. Study states that assessed interest on a routine basis had considerably higher arrears per obligor than states that did not. States that assessed retroactive support on a routine basis tended to have higher arrears per obligor than states that did not. States that appeared to impute income when establishing orders in a large percentage of their cases tended to have higher arrears per obligor than states that did not.

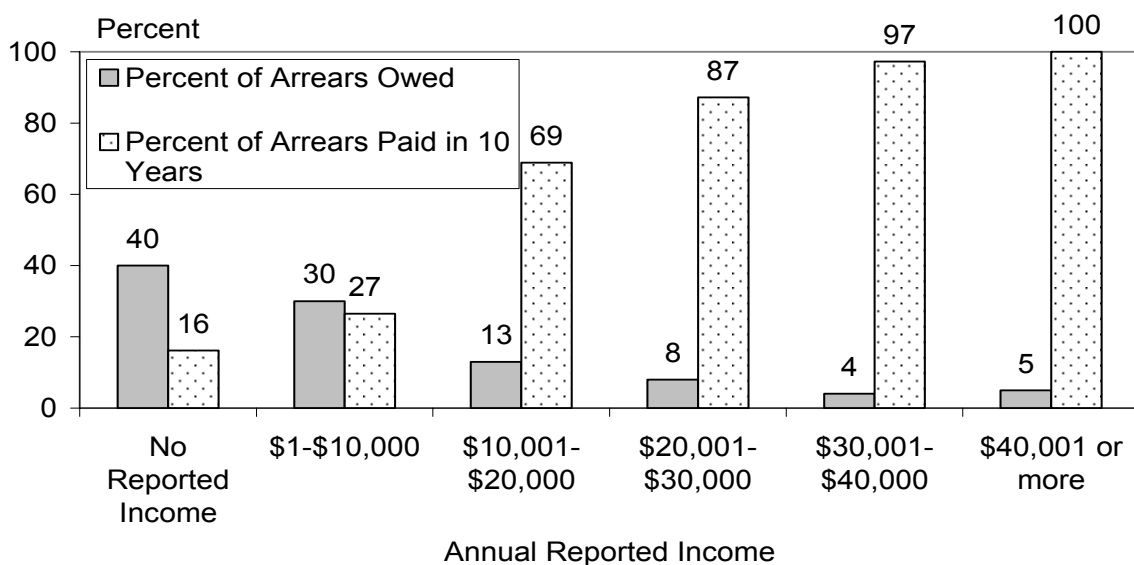
Furthermore, state policies can influence the characteristics of obligors. For example, in Pennsylvania, nearly all orders established in the state are in the IV-D program. The Domestic Relations Court in Pennsylvania provides IV-D services under a cooperative agreement and it includes IV-D applications as part of the court intake process. Individuals are not required to complete the IV-D application, but because it is part of the intake process, most people do. This practice may explain why 70 percent of the obligors in Pennsylvania had their IV-D case opened within a year of their order established. Other study states had considerably fewer obligors who had their orders established and their IV-D cases opened within a year of each other. This is an important distinction because obligors who had their IV-D cases opened around the same time as their order was established tended to owe considerably less arrears than other obligors. In Pennsylvania, for example, the median amount of arrears owed by obligors who opened their IV-D case around the same time as their order was \$800, while the median amount of arrears owed by obligors who had their order established at least a year *after* their IV-D case was opened owed twice that amount.

How Collectible are the Arrears?

To answer this question, we developed a microsimulation model that estimates how much arrears are likely to be collected over a 10-year period and how much arrears are likely to grow during this time frame. Combining results across seven study states, we estimate that 40 percent of the arrears owed at the time the data were extracted will be collected over 10 years.¹³ At the time the data were extracted, these states held \$30 billion in arrears; we estimate that \$12 billion of that will be collected in 10 years. In addition, we predict that arrears will grow in these seven states by 60 percent over 10 years, reaching \$48 billion in 2014.

The reason we estimate that less than half of the arrears will be collected over 10 years is because so much of the arrears are owed by obligors with no or low reported income. It is very difficult to collect from obligors who have no or low reported income. Further, the amounts that tend to be collected from these obligors are relatively small compared to the amounts of arrears that are owed. Thus, this combination of traits – no or low reported income and high arrears – result in very low arrears payment rates.

Chart 3. Percent of Arrears Owed and Percent of Arrears Paid in 10 Years for Seven States, by Reported Income Categories: 2003/04



Source: Child support data from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas. These data were matched by OCSE to national quarterly wage and unemployment insurance data, which were used to generate reported income.

Chart 3 shows that obligors with no reported income owed 40 percent of the arrears in these seven states, respectively, but they are estimated to pay only 16 percent of their arrears over a 10-year period. Similarly, obligors with reported incomes between \$1 and \$10,000 a year owed 30 percent of the arrears and they are estimated to pay 27

¹³ The seven states are: Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas.

percent of their arrears over a 10-year period. Thus, relatively little of these arrears are likely to be collected.

In contrast, once reported incomes exceeded \$10,000 a year, obligors tended to owe relatively small amounts of arrears. Further, these obligors are relatively easy to collect from since they have reported incomes that exceed \$10,000 a year. Because, in general, these obligors have relatively high reported incomes and lower arrears, they are predicted to pay considerably more of their arrears in 10 years. In fact, we predict that obligors with reported incomes over \$40,000 a year will pay 100 percent of their arrears in 10 years. These obligors, however, owed only 5 percent of the arrears in these states.

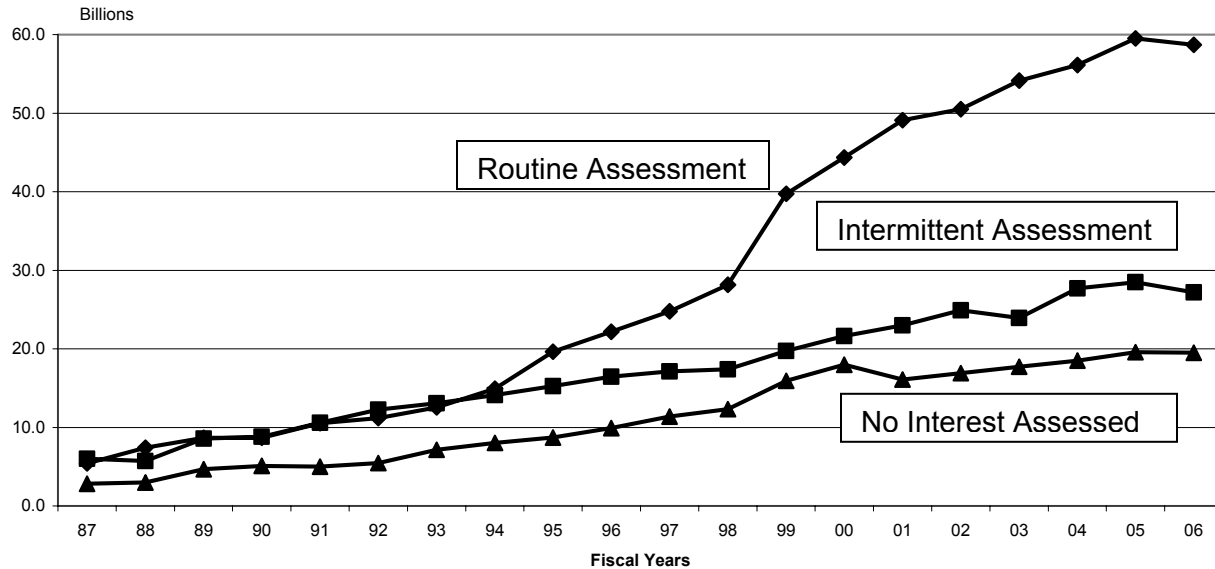
Why have Arrears Grown So Rapidly?

The primary factor that has caused arrears to grow so dramatically has been the assessment of interest on a routine basis. Many states began to assess interest on a routine basis in the 1990s, as their computer systems could manage to calculate and track interest. In addition, in 1986, Congress enacted legislation, referred to as the Bradley Amendment, which mandated that child support arrears be considered a judgment by operation of law. Since most states require that interest be charged on judgments, many states began to charge interest on child support arrears after this legislation was enacted. Today, 18 states charge interest on a routine basis, 18 states and Guam may charge interest but do so intermittently, and 14 states, Puerto Rico, the Virgin Islands, and the District of Columbia do not charge interest.¹⁴ The chart below divides states, territories, and the District of Columbia into these three groups and tracks their arrears since fiscal year 1987.

All states have experienced an increase in arrears between FY 1987 and FY 2006, but the chart below shows that states that charge interest on a routine basis have experienced a much larger increase in arrears than other states. Between FY 1987 and FY 2006, states that charged interest routinely experienced more than a ten-fold increase in arrears, going from \$5.4 billion in FY 1987 to \$58.7 billion in FY 2006. In contrast, other states saw their arrears grow about half as fast. States that charged interest intermittently experienced a 353 percent increase in arrears over this period (arrears went from \$6.0 billion in FY 1987 to \$27.2 billion in FY 2006), while states that do not charge interest experienced a 592 percent increase in arrears (arrears went from \$2.7 billion in FY 1987 to \$19.5 billion in FY 2006).

¹⁴ State interest policies are based on information from the OCSE Intergovernmental Referral Guide and telephone interviews with state child support administrators. The states that charge interest routinely are: Alabama, Alaska, Arizona, California, Georgia, Massachusetts, Michigan, Minnesota, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Rhode Island, Texas, Virginia, West Virginia, and Wisconsin. The states that charge interest intermittently are: Arkansas, Colorado, Guam, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Mississippi, Missouri, New York, Ohio, Oregon, Utah, Vermont, Washington, and Wyoming. The remaining states do not charge interest.

Chart 4. Child Support Arrears Held by State IV-D Programs from FY 1987 to FY 2006, Grouped by States' Interest Policies



Source: Arrears data are from OCSE, Annual Statistical Reports and Preliminary Reports.

Note: Data in FY 2006 are not strictly comparable to earlier years. In FY 2006, OCSE instructed states to not report arrears for responding interstate cases to eliminate the double counting of these arrears. Prior to that time, these arrears had been reported to OCSE by both responding and initiating states. Data are also not strictly comparable before and after FY 1999. In FY 1999, OCSE changed the reporting instructions to states regarding the inclusion of interest and penalties when reporting arrears.

We examined three other factors thought to contribute to arrears growth – the assessment of retroactive support, the lack of compliance with current support orders, and the low payment rate on arrears. Retroactive support did not appear to be a major factor contributing to arrears in the study states. This is not surprising since only three of the nine study states assessed retroactive support on a routine basis (i.e. Arizona, New Jersey, and Texas). Furthermore, these three states do not assess retroactive support back to the date of birth in paternity cases, which limits the amount of retroactive support that can be assessed. In Texas, retroactive support represented about 10 percent of the arrears (we do not have comparable information for Arizona and New Jersey).

On the other hand, we find that non-compliance with current support orders was a major factor contributing to arrears, especially among obligors with no or low reported income. In the study states, 40 percent of the current support obligors had no or low reported income, but they generated 60 percent of the unpaid current support during the year. The majority of current support obligors with no or low reported income paid something toward current support, but the median amount that they paid was very low, especially compared to their order. Among current support obligors with reported incomes of \$10,000 a year or less, their median order represented 83 percent of their reported income and their median payments represented 7 percent. This gap between the

amount due and amount paid among obligors with low reported income is a major factor contributing to arrears.

Another factor that we find that contributes to arrears is the low payment rate on arrears. Nationally, during the past several years, about 6 percent of arrears have been collected. If states could have doubled their collection rate on arrears to 12 percent since FY 2002, we predict that arrears would have stopped growing and would have totaled \$86 billion in FY 2006. Unfortunately, most debtors do not pay 12 percent of their arrears each year. Those who do, tend to owe less than \$1,000 in arrears. We examined debtors by their characteristics and found that debtors with no reported income were the least likely to pay arrears.

Actions taken by Study States to Manage Arrears

The study states have taken numerous actions to manage their arrears, which are presented in this report to provide ideas for other states to consider as they manage their arrears. These strategies cover the entire range of arrears management techniques, from order establishment to arrears compromise programs.

One strategy that study states have used to prevent arrears from accruing in the first place is to set realistic orders. Having access to verifiable earnings data helps child support workers set realistic orders. It reduces the need to impute income at levels that often exceed actual income. In the past, study states did not have access to state and national quarterly earnings records to assist in the order determination process, but today many of the study states have this information readily available for case workers to use as they seek new orders. Some of the study states request state income tax records to assist in this process as well.

Nearly all of the study states have a low-income provision in their state child support guidelines, which aims to reduce the child support order amount for low-income obligors. Most of the low-income provisions utilize a self-support reserve for the obligor, although the guidelines do not always use that term. Not surprisingly, given that the states have different costs of living, the size of the self-support reserve varies, from a low of \$550 per month in Ohio to a high of \$1,047 per month in New York.

Many of the study states have taken steps to increase parental participation in the order establishment process. Making documents more readable, using welcoming letters, and holding pre-hearing conferences are some of the strategies that study states have used. Study states have also taken steps to improve their service of process to ensure that parents are notified of their pending order.

Study states have reduced the length and use of retroactive support. Two study states - Michigan and Texas - passed laws that eliminate the policy of setting retroactive support back to the date of the birth of the child in paternity cases. Now Texas may go back up to 4 years prior to the date of filing to set retroactive support; Michigan may go back to the date of filing to set an order unless there is willful avoidance.

A variety of early intervention strategies have been adopted by the study states. The primary aim of these strategies is to intervene early enough after the order is established to prevent delinquency from occurring in the first place. These strategies rely on increased contact with the non-custodial parent, mainly through reminder calls or letters. In some study states, new positions have been created to conduct this outreach. Efforts have also been made to make employment services and other services available to non-custodial parents at the time the order is established if these services are needed to prevent arrears accumulation.

Improving the wage withholding process is also key to preventing arrears from accumulating in the first place since so much of child support is collected using this process. Texas has focused considerable attention on improving this process in recent years, culminating in a fully revised employer repository, updated interfaces, and a single website that employers can use to meet all of their child support-related responsibilities.

Increasing review and modification of orders is another strategy for preventing arrears accumulation. The Deficit Reduction Act of 2005 will result in greater utilization of this strategy since it reinstated the requirement that all TANF cases must be reviewed and modified every three years, effective October 1, 2007.

Possibly the toughest task for states is to manage their existing arrears. Chapter 5 describes several strategies that the study states have undertaken to tackle this problem. Revising a state's interest policy is an important step in this process. Two of the study states – Michigan and Texas -- have lowered their interest rate in recent years.¹⁵

Another strategy that study states have used to manage their existing arrears is to conduct amnesty programs. Pennsylvania and other study states have conducted arrears amnesty programs. These programs allow obligors to come forward and take steps to correct their delinquencies without being arrested.

Two other study states -- Michigan and Illinois -- have passed legislation that authorizes arrears compromise programs. These programs allow the child support program (or the court) to reduce the amount of arrears owed to the state if the obligor meets certain criteria. Since 2005, judges in Michigan may approve payment plans that discharge some of the state-owed arrears if the plans are in the best interest of the children, the arrears were not the result of willfully avoiding the obligation, and the obligor does not have the ability to pay all of the arrears in the future. In Illinois, the legislation allows the child support program to reduce state-assigned arrears in exchange for regular payments of support to the family if the obligor was unable to pay the arrears during the time it was accumulated.

¹⁵ In Michigan, interest is called a surcharge.

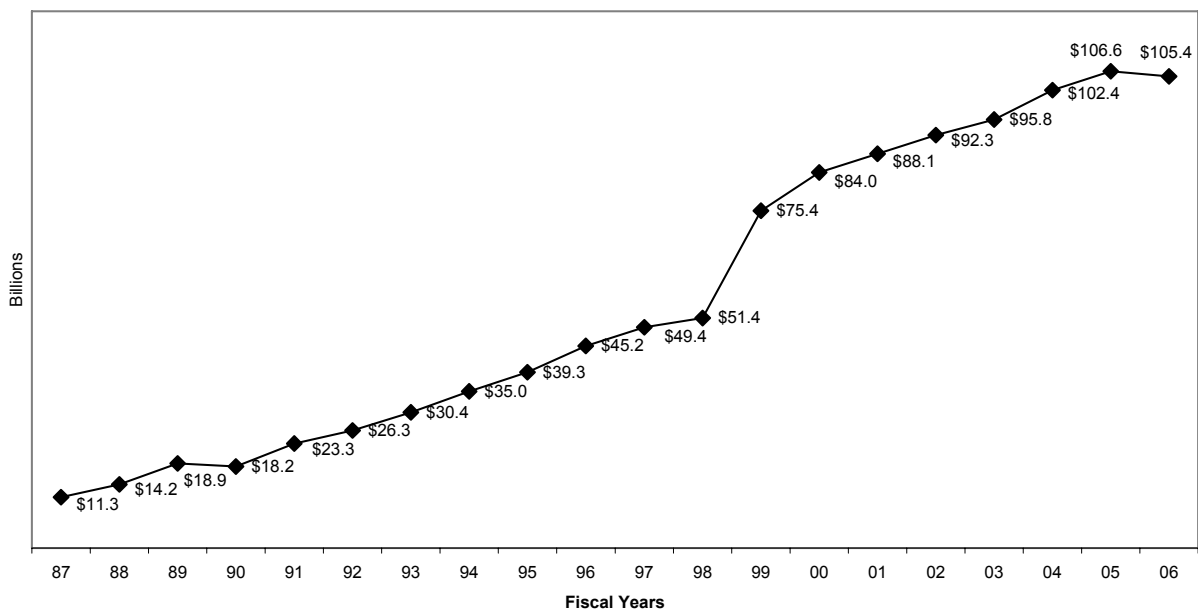
Another strategy that study states have used to manage their existing arrears is to conduct a special review of their non-paying arrears cases. Typically, states start with their highest arrears cases. Workers are asked to contact the parties involved and make every effort to move the case, either to payment or closure.

The Deficit Reduction Act of 2005 should also increase arrears collections. Three provisions are particularly noteworthy in this regard. First, the amount of arrears that triggers passport denial was reduced from \$5,000 to \$2,500, effective October 1, 2006. Second, the Act authorizes the federal tax offset program to collect child support arrears owed to adult children in non-TANF cases, effective October 1, 2007. Third, it authorizes OCSE to match cases with arrears to information maintained by insurance companies effective October 1, 2005.

CHAPTER 1. INTRODUCTION

Despite record child support collections by state child support programs, considerable sums of child support go unpaid every year. These past due payments of child support, referred to as child support arrears, have reached unprecedented levels in recent years. In September 2006, the federal Office of Child Support Enforcement (OCSE) reported that \$105.4 billion of child support arrears had accumulated nationwide since the program began in 1975. This represented nearly a ten-fold increase in 19 years.

Chart 1.1 National Child Support Arrears: FY 1987 to FY 2006



Source: Office of Child Support Enforcement, Annual Statistical Reports and Preliminary Reports.

Note: Data in FY 2006 are not strictly comparable to earlier years. In FY 2006, OCSE instructed states to not report arrears for responding interstate cases to eliminate the double counting of these arrears. Prior to that time, these arrears had been reported to OCSE by both responding and initiating states. Data are also not strictly comparable before and after FY 1999. In FY 1999, OCSE changed the reporting instructions to states regarding the inclusion of interest and penalties when reporting arrears.

Data presented in Chart 1.1 are not strictly comparable from FY 1987 to FY 2006. First, it shows a dramatic one-time increase in arrears in FY 1999, when national child support arrears went from \$51 billion to \$75 billion in one year. This one time increase was largely due to a change in the OCSE reporting form, which told states that they may include interest and penalties on arrears as part of their total arrears. Previously, the reporting form had been silent regarding interest and penalties. Second, it shows a reduction in arrears from FY 2005 to FY 2006. This decline also reflects a change in the OCSE reporting form. Beginning in FY 2006, OCSE instructed states to stop reporting arrears on “responding” interstate cases to eliminate the double counting of these arrears. Prior to that time, states that initiated interstate cases as well as states that responded to these requests had been reporting the same arrears to OCSE.

The large accumulation of child support arrears is of serious concern to child support policy makers for a number of reasons. To the extent that these arrears could be collected, the additional child support would clearly benefit the children and families owed the support. Many of these families live in poverty. Receiving this financial support would help them escape this plight. Arrears collection is also a federal performance measure for state child support programs. Federal incentive funding for these programs is based, in part, on the number of cases paying arrears. Finally, large arrears balances give the impression that state child support programs are not doing their job, a perception that is not always accurate. High arrears are often interpreted by the public as a sign of agency incompetence and a failure to serve custodial parents and children, when, in fact, the picture is much more complicated than that.

Many child support policy makers have begun to think critically about how to better manage arrears. State child support policy makers from 15 Northeast Hub jurisdictions, along with their federal and private partners, produced an instructive document called “Managing Child Support Arrears, a Discussion Framework,” which identifies the key areas of child support policy that may be contributing to the growth of child support arrears.¹⁶ Several states have also produced detailed analyses of their child support arrears.¹⁷

In an effort to build upon this knowledge, OCSE and the Assistant Secretary for Planning and Evaluation (ASPE), both of which are part of the Department of Health and Human Services (HHS), contracted with the Urban Institute to conduct a comprehensive analysis of the composition of child support arrears and the causes of their dramatic growth. As part of this study, the Urban Institute has provided nine large states with detailed data analyses of their arrears.¹⁸

A. An Overview of the Nine Study States

This report focuses its analysis on the following nine states: Arizona, Florida, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania and Texas. These states were selected for this study because of their relative size. Collectively, these states held a total of \$38.5 billion in arrears at the time the data were extracted for this study, which represented about 40 percent of the nation’s total arrears at that time.¹⁹ All of these states agreed to provide administrative data on all of their obligors. These data were

¹⁶ For a copy of this report, go to:

<http://www.acf.dhhs.gov/programs/cse/pubs/2002/reports/arrears/index.html>

¹⁷ For example, for California, see Elaine Sorensen, Heather Koball, Kate Pomper, and Chava Zibman, “Examining Child Support Arrears in California: The Collectibility Study.” (March 2003). For Washington, see Carol Formoso, “Determining the Composition and Collectibility of Child Support Arrearages.” Volume I. (May 2003) <http://www1.dshs.wa.gov/pdf/esa/dcs/reports/cvol1prn.pdf>. For Virginia, see Donald Myers. “Child Support Arrearages: A Legal, Policy, Procedural, Demographic and Caseload Analysis.” (August 2004).

¹⁸ Figures in this report will not always be the same as in the state reports. To improve the consistency of definitions across the states, we had to change some of the definitions used in the state reports.

¹⁹ Extraction dates ranged from September 2003 to December 2004.

sent to OCSE, where they were matched to six quarters of national quarterly earnings records, six quarters of unemployment insurance records, and national New Hire data. These matched data were then sent to the Urban Institute for analysis. These data represent the primary source of information used throughout this report.

Given the size of these states, it is not surprising to find that each state held over \$2 billion in arrears. Texas and Michigan held the largest amounts of arrears; each accounted for over \$8 billion. New Jersey and Pennsylvania held the smallest amount of arrears; each accounted for over \$2 billion. Of course, part of the reason arrears vary among these states is because they serve different numbers of obligors. Texas, Ohio and New York each served over 500,000 obligors. Arizona, with less than 115,000 obligors, served the fewest obligors.²⁰

Table 1.1 Overview of Arrears in Nine Study States

State	Total Arrears (in billions)	Number of Obligor	Median Arrears per Obligor	Average Arrears per Obligor
Arizona	\$2.55	114,675	\$11,581	\$22,199
Florida	\$3.83	385,009	\$5,207	\$9,949
Illinois	\$2.80	245,974	\$4,467	\$11,365
Michigan	\$8.61	490,899	\$4,872	\$17,537
New Jersey	\$2.08	229,054	\$2,422	\$9,098
New York	\$3.99	512,048	\$1,000	\$7,801
Ohio	\$3.75	533,436	\$1,651	\$7,036
Pennsylvania	\$2.09	384,468	\$1,075	\$5,439
Texas	\$8.82	583,008	\$6,771	\$15,122
Total	\$38.52	3,478,571	\$3,157	\$11,073

Source: Data are from the state child support programs listed above.

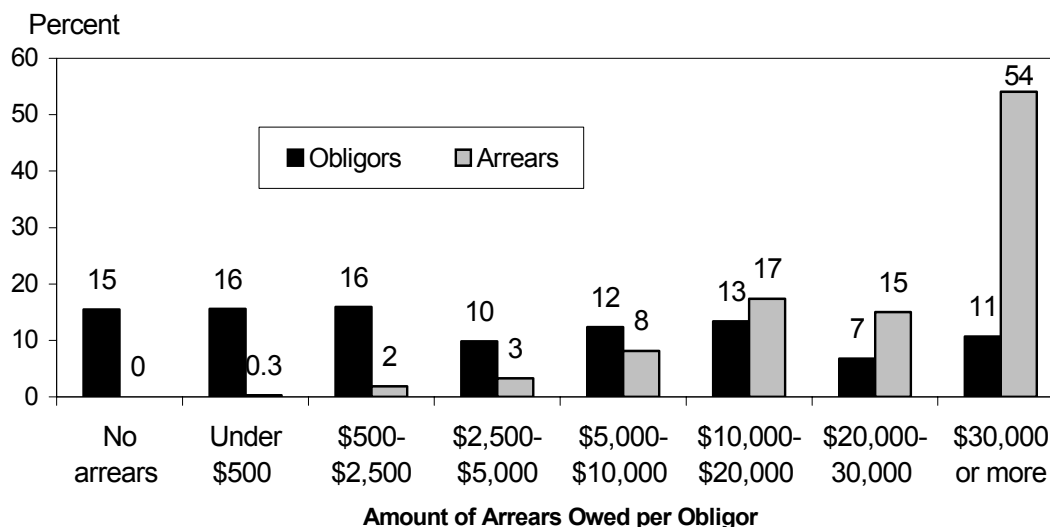
Table 1.1 presents two measures of the amount of arrears that a typical obligor owed. First, the median amount of arrears owed among these obligors was \$3,157. This means that half of the obligors in the study states owed less than \$3,157, half owed more than that amount. The second measure is the average amount of arrears owed per obligor. The average is determined by taking the sum of all arrears owed in a state and dividing it by the number of obligors in the state. The average amount of arrears owed per obligor across all of the study states was \$11,073. Pennsylvania had the lowest median and average figures, while Arizona had the highest median and average figures. In most states, the average amount of arrears owed per obligor was about twice as large as the median amount of arrears owed per obligor. Other states had even larger differences. These differences reflect the skewed distribution of arrears, which we discuss next.

²⁰ Note that Arizona's figures do not include obligors with interstate responding cases. We did not receive complete arrears information for interstate responding cases.

B. High Debtors Owed Most of the Arrears

A defining characteristic of arrears in these nine study states was how skewed their distributions were. While most obligors in each of these states owed relatively small amounts of arrears, most of the arrears were owed by a small minority of obligors, each of whom owed considerable sums of arrears. In other words, arrears have the same type of distribution as wealth in the United States. Just as most people in the U.S. have relatively modest amounts of wealth, most obligors owed relatively modest amounts of arrears. On the other hand, most of the wealth in the U.S. is held by a relatively small number of people. Similarly, most of the arrears in these nine study states were owed by a relatively small number of obligors. When all of the states were combined, 11 percent of the obligors in these states owed over half (54 percent) of the \$38.5 billion of arrears. Each of these obligors owed at least \$30,000 in arrears.

