Examining Child Support Arrears in California: The Collectibility Study

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Prepared for:
California Department of Child Support Services

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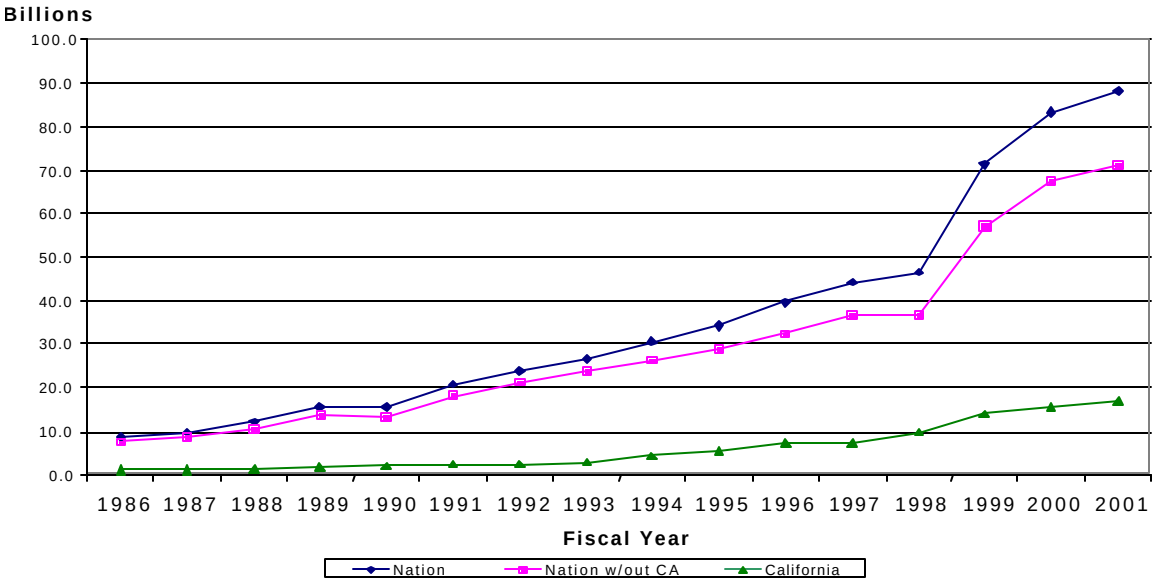
Executive Summary

I. Introduction

Child support arrears (past due support) have grown dramatically in California during the past 10 years. In March 2000, when the Collectibility Study began, California had $14.4 billion in child support arrears. In federal fiscal year (FFY) 2001, the arrears had grown to $17 billion, representing 20 percent of the nation's child support arrears. That same year, California had only 12 percent of the nation's caseload. Ten years earlier, in FFY 1992, California's arrears stood at $2.5 billion, or 10 percent of the nation's arrears, and it had 10 percent of the nation's caseload. Hence, arrears in California have grown much faster than arrears in the rest of the country. Figure 1 shows the growth in child support arrears nationwide and in California. The gap between the top two lines represents California's growing share of the nation's child support arrears.

Figure 1
Child Support Arrears: U.S. and California

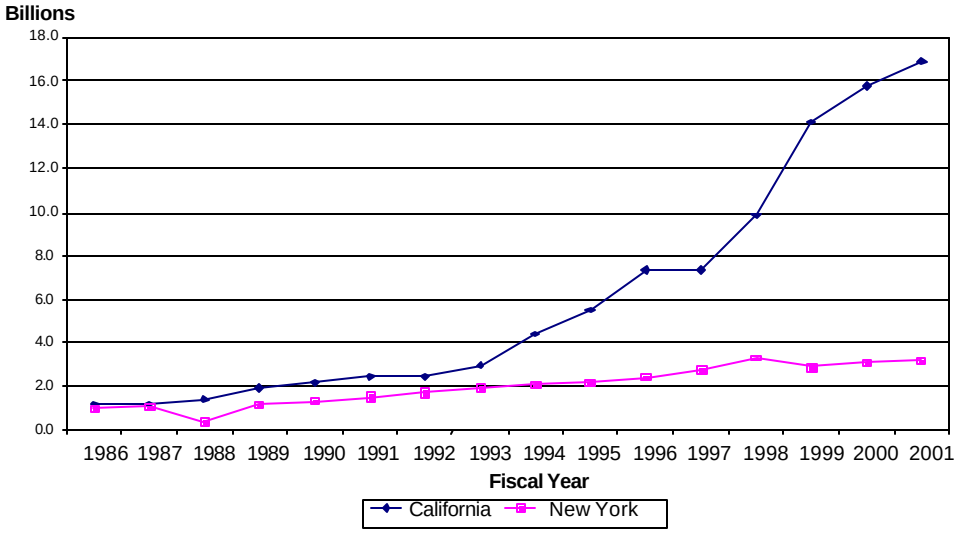


Source: Child Support Enforcement Annual Reports to Congress

Figure 2 contrasts California's child support arrears with child support arrears in New York. We selected New York for comparative purposes because it too has a large population and a large metropolitan area. New York differs, however, from California in at least one important respect – it does not charge interest on its child support arrears. New York is not alone in this respect. Eighteen states do not charge interest on child support arrears.[1] California counties were instructed to charge interest on nearly all of their arrears in 1992.[2]

Figure 2 shows that New York's child support arrears were only slightly smaller than that of California's between FFY 1986 and FFY 1992, but starting in FFY 1993 the difference grows astronomically. In FFY 1992, New York's child support arrears were $1.8 billion; California's were $2.5 billion. Nine years later, New York's child support arrears had increased to only $3.2 billion, while California's grew to $17 billion.

Figure 2
Child Support Arrears: California and New York



Source: Child Support Enforcement Annual Reports to Congress

In 1999, Governor Gray Davis signed legislation enacting massive reforms of the child support system (Assembly Bill 196 and Senate Bill 542). These reforms created a new state agency responsible for overseeing California's child support program, called the Department of Child Support Services (DCSS). It also mandated that the newly created department analyze the current amount of child support arrears statewide and determine the amount that is realistically collectible. DCSS contracted with the Urban Institute to conduct the study and established an Advisory Group of national, state and local child support experts and stakeholders to advise the study. This report presents the Urban Institute's findings, including recommendations based on our research.

II. Summary of the Collectibility Study

The Collectibility Study consists of six separate reports – (1) Child Support Performance Measures and County Characteristics: How Related Are They?; (2) Characteristics of California' s Child Support Debtors; (3) Estimating How Much

of California' s Child Support Arrears are Collectible Using State-Wide Data Bases; (4) Validating the Collectibility Model Using Data from the CASES Consortium; (5) Examining the Reasons Behind California' s Child Support Arrears; and (6) Earnings Ability of Noncustodial Parents in California's Child Support System – each of which is summarized below.

A. Report 1: Child Support Performance Measures and County Characteristics: How Related Are They?

Congress enacted new performance measures for the child support program in 1998, which now serve as the basis for distributing nearly $500 million in federal incentive funding to states.[3] These and several other performance measures were included in the sweeping reforms of the child support system in 1999. We examined local child support agency (LCSA)-level data on the new federal and state performance measures using data from FFY 1999 to determine if performance measures reflect local economic differences in addition to performance.

Federal Performance Measures Do Not Appear to Be Biased Against Economically Disadvantaged Counties Using FFY 1999 Data

We found that LCSA performance varied considerably in FFY 1999 when measured by the five federal performance measures. We investigated whether these variations in LCSA performance could be explained by numerous county and child support caseload characteristics and found that no single characteristic explained the differences in all five federal measures. Using multivariate regression analysis, we explained at most 29 percent of the variance in local performance. Hence, the federal measures do not appear to be biased against economically disadvantaged counties. Instead, the variation in performance appears to reflect differences in program management.

Two State Performance Measures Do Appear to be Biased Against Economically Disadvantaged Counties

In contrast, two of the state performance measures – average collections and percent of cases with arrears – may be biased against economically disadvantage counties.

B. Report 2: Characteristics of California's Child Support Debtors

We begin this report by examining the characteristics of child support debtors using a statewide database, called the Integrated Data Base (IDB). The IDB contains key information on debtors and nearly all California debtors are included in the IDB data.

Most of the Arrears are Owed by Debtors Who Owe Large Amounts

Using these data we find that California's child support arrears are highly skewed, with a relatively small number of debtors holding most of the debt. As of

March 2000, 834,908 individuals held $14.4 billion of child support debt in California. As Table 1 shows, 28 percent of debtors hold 72 percent of the debt, each holding over $20,000 in arrears.

Table 1. Percent of Debtors and Debt Held, by Debt Amount (March 2000)

Debt Categories	Percent of Debtors	Percent of Debt
$1-$5,000	34%	4%
$5,001-$10,000	17%	7%
$10,001-$20,000	20%	17%
$20,001-$40,000	17%	27%
$40,001-$100,000	10%	34%
$100,001+	1%	11%

Source: DCSS, Integrated Data Base.

Seventy Percent of California's Arrears are Owed to the Government

Since Temporary Assistance for Needy Families (TANF) recipients must assign their right to child support to the government, debt owed in these cases is owed to the government, not to families. Fully seventy percent of the child support debt in California is TANF debt owed to the government; only 30 percent is non-TANF debt owed to families.

Most of California's Arrears are Not Recent

Nearly three-quarters of the child support arrears in California are held by debtors who have held child support debt for at least two and a half years. Only two percent is held by debtors who have held child support debt for less than six months.

Research and collection experience of both public and private debt collection agencies suggest that older debt is less likely to be collected than recent debt. A Maryland study on child support collectibility found that for each year that arrears age, the likelihood of collecting the debt declines by 24 percent.[4] The General Accounting Office, in a study of the collectibility of tax debt, found that debt collectibility dropped significantly after the first year of debt and continued to decline with age.[5]

One Fifth of California's Arrears are Owed by Debtors Who Live Outside of California

Other research has shown that it is generally more difficult to collect support from parents who live in another state.[6] Although federal reforms have made interstate collections easier, their collection is still often more difficult than instate collections. We found that one-fifth of California's child support arrears are owed by parents who live in another state.

Numerous Income and Other Databases are Used in Analysis

This study went to great lengths to collect considerable amounts of information on the individuals who hold California's child support arrears so that we could obtain a thorough understanding of the collectibility of this debt. We obtained three years of California tax records from the Franchise Tax Board (FTB), three years of quarterly earnings records for California residents from California's Employment Development Department (EDD), quarterly earnings outside of California from the Federal Office of Child Support Enforcement (OCSE), bank account balances from California's Financial Institutions Data Match, prison records from the California Department of Corrections, and Medi-Cal and death records from the California Department of Health Services. All of these data were examined and used to characterize the individuals who hold California's child support debt.

Table 2 lists all of the data sets that we examined. The second column indicates the number of debtors successfully matched to each database. The third column indicates the percent of debtors found in each database. Of the 834,908 debtors,

Table 2. Number and Percent of Debtors Matched to Each Statewide Data Base

Other Data Used in Analysis	Number of Debtors	Percent of Debtors
EDD Quarterly Earnings File (1997-99)	511,790	61%
Wage Master File (1998)	489,750	59%
California Income Tax (1998)	250,336	30%
California Income Tax (1997)	247,899	30%
California Income Tax (1996)	247,318	30%
Quarterly Earnings outside of CA (1999)	228,329	27%
Financial Institution Data Match (2000)	141,228	17%
Receives Medi-Cal (2000)	76,631	9%
In California State Prisons (2000)	22,678	3%
In the California Youth Authority (2000)	263	0%
In the Death Records (2000)	257	0%

Source: DCSS, Integrated Data Base; EDD, Quarterly Earnings; FTB, Wage Master File, Tax Files and Financial Institution Data Match; CDC, California State Prisons and California Youth Authority; Department of Health Services, Medi-Cal Receipt and Death Records; OCSE, OCSE Data on Earnings outside CA.

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

We also examined several data sources that did not report earnings or income, but reported bank accounts, Medi-Cal receipt, or whether the debtor was in state prison or the California Youth Authority. We found an additional five percent of the debtors in these data that had not been found in one of the earlier matches. Thus, we were able to find 85 percent of California's child support debtors in at least one database.

Child Support Debtors Report Lower Earnings than Other California Workers

Forty-nine percent of child support debtors had earnings reported in the EDD quarterly earnings file for 1999. Their earnings were lower than the earnings of other California workers. In 1999, child support debtors had median earnings of $14,110, compared to $16,635 for other California workers.

Although this comparison suggests that debtors have, on average, lower earnings than the typical employee in California, it may be that a disproportionate share of debtors have earnings that are missed by these data. In general, a state's wage data misses earnings for four basic reasons.[7] First, earnings may result from perfectly legal activities that are not covered. Probably the most important sources of earnings for our purposes that are not covered are earnings for the self-employed and independent contractors. These earnings, however, should be reported to the Franchise Tax Board, which we have included in our analysis. Second, earnings from work outside of California are not reflected in California's quarterly earnings. However, our analysis also includes OCSE quarterly earnings from the other 49 states.

The third reason earnings are missed by California's quarterly earnings is that they are not reported. Employers and employees may underreport their earnings to avoid paying taxes. It is estimated that, in general, employers underreport taxable wages by four percent.[8] The final reason earnings are missed by California's quarterly earnings is because they result from illegal activities. These latter two types of unreported earnings — illegal and "off-the-books" production — are typically referred to as the underground economy. Little research has been done on the extent to which noncustodial parents underreport their earnings. One study, which interviewed unmarried fathers shortly after the birth of their child, found that nearly 30 percent of these fathers had irregular earnings.[9] Most of these fathers combined their irregular work with regular work. Irregular activities increased their earnings, on average, by 23 percent.

Although we went to great lengths to obtain earnings information for child support debtors in California, our analysis is limited to reported earnings. Additional research is needed to estimate the extent to which noncustodial parents underreport their earnings.

C. Report 3: Estimating How Much of California's Child Support Arrears are Collectible Using State-Wide Data Bases

Report 3 uses data gathered in Report 2 to further characterize the child support debtors and to measure the collectibility of California's child support arrears.

1. Analysis of Child Support Debtors

Over 60 Percent of Debtors Have Recent Net Incomes Below $10,000

Income data from EDD, FTB and OCSE are used to determine whether the debtors have recent, reported income. As shown in Table 3, one-quarter have no recent, reported income. Thirty-six percent have net incomes below $10,000. Hence, over 60 percent of debtors have recent net incomes below $10,000. Only 1 percent have recent net incomes in excess of $50,000.

Table 3. Number and Percent of Debtors in 2000
By Amount of Recent Income

Income Category	Number of Debtors	Percent of Debtors
Total	834,908	100%
Has Recent Income Net Income is:	623,597	75%*
$1-10,000	300,586	36%
$10,001-20,000	169,203	20%
$20,001-30,000	93,128	11%
$30,001-50,000	52,233	6%
Over $50,000	8,447	1%
No Recent Income	210,310	25%
Has Prior Income	32,101	4%
No Prior Income	178,209	21%

Sources: See Table 2.

*Data do not add to 75 percent due to rounding.

Child Support Debtors Without Recent Income Are More Likely to Face Employment Barriers

To understand who the debtors are, we contrasted debtors without recent income with debtors with recent income. Table 4 shows that debtors without recent

income are significantly more likely to face employment barriers and appear to be significantly less able to pay child support than other debtors. For instance, they are twice as likely to be in prison and twice as likely to receive Medi-Cal. Receipt of Medi-Cal means that the recipient is low income and otherwise qualifies for the program, by, for example, receiving Supplemental Security Income (SSI) or welfare. Despite these greater employment barriers, the median child support order for debtors with no recent income is $277 a month, only $37 a month less than the median amount owed among debtors with recent income. Given their relatively high child support orders and relatively low earnings ability, it is not surprising to find that their median child support debt is nearly twice as large as that owed by debtors with recent incomes.

Table 4. Characteristics of Debtors with and without Recent Income

Characteristics	Debtors without Recent Income	Debtors with Recent Income
Median Debt	$14,129	$8,118
Median Positive Order Amount	$277	$305
Percent in State Prison	5%	2%
Percent on Medi-Cal	16%	8%
Percent with Income in 1996 or 1997	16%	69%
Median Annual Net Income in Prior Years for those with Prior Income	$3,397	$12,754

Source: See Table 2.

Debt Burden Decreases as Income Rises

The amount of arrears that child support debtors owe increases as their net incomes decline so that the relative burden of this debt is considerably higher for low-income debtors than for high-income debtors. We found the median debt among debtors with net incomes below $5,000 was $10,790, while it was half that amount for debtors with net incomes over $7,000. This difference is even greater when debt-to-income ratios are examined. Table 5 shows that debtors with net incomes below $5,000 have debt-to-income ratios of 7.58, which means that for every dollar of net income, the debtors owe $7.58 in child support arrears. In contrast, debtors with incomes over $70,000 have a debt-to-income ratio of .05, meaning that for every dollar of their net income they owe 5 cents in child support arrears.

The debt-to-income ratios for low-income debtors are exceedingly high relative to similar ratios calculated for low-income families holding private debt, such as credit card balances, installment loans, and home-secured debt. According to research reported in the Federal Reserve Bulletin, less than half of families with incomes below $10,000 held any form of private debt in 1998 and the median

amount of debt held among those who had some form of debt was only $2,200. Their debt-to-income ratio was .9.[10]

Table 5. Debt and Child Support Orders Among Debtors with Recent Income

Annual Net Income	Median Child Support Debt	Percent with a Child Support Order	Median Monthly Child Support Order	Ratio of Debt to Net Income	Ratio of Annual Order to Net Income
$1-5,000	$10,790	63%	$280	7.58	2.11
$5,001-10,000	$8,985	64%	$276	1.23	0.44
$10,001-15,000	$7,684	63%	$285	0.62	0.27
$15,001-20,000	$6,600	64%	$303	0.38	0.21
$20,001-25,000	$5,964	64%	$329	0.27	0.18
$25,001-30,000	$5,533	64%	$360	0.20	0.16
$30,001-40,000	$5,027	65%	$401	0.15	0.14
$40,001-50,000	$4,754	66%	$453	0.11	0.12
$50,001-60,000	$4,796	67%	$497	0.09	0.11
$60,000-70,000	$4,540	68%	$526	0.07	0.10
>$70,000	$5,165	70%	$581	0.05	0.08
All recent earners	**$8,118**	**64%**	**$305**	**0.89**	**0.35**

Source: See Table 2.

Current Support Orders Appear Too High for Low-Income Debtors

One factor that appears to be contributing to these large arrears for low-income obligors is the large current support orders that they face. Table 7 shows that individuals who have a child support order and have incomes below $5,000 have a median child support order of $280 a month. These orders are twice as high as the debtors' net monthly income. Even debtors with net incomes between $5,000 and $10,000 who have a child support order face median monthly orders of $276 a month, which represents 44 percent of their net income.

2. Assessing the Collectibility of Child Support Arrears in California

We developed two approaches to assess the collectibility of California's child support debt. The first approach looks at three characteristics, which prior research found to be correlated with collectibility. The second approach uses a micro-simulation model to estimate how much each debtor could potentially pay in arrears over a ten-year period.

Characteristics Used to Analyze Collectibility

Prior research on the collectibility of child support debt and tax debt suggests the following factors are highly influential in determining collectibility:

- ✓ *The extent to which there are income or assets available to pay the debt.* Income is a strong predictor of paying off one's debts. The private sector uses income to determine access to loans. In addition, in its review of unpaid tax assessments, the U.S. General Accounting Office (GAO) found that if income and assets cannot be located, it is very difficult to assess and collect debt payments on an individual.[11]

- ✓ *Whether the individual debtor lives in another state.* Another study by the U.S. General Accounting Office found that it is generally more difficult to collect from individuals who live in another state.[12]

- ✓ *The age of the debt.* Debt research shows that the older the debt the less likely it will be paid.[13]

Ninety-Five Percent of California's Child Support Debt Is Owed By Debtors With One or More Attributes Making It Difficult to Collect Child Support

Table 6 uses the three characteristics described above to divide California's child support arrears into different subgroups of debtors. It shows that only five percent of California' s child support arrears are held by individuals with all three attributes that make collections more likely: (1) have a net income above $15,000; (2) have held the debt for less than two and a half years; and (3) are California residents.

Table 6. Characteristics of California's Child Support Arrears, 2000

(Dollars are in Millions)

	Total Arrears	California Residents		Non-California Residents	
		New Arrears	Old Arrears	New Arrears	Old Arrears
	$14,434 (100%)	$3,149 (22%)	$8,422 (58%)	$680 (5%)	$2,183 (15%)
Recent Net Income Levels					
$15,000 or more	$2,948 (20%)	$719 (5%)	$1,874 (13%)	$94 (1%)	$262 (2%)
$0-$15,000	$11,486 (80%)	$2,430 (17%)	$6,548 (45%)	$586 (4%)	$1,921 (13%)

Source: see Table 2.

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

We also find that it is important to keep in mind the amount of arrears that individuals owe relative to their income. Table 7 shows over half of California' s arrears are owed by debtors with less than $10,000 in income but who owe more than $20,000 in debt. Only $113 million in debt is held by debtors with more than $30,000 in income and less than $10,000 in debt.

Table 7. Arrears Owed by Income of Child Support Debtor
(Dollars are in Millions)

		Amount of Arrears Owed by Each Parent Debtor		
	Total Arrears	**$1-10,000**	**$10,001-$20,000**	**$20,001+**
	$14,434 (100%)	$1,604 (11%)	$2,446 (17%)	$10,384 (72%)
Recent Net Income Levels				
$30,001+	$748 (5%)	$113 (1%)	$135 (1%)	$500 (3%)
$10,001-$30,000	$3,656 (25%)	$529 (4%)	$669 (5%)	$2,457 (17%)
$0-$10,000	$10,030 (70%)	$962 (7%)	$1,642 (11%)	$7,426 (52%)

Sources: see Table 2.