Chart 1.2 Percent of Obligor and Arrears in Nine States, by Amount of Arrears Owed: 2003/04



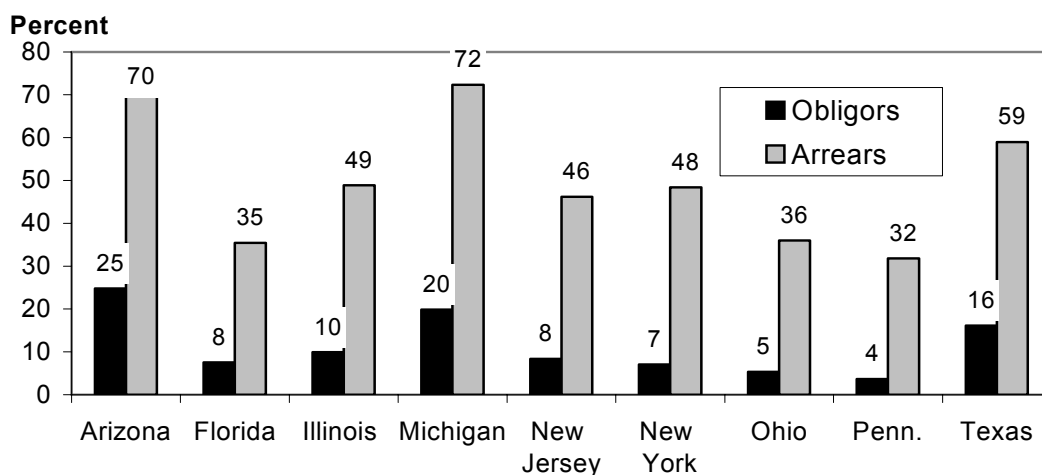
Source: Data are from Arizona, Florida, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas.

Research using certified arrears (i.e. arrears that have been certified for the federal tax refund offset program) found a similar distribution for certified arrears.²¹ The data on certified arrears are limited to debtors, while the data provided by the study states included all obligors, regardless of whether or not they owed arrears. Thus, the distribution of certified arrears is slightly different than that presented above. Nonetheless, 43 percent of the certified arrears were owed by 10 percent of the debtors, each of whom owed more than \$40,000 in certified arrears. Sixty nine percent of the certified arrears were owed by debtors who owed more than \$20,000 in certified arrears, the same percentage that we found in the nine study states.

²¹ See footnote 4.

While every state's arrears were highly concentrated, some state's arrears were more concentrated than others. To see this variation, the next chart shows the percent of obligors in each state who owed at least \$30,000 in arrears and the percent of the state's arrears that these obligors owed. Pennsylvania had the lowest percent of obligors who owed \$30,000 or more in arrears; Arizona had the largest percent. In Pennsylvania, 4 percent of the obligors owed \$30,000 or more in arrears and they owed 32 percent of the state's arrears. In contrast, 25 percent of Arizona's obligors held arrears this high; they owed 70 percent of the state's arrears.

Chart 1.3 Percent of Obligor with \$30,000 or more in Arrears and the Percent of Total Arrears that they Owed, by State: 2003/04



Source: State child support programs for states listed above.

Three study states - Arizona, Michigan, and Texas - had the highest percent of their arrears owed by obligors who owed at least \$30,000 in arrears; 59 to 72 percent of the arrears in these three states were owed by obligors who owed at least \$30,000 in arrears. The other six study states had less than half of their arrears owed by these obligors. Part of the reason that arrears were more concentrated in Arizona, Michigan, and Texas is because Arizona and Texas assess interest on arrears on a routine basis and Michigan assesses a surcharge twice a year on arrears, which is similar to assessing interest. The other study states do not assess interest on a routine basis. Assessing interest tends to concentrate arrears among high debtors.

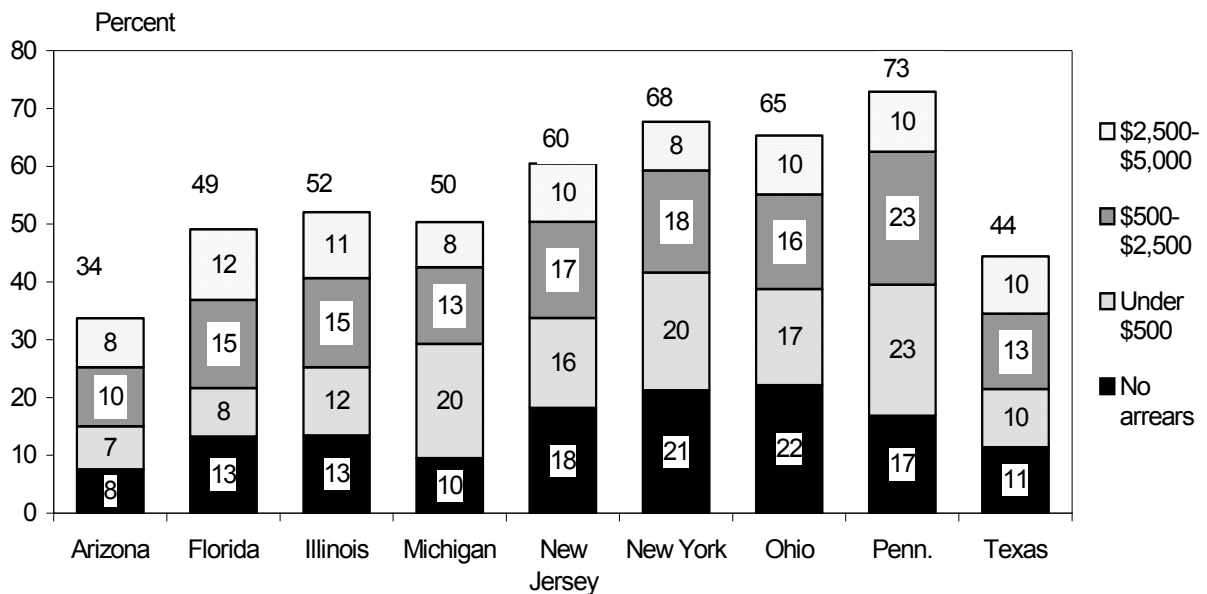
C. Nearly All Obligor owed Arrears but the Amount the Typical Obligor Owed was less than \$5,000

Although chart 1.2 shows that arrears in the nine study states were highly concentrated among a relatively small number of obligors, it also shows that most obligors owed at most \$5,000 in arrears. The first four categories on the left of chart 1.2 consist of

obligors who owed either no arrears or at most \$5,000 in arrears. These four groups of obligors accounted for over half (57 percent) of the obligors in these states.

Just as states varied with regard to the percent of obligors who owed large amounts of arrears, they also varied with regard to the percent who owed small amounts of arrears. Chart 1.4 shows that the percent of obligors who owed at most \$5,000 in arrears varied from a low of 34 percent (Arizona) to a high of 73 percent (Pennsylvania). In four of the states -- New Jersey, New York, Pennsylvania, Ohio -- at least 60 percent of the obligors owed at most \$5,000 in arrears. In three of the states -- Florida, Illinois, and Michigan -- about half of the obligors owed at most \$5,000 in arrears. In two states -- Arizona and Texas -- less than half of the obligors owed this little in arrears.

Chart 1.4 Percent of Obligor with No Arrears or with Low Arrears, by State: 2003/04



Source: State child support programs for states listed above.

The percent of obligors who did not owe arrears varied among the states. Ohio had the highest percent of obligors with no arrears (22 percent), but New York, New Jersey, and Pennsylvania were close behind, with 21, 18, and 17 percent, respectively.²² In the other five states, at most 14 percent of their obligors were debt free. Arizona had the fewest obligors without arrears -- 8 percent of Arizona's obligors were debt free.

Looking at the percent of obligors who had \$500 or less in arrears, we find that New York, Pennsylvania and Ohio had the highest percentage of obligors with arrears this low. All three of these states had two-fifths of their obligors with arrears not exceeding \$500.

²² We should note that a small number of obligors in New York (less than 2 percent) did not have a child support order, but had a medical support order or some other non-child support order. Including these obligors slightly inflates the rate of non-debtors in this state.

CHAPTER 2. WHO OWES CHILD SUPPORT ARREARS?

In this chapter we explore who owes the arrears in the nine study states. We start by examining the characteristics of debtors who owed over \$30,000 in arrears, whom we refer to as “high debtors”. We compare these debtors to obligors who did not owe any arrears and obligors who owed \$30,000 or less in arrears. As noted in chapter 1, high debtors owed 54 percent of the total amount of arrears owed in the nine study states, representing nearly \$21 billion. The median amount of arrears owed among these debtors was \$45,833.

The differences in reported incomes between high debtors and non-debtors were quite stark, as seen in table 2.1.²³ Nearly three quarters of the high debtors had either no reported income (44 percent) or reported income of \$10,000 a year or less (30 percent).²⁴ The median amount of reported income among high debtors was \$685 per year. In contrast, one fifth of the non-debtors had no reported income (11 percent) or reported income of \$10,000 a year or less (9 percent). Their median reported income was \$29,625 per year.

Another major difference between high debtors and non-debtors was the degree to which each group had a current support order. Seventy one percent of the high debtors had a current support order; 29 percent had arrears-only cases. In contrast, 98 percent of non-debtors had a current support order.²⁵

Interestingly, high debtors had the highest median current support order when compared to non-debtors and debtors with less than \$30,000 in arrears. The median monthly current support order for high debtors was \$348; it was \$335 for non-debtors and \$263 for debtors with less than \$30,000 in arrears.

High debtors were expected to pay considerably more of their reported income in current support than other obligors. The median percent of reported income that high debtors were expected to pay in current support was 55 percent. Among non-debtors, the median percent of reported income that was supposed to go to current support was 13 percent.

High debtors with a current support order tended to have older orders than other obligors. Half of the high debtors with a current support order had their order established at least 9 years ago, while over half of the other obligors with a current support order had their orders established within the past five years.

²³ Throughout this report, figures in tables and charts may not sum to 100 because of rounding.

²⁴ As noted earlier, six quarters of quarterly wage and unemployment insurance (UI) data were matched by OCSE to each of the study state data files. The Urban Institute used these matched data to create an annualized income variable for each obligor who had quarterly wage or UI data. We refer to this annualized income variable as “reported income” throughout this report.

²⁵ Nearly all of the obligors from the study states either owed child support arrears or had a current support order. The 2 percent figure reflects the few thousand who did not meet these criteria. Nearly all of these obligors were in New York and they had a medical support order.

**Table 2.1 Characteristics of Obligor in Nine States,
by Amount of Arrears Owed: 2003/04**

	Does Not Owe Arrears	Arrears are up to \$30,000	Arrears are over \$30,000
Number of Obligor	538,720	2,568,767	371,084
% of Obligor	15	74	11
Total Arrears Owed (in billions)	\$0	\$17.7	\$20.8
% of Total Arrears Owed	0	46	54
Median Arrears Owed	\$0	\$3,750	\$45,833
Overall Median Annual Reported Income	\$29,625	\$8,191	\$685
Percent of Obligor with:			
No reported income	11	26	44
Reported income between \$1 and \$10,000	9	28	30
Reported income over \$10,000	80	47	27
Percent of Obligor with a Current Support Order	98	80	71
Percent of Obligor with a Current Support Order who have Multiple Current Support Orders	4	12	30
Median Age of Oldest Current Support Order	5	4	9
Median Monthly Current Support Order Amount	\$335	\$263	\$348
As a % of Reported Income	13	22	55
Percent of Obligor who Opened their IV-D Case Within 12 Months of Order Establishment	55	45	22
Percent of Obligor who Paid Support in last Year	95	75	50
Percent of Obligor with:			
Instate zip code	81	73	65
Out of state zip code	13	16	19
No zip code	5	10	15
At least one interstate case	9	15	19

Source: Data are from state child support programs in nine study states matched to national quarterly wage and unemployment insurance data.

Note: Table 2.1 reports figures for all states when possible. However, not all states sent enough information to be included in each of the calculations. Arizona is excluded from the percent of obligors with a receiving case. Florida is excluded from all values calculated for obligors with current support obligations. New York is excluded from the percent of obligors who made a payment as well as from all ZIP code calculations. Michigan is excluded from multiple current orders.

High debtors were also more likely to have multiple current support orders than non-debtors. Thirty percent of the high debtors with a current support order had more than one current support order. In contrast, 4 percent of the non-debtors with a current support order had more than one order.

We also examined the extent to which obligors had their IV-D case opened within 12 months of their order establishment date. Staff members from some of the study states told us that IV-D cases that were opened in the same year as their orders were established were “easier” cases. In contrast, IV-D cases that were opened after their orders had been in place for at least a year were viewed as “difficult” cases. Typically, these cases came to the IV-D program because the custodial parent was having difficulty collecting child support and considerable arrears had already accrued. Furthermore, cases that had their orders established at least a year after their IV-D cases were opened were also considered “difficult”. Obligor associated with these cases were viewed as more reluctant to pay support than obligors who had their orders established and IV-D cases opened with 12 months of each other. In other words, child support enforcement workers suggested that people who had their IV-D cases opened before or after their order was established are fundamentally different than those who have their IV-D cases opened and their orders established at the same time. We find evidence to support these arguments. The majority of non-debtors had their orders established within 12 months of opening their IV-D cases, while 22 percent of high debtors were in this category.

Not surprisingly, payment behavior differed markedly between high debtors and non-debtors. Only half of the high debtors made payments toward child support in the last 12 months, while 95 percent of non-debtors had paid current support or arrears in the last year.

Another difference between high debtors and non-debtors was the frequency with which they had a zip code on record with the state’s child support agency. Eighty percent of high debtors, but 95 percent of non-debtors, had a zip code on record. High debtors were somewhat more likely to have an out-of-state zip code than non-debtors.

Finally, high debtors were twice as likely to have an interstate case than non-debtors. Nineteen percent of high debtors had an interstate case, while 9 percent of non-debtors had an interstate case.

In sum, we find that obligors who owed large amounts of arrears were more likely than other obligors to have the following characteristics:

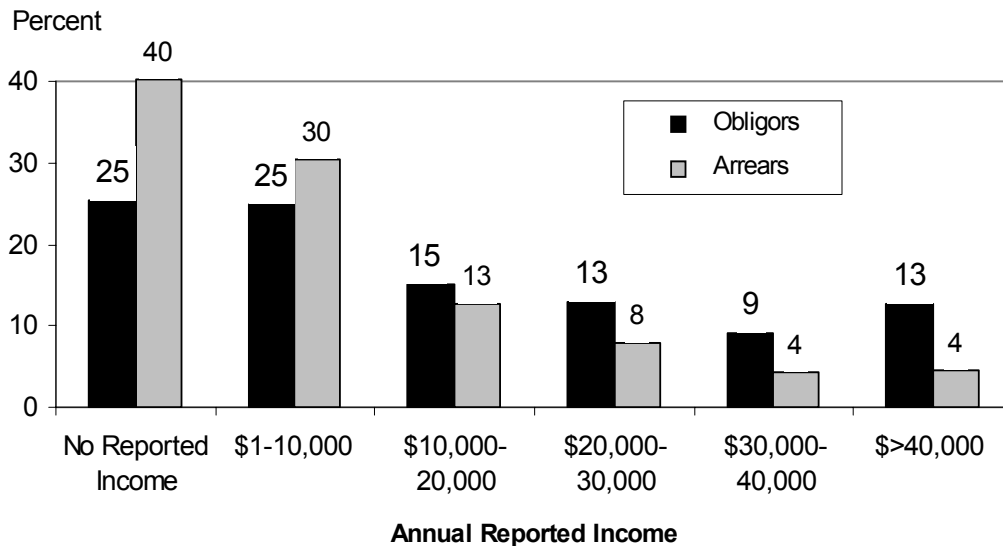
- 1) no or low reported income;
- 2) arrears-only cases;
- 3) current support orders that were high relative to their reported income;
- 4) older current support orders;
- 5) multiple current support orders;
- 6) opened their IV-D case at least a year before or after their order was established;
- 7) did not pay support in the last year;
- 8) no ZIP code or an out-of-state ZIP code; and
- 9) an interstate case.

We discuss each of these characteristics in greater detail below.

A. Obligor with No or Low Reported Income Held Most of the Arrears

Chart 2.1 shows that, in the nine study states, a quarter of all obligors had no quarterly wages or unemployment insurance (UI) during the six quarters examined, which we refer to as reported income throughout this report. Collectively, these obligors owed 40 percent of the arrears held in these states. Additionally, obligors who had at most \$10,000 per year in reported income accounted for another quarter of obligors. We refer to these obligors throughout this report as low-income obligors. They owed 30 percent of the arrears in these states. Combined, obligors with no reported income or reported income below \$10,001 per year accounted for half of the obligors and they owed 70 percent of the arrears in the study states.

Chart 2.1 Distribution of Obligor and Arrears in Nine States, by Annual Reported Income: 2003/04



Source: Child support data from nine study states matched to national quarterly wage and unemployment insurance data.

This pattern is not limited to the nine study states. Other research on arrears that have been certified for the federal tax refund offset program also found that 70 percent of those arrears were owed by debtors with no reported income or reported incomes of \$10,000 a year or less.²⁶

Although obligors may not have reported quarterly wages or unemployment insurance, it does not mean they do not have the ability to pay any child support. Some of these obligors may be employed in areas that are not covered by quarterly wage data, such as those who are self-employed or independent contractors. Others may be working in covered industries, but they are working under the table to avoid paying taxes or child

²⁶ See footnote 4.

support. Still others may be engaged in illegal activities. Nonetheless, prior research suggests that many obligors who do not have reported quarterly wages have relatively limited resources. Research shows that this group is significantly more likely to be disabled, in prison, and without a bank account, than obligors with income.²⁷ Analysis by OCSE found that 10 percent of debtors who did not match to four quarters of quarterly wages were institutionalized, 9 percent were receiving Social Security Administration benefits, and 6 percent were receiving Supplemental Security Income benefits.²⁸ This suggests that about 25 percent of the obligors without reported quarterly wages are either disabled or incarcerated.

Obligors with higher reported income owed lower amounts of arrears. Obligors with reported income over \$40,000 a year accounted for 13 percent of the obligors in these nine states, but they owed 4 percent of the arrears. Obligors with reported income between \$20,000 and \$40,000 made up 22 percent of the obligors, but they owed 12 percent of the arrears. The final group, those with reported income between \$10,000 and \$20,000 a year represented 15 percent of the obligors and they owed 13 percent of the arrears. In other words, the 50 percent of obligors with reported incomes over \$10,000 a year owed 30 percent of the arrears.

Although obligors with no and low reported incomes owed disproportionate shares of arrears in each state, there was considerable variation in the size of these groups and the amount of arrears they owed among the study states. Chart 2.2 reports the percent of obligors with no and low reported incomes and the percent of arrears that they owed in each of the study states.

Focusing first on the percent of obligors with no reported income, chart 2.2 shows that New York had the highest percent of obligors with no reported income among the study states. Nearly one third of the obligors in New York did not match to the federal quarterly wage or UI data; these obligors owed 54 percent of the arrears in New York. The state with the next highest percentage of obligors who did not match to the federal quarterly wage or UI data was Michigan; 29 percent of its obligors did not match to these data and they owed 47 percent of the state's arrears. In contrast, Pennsylvania had the highest match rate among the study states. Twenty percent of its obligors did not match to the federal wage and UI data; these obligors owed 34 percent of the state's arrears. The other states fell in between these extremes.

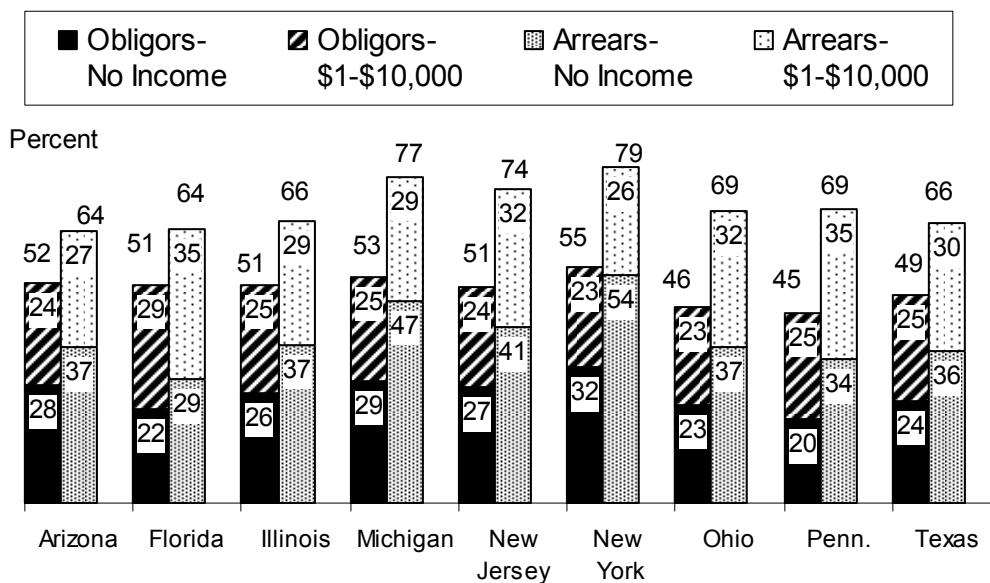
New York's relatively low match rate of obligors to quarterly wage and UI data is due to the low match rate in New York City. Thirty six percent of the obligors in New York City did not match to the quarterly wage and UI data. In contrast, in Philadelphia, one quarter of the obligors did not match to the federal wage and UI data, a much higher match rate than in New York City. We do not know why the match rate in New York City was so low. Low match rates affect the ability to collect child support and may be contributing to lower collections in New York than in other states.

²⁷ U.S. DHHS, OCSE. "Story Behind the Numbers: Who Owes the Child Support Debt?" July 2004.

²⁸ Ibid.

Chart 2.2 also shows that most of the arrears in every study state were owed by obligors with no or low reported income. Obligor with no or low reported income represented between 45 and 55 percent of the obligors in these states, but they owed 64 to 79 percent of the arrears in these states. Given our discussion above about the low match rates in New York and Michigan, it is not surprising to find that New York and Michigan had the highest percentages of obligors with no or low reported incomes and the highest percentages of arrears owed by these obligors. In New York, 55 percent of the obligors had no or low reported incomes and they owed 79 percent of the state's arrears. Michigan was not far behind; 53 percent of its obligors had no or low reported incomes and they owed 77 percent of the state's arrears.

Chart 2.2 Percent of Obligor with No or Low Reported Income and the Percent of Total Arrears that they Owed, by State: 2003/04



Source: State child support programs for states listed above.

It is also worth noting that the percent of obligors with no and low reported incomes did not vary as much among the study states as the percent of obligors with no reported income. This also held for the percent of arrears owed by these obligors. These variations were lower because there was less variation among the states in the percent of obligors who had low reported incomes and the percent of arrears that they owed. In addition, states that had high percentages of obligors with no reported income tended to have lower percentages of obligors with low reported incomes and vice versa. New York is a good example – it had the highest percentage of obligors with no reported income (and the highest percentage of arrears owed by these obligors), but one of the lowest percentage of obligors with low reported incomes (and the lowest percentage of arrears owed by these obligors). Florida has just the opposite pattern – it had one of the lowest percent of obligors with no reported income (and the lowest percent of

arrears owed by these obligors), but the highest percent of obligors with low reported income (and one of the highest percentage of arrears owed by these obligors).

B. Obligor Who Did Not Pay Support in the Last Year Owed a Disproportionate Share of Arrears

Not only did differences in reported income contribute to differences in the share of arrears owed by obligors, but differences in payments contributed as well. Twenty four percent of the obligors in eight of the study states had not paid support in the last 12 months.²⁹ These obligors owed 45 percent of the arrears held by these states.

Some child support professionals have suggested that states should examine obligors by their ability and willingness to pay child support.³⁰ We attempted to stratify obligors in this manner, but found it difficult to do so given the data that we had available. In an effort to shed light on this idea, we divided obligors by the amount of reported income that they had and whether or not they paid child support. However, having no or low reported income does not necessarily mean individuals have no or a limited ability to pay. These individuals may have other sources of income beyond that which we had available or assets which we had no information about. Nonetheless, it is instructive to see how arrears are distributed by reported income and payment behavior.

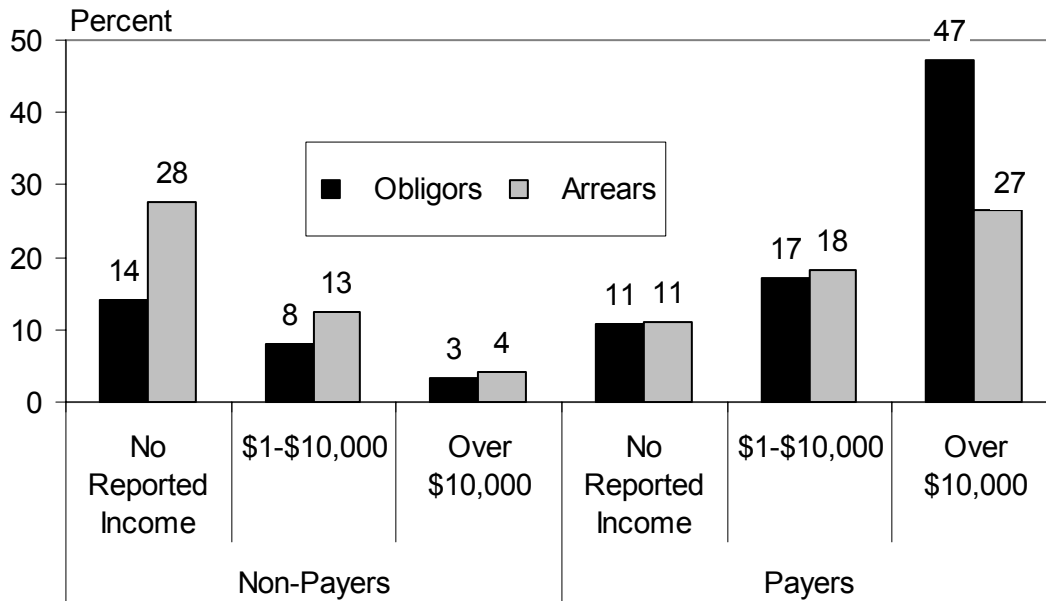
We find that, when obligors were divided by their payment behavior and reported income amounts, the group of obligors who owed significantly more arrears than it represented in the obligor population was those who had no reported income and did not pay child support in the past year. In eight study states, 14 percent of the obligors fell in this category, but they owed 28 percent of the arrears in these states. In other words, these obligors owed twice as much of these states' arrears than they represented in the obligor population. In contrast, obligors with no reported income but who paid support in the last 12 months held a proportionate share of arrears – they represented 11 percent of the obligors and they owed 11 percent of the arrears.

The next group of obligors with the largest share of arrears relative to their population size was obligors with reported incomes of at most \$10,000 a year who did not pay support in the last 12 months. They represented 8 percent of the obligors and owed 13 percent of the arrears. In other words, their share of arrears was about 50 percent higher than their share of the population.

²⁹ New York did not send payment information for the 12 months prior to the date of extraction, hence this state is excluded from chart 2.3 and table 2.2.

³⁰ For example, see Center for the Support of Families, "Child Support Delivery Study: Final Report and Recommendations." Prepared for the Minnesota Division of Child Support Enforcement. January 1999.

Chart 2.3 Distribution of Obligor and Arrears in Eight States, by Annual Reported Income and Payment Status in the Last Year: 2003/04



Source: Arizona, Florida, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas child support data matched to national quarterly wage and unemployment insurance data.

The group of obligors who owed the least amount of arrears relative to their population size was those with reported incomes over \$10,000 a year who paid support. They represented 47 percent of the obligors in these states but they owed 27 percent of the arrears. Very few obligors in the study states had reported incomes over \$10,000 a year and did not pay support for 12 months (3 percent) and they owed very little of the arrears (4 percent).

Table 2.2 compares obligors who had no reported income and did not pay support in the last year to all other obligors in the study states (except New York). Nearly 400,000 obligors in the eight states fell into this group. They owed nearly \$9.5 of the \$25 billion in arrears. Their median arrears were \$14,680, significantly higher than the median arrears of \$2,585 for obligors who either paid in the past year or who had reported income. By definition, the obligors of interest had no reported income. In contrast, among obligors who paid or had reported income, the median annual reported income was \$14,581. Eighty-seven percent of these obligors had some reported income.