Estimating Collectibility Using the Original Micro-Simulation Model

To determine how much of the $14.4 billion in child support arrears California can realistically expect to collect, we develop a micro-simulation model, which is used to estimate potential collections over a ten-year period. We assume that individuals pay a certain percentage of their net income toward current and past child support and employ three percentage figures — 30, 40, and 50 percent. The lower bound estimate assumes that debtors will pay up to 30 percent of their net income in current and past child support. The upper bound increases that percentage figure to 50 percent.

Table 8 shows that California can realistically expect to collect between $989 million and $1.69 billion in child support arrears in the first year, or 7 to 12 percent of the total child support debt. The lower bound estimate of $989 million, or 7 percent of arrears, is approximately what California is currently collecting on arrears. After ten years of paying up to 50 percent of net income to child support, at most $3.5 billion will be paid, representing 25 percent of the $14.4 billion of arrears in March 2000.

Table 8. Estimating Collectibility of California's Arrears, Using Different Assumptions Regarding the Amount of Net Income Going to Child Support
(Dollars are in Millions)

	Percent of Net Income Going to Child Support, Arrears, and Interest		
Estimated Amounts	**30%**	**40%**	**50%**
Could Pay the First Year	$989	$1,350	$1,690
as % of March 2000 debt	7%	9%	12%
Could Pay over 10 Years	$2,288	$2,965	$3,543
as % of March 2000 debt	16%	21%	25%
2000 Arrears Left after 10 years	$12,146	$11,469	$10,891
Unpaid Interest after 10 years	$16,803	$15,488	$14,526
New Arrears after 10 years	$10,416	$9,327	$8,610
Total Arrears after 10 years	$39,355	$36,276	$34,021

The Simulation Model Estimates that California can Expect to Realistically Collect, at most, 25% of the $14.4 Billion in Child Support Arrears Owed in March 2000. It also Predicts that in Ten Years, California' s Child Support Arrears Could More than Double.

Table 8 also shows that after ten years of trying to collect the $14.4 billion of child support arrears, an estimated $14.5 to $16.8 billion of unpaid interest will be generated. In addition, many of the individuals who hold child support arrears as of March 2000 will be unable to meet their current child support obligations, and thus new arrears will accrue. We estimate that in ten years an additional $8.6 to $10.4 billion of child support arrears will be generated by individuals who held debt in March 2000 and are unable to meet their current child support obligations.

Adding up new arrears, old arrears that are not collected and interest results in a total arrears balance of $34 to $39 billion in 2010, more than double the amount of arrears in California as of March 2000. This estimate does not include individuals who start accumulating child support arrears after March 2000. Thus, actual arrears in 2010 could be even higher.

D. Report 4: Validating the Collectibility Model Using Data from the CASES Consortium

In order to validate and improve the micro-simulation model discussed above, actual payment histories for parent debtors in 26 counties were obtained from the CASES (Computer Assisted Support Enforcement System) consortium. CASES is an automated child support system currently serving 34 California counties. We did not obtain information from all of CASES counties because some of them only recently joined the consortium. A total of 132,625 parent debtors were identified in the 26 CASES counties, representing 16 percent of the parent debtor population in California.

Table 9 presents the payment behavior of the parent debtors in the 26 CASES counties who paid child support, interest, or arrears during a 12-month period, from November 2000 through October 2001. It also reports the amount paid toward child support, arrears, or interest among parent debtors with net incomes below $3,000 and the percent of net income spent on child support, arrears, or interest among parent debtors with net incomes above $3,000.

Table 9. Percent of Debtors Who Paid Toward Child Support, Arrears, and Interest and the Amount or Percent of Income Paid by Debtors in CASES Data

Net Income Category	Has Current Support Order		Arrears Only	
	Percent Who Paid Something	Amount or Percent of Net Income Paid	Percent Who Paid Something	Amount or Percent of Net Income Paid
$0	41%	$2,880	36%	$1,623
$1-$1,000	50%	$2,548	48%	$1,477
$1,000-$3,000	59%	$2,352	54%	$1,548
$3,000-$5,000	67%	64%	58%	42%
$5,000-$10,000	79%	41%	66%	26%
$10,000-$15,000	88%	29%	73%	19%
$15,000-$20,000	93%	25%	77%	15%
$20,000-$30,000	96%	21%	79%	13%
$30,000+	98%	19%	76%	11%

Source: CASES Consortium and sources listed under Table 2.

Some assumptions that were used in the original simulation model were revised based on findings from the CASES data.

- ✓ The study first examined whether parent debtors with income always pay something toward child support, arrears or interest. The data showed that they do not. While nearly all parent debtors with net incomes over $15,000 pay child support, interest or arrears, this is not the case for parent debtors with net incomes below $15,000. On the other hand, the data also showed that that some parent debtors with no income pay something toward child support, arrears or interest.

- ✓ The data also showed that everyone does not pay 30 percent of their net income — or any other fixed percentage figure. Instead, the percent of net income devoted to child support, arrears and interest falls as a parent's net income rises.

We revised the simulation model by changing our assumptions regarding how much parent debtors could pay toward their arrears. Instead of assuming that parent debtors could pay 30 to 50 percent of their net income toward child support, interest and arrears, we assumed that all parent debtors in California pay arrears in the same way as parent debtors in the 26 CASES counties.

We also incorporated improvements in arrears collections into the revised micro-simulation model, based on examination of prior improvements in arrears collections in California. We found that the percent of arrears cases that paid on their arrears increased by an average of 2.7 percent per year between FFY 1994 and FFY 1997. Furthermore, we found that the amount paid on arrears per paying case increased by 1.9 percent per year during this same period. The new simulation started with the values that reflected the payment behavior of parent debtors in the CASES data, but then increased these values each year for 10 years according to the annual increases given above, except for debtors with net incomes below $3,000. These debtors were already spending over 65 percent of their net income on child support, arrears and interest, and federal law prohibits collecting more than 65 percent of net income in child support.

Revised Micro-Simulation Model Confirms Earlier Estimate – California Can Expect to Collect 26 Percent of the $14.4 Billion in Child Support Arrears Owed in March 2000

Using this methodology, we estimate that parent debtors would pay $843 million dollars towards arrears and interest, or 6 percent of the $14.4 billion, in the first year. Over 10 years, parent debtors would pay $3.8 billion, or 26 percent of the original $14.4 billion of arrears owed as of March 2000.

Table 10. Estimating the Collectibility of California's Arrears Using the Revised Micro-Simulation Model
(Dollars are in Millions)

Total Arrears in March 2000	$14,434
Could Pay the First Year	$843
As % of March 2000 arrears	6%
Could Pay over 10 Years	$3,764
As % of March 2000 arrears	26%
Estimated Total Arrears in 2010	$34,047

Table 11 shows why California will not collect most of the $14.4 billion of child support arrears. In short, too much of this debt is held by parent debtors who owe amounts in excess of $20,000. We estimate that parent debtors with arrears in excess of $20,000 will only pay 17 percent of what they owe over a 10-year period, yet they hold 72 percent of California' s child support debt. On the other hand, parent debtors who hold less than $5,000 in arrears will pay back 73 percent of their debt, but they only hold 4 percent of California's child support debt.

Table 11. Estimates of the Amount and Percent of Arrears that will be Paid over a 10-year Period in California Assuming Arrears Collections Improve

Amount of Arrears	Total Amount of Arrears as of March 2000 (millions)	Estimated Payments over 10-Year Period (millions)	Percent of Arrears Paid in 10-Year Period
$1-$5,000	$556	$408	73%
$5,001-$10,000	$1,049	$600	57%
$10,001-$20,000	$2,446	$958	39%
$20,001+	$10,383	$1,799	17%
Total	$14,434	$3,764	26%

E. Report 5: Examining the Reasons Behind California's Child Support Arrears

In this report, we examine three basic reasons why California's child support arrears are so large:

1) Establishing and maintaining child support orders that are too high relative to ability to pay child support;
2) Enforcement is incomplete; and

3) Assessing interest at 10 percent per year.

Analyzing 29 California LCSAs, we find that 76 Percent of Arrears Accrued Between November 2000 and October 2001 Were Held by Debtors Who Could Not Afford to Pay their Child Support Order; 24 Percent Were Held by Debtors Who Could Afford to Pay their Order and Did Not

We estimate that 76 percent of arrears accrued between November 2000 and October 2001 in 29 California LCSAs was held by debtors who were unable to pay their child support order based on income. The other 24 percent of arrears that accrued that year was held by debtors who were able to pay their order but did not. These findings echo our simulation results reported earlier, which found that only 26 percent of California's arrears are realistically collectible.

1. Orders are Set Too High Relative to Ability to Pay

Given the relative importance of the first explanation for California's large arrears, we investigated four policies that appear to be contributing to relatively high child support orders:

1) Establishing Too Many Child Support Orders by Default
2) Setting Default Orders at the Minimum Basic Standard of Adequate Care (MBSAC)
3) Seeking Retroactive Support for Welfare Cases
4) Reviewing and Adjusting Relatively Few Child Support Orders

Seventy-One Percent of Child Support Debtors in California Have a Default Order

To establish an order, a summons and complaint is served on a noncustodial parent. The parent then has 30 days to file an answer. If no answer is filed, the court can establish an order by default.

We estimate that 71 percent of the parents who owed child support arrears in March 2000 had at least one child support order set by default. We also found that child support debtors who had a default order set in 1998 or 1999 were 17 percent less likely to pay child support and owed 26 percent more in arrears than similarly situated debtors without a default order in 10 California LCSAs. These findings suggest that default orders are contributing to California's arrears.

Concerns are raised to the extent that parents fail to appear because either they are not aware of the legal proceeding being brought against them or they do not understand that they are required to make a legal appearance. Practices that help inform parents of the action against them include personal, rather than substituted, service of the summons and complaint on the parent. Other means of notifying the noncustodial parent about the legal proceeding, may also reduce the incidence of default orders, such as letter to the noncustodial parent before and after service. Although we are not aware of any empirical evidence that these tactics reduce default orders, we would expect them to help.

Nearly Half of Debtors with a Default Order Had Orders Set at an MBSAC Level in 1998 and 1999

If no income or income history is known about the noncustodial parent, income is presumed at levels that far exceed most parents' ability to pay child support. Specifically, income is presumed at a level that generates a child support order equal to the minimum basic standard of adequate care for the number of children involved. In October 2001, the amount of income needed to generate an MBSAC order with two children was $2,200 per month, or $26,400 per year, about four times the median net income of debtors.[14]

We estimate that 47 percent of debtors who had their child support orders set by default in 1998 and 1999 had their orders set at an MBSAC level. Debtors with MBSAC orders were 27 percent less likely to pay child support and owed 58 percent more in arrears than similarly situated debtors without these orders in 10 California LCSAs. Hence, it appears that this law is contributing to California's child support arrears.

The Median Amount of Back Support Ordered from Debtors with Children on or Formerly on Welfare was $3,418, nearly three times as much as Debtors who were Charged Back Support and their Children had Never Been on Welfare

Since January 2000, California law allows LCSAs to seek back support for welfare families up to one year prior to the date of filing of the summons and complaint. For non-welfare families, back support can only be requested back to the date of filing.

During the first two months of 2000, we found that 39 percent of debtors with children currently or formerly on welfare, but only 23 percent of debtors with children who have never been on welfare, were ordered to pay support prior to the order establishment date. Moreover, debtors with children currently or formerly on welfare who were assessed back support were assessed a median amount of $3,418, nearly three times as much as debtors with children who had never been on welfare.

Half of Debtors with an Order and 82 Percent of Debtors with an Order set at an MBSAC Level Met the Current California Standard for a Downward Modification but only a Fraction of these Debtors Received One

Under current federal law, states must review and adjust child support orders every three years if requested by either parent or the state child support agency in public assistance cases. California, like most states, does not require LCSAs to conduct periodic reviews of their public assistance cases.

Since LCSAs do not initiate reviews of child support orders, it is not surprising to find that relatively few orders are adjusted. We estimated what proportion of

child support debtors in California met the current California standard for a downward adjustment and then ascertained how many of them actually received one. (We did not estimate the need for an upward adjustment because of data limitations.) We found that half of California's child support debtors met the current standard for a downward modification, but only 16 percent of them received one. We also examined child support debtors who had their orders set at MBSAC levels and found that 82 percent of these debtors met the current standard for a downward modification, but only 17 percent of them received one.

2. Enforcement is Incomplete

Wage withholding is the only enforcement tool that we examined in this report. If wage withholding is in place, child support payments are automatically deducted from a noncustodial parent's paycheck. We found that 79 percent of debtors with arrears and recent income had a wage withholding order in place in 2000. We also found that 70 percent of debtors with a wage withholding order in place paid child support over a 12-month period, compared to 43 percent among similarly situated debtors without a wage withholding order in place. Hence, it appears that getting wage withholding orders in place significantly increases the likelihood that child support is paid. These findings suggest that wage withholding is a powerful enforcement tool and should be even more aggressively pursued.

3. Twenty-Seven Percent of California's Child Support Arrears were Interest

Charging interest has exacerbated arrears growth in California. As of March 2000, we estimate that 27 percent, or $3.9 billion, of California's arrears were unpaid interest. This sum, however, understates the impact of charging interest on California's arrears since some arrears payments that could have gone to retiring principal have gone toward paying interest over the years.

F. Report 6: Earnings Ability of Noncustodial Parents in California's Child Support System

The purpose of this report is to characterize the earnings ability of all noncustodial parents in California's child support system. Earlier reports indicated that noncustodial parents with child support arrears in California had relatively low incomes. This finding generated interest in ascertaining the earnings ability of all noncustodial parents in California's child support system.

We use DCSS data from the Master Case Listing (MCL) to identify noncustodial parents in the IV-D system. These data are collected from all 58 LCSAs and include information on all cases as of December 31, 1999. The MCL was matched to California tax returns and California quarterly earnings, but not to quarterly earnings from outside of California as was done above for the analysis of debtors.

We find that two-thirds of the noncustodial parents in the MCL with a valid social security number have income reported either in the California quarterly earnings data for 1997-1999 or the California tax returns data for 1996-1999. For those with earnings information in 1999, median earnings are substantially lower than the typical California taxpayer. In 1999, median earnings were $13,551, compared to $16,574 for California workers. When examining the California data, we find that noncustodial parents as a whole have similar income distributions as child support debtors.

III. Recommendations

California's child support arrears are increasing at an alarming rate and this study suggests that little of it will be collected even with the most aggressive collection efforts. The basic reason that California will be unable to collect most of its child support arrears is because a relatively small number of parent debtors hold very large amounts of arrears and they cannot pay back most of this debt. Over half of California's arrears are held by parents who have net incomes below $10,000, but owe more than $20,000 in arrears.

To address this issue, we suggest the following steps be considered:

1. Reduce Default Orders

Default orders occur when a noncustodial parent fails to respond to a child support case being brought against him or her. Some default orders are expected, but a default rate of 71 percent statewide indicates that something is terribly wrong. Noncustodial parents are not participating in the process of establishing the child support order when default orders occur, which we find reduces collections. Every effort should be made to identify the reasons why default rates are so high and reduce them.

2. Improve Location Information for Service of Process

Service of process can be improved by obtaining better information on the location of the noncustodial parent, either from the custodial parent or through automated sources. LCSAs should be required to use a variety of automated sources when attempting to locate the noncustodial parent.

3. Use Personal Service, rather than Substitute Service, as the Preferred Method

Most noncustodial parents appear to be served by "substitute" service, rather than personal service, which suggests that noncustodial parents may not know that they have been served. Efforts are needed to increase personal service.

4. Further Simplify Summons and Complaint

Another concern that emerges when orders are established by default is that the noncustodial parent may not understand what the summons and complaint

mean. Recent changes have been made to the summons and complaint in California, making it considerably easier to understand, but it is still quite complicated. A simple one-page cover sheet might help.

5. Use Pre- and Post-Service Letters

LCSAs can use other means of notifying the noncustodial parent about the legal proceeding, besides the summons and complaint. Some LCSAs send a letter to the noncustodial parent before the summons and complaint is issued, informing the parent that a complaint is about to be issued and asking for their cooperation. Other LCSAs send a letter after the complaint has been served, inviting noncustodial parents to contact the LCSA regarding the complaint.

6. Consider Using Time and Date Certain Appointment before Seeking a Default Order

Offering time and date certain appointments with LCSA staff before seeking to establish a default order may reduce the incidence of defaults.

7. Make the Low-Income Adjustment Presumptive and Consider Revising Its Amount

Although we were unable to examine this issue ourselves, the Judicial Council of California did a thorough review of California's child support guideline in 2001.[15] One of their recommendations was to make the low-income adjustment in the guideline presumptive to ensure that it is used. They found that only 6 percent of obligors eligible for a low-income adjustment actually received one in 1999. We did find, however, that one of the primary factors contributing to arrears in California is high child support orders on low-income obligors. Making the low-income adjustment presumptive should help in this regard. Additionally, the low-income adjustment has not been revised since it was established nearly a decade ago. It should be reviewed for possible adjustment.

8. Maximize Use of All Income Data Sources, including Income History, when Setting Child Support Orders

In the past, LCSAs did not always determine the actual income or income history of a noncustodial parent before issuing a proposed judgment. Given the availability of automated sources of income information and the high default rate, this approach is not suitable. As noted elsewhere, we were able to find actual income information for nearly 80 percent of debtors by examining three years of tax and quarterly earnings records. LCSAs should be required to do the same so that orders can reflect the actual income of the noncustodial parent.

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

Quarterly earnings and tax records are an important source of information about income, but they are typically months out of date by the time they become available to the LCSA. In contrast, the New Hire Directory provides up-to-date

information about employment. Other states are now asking employers to provide the wage rate and estimated weekly hours of work for their new employees as part of the New Hire Reporting system, which gives child support access to more current earnings information. California should consider this option as well.

10. If No Income or Income History is Available, Eliminate the Use of MBSAC in Determining Presumed Income and Use Full-Time Minimum Wage

California law mandates that if a noncustodial parent's actual income or income history is unknown at the time the summons and complaint is issued, that LCSAs must presume income at a level that generates a child support order equal to MBSAC, which results in an order that is significantly higher than what most noncustodial parents can pay. In California, the minimum wage is $6.75 in 2003, yielding a full-time, year-round income of $14,040. This figure is still higher than the median income of debtors but is closer to their ability to pay.

11. Allow One Year to Set Aside Presumed Income Orders

Since presuming income may not reflect a debtor's ability to pay, we recommend a one year set-aside period when an order is set using presumed income to adjust the order based on the parent's ability to pay.

12. Limit Retroactive Support for Welfare Cases to the Date of Filing as is Done in Non-Welfare Cases

California law allows LCSAs to seek retroactive support for welfare families up to one year prior to the date of filing the summons and complaint. For non-welfare families, retroactive support can only be requested back to the date of filing. This practice appears to contribute to arrears accumulation. This dual standard should be eliminated, allowing retroactive support back to the date of filing in all cases.

13. Adjust Orders Quickly on Change of Circumstance

As noted above, we found that half of the noncustodial parents owing child support arrears met California's current threshold for a modification and yet only a fraction of them received one over a 20-month period. One way to increase the number of modifications is for LCSAs to initiate the process when they see that circumstances have changed. At this point, LCSAs do not initiate review and adjustments, which contributes to the large number of child support orders that do not reflect noncustodial parents' ability to pay child support and, in turn, contributes to arrears.

14. Review All Child Support Orders Based on Presumed Income

As noted above, we found that over 80 percent of debtors who had their orders set at MBSAC levels met California's current threshold for modification and yet only 17 percent of them actually received one. Hence, these excessively high child support orders do not appear to be achieving their intended result, which

was to encourage noncustodial parents to come forward and get their orders adjusted. Instead, they appear to discourage parents from paying child support, and they contribute mightily to California's child support arrears. LCSAs should be required to review all orders set at MBSAC levels and adjust them to reflect noncustodial parents' actual income.

15. Suspend Orders by Operation of Law while Noncustodial Parents are Incarcerated if They Have No Income or Assets

Although we found that very few debtors were in state prison at any point in time, their child support situations were quite bleak on average. Most incarcerated debtors had a child support order and the median amount of the order was $291 per month, only slightly lower than the median amount among all debtors. Yet, their reported income and assets were substantially lower than other debtors. Only about half of incarcerated debtors had reported incomes in the two years prior to incarceration and their median annual net income was just under $3,000. Not surprisingly, the median arrears amount among them was $14,564. Setting orders for incarcerated obligors to zero by operation of law makes sense if they will be incarcerated for an extended period of time and have no income or assets. Not taking this action only leads to arrears, which most likely will never be paid.

16. Lower the Interest Rate Charged on Arrears

California should reconsider the interest rate that it charges on unpaid child support. Currently, California charges 10 percent per year on a simple basis on any unpaid child support, which is high in today's loan market. This practice has contributed substantially to the growth of child support arrears in California. We estimate that 27 percent of California' s child support arrears, or $3.9 billion, was interest in 2000. Moreover, this rate has exceeded what custodial parents or the government could expect to earn in interest from these funds for many years. The IRS estimates the time value of money at 3 percentage points above the interest rate on 13-week Treasury bills. This figure has not reached 10 percent since 1990 and is currently 4 percent. Given that interest rates have been quite low for the past 10 years, it seems reasonable to reduce the rate on unpaid child support to 7 percent, which is the rate provided in the California Constitution for money judgments.

California may want to consider revising its interest policy so that it looks more similar to that used by the FTB and IRS, which employ a two-pronged system of charging interest and penalties on taxpayers who underpay their income taxes. The FTB and IRS charge a relatively low interest rate for most tax underpayments that reflects the time value of money. As noted above, this rate is currently around four percent. Penalties are charged when individuals are found to have seriously underpaid their taxes without justification. They are usually calculated as a percentage of the underpayment and can be considerable. In the child support area, an interest rate could be routinely

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

17. Apply Arrears Payments to Principal Before Interest

When debtors pay arrears in California, the child support program applies those payments to interest first and then to principal. Most other states that charge interest on a simple basis, as California does, apply payments to principal first rather than to interest, which reduces the amount owed. As far as we know, there is no a priori reason for charging interest before principle. We estimate that if California reversed this order, it would reduce its arrears balance by 6 percent over a 10-year period.