A major difference between obligors with no reported income and no payments for 12 months and other obligors was the extent to which each group had arrears-only cases. Obligor with no reported income and no payments for 12 months were over twice as likely to have arrears-only cases as other obligors. Thirty six percent of obligors with no reported income and no payments for 12 months had arrears-only cases, while just 15 percent of other obligors had arrears-only cases.

Table 2.2 Characteristics of Obligators in Eight States, by Whether They Had no Reported Income in the Past Six Quarters and Made no Payments in the Last 12 Months versus All Other Obligators: 2003/04

	All Other Obligators	Obligators with No Reported Income and No Payments for 12 months
Number of Obligators	2,569,227	397,296
% of obligors	87	13
Total Arrears Owed (in billions)	\$25.0	\$9.5
% of total arrears	72	28
Median amount of arrears owed	\$2,585	\$14,680
Overall Median Annual Reported Income	\$14,581	\$0
% of Obligators with Reported Income	87	0
Percent of Obligators with a Current Support Order	85	64
% with multiple orders	12	13
Median Age of Oldest Current Support Order	5	6
Median Monthly Current Support Order	\$277	\$175
Percent of Obligators with:		
Instate ZIP code	74	65
Out of state ZIP code	16	14
No ZIP code	9	20
At least one interstate case	14	15

Source: Arizona, Florida, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas child support data matched to national quarterly wage and unemployment insurance data

Among obligors with a current support order, the median current support order for obligors with no reported income and no payments for 12 months was \$175 per month, which was about \$100 lower than the median current support order for other obligors. The median number of years with a current support order was 6 years among current support obligors who did not have reported income and did not pay for 12 months, but it was 5 years among other obligors. Both groups were about equally likely to have multiple current support orders, given that the obligor had at least one order for current support.

Another difference between obligors with no reported income and no payments for 12 months and other obligors was the extent to which each group did not have a ZIP code on record with the child support program. Twenty percent of the obligors with no reported income and no payments for 12 months did not have a ZIP code on record, while 9 percent of other obligors did not have a ZIP code on record. In contrast to the large differences in ZIP codes, obligors with no reported income and no payments for 12 months were only slightly more likely as other obligors to have an interstate case.

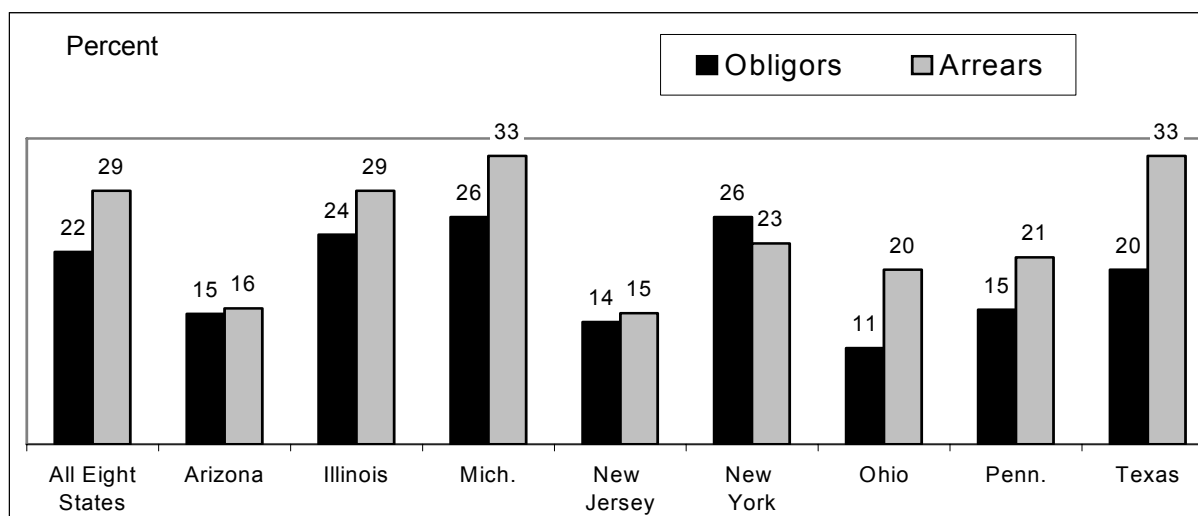
C. Obligor with Arrears-Only Cases Owed a Disproportionate Share of Arrears

Obligors with arrears-only cases tended to owe a disproportionate share of arrears. When we examined obligors collectively for eight of the study states, we find that 22 percent of the obligors had arrears-only cases and they owed 29 percent of the states' arrears.³¹ However, as chart 2.4 shows, the percent of obligors with arrears-only cases varied among the eight study states and this group did not always owe a disproportionate share of arrears.

Two states – Michigan and New York – had the highest percent of obligors with arrears-only cases. Twenty six percent of the obligors in each of these states had arrears-only cases. In Michigan, these obligors owed a disproportionate share of arrears, while in New York they did not. Illinois was not far behind these two states; 24 percent of their obligors had arrears-only cases and they owed 29 percent of the state's arrears.

Ohio had the lowest percentage of obligors who had arrears-only cases; 11 percent of their obligors had arrears-only cases and they owed 20 percent of Ohio's arrears. Three other states – Arizona, New Jersey, and Pennsylvania -- had relatively low percentages of obligors with arrears-only cases (14-15 percent). In Arizona and New Jersey, arrears-only obligors owed slightly more arrears than their share of the obligor population. In contrast, arrears-only obligors in Pennsylvania represented 15 percent of the obligor population, but they owed 21 percent of the arrears in this state.

Chart 2.4 Percent of Obligor with Arrears-Only Cases and the Percent of Total Arrears they Owed, Overall and by State: 2003/04



Source: Data from child support programs from states listed above.

One factor that may influence the percent of obligors who have arrears-only cases in a state is a state's law regarding the age of emancipation. All of the study states, except New Jersey, have state laws that indicate a specific age upon which current support

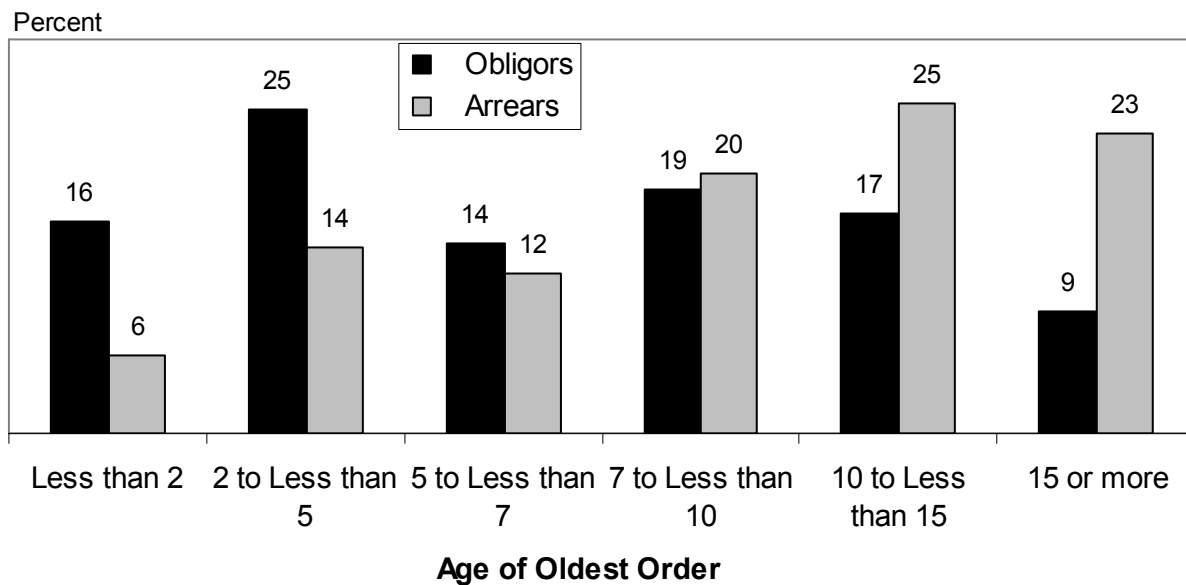
³¹ Florida is not examined here because the data the Urban Institute received from Florida did not indicate which obligors had current support orders.

orders terminate unless otherwise stated in the order.³² Several of the study states have laws that terminate orders once the youngest child turns 18 (Illinois, Michigan, and Texas). Ohio terminates current support orders when the youngest child turns 19. Arizona terminates orders once the youngest child turns 19 or finishes high school, whichever comes first. New York is the only study state that terminates orders when the youngest child turns 21. New Jersey does not have a legal age of emancipation. In this state, emancipation is determined by the court on a case-by-base basis. A termination order is required to end an obligation; otherwise, arrears will continue to accrue regardless of the child's age.

D. Obligor with Older Orders Owed a Disproportionate Share of Arrears

Obligors who have orders that were established at least 10 years ago owe a disproportionate share of arrears. In the nine study states, obligors who had their order established at least 10 years ago owed 48 percent of the states' arrears, yet they represented 26 percent of the obligors in these states. The opposite was true, however, among obligors whose orders were established less than 5 years ago. These obligors owed 20 percent of the arrears in these states, but they represented 41 percent of the obligors in these states.

Chart 2.5 Distribution of Obligor and their Arrears in Nine States, By the Age of their Oldest Order: 2003/04



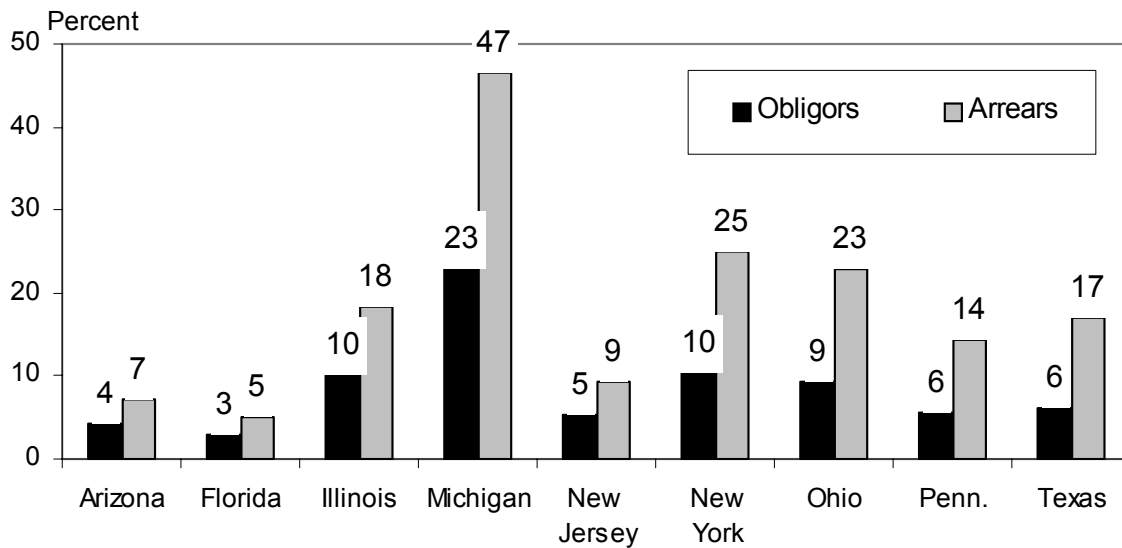
Source: Data are from the nine study states.

Chart 2.6 shows that the percent of obligors who had an order for at least 15 years and the percent of arrears they owed varied among the nine study states. Michigan had the largest share of obligors with older orders; 23 percent of Michigan's obligors had orders

³² State laws regarding the age of emancipation are from the Federal Office of Child Support Enforcement, Intergovernmental Referral Guide.

established at least 15 years ago. These obligors owed nearly half (47 percent) of all arrears in Michigan. Illinois, New York, and Ohio each had about one-tenth of their obligors with orders established at least 15 years ago. In each of these states, obligors with orders over 15 years old owed between 18 and 25 percent of the arrears in these states. Arizona and Florida reported few obligors (3-4 percent) who had orders established over 15 years ago.³³ These obligors owed between 5 and 7 percent of the arrears in these states.

Chart 2.6 Percent of Obligors with Orders Established at least Fifteen Years Ago and their Share of Arrears, by State: 2003/04



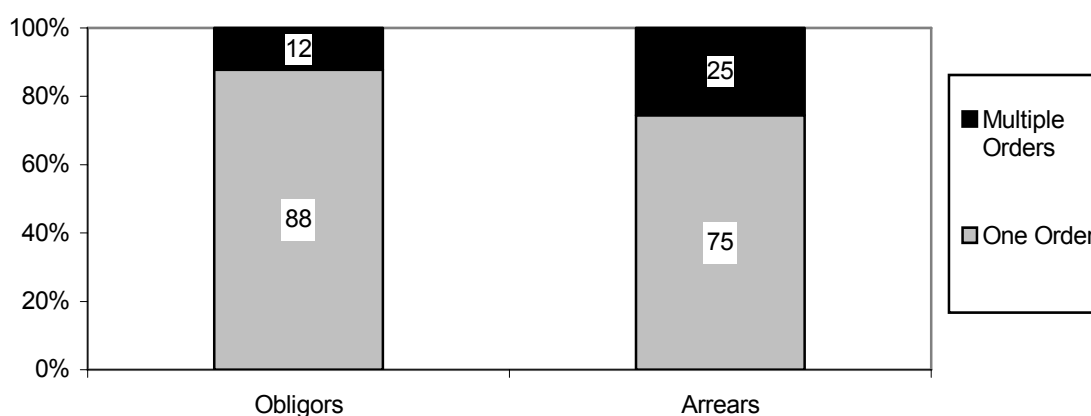
Source: State child support programs for states listed above.

³³ Obligors with no order establishment date were excluded when determining the distribution of obligors and arrears by the age of their order. Both Arizona and Florida had higher rates of obligors who had no order establishment dates in the data sent to the Urban Institute. Since it is likely that older orders are more likely than younger orders to be missing, our figures may under-represent the proportion of orders that are older in these states.

E. Obligor with Multiple Current Support Orders Owed a Disproportionate Share of Arrears

A relatively small percent of obligors with a current support order had multiple current support orders in the seven study states examined, but they owed a disproportionate share of arrears held by current support obligors.³⁴ Specifically, chart 2.7 shows that 12 percent of the obligors with a current support order in the seven states examined had multiple current support orders, but they owed a quarter of all arrears held by current support obligors in these states.

Chart 2.7 Distribution of Current Support Obligor and Their Arrears in Seven States, by Whether or Not They Had Multiple Current Support Orders: 2003/04

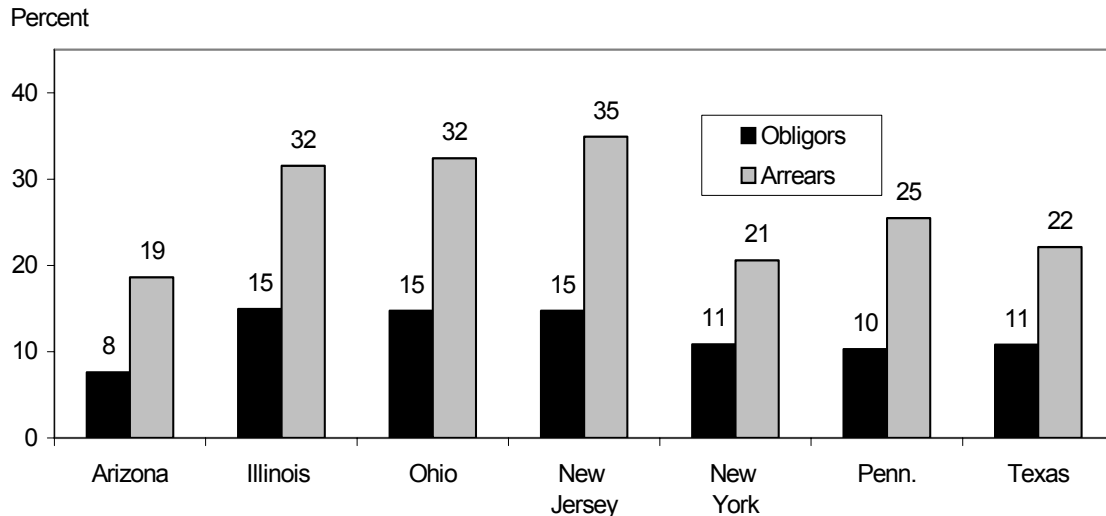


Source: Data are from Arizona, Illinois, New Jersey, New York, Ohio, Pennsylvania, and Texas.

Chart 2.8 shows the percent of obligors who had multiple orders for current support and the percent of arrears they owed, among obligors with a current support obligation, for each state. Three states – Illinois, New Jersey, and Ohio – had the highest percent of current support obligors with multiple current support orders; 15 percent of the current support obligors in these states had multiple current support orders. Furthermore, they owed about a third (32 to 35 percent) of the arrears owed by obligors with a current support order. In other words, they owed more than twice as much arrears as they represented in these states. Arizona had the lowest percent of current support obligors with multiple orders; just 8 percent of their current support obligors had multiple current support orders. Nonetheless, they owed 19 percent of the arrears owed by current support obligors, or double their share of the obligor population.

³⁴ Florida and Michigan are excluded from the multiple order analysis because they didn't provide information on the number of current support orders that obligors had.

Chart 2.8 Percent of Obligor with Multiple Current Support Orders and the Percent of Arrears they Owed Among All Current Support Obligor, by State: 2003/04



Source: Child support programs from states listed above.

Another approach to examining the differences in arrears owed by obligors with multiple current support orders compared to obligors with one current support order is to consider the median amount of arrears owed by these obligors. Table 2.3 shows the median amount of arrears owed in each state by these two groups of obligors. In Arizona, the median amount of arrears for obligors with multiple current support orders was \$41,365, four times the median arrears owed by obligors with one current support order. Similarly, in Illinois, the median amount of arrears owed by obligors with multiple current support orders was 4.6 times the amount owed by obligors with one order. In Ohio and New Jersey, the median amount of arrears owed by obligors with multiple support orders exceeded ten times the amount owed by obligors with one current support order. In New York and Pennsylvania, the two states with the lowest median arrears for obligors with one order, obligors with multiple orders owed over 9 times the median arrears owed by obligors with one order.

Table 2.3 Median Arrears Owed by Obligor with One Current Support Order and Multiple Current Support Orders, by State: 2003/04

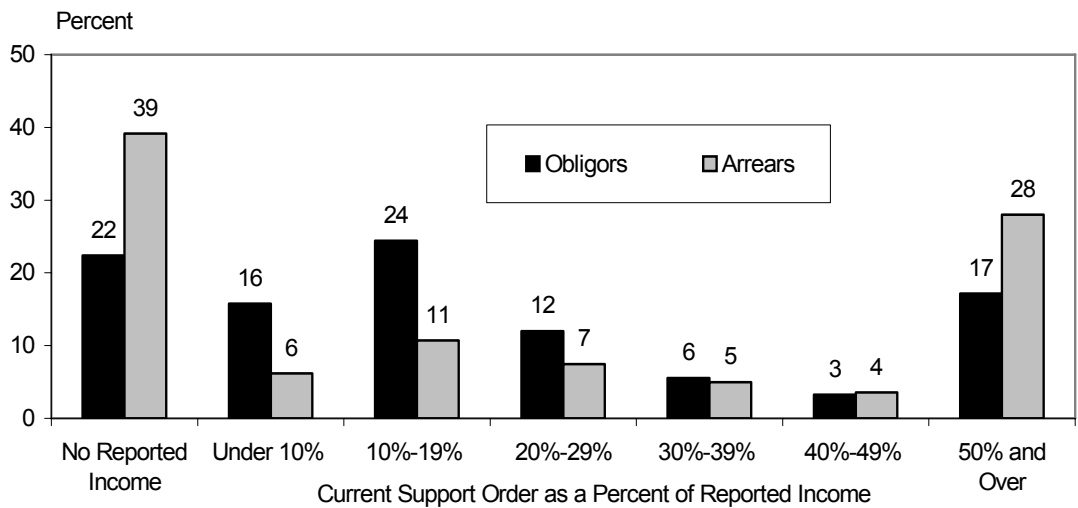
Obligor with:	Arizona	Illinois	Ohio	New Jersey	New York	Penn.	Texas
One Current Support Order	\$10,106	\$2,666	\$672	\$1,110	\$506	\$624	\$6,659
Multiple Current Support Orders	\$41,365	\$12,257	\$7,810	\$14,233	\$4,805	\$6,116	\$19,387

Source: Child support programs for states listed above.

F. Obligor who had Orders that Represented Fifty Percent or More of their Reported Income Owed a Disproportionate Share of Arrears

Two groups of current support obligors tend to owe a much larger share of arrears than they represent in the obligor population – those with no reported income and those with reported income but their current support orders represent more than 50 percent of their reported income. Chart 2.9 shows that 22 percent of current support obligors did not have reported income and they owed 39 percent of the arrears owed by current support

Chart 2.9 Distribution of Current Support Obligor and their Arrears in Eight States, by the Percent of Reported Income that they are Expected to Pay toward Current Support: 2003/04



Source: Arizona, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas child support data matched to national quarterly wage and unemployment insurance data.

obligors.³⁵ Seventeen percent of current support obligors in eight study states had reported income, but their current support orders represented 50 percent or more of their reported income.³⁶ These obligors owed 28 percent of the arrears owed by current support obligors.

Chart 2.9 also shows, however, that most obligors with a current support order have reported income and their orders represent less than half of their reported income. Sixty one percent of the obligors with current support orders in eight of the study states had reported income and their current support order represented less than 50 percent of their reported income. These obligors owed a much smaller share of the arrears owed

³⁵ These percentage figures are slightly lower than we saw in chart 2.1, which examined all obligors and all arrears by reported income. This chart examines current support obligors and the arrears that they owed.

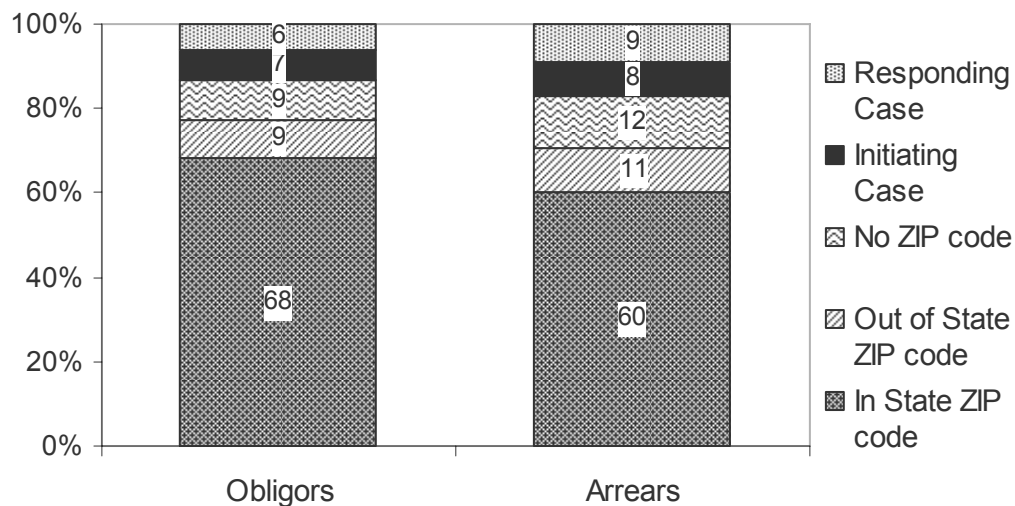
³⁶ Florida is not included in this analysis because they did not include order amounts in their data file.

by current support obligors (33 percent) than they represented in the current support obligor population.

G. Interstate Cases, Out-of-State Cases, and Obligor Without a ZIP Code Owed a Disproportionate Share of Arrears

Most of the study states included an interstate case identifier that indicated whether a case was a responding interstate case, an initiating interstate case, or a non-interstate case. Additionally, most of the states included the obligor's ZIP code. We used these ZIP codes to identify whether an obligor lived in-state or out-of-state. A number of obligors in each state had no valid ZIP code on record. Chart 2.10 shows the overall percent of obligors and arrears in six of the study states, by whether the obligors had a responding case³⁷, an initiating case, an out-of-state ZIP code (no interstate case), an in-state ZIP code (no interstate case), or no ZIP code (no interstate case).³⁸ These five categories were created so that they would be mutually exclusive and thus sum to 100 percent.

Chart 2.10 Percent of Obligor and Arrears in Six States, by Interstate and ZIP Code Status: 2003/04



Source: Child support data from Florida, Michigan, New Jersey, Ohio, Pennsylvania, and Texas.

In the six study states examined, 68 percent of the obligors had a valid in-state ZIP code and did not have an interstate case (see Chart 2.10). These obligors owed 60 percent of the arrears. This is the only group of obligors in Chart 2.10 that owed a

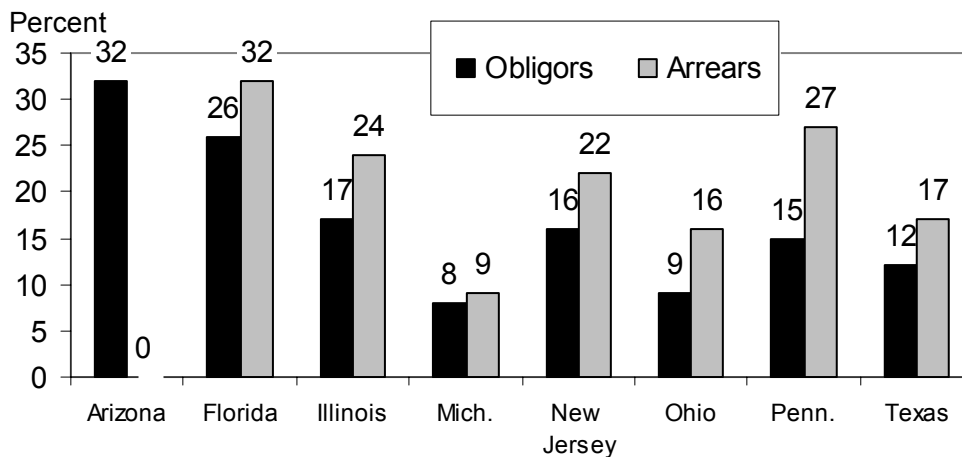
³⁷ A small number of obligors held both a receiving case and an initiating case. These obligors and their total arrears are included in both of these two groups.

³⁸ Arizona, Illinois, and New York are excluded from this chart. As noted elsewhere, Arizona's arrears for responding cases were not complete. Illinois did not send data on obligors without ZIP codes. New York did not send an interstate variable.

smaller share of arrears than they represented in the obligor population. The other 32 percent of obligors, who owed 40 percent of the arrears, were fairly equally distributed among responding interstate cases (6 percent), initiating interstate cases (7 percent), obligors with out-of-state ZIP codes but no interstate case (9 percent), and obligors with no interstate case and no valid ZIP code on record (9 percent). Each of these latter groups of obligors owed a larger share of the arrears than their share of the obligor population.

The percent of obligors with an interstate case varied among the study states.³⁹ Arizona had the highest percent of obligors with an interstate case; 32 percent of their obligors had an interstate case. Arizona did not include arrears owed on responding cases in the data provided for this study and thus the arrears column in chart 2.11 for Arizona is blank. The other state with a large percent of obligors with an interstate case was Florida; 26 percent of their obligors had an interstate case and they owed 32 percent of Florida's arrears. In contrast to these two states, another state with a high degree of migration – Texas -- had a much smaller percent of obligors with an interstate case. Just 12 percent of Texas' obligors had an interstate case and they owed 17 percent of the arrears in Texas. Illinois, New Jersey and Pennsylvania all had higher percentages of obligors with an interstate case than Texas. In Pennsylvania, 15 percent of the obligors had an interstate case, but they owed 27 percent of the arrears. Michigan and Ohio had the lowest percentages of obligors with interstate cases; 8 and 9 percent of their obligors had an interstate case in these states, respectively. Michigan and Ohio differed, however, in the percent of arrears owed by obligors with an interstate case. In Michigan, these obligors owed 9 percent of the arrears, while, in Ohio, they owed 16 percent of the arrears.