18. Give DCSS Authority to Leverage Existing State-Owed Arrears

The federal government has issued guidance in this area, indicating that states have discretion to compromise arrearages owed to the state.[16] Since most of California's arrears are not realistically collectible, California may want to consider developing policies to leverage its state-owed arrears. Policy development in this area, however, will need to be mindful of the argument that compromising arrears rewards irresponsible behavior and discourages obligors from paying on time. Nonetheless, there are good reasons to consider compromising arrears, particularly if the compromise is carefully crafted to leverage payments to benefit families and the state' s general fund. The primary concern about large arrears balances is that they appear to discourage obligors from paying child support. Many states have begun to experiment in this area, typically implementing pilot projects.[17] Giving DCSS discretion to develop a reasoned policy in this area is warranted.

IV. Conclusion

Our primary conclusion that most of California's arrears are not collectible does not imply that aggressive efforts should not be made to collect as much as possible. On the contrary, we find that one-quarter of California' s arrears are collectible and every effort should be made to collect this debt. Nevertheless, even assuming every effort is made to increase collections, this study shows that California will need to take additional steps to reduce its large child support arrears.

Endnotes

[1] United States Department of Health and Human Services. Office of Inspector General. 2000. *State Policies Used to Establish Child Support Orders for Low Income Non-custodial Parents.* OEI-05-99-00391.

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[14] MBSAC amounts vary over time, by region, and by number of children. For or a complete listing, see: http://www.dss.cahwnet.gov/shd/docs/Ref_Tables-CalWORKs.pdf.

[15] Judicial Council of California. 2001. *Review of Statewide Uniform Child Support Guideline.*

[16] Office of Child Support Enforcement. 1999. Compromise of Child Support Arrears. PIQ-99-03 (March 22, 1999). Washington, D.C.: U.S. Department of Health and Human Services.

[17] See United States Department of Health and Human Services, Office of Child Support Enforcement. 2002. *Managing Child Support Arrears: A Discussion Framework.* http://www.acf.dhhs.gov/programs/cse/pubs/2002/reports/arrears/index.html.

Report 1

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

I. Introduction

Two concerns have been expressed about the performance standards that were adopted into California law in 1999. One concern is that the same aspect of child support performance is measured by several performance standards. If this is the case, counties that are performing poorly in one domain of their child support enforcement system would be unfairly penalized by not meeting several of the performance standards. The second concern is that some counties have populations or child support caseloads (also known as IV-D caseloads based on the child support provisions of Title IV-D of the Social Security Act) that are particularly socially and economically disadvantaged. The disadvantaged counties may face a more difficult burden in meeting set performance standards.

In response to these two concerns, the newly created Department of Child Support Services (DCSS) asked the Urban Institute to gather relevant data and complete a preliminary examination of these two issues. This report contains our findings. The analyses presented in the report are limited in two ways. One, we only analyze child support performances from federal fiscal year (FFY) 1999. If there were stronger relationships between performance measures and county or IV-D caseload characteristics in previous years (or in subsequent years), our analysis will miss these relationships. Two, we limited our analysis to an examination of 28 county and IV-D caseload characteristics. We tried to include all characteristics that could potentially have an impact on child support performance; however, other characteristics not included in the analysis may be more highly associated with child support performance.

This report is divided into five sections. Section II defines and describes the ten child support performance measures. Section III describes our analysis and findings about the county performances on the ten performance measures. Section IV describes our analysis and findings regarding the relationship between the county and IV-D caseload characteristics and the county performance measures. Section V summarizes our conclusions.

II. County-Level Child Support Performance Measures

We examined ten child support performance measures. Five of the measures are federal child support performance measures. Five are measures that are mandated in State law as new performance measures to be used in developing performance standards.

Below we define how each performance measure is calculated. To be consistent with other DCSS documents, we used the formulas in the Child Support Program P3 Project: Policies, Procedures, and Practices, October 2000. The data for the performance measures come from tables in the Child Support Statistical Trend Analysis Report: Annual Report Federal Fiscal Year 1999 (CSSTAR). All performance measures are calculated using the data from FFY 1999.

Federal Performance Measures

a. Collections Rate
- Formula: Total amount of IV-D current support collected in the fiscal year divided by the total amount of IV-D current support owed during the fiscal year.

b. Percent of Cases with Orders
- Formula: Total number of IV-D cases with support order at fiscal year end divided by the total number of IV-D cases at fiscal year end.

c. Percent Paying Arrears
- Formula: Total number of IV-D cases with payments of past due child support received during the fiscal year divided by the total number of IV-D cases in which past due child support is owed.

d. Paternity Establishment Rate
- Formula: Total number of children born out-of-wedlock for whom paternity was acknowledged or established during the fiscal year divided by the total number of children in the state born out-of-wedlock during the preceding fiscal year.[1]

e. Cost-Effectiveness Ratio
- Formula: Total amount of support collected by the IV-D agency in the fiscal year divided by the total indirect and direct expenditures by the IV-D agency during the fiscal year.

State Performance Measures

a. Percent of Cases with Collections for Current Support
- Formula: Number of cases with collections for current support in the fiscal year divided by the number of cases owing current support in the fiscal year plus the number of cases with $0 and reserved orders.[2]

b. Average Amount Collected
- Formula: Total amount of IV-D collections for the fiscal year divided by the total number of IV-D cases with collections for the fiscal year.

c. Rate of Summons Served in FFY

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

d. Rate of Support Orders Established in FFY

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

e. Percent of Cases with Orders for Arrears

- Formula: Total number of IV-D cases with orders for arrears at fiscal year end divided by the total number of IV-D cases.[3]

Substantial Differences Exist Across Counties in their Performance

Counties demonstrated a large range of outcomes on the child support performance measures. From this analysis we cannot tell whether the differences in county performances were due to the social and economic characteristics of the counties and IV-D caseloads or whether they were due to differences in the effectiveness of the local child support enforcement agencies. We discuss this issue in more detail in Section IV. However, from this analysis we see that there is a large variation across counties on the performance measures, with some counties performing much better than other counties.

The federal performance measure that varied most substantially across counties was the percent of arrears cases paying arrears. Figure 1 shows the distribution of county performances on this measure. This figure shows that 35 percent of counties collected arrears payments in 50 to 59 percent of arrears cases, and 28 percent of counties collected payments in 60 to 69 percent of cases. The county with the worst performance on this measure collected arrears payments in 14 percent of arrears cases. The county with the best performance on this measure collected payments in 94 percent of arrears cases.

The federal performance measure of cost-effectiveness also varied substantially across counties (see Figure 2). The most cost-effective county collected $6.11 for every dollar spent on child support enforcement. The least cost-effective county collected less than one-fourth this amount, collecting $1.45 for every dollar spent on child support enforcement. Most of the counties collected between $2.50 and $3.99 for every dollar spent.

Regarding the state performance measures, there was a substantial range of performances on several of these measures as well. For example, the average collection per case with a collection ranged from $753 per case to $2,594 per case.

Figure 1. Percent of Counties by Percent of Arrears Cases with Arrears Payments

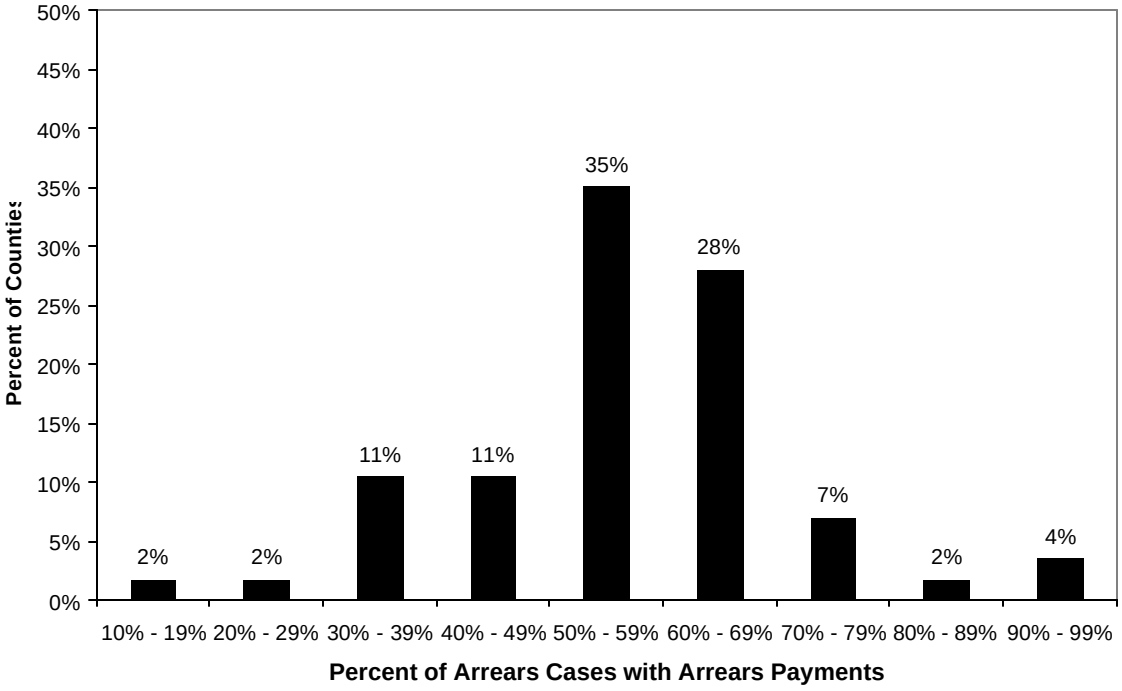
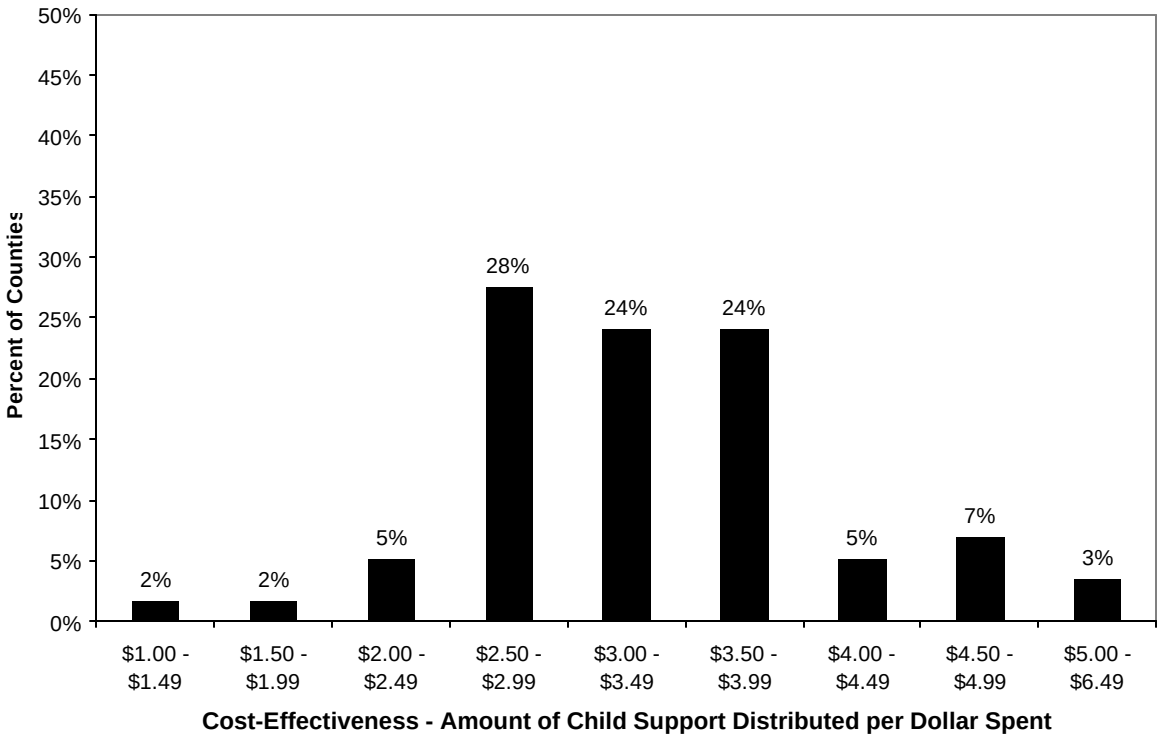


Figure 2. Percent of Counties by Cost-Effectiveness



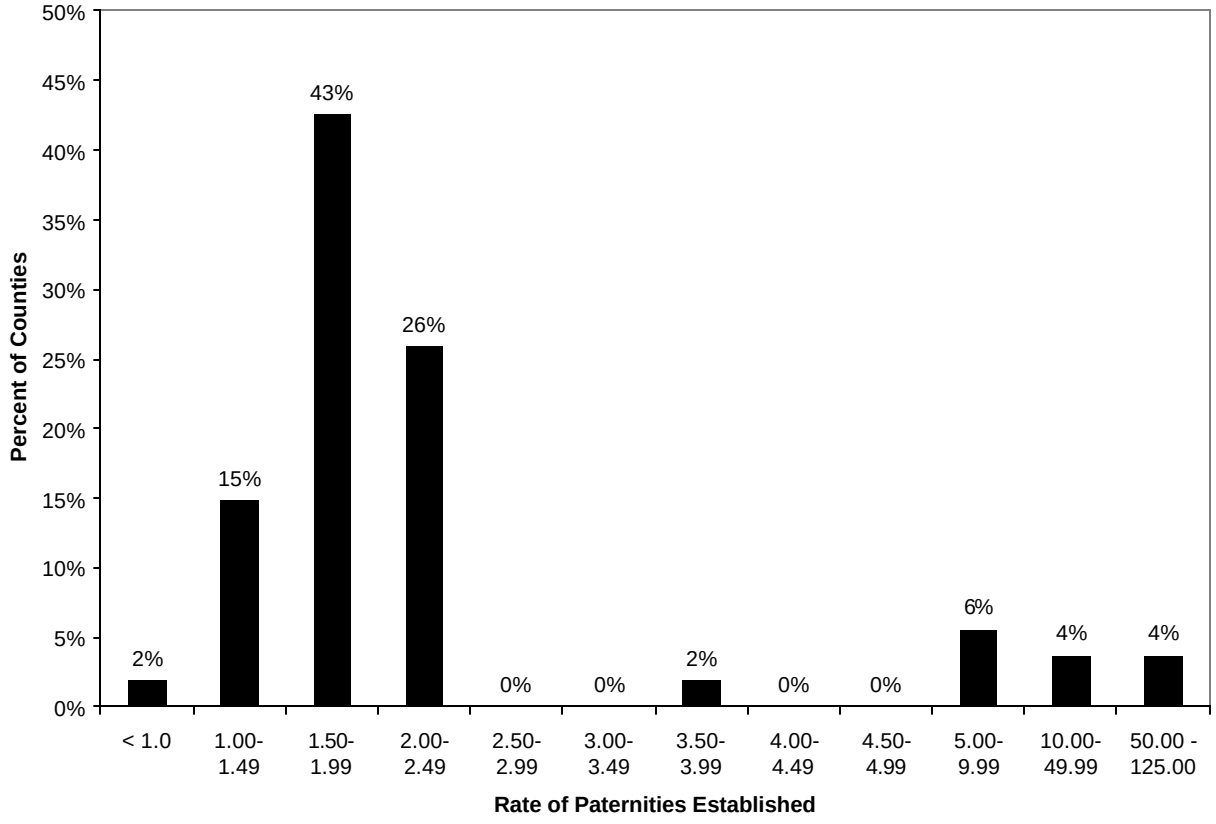
A Few Counties Stand Out on the Paternity Establishment Measure

Most of the counties performed similarly on the paternity establishment measure, but a few counties substantially outperformed the rest. In contrast to other performance measures, this performance measure did not distinguish between low, average, and high performances; it distinguished between average and very high performances.

Figure 3 shows the distribution of the county performances on the paternity establishment rate. The paternity establishment rate was calculated by dividing the number of children in the county for whom paternity was established in FFY 1999 by the number of out-of-wedlock births in the county in FFY 1999. In most counties the paternity establishment rate was greater than 1 because paternity was established in FFY 1999 for children who were born both prior to and during FFY 1999.

Forty-three percent of the counties established paternity at a rate of 1.5 to 1.99 establishments for every out-of-wedlock birth. Another 26 percent of counties established paternity at a rate of 2 to 2.49 for every out-of-wedlock birth. Fourteen percent of counties established paternity at a rate of over 5 for every out-of-wedlock births. In two counties the paternity establishment rate was greater than 50.

Figure 3. Percent of Counties by Rate of Paternities Established



Counties with very high paternity establishment rates had very low numbers of out-of-wedlock births. In fact, all of the counties with fewer than 50 out-of-wedlock births had paternity establishment rates greater than 5; none of the counties with more than 50 out-of-wedlock births had paternity establishment rates this high. For the counties with very few out-of-wedlock births, dividing the number of cases that established paternity by the low number of out-of-wedlock births led to very high paternity establishment rates. Counties with high paternity establishment rates may also have a backlog of cases, some of which they established paternity for during FFY 1999. They may see a sharp reduction in their paternity establishment rate as they work through this backlog. The distributions for some of the other performance measures can be found in Appendix A.

III. Relationships between Child Support Performance Measures

To measure the strength of the relationship between the counties' performances on the measures, we used correlation coefficients, which are displayed in Table 1. Correlation coefficients can range from -1 to +1. A correlation coefficient of +1 indicates a perfect positive relationship between two performance measures. A perfect positive relationship means that a county performs equally well, relative to the other counties, on both performance measures. A correlation of -1 indicates a perfect negative relationship between two performance measures. A perfect negative relationship means that a county that performs well on one measure performs equally poorly on the other measure. The closer the correlation coefficient is to 0, the less relationship there is between the two measures. The closer the correlation coefficient is to +1 (or -1), the more likely it is that the two measures are measuring the same aspect of child support enforcement. In Table 1, the correlation coefficients that are shaded darkly are highly statistically significant ($p<.01$). The correlation coefficients that are lightly shaded are moderately statistically significant ($.01<p<.05$).

None of Counties' Performances on the Five Federal Performance Measures Were Strongly Related to Each Other

Only one pair of federal performance measures, the percent paying toward arrears and the rate of paternity establishment, were moderately significantly correlated and they were negatively related to one another. Figure 4 graphs the counties' performances on these two measures. Each dot on the graph represents one county's performance on the percent paying toward arrears and its performance on the rate of paternity establishment.[4] Examining the graph reveals that, though these measures were moderately significantly related, the level of the relationship was not strong.

Most of the correlation coefficients between the federal performance measures were quite low. For example, cost-effectiveness and the collection rate had a correlation measure of -.01. Figure 5 graphs the counties' performances on these two measures. The graph shows no relationship between performances on these measures. In other

Table 1. Correlation Coefficients between Child Support Performance Measures

	Collect-ions Rate	% w/ Orders	Paying Arrears Cases	Paternity Establish-ment	Cost-Effective-ness Ratio	% of Cases w/ Collections	Average Collection	% Served Summons	Support Est. 1999
Federal Performance Measures									
Collections Rate	1.00		-	-	-	-	-	-	-
% of Cases w/ Orders	.19	1.00	-	-	-	-	-	-	-
% of Paying Arrears Cases	.03	.12	1.00	-	-	-	-	-	-
Paternity Establishment	.19	-.09	-.33	1.00	-	-	-	-	-
Cost-Effectiveness Ratio	-.01	.18	-.05	.15	1.00	-	-	-	-
State Performance Measures									
% of Cases w/ Collections	.46	.26	.42	-.10	.09	1.00	-	-	-
Average Collection	.30	.16	-.15	-.16	.02	.04	1.00	-	-
% Served Summons	.01	.60	.21	-.11	.12	.24	-.10	1.00	-
Support Order Est. in 1999	-.05	.45	.16	-.08	.20	.06	-.05	.80	1.00
% of Cases w/ Arrears	.21	.76	-.08	-.12	.02	.51	.14	.54	.31

Note: Darkly shaded boxes are statistically significant at p<.01; lightly shaded boxes are statistically significant at p<.05.