Chart 2.11 Percent of Obligor with at Least One Interstate Case and the Percent of Total Arrears that they Owed, by State: 2003/04

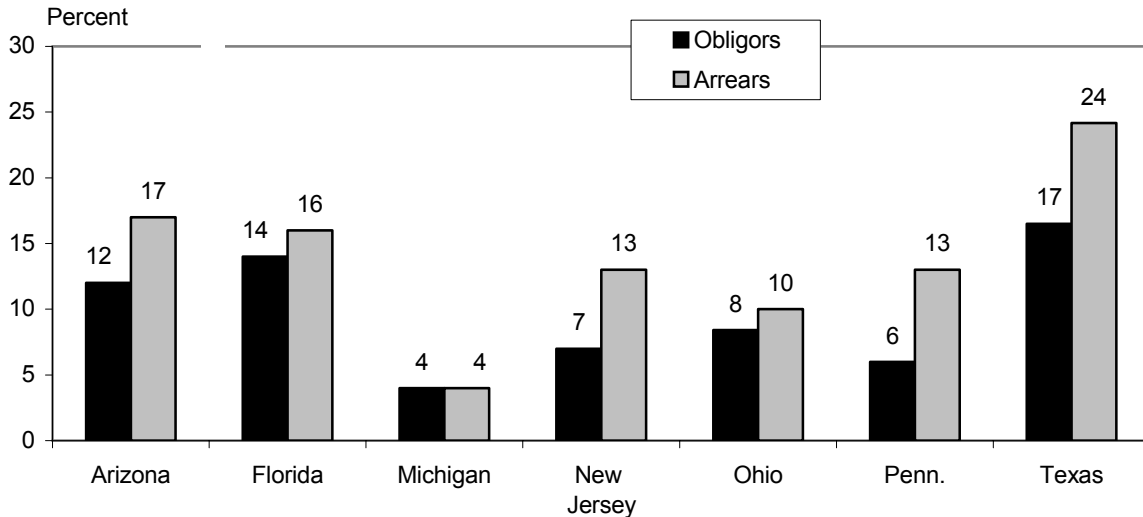


Source: Child support programs from states listed above.

³⁹ As noted elsewhere, New York did not send an interstate variable and thus is not included in Chart 2.11.

The percent of obligors with no ZIP code on record also varied among the states.⁴⁰ Chart 2.12 shows that Arizona, Florida and Texas had the highest percentages of obligors with no ZIP code on record. These figures ranged from 12 percent to 17 percent. Michigan had the smallest percent of obligors without a ZIP code, with 4 percent of its obligors without a ZIP code. New Jersey, Ohio, and Pennsylvania had

Chart 2.12 Percent of Obligor with No ZIP Code (and no Interstate Case) and the Percent of Total Arrears that they Owed, by State: 2003/04



Source: Child support programs from states listed above.

between 6 and 8 percent of obligors without a ZIP code. Pennsylvania had a relatively small percentage of obligors without a ZIP code, but these obligors owed twice as much arrears as their share of the obligor population. New Jersey had a similar situation – 7 percent of their obligors did not have a ZIP code and they owed 13 percent of the state’s arrears.

Table 2.4 shows that, in every state except Florida, the group of obligors with the lowest median arrears was those with no interstate case and an in-state ZIP code. This reinforces the common perception among child support professionals that non-interstate cases that have an in-state ZIP code are easier to collect from than out-of-state cases or interstate cases.

In most of the study states, the median arrears owed among obligors with no ZIP code (and no interstate case) were just as high if not higher than the median arrears owed among obligors with an interstate case. In contrast, the median arrears owed among obligors with an out-of-state ZIP code (and no interstate case) tended to be lower than the median arrears owed among obligors with an interstate case.

⁴⁰ Illinois’s data did not include obligors with no ZIP code on record. Thus, Illinois is excluded from this part of the analysis.

**Table 2.4 Median Arrears for Obligor with an Interstate Case and
by Type of ZIP Code on Record, by State: 2003/04**

Obligor has:	Arizona	Florida	Illinois	Mich.	New Jersey	Ohio	Penn.	Texas
An Interstate Case								
Initiating	\$12,973	\$4,200	\$8,815	\$9,704	\$5,944	\$7,023	\$4,106	\$12,400
Responding	NA	\$7,357	\$8,683	\$12,109	\$4,452	\$7,350	\$5,006	\$12,973
No Interstate Case, but has an:								
In State ZIP Code	\$10,237	\$4,551	\$3,338	\$3,810	\$1,214	\$1,026	\$663	\$4,791
Out of State ZIP Code	\$11,551	\$5,480	\$6,857	\$9,012	\$3,855	\$2,861	\$1,106	\$7,539
No ZIP code	\$19,917	\$7,127	NA	\$4,369	\$10,609	\$3,399	\$6,093	\$12,956

Source: Child support programs from states listed above.

Note: NA means not available.

H. Orders Established at Least One Year Before or After the IV-D Case was Opened Owed a Disproportionate Share of Arrears

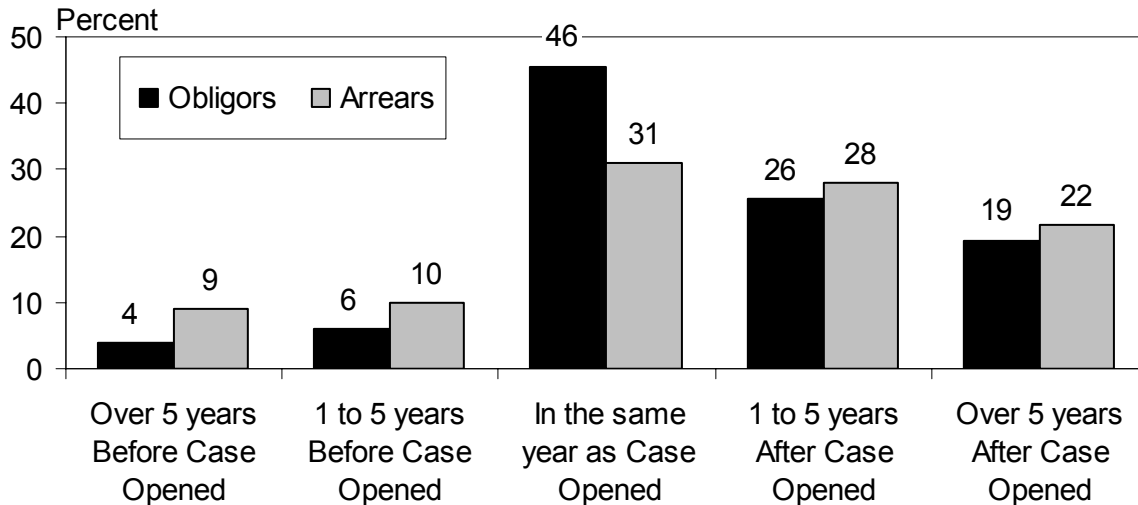
Obligors who had their IV-D case opened at least a year before or after their order was established owed a disproportionate share of arrears. In the five study states with sufficient information to examine this issue, 10 percent of the obligors had an order for at least a year prior to the opening of their IV-D case, but they owed 19 percent of the arrears in these states.⁴¹ In other words, these obligors owed nearly twice as much arrears as they represented in the obligor population. As noted above, these obligors are thought to generally represent the cases where the custodial parent came to the IV-D program because they were unable to collect child support on their own.

Obligors who had their order established at least a year after their IV-D case was opened represented 45 percent of the obligors in these states and they owed half of the arrears in these states. Thus, these obligors owed more arrears than they represented in the obligor population, but the difference was not nearly as severe as those who had their orders established at least a year prior to the opening of their IV-D case.

The final group of obligors – those who had their IV-D case opened within 12 months of the order establishment date – represented 46 percent of the obligors in the five study states, but they owed 31 percent of the arrears in these states. Thus, this group of obligors had the lowest share of arrears relative to their share of the obligor population.

⁴¹ Only Arizona, New Jersey, New York, Pennsylvania and Texas provided data on case opening date and order establishment date. In these calculations, obligors without both of these figures were excluded.

Chart 2.13 Percent of Overall Arrears and Obligators in Five States, by When the Obligor's First Order Was Established Relative to the IV-D Case Being Opened: 2003/04

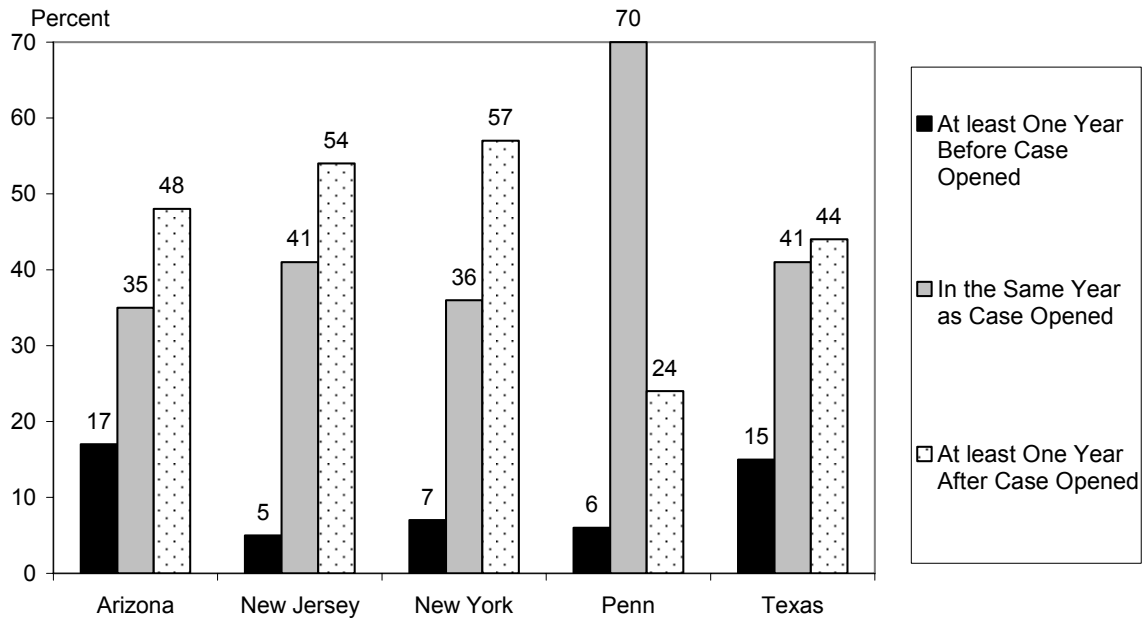


Source: Arizona, New Jersey, New York, Pennsylvania, and Texas child support programs.

We find considerable variation among the five states in the percent of obligors who had their first order established within one year of opening their IV-D case. In Pennsylvania, 70 percent of the obligors had their first order established within a year of opening their IV-D case. Thus, according to this criterion, Pennsylvania had the “easiest” caseload among the five states. The other four states had between 35 and 41 percent of their obligors in this category.

We also find considerable variation in the percent of obligors who had their order established at least a year before their IV-D case was opened. Arizona and Texas had about twice as many obligors in this category than New Jersey, New York, or Pennsylvania. Seventeen and fifteen percent of the obligors in Arizona and Texas, respectively, had their orders established at least one year before their IV-D case was opened, while in New Jersey, New York, and Pennsylvania, 5 to 7 percent of obligors had their orders established at least one year before their IV-D case was opened.

Chart 2.14 Distribution of Obligor by When their First Order was Established Relative to their IV-D Case Being Opened, by State: 2003/04



Source: Child support programs from states listed above.

Table 2.5 shows that, in all five states, obligors who had their order established and their IV-D case opened in the same year had considerably smaller median arrears than other groups examined. These figures ranged from \$772 in Pennsylvania to \$7,281 in Arizona. In contrast, obligors who had their orders established at least five years before their IV-D case was opened had the highest median arrears among the groups examined, except in Pennsylvania. These figures ranged from \$2,170 in Pennsylvania to \$25,565 in Texas. In Pennsylvania, obligors with orders that were established at least five years *after* their IV-D case was opened had the highest median arrears among the groups examined.

Table 2.5 Median Arrears by When the Order was Established Relative to the Opening of the IV-D Case, by State: 2003/04

Order was Established:	Arizona	New Jersey	New York	Penn.	Texas
	Over 5 years Before IV-D Case Opened	\$25,121	\$8,016	\$12,105	\$2,170
Within 1 to 5 years Before IV-D Case Opened	\$16,317	\$6,928	\$8,087	\$2,842	\$13,949
In the same year as IV-D Case Opened	\$7,281	\$875	\$784	\$772	\$5,197
Within 1 to 5 years After IV-D Case Opened	\$13,142	\$2,476	\$1,705	\$1,857	\$9,318
Over 5 years After IV-D Case Opened	\$20,581	\$7,009	\$537	\$4,834	\$13,193

Source: Child support programs from states listed above.

CHAPTER 3: HOW COLLECTIBLE ARE ARREARS?

We wanted to estimate the extent to which study states were likely to collect their existing arrears. We developed a simulation model to make these estimates. We ran the simulations for Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas.⁴² Below we describe the assumptions used in the simulation and the simulation results.

We find that only 40 percent of the arrears that were owed at the time of data extraction are likely to be collected over 10 years. The seven study states examined held \$30 billion in arrears at the time the data were extracted. We estimate that \$12 billion of that will be collected in 10 years. Furthermore, we predict that arrears will grow in these seven states by 60 percent over 10 years, reaching \$48 billion in 2014. The reason we estimate that less than half of the arrears will be collected over 10 years is because so much of the arrears are owed by obligors with no or low reported income. It is very difficult to collect from obligors who have no or low reported income. Further, the amounts that tend to be collected from these obligors are relatively small compared to the amounts of arrears that are owed. Thus, this combination of traits – no or low reported income and high arrears – result in very low arrears payment rates.

We also find that assessing interest contributes to arrears growth. Study states that assess interest at 6 percent per year (i.e. Texas) will find that, 10 years later, their arrears will be about 40 percent higher than they would be if interest were not assessed. Similarly, if study states that do not assess interest begin to assess interest at 6 percent a year, their arrears will be about 40 percent higher in 10 years than they otherwise would.

A. Assumptions Used in the Simulation Models

For Arizona, New Jersey and Pennsylvania, the first year of the simulation was 2004. For all other states, the first year of the simulation was FY 2003. We used actual data for the first year of the simulation. Results in years 2 through 10 were based on the actual data used in the first year and a set of assumptions about payment rates, payment growth, and order amounts described below. The simulation model classified obligors by reported income and whether or not they had a current support order in the first year. We used ten income groups⁴³; each was divided by whether the obligor had a current support order or was arrears-only. This classification scheme created 20 income-order groups.

Increase the Number of Obligor who Pay Support in Future Years

We wanted the simulation model to incorporate improvements in collections over the 10-year period of the simulation. Thus, we assumed that 3 percent of the obligors who

⁴² We were unable to run the simulation for Florida and New York because of insufficient data on current support orders and payment behavior, respectively.

⁴³ See table 3.1 for the ten income groups.

did not pay support in the first year would become payers in each subsequent year. We selected non-payers randomly each year to become new payers. If a new payer had reported income over \$3,000 a year, we assumed that he would pay a percent of his reported income that was equivalent to the median percent paid among payers in his income-order group. If a new payer had reported income less than or equal to \$3,000 a year, we assumed that he would pay the median dollar amount paid by payers in his income-order group, even if this amount was greater than his reported income.

Increase the Amount Paid in Future Years

We also wanted payment amounts to grow over time to reflect improvements in collections. As new and expanded enforcement tools become available, we anticipate that state IV-D programs will increase their current support and arrears collections per obligor. We incorporated collection increases into the simulation model in the following manner. If a payer's reported income was greater than \$3,000 a year, the amount that he would pay to child support as a percent of his reported income would increase by 2 percentage points per year until it hit the lowest of the following thresholds:

- 50 percent of reported income;
- 100 percent of the child support order (if the obligor does not have any arrears);
- 125 percent of the child support order (if the obligor has a current order and arrears).

Two exceptions to these guidelines were developed for obligors who had very high orders relative to their reported income or who paid more than would be expected given their reported income:

- If the current support order was greater than 50 percent of reported income, payments were capped at 100 percent of the current support order.
- If the obligor paid more than any one of the above thresholds in the first year, he continued to pay that amount throughout the simulation with no increases.

As an illustrative example, consider an obligor who had \$10,000 in reported income. He paid 20 percent of his reported income (or \$2,000) in current support in the first year of the simulation and paid nothing toward his arrears. Suppose also that his current support order was \$3,000 per year, which represented 30 percent of his reported income. If we assume that his reported income remained constant throughout the simulation period (this is the basic income assumption explained below), the simulation model would increase the amount of current support paid by this obligor from 20 percent of reported income to 22 percent of reported income during the first year of the simulation. Thus, in the first simulated year, the obligor would pay 22 percent of his reported income (\$2,200) towards current support; in the second simulated year he would pay 24 percent of his reported income (\$2,400), etc. In the fifth year of the simulation, this obligor would be paying 30 percent of his income (\$3,000), which is equal to his current support order. In the remaining years of the simulation, the

simulation model assumes that support payments continue to increase by 2 percentage points per year. This annual increase of \$200 would go towards his arrears since the order for current support would be fully paid. The simulation would cap his payments at 125 percent of his current support order, which would translate into 37.5 percent of his reported income (\$3,750). This hypothetical obligor will reach this amount in year 10 of the simulation.

If an obligor who paid in year 1, on the other hand, had reported income less than or equal to \$3,000 a year, we assumed that he continued to pay that same amount throughout the simulation. If he did not pay in the first year but was randomly selected to become a payer, he would be simulated to pay the median payment among payers in his income-order group. Obligor with reported income less than or equal to \$3,000 were not subject to the cap of 125 percent of their order if they had arrears. Arrears-free obligors, however, could pay no more than 100 percent of their order.

In order to better understand what happened to a low-income obligor who was randomly assigned to become a payer, consider another hypothetical obligor with reported income of \$1,001 in year 1. Suppose his order was \$1,500 per year and he did not pay in the first year. In year 3, suppose he was randomly selected to begin paying. Further suppose that this hypothetical obligor had his case in Michigan, where the median payment for obligors with current support orders who had reported income of \$1,000 - \$3,000 per year was \$1,048. Thus, beginning in year 3, this obligor paid \$1,048 towards his current support obligation. Since these payments represented more than 50 percent of his reported income, current support payments were kept at \$1,048 for each remaining year of the simulation in which a current support amount was due.

Allocate Payments to Current Support and Arrears

After total payments were calculated according to the above assumptions, we assigned the proportion of the payment amount allocated to current support and to arrears based on how the obligor paid in the first year. If, for example, 80 percent of the obligor's total annual payment in year 1 was distributed to current support and 20 percent to arrears, this same proportion would be used in subsequent years.⁴⁴ New payers were assigned the median proportion paid among payers in their income-order group. If an obligor only made payments toward arrears in year 1 yet had a current support order in year 1, then their payments were allocated to current support in subsequent years.⁴⁵ If, however, these obligors paid more towards arrears in year 1 than was due for current support, the excess payments were then allocated to arrears. If an obligor paid off all arrears during the simulation, 100 percent of subsequent payments were allocated to current support. If an obligor's support order aged out over the simulation, 100 percent of subsequent payments were allocated to arrears.

⁴⁴ Remember that payment behavior is examined for an entire year so that obligors can and do make payments toward arrears even though their current support order is not fully paid for the entire year.

⁴⁵ This can occur if the only payment made was through the federal intercept program.

It is important to note that this allocation between current support and arrears does not affect the net arrears amounts in the simulation. This is because the amount of current support that is not paid becomes new arrears, thus resulting in the same amount of arrears as if all payments were allocated to the current support obligation. This allocation process is only used to model the fact that many obligors make payments to arrears even if they do not pay 100 percent of their current support obligation.⁴⁶

Let Orders Expire

We assumed that some current support orders would expire over the ten-year period of the simulation because the children covered by the order would emancipate. We used 18 as the age of emancipation in the simulation states. The data that we received from the study states did not include the age of the youngest child associated with current support orders.⁴⁷ Thus, we estimated the age of the obligor's youngest child based on the obligor's age, using data from the National Survey of America's Families (NSAF). If the estimated age of the youngest child reached 18 during the simulation, the annual child support obligation was reset to zero.

Have Some Obligor Die

We assumed that some obligors would die during the 10-year period. We used data from National Vital Statistics Report 53(6) to randomly designate which obligors died, based on their age and the 2002 life tables for American males. If an obligor died, his case was closed and his arrears were dropped from the simulation.

Treatment of Interest

In the base simulations discussed below, we assumed that Arizona, Texas, and Michigan assessed interest on arrears on a simple basis. This assumption reflects these states' current interest policy. We applied the following interest rates: 10 percent for Arizona, 4.4 percent for Michigan, and 6 percent for Texas. In Michigan, the surcharge is waived if obligors pay at least 90 percent of their current support order during the assessment period. The simulation for Michigan incorporates this policy. Furthermore, in Arizona and Michigan, arrears payments are applied to principal first, whereas in Texas, arrears payments are applied to interest first. Each state's policy in this regard was incorporated into the simulation.

We did not assess interest in the simulations for Illinois, New Jersey, Ohio, and Pennsylvania. New Jersey and Pennsylvania do not assess interest and Illinois and Ohio do not assess interest routinely. In section D below, we present simulation results for these four states that include the assessment of interest. We assumed a 6 percent simple interest in New Jersey, Ohio, and Pennsylvania and a 9 percent simple interest

⁴⁶ See footnote 43.

⁴⁷ Ohio was the only study state that provided the age of the youngest child on a case. We used this information in the Ohio simulations. If the youngest child on a case reached 18 years of age during the simulation, then the annual child support obligation was reset to zero.

in Illinois. We used a 9 percent simple interest in Illinois because that is the interest rate that Illinois has begun to assess on arrears. Arrears payments were applied to principal before interest in these four simulations.

B. Payment Rates Generated by the Simulations

The simulation model increased the percent of obligors who made a payment every year, while decreasing the number of obligors with an obligation, as explained above. As a result, all obligors with a current support obligation and incomes exceeding \$10,000 per year made payments in the tenth year of the simulation. This was true for all states. For low-income obligors, however, there was considerable variation among states. Charts 3.1 and 3.2 show the payment rates among low-income obligors in the first year of the simulation (2003/04) and in the tenth year of the simulation, by state. Chart 3.1 shows the payment rates for each state among obligors with reported incomes up to \$10,000 in 2003/04. Pennsylvania had the highest payment rates for each of the income categories. For example, 61 percent of obligors with no reported income and an order for current support in Pennsylvania made a payment in the first year of the simulation. Illinois, on the other hand, had the lowest payment rates for each of the income groups; just 27 percent of obligors with no reported income and an order for current support made a payment in the first year of the simulation.⁴⁸

Arizona's payment rate for obligors with no reported income and for those with incomes between \$5,001 and \$10,000 was very similar to Illinois's. The other four states, Michigan, New Jersey, Ohio and Texas, each had similar payment rates for low-income obligors. As incomes increased, each state showed an increase in the percent of obligors who made a payment in year 1.

Chart 3.2 shows the payment rates for the same groups of obligors in the tenth year of the simulation. By year 10, payment rates were simulated to increase noticeably for each state and each income group. Eighty-six percent of obligors with no reported income in Pennsylvania were making payments towards their current support obligations. All obligors with a current support order and reported income exceeding \$1,000 made payments in Pennsylvania. In Michigan, New Jersey, Ohio and Texas, all obligors with reported income exceeding \$3,000 made payments by year 10. The two other states, Arizona and Illinois, reached 100 percent payment rates among current support obligors with reported income exceeding \$5,000 by year 10.

The payment rates for arrears-only obligors at the beginning and end of the simulation are shown in Table 3.1. At the beginning of the simulation, Pennsylvania has the highest payment rates for arrears-only obligors in all reported income categories. Illinois has the lowest payment rates for arrears-only obligors when reported incomes are \$10,000 a year or less. Michigan has the lowest payment rates for arrears-only obligors once reported income exceeds \$10,000 a year. The lowest payment rate is in

⁴⁸ We should note, however, that the current support payments that we received from Illinois appeared incomplete. Thus, we may be under-reporting payment rates in Illinois.

Illinois – 17 percent of arrears-only obligors with no reported income paid child support during the first year of the simulation.

Chart 3.1 Percent of Current Support Obligor with No or Low Reported Income who Made Payments in 2003/04, by Annual Reported Income

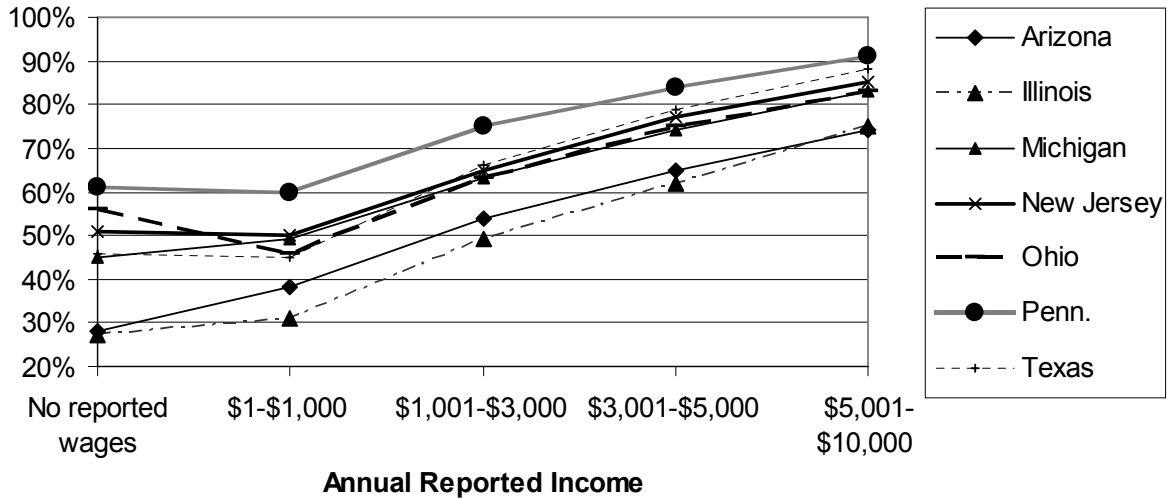
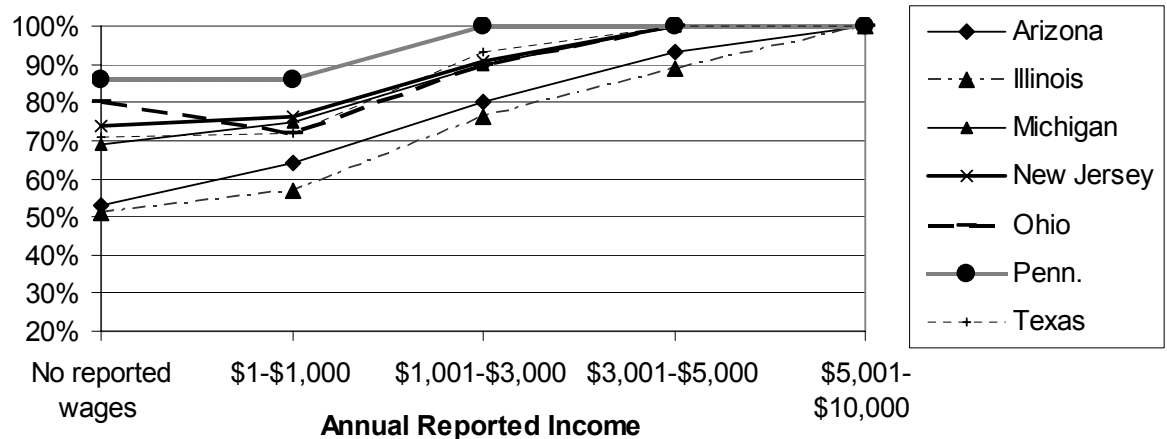


Chart 3.2 Percent of Current Support Obligor with No or Low Reported Income who Make Payments Ten Years Later, by Annual Reported Income



Source: Data are from child support programs from states listed above that are matched to national quarterly wage and unemployment insurance data.