Figure 4. Percent Paying Arrears by Paternity Establishment Rate

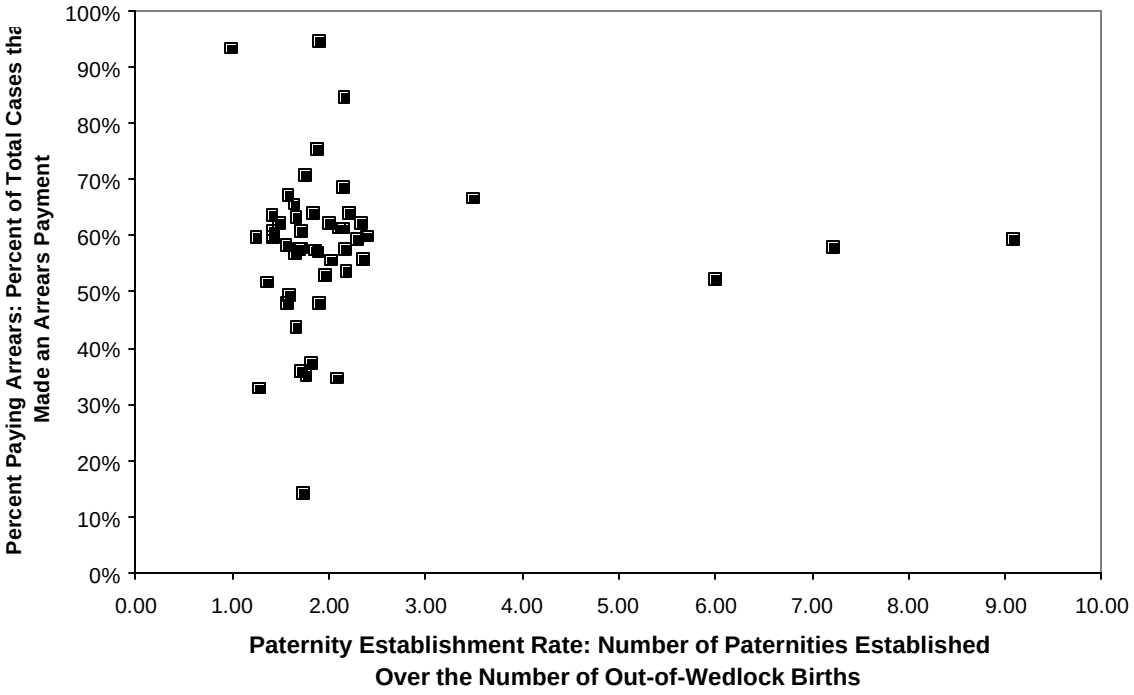


Figure 5. Cost-Effectiveness by the Collections Rate

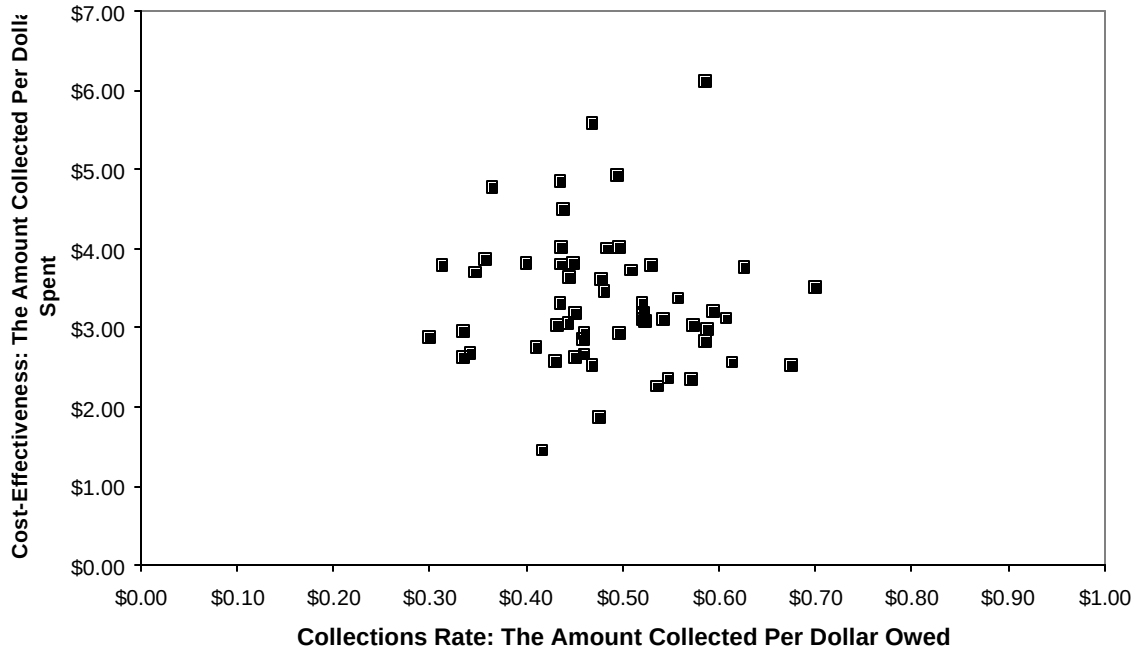


Figure 6. Rate of Summons Served by Rate of Support Orders Established

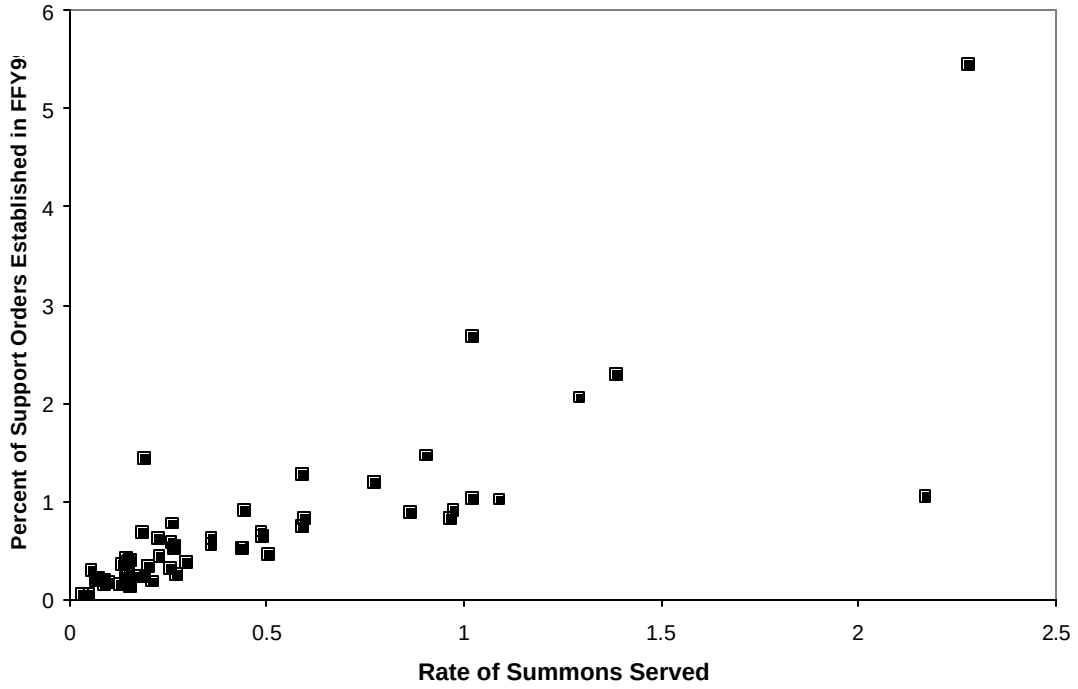
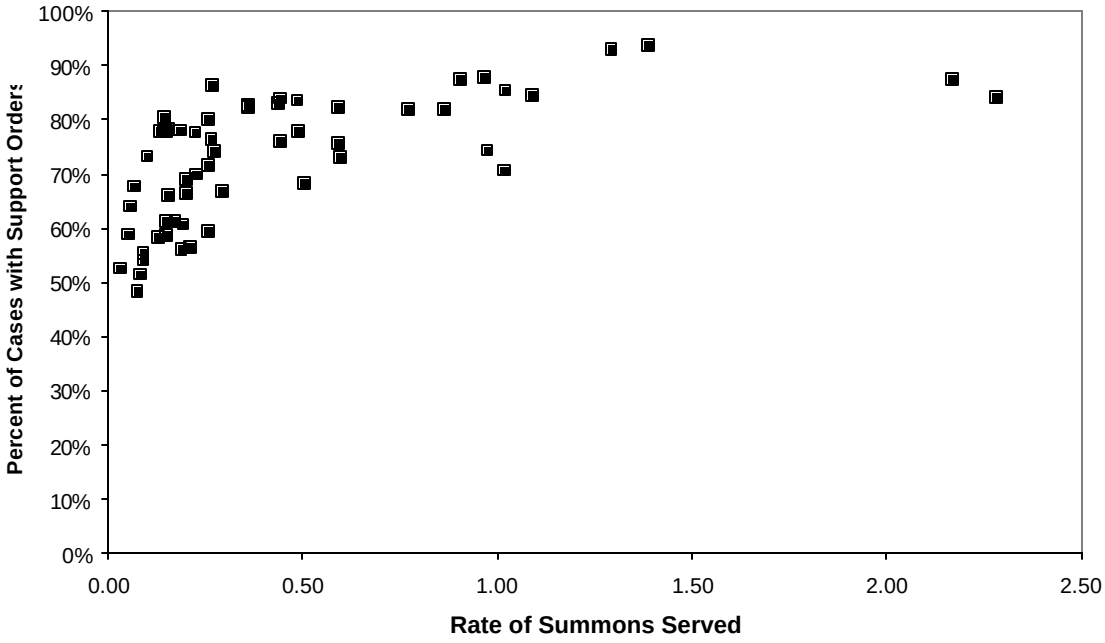


Figure 7: Percent of Cases with Support Orders by the Rate of Summons Served



words, counties that had a high collection rate were no more cost-effective than counties with low collections rates.

Counties' Performances on State Performance Measures Show Some Relationship

As Table 1 shows, two state performance measures – the percent of summons served and the percent of support orders established in FFY 1999 – have a correlation coefficient of .8, indicating a very strong relationship with one another Figure 6 graphs this relationship. It shows that counties that performed well on the percent of summons served were very likely to perform well on establishing support orders in the federal fiscal year. On the other hand, counties that performed poorly on serving summons were very likely to perform poorly on the percent of support orders established in the federal fiscal year. A correlation coefficient this high suggests that these two performance measures are capturing the same aspect of the child support program. Using both measures to assess child support performance will double the weight of this part of the program.

Moreover, both of these state performance measures are strongly related to the percent of cases with an order, a federal performance measure. Figure 7 graphs the stronger of these two relationships. It shows that counties with a low rate of summons served tend to have a low percent of cases with support orders, while counties with a high rate of summons served tend to have a high percent of cases with support orders. Thus, all three of these measures reflect the same aspect of the child support program.

Another state performance measure - the percent of cases with an arrears order - is highly related to three performance measures – the percent of cases with an order, the percent of cases with a collection, and the percent of summons served – and moderately related to the percent of orders established in FFY 1999. Moreover, all of these correlations are positive, meaning that counties that perform well on this performance measure, by having a small percent of cases with arrears, tend to perform poorly on these other four performance measures. (This performance measure is the only one where smaller figures indicate better performance than larger ones.) As an example, Figure 8 graphs the relationships between the percent of cases with an arrears order and the percent of cases with support orders.[5] It shows that as the percent of cases with an order increases, the percent of cases with an arrears order generally increases. Figure 9 provides another example. It graphs the relationship between the percent of cases with an arrears order and the rate of summons served. This graph shows that counties with high rates of summons served also tend to have a high percent of cases with an arrears order.

Finally, another state performance measure, the percent of cases with a collection, was highly significantly related to two federal measures, the collections rate and the percent of cases paying toward arrears. Including these state and federal measures in a performance assessment would likely give extra weight to this aspect of child support program.

Figure 8. Percent of Cases with Support Orders by Percent of Cases with an Arrears Order

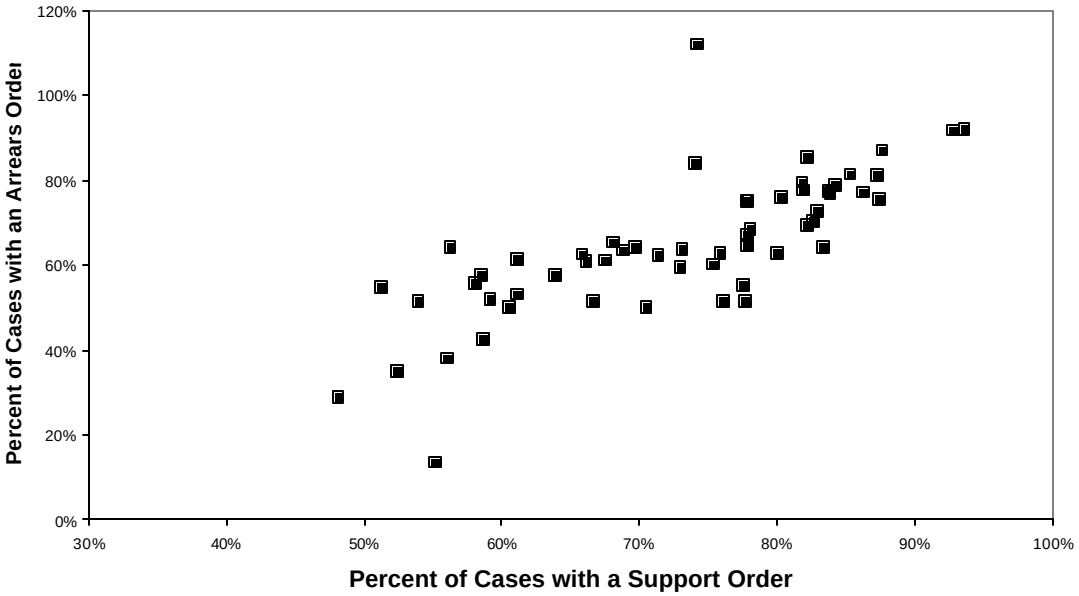
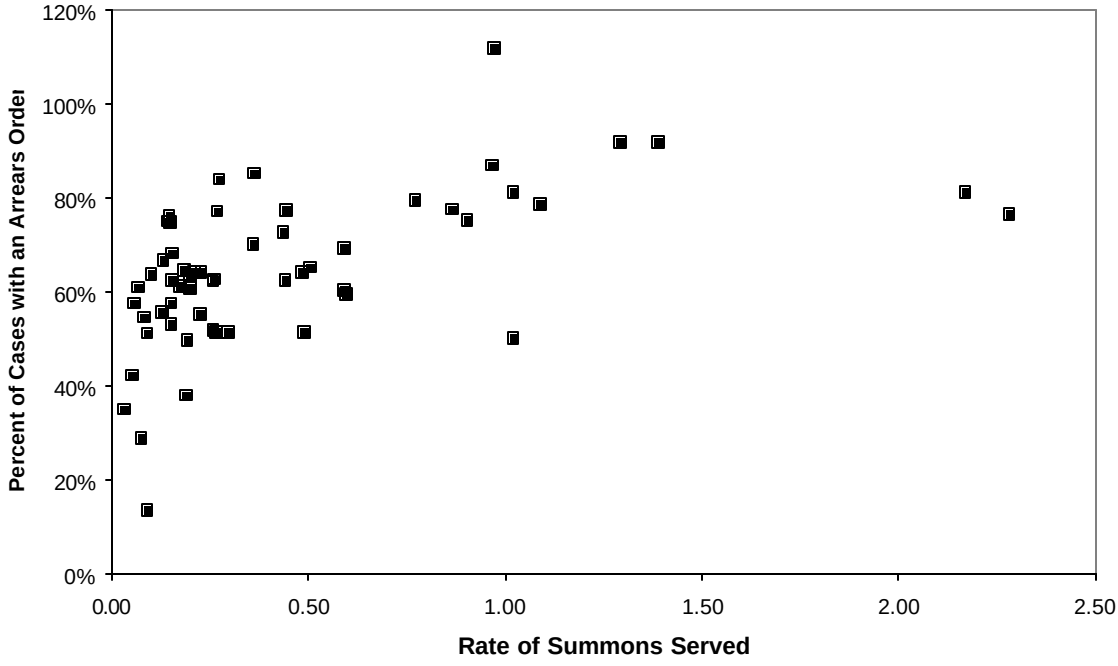


Figure 9: Percent of Cases with an Arrears Order by the Rate of Summons Served



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

We examined the relationship between county and IV-D caseload characteristics and the county performance measures. Table 2 lists the twenty economic, social and demographic measures of county characteristics and the eight measures of IV-D caseload characteristics considered in the analysis.[6] Appendix B gives detailed descriptions of how the county-level and the IV-D caseload characteristics were measured and the data source for each measure.

Table 2: County and IV-D Caseload Characteristics

<u>County Economic Characteristics</u>	<u>County Social Problems Characteristics</u>
Unemployment Rate 1999	Per Capita Incarceration 1998
Percent of Population that is Employed 1999	Child Poverty Rate 1995
Per Capita Income 1997	Infant Mortality Rate per 1,000 Births 1997
Average Earnings 1998	Percent of Children Receiving TANF 1998
Median Income 1997	Teen Birth Rate per 1000 Births 1997
County Government Tax Collected per Capita 1996-1997	High School Drop Out Rate 1997-98
County Government Tax Collected per $1000 Income 1996-97	<u>IV-D Caseload Characteristics</u>
Fair Market Rent 1998	Percent of Cases Never Receiving Assistance 1999
Percent of Labor Force Employed In Agriculture	Percent of Cases Currently Receiving Assistance 1999
	Percent of Cases with a Child Born Out-of-Wedlock 1999
<u>County Demographic Characteristics</u>	Percent of Custodial Parents who are Not Cooperative in Locating Noncustodial Parent 1999
Total Population 1999	Percent of Child Support Debtors in Jail 2000
Number of Children 1999	Percent of Child Support Debtors with Reported Earnings 1997-1999
Miles from the Mexican-US Border	Percent of Child Support Debtors with Reported Taxable Earnings 1996-1998
Percent of Children that are African-American	Percent of Child Support Debtors who Reside in California 1999
Percent of Children that are Latino	

Data on the county-level measures were obtained via the internet, primarily from the California Department of Finance's web page. We used the most recent data available. For most of the county-level measures, data were available in 1998 or 1999. Some were only available in earlier years, with the oldest measured in 1995. Data for the IV-D caseload measures were obtained from the Child Support Statistical Trend Analysis Report: Annual Report Federal Fiscal Year 1999 and the Integrated Data Base, a database with information on child support debtors in California. Most of the IV-D caseload data were available for 1999.

Our first step in the analysis was to eliminate measures of the county and IV-D caseload characteristics that duplicated each other. For example, the per capita income, median income, and average earnings per job are all measures of the average income in the county. These three measures of average county income were highly related to each

other and were significantly related to the same performance measures. In the final analysis, we used the per capita income measure because it had the strongest relationships with the performance measures. If two or more county or IV-D caseload measures were highly related to each other, measured similar characteristics, and showed the same pattern of relationships with the performance measures, we chose the one measure that was most highly related to the performance measures. The county characteristics used in the final analyses are shown in Table 3 and the IV-D caseload characteristics are shown in Table 4. The alternative measures are noted in the footnotes of the table.

Two State Performance Measures Are Related to Multiple County Characteristics

Two state performance measures — average collections and the percent of cases with an arrears order — were significantly related to multiple economic, demographic, and social characteristics of the counties and IV-D caseload. The correlation coefficients between performance measures and county and IV-D caseload characteristics are shown in Table 3 and Table 4. The darkly shaded correlation coefficients are highly statistically significant ($p<.01$); the lightly shaded correlation coefficients are moderately statistically significant ($.01<p<.05$)

The average collection was significantly related to six county or IV-D caseload characteristics and highly significantly related to five of those six characteristics. Several economic characteristics were related to average collection, indicating that the average collection per county may be biased against county offices that serve economically disadvantaged populations.

The percent of cases with an arrears order was significantly related to six characteristics and highly significantly related to two of these six. The percent of cases with an arrears order tended to be related to county and IV-D caseload characteristics that measured demographic and social characteristics, such as the number of children in the county and the teen birth rate. But these relationships suggest that counties with social problems and large numbers of children will perform well on this measure. In other words, we find that this state-created performance measure will benefit counties that serve socially disadvantaged populations and large numbers of families because they tend to have low percentages of cases with arrears orders.

Table 3: Correlation Coefficients of Performance Measures and County Characteristics

	% of Pop Em-ployed[1]	Per Capita In-come[2]	Tax per Cap-ita[3]	Child Pov-erty Rate[4]	Teen Birth Rate	HS Drop out Rate	Number of Child-ren[5]	% African-American Children	Miles from Border[6]	Fair Market Rent	% Em-ployed in Agric.
Federal Performance Measures											
Collection Rate	.14	.19	.16	-.38	-.32	-.23	-.32	-.22	.23	.10	.14
% of Cases w/ Support Orders	-.09	.05	.23	-.15	-.27	-.08	-.25	-.11	.11	-.01	-.14
% of Paying Arrears Cases	.13	.05	.04	-.04	.12	.01	.21	.20	-.24	.02	.18
Paternity Establishment	-.34	-.22	-.01	.21	.09	.01	-.10	-.12	.15	-.25	.20
Cost-Effectiveness	-.25	-.23	-.27	.11	.21	.01	.03	.18	-.29	-.11	-.04
State Performance Measures											
% Cases w/ Collection	.08	.07	-.01	-.35	-.21	-.29	-.10	.03	.02	.05	.11
Average Collection	.51	.54	.02	-.50	-.32	.17	-.11	-.12	-.15	.60	.07
Served Summons	-.16	-.19	.09	-.01	-.02	-.05	-.13	-.06	-.03	-.20	-.01
Support Order Est. 1999	-.04	-.13	-.01	.12	.12	.16	-.04	-.01	-.14	-.15	.05
% of Cases w/ Arrears	-.07	.00	.18	-.30	-.38	-.17	-.49	-.14	.27	-.04	-.12

Darkly shaded boxes are statistically significant at p<.01; lightly shaded boxes are statistically significant at p<.05.

[1] Unemployment Rate was duplicative measures
[2] Median Income and Average Earnings were duplicative measures
[3] Tax per $1000 Income was duplicative measure
[4] Percent of Children on TANF, Infant Mortality Rate, and Incarceration Rate were duplicative measures
[5] Population Size was duplicative measure
[6] Percent of Children that are Latino was duplicative measure

Table 4: Correlation Coefficients of Performance Measures and IV-D Caseload Characteristics

	% Never Received Assis-tance[a]	% of Children Born Out-of-Wedlock	% Not Coop-erative	% of Debtors in Jail	% of Debtors with Income Tax[b]	% of Debtors who are CA Residents
Federal Performance Measures						
Collection Rate	.18	-.19	-.11	-.19	.27	.05
% of Cases w/ Support Orders	-.23	-.35	-.23	-.05	-.11	-.26
% Paying Arrears Cases	.19	-.08	.16	-.01	.35	.10
Paternity Establishment	-.18	-.16	.00	.02	-.15	-.07
Cost-Effectiveness	-.07	.01	-.18	.14	.13	.29
State Performance Measures						
% of Cases w/ Collections	.24	-.01	.00	-.14	.41	.06
Average Collection	.45	.12	-.22	-.27	.40	.26
Served Summons	-.21	-.39	-.09	.17	-.01	-.20
Support Order Est. 1999	-.13	-.25	-.04	.25	-.02	-.01
% of Cases w/ Arrears	-.18	-.25	-.27	-.07	-.08	-.32

Darkly shaded boxes are statistically significant at p<.01.
Lightly shaded boxes are statistically significant at p<.05.
[a] Percent Currently Receiving Assistance was duplicative measure.
[b] Percent of Debtors with Positive Earnings was duplicative measure

Three Other Performance Measures are Related to Some County Characteristics

Multivariate regression analysis revealed that a moderate amount of the variation in three of the eight remaining performance measures could be attributed to county and IV-D characteristics. They are: cost-effectiveness, the percent of cases with a collection, and the collections rate. However, different characteristics were related to each of the performance measures.

We used multivariate regression analysis to determine what percent of the difference in counties' performance outcomes could be explained by the county and IV-D caseload characteristics. For each performance measure, we developed a regression model,

containing statistically significant characteristics that explained the highest percent of the variation in the performance outcomes.

To select the best regression model we took the following steps. We identified the county and caseload characteristics that were significantly correlated with each performance outcome. We examined the adjusted R-square statistic, a statistic commonly used to select the best regression models, for every multivariate regression model that included all possible combinations of the significant county or IV-D caseload characteristics. The adjusted R-square is a measure of how much variation in performance outcomes was explained by the county and IV-D caseload characteristics. We chose the regression model that included only county and IV-D caseload characteristics that were significantly related to the performance outcome and that had the highest adjusted R-square. The results are shown in Table 5. Each column contains the best regression model for the performance outcome. The county and IV-D caseload characteristics with asterisks next to them were significant in the final regression model. The last row shows the percent of the variation in the performance outcomes that can be explained by the significant characteristics.

Three of the performance measures — cost-effectiveness, the percent of cases with a collection, and the collections rate — were each related to three or more county or IV-D caseload characteristics. Between twenty and thirty percent of the difference in the counties' performances on these measures could be explained by the county and IV-D caseload characteristics. However, different county and caseload characteristics were related to the three performance measures. This means that counties with particular characteristics may be at a moderate disadvantage on one performance measure, but not on the other performance measures. The multiple regression analysis confirmed that there was no single county or IV-D caseload characteristic that was strongly related to a majority of the performance measures.

The multivariate regressions explained over 30 percent of the variation in two state-created performance measures – average collections and percent of cases with arrears. As noted above and confirmed by our multiple regression analysis, we find that average collections appears to be biased against economically disadvantaged counties, while the percent of cases with arrears appears to favor counties with high teen birth rates and large numbers of children.

The results show that, for the remaining five performance measures, only a small percentage of the difference between counties' performance outcomes can be attributed to the county or IV-D caseload characteristics. The rate at which support orders were established in FFY 1999 was not significantly related to any of the county or IV-D caseload characteristics. The percent of cases with a support order, the percent of cases paying arrears, the rate at which summons were served, and the rate of paternity establishment were each related to one county or IV-D caseload characteristic. Just over 10 percent of the variation across counties in these four performance outcomes could be explained by differences in the county and IV-D caseload characteristics. This indicates that these performance measures primarily reflect "real" differences in the

Table 5. Regression Models

County and IV-D Caseload Characteristics	Federal Performance Measures				
	Collection Rate	Percent Support Order	Percent Paying Arrears	Paternity Establish-ment	Cost-Effective-ness
County Characteristics					
% of Pop Employed	--	--	--	*	**
Teen Birth Rate	*	--	--	--	--
HS Dropout rate	--	--	--	--	--
# of Children	*	--	--	--	--
Fair Market Rent	--	--	--	--	--
IV-D Caseload Characteristics					
Never Received TANF	--	--	--	--	--
Children Out-of-Wedlock	--	**	--	--	--
Debtors with Income Tax	**	--	**	--	--
Debtors CA Residents	--	--	--	--	**
Percent of Variance Explained (R^2)	29%	12%	13%	12%	22%

** p≤ .01
* .01 < p ≤ .05

County and IV-D Caseload Characteristics	State Performance Measures				
	Percent w/ Collection	Average Collection	Served Summons	Support Order Est. 1999	Percent w/ Arrears
County Characteristics					
% of Pop Employed	--	--	--	--	--
Teen Birth Rate	--	--	--	--	*
HS Dropout rate	*	--	--	--	--
# of Children	--	--	--	--	**
Fair Market Rent	--	**	--	--	--
IV-D Caseload Characteristics					
Never Received TANF	--	*	--	--	--
Children Out-of-Wedlock	--	--	**	--	--
Debtors with Income Tax	**	--	--	--	--
Debtors CA Residents	--	--	--	--	--
Percent of Variance Explained (R^2)	21%	41%	15%	0%	32%

** p≤ .01
* .01 < p ≤ .05

performance of the county offices, not differences due to social or economic characteristics of the county. The analysis shows little evidence that these five performance measures will penalize disadvantaged counties.

Two Characteristics were Related to Several Performance Measures

Though, no single county or caseload characteristic was strongly related to all of the performance outcomes, the percent of children living in poverty and the percent of child support debtors that have a taxable income were related to more of the performance measures than other characteristics. These characteristics were significantly related to four performance measures (see Table 3 and Table 4). Either could be taken into account when assessing county performance.

To gain a better understanding of the degree to which the performance outcomes were related to these two characteristics, Table 6 examines three performance measures that were significantly related to these two characteristics. It shows the average performance outcome for counties at or below the 25th percentile, between the 25th and 50th percentile, between the 50th and 75th percentile, and greater than the 75th percentile on the two characteristics. For example, counties with child poverty rates in the lowest 25th percentile (at or below 15.4 percent), had an average collection rate of $0.55 for every dollar owed, while counties with the highest child poverty rates (above 26.7 percent) collected an average of $0.43 on every dollar owed. On average, counties with low child poverty rates had collection rates that were 28 percent higher than counties with high child poverty rates.

Table 6: Performance Measures for Percentiles of Characteristics

	Collections Rate	% with a Collection	Average Collection
Child Poverty Rate in County			
Below 25th Percentile	$0.55	66%	$1463
25th Percentile to 50th Percentile	$0.50	62%	$1442
50th Percentile to 75th Percentile	$0.47	59%	$1227
Above 75th Percentile	$0.43	56%	$1112
Percent of Debtors with Reported Taxable Income			
Below 25th Percentile	$0.44	54%	$1134
25th Percentile to 50th Percentile	$0.48	59%	$1246
50th Percentile to 75th Percentile	$0.56	63%	$1412
Above 75th Percentile	$0.49	67%	$1483

There were similar results for the percent of debtors with taxable income. The counties in the lowest quartile on this measure, those with less than 25 percent of debtors with a reported taxable income, had the lowest outcomes on the three performance measures. The counties in the top quartile on this measure, those with more than 31 percent of debtors with a reported taxable income, usually had the best outcomes on the four

performance measures. The collection rate was an exception to this pattern; it showed inconsistent results across the percentiles of debtors with taxable income.

V. Conclusions

We find that the federal performance measures captured different aspects of child support performance, while several state-created measures appeared to be duplicative of one another and some of the federal performance measures. The rate of summons served and the rate of support orders established in federal fiscal year 1999 were highly correlated with one another and with the percent of cases with an order, a federal performance measure. The percent of cases with a collection, another state-created measure, was highly correlated with two federal performance measures, the collections rate and the percent of arrears paying cases.

Secondly, we find that one state performance measure — average collections — appears to be consistently biased against economically disadvantaged counties. A moderate amount of variation in four of the remaining nine performance outcomes could be explained by county and IV-D caseload characteristics; however, different county and IV-D caseload characteristics were strongly related to different performance measures. In other words, the same counties will not be disadvantaged on all four performance measures. On the other hand, variation in the other five performance measures was not strongly related to county or IV-D caseload characteristics.

Although counties varied considerably with regard to their child support performance, no single county or IV-D caseload characteristic explained this variance. One county characteristic, the percent of children in poverty, and one IV-D caseload characteristic, the percent of debtors with a reported taxable income, had moderate relationships with four of the ten performance measures. The percent of children in poverty was a slightly better predictor of the performance outcomes. This characteristic could be taken into account when assessing child support performance.

Endnotes

[1] Federal regulations allow states to choose an alternative formula for this performance measure. The alternative formula equals the total number of children in the IV-D caseload in the fiscal year (or as of the end of the fiscal year) for whom paternity was established or acknowledged divided by the total number of children in the IV-D caseload as of the end of the preceding fiscal year who were born out-of-wedlock.

[2] Changing the denominator to the number of cases owing current support may better measure the collections performance of county offices; however, we used the measure that was suggested in the P-3 report in order to maintain a consistent approach to the performance measures.

[3] The P-3 report suggests using the number of IV-D cases "needing an arrears orders" for the denominator of this performance measure. These data were not available; therefore, we used the total number of IV-D cases.

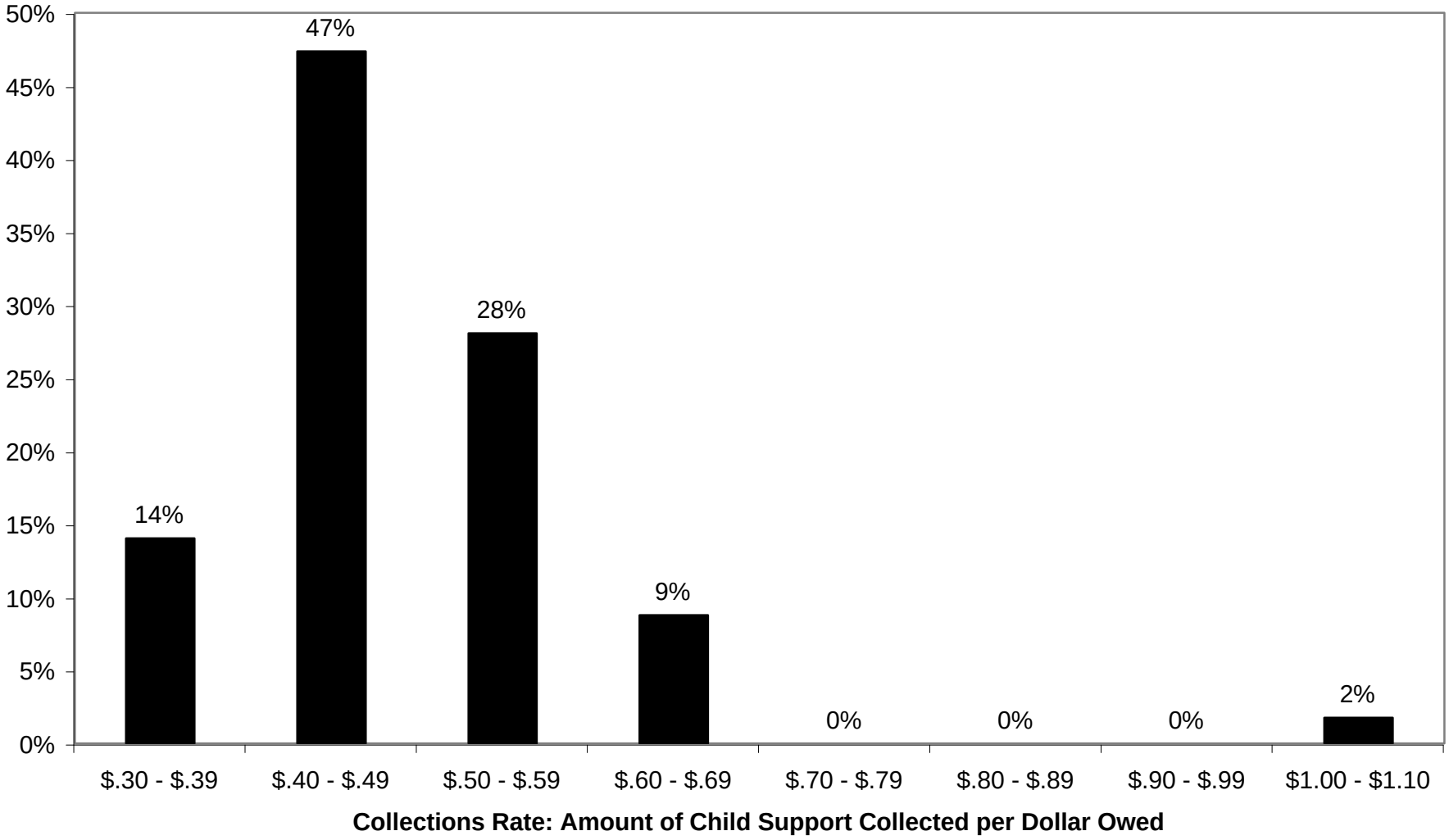
[4] The three counties with paternity establishment rates greater than 10 are not shown in the graph because they make the graph difficult to read. This does not change the pattern of relationships shown in the graph.

[5] One county reported more cases with an arrears order than total cases in the CSSTAR report, leading to over 100% of cases having an arrears order.

[6] In preliminary analyses, we included the IV-D case-to-staff ratio as a caseload characteristic. We found that the ratio was significantly related to several aspects of child support enforcement. In particular, counties with high case-to-staff ratios tended to be more cost-effective, but had lower percentages of arrears orders and support orders. In the final analysis, we excluded the case-to-staff ratio because it is, in part, reflective of county offices' managerial decisions. The goal of the analysis is to examine county and IV-D caseload characteristics that may have an impact on performance outcomes, but are not controlled by the county offices.

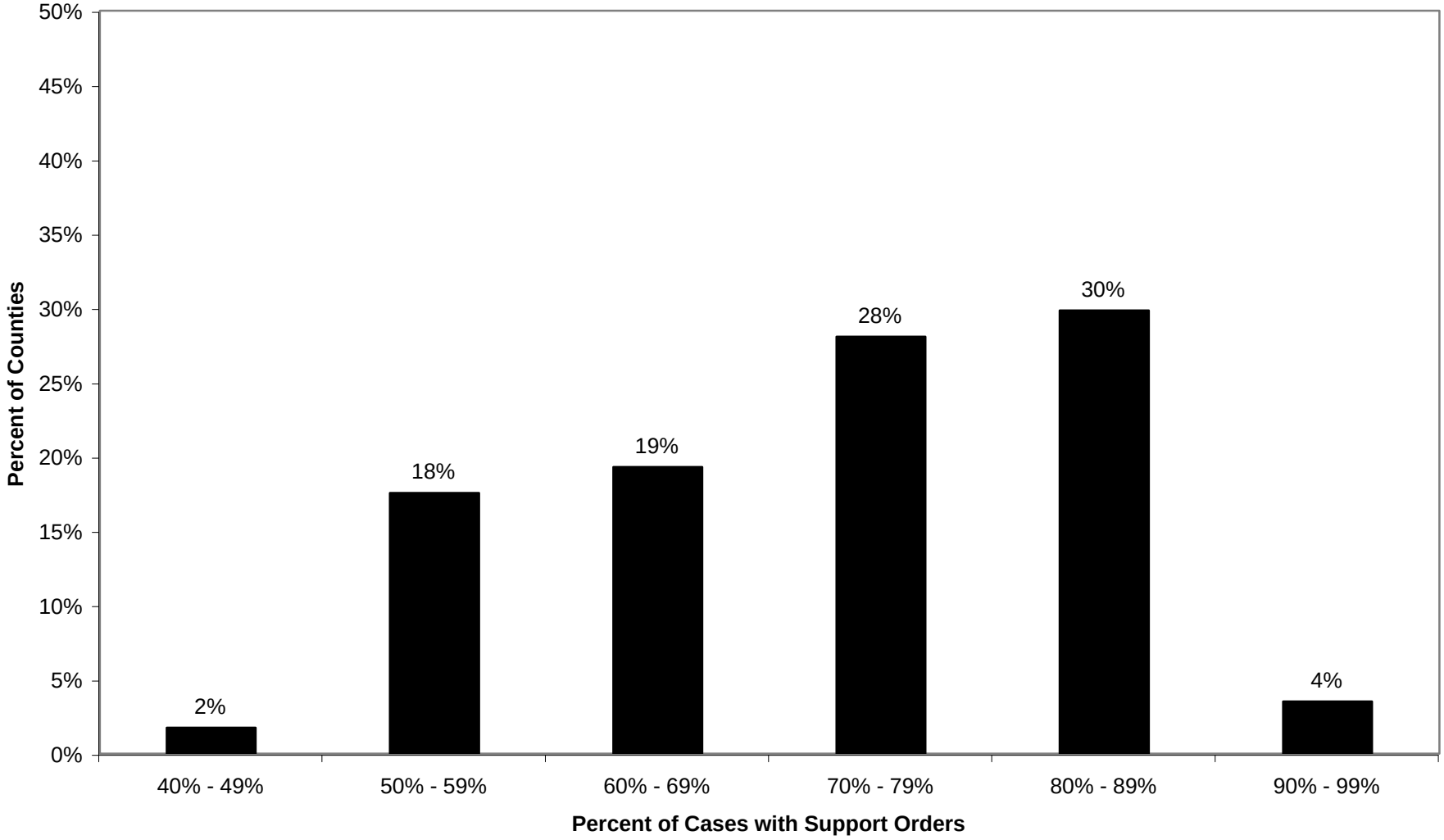
APPENDIX A

Figure1. Percent of Counties by Collections Rate



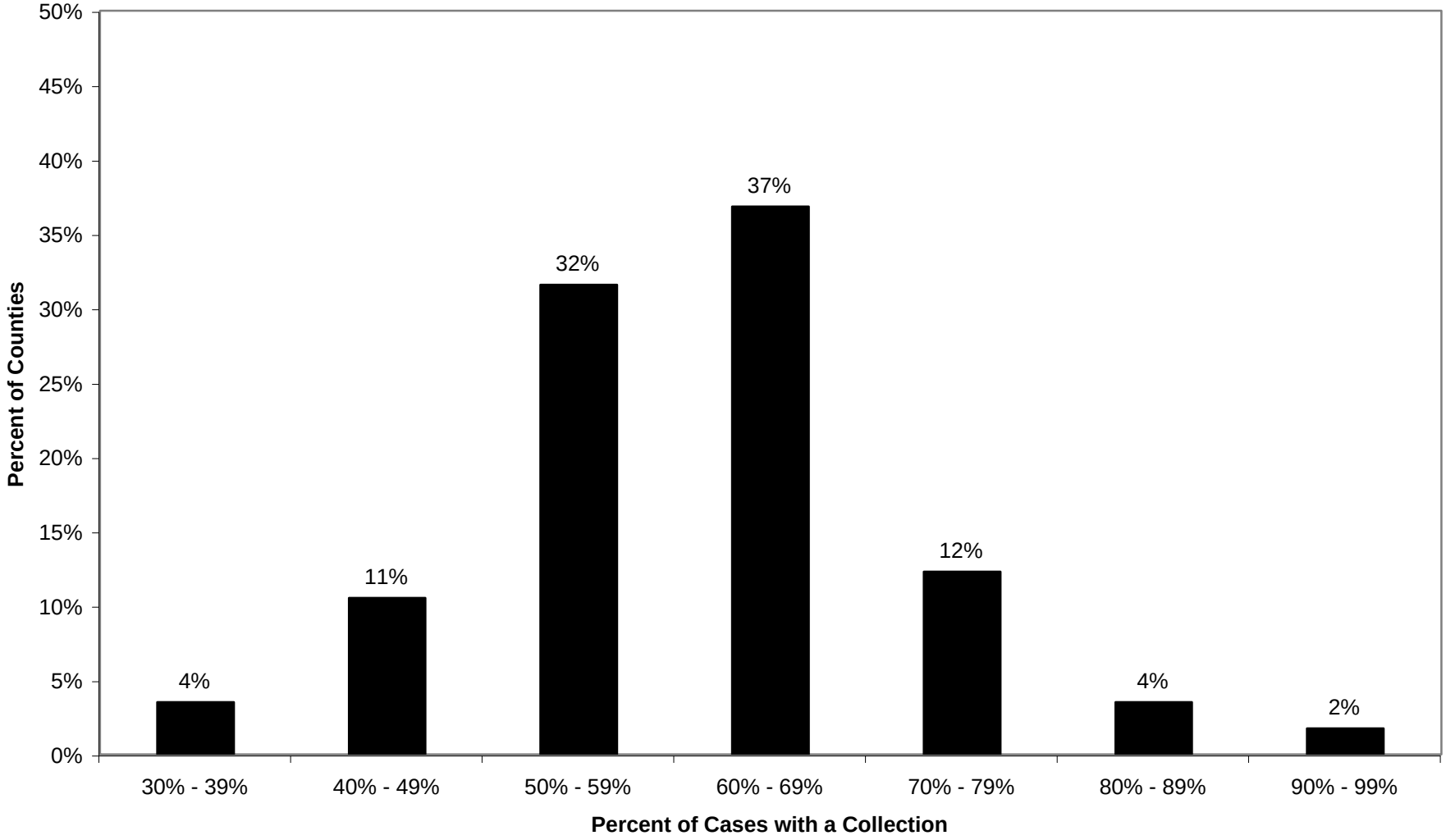
APPENDIX A (cont.)