By the end of the simulation, payment rates for arrears-only obligors are considerably higher as expected. The lowest payment rate occurs in Illinois for obligors with no reported income. At the end of the simulation, 35 percent of these obligors pay child support. Payment rates reach 100 percent for arrears-only obligors with reported incomes of more than \$10,000 a year in all of the states, except Illinois and Michigan and Ohio.

**Table 3.1 Percent of Arrears-Only Obligor who Make Payments,
by State and Reported Income**

First Year of the Simulation: 2003/04							
Reported Income	Arizona	Illinois	Michigan	New Jersey	Ohio	Penn.	Texas
None	28	17	29	39	38	49	31
\$1-\$1,000	37	21	37	42	34	52	34
\$1,001-\$3,000	49	35	47	54	48	66	52
\$3,001-\$5,000	59	47	55	62	58	74	64
\$5,001-\$10,000	69	59	62	74	66	82	75
\$10,001-\$15,000	74	69	67	79	73	86	83
\$15,001-\$20,000	81	73	70	82	77	88	85
\$20,001-\$30,000	85	76	71	84	79	89	86
\$30,001-\$40,000	85	76	70	84	82	90	87
Over \$40,000	82	73	63	79	72	87	84
Tenth Year of the Simulation							
Reported Income	Arizona	Illinois	Michigan	New Jersey	Ohio	Penn.	Texas
None	46	35	44	53	54	62	50
\$1-\$1,000	60	42	54	60	54	67	56
\$1,001-\$3,000	70	57	63	72	67	88	74
\$3,001-\$5,000	79	64	69	77	76	100	88
\$5,001-\$10,000	92	77	77	100	84	100	100
\$10,001-\$15,000	100	88	83	100	100	100	100
\$15,001-\$20,000	100	99	90	100	100	100	100
\$20,001-\$30,000	100	100	89	100	100	100	100
\$30,001-\$40,000	100	100	74	100	100	100	100
Over \$40,000	100	94	29	100	93	100	100

Source: Child support data are from the states listed above, which were matched to national quarterly wage and unemployment insurance data.

Michigan's simulated progress between year 1 and year 10 is the most lackluster of the seven states. By year 10, only arrears-only obligors with incomes between \$10,001 and \$30,000 were paying at rates exceeding 80 percent. Just 29 percent of obligors with incomes exceeding \$40,000 were making payments in year 10. This was significantly worse than in year 1, when this same group was paying at a rate of 63 percent. This is because arrears-only obligors who made payments in year 1 paid all of their arrears and thus, are no longer part of the state's caseload by year 10. Thus, this leaves non-payers in the majority, causing the percentage of obligors who are paying to fall significantly.

According to the simulation, Illinois and Ohio reached full compliance with some of their middle-income obligors. In Illinois, all arrears-only obligors earning between \$20,001

and \$40,000 paid. In Ohio, all obligors with incomes between \$10,001 and \$40,000 paid in year 10. However, for obligors with incomes over \$40,000 per year, payment rates were just over 90 percent in Illinois and Ohio. Again, this is because those relatively high-income obligors who are paying arrears in year 1 tend to finish paying off their arrears by year 10, leaving non-payers in the simulation.

It should be noted that over the course of the simulation, the amount paid among payers increased for some reported income groups and decreased for others. While we assumed that payers increased or kept payments constant from year to year, some payers decreased payments once their arrears were completely paid off (in which case payment was capped at 100 percent of the current support order). In general, the percent of income paid increased among lower reported income groups and decreased among higher reported income groups. This is because the obligors with high reported incomes were most likely to pay off all of their arrears over the course of 10 years.

C. Arrears Growth Under Two Simulation Models

Table 3.2 shows the overall growth rate of arrears over the course of the simulation for all seven states using what we call the base simulation. The base simulation assumes that income does not change over the 10-year period. In both simulations presented in table 3.2, we applied a 10 percent simple interest in Arizona, a 4.4 percent simple interest in Michigan, and a 6 percent simple interest in Texas as discussed above. Interest was not assessed in the other states.

At the beginning of the simulation, the seven states held a total of \$30.2 billion in arrears, which is the actual amount of arrears that these states held. During the first year of the simulation, the simulation estimates that \$2.3 billion dollars will be paid toward arrears, representing 8 percent of total arrears. Over the 10-year period, the simulation estimates that \$12.1 billion will be paid toward the arrears that were owed at the beginning of the simulation. Thus, the simulation model predicts that 40 percent of the arrears held by these seven states at the time of data extraction will be paid in 10 years. Subtracting this amount from the original arrears yields \$18.1 billion in arrears that we estimate will not be collected over the ten-year period.

Study states are not predicted to collect \$2.3 billion of the original arrears owed at the beginning of the simulation every year for 10 years because the arrears that remain uncollected each year are increasingly difficult to collect. During the first year, the simulation predicts that the study states will collect arrears from those who are relatively easy to collect from -- those who owe relatively small amounts of arrears and have relatively high reported incomes. With each passing year, these individuals pay off their arrears and the arrears that are left to collect are owed by people who, on average, have less income and owe large amounts of arrears. These individuals tend to be more difficult to collect from. Thus, with each passing year, the amount of arrears collected of the original \$30.2 billion declines.

Table 3.2. Simulated Arrears Growth and Payments in Seven States Using two Different Assumptions about Income Growth (dollars are in billions)

	No Income Growth (Base Model)	Includes Income Growth
Arrears in Year 1	\$30.2	\$30.2
Amount Paid in First Year	\$2.3	\$2.3
As a % of Year 1 Arrears	8%	8%
Could Pay Over 10 Years	\$12.1	\$12.2
As a % of Year 1 Arrears	40%	40%
Year 1 Arrears Remaining After 10 Years	\$18.1	\$18.0
New Arrears Remaining After 10 Years	\$32.1	\$31.3
Arrears Eliminated by Death	\$1.7	\$1.7
Total Arrears in Year 10	\$48.3	\$47.6
Percentage Increase in Arrears	60%	57%

Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas. These data were matched to national quarterly wage and unemployment insurance data.

During the 10-year period, the simulation model estimates that \$32 billion of new arrears will remain unpaid by the tenth year of the simulation. Since we assume that some obligors die over the course of the 10-year period and their cases are closed, we estimate that \$1.7 billion of the original arrears owed are eliminated as a result. Thus, at the end of year 10, obligors in these seven states are estimated to owe \$48 billion in arrears (i.e. \$30.2 - \$12.1 - \$1.7 + \$32.1). This represents a 60 percent increase in arrears.

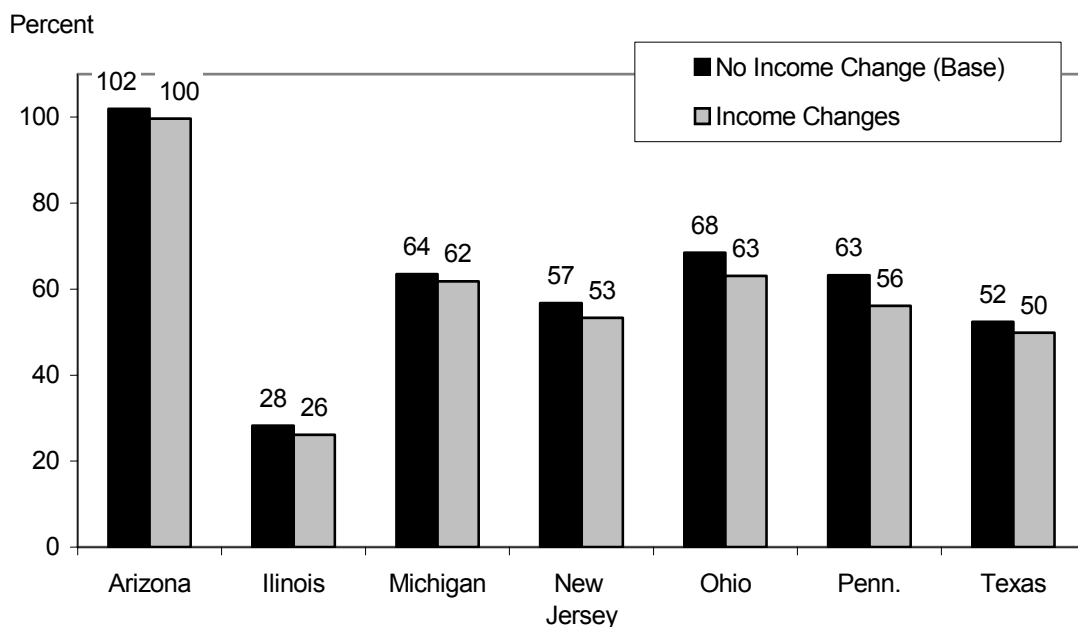
The second simulation reported in table 3.2 assumes that obligors' incomes tend to change as they age. We used data from the 2002 National Survey of America's Families (NSAF) to estimate the percentage change in earnings as a function of age among non-custodial parents. The regression included age and age squared to allow for a nonlinear relationship between age and income. As a result, income increased to a certain point and then decreased as obligors approached retirement age.

Table 3.2 shows that, even after we allow income to change as obligors age, only 40 percent of the original arrears are simulated to be paid over the 10 years, the same percentage as reported in the first column of numbers in table 3.2. On the other hand, new arrears are estimated to grow more slowly under these assumptions and thus total arrears at year 10 are estimated to be 57 percent higher than year 1 rather than 60 percent higher. Nonetheless, these simulation results suggest that arrears are likely to increase substantially in the next ten years.

Arrears are predicted to grow at surprisingly different rates in the seven study states. The percentage increase in each state, under both assumptions discussed above, is graphed in the chart 3.3. Assuming no income change, Arizona’s arrears more than double in the 10-year simulation. All of the other states, except Illinois, experienced increases between 52 and 68 percent over the 10-year simulation.⁴⁹

Only Illinois showed arrears growth of less than 50 percent; their arrears grew by 28 percent, assuming no income change. The reason Illinois does not experience dramatic arrearage-growth is because a large proportion of its caseload consists of obligors with arrears-only cases and we assumed it does not assess interest. As shown above in chapter 2, 25 percent of obligors in Illinois did not have a current support order in 2003. Since we assume that Illinois does not assess interest on arrears in this simulation, the arrearage for a quarter of obligors in Illinois does not increase during the 10-year simulation. This curbed new arrearage growth.

Chart 3.3 Simulated Arrearage Growth by Year 10 Under Different Income Assumptions, by State



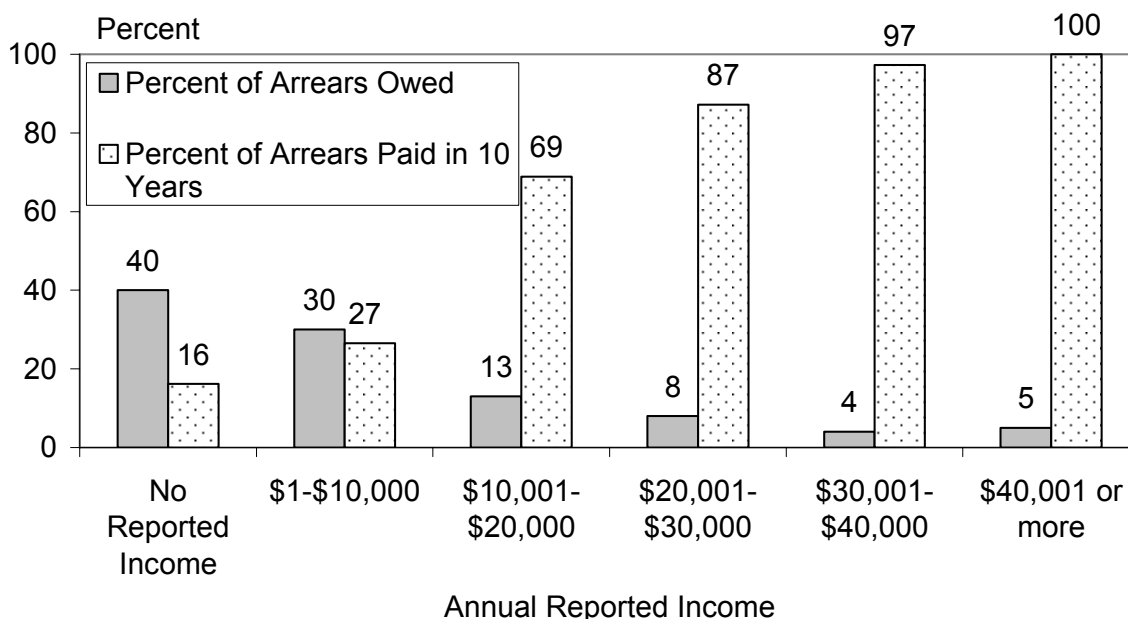
Source: Child support data are from states listed above, which were matched to national quarterly wage and unemployment insurance data.

The reason that only about 40 percent of the arrears are likely to be collected over a 10 year period is because so much of the arrears are owed by obligors with no or low reported income. This combination of traits – no or low reported income and high

⁴⁹ Our estimates of arrears growth are likely to underestimate arrears growth in New Jersey because we assume that current support orders automatically stop when children turn 18, which is not the case in New Jersey. In New Jersey, a termination order is required to end a current support order.

arrears – result in very low payment rates. Chart 3.4 shows that obligors with no and low reported income owed 40 and 30 percent of the arrears in these seven study states, respectively, but they are estimated to pay only 16 and 27 percent of their arrears over a 10-year period. Thus, relatively little of these arrears are likely to be collected. In contrast, once reported incomes exceeded \$10,000 a year, obligors tended to owe relatively small amounts of arrears. Furthermore, their higher levels of reported income suggest that they are better able to pay their arrears. Because, in general, these obligors have higher reported incomes and lower arrears, they are predicted to pay considerably more of their arrears in 10 years.

Chart 3.4 Percent of Arrears Owed and Percent of Arrears Paid in 10 Years in Seven States, by Reported Income Categories: 2003/04



Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

D. The Impact of Assessing Interest on Arrears

Table 3.3 reports the results of the simulation with and without assessing interest in Arizona, Michigan and Texas. In these three states, our simulation predicts that new arrears will be about twice as large in 10 years if interest is assessed than if interest is not assessed. With interest, we estimate these three states will experience an additional \$20 billion of new arrears over 10 years; without interest that figure would be \$10 billion. On the other hand, if interest is assessed, our simulation predicts that the amount of original arrears collected will be slightly higher and the amount eliminated due to death will be higher. Thus, the total amount of arrears remaining after 10 years will be about 40 percent higher as a result of assessing interest in these states.

In Michigan, we estimate that arrears will be 32 percent higher in 2013 than they would be if Michigan did not assess interest at a 4.4 percent simple rate. Our simulation predicts that Michigan would accrue \$4.9 billion of new arrears in 10 years if interest was not assessed instead of \$8.7 billion that would accrue if interest was assessed at a 4.4 percent simple rate. Thus, we estimate that new arrears will be 78 percent higher because interest is assessed at a 4.4 percent simple rate. In addition, we estimate that the amount of arrears collected over the 10-year period would be slightly lower if interest was not assessed. Instead of collecting \$2.8 billion in arrears in 10 years, we estimate that Michigan would collect \$2.6 billion in arrears in 10 years. Adding newly accrued arrears to the amount of arrears owed in 2003 and subtracting out the amount collected and the amount eliminated due to death shows that arrears in Michigan is estimated to reach \$10.4 billion in 10 years if interest was not assessed compared to \$13.8 billion if interest is assessed.

If Texas discontinued assessing interest at a 6 percent simple rate (and applying arrears payments to interest before principal), we estimate that \$4.3 billion of new arrears would accrue in 10 years instead of \$8.7 billion. Thus, new arrears will be about twice as large in Texas because interest is assessed. To estimate total arrears in 10 years, we added these new arrears to the amount of arrears owed in 2003 and subtracted out the estimated amount collected and eliminated due to death. We estimate that arrears would be \$9.4 billion in 10 years instead of \$13.4 billion if interest was not assessed. In other words, arrears are estimated to be 43 percent higher in Texas in 2013 as a result of assessing interest.

Table 3.3 Simulation Results for Arizona, Michigan and Texas, with Current Interest Rates and No Interest (dollars are in millions)

	Arizona			Michigan			Texas		
	No Interest (A)	10% Interest (B)	% Difference (B-A)/A	No Interest (A)	4.4% Interest (B)	% Difference (B-A)/A	No Interest	6% Interest	% Difference (B-A)/A
Year 1 Arrears	\$2,078	\$2,078	0	\$8,609	\$8,609		\$8,816	\$8,816	0
Paid the First Year	\$53	\$53	0	\$738	\$738		\$500	\$500	0
As a % of Year 1 Arrears	3%	3%		9%	9%		6%	6%	
Could Pay Over 10 Years	\$472	\$487	3%	\$2,629	\$2,761	5%	\$3,357	\$3,603	7%
As a % of Year 1 Arrears	23%	23%		31%	32%		38%	41%	
Remaining Arrears in Yr 10	\$1,606	\$1,591	-1%	\$5,980	\$5,848	-2%	\$5,459	\$5,213	-5%
New Arrears Accrued	\$1,184	\$2,742	132%	\$4,910	\$8,754	78%	\$4,319	\$8,693	101%
Arrears Eliminated by Death	\$107	\$137	29%	\$445	\$526	18%	\$391	\$474	21%
Total Arrears in Year 10	\$2,684	\$4,195	56%	\$10,444	\$13,778	32%	\$9,386	\$13,432	43%

Source: Child support data are from states listed above, which were matched to national quarterly wage and unemployment insurance data.

We estimate that \$1.2 billion of new arrears would accrue in Arizona in 10 years, instead of \$2.9 billion, if Arizona did not assess interest at a 10 percent simple rate. In other words, we estimate that new arrears will be about 150 percent larger than if Arizona did not assess interest at a 10 percent simple rate. Adding in the remaining arrears not collected during the 10-year period, we estimate that arrears in Arizona in 10

years would be \$2.7 billion if interest was not assessed and \$4.2 billion if interest is assessed. In other words, we estimate that arrears will be 56 percent higher ten years later because interest was assessed.

Table 3.4 reports what we estimate would happen to arrears if interest were assessed in the four states that did not assess interest routinely at the time of data extraction. In these simulations, we assumed that the states charge 6 percent simple interest, except in Illinois. In Illinois, we assumed that interest would be assessed at 9 percent on a simple basis, since this is the interest rate in Illinois that is currently assessed on an intermittent basis. We assumed in all four states that arrears payments would be applied to principal first.

Table 3.4 Simulation Results for Illinois, New Jersey, Ohio and Pennsylvania, with No Interest and with Proposed Interest Rates
(dollars are in millions)

	Illinois			New Jersey		
	No Interest (A)	9% Interest (B)	% Difference (B-A)/A	No Interest (A)	6% Interest (B)	% Difference (B-A)/A
Year 1 Arrears	\$2,796	\$2,796	0	\$2,084	\$2,084	0
Paid the First Year	\$230	\$230	0	\$146	\$146	0
As a % of Year 1 Arrears	8%	8%	0	7%	7%	0
Could Pay Over 10 Years	\$1,090	\$1,235	13%	\$889	\$968	9%
As a % of Year 1 Arrears	8%	8%		43%	46%	
Remaining Arrears in Year 10	\$1,706	\$1,561	-9%	\$1,195	\$1,116	-7%
New Arrears Accrued	\$2,024	\$4,670	131%	\$2,180	\$3,688	69%
Arrears Eliminated by Death	\$143	\$198	38%	\$109	\$136	24%
Total Arrears in Year 10	\$3,586	\$6,033	68%	\$3,266	\$4,668	43%
	Ohio			Pennsylvania		
	No Interest (A)	6% Interest (B)	% Difference (B-A)/A	No Interest (A)	6% Interest (B)	% Difference (B-A)/A
Year 1 Arrears	\$3,753	\$3,753	0	\$2,091	\$2,091	0
Paid the First Year	\$369	\$369	0	\$237	\$237	0
As a % of Year 1 Arrears	10%	10%	0	11%	11%	0
Could Pay Over 10 Years	\$1,954	\$2,131	9%	\$1,339	\$1,468	10%
As a % of Year 1 Arrears	52%	57%		64%	71%	
Remaining Arrears in Year 10	\$1,799	\$1,622	-10%	\$753	\$624	-17%
New Arrears Accrued	\$4,733	\$7,619	61%	\$2,764	\$4,350	57%
Arrears Eliminated by Death	\$211	\$262	24%	\$103	\$128	24%
Total Arrears in Year 10	\$6,322	\$8,980	42%	\$3,413	\$4,845	42%

Source: Child support data are from states listed above, which were matched to national quarterly wage and unemployment insurance data.

We find that assessing interest in these four states is likely to have a similar impact on arrears growth as estimated for the three states examined above that already assess interest. Similar to Texas, table 3.4 shows that if New Jersey, Ohio, or Pennsylvania began assessing interest at a 6 percent simple rate, then total arrears would be approximately 42 percent higher 10 years later than it would be without assessing

interest. In Illinois, total arrears are estimated to be 68 percent higher in 10 years if interest is assessed at 9 percent a year. Just as we found above, new arrears will accrue much more rapidly if interest is assessed than if interest is not assessed, but the amount of arrears collected will also be slightly higher and the amount eliminated by death will be higher. Thus, total arrears growth will not be as large as new arrears growth.

CHAPTER 4. WHY HAVE ARREARS GROWN?

In this chapter, we examine four factors that appear to be the primary drivers behind arrears growth. The first issue we examine is charging interest on arrears. We then discuss the role of retroactive support in generating arrears. We follow this discussion with an examination of compliance rates on current support and arrears collections.

We find that assessing interest on a routine basis has been the single most important factor contributing to arrears growth during the past fifteen years. Among the study states, two states assess interest on a routine basis (i.e. Arizona and Texas) and one state assesses a surcharge twice a year (i.e. Michigan). We find that retroactive support is not a major factor contributing to arrears in the study states. Only three of the nine study states assess retroactive support on a routine basis (i.e. Arizona, New Jersey, and Texas). Furthermore, these three states do not assess retroactive support back to the date of birth in paternity cases, which limits the amount of retroactive support that can be assessed.

Non-compliance with current support orders was another major factor contributing to arrears. Non-compliance was particularly large among obligors with no or low reported income. In the study states, 40 percent of the current support obligors had no or low reported income, yet they contributed 60 percent of the unpaid current support accrued during the year. Seventy five percent of those with no reported income and 78 percent of those with reported incomes below \$10,000 a year paid less than 50 percent of their current support order during the year. Once reported incomes exceeded \$10,000 a year, compliance with current support orders improved. Forty two percent of current support obligors with reported incomes between \$10,001 and \$20,000 a year paid less than 50 percent of their current support order. Once reported income exceeded \$20,000 a year, only 17 percent of the current support obligors in the study states paid less than 50 percent of their current support order. These results show how difficult it is to collect from obligors with no or low reported incomes.

We also find that current support orders tend to be rather high for obligors with low reported income. For obligors with reported income of \$10,000 a year or less, the median percent of reported income that was due as current support was 83 percent and the median percent of reported income that was paid was 7 percent. In contrast, among all current support obligors with reported income, the median percent of reported income due as current support was 19 percent and the median percent paid was 10 percent.

Another factor that contributed to arrears is the low payment rate on arrears. Nationally, during the past several years, about 6 percent of arrears have been collected. If states could have doubled their collection rate on arrears to 12 percent since FY 2002, we predict that arrears would have stopped growing and would total \$86 billion today. Unfortunately, most debtors do not pay 12 percent of their arrears each year. Those who do, tend to owe less than \$1,000 in arrears. We examined debtors by their characteristics and found that debtors with no reported income were the least likely to

pay arrears. Again, we find that collecting support, whether it be current support or arrears, is very difficult to collect from those with no reported income.

A. Charging Interest Routinely Resulted in Significantly Higher Arrears

The primary factor that has caused arrears to grow dramatically during the 15 years has been the assessment of interest on a routine basis. Many states began to assess interest on a routine basis in the 1990s, as their computer systems could manage to calculate and track interest. In addition, in 1986, Congress enacted legislation, referred to as the Bradley Amendment, which mandated that child support arrears be considered a judgment by operation of law. Since most states require that interest be charged on judgments, many states began to charge interest on child support arrears after this legislation was enacted. Today, 18 states charge interest on a routine basis.⁵⁰ Most of these states charge interest every month on any unpaid child support.⁵¹ Eighteen states and Guam charge interest intermittently.⁵² In these states, interest is typically assessed when the IV-D program requests that the court convert arrears to a final judgment because the on-going support order is ending. However, exact interest policies vary among these states. Finally, in the remaining fourteen states, Puerto Rico, the Virgin Islands, and the District of Columbia, the IV-D programs do not charge interest.

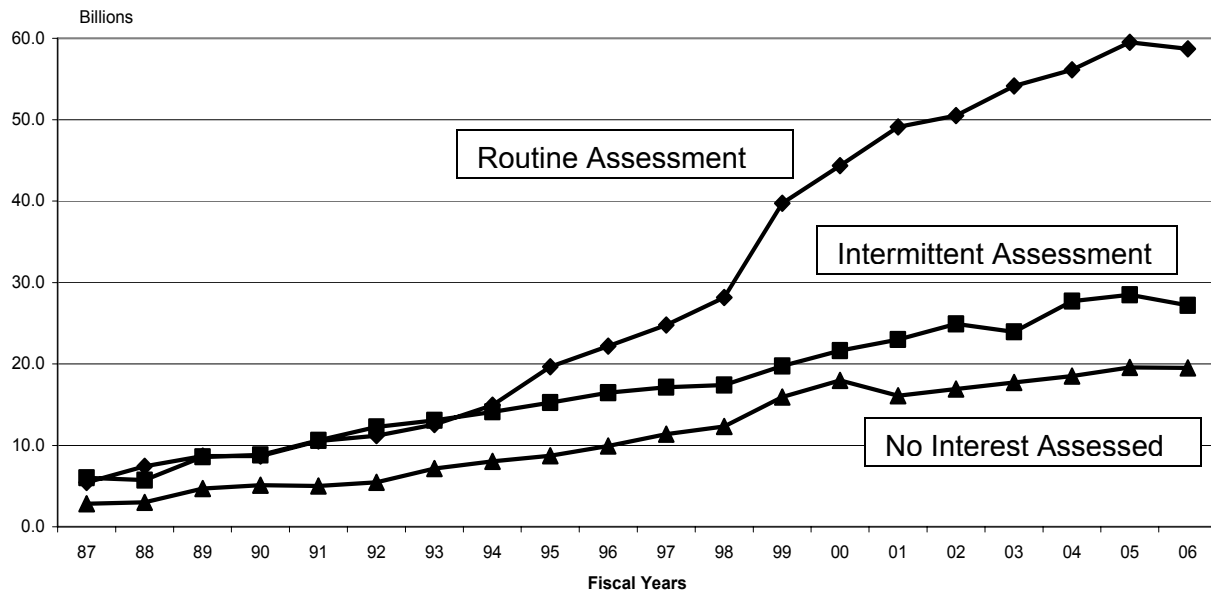
All states have experienced an increase in arrears between FY 1987 and FY 2006, but chart 4.1 shows that states that charge interest on a routine basis have experienced a much larger increase in arrears than other states. Between FY 1987 and FY 2006, states that charge interest routinely experienced more than a ten-fold increase in arrears, going from \$5.4 billion in FY 1987 to \$58.7 billion in FY 2006. In contrast, other states saw their arrears grow about half as fast as this. States that charge interest intermittently experienced a 353 percent increase in arrears over this period (arrears went from \$6.0 billion in FY 1987 to \$27.2 billion in FY 2006), while states that do not charge interest experienced a 592 percent increase in arrears (arrears went from \$2.8 billion in FY 1987 to \$19.5 billion in FY 2006). Assessing interest on arrears on a routine basis was probably the single biggest factor that contributed to arrears growth during the 1990s and the first half of the 2000s.