Figure 2. Percent of Counties by Percent of Cases with Support Orders



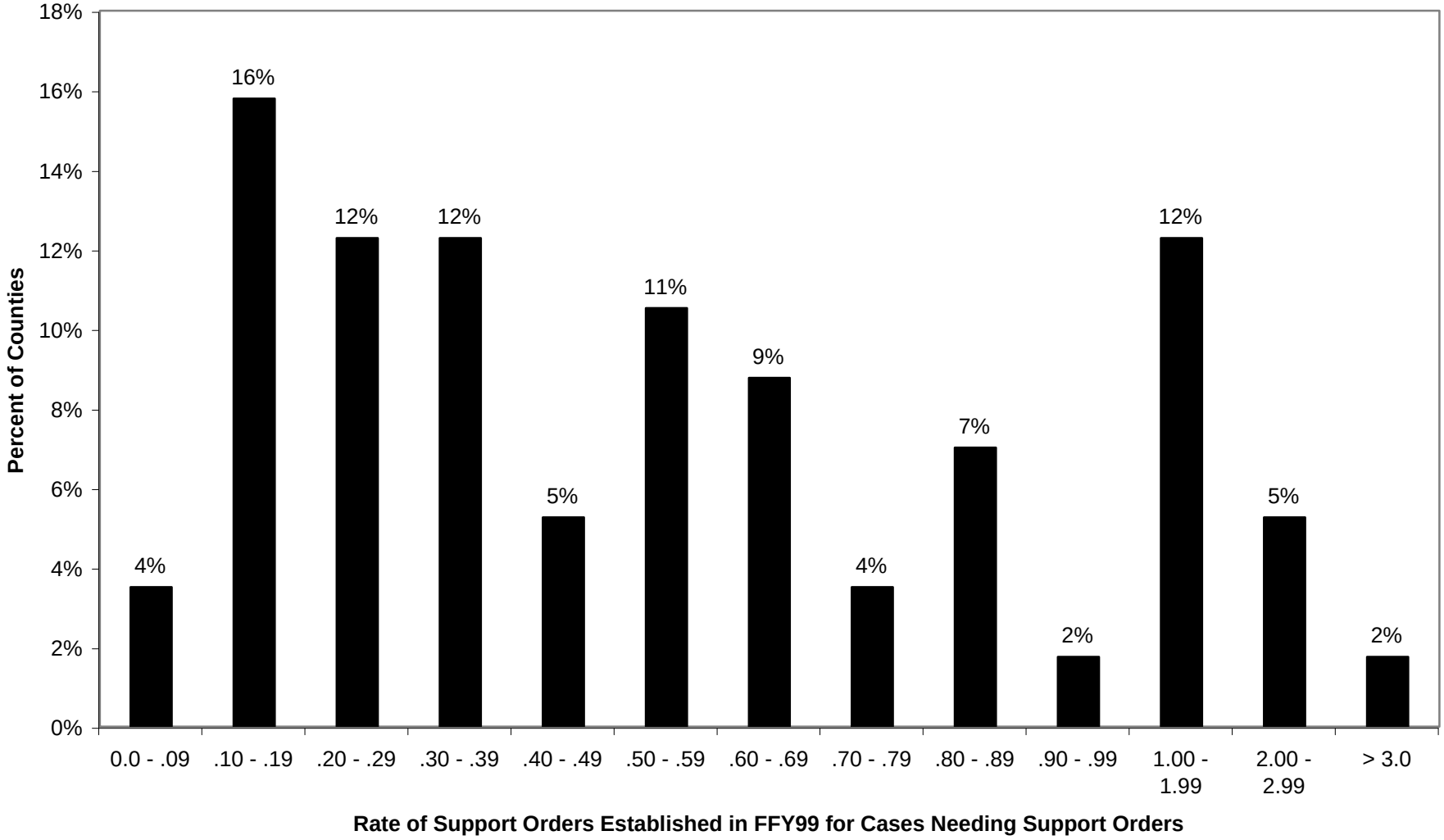
APPENDIX A (cont.)

Figure 3. Percent of Counties by Percent of Cases with a Collection



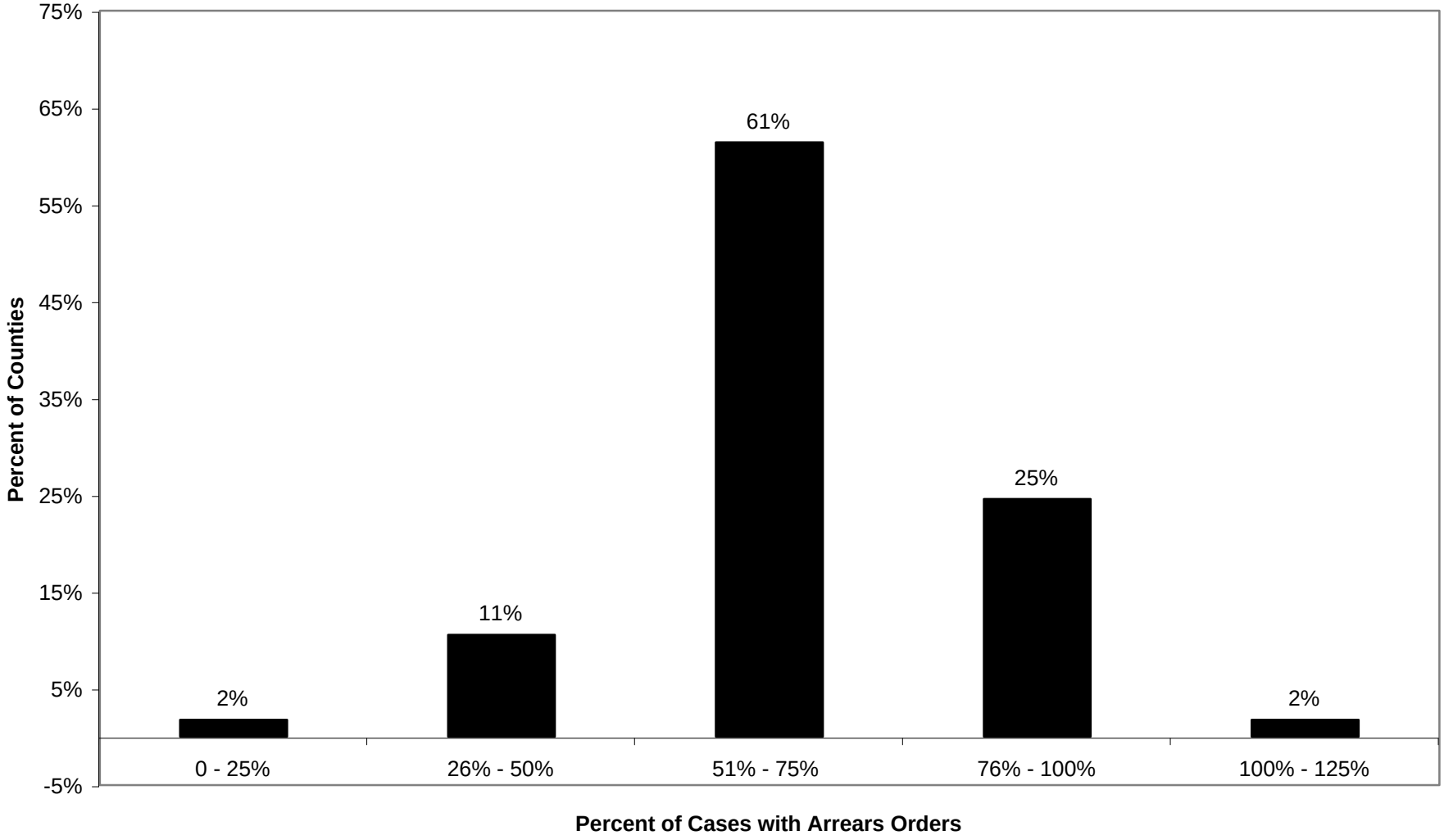
APPENDIX A (cont.)

Figure 4. Percent of Counties by Rate of Support Orders Established



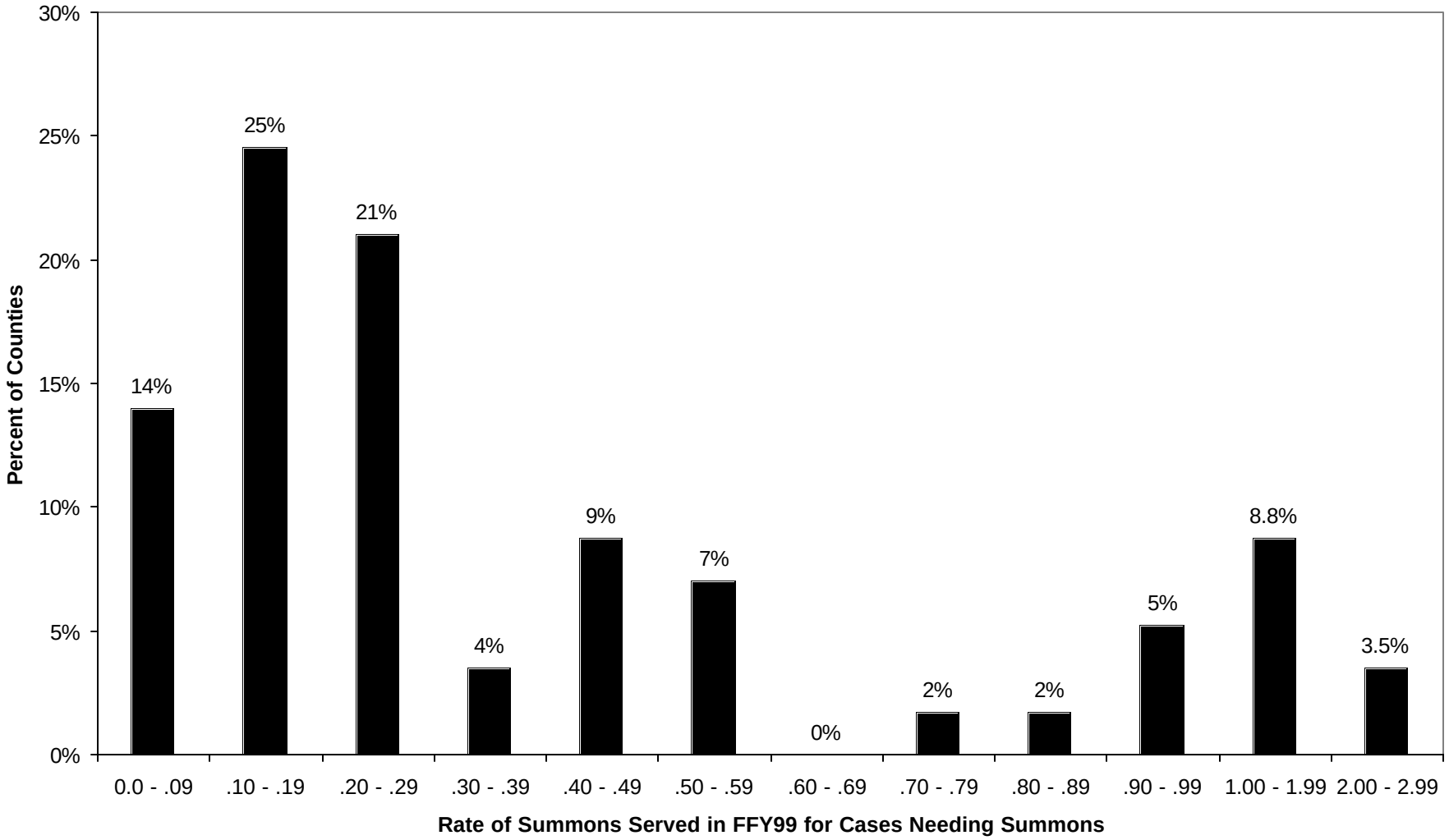
APPENDIX A (cont.)

Figure 5. Percent of Counties by Cases with Arrears Orders



APPENDIX A (cont.)

Figure 6. Percent of Counties by Rate of Summons Served



APPENDIX B

Table 1. Source and Description of County and IV-D Caseload Characteristics

Variable	Source	Description
County Characteristics		
Percent of the Population that is Employed 1999	http://www.calmis.cahwnet.gov/lfhist/99AACOUR.TXT – Monthly Civilian Labor Force Data for Counties Annual Averages	The number of employed divided by the population
Unemployment Rate 1999	http://www.calmis.cahwnet.gov/lfhist/99AACOUR.TXT – Monthly Civilian Labor Force Data for Counties Annual Averages	The county unemployment rate for calendar year 1998 and 1999
Per Capita Income 1997	http://www.dof.ca.gov/HTML/FS_DATA/profiles/pf_home.htm – California Department of Finance	Per capita income in 1997
Average Earnings Per Job 1997	http://www.dof.ca.gov/HTML/FS_DATA/profiles/pf_home.htm – California Department of Finance	Average earnings per job in 1997
Median Income Taxable Year 1997	http://www.dof.ca.gov/HTML/FS_DATA/profiles/pf_home.htm – California Department of Finance	Median adjust gross income based on personal tax returns, 1997
County Govt Tax Collections per capita 1996-97	http://www.dof.ca.gov/HTML/FS_DATA/profiles/pf_home.htm – California Department of Finance	County government tax collections per capita based on 7-1-96 population
County Govt Tax Collections per $1000 Income 1996-97	http://www.dof.ca.gov/HTML/FS_DATA/profiles/pf_home.htm – California Department of Finance	County government tax collections per $1000 income based on 1996 personal income.
Child poverty rate 1995	California County Data Book 1999, Children Now	Percent of children ages 0-17 living in poverty
% Children Receiving TANF 1998	California County Data Book 1999, Children Now	Percentage of total child population receiving Temporary Assistance for Needy Families 1998
Infant Mortality Rate (per 1000) 1997	California County Data Book 1999, Children Now	The number of infants who die within the first year of life per 1,000 live births.
Incarcerated Population 12-31-98	California Prisoners and Parolees 1997 & 1998: Summary Statistics on Felon Prisoners and Parolees – California Dept of Corrections, Administrative Services Division, Offender Information Services Branch, Data Analysis Unit, Sacramento, CA, 1999	Total number incarcerated by county of commitment as of 12-31-98.
Teen Birth Rate (per 1000) 1997	California County Data Book 1999, Children Now	The number of births to female teens ages 15-19 per 1,000 females of that age group

Report 2

Characteristics of California's Child Support Debtors

I. Introduction

Child support arrears have grown dramatically in California during the past 10 years. In March 2000, when this study began, California had $14.4 billion in child support arrears, up from $2.5 billion in federal fiscal year (FFY) 1992. Child support advocates have argued for some time that this mounting debt reflects a failed system, while child support administrators have routinely argued that it is largely uncollectible. In 1999, the Franchise Tax Board weighed in on this subject and concluded that debtors, in general, do not have sufficient incomes to support a large reduction in arrears.[1]

In 1999, Governor Gray Davis signed legislation enacting massive reforms of the child support enforcement system. These reforms created a new state agency responsible for overseeing California's child support services and removed the day-to-day operations of the program from the counties' District Attorneys to separate local child support agencies. It also mandated that the newly created Department of Child Support Services (DCSS) analyze the current amount of uncollected child support statewide and determine what is realistically collectible. DCSS, in turn, contracted with the Urban Institute to conduct this study and established an Advisory Group of national, state and local child support experts and stakeholders to advise the study.

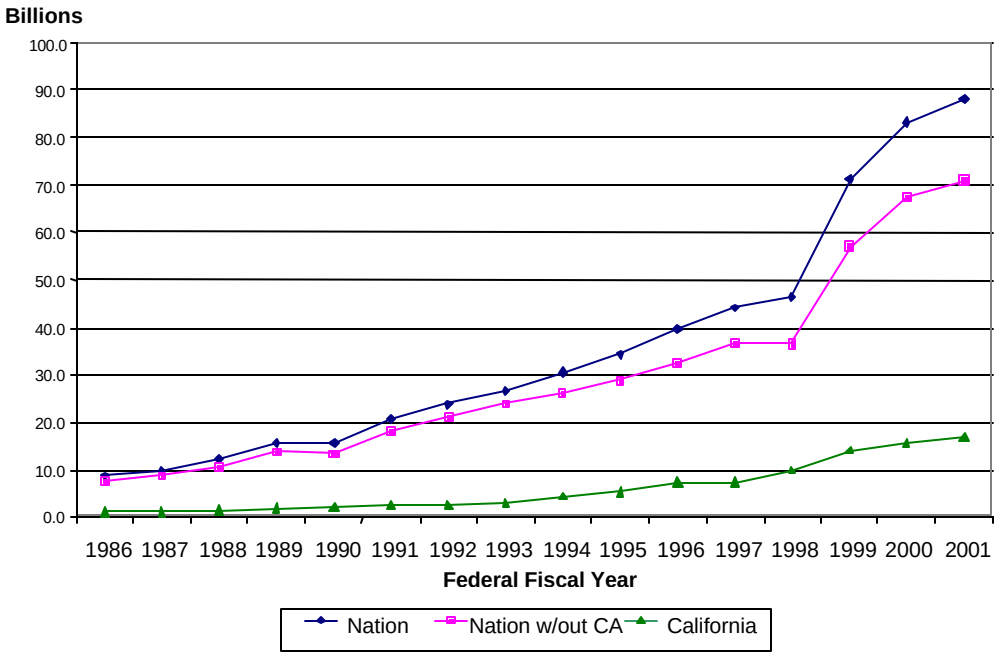
The purpose of this report is to present initial findings regarding the characteristics of California's parent debtors and to describe the data sets that will be used to ascertain the collectibility of California's child support arrears. The next section reports the trends in California's child support arrears. It is followed by a description of California's child support arrears and the individual parent debtors who hold them, using a statewide database from DCSS. The fourth section describes the data sets that will be used in the Collectibility Study. The fifth section concludes this report.

II. Trends in California's Child Support Arrears

According to statistics released by the federal Office of Child Support Enforcement (OCSE), the total amount of arrears in California was $17 billion in FFY 2001. The national figure in FFY 2001 was $88 billion. As shown in Figure 1, child support arrears have been steadily increasing throughout the 1990s in the rest of the country, especially since FFY 1998. California's child support arrears, however, have been increasing even more rapidly than the rest of the country throughout this period. The top line in Figure 1 reflects the nation as a whole; the second line represents the nation without California. The gap between these two lines maps out California's growing share of child support debt. Between FFY 1986 and FFY 1992, California's share of the nation's child support debt had actually been declining somewhat, reaching 10 percent in FFY

1992. But since FFY1992, California's share of the nation's debt began to climb, reaching 20 percent in FFY2001.

Figure 1. Child Support Arrears: U.S. and California



Note: Dollars are in nominal values.
Source: Child Support Enforcement Annual Reports to Congress

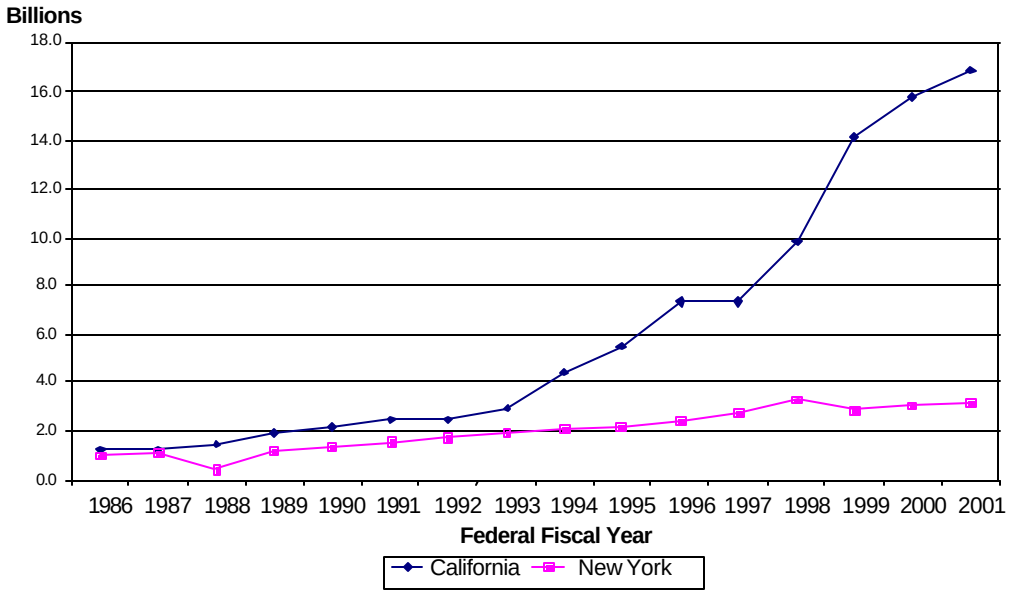
Next, we contrast California's child support arrears with child support arrears in New York. We selected New York because it too has a large population and a large metropolitan area. New York differs from California, however, in at least one important respect -- it does not routinely charge interest on its child support arrears. Of course, California and New York differ in many other respects besides charging interest, and thus the comparison in Figure 2 is only illustrative.

Figure 2 shows that the difference between New York's and California's child support arrears was relatively small between FFY 1986 and FFY 1992, but grew astronomically starting in FFY 1993. In FFY 1992, New York's child support arrears were $1.8 billion; California's were $2.5 billion. Nine years later, New York's child support arrears had increased to $3.2 billion, while California's grew to $17 billion.

In 1992, California's Department of Social Services determined that interest must be charged on all child support cases with delinquent payments (with a few minor exceptions) to be consistent with State law.[2] District Attorneys were informed of this decision, which was effective immediately, in December of that year. It took many years for all of the counties to come into compliance with this directive. This staggered

compliance probably partially explains the nature of the increase in California's arrears. Nonetheless, it should be noted that charging interest by itself is not sufficient to explain all of the increase in California's child support arrears. The most recent increases in child support arrears are too large to be the result of charging interest alone. Report 5 examines the factors involved in the increase in child support arrears.

Figure 2. Child Support Arrears: California and New York



Note: Dollars are in nominal values.
Source: Child Support Enforcement Annual Reports to Congress

III. Examining California's Child Support Debtors Using the IDB

In this section, we first describe the core data used in this analysis, the Department of Child Support Services' Integrated Intercept Data Base (IDB). Next, we compare it with administrative data reported in the Department's *Child Support Statistical Trend Analysis Report* FY1999. Finally, we use the IDB to describe the parent debtors who hold California's child support arrears.

The Department's Integrated Data Base

The core data used in this analysis are from the IDB. This database is used to facilitate the process of intercepting monies to repay child support debt. Each week the database receives information from the 58 Local Child Support Agencies (LCSAs) in California on obligors who are behind in their child support. The IDB, in turn, combines the information from the LCSAs and creates files that are sent weekly to the various agencies that perform intercepts for the Department (i.e., the Franchise Tax Board (FTB), the Employment Development Department (EDD), and the U.S. Department of

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

The IDB does not reflect all of the child support arrears in California. Counties are required to roll up their child support cases to the social security number (SSN) level and verify the accuracy of the SSN before submitting them to the IDB. Thus, cases that do not have a valid SSN are not reported to the IDB.