⁵⁰ The states that charge interest routinely are: Alabama, Alaska, Arizona, California, Georgia, Massachusetts, Michigan, Minnesota, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Rhode Island, Texas, Virginia, West Virginia, and Wisconsin. Michigan doesn't actually charge interest; it charges a surcharge twice a year. Since the surcharge is like interest, we include Michigan with other states that charge interest.

⁵¹ Michigan, Massachusetts, and North Dakota do not assess interest on arrears if obligors pay their current support order in full. In addition, Massachusetts does not assess interest on arrears if the obligor meets certain hardship criteria.

⁵² The states that charge interest intermittently are: Arkansas, Colorado, Guam, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Mississippi, Missouri, New York, Ohio, Oregon, Utah, Vermont, Washington, and Wyoming.

Chart 4.1 Child Support Arrears Held by State IV-D Programs from FY 1987 to FY 2006, Grouped by States' Interest Policies



Source: Arrears data are from OCSE, Annual Statistical Reports and Preliminary Reports.
 Note: See chart 4.

Only two of the nine study states, Arizona and Texas, charge interest on a routine basis (see table 4.1). These two states assess interest every month on all unpaid support, but they do not assess interest on interest (i.e. they use a simple rate). At the time of the study, Michigan assessed a surcharge twice a year on all unpaid support, including interest (i.e. they used a compounded rate). At that time, the surcharge was 8 percent a year. Michigan has since changed their surcharge to a simple variable rate, which is assessed twice a year. In addition, Michigan no longer assesses a surcharge on obligors who pay at least 90 percent of their current support due over the six-month assessment period.

Only Arizona and Texas distinguished between interest and principal in the arrears data that were provided to the Urban Institute. Interest represented 27 percent of total arrears in Arizona as of December 2004, and it represented 22 percent of total arrears in Texas as of September 2003.

Texas held less interest than Arizona, in part, because Texas applies arrears payments to interest before principal, while Arizona does the opposite. Applying arrears payments to interest before principal not only reduces the amount of interest that a state holds, but it also causes arrears to grow faster because there is more principal upon which to assess interest. That is one of the reasons that Michigan decided to apply arrears payments to principal before interest when it converted its surcharge to a simple variable interest rate.

Table 4.1 Interest Policies in the Nine Study States

State	Interest Policy (frequency and type)	Annual Interest Rate
Arizona	Assessed monthly on a simple basis.	10%
Florida	Does not assess interest.	
Illinois	Interest accrues under state law and is assessed when arrears are adjudicated. Interest is assessed on a simple basis at a 9 percent annual rate.	9%
Michigan	Prior to 2004, surcharge assessed twice a year on a compounded basis. Now surcharge is assessed twice a year on a simple basis, using a variable rate.	8% prior to 7/2004; variable rate since then
New Jersey	Does not assess interest.	
New York	Assesses interest monthly on a simple basis when arrears are reduced to a money judgment.	9%
Ohio	Courts may assess interest if obligor is willfully avoiding payments. Interest is assessed monthly on a simple basis.	10%
Penn.	Does not assess interest.	
Texas	Assesses interest monthly on a simple basis.	12% prior to 1/2003; 6% since then

Source: OCSE Intergovernmental Referral Guide and telephone interviews with state child support administrators.

B. Assessing Retroactive Support Contributes to Arrears

We know from other research that ordering arrears for periods prior to the date of filing for an order, referred to as retroactive support, contributes to arrears.⁵³ In Colorado, for example, 19 percent of their arrears consisted of retroactive support. The Colorado Child Support Program estimated that the average amount paid toward retroactive support was \$180 per year and that obligors who owed retroactive support would take an average of 39 years to pay off their retroactive support.⁵⁴

Three of the nine study states included information about their retroactive support – Illinois, New York, and Texas. In New York, 22 percent of the obligors owed retroactive support at the time the data were extracted. Illinois and Texas had slightly higher figures at 29 and 27 percent, respectively.

Retroactive support was a smaller percent of total arrears in these three states than in Colorado as shown in table 4.2. In New York, retroactive support represented 5 percent of the state’s arrears. In Illinois and Texas, these figures were 12 and 11 percent,

⁵³ See, for example, Thoennes, Nancy and Jessica Pearson, “Understanding Child Support Arrears in Colorado.” Center for Policy Research. March 2001.

⁵⁴ Larry Desbian, “Arrears Management: Colorado’s Approach” Presented at the 2004 Annual Training Conference of the Eastern Regional Interstate Child Support Enforcement Association.

respectively.⁵⁵ The median amount of retroactive support due was the highest in Texas, at \$2,700, followed by Illinois, where the median amount was \$2,037. The median figure in New York was considerably lower at \$817.

Table 4.2 Retroactive Support in Illinois, New York and Texas: 2003/04

	Illinois	New York	Texas
Number of obligors assessed retroactive support	71,983	90,483	158,727
As a percent of all obligors	29	22	27
Total Amount of retroactive support due (in millions)	\$338	\$189	\$749
As a percent of total arrears	12	5	11
Median amount of retroactive support due	\$2,037	\$817	\$2,700

Source: Child support programs from states listed above.

These three study states had different policies toward retroactive support than Colorado, which probably explains why retroactive support represented a larger share of arrears in Colorado than in these three states. Table 4.3 lists the retroactive support policy in Colorado and the nine study states. Colorado permits retroactive support back to the date of birth in paternity cases, but Illinois, New York, and Texas do not. In Illinois, retroactive support may be ordered for up to 2 years prior to the date of filing. In Texas, current law allows retroactive support for up to 4 years prior to the date of filing. New York may assess retroactive support on IV-A cases back to the date of the IV-A application.

Table 4.3 Policies on Retroactive Support in Colorado and Nine Study States

State	Policy
Colorado	Back to the date of birth in paternity cases; back to the date of separation in divorce cases
Arizona	Up to 3 years of retroactive support
Florida	Up to 2 years of retroactive support
Illinois	Up to 2 years of retroactive support
Michigan	Back to the date of filing, unless willful avoidance
New Jersey	Back to the date of application for IV-D services
New York	Back to the date of application for IV-A
Ohio	Back to the date of birth in paternity cases; back to the date of separation in divorce cases
Pennsylvania	Back to the date of filing
Texas	Up to 4 years of retroactive support

Source: OCSE Intergovernmental Referral Guide and telephone interviews with state child support administrators.

⁵⁵ Illinois and Texas sent us retroactive support figures that were often higher than the amount of arrears currently owed. To determine the amount of retroactive support that was currently due in these states, we used the minimum value of retroactive support and arrears due.

We were interested in examining retroactive support in the other study states that did not provide direct information on retroactive support. Thus, we examined the amount of arrears owed by obligors who had their first order established in the last 12 months.⁵⁶ All study states, except Florida, were examined. In eight study states, nearly 300,000 obligors had their first order established within 12 months of the date the data were extracted from each state. The median number of months that these obligors had their order in place was 6 months. We expected that most of these obligors would owe arrears since half of them had their orders in place for 6 months and all of the study states indicated that support was routinely ordered back to the date of filing, if not earlier.

We find that the median amount of arrears owed among obligors who had their first order established in the last year varied among the study states. Median arrears were below \$900 in five of the study states, but above \$1,500 in three study states (table 4.4). Arizona had the highest figure for median arrears at \$3,413, followed by Texas at \$2,200. The only other state with a figure above \$1,500 was New Jersey, where median arrears were \$1,590.

Table 4.4 Median Arrears and Other Characteristics of Obligor who Had their First Current Support Order Established in the Last Year, by State: 2003/04

	Arizona	Illinois	Mich.	New Jersey	New York	Ohio	Penn.	Texas
Number of Obligor	10,250	22,504	13,123	37,082	77,761	41,051	29,193	66,649
Median Arrears	\$3,413	\$845	\$856	\$1,590	\$246	\$450	\$684	\$2,200
Median Monthly Order	\$290	\$269	\$328	\$373	\$303	\$292	\$325	\$265

Source: Child support programs from states listed above.

The five study states with median arrears for new obligors below \$900 do not appear to be ordering retroactive support on a routine basis. The median amounts of arrears are simply too low for retroactive support to be a common practice in these states. Thus, for example, even though Illinois may assess retroactive support for up to 2 years prior to the date of filing, these data suggest that Illinois is not doing this on a routine basis.

In addition to reporting median arrears, table 4.4 reports the median monthly current support order in each of the study states for obligors with their first order established in the last year. Median current support orders varied from \$265 (Texas) to \$373 (New Jersey) a month. We included this information to help determine whether states were assessing retroactive support and how much retroactive support was being assessed.

⁵⁶ For Arizona and Texas, we examined the amount of principal owed rather than arrears (i.e. principal and interest) in an effort to isolate that portion of arrears that may reflect retroactive support.

In four of the study states, we examined whether median arrears among new obligors varied by the age of their IV-D case. As noted in table 4.3, New Jersey law permits retroactive support back to the date of application for IV-D services, thus we expected to find that median arrears for new obligors in New Jersey varied by the amount of time their IV-D case had been open. Table 4.5 shows that median arrears in New Jersey among new obligors who had their IV-D cases opened in the last 12 months was just \$743. In contrast, median arrears among new obligors who had their IV-D cases opened more than 12 months ago were five times that amount, or \$3,778. These findings suggest that New Jersey is assessing retroactive support back to the date of IV-D application in most cases.

Table 4.5 Median Arrears among Obligor with their First Current Support Order Established in the Last Year, by Age of IV-D Case and State: 2003/04

	Arizona	New Jersey	Ohio	Penn.
IV-D Case was Opened within 12 Months of Order Establishment				
Median Arrears	\$2,516	\$743	\$407	\$645
IV-D Case was Opened at least 12 Months Before Order Establishment				
Median Arrears	\$4,600	\$3,778	\$647	\$726

Note: In this table, arrears in Arizona only include principal.

Source: Child support programs from states listed above.

Table 4.5 shows that the median amount of arrears in the other states did not vary nearly as much as in New Jersey by the age of the IV-D case. In Arizona, Ohio, and Pennsylvania, obligors who had a IV-D case opened at least 12 months prior to their order establishment date had higher median arrears than obligors who had their IV-D case and order established within the same year, but the differences were not nearly as large as in New Jersey.

Thus, these findings suggest that only three of the study states – Arizona, New Jersey, and Texas -- are routinely assessing retroactive support. The other five study states – Illinois, Michigan, New York, Ohio, and Pennsylvania – do not appear to be assessing retroactive support on a routine basis even though some of these states have laws that allow them to do so.

C. Low Compliance Rates on Current Support Orders Contribute to Arrears

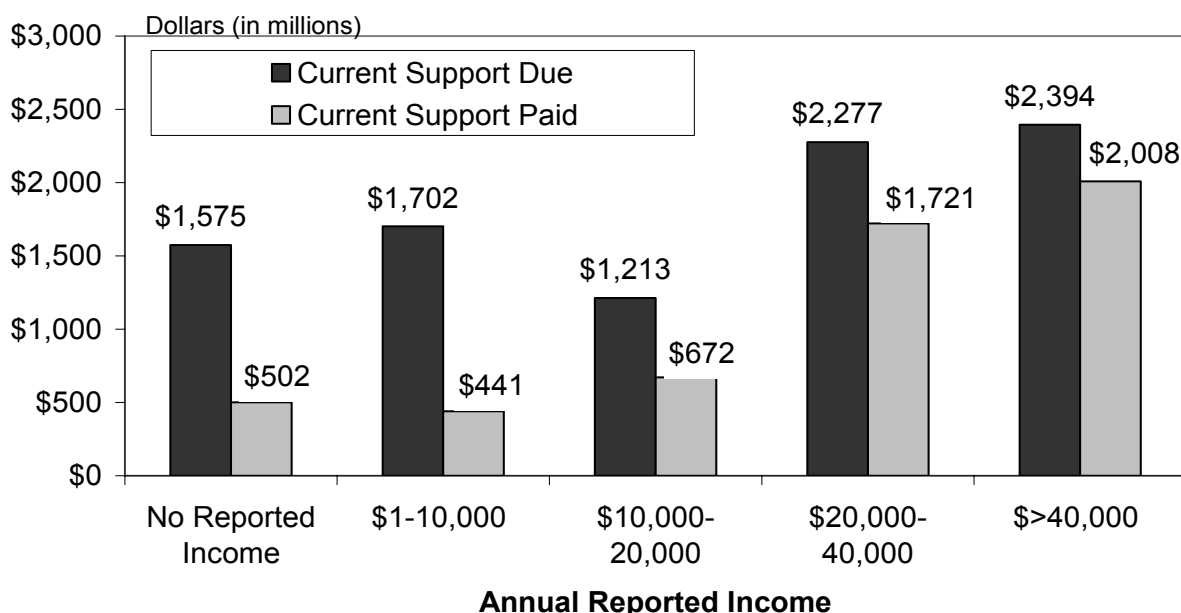
Another factor that has contributed to arrears is the lack of compliance with current support orders. Although the nation has seen a steady improvement in the percent of current support collected in recent years, about 40 percent of current support still goes unpaid each year. In this section of the report, we discuss the gap between current support due and paid.

The Difference Between Current Support Due and Current Support Paid is a Primary Driver Behind Arrears Growth, especially Among Obligor with No or Low Reported Income

The difference between current support due and paid in the 12 months of data that we received from seven of the study states was \$3.8 billion, which represents the new arrears generated in these seven states during the year of this study.⁵⁷ These new arrears were added to the stock of existing arrears in these states, which totaled \$28.7 billion in September 2002. This represents about a 13 percent increase in arrears before taking into account arrears collected that year.

Chart 4.2 shows that while every income group of obligors paid less current support than they owed, most of the unpaid current support (61 percent) was generated by obligors with no or low reported incomes. Specifically, in these seven states, obligors with no or low reported incomes were supposed to pay over \$3 billion in current support, but they actually paid less than \$1 billion. In other words, they paid 29 percent of their current support. As reported income increased, the percent of current support paid increased, reaching 84 percent among obligors with reported incomes of \$40,000 or more. We stratified the difference between current support due and paid by reported income because reported income is the strongest predictor of payment behavior that we had available. Reported income and current support payments were highly correlated in all of the study states.

Chart 4.2 Total Amount of Current Support Due and Paid in the Last Year in Seven States, by Reported Income: 2003/04



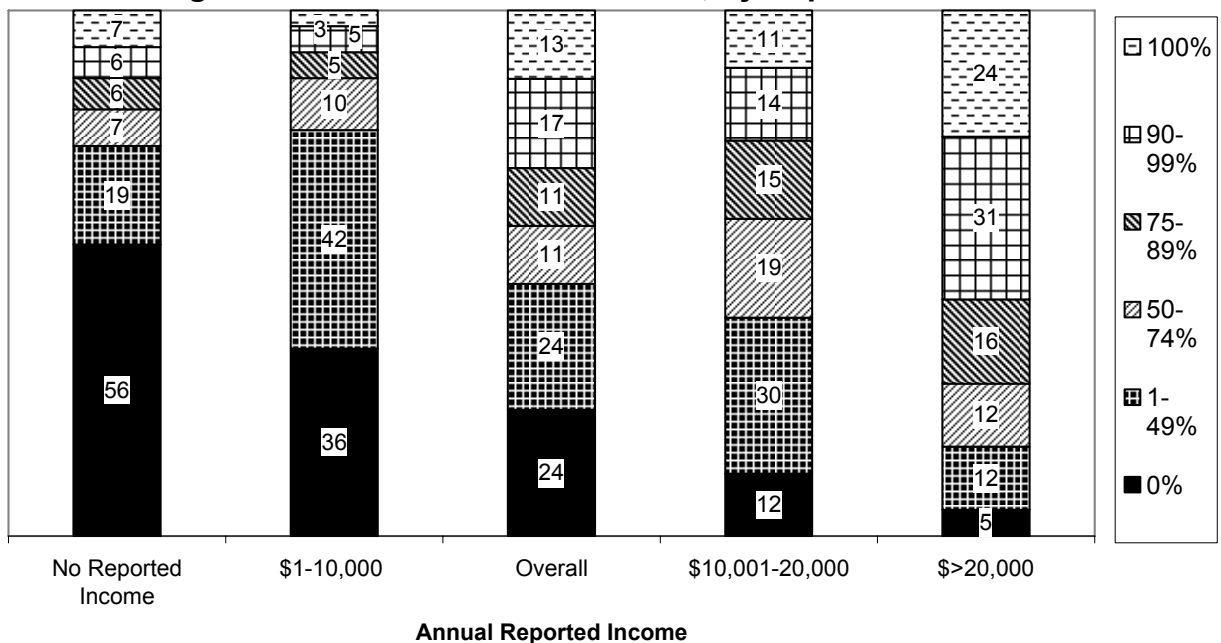
Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

⁵⁷ Florida was excluded because it did not indicate which of their obligors had a current support order. New York was excluded because it did not have 12 months of payment information like the other states.

Another way to examine this issue is to report the percent of obligors who paid different percentages of their current support order. The National Child Support Enforcement Strategic Plan for 2005 to 2009 asked states to report this type of information. The chart below shows the percentage of obligors who paid: no current support for 12 months; some current support but less than 50 percent of their order; 50 to 74 percent of their order; 75 to 89 percent of their order; 90 to 99 percent of their order; and 100 percent or more in seven of the study states.

Chart 4.3 shows that 24 percent of the current support obligors in seven of the study states paid no current support during the past year. Another 24 percent paid less than 50 percent of their current support order. Another 22 percent paid between 50 percent and 89 percent of their order. Seventeen percent paid 90 to 99 percent of their order. Finally, 13 percent of the obligors in these states paid their entire current support order in the past year.

Chart 4.3 Percent of Current Support Obligor Who Paid Various Percentages of their Order in Seven States, by Reported Income: 2003/04



Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

As we have already seen above, non-compliance was greatest among obligors with no or low reported incomes. Seventy five percent of obligors with no reported income and 78 percent of obligors with reported incomes of \$10,000 a year or less paid less than 50 percent of their current support order. Only 7 percent of obligors with no reported income and 3 percent of obligors with low reported incomes paid their entire current support order for the whole year.

Chart 4.3 shows that, as reported income increases, compliance clearly improves. Seventeen percent of obligors with reported incomes over \$20,000 a year in seven study states paid less than 50 percent of their current support order. On the other hand, 24 percent paid their entire current support order for 12 months. Another 31 percent paid between 90 and 99 percent of their current support order.

Characteristics of Obligors by their Compliance Rate

In this section, we divide current support obligors into three groups according to their payment behavior in the past 12 months. The first group consists of those who paid none of their current support order during this period, the second group consists of those who paid some of their order, and the final group are those who paid their entire current support order in the past 12 months. We examined seven study states for this analysis.⁵⁸

As noted above, 13 percent of the current support obligors paid their entire current support order in the last year in these seven study states. Those who paid their entire current support order owed very little arrears. In fact, the median amount of arrears owed by this group was zero, meaning that at least half of the current support obligors who paid their entire order did not owe arrears. In contrast, current support obligors who did not pay any support in the last year had median arrears of \$12,000. Current support obligors who paid some of their current support in the past year had median arrears of \$1,549.

The main characteristic that differentiates obligors who paid their entire current support order from those who paid none or some of their current support order is the amount of reported income that they had. Obligors who paid their current support order in full had median annual reported income of \$30,579, while obligors who paid some of their current support order in the past year had median annual reported income of \$16,800, and obligors who paid none of their current support order in the past year had median annual reported income of \$66. Nearly half of the obligors (48 percent) who paid none of their current support in the last year had no reported income; another 36 percent had reported incomes of \$10,000 a year or less. Only 16 percent of current support obligors who paid nothing toward their current support in the past year had reported incomes over \$10,000 a year. In contrast, 83 percent of the current support obligors who paid their entire current support orders had reported annual incomes this high.

Obligors who paid their entire current support order in the past year had orders that represented relatively little of their reported income. Nearly all of the obligors who paid their entire support orders had orders that were less than 50 percent of their reported income. The median amount of reported income that was supposed to go toward current support among these obligors was 12 percent. Only 6 percent of these obligors had multiple orders. In contrast, the majority of obligors who had reported incomes but

⁵⁸ Florida and New York are excluded because we did not receive order amounts from Florida and we did not receive 12 months of payment data from New York.

Table 4.6 Characteristics of Current Support Obligors in Seven States, by the Amount of their Order they Paid in the Last Year: 2003/04

	Did Not Pay Support in the Last Year	Paid Some of Their Order in the Last Year	Paid Entire Order for One Year
Number of Obligors	512,704	1,323,682	276,959
Percent of obligors	24	63	13
Total Amount of Arrears Owed (in billions)	\$10.7	\$10.5	\$1.0
Percent of arrears owed	48	47	5
Median amount of arrears owed	\$12,000	\$1,549	\$0
Overall Median Annual Reported Income	\$66	\$16,800	\$30,579
Percent of Obligors with:			
No Reported Income	48	13	11
Annual Reported Income between \$1 and \$10,000	36	24	6
Annual Reported Income Over \$10,000	16	63	83
Median Monthly Current Support Order	\$206	\$322	\$300
As a % of Reported Income	64	20	12
% of Obligors with Order > 50% of Reported Income	55	20	4
Percent of Obligors with Multiple Orders	12	13	6
Percent of Obligors with:			
Instate zip code	66	79	81
Out of state zip code	16	14	14
No zip code	16	6	4
At least one interstate case	15	10	10

Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

paid nothing toward current support in the past year had orders that exceeded 50 percent of their reported income. Twelve percent of these obligors had multiple orders.

Obligors who paid their entire current support order in the past year were more likely to have an in-state ZIP code than other obligors and less likely to be missing a ZIP code. In fact, only 4 percent of the obligors who paid their current support in full in the last year did not have a ZIP code; 16 percent of obligors who paid none of their current support in the last year did not have a ZIP code. Finally, obligors who paid their entire current support order in the past year were less likely to have an interstate case than obligors who did not pay any of their current support in the last year.

Obligors with No or Low Reported Incomes Paid little of their Current Support Order

Another way to examine this issue is to look at the payment behavior of current support obligors by each of their characteristics. Table 4.7 presents these results.⁵⁹

Table 4.7 shows that the payment behavior of current support obligors varied by each of the characteristics that we examined, however the largest difference in payment behavior occurred among current support obligors who had no reported income and those who had reported incomes over \$10,000 a year. Ninety five percent of the obligors with reported incomes over \$10,000 a year paid current support, while less than half (47 percent) of the obligors with no reported income paid current support in the prior year. No other group of obligors that we examined had payment rates this low.

The payment characteristics of current support obligors with reported incomes of \$10,000 a year or less were not much better than those with no reported income. Seventy percent of these current support obligors paid current support in the last year, but the median monthly amount that they paid during the last year was \$22 and the median percent of their order paid for this period was just 10 percent. In contrast, half of the current support obligors with reported incomes over \$10,000 per year paid 87 percent or more of their current support order over the same period.

Two other groups of current support obligors had exceedingly low payment rates: those who had reported incomes, but their current order(s) represented 50 percent or more of their reported income; and those who did not have a ZIP code, which meant they did not have a valid address on record. Sixty eight percent of the current support obligors in the first group paid current support in the last year, but half of these obligors paid less than 8 percent of their current support order. Fifty seven percent of those without a ZIP code paid current support in the past year and half of them paid less than 5 percent of their current support order. These two groups were relatively small in these states; 18 percent of the current support obligors in these seven states had current support orders that exceeded fifty percent of their reported income and 9 percent of the current support obligors did not have a ZIP code. Furthermore, most of the obligors in these groups had no or low reported income. In fact, 91 percent of the current support obligors who had orders that were 50 percent or more of their reported incomes had reported incomes of at most \$10,000 a year; 67 percent of those with missing ZIP codes had no or low reported incomes.

⁵⁹ Florida is excluded from this analysis because we could not distinguish between current support payments and arrears payments from the data we received. New York is excluded from this analysis because we did not receive 12 months of payment information.

**Table 4.7 Payment Characteristics of Current Support Obligors
in Seven States, by Various Characteristics: 2003/04**

	Number of Current Support Obligors	Percent who Paid any Current Support in Last Year	Median Monthly Amount of Current Support Paid in Last Year	Median Percent of Current Support Order Paid in Last Year
Current Support Obligors have:				
Overall	2,114,732	79	\$137	53
Reported Income				
No Reported Income	444,667	47	\$0	0
At most \$10,000 a year	518,966	70	\$22	10
\$10,001 or more a year	1,151,099	95	\$263	87
Order Characteristics				
Order is at least 50% of Reported Income	389,887	68	\$23	8
Order < 50% of Reported Income	1,280,178	94	\$226	83
Has Multiple Current Support Orders	210,503	78	\$148	36
Has One Current Support Order	1,538,748	80	\$148	62
Oldest Order More than 10 years old	398,359	76	\$102	49
Oldest Order 10 years or less	1,694,963	80	\$145	55
Zip Code Status				
Has in-state Zip Code	1,607,559	82	\$158	61
Has Out-of-state Zip Code	308,762	78	\$110	46
Has No Zip Code	181,813	57	\$11	5
Interstate Status				
Has Interstate Case	236,417	73	\$81	34
Has No Interstate Case	1,878,315	80	\$145	56

Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

These four groups of current support obligors who had exceedingly low payment rates – those with no or low reported income, those with orders that exceeded 50 percent of their reported income, and those without a ZIP code -- represented 50 percent of the current support obligors in these seven states. The median amount paid by these obligors during the past year was less than \$23 per month and the median percent of their order paid was less than 10 percent.

Payment behavior also varied by other characteristics of current support obligors. For example, the payment rates among current support obligors with and without an interstate case varied. Half of the obligors with an interstate case paid 34 percent or more of their current support order in the last year, while half of the obligors without an interstate case paid 56 percent or more of their current support order in the last year. Similarly, the median percent of current support paid in the last year by obligors with

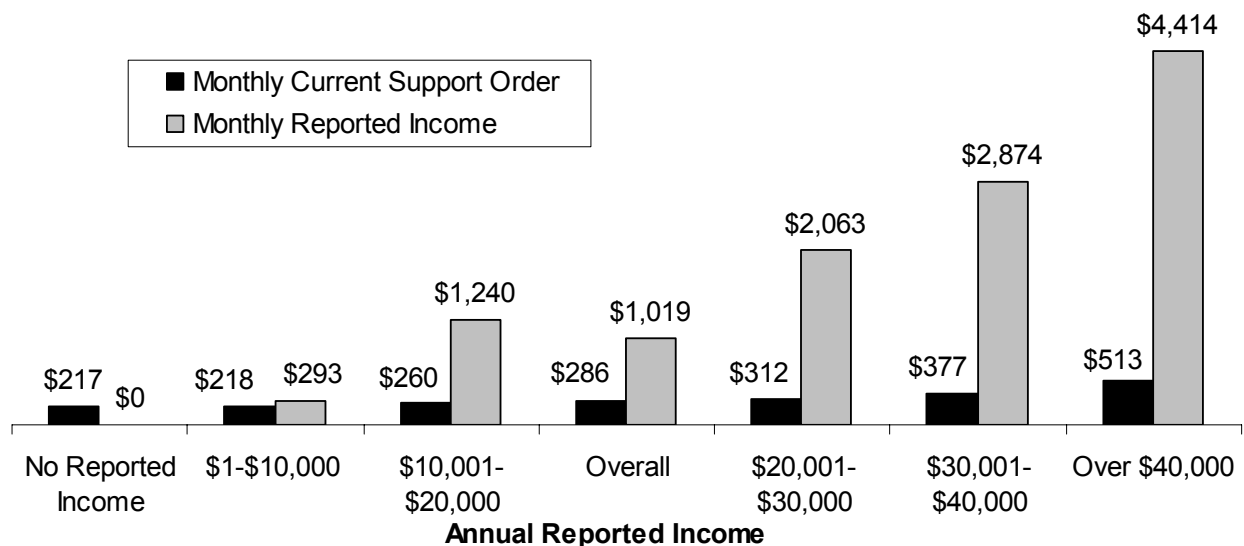
multiple current support orders was 36 percent, while it was 62 percent among obligors with one current support order.