The IDB has separate debt amounts for the FTB and FMS because these agencies have different minimum requirements for the amount of debt that they will process. Prior to June 1999, the debt amount had to be greater than $100 before it was sent to FTB and greater than $150 (for Temporary Assistance for Needy Families (TANF) debt) before it was sent to FMS. Since then, the minimum has been reduced to $25. Because of these different rules, separate debt amounts are kept on the IDB for FTB and FMS processing.

The initial IDB extract that we received consisted of all debtors in the IDB along with their social security number, the county or counties in which they had a case, their last known address, their birth date, and their current child support award (if they have one). In addition, the amount of a debtor's current child support arrears which had been (or would be) sent to the FTB or FMS was recorded. The FMS debt for the Internal Revenue Service (IRS) debt was further divided into TANF and non-TANF amounts. Throughout our analysis, we use the amount of debt sent to FTB because the total amount sent to FTB is larger than the total amount sent to IRS. The only time we examine the amount of debt sent to IRS is if we are examining whether the debt is owed to the government (i.e., it is TANF debt) or not.

The second IDB extract that we received consisted of all interceptions made since 1991. For each interception, we received the individual's social security number, the LCSA and year in which the interception was processed, the name of the agency that intercepted the funds, the amount intercepted, and the amount of debt owed as of September of that year.

This latter file also contained all debt submissions to the IRS and FTB since 1997. Thus, these data can tell us how much debt was sent to various agencies for interception in 1997, 1998, 1999, and the early part of 2000. We can also discern which LCSAs these cases came from and how many individuals they represent.

We compared the amount of debt found in the IDB as of September 1999 (and certified by the LCSA) with the amount of debt reported by the LCSAs to the Department of Child Support Services and published in the Child Support Statistical Trend Analysis Report FY1999 (CSSTAR). Our expectation was that these two sources would produce similar results. As Table 1 shows, these sources yield different results, but, in general, the

Table 1. Comparison of 1999 Arrears from IDB and CSSTAR

LCSA	IDB	CSSTAR	Ratio
Alameda	506,212,812	549,687,514	92%
Alpine	1,582,915	1,560,972	101%
Amador	16,474,559	16,641,437	99%
Butte	121,328,490	220,205,845	55%
Calaveras	19,426,673	20,905,923	93%
Colusa	6,044,915	5,885,161	103%
Contra Costa	289,460,955	301,096,351	96%
Del Norte	25,830,981	29,373,749	88%
El Dorado	132,131,703	107,587,826	123%
Fresno	567,206,240	831,935,681	68%
Glenn	12,072,936	11,895,958	101%
Humboldt	68,739,687	70,833,324	97%
Inyo	15,288,105	16,138,741	95%
Kern	394,786,956	442,321,059	89%
Kings	69,362,461	75,635,460	92%
Lake	37,535,626	40,658,820	92%
Lassen	10,593,227	11,379,986	93%
Los Angeles	3,500,635,415	4,007,954,297	87%
Madera	42,792,627	40,972,171	104%
Marin	34,839,509	39,993,728	87%
Mariposa	7,211,945	7,196,828	100%
Mendocino	40,045,700	40,870,247	98%
Merced	96,259,960	107,303,424	90%
Modoc	4,087,783	4,062,010	101%
Mono	2,688,577	2,871,544	94%
Monterey	114,036,976	181,094,033	63%
Napa	55,005,959	67,138,840	82%
Nevada	54,096,903	58,270,984	93%
Orange	931,793,523	1,006,760,868	93%
Placer	75,910,373	85,468,052	89%
Plumas	10,820,737	11,206,291	97%
Riverside	828,541,763	731,333,393	113%
Sacramento	418,603,899	382,110,716	110%
San Benito	28,089,092	30,414,367	92%
San Bernardino	435,691,365	551,676,929	79%
San Diego	1,121,710,190	915,830,724	122%
San Francisco	228,823,552	227,084,824	101%
San Joaquin	255,576,326	264,249,979	97%
San Luis Obispo	63,387,130	63,196,880	100%
San Mateo	130,662,819	148,771,266	88%
Santa Barbara	139,326,108	120,605,252	116%
Santa Clara	695,504,306	725,616,776	96%
Santa Cruz	70,403,783	71,560,914	98%
Shasta	111,849,276	114,069,254	98%
Sierra	1,181,850	1,266,074	93%
Siskiyou	39,980,356	42,604,005	94%
Solano	148,803,453	160,586,404	93%
Sonoma	172,634,809	179,707,588	96%
Stanislaus	184,972,906	202,304,070	91%
Sutter	30,969,317	18,362,774	169%
Tehama	44,614,059	50,223,651	89%
Trinity	10,391,884	10,478,725	99%
Tulare	227,848,882	253,200,053	90%
Tuolumne	34,248,789	20,775,286	165%
Ventura	272,119,421	316,181,686	86%
Yolo	63,110,538	70,258,289	90%
Yuba	33,346,482	33,875,370	98%
Total	13,056,697,583	14,121,252,373	92%

Source: DCSS, IDB and CSSTAR FY 1999.

Table 2. Comparison of 1999 Arrears Collections from IDB and CSSTAR

County	Intercept Collections (IDB)	Intercept Collections Plus Decreases in Debt (IDB)	Distributed Arrears (CSSTAR)
Alameda	13,317,868	42,785,514	33,853,295
Alpine	18,168	149,297	46,439
Amador	338,443	4,439,166	1,150,868
Butte	3,402,491	12,305,854	4,702,044
Calaveras	464,158	2,070,635	1,132,574
Colusa	204,141	569,368	551,965
Contra Costa	6,192,738	36,530,579	19,695,988
Del Norte	520,915	4,237,835	1,298,284
El Dorado	1,593,538	7,337,963	6,047,641
Fresno	16,175,020	64,272,477	41,163,222
Glenn	417,615	1,267,598	780,517
Humboldt	1,752,391	7,754,373	5,187,569
Inyo	285,716	1,186,906	824,789
Kern	11,162,432	47,794,423	20,103,194
Kings	1,948,584	7,539,097	4,870,276
Lake	873,255	3,892,735	2,225,399
Lassen	457,246	1,589,556	936,450
Los Angeles	57,766,983	269,693,364	159,293,517
Madera	1,954,789	5,328,516	3,441,207
Marin	654,690	4,277,709	3,188,387
Mariposa	171,164	535,427	564,358
Mendocino	1,399,742	5,215,720	3,246,552
Merced	3,687,370	11,624,454	10,862,284
Modoc	136,976	642,722	265,899
Mono	70,809	203,307	214,677
Monterey	4,220,563	18,192,030	10,687,741
Napa	1,158,326	5,374,863	3,303,725
Nevada	918,378	4,619,063	3,415,252
Orange	16,121,031	66,959,926	51,540,708
Placer	1,981,862	8,815,043	5,872,088
Plumas	247,325	948,291	821,762
Riverside	15,797,376	76,185,923	44,788,602
Sacramento	11,782,310	48,383,617	33,142,733
San Benito	748,254	3,490,095	1,788,136
San Bernardino	13,459,529	48,672,622	58,039,721
San Diego	27,345,873	80,419,801	51,039,168
San Francisco	3,599,434	16,851,832	11,707,097
San Joaquin	7,066,602	27,276,530	18,832,323
San Luis Obispo	1,546,320	6,550,978	4,897,719
San Mateo	3,063,257	11,556,691	11,293,685
Santa Barbara	3,057,534	13,540,482	9,731,080
Santa Clara	12,110,158	50,943,560	40,209,490
Santa Cruz	2,092,975	7,987,135	5,613,670
Shasta	3,493,782	12,566,252	10,866,520
Sierra	32,175	174,739	103,898
Siskiyou	974,784	3,887,463	2,553,677
Solano	3,974,062	14,584,336	12,359,322
Sonoma	3,558,419	13,808,065	11,825,455
Stanislaus	6,440,749	20,244,926	16,730,138
Sutter	1,279,736	3,849,792	2,643,560
Tehama	1,177,923	4,701,014	1,853,897
Trinity	186,811	1,573,749	515,941
Tulare	7,343,331	21,755,380	16,057,625
Tuolumne	1,049,029	2,754,946	1,543,622
Ventura	6,669,174	31,799,502	16,210,396
Yolo	1,829,418	6,471,275	4,943,195
Yuba	1,045,797	2,972,533	2,612,610
Total	292,919,040	1,187,714,045	793,191,951

Source: DCSS, Integrated Data Base and CSSTAR FY 1999

differences are not large. The IDB contains 92 percent of the debt reported by the LCSAs, but Table 1 also shows that specific LCSA estimates from the IDB vary from 55 percent of the reported amounts to 169 percent of the reported amounts. It should be noted, however, that the LCSAs with these large differences are relatively small.

As noted above, the IDB contains all of the intercept collections made since 1991, but it does not include debt collections made via other methods, such as wage withholding. This means that we do not know how much noncustodial parents have paid toward reducing their child support debt; we only know how much was intercepted. Interestingly, about half of the noncustodial parents with arrears due in March 2000 had at least one interception since 1991. This is higher than we had anticipated. Nonetheless, most child support debt is retired via other collections methods as shown in Table 2.

We had hoped to estimate total debt collections by examining differences in certified debt amounts from year to year. If a noncustodial parent's certified debt amount declined from one year to the next, we had thought this would be a reasonable estimate of the amount of debt collected in a year. This amount was compared to the amount that the IDB reported had been intercepted that year. Whichever of these amounts was higher was used as our estimate of debt collected for the year. Table 2 shows our estimate of arrears collected in 1999 using this method for each LCSA. It also reports the amount intercepted that fiscal year. The final column reports the total amount of arrears collected in FFY 1999 as reported by the LCSAs to DCSS. As Table 2 shows our estimate of total arrears collections is significantly larger than that reported by the counties. Hence, we did not use this method to estimate total arrears collections. It also shows that intercept collections, which is accurately reported on the IDB is only 37 percent of total arrears collected.

Characteristics of California's Child Support Debtors

As of March 2000, the IDB reported a total of $14.4 billion of child support arrears in California (Table 3). The total number of individuals who held this debt was 834,908. Each debtor owed, on average, $17,288. Fifty percent of the debtors held debt that was less than $9,447, the median debt.

Table 3. Summary of California's Child Support Debt, March 2000

Number of Debtors	834,908
Total Debt	$14.4 Billion
Average Debt	$17,288
Median Debt	$9,447

Source: DCSS, Integrated Data Base.

As shown in Table 4, debtors owed a wide range of debt amounts. About one-third of debtors (34 percent) owed less than $5,000 in debt, another third (37 percent) owed between $5,001 and $20,000 in debt, and the remaining third (28 percent) owed more

than $20,001 in debt. Approximately 1 percent of debtors (8,000) owed more than $100,000 in debt.

Table 4. Percent of Debtors and Debt Held, by Debt Amount (March 2000)

Debt Categories	Percent of Debtors	Percent of Debt
$1-$5,000	34%	4%
$5,001-$10,000	17%	7%
$10,001-$20,000	20%	17%
$20,001-$40,000	17%	27%
$40,001-$100,000	10%	34%
$100,001+	1%	11%

Source: DCSS, Integrated Data Base.

Though debtors owed a wide range of debt amounts, the child support debt itself was concentrated among debtors with very large debts. Only 4 percent of the total debt was held by those debtors with less than $5,000 in child support debt. Twenty-four percent of the total debt was held by debtors with debts between $5,001 and $20,000. The vast majority of the debt, 72 percent, was held by debtors who held more than $20,000 in debt. The 1 percent of debtors with over $100,000 in debt owed 11 percent of the total child support debt.

Table 5. Percent of Debt and Debtors, by Type of Debt (March 2000)

	Percent of Debtors	Percent of Debt
TANF Debt	74%	70%
Non-TANF Debt	47%	30%

Source: DCSS, Integrated Data Base.

Since TANF recipients must assign their right to child support to the government, any debt owed in these cases is owed to the government, not to the individual recipients. Seventy percent of the child support debt in California is TANF debt owed to the government; only 30 percent is non-TANF debt owed to families (Table 5). Furthermore, 74 percent of debtors owed TANF debt and 47 percent owed non-TANF

debt. The percents of debtors owing TANF and non-TANF debt sum to more than 100 percent because some debtors owe both TANF and non-TANF debt.

Turning attention to the age of California's child support debt, we find that nearly three-quarters of California's child support debt is held by individuals who have held child support debt for at least 2 ½ years (Table 6). Only 2 percent of California's child support debt is held by individuals who have held child support debt for less than 6 months. One quarter of the debt is held by individuals who have held child support debt for at least 6 months but less than 2 ½ years. The categories for the age of debt were dictated by the data. As mentioned earlier, we only know if debtors held debt in September 1997, September 1998, September 1999, and March 2000.

Table 6. Age of California's Child Support Debt (March 2000)

Debt First Established:	Percent of Total Debt Held by Debtors Holding Debt This Long
At least 2 ½ years ago	73%
Between 6 months and 2 ½ years	25%
Less than 6 months	2%

Source: DCSS, Integrated Data Base.

Research and the collection experience of both public and private debt collection agencies suggest that older debt is less likely to be collected than recent debt. A Maryland study on child support collectibility found that for each year that arrears age, the likelihood of collecting the debt declines by 24 percent.[3] The General Accounting Office (GAO), in a study of the collectibility of tax debt, found that debt collectibility dropped significantly after the first year of debt and continued to decline as the debt ages.[4]

Table 7. Current Child Support Orders Among California's Child Support Debtors, 2000

	Number of Debtors	Percent of Debtors with an Order
Has a Current Child Support Order	509,095	100%
Monthly Order is:		
$100 or less	28,737	6%
$101-$200	124,180	24%
$201-$300	107,235	21%
$301- $400	110,928	22%
$401-$600	73,617	15%
$601-$1,000	51,880	10%
$1,000+	11,911	2%

Source: DCSS, Integrated Data Base.

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

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

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

This section describes the numerous statewide data sets that we examined to complete this report. To obtain a thorough understanding of the collectibility of California's arrears, we went to great lengths to collect considerable amounts of information on the individuals who hold this debt. We not only obtained basic child support information on all of the individuals who hold child support debt from the newly created Department of Child Support Services, but we also obtained three years of California tax records from FTB, three years of quarterly earnings records for California residents from California's EDD, quarterly earnings for earnings outside of California from the Federal Office of Child Support Enforcement (OCSE), bank account balances from California's Financial Institutions Data Match (FIDM), prison records from the California Department of Corrections, and Medi-Cal and death records from the California Department of Health Services. All of these data were examined and used to characterize the individuals who hold California's child support debt, referred to as debtors throughout this study.

Table 8 lists all of the data sets that we examined. The second column indicates the number of debtors successfully matched to each database. The third column indicates the percent of debtors found in each database. As noted above, the total number of debtors was 834,908. Our first data match was between the IDB and the three years of EDD quarterly earnings data in California (1997-1999). We found 511,790 debtors in this match, or 61% of the debtors. The next data match was between the IDB and the Wage Master File, a data file created by FTB. We found 489,750 debtors in these data. We also matched the IDB with California income tax records for three years (1996-1998). We found about 250,000 debtors in each tax year. Quarterly earnings outside of California matched with 228,329 debtors, or 27 percent of the debtors. These four data sources, all of which include earnings information, identified nearly 80 percent of California's child support debtors.

We also examined several data sources that did not report earnings or income, but reported bank accounts, Medi-Cal receipt, or whether the debtor was in state prison or the California Youth Authority. We found an additional 5 percent of the debtors in these data that had not been found in one of the earlier matches. Thus, we were able to find 85% of California's child support debtors in at least one administrative database.

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

Administrative Data Set	Number of Debtors Matched to IDB	Percent of Debtors Matched to IDB
EDD Quarterly Earnings File (1997-99)	511,790	61%
Wage Master File (1998)	489,750	59%
California Income Tax (1998)	250,336	30%
California Income Tax (1997)	247,899	30%
California Income Tax (1996)	247,318	30%
Quarterly Earnings outside of CA (1999)	228,329	27%
Financial Institution Data Match (2000)	141,228	17%
Receives Medi-Cal (2000)	76,631	9%
In California State Prisons (2000)	22,790	3%
In the California Youth Authority (2000)	263	0%
In the Death Records (2000)	257	0%

Source: DCSS, Integrated Data Base; EDD, Quarterly Earnings; FTB, Wage Master File, Tax Files and FIDM; CDC, California State Prisons and California Youth Authority; Department of Health Services, Medi-Cal Receipt and Death Records; OCSE, OCSE Data on Earnings outside CA.

Quarterly Earnings in California

We have access to 12 quarters of earnings from EDD, for January 1997 through December 1999. These data consist of earnings reported by employers covered by the unemployment insurance (UI) code. Nearly all employers are covered by this code.[5] The largest exceptions are for the self-employed and independent contractors, which we discuss below.

We were given access to quarterly earnings information for all employees in the State of California for whom information was reported. Over 26 million individuals were included in these data. Matching these individuals to the IDB identified 511,790 debtors. Most of these debtors (408,288) had earnings in 1999. Another 98,589 did not have earnings in 1999 but did in 1998 or 1997. The remaining debtors (4,913) were in the data but had no positive values for earnings in any of the three years.

To get a better idea of how debtors' earnings compare to other workers in California, we calculated the earnings distribution for both groups. The 1999 quarterly earnings data show that the median earnings for debtors were $14,110. In contrast, for other California workers, their median earnings were $16,635, over $2,500 per year higher than those of debtors. The major difference, as can be seen in Table 9, is that few debtors have earnings at the high end of the earnings distribution. Only one percent of debtors have earnings over $70,000, compared to 7 percent of other California workers. On the other hand, at the low end, 40 percent of debtors earned $10,000 or less, compared to 37 percent of other California workers, and 24 percent of debtors had earnings between $10,001 and $20,000, compared to 19 percent of other California workers.

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

	Child Support Debtors	Other California Workers
Number with positive 1999 earnings	408,288	16,023,075
Percent with earnings:		
$1-10,000	40%	37%
$10,001-20,000	24%	19%
$20,001-30,000	16%	13%
$30,001-40,000	10%	10%
$40,001-50,000	5%	7%
$50,001-60,000	2%	4%
$60,001-70,000	1%	3%
$70,001 or more	1%	7%
Median Positive Earnings	$14,110	$16,635

Source: DCSS, IDB; Employment Development Department, Quarterly Earnings Data.

Although this comparison suggests that debtors have, on average, lower earnings than the typical employee in California, it may be that a disproportionate share of debtors have earnings that are missed by these data. In general, a state's UI wage data misses earnings for four basic reasons.[6] First, earnings may result from perfectly legal activities that are not be covered by the UI code. Probably the most important sources of earnings for our purposes that are not covered by the UI code are earnings for the self-employed and independent contractors. These earnings, however, should be reported to FTB. Since we have data from the FTB discussed below, our analysis will include these sources of income to the extent that they are reported. Second, earnings from work outside of California are not reflected in California's quarterly earnings. To overcome this issue, we asked the federal OCSE to match California's debtors with quarterly earnings in the other 49 states, which we discuss below.

The third reason earnings are missed by California's quarterly earnings is that they are not reported even though they are covered by the UI code. Employers and employees underreport their earnings to avoid paying taxes. It is estimated that, in general, employers underreport UI taxable wages by 4 percent.[7] The final reason earnings are missing in California's quarterly earnings is because they result from illegal activities.

These latter two types of unreported earnings—illegal and "off-the-books" production--are typically referred to as the underground economy. Estimates of the underground economy range from as little as 3 percent to as much as 40 percent of the Gross Domestic Product (GDP), with most estimates well under 20 percent.[8]

Although the overall impact of the underground economy is estimated to be relatively small, it is not unreasonable to think that individuals who hold child support debt may have unreported earnings. Little research has been done on the extent to which noncustodial parents underreport their earnings. One study, which interviewed

unmarried fathers shortly after the birth of their child, found that nearly 30 percent of these fathers had irregular earnings.[9] Most of these fathers combined their irregular work with regular work, supplementing their regular earnings. Irregular activities increased their earnings on average, by 23 percent.

Wage Master File

The Wage Master File was compiled by the Franchise Tax Board. It includes all 1998 wages that are subject to personal income tax, as well as some sources of earned and unearned income not captured in the EDD file. These include earnings from federal employment, interest and dividends, and income from ownership shares held in partnerships and certain small corporations.

Fifty-nine percent of child support debtors were found in the Wage Master File. Over 85 percent of the debtors for whom we have quarterly earnings data are also in the Wage Master File, and vice versa. The most common income variable in the Wage Master File is a wage variable. This variable reports all earnings that are subject to the personal income tax. Self-employment earnings and earnings from federal jobs are not included in this variable. According to the file, the average positive value for this wage variable in 1998 was $21,213.

Table 10. Characteristics of Debtors in the Wage Master File, 1998

Income Source	Number and Percent of Debtors With Positive Income from This Source	Average Positive Value
Wages	443,208 (53%)	$21,213
Income from Federal Employment	7,440 (1%)	$20,118
Interest Income	60,719 (7%)	$63
Dividend Income	10,556 (1%)	$318
Dollar Amount Reported from Partnership	1,432 (.2%)	$16,267
Dollar Amount Reported from S Corporations	315 (.04%)	$50,910

Source: DCSS, IDB; Franchise Tax Board, Wage Master File.

The Wage Master File has a federal earnings variable that consists of wages received by those working for the federal government. These earnings are not included in the general wage variable. One percent of the debtors have positive federal government earnings according to this variable. Average positive earnings among these workers in 1998 were $20,118.

Interest, received by 7 percent of the debtors, and dividends, received by 1 percent of debtors, averaged $63 and $318, respectively. Although interest income and dividends are included in this file, the data only capture one occurrence of each income source. Thus, if an individual has multiple sources of interest income or dividends, only one of

these entries is reported and all other entries are lost. Consequently, these estimates of interest income and dividends are lower-bound estimates.