Current Support Orders Appear too High for Some Obligor with Low Reported Incomes

Current support orders tend to be very high relative to reported incomes for obligors with reported incomes of \$10,000 a year or less. In contrast, once obligors have annual reported incomes of more than \$10,000 a year, current support orders do not tend to be that high relative to reported income. Chart 4.4 reports the median monthly current support order and median monthly reported income for obligors with a current support order in seven states.⁶⁰ At the time the data were extracted from the study states, the median current support order among all obligors with a current support order was \$286 per month and their median monthly income was \$1,019.

Chart 4.4 shows that, in these seven states, median monthly incomes rose much more rapidly than median monthly orders. Among obligors with no reported income, the median current support order was \$217 per month. Obligor with reported incomes of \$10,000 a year or less had a very similar median order of \$218 per month. The median monthly reported income for these obligors was \$293 per month. This means that most low-income obligors were expected to devote more than half of their monthly reported

Chart 4.4 Median Monthly Current Support Order and Median Monthly Reported Income for Current Support Obligor in Seven States, by Annual Reported Income: 2003/04



Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

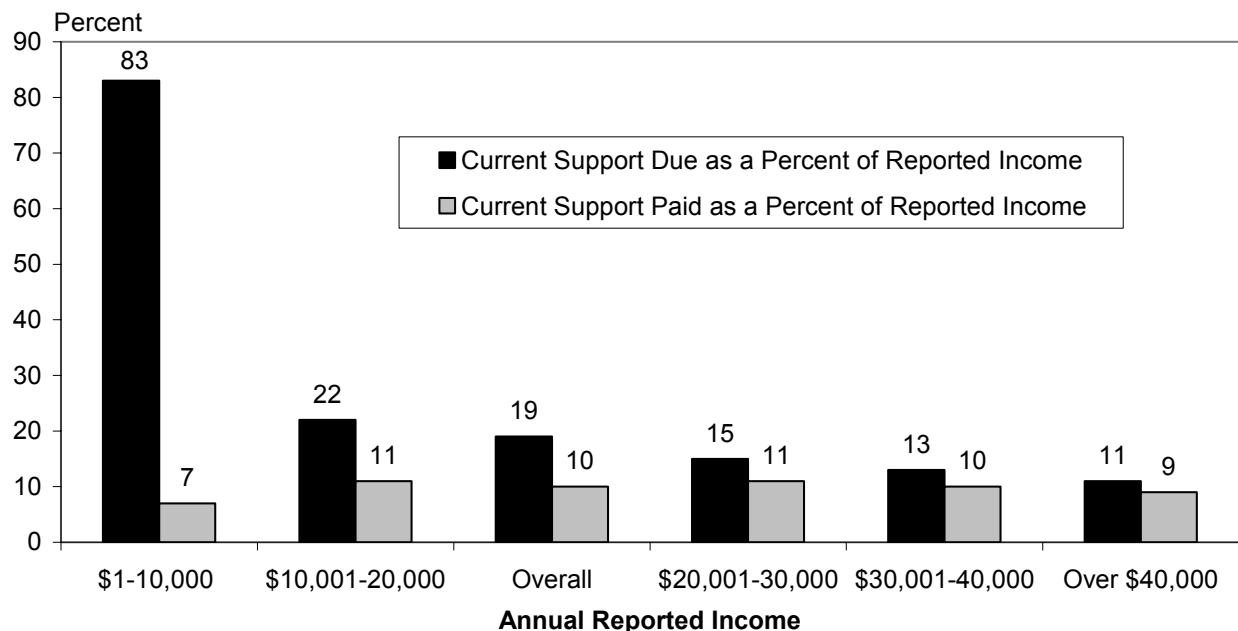
⁶⁰ Florida is not included in this analysis because we did not receive current support order amounts from this state. New York is not included because we did not receive 12 months of payment information.

income on child support. No other income category of obligors was expected to pay that much of their reported income on child support. For example, obligors with reported income between \$10,001 and \$20,000 a year had a median current support order of \$260 per month, while their median monthly reported income was \$1,240 per month. In other words, as reported income increased from \$10,000 a year or less to \$10,001 to \$20,000 a year, representing about a four-fold increase in reported income, the median order increased by 19 percent, or \$42 per month.

Another way to examine the same issue is to report the median percent of reported income that obligors are expected to pay toward child support and the median amount actually paid. Chart 4.5 shows that overall, in the seven states examined, the median percent of reported income that was due as current support was 19 percent and the median percent of reported income that was paid was 10 percent.

Once obligors are divided into reported-income categories, we find that the median percent of reported income that is expected to go to child support declines as reported income rises. For obligors with reported income of \$10,000 a year or less, the median percent of reported income that was supposed to go to child support was 83 percent. The median percent among obligors with reported income between \$10,001 and \$20,000 a year was 22 percent. Among obligors with reported income above \$40,000 a year, the median percent of income that was expected to go to child support was 11 percent.

Chart 4.5 Median Percent of Reported Income Due and Paid as Current Support in Seven States, by Reported Income: 2003/04

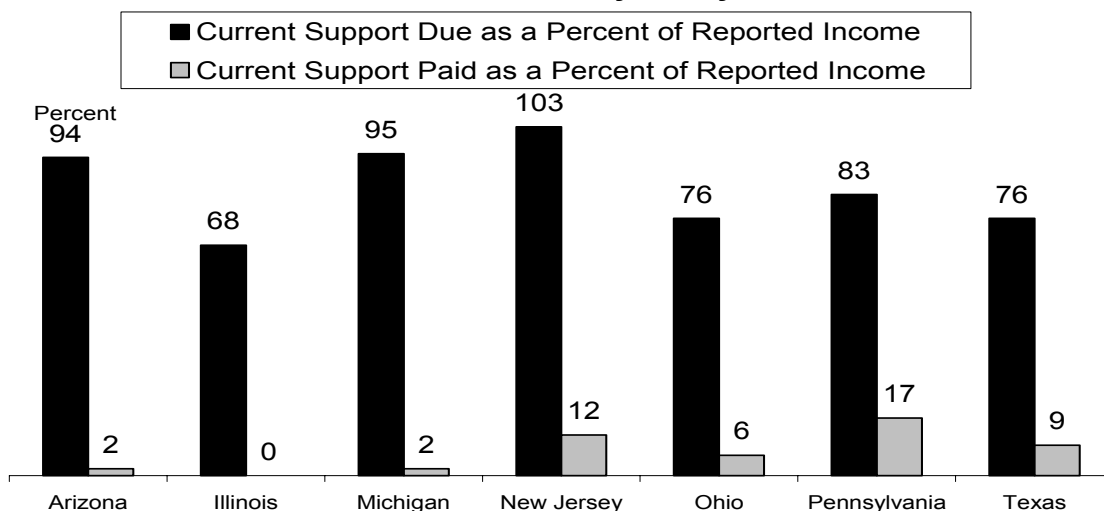


Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

Chart 4.5 also shows that the median percent of reported income that went to current support was not that different among obligors once they were divided into reported-income categories. Among obligors with reported incomes of \$10,000 a year or less, the median percent of reported income that went to current support was 7 percent, which was the lowest percentage figure across the reported-income groups. The highest figure was among obligors with reported incomes between \$10,001 and \$30,000 a year. The median percent of reported income that went to current support among these obligors was 11 percent.

We examined the variation in the median percent of income due and paid as current support among low-income obligors in our study states (chart 4.6). We find a wide range of median amounts due and paid among the study states. Illinois had the lowest medians for due and paid among these obligors -- the median order in this state as a percent of reported income was 68 percent and the median paid as a percent of reported income was zero. Less than half of this group of obligors paid current support in Illinois and that is why the median amount paid is zero.⁶¹ Arizona and Michigan, on the other hand, had high median amounts due and low median amounts paid. In these two states, the median percent of reported income due as current support was 94 and 95 percent, respectively; the median percent paid was 2 percent of reported income in both states. New Jersey had the highest median percent due. The median percent due in this state for these obligors was 103 percent of reported income. The median percent paid in New Jersey was 12 percent. Pennsylvania had the highest median percent of reported income paid toward current support at 17 percent. Their median support due for these obligors was 83 percent of reported income.

Chart 4.6 Median Percent of Reported Income Due and Paid as Current Support Among Obligor with Reported Incomes Between \$1 and \$10,000 a year, by State: 2003/04

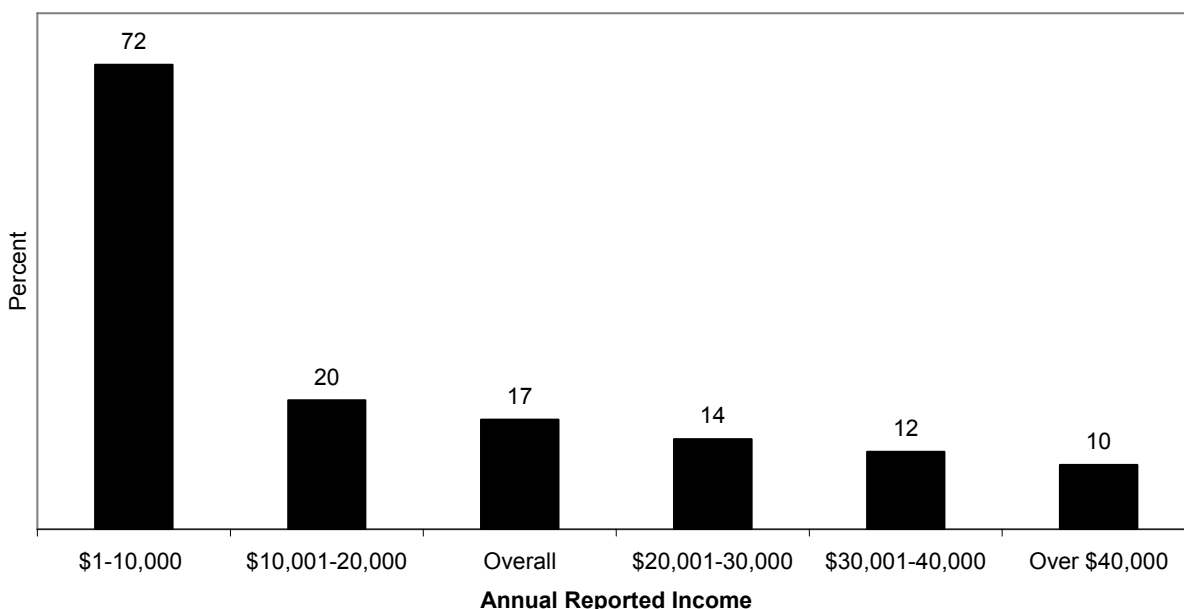


Source: Child support programs from states listed above. These data were matched to national quarterly wage and unemployment insurance data.

⁶¹ We should note that the current support payment data from Illinois appeared incomplete. So we may be understating actual current support payment amounts for Illinois.

There are several possible reasons why some obligors had orders that appeared to exceed their ability to pay. One reason is that obligors have multiple current support orders. To examine whether orders appeared high because of multiple current support orders, we limited chart 4.5 to those obligors who had just one current support order. As expected, chart 4.7 shows that, overall and for every reported-income group, the median percent of reported income that is due as current support declines. In particular, for obligors who had one current support order and reported income between \$1 and \$10,000 a year, the median percent of reported income that was expected to go to current support was 72 percent, down from 83 percent among low-income obligors regardless of the number of orders that they had.

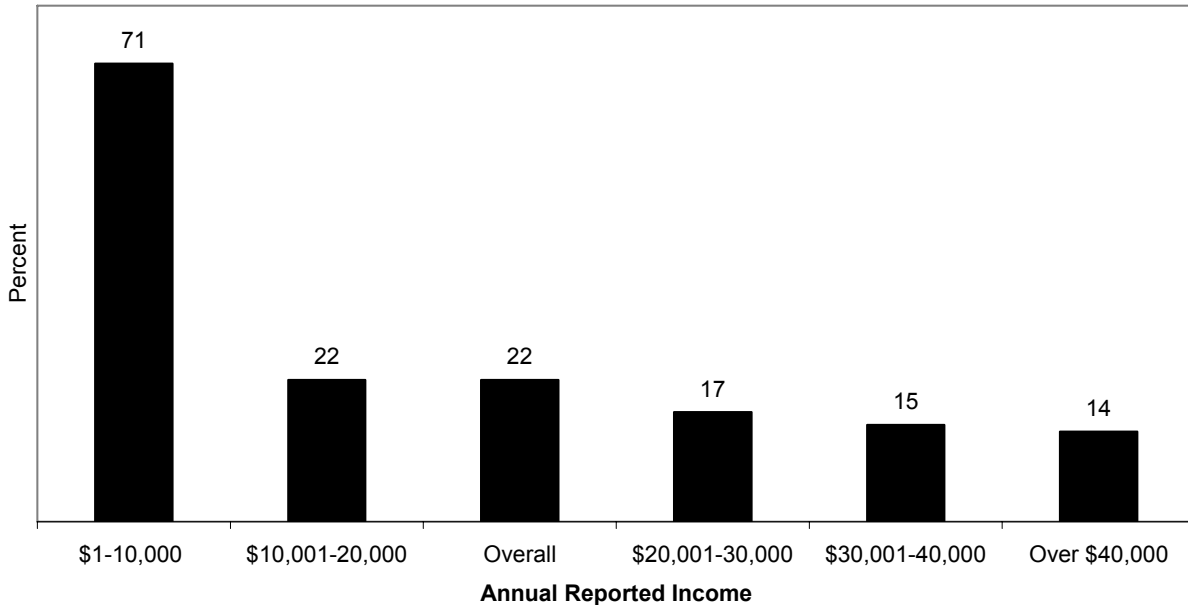
Chart 4.7 Median Percent of Reported Income Due as Current Support Among Obligor with One Current Support Order in Seven States: 2003/04



Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

Another reason that orders may appear too high relative to obligors' ability to pay is that circumstances for these obligors may have changed, which reduced their ability to pay but their orders were not modified to reflect these changes. To avoid this issue, we examined obligors who had their first current support order established in the last 12 months. We refer to these obligors as new obligors. These obligors had just one current support order and their orders were new enough that it was unlikely that their circumstances had changed since their order was established. Chart 4.8 shows these results. We find that, overall, the median percent of income due as current support for new obligors was 22 percent, or 5 percentage points higher than the median amount for all obligors with one current support order.

Chart 4.8 Median Percent of Reported Income Due as Current Support Among Obligor with One Order Established in the Last Year in Seven States: 2003/04



Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

For new obligors with reported income of \$10,000 a year or less, chart 4.8 shows that they were expected to pay a median amount of 71 percent of their reported income toward child support, or one percentage point lower than the median amount found for all obligors with reported incomes this low. Hence, many current support orders appear to be set too high from the very beginning for obligors with low reported income.

Another reason orders may appear high for low-income obligors is that income may be imputed for some obligors. We did not have direct information on whether orders were imputed, thus we tried to infer from the data whether orders were imputed. We did this by examining the frequency of order amounts as they appeared in the data. To reduce the noise in the distribution of orders, we focused on obligors who had their first order established in the last 12 months and had two children to support.⁶² We examined obligors who had no reported income, reported incomes of \$10,000 a year or less, and reported incomes over \$10,000 a year.

We find that all of the states had specific order amounts that were frequently used for obligors, regardless of their income category, but the extent to which they relied upon them and their magnitude varied among the states. Starting with obligors with reported

⁶² Michigan did not include a variable indicating the number of orders that an obligor had, so obligors in this state were not limited to those with one order. Arizona did not include a variable indicating the number of children that an order covered, so obligors in this state were not limited to those with two children.

**Table 4.8 Two Most Frequently Used Order Amounts for Obligor
who had their First Order Established in the Last 12 Months and
had 2 Children to Support⁶³**

	Monthly Order		Monthly Order	
	Amount	% of Orders	Amount	% of Orders
OBLIGORS WITH NO REPORTED INCOME				
Arizona	182	15	173	10
Illinois	10	5	20	3
Michigan	435	2	200	2
New Jersey	282	5	433	3
New York	25	10	50	6
Ohio	50	10	100	4
Pennsylvania	50	12	200	3
Texas	200	17	195	5
OBLIGORS WITH REPORTED INCOMES OF \$10,000 A YEAR OR LESS				
Arizona	182	14	173	10
Illinois	217	6	10	5
Michigan	435	2	87	1
New Jersey	282	5	217	3
New York	25	11	50	10
Ohio	50	9	100	5
Pennsylvania	50	7	300	3
Texas	200	20	195	5
OBLIGORS WITH REPORTED INCOMES OVER \$10,000 A YEAR				
Arizona	182	2	173	2
Illinois	433	4	325	2
Michigan	435	1	500	1
New Jersey	433	3	650	2
New York	363	3	210	2
Ohio	300	2	400	2
Pennsylvania	500	3	400	2
Texas	200	5	400	3

Source: Child support programs from the states listed above. These data were matched to national quarterly wage and unemployment insurance data.

income over \$10,000 a year, we find that the two most frequently used monthly order amounts were used about 2 percent of the time. States varied regarding the extent to which they relied upon specific order amounts, ranging from 5 percent in Texas to 1

⁶³ Florida is excluded because we did not receive current support order amounts.

percent in Michigan. Arizona had the lowest monthly order amount that was used 2 percent of the time at \$173/month; New Jersey had the highest at \$650/month, which was used 2 percent of the time. We present frequencies for higher income obligors for comparison purposes. We wanted to know whether states were more likely to use specific order amounts for obligors with low or no reported income than higher income obligors.

Turning to obligors with low and no reported income, we find considerably more variation in the extent to which states relied upon specific order amounts. About 25 percent of the orders in Arizona that were set in the last 12 months for obligors with no or low reported income, were set at \$182 or \$173 per month. Texas set slightly less than 25 percent of their orders for new obligors with no or low reported income and two children to support at \$200 and \$195 per month. Michigan and New Jersey were the least likely to rely upon specific order amounts for new obligors with no or low reported incomes and two children to support. In Michigan, the most common monthly order amount for these obligors was \$435/month; in New Jersey, it was \$282/ month.

The other four states – Illinois, New York, Ohio, and Pennsylvania – did not rely upon specific order amounts for new obligors with no or low reported incomes as much as Arizona and Texas, but when they did, the amounts that they used were considerably lower than those used in Arizona and Texas. In New York, 16 percent of new obligors with no reported income and two children to support were given an order of \$25/month or \$50/month. Among new obligors with low reported incomes, the figure was 21 percent. The most common order amount for new obligors with low and no reported incomes in Ohio and Pennsylvania was \$50/month. Illinois tended to use \$10/month for new obligors with no or low reported incomes.

Arizona, New Jersey, and Texas have state laws that require courts to presume a full-time minimum wage job for non-custodial parents if no income information is available. The other five study states do not appear to have this law. Since Texas uses a percentage of net income guidelines approach, it is straightforward to determine the order amount for an obligor with two children and a full-time minimum wage job. A full-time minimum wage job yields \$893/month. After federal income taxes, Social Security taxes, and Medicare taxes, net income would be \$800/month. The guidelines indicate that orders should be 25 percent of net income, or \$200/month, which was the most common order amount given to new obligors with no or low reported incomes and two children to support during the study year.

New Jersey and Arizona use an income shares model for their child support guidelines, which makes the order amount dependent upon the custodial parent's income. In New Jersey, a full-time minimum wage job and two children to support would yield an order of \$282/month if the custodial parent had no income. As table 4.8 shows, 5 percent of the new obligors in New Jersey with no or low reported incomes and two children to support received this order amount during the study year. Arizona did not include information on the number of children on the child support order, so the order amounts in table 4.8 for Arizona were not limited to new obligors with two children to support, as

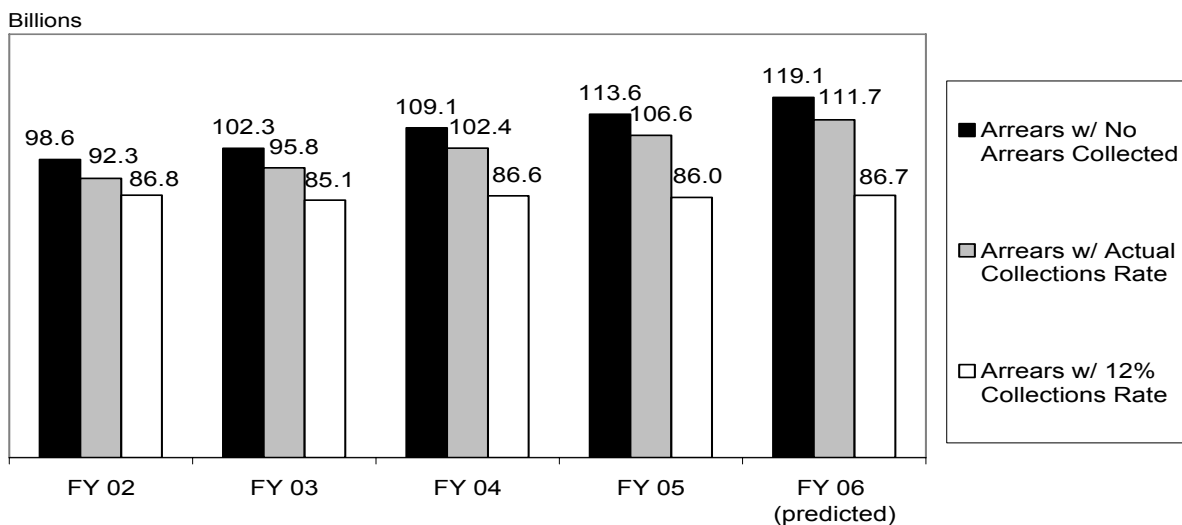
they were for the other study states. The Arizona child support schedule for 2004 indicates that a non-custodial parent with adjusted gross income of \$900/month and a custodial parent with no income should receive an order of \$188/month for one child. The order amounts that we find to be commonly used in Arizona in 2004 were not exactly this amount, but they were close.

Table 4.8 suggests that Texas and Arizona impute a full-time minimum wage salary to obligors on a fairly regular basis, while New Jersey does not appear to impute as frequently. It also suggests that Illinois, New York, Ohio, and Pennsylvania tend to use a presumed minimum order for obligors with no or low reported income rather than impute a full-time minimum wage job. These minimum orders ranged from \$10/month to \$50/month.

D. Arrears Payments are Low

Another key reason why arrears have been growing is because 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 a year. The national collections rate on arrears during this period has been about 6 percent. If the nation's IV-D programs had been able to collect 12 percent of the nation's arrears each year, instead of 6 percent, we estimate that arrears would have stopped growing.

Chart 4.9 National Arrears Assuming Different Rates of Arrears Collections



Source: OCSE, Annual Statistical Reports.

The chart above shows national arrears under three different scenarios. The middle scenario shows the actual trend in arrears from FY 2002 to FY 2005.⁶⁴ The scenario to the left of the actual trend is an estimate of the amount of arrears if there had been no arrears collected during this period. To generate this estimate, we simply added arrears

⁶⁴ We do not examine arrears in FY 2006 because they are not comparable to arrears in FY 2002 to FY 2005. See note to Chart 4.

collected each year to the amount of arrears remaining at the end of the fiscal year. The scenario to the right of the actual trend is an estimate of the amount of arrears if 12 percent of arrears were collected each year.

As chart 4.9 shows, we estimate that arrears would not have increased if the IV-D programs had been able to collect 12 percent of the arrears since FY 2002, remaining at about \$87 billion throughout this period. To arrive at this estimate, we assumed that arrears grew at the rate it actually did but instead of subtracting the actual amount of arrears collected, we subtracted 12 percent of the arrears. Of course, if arrears continue to grow at their current rate and arrears collections remain at 6 percent, arrears will continue to grow. Based on these assumptions, we estimate that arrears will be \$111.7 billion in FY 2006. Arrears in FY 2006 were actually lower than we predict here, but that was, in part, because OCSE instructed states to stop reporting arrears for responding interstate cases to eliminate the double counting of these arrears.

Although it is unlikely that the national arrears collection rate will reach 12 percent in the near future, it is worth examining who pays arrears and who does not pay arrears to better understand why the national arrears collection rate is at 6 percent. Below we first describe the characteristics of debtors by how much arrears that they paid and then we examine which groups of debtors are more likely to pay arrears.

Description of Debtors by How Much Arrears they Paid

To better understand who does not pay arrears, we divided debtors into three groups depending upon the percent of arrears that they paid in the last year. Those who did not pay arrears in the last year are in the first group; those who paid less than 12 percent of their arrears in the last year are in the second group; and those who paid 12 percent or more of their arrears in the last year are in the third group. We selected a 12 percent arrears payment rate to divide debtors who paid arrears because if the IV-D program had collected 12 percent of the arrears accrued in the past few years, we estimate that national arrears would not have increased. Table 4.9 presents the characteristics of these three groups for seven study states.⁶⁵

Most debtors, in these seven states, paid less than 12 percent of their arrears in the last year. Thirty five percent of the debtors paid no arrears in the last year. Another 26 percent paid some arrears in the last year, but less than 12 percent of what they owed. That left 39 percent of the debtors who paid 12 percent or more of their arrears.

Debtors who paid 12 percent or more of their arrears in the last year owed relatively little arrears. The median amount of arrears owed among these debtors was \$960. Among debtors who paid some of their arrears in the last year, but less than 12 percent,

⁶⁵ Florida is not included in this analysis because the payments data that Florida sent could not be divided into arrears and current support payments. New York is not included because it did not send 12 months of payment information.

their median amount of arrears owed was \$13,441. Debtors who did not pay any arrears in the last year owed a median amount of \$11,461 in arrears.

Table 4.9 Characteristics of Debtors in Seven States, by Arrears Payments in the Last Year: 2003/04

	Did Not Pay Arrears in the Last Year	Paid Less than 12% of their Arrears in Last Year	Paid 12% or More of their Arrears in Last Year
Number of Debtors	774,676	562,016	865,543
% of debtors	35	26	39
Total Arrears Held (in billions)	\$16.0	\$11.9	\$2.8
% of arrears owed	52	39	9
Median amount of arrears owed	\$11,461	\$13,441	\$960
Overall Median Annual Reported Income	\$5	\$8,573	\$20,468
Percent of Debtors with:			
No Reported Income	50	18	12
Reported Income of \$10,000 a year or less	33	35	17
Reported Income over \$10,000 a year	17	46	71
Percent of Debtors with a Current Support Order			
Percent of debtors with a current support order who has multiple current support orders	13	20	11
Median Monthly Current Support Order			
As a Percent of Reported income	67	29	18
Percent of Debtors with Orders > 50% of Reported Income	56	32	12
Percent of Current Support Obligor who Paid Current Support			
Percent of Obligor with:	24	100	100
Percent of Obligor with:			
Instate zip code	66	71	80
Out of state zip code	17	19	14
No zip code	15	9	5
At least one interstate case	15	17	9

Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

Table 4.9 shows that most debtors who paid 12 percent or more of their arrears in the last year had reported incomes of over \$10,000 a year. Only 12 percent of these debtors had no reported income; another 17 percent had reported incomes of \$10,000 a year or less. In contrast, over 80 percent of the debtors who did not pay arrears in the last year had reported incomes of \$10,000 a year or less; 53 percent of debtors who paid less than 12 percent of their arrears had reported incomes this low. The median annual reported incomes among these groups of debtors were also very different. The median annual reported income among debtors who did not pay arrears in the last year

was just \$5, while the median annual reported income among debtors who paid less than 12 percent of their arrears was \$8,573. In contrast, debtors who paid 12 percent or more of their arrears had a median income of \$20,468 a year.

Debtors who paid 12 percent or more of their arrears were more likely to have a current support order than other debtors. Eighty five percent of these debtors had a current support order, while 72 percent of debtors who did not pay any arrears in the last year had a current support order. Among those who had a current support order, debtors who paid 12 percent or more of their arrears tended to have current support orders that did not represent a large share of their reported income. Twelve percent of these debtors had orders that exceeded half of their reported income. In contrast, debtors with a current support order who did not pay any of their arrears were expected to pay a considerable share of their reported income on current support. Over half of these debtors had orders that exceeded 50 percent of their reported income.

Although most of the debtors who paid less than 12 percent of their arrears in the past year had in-state ZIP codes, debtors who paid 12 percent or more of their arrears were even more likely to have in-state ZIP codes. Eighty percent of this latter group had an in-state ZIP code; only 5 percent did not have a ZIP code. Sixty six percent of debtors who did not pay arrears had an in-state ZIP code; 15 percent did not have a ZIP code. Debtors who paid less than 12 percent of their arrears in the last year were also more likely to have an interstate case than debtors who paid at least 12 percent of their arrears. Seventeen percent of debtors who paid less than 12 percent of their arrears had an interstate case, while 9 percent of debtors who paid 12 percent or more of their arrears had an interstate case.

Debtors with No Reported Income were the Least Likely Debtors to Pay Arrears

In the next table, we examine arrears payment behavior of subgroups of debtors in seven of the study states.⁶⁶ The subgroups are based on the characteristics of debtors. The top row of the table gives the arrears payment behavior of all debtors in the seven study states. It shows that 65 percent of the debtors in these states paid arrears in the past year and the median amount that they paid in arrears was \$21 per month. The median percent of arrears paid was 5 percent.

Table 4.10 shows that the subgroup of debtors who were the least likely to pay arrears were those with no reported income. Thirty five percent of these debtors paid arrears in the past year. Because less than 50 percent paid arrears, the median amount paid and the median percent of arrears paid are both zero for this group of debtors. As we expected, debtors with reported incomes at most \$10,000 a year were not far behind in their arrears payment behavior. Fifty eight percent of these debtors paid arrears in the past year and the median amount paid was \$7 per month. The median percent of arrears paid in the last year by these debtors was one percent of their arrears.

⁶⁶ Florida and New York are excluded. Florida's data did not indicate whether payments were going to arrears or current support. New York did not include 12 months of payment data.

In contrast to debtors with no or low reported incomes, debtors with reported incomes of over \$10,000 a year were the most likely subgroup of debtors to pay arrears and they paid more arrears than any other subgroup. Eighty seven percent of these debtors paid arrears in the last year and they paid \$54 per month in arrears. The median percent of arrears paid was 21 percent, which is considerably higher than any other subgroup.

Debtors without a ZIP code were another group who had very poor arrears payment rates. Only 44 percent of debtors without a ZIP code paid arrears in the last year. In contrast, 68 percent of debtors with an in-state ZIP code paid arrears in the last year.

Table 4.10 Arrears Payment Characteristics of Debtors in Seven States, by Various Characteristics: 2003/04

Debtor Characteristics	Number of Debtors	Percent who Paid Arrears in Last Year	Median Monthly Amount of Arrears Paid in Last Year	Median Percent of Arrears Paid in Last Year
Overall	2,202,553	65	\$21	5
Reported Income				
No Reported Income	596,171	35	\$0	0
Between \$1 and \$10,000 a year	606,712	58	\$7	1
Over \$10,000 a year	999,670	87	\$54	21
Age of Case				
10 Years or Less	778,158	68	\$24	7
More than 10 Years	328,262	63	\$23	3
Zip Code Status				
Has in-state Zip Code	1,603,966	68	\$25	7
Has Out-of-state Zip Code	363,636	63	\$21	3
Has No Zip Code	212,106	44	\$0	0
Interstate Status				
Has Interstate Case	283,471	60	\$15	2
Has No Interstate Case	1,919,082	66	\$22	5
Current Support Order				
Has a Current Support Order	1,736,641	68	\$24	6
Has No Current Support Order	465,912	53	\$8	1

Source: Child support data are from Arizona, Illinois, Michigan, New Jersey, Ohio, Pennsylvania, and Texas, which were matched to national quarterly wage and unemployment insurance data.

Arrears-only Debtors Paid Very Little Arrears

Debtors with arrears-only cases were less likely to pay arrears than debtors with a current support order. Even though this group no longer had a current support obligation, only 53 percent of them paid any arrears in the last year. In contrast, 68 percent of debtors with a current support order paid arrears in the last year. Furthermore, the median amount of arrears paid among debtors with arrears-only cases was just \$8 month. The median amount paid among debtors with a current support order was three times that amount.

CHAPTER 5. ARREARS MANAGEMENT STRATEGIES IN STUDY STATES

The nine study states have undertaken numerous actions to manage their arrears. These actions have spanned the entire range of possibilities, from order establishment to case closure. Below we summarize some of these actions. We divide the actions into two broad categories – preventing arrears in the first place and managing existing arrears.

A. Prevent Arrears from Accruing in the First Place

Below, we discuss six strategies to prevent arrears from accruing in the first place.

1. *Set Realistic Orders*

Utilizing quarterly earnings data to help determine order amounts. All of the study states have moved to varying degrees toward utilizing quarterly earnings data to determine orders. All of the study states have given their caseworkers easy access to state quarterly earnings data. Some states have several years of state quarterly earnings data available to caseworkers. Other states have made national quarterly earnings data from the NDNH readily accessible to caseworkers. For example, case workers in Ohio have access to state and national quarterly earnings records, SSI/SSDI/VA benefits, state data on workers compensation and unemployment compensation, data from financial institutions, and other state data bases.

Our analysis finds that giving caseworkers access to national quarterly earnings data as opposed to state quarterly earnings data dramatically increased the percent of obligors who matched to quarterly earnings data. In the study states, about 50 percent of the obligors matched to state quarterly earnings data, but 75 percent matched to the national quarterly earnings data. Thus, making NDNH data available to caseworkers in these states would have increased the match rate to quarterly earnings data by 50 percent.

Quarterly earnings data are often considered “out of date” for enforcement purposes, but these data are an important source of information for determining orders. Federal law states that orders are supposed to reflect the ability to pay of obligors and quarterly earnings are one of the few verifiable sources of actual earnings information. In the past, when the child support program did not have access to quarterly earnings information, courts often based orders, in part, on the obligors’ last pay stub. While this information is certainly worthwhile because it is the most recent earnings information available, it may not reflect the obligors’ annual earnings. With quarterly earnings data, an obligor’s last pay stub can be placed in context of an entire year’s worth of earnings.

Although quarterly earnings data are not a complete record of all earnings, they are estimated to cover over 90 percent of the nation’s earnings. It is likely that quarterly earnings cover less than 90 percent of non-custodial parents’ earnings because non-custodial parents have a greater incentive than the average worker to avoid

employment that is covered by quarterly earnings data. But, even if quarterly earnings covers less than 90 percent of non-custodial parents' earnings, it is still quite comprehensive.

Utilizing state income tax data to help determine orders. Some obligors are self-employed or have substantial earnings that are not covered by quarterly earnings data. In these cases, other earnings information is critical. One such source is income tax returns. The New York Division of Child Support Enforcement has an agreement with the New York State Department of Taxation and Finance that allows the Division to access state income tax records when establishing child support orders.

Utilizing SVES data to help determine order amounts. Some of the study states have taken advantage of the State Verification and Exchange System (SVES) data available from the federal Office of Child Support Enforcement when setting orders. These data indicate whether an obligor is institutionalized, on SSI, or receiving SSA benefits. These data can help determine orders, especially in cases where there are no or little quarterly earnings data.

When no income information is available, presuming income at the minimum wage rather than the standard of need. In the past, some states presumed a level of income to obligors that generated their state's standard of need as defined by their welfare program when obligors had no reported income. Generally speaking, a state's standard of need was equal to the state's welfare grant, which could be substantial. Until recently, Illinois had this practice.⁶⁷ It has since shifted to presuming a minimum wage salary rather than the state's need standard when no income is available.

When no income information is available, setting orders at \$50/month or less. Other states are setting orders at \$50 per month or less if income information is not available. In Pennsylvania, orders are often set at \$50 per month in these cases. In New York, temporary orders are often set at \$25 per month until income information is available.

Include a low-income provision in state guidelines. Nearly all of the study states have a low-income provision in their state child support guidelines, which aim to reduce the child support order amount for low-income obligors. The two exceptions are Texas and Illinois, both of which have a percentage of income guidelines (see table 5.1).

Most of the low-income provisions utilize a self-support reserve for the obligor, although the guidelines do not always use that term. Not surprisingly, given that the states have different costs of living, the size of the self-support reserve varies, from a low of \$550 per month in Ohio to a high of \$1,047 per month in New York.

Only some of the states require the courts to utilize the low-income provision when an obligor's income falls below a certain amount (e.g. New York and Pennsylvania). Other

⁶⁷ Pamela Compton Lowry. "Illinois Arrears Management." Presentation to the National Child Support Enforcement Association Mid-year Policy Conference. February 2007.

states give the courts discretion when an obligor's income falls below a certain amount (e.g. Florida and Ohio).

Table 5.1 Type of Child Support Guidelines in the Study States and a Description of the Low-Income Provisions included in the Guidelines

State	Guideline Type	Low-income Provision
AZ	Income Shares	Deduct \$775 (the self support reserve) from the obligor's monthly adjusted gross income. If the resulting amount is less than the child support order, the court may reduce the order after considering the financial impact of the reduction on the custodial parent's household.
FL	Income Shares	If combined net monthly income is less than \$650, support obligation is to be determined by the court on a case-by-case basis.
IL	Percentage of Income	None.
NJ	Income Shares	If combined net weekly income is less than \$170, the court shall establish a child support award based on the obligor's net income and living expenses and the needs of the child. The support award should be between \$5/week and \$42/week (i.e. the amount at \$170 combined weekly net income). If calculated obligation pushes obligor below 105% of poverty level for one person, the award is generally net income minus 105% of poverty level.
NY	Percentage of Income	If annual income minus the total child support obligation is less than the poverty level for a single person, then the obligation is the greater of \$300 or the difference between annual income and the self-support reserve (\$12,569). If annual income minus the total child support obligation is less than the self-support reserve but greater than the poverty level for a single person, then obligation is the greater of \$600 or the difference between annual income and the self-support reserve.
MI	Income Shares	If monthly net income is \$200 or more but less than \$800, then payment is the minimum of \$25/month or 10% of NCP monthly net income. If monthly net income is below \$200, then orders should be determined on a case-by-case basis.
OH	Income Shares	If combined adjusted gross annual income is less than \$6,600, support obligation is to be determined by court on a case-by-case basis, using the support guidelines table as a guide.
PA	Income Shares	The self-support reserve is built into the child support schedule and adjusts the basic support obligation to prevent the obligor's net income from falling below \$748 per month, the poverty threshold for a single person in 2003. If an obligor's net income is \$748/month or less, the court may award support only after consideration of the obligor's living expenses.
TX	Percentage of Income	None

Source: State child support guidelines.

2. Increase Parental Participation in the Order Establishment Process

Make documents readable. Some of the study states have tried to make their summons and orders more readable. One strategy is to add a cover letter to the summons that explains in simple language what is enclosed. Several study states have utilized this approach. Another strategy is to add language to the envelope that clearly states that "Legal Notices Enclosed" so that parties do not inadvertently throw out important documents. Still another strategy is to add language to the summons that

says “You Must Appear” so that parties understand that they are expected to appear at their hearing.

Improve service of process. New York City started utilizing priority mail with delivery confirmation to serve parents and found a much higher appearance rate in court as a result.⁶⁸ Other jurisdictions have provided photos of the non-custodial parent to the process server.

Move to an administrative process that emphasizes parental participation. One of the study states, Texas, has fundamentally altered its order establishment process, going from a highly judicial process of establishing orders to a process that establishes most orders administratively. The administrative process emphasizes parental participation by utilizing easy-to-read letters, conferences, and follow-up. The transformation has resulted in orders being established more quickly and with greater parental involvement.

Using video- and teleconferencing to increase parental participation in order establishment. To increase the participation of non-custodial parents who do not live in Allegheny County, Pennsylvania, the child support program in Allegheny County developed procedures that allow non-custodial parents to “appear” at court hearings through video- and teleconferencing.

3. Reduce Retroactive Support

Two of the study states – Texas and Michigan -- have revised their retroactive support statutes in the past few years. Prior to these legislative changes, both Texas and Michigan had statutes that allowed them to seek retroactive support back to the date of birth of the child in paternity cases. Now, Texas may go back up to 4 years prior to the date of filing. Michigan may go back to the date of filing unless there is willful avoidance.

4. Implement Early Intervention Strategies

A variety of early intervention strategies have been adopted by the study states. The primary aim of these strategies is to intervene early enough after the order is established to prevent delinquency from occurring in the first place through direct contact with the customer.

Utilize Reminder Calls and Letters. The most common early interventions that the study states have undertaken are reminder calls and reminder letters, which remind clients of their appointments, conferences, hearings, and payments due. In Pennsylvania, for example, most county offices have implemented a series of reminder calls and/or letters, typically starting with a reminder call before the order establishment conference or hearing. Calls not only remind the parties to appear at their hearing, but

⁶⁸ Peter Passidomo. “New York State Courts and Division of Child Support Enforcement: A Partnership for Success.” Child Support Report. June 2002.

they also remind the parties what documents to bring to the hearing. After the conference or hearing is completed, a follow-up letter is sent to the non-custodial parent within 48 hours that reviews what occurred at the conference and reminds the non-custodial parent of his/her responsibility to pay support in a timely manner and the consequences of nonpayment. Then, if payments are not received within 15 days, a phone call is made reminding the non-custodial parent to make his/her payments. If payments are not made within 30 days, then an enforcement conference is scheduled.⁶⁹

Florida contacts the non-custodial parent at the time the court order data is entered in the child support system. Contact is made via a written educational notice (and in some cases, a phone call) that provides information regarding their child support obligation, how to remit payments and how to contact the child support agency. Non-custodial parent orientation appointments are conducted in some areas for all newly obligated cases. The orientation appointments are intended to discuss the terms of the court order, provide an overview of the enforcement process and to advise the obligor of enforcement activities that could occur if the non-custodial parent became non-compliant.⁷⁰

Pennsylvania has begun sending reminders via email, letting customers know of scheduled events related to their case, advising customers of account status issues, communicating electronic fund transfers, and providing disbursement information. Pennsylvania has issued more than 3 million e-mail reminders to child support customers. E-mail reminders have improved efficiencies at varying stages of the automated IV-D process, providing immediate communication to clients and increasing payment responsiveness.

Work with non-payers early. With a federal grant, Fairfield County in Ohio was able to create two new positions, called Child Support Navigators, to help obligors comply with their child support orders. The Navigators established regular contact with non-custodial parents to identify barriers to payment, to make appropriate referrals to community resources, and to educate non-custodial parents about the child support process. The Navigators intercepted existing accounts that showed no payments within that past 20 days and offered assistance in preventing further delinquency.⁷¹

Work with unemployed and underemployed parents at order establishment. New York City has a program called STEP (Step through Employment Program) for non-custodial parents who are unable to pay child support because they are unemployed or underemployed. At a hearing for a new case, if the non-custodial parent agrees to participate in STEP a temporary order is set at \$25 per month. Child support case workers interview participants to determine appropriate referrals and monitor case

⁶⁹ Domestic Relations Association of Pennsylvania. "Pennsylvania IV-D Child Support Enforcement Best Practices." Various volumes.

⁷⁰ State Information Technology Consortium. "Arrears Management: Best and Promising Practices."

⁷¹ Jeff Ball. "Child Support Navigator Services" Presentation at the 16th National Child Support Enforcement Training Conference. Sponsored by the Office of Child Support Enforcement. September 2006.

progress. Community-based organizations provide the employment and training services and report to the child support program regarding progress.⁷²

Work with unemployed and underemployed non-custodial parents who are behind in their child support. Most of the study states have programs that serve unemployed or underemployed non-custodial parents who are unable to pay their child support. These are typically court-ordered programs that provide employment services and case management. Florida has a program, called the Non-custodial Parent Employment Program, which operates in several counties. It is run by a non-profit community organization that has served over 8,600 non-custodial parents since its inception in 1996. This program has been evaluated for its cost-effectiveness, which found that program participants paid nearly \$5.00 in child support for every \$1.00 spent on the program.⁷³

5. Improve Wage Withholding

Improving the process of establishing wage withholding orders is critical for child support programs since most collections are made through wage withholding. Delays in getting wage withholding orders in place often result in missed payments and arrears accumulation. Thus states, such as Texas, have focused on improving this process. Texas began the process of re-engineering its issuance of income withholding orders in 2002. This effort involved developing a new employer repository that contains all of the information about employers that is needed to conduct child support business. It has also meant updating all of the employer/wage interfaces, increased monitoring and following up on wage withholding orders, and implementing a single website that employers could use to meet all of their child support-related responsibilities. These improvements have successfully reduced the time between order establishment and first payment via wage withholding. They have also resulted in increased payments.⁷⁴

Pennsylvania initiated an Employer Compliance Group that consists of representatives from the Pennsylvania Department of Labor and Industry, the Bureau of Child Support Enforcement, Pennsylvania child support systems staff, county staff from across the state, ACF Region III representatives, and OCSE staff. This group has met to discuss ways to improve employer reporting compliance and to establish procedures and processes that allow the State Directory of New Hire staff (housed in the Department of Labor and Industry) to communicate with child support staff at the local level and allow child support workers to report employers who are suspected of non-compliance to SDNH. This targets SDNH outreach more effectively and hopefully will increase the compliance rate.

⁷² U.S. Department of Health and Human Services, Office of Child Support Enforcement. "New York City Helps Parents Help their Children." Child Support Report. Vol. 24. No. 12. (December 2002).

⁷³ WorkNet Pinellas. "WorkNet Pinellas Chairman's Report" November 2005.

⁷⁴ Elaine Sorensen and Tess Tannehill. "Final Evaluation Report for the Texas Arrears Prevention Project: Preventing Arrears by Improving Front-end Processes." December 2006.

6. Increase Review and Modification

Order modification has not received as much attention as a strategy for managing arrears as other strategies discussed above. This may change as arrears continue to grow and the success of other measures begins to wane.

One recent federal legislative change that may increase the number of order modifications is the reinstatement of the requirement in the Deficit Reduction Act of 2005 that TANF orders must be reviewed and (if appropriate) adjusted every three years. This provision will become effective October 1, 2007. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 eliminated this requirement and allowed states to review TANF orders every three years upon the request of one of the parents or the state TANF agency. States that discontinued the 3-year reviews for TANF cases will be affected by this change.

Nearly all states have a quantitative threshold that must be met before an order modification will be approved. Among the study states, the quantitative thresholds require a 10 to 20 percent change or a \$10 to \$100 change in the monthly order amount. Texas has the highest threshold among the study states. It requires that orders change by at least 20 percent or \$100 per month. Some states have reduced their quantitative thresholds. For example, California reduced its quantitative threshold from 30 percent or \$50 per month, whichever was higher to 20 percent or \$50 per month, whichever is lower.

Over the years, child support professionals have taken different positions regarding whether or not State IV-D programs should initiate downward modifications. Some child support professionals argue that downward modifications are not in the best interest of the child and thus child support programs should not initiate them. Others argue that child support programs should initiate modifications, whether they cause the order to go up or down, in order to maintain the trust and cooperation of both parents. According to this view, allowing orders to outstrip a non-custodial parent's ability to pay is not in the best interest of the child. Instead, this practice renders the orders unenforceable and uncollectible and may discourage non-custodial parents from cooperating with the child support program in the future. In line with the latter point of view, the Pennsylvania Supreme Court ruled in 2006 that the child support program may initiate an order modification when an obligor has no verifiable income or assets and is institutionalized, incarcerated or is receiving SSI or cash assistance.⁷⁵

⁷⁵ Pennsylvania Bulletin. Amended 231 PA Code CH. 1910.19. Vol. 36 (June 3, 2006).

B. Manage Existing Arrears

We discuss six strategies for managing existing arrears below.

1. Provide Accurate Information about Arrears Owed

The Arizona Division of Child Support Enforcement is developing a web-based arrears calculation tool that will allow courts, customers and IV-D staff to better manage child support arrears. The tool will allow custodial and non-custodial parents to easily obtain timely and accurate information about the amount of arrears owed without having to contact the IV-D agency or a Clerk of the Court. All customers with an Arizona court order, including those with an Arizona case who no longer reside in the State, will have self-service access to this web-based, portable tool 24 hours a day/7 days a week. This tool will also eliminate the need for members of the judiciary to reschedule hearings in order to obtain a current arrears amount and allow for immediate recalculation of arrears based on testimony presented in court.

2. Increase Arrears Collections

Three provisions of the Deficit Reduction Act of 2005 should help states collect child support arrears. First, the threshold for denying passports was reduced from \$5,000 in arrears to \$2,500 in arrears, effective October 1, 2006. Thus, more debtors will be affected by this policy, which should increase arrears collections. Second, the Act authorizes the federal tax offset program to collect child support arrears owed to adult children in non-TANF cases, effective October 1, 2007. Previously, this program had been limited to collecting child support arrears owed to minor children in non-TANF cases. Third, the Act authorizes HHS to use the Federal Parent Locator Service (FPLS) to match cases with arrears to information maintained by insurers, effective October 1, 2005.

3. Revise Interest Policy

States that charge interest on a routine basis may want to review their interest policy to ensure that it is consistent with the goals of the program. Among the study states, Michigan substantially altered its surcharge policy and Texas lowered its interest rate. Michigan reduced its surcharge from 8 percent to a variable rate, which is tied to the interest rate paid on 5-year United States Treasury Notes. This change became effective January 15, 2004 (MCL 552.603a). Texas reduced its interest rate from 12 percent to 6 percent, effective January 1, 2002.

Michigan also changed its surcharge from a compounded rate (i.e. the surcharge is assessed on both arrears and any surcharge previously assessed) to a simple rate (i.e. the surcharge is assessed on arrears only). Michigan also started applying arrears payments to principal before the surcharge. Previously, Michigan had not distinguished between the surcharge and principal when applying arrears payments. Both of these changes will reduce the rate of arrears growth that results from applying the surcharge.

Michigan also introduced ways to waive the surcharge. In particular, the surcharge is waived if the obligor pays at least 90 percent of his/her current support order during the assessment period (MCL 552.603a, effective June 30, 2005). In addition, the courts may waive the surcharge if an obligor demonstrates that he/she does not have the ability to pay it and enters into a repayment plan.

4. Implement Arrears Amnesty Programs

Some of the study states have conducted arrears amnesty programs, which means that during the amnesty period obligors can come forward and start correcting delinquencies without being arrested. Several of the counties in Pennsylvania have conducted amnesty programs. Lehigh County operated an amnesty for one week in June 2006. Obligor who had failed to appear for scheduled hearings or had failed to comply with contempt orders were sent a letter indicating that a bench warrant had been issued for their arrest and that they had the opportunity to dispose of the warrant by reporting to the child support program and agreeing to a repayment plan. Philadelphia County operated a similar program for one week in June 2005. This program focused on giving non-custodial parents an opportunity to resolve their paternity establishment, support order establishment, and delinquency matters in good faith without judicial intervention. Parents alleging no earning capacity and or being unemployable were referred to a Support Master who held an earning capacity hearing. Michigan held a 90-day amnesty in 2005. During that time, if an obligor paid 50 percent upon application for amnesty and 50 percent by the end of the 90-day period, all civil and criminal penalties were waived.

5. Implement Arrears Compromise Programs

Michigan and Illinois passed legislation that created ways to compromise arrears permanently assigned to the government. Beginning in 2005, judges in Michigan can approve payment plans that discharge some of the state-owed arrears if the plans are in the best interest of the parties and children, the arrears were not the result of willfully avoiding the obligation, and the obligor does not have the ability to pay all of the arrears in the future (MCL 552.605e).

Michigan also conducted a special initiative called the Michigan Arrears Collection Special Project during the first 4 ½ months of 2006. This project was limited to obligors with arrears-only cases who had made at least one payment in the last two years. The Office of Child Support offered to dismiss 75 percent of past due child support owed to the State of Michigan if the obligor paid 100 percent of the arrears owed to the custodial parent and 25 percent of the arrears owed to the State of Michigan.

Illinois enacted a law, effective January 1, 2007, that allows the Child Support Agency to provide, by rule, that state-assigned arrears may be reduced in exchange for regular payments of support to the family. It requires that obligors considered for debt reduction demonstrate an inability to pay arrears during the time it was accumulated. The Child

Support Agency plans to conduct a pilot project in Cook County, called Project Clean Slate, which offers to reduce state-owed arrears in exchange for compliance with a payment plan to obligors who were unable to pay their full support during the time the arrears accrued.

6. Review Non-Paying Arrears Cases for Possible Case Closure

One tactic that Texas used to manage its arrears cases was to review all arrears cases that owed over \$100,000 in arrears. These cases were given individualized attention to see what, if anything, could be done to reduce these arrears. Some of these cases made payments toward their arrears, while others were found to be eligible for case closure.

Many of the study states have automated their case closure criteria, which is probably helping them manage their non-paying arrears cases. The Federal Office of Child Support Enforcement has a guide for states on how to automate their case closure system.⁷⁶ Federal case closure criteria can be applied to obligated cases and some non-paying arrears cases may meet one of the following federal criteria for case closure:

- There is no longer a current support order and arrearages are under \$500 or unenforceable under state law;
- The non-custodial parent or putative father is deceased and no further action, including a levy against the estate, can be taken;
- The non-custodial parent's location is unknown, and the state has made diligent efforts using multiple sources, all of which have been unsuccessful, to locate the non-custodial parent:
 - (i) Over a three-year period when there is sufficient information to initiate an automated locate effort, or
 - (ii) Over a one-year period when there is not sufficient information to initiate an automated locate effort;
- The non-custodial parent cannot pay support for the duration of the child's minority because the parent has been institutionalized in a psychiatric facility, is incarcerated with no chance for parole, or has a medically verified total and permanent disability with no evidence of support potential. The state must determine that no income or assets are available to the non-custodial parent which could be levied or attached for support;
- In a non-IV-A case receiving services, the IV-D agency is unable to contact the recipient of services within a 60 calendar day period despite an attempt of at least one letter sent by first class mail to the last known address.

⁷⁶ U.S. Department of Health and Human Services. Office of Child Support Enforcement. *Automated Systems for Child Support Enforcement: A Guide for Automating Case Closure*. June 2004.

C. Final Comments Regarding Arrears Management

An effective arrears management plan will focus on interventions that address the factors that contribute to arrears growth the most. Thus, it behooves states to understand what drives arrears growth in their state. Although we found common factors contributing to arrears growth in the nine study states, the relative importance of these factors varied in the study states. Thus, we expect each state's arrears management plan to vary depending upon the relative importance of factors contributing to arrears in that state. For example, in some study states a relatively large proportion of obligors had arrears-only cases and they owed a disproportionate share of arrears. It behooves these states to examine these cases for possible case closure. In other study states, however, obligors with arrears-only cases represented a relatively small percent of the caseload and they did not owe a disproportionate share of arrears. In these states, other strategies are needed to manage arrears.

It is also important to recognize that many factors contribute to arrears and thus multiple strategies are needed to contain them. No single strategy is sufficient to manage arrears. Although the assessment of interest on a routine basis is probably the single most important factor contributing to arrears, clearly other factors contribute to arrears since many states do not assess interest on a routine basis. Another important factor that contributes to arrears, which we found in all of the nine study states, was a tendency for orders to be quite high relative to reported income for obligors with reported incomes below \$10,000 a year. While addressing this issue will moderate arrears growth, other strategies will be needed to manage arrears that are generated by obligors who have orders that are not that high relative to their reported income.

Given that many factors contribute to arrears and that states vary regarding the relative importance of these factors suggests that arrears management is not going to be simple, easy, or quick. On the contrary, it is likely to require considerable effort over an extended period of time to eliminate the growth in arrears nationwide much less reduce the amount of arrears that currently exists.

Finally, it is worth noting that some arrears are always likely to be generated. It is essentially inevitable that payments are going to vary more than orders and thus arrears will be generated. The aim of arrears management is to contain arrears, not eliminate them.