Less common, but also reported in the Wage Master File is income from a debtor's share in partnerships and from businesses classified as S Corporations by the IRS (these are small, domestically-owned, privately-held companies whose earnings and losses may be passed through to investors for tax purposes). Income from each of these two sources is received by less than one percent of the debtors in the Wage Master File. Average positive partnership income in 1998 was $16,267, and average S Corporation income was $50,910.

California Tax Returns

We also have access to three years of California's tax returns (1996-1998), which contain the most comprehensive definition of income that we have access to — the Adjusted Gross Income (AGI) as reported to the IRS (we use federal AGI rather than California AGI because the former includes unemployment insurance). This measure of income includes all income that is subject to federal income taxes, including wages earned both in and out of California as well as earnings from self-employment and federal employment. Thus, the workers missed in the EDD quarterly earnings are not exempt from filing California tax returns. Furthermore, AGI also includes unearned income, such as interest on bank accounts, dividends, and capital gains. However, some income that is subject to payment toward child support debt is not included in adjusted gross income, such as tax-deferred income (i.e., retirement plans) or tax-exempt income (i.e., child care or medical spending accounts).

Nonetheless, the Tax Files only include individuals who file a California tax return. In California, if you are single with no dependents and your gross income is less than $10,000, then you do not need to file a tax return. The amount of income that is not taxed in California is even higher for those with dependents or who are married. Thus, many low income individuals will not be in these data. In addition, some individuals are supposed to file a tax return and do not. They will be missed as well. Therefore, just as with reported earnings, income is probably underreported on tax returns. Thus, the caveats discussed above regarding unreported earnings also apply to income reported on tax returns.

Table 11 shows that child support debtors who filed tax returns for 1998 had significantly lower incomes than other California tax filers. The median income of these debtors was $20,900 compared to $29,425 for other California tax filers. The largest difference between these two groups is at the high end of the income distribution. Only 4 percent of debtors who filed tax returns reported incomes over $70,000, compared to 19 percent of other California tax filers.

Table 11. Adjusted Gross Income in 1998 for Child Support Debtors and Other California Tax Filers

	Child Support Debtors who filed a CA Tax Return	Other California Tax Filers
Number with positive 1998 federal AGI	261,436	13,098,681
Percent with income:		
$1-10,000	20%	17%
$10,001-20,000	27%	19%
$20,001-30,000	21%	14%
$30,001-40,000	13%	11%
$40,001-50,000	8%	8%
$50,001-60,000	4%	6%
$60,001-70,000	3%	5%
$70,001 or more	4%	19%
Median positive federal AGI	$20,900	$29,425

Source: DCSS, IDB; Franchise Tax Board, 1998 California Tax Returns.

OCSE Data on Earnings Outside of California

The federal Office of Child Support Enforcement matched the 834,908 debtors in California to its National Directory of New Hires. These national data have quarterly earnings for 1999 from all 50 states. The match found 227,631 individuals who had positive earnings outside of California in 1999, or 27 percent of California's debtors.

Table 12. Characteristics of Child Support Debtors with Earnings Outside of California, 2000

	All Debtors with Out-of-State Earnings	Debtors with only Out-of-State Earnings	Debtors with in-State and Out-of-State Earnings
Number	227,631	124,291	103,340
Total Out-of-State Earnings	$2,169,756,411	$1,300,641,096	$869,115,315
Median Out-of-State Earnings	$7,715	$8,900	$5,750

Source: DCSS, IDB; EDD, CA Quarterly Earnings; OCSE, NDNH.

These debtors earned nearly $2.2 billion outside of California, bringing total 1999 earnings for California's debtors to approximately $9.6 billion. About half of the debtors with earnings outside of California (103,340) had earnings both in and outside of California; the other half had earnings only outside of California. The median amount of earnings outside of California was $7,715 (Table 12). Debtors who had only earnings outside the state had higher median earnings from their out-of-state work ($8,900) than those who had earnings in and outside of the state ($5,750).

Financial Asset Information

The Financial Institution Data Match (FIDM) contains information on account balances from banks, credit unions, or other financial institutions. Many of California's financial institutions have begun supplying quarterly information about account balances for all of their customers, but the data used in this analysis are far from complete. Nonetheless, we matched these data to the IDB data. As of July 2000, 141,228 debtors were found in these data, of which 98,728 had positive account balances, or 12 percent of all debtors. The median amount contained in the positive account balances was $192.

Medi-Cal Receipt

California's child support debtors were matched to the March 2000 Medi-Cal records using their social security number and last name. A total of 76,631 matches were found, representing 9 percent of the debtors. Two-thirds of the Medi-Cal recipients had earnings or filed an income tax return and are, thus, captured in other data sets.

Prison Records

The California Department of Corrections provided information in August 2000 about individuals in the state prison system and the California Youth Authority (CYA). These data were matched to the IDB. Three percent (22,673) of the debtors were found in state prisons and 263 were found in the CYA. These data do not include information about prisoners in county jails.

Death Records

Death records as of August 2000 from the California Department of Health Services were matched with the child support debtors records. Two hundred fifty seven debtors were found in the death records.

V. Conclusions

This report provides an initial look at California's child support arrears and the individual parents who owe it. It also describes the large number of state and federal databases that will be used to analyze the collectibility of California's child support arrears. They include the DCSS Integrated Data Base, three years of quarterly earnings data, three years of California tax return data, quarterly earnings for the rest of the country, California financial institutional data, data on Medi-Cal receipt, and data on individuals in state prisons and the California Youth Authority. Our basic findings are:

- *As of March 2000, California had accumulated $14.4 Billion of Child Support Arrears, 70 percent of which was Owed to the Government.* Since recipients of Temporary Assistance for Needy Families (TANF – "CalWORKs" in California) must assign their right to child support to the government, any arrears owed in these cases is owed to the government, not to the individual families. Fully 70

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

- *Debtors Owed a Wide Rage of Debt Amounts.* About one-third of debtors owed less than $5,000, another third owed between $5,001 and $20,000, and the remaining third owed more than $20,000.

- *Most of the Arrears are Owed by Debtors Who Owed Large Amounts.* Although debtors owed a wide range of debt amounts, most child support arrears were held by a relatively small number of debtors with very large amounts of arrears. The vast majority of child support arrears, 72 percent, were held by the 28 percent of debtors who held more than $20,000 in debt. The one percent of debtors with over $100,000 in debt owed 11 percent of the total child support arrears. In contrast, the one-third of debtors who owed less than $5,000 in child support arrears held only 4 percent of California's child support arrears.

- *Most of California's Child Support Arrears are Not Recent.* Seventy-three percent of the debt has been held for at least two and a half years. Only 2 percent is less than six months old. Research and collection experience of both public and private debt collection agencies suggest that older debt is less collectible than more recent debt.

- *Child Support Debtors Have Lower Incomes than the Typical California Worker.* Using quarterly earnings data collected by the Employment Development Department for unemployment insurance purposes, we find that the median annual earnings of child support debtors was $14,110 in 1999, but was $16,635 for other California workers that year.

- *Less than One Percent of Child Support Debtors Report Income from Partnerships or S Corporations.* Using data from the Franchise Tax Board, we found that over half of child support debtors reported earnings in 1998, but less than 1 percent reported Partnerships or S Corporations, only 1 percent reported dividend income, and only 7 percent reported interest income that year.

- *Twenty Seven Percent of Debtors Had Earnings Outside of California.* An important source of income often overlooked is earnings outside of California. Using data from the Federal Office of Child Support Enforcement, we found that 27 percent of California's child support debtors had earnings outside the state.

Endnotes

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

[2] California Department of Social Services. 1992. "Calculation of Interest and Renewal of Judgments." FSD Letter No. 82-34 (December).

[3] Bozza Wise, Mary C., editor. 1998. *Measuring the Collectibility of Child Support Obligations.* RESI: Research and Consulting, Towson University.

[4] United States General Accounting Office. 1998. *Internal Revenue Service: Composition and Collectibility of Unpaid Assessments.* GAO/AIMD-99-12.

[5] State of California, Employment Development Department. *California Employer's Guide 2003*. DE 44.

[6] Kornfeld, Robert and Howard Bloom. 1999. "Measuring Program Impacts on Earnings and Employment: Do Unemployment Insurance Wage Reports from Employers Agree with Surveys of Individuals?" *Journal of Labor Economics* 17(1): 168-197.

[7] Blakemore, Arthur E., Paul L. Burgess, Stuart A. Low, and Robert D. St. Louis. 1996. "Employer Tax Evasion in the Unemployment Insurance Program." *Journal of Labor Economics* 14(2): 210-230.

[8] Kacapyr, Elia. 1998. "Notes from Underground." *American Demographics* (January): 30-32.

[9] Rich, Lauren M. 2001. "Regular and Irregular Earnings of Unwed Fathers: Implications for Child Support Practices?" Center for Research on Child Well-being. Working Paper #99-10-FF. Irregular earnings were determined from the following question: "We are interested in finding out about some ways, other than regular work, in which people make a living. Please indicate whether, in the last twelve months, you engaged in any of the following activities in order to generate income: a) off-the books or under-the-table work, such as […] b) work in you own business (excluding activity already reported), c) selling stolen goods, selling, or delivering drugs, or other hustles, d) other."

Report 3

Estimating How Much of California's Child Support Arrears Are Collectible Using State-Wide Data Bases

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I. Introduction

California's child support enforcement program is faced with a growing accumulation of child support arrears (past due payments of child support). In Federal Fiscal Year 2001, California's child support program had 12 percent of the nation's child support caseload, but held 20 percent of the nation's arrears. Just 10 years earlier, California had 10 percent of the nation's caseload and held 10 percent of the nation's arrears.

Understanding the collectibility of California's child support arrears will help the Department of Child Support Services (DCSS) in several ways. First, it will help determine the amount of resources to direct toward collecting child support arrears. For example, finding that California's arrears are largely uncollectible would suggest that resources are better spent on collecting current support rather than arrears. Second, it will identify the underlying factors that have contributed to the dramatic build-up of child support arrears in California. These findings can help revise the program to prevent arrears from growing as rapidly in the future. Third, federal performance measures now include a measure of arrears collections. Findings from this study can be used by DCSS to discern ways to improve California's performance on this measure.

The report consists of four sections. The next section reviews the data used in the Collectibility Report to estimate the collectibility of California's child support debt. It also describes the debtors that owe child support arrears, with particular attention to their earnings ability. The third section estimates the extent to which California's child support arrears are collectible. The final section summarizes our findings.

II. Examining Debtors' Ability to Pay Child Support

In this section of the report, we review the data used to examine child support debtors in California. We then explain the measure of income that we use throughout this report. Finally, we describe child support debtors using the income measure.

Statewide and Federal Data Used in this Report

As discussed in Report 2, we matched child support data from the Department's Integrated Data Base (IDB) with numerous statewide and federal data bases to better understand the collectibility of California's child support arrears. Table 1 presents these data hierarchically, ranking them according to the relevance of the information for determining the collectibility of child support arrears. Each row of Table 1 indicates the number of debtors found in that data who had not been identified in an earlier data set.

Once a debtor is located in a data set, we do not include them in subsequent rows of the table. In this way, we are able to determine how many debtors are found in at least one administrative data outside of the child support system.

Table 1 reports that 511,790 debtors, or 61 percent of all parents who held debt as of March 2000 (and had a valid social security number), were successfully matched to a data file containing three years (1997-99) of California quarterly earnings data from the Employment Development Department (EDD). The second row indicates that an additional 29,611 debtors not found in the EDD data were successfully matched to a data file containing three years of California income tax data for 1996-1998. The Wage Master File, a data file complied by the Franchise Tax Board (FTB) and described in our last report, included 34,297 debtors who had not been found in either the EDD or tax data. The out-of-state quarterly earnings file from the federal Office of Child Support Enforcement (OCSE) contained another 91,937 debtors. Another 13,493 debtors were found in the Financial Institutional Data Match (FIDM) file, which includes bank account balances.

Table 1. Number of Debtors and Amount of Debt Held by Debtors, by Data Sources

	Number of Debtors (%)	Amount of Debt (%)
Available EDD Data		
EDD Data (any year)	511,790 (61%)	$7,816,151,607 (54%)
Of Those without EDD Data, Other Sources of Income Data		
Tax Data (any year)	29,661 (4%)	$485,831,682 (3%)
Wage Master File, but no Tax File Data	34,297 (4%)	$633,021,487 (4%)
Out-of-State Wages, No Data in Wage Master File	91,937 (11%)	$1,696,473,003 (12%)
Of Those with No EDD Data or other Income Data, Other Sources of Data		
FIDM Data	13,493 (2%)	$322,619,998 (2%)
On Medi-Cal (no FIDM data)	17,896 (2%)	$345,303,404 (2%)
In State Prison (not on Medi-Cal)	7,998 (1%)	$189,952,249 (1%)
In the California Youth Authority (not in State Prison)	52 (0%)	$610,591 (0%)
In the Death Records (not in CYA)	65 (0%)	$2,163,349 (0%)
No Available Data	127,719 (15%)	$2,942,092,382 (20%)

Source: DCSS, Integrated Database; EDD, Quarterly Earnings; FTB, Wage Master File, Tax Files and FIDM; CDC, California State Prisons and California Youth Authority; Department of Health Services, Medi-Cal Receipt and Death Records; OCSE, OCSE Data on Earnings outside CA.

A match to the Medi-Cal participation records yielded information on another 17,893 debtors that had not been matched to an earlier file. Merging with records on state prison inmates as of August 2000 located another 7,998 uniquely identified debtors. Only 52 debtors were found in a California Youth Authority facility and no previous data. Another 65 debtors were identified in the state's death records and no other data.

The last row of this table shows that we were able to match all but 127,719 debtors in the IDB to at least one statewide or federal database. This means that 85 percent of

the individuals reported to the IDB and held arrears in March 2000 were found in at least one administrative data set outside of the child support system.[1]

The second column of Table 1 presents the same kind of breakdown as in the first column, but it identifies dollars of child support arrears in California rather individuals who hold the arrears. The last row of this column indicates that 80 percent of California's child support arrears were held by individuals found in at least one statewide or federal database.

Measuring Recent Income

Given the large amount of income information that we have to examine the earnings ability of child support debtors, we decided to develop a measure of income that incorporated as many sources of income as possible. As we explain below, we examine both earned and unearned income when available and we use multiple years of information, starting with the most recent first.

Our measure of income starts with 1999 earnings (both in and out-of-state earnings) because it is the most recent income information available to us. If an individual does not have this information, we examine 1998 income sources. We have three different income sources for this year. We decided to rely upon tax returns first if the individual is a single filer because adjusted gross income is our most comprehensive measure of income. It, unlike any of our other income sources, includes self-employed income and all sources of unearned income. If an individual did not have 1998 tax information or did not file as a single filer, we then examined the Wage Master File and 1998 quarterly earnings and selected whichever yielded the largest annual income. The Wage Master File includes wages subject to personal income taxes plus earnings for some federal workers, some interest and dividend income, as well as some income from partnerships and S corporations (see discussion of the Wage Master File in Report 2 for more details). Thus, it nearly always yields a larger annual income in 1998 when compared to quarterly earnings. Finally, if an individual did not have any other 1999 or 1998 income from the above sources, but was a joint tax filer in 1998, we assumed the individual's income was half of his/her adjusted gross income in 1998.

Table 2 shows how many people had each source of income in our definition of recent income. Forty-nine percent of the debtors had quarterly earnings in California in 1999. Another 15 percent had earnings reported outside of California in 1999. Just 2 percent did not have 1999 quarterly earnings, but had 1998 tax return information and were single filers. Six percent had income information in the Franchise Tax Board's Wage Master File but did not have it in any of the earlier sources. Small numbers of debtors had income information in other data sources as listed in this table. In the end, we were able to find income or earnings for nearly 80 percent of the debtors. Three-quarters of the debtors had earnings or income in 1998 or 1999.

Four percent of the debtors did not have income/earnings information in 1998 or 1999, but they did have income/earnings information in 1997 and 1996. These debtors are

treated differently than those with recent income because we recognize that this earlier information is less reliable than recent income.

Table 2. Sources of Information Used to Create Recent and Prior Income

	Number of Debtors	Percent of Debtors
Sources for Recent Income:		
1999 California quarterly earnings	408,288	49%
1999 out of state earnings	124,291	15%
1998 California tax filing, single filer	19,661	2%
1998 Wage Master File	51,629	6%
1998 California quarterly earnings	17,610	2%
1998 California tax filing, joint filer	2,462	0%
Sources for Prior Income:		
1997 California tax filing, single filer	5,451	1%
1997 California quarterly earnings	20,929	2%
1997 California tax filing, joint filer	1,136	0%
1996 California tax filing, single filer	3,862	1%
1996 California tax filing, joint filer	1,379	0%
No Income	178,209	21%

Source: See Table 1.

Defining Recent Net Income

To estimate net income we subtract estimated income and social security taxes from available income. We examine net income because California's child support guidelines use net income to determine child support orders. If an individual's most recent income comes from their tax return, we use information from their tax return to estimate their federal and state income tax liability. State income tax liability is listed on the state tax return. To estimate federal tax liability, we multiply the individual's state tax liability by three. If the individual's most recent income does not come from their tax return, then we take the individual's most recent income and apply California's state income tax rate for the year in which that income was reported. We assume single filing, no special exemptions or deductions, and no dependents. As with debtors for whom we have state tax return data, we then multiply the estimated state taxes by three to estimate federal tax payments. In addition to state and federal income taxes, we estimate their social security tax liability by multiplying their most recent annual earnings (up to $72,600 in 1999, less in previous years as dictated by a given year's tax schedule) by .0765, the combined FICA and Medicare tax rate.

This estimate of net income is inexact. First, it only deducts estimated federal and state income taxes and social security taxes, although California law allows other expenses to be deducted from income before determining child support orders. Secondly, we do not have exact information on taxes paid; we are only estimating these amounts.

However, our estimate of net income is likely closer to the amount used in determining child support orders than if we did not make any adjustments.

Income Characteristics of Child Support Debtors

Table 3 shows the number of debtors at different levels of net income. Although nearly 80 percent of the debtors have reported incomes, the reported amounts are not particularly large. One quarter of the debtors have no recent income. Another 22 percent have recent net incomes, but they are less than $5,000 for the year. Another quarter have recent net incomes between $5,000 and $15,000. Hence, three-quarters of the debtors have no recent income or their net incomes are less than $15,000. Only one percent of the debtors have recent net incomes over $50,000.

Table 3. Number and Percent of Debtors in 2000, by Amount of Recent Net Income

Income Category	Number of Debtors	Percent of Debtors
Total	834,908	100%
Has Recent Income	623,941	75%
Net Income is:		
$1-5,000	184,459	22%
$5,001-10,000	116,432	14%
$10,001-15,000	96,236	12%
$15,001-20,000	72,992	9%
$20,001-25,000	53,910	6%
$25,001-30,000	39,223	5%
$30,001-40,000	39,587	5%
$40,001-50,000	12,651	2%
Over $50,000	8,451	1%
No Recent Income	211,310	25%
Has Prior Income	33,101	4%
No Prior Income	178,209	21%

Source: see Table 1.

Note: Recent Income is defined in the text; data do not add to 75 due to rounding.

Examining Debtors With No Recent Income

One-quarter of California's child support debtors do not have recent income. To characterize these debtors, we contrast their characteristics with the characteristics of debtors who do have recent income. In general, we find that debtors without recent income are significantly more likely to face employment barriers and appear to be significantly less able to pay child support than other debtors.

Table 4 shows that five percent of debtors without recent income are in state prison, which is nearly three times the incarceration rate among debtors with recent income. Sixteen percent of debtors without recent income are receiving Medi-Cal, which is nearly twice the receipt rate among debtors with recent income. Receipt of Medi-Cal means that the recipient is low income and otherwise qualifies for the program, by, for example, receiving Supplemental Security Income (SSI) or welfare. The last known address for 77 percent of these debtors is in California, which is a lower percentage than among debtors with recent income.

Table 4. Characteristics of Debtors with and without Recent Income

Characteristics	Debtors without Recent Income	Debtors with Recent Income
Number	210,966	623,941
Median Debt	$14,129	$8,118
Percent in State Prison	5%	2%
Percent on Medi-Cal	16%	8%
Percent Living in California	77%	83%
Percent with a Child Support Order	53%	64%
Median Positive Monthly Order Amount	$277	$305
Percent with Prior Income (i.e., income in 1996 or 1997)	16%	69%
Median Annual Net Income in Prior Years for those with Prior Income	$3,397	$12,754
Percent with a Positive Bank Account	7%	14%
Median Positive Amount in Bank Account	$144	$200

Source: See Table 1.

When examining prior income and assets, Table 4 shows that debtors without recent income are unlikely to have income in earlier years or positive bank account balances. Only 16 percent of debtors without recent income had incomes in 1996 or 1997. In contrast, over two-thirds of debtors with recent income also had incomes earlier, in 1996 and 1997. The median amount of annual income in earlier years was $3,397 among debtors without recent income. In contrast, the median net income for debtors with

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

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

Examining Debtors with Recent Income

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

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

The debt-to-income ratios for low-income debtors are exceedingly high relative to similar ratios calculated for low-income families holding private debt, such as credit card balances, installment loans, and home-secured debt. According to research reported in the Federal Reserve Bulletin, less than half of families with incomes below $10,000 held any form of private debt in 1998. The median amount of debt held among those who had some form of debt was only $2,200 and their debt-to-income ratio was .9. [2]

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

support order face median monthly orders of $276 a month, which represents 44 percent of their net income. Once net incomes exceed $10,000, child support orders begin to increase, but when they are expressed as a percentage of income, these figures decline rapidly. For example, although debtors with child support orders and net incomes over $70,000 have median orders of $581 a month, these orders only represent 8 percent of their net income.

Table 5. Debt and Child Support Orders Among Debtors with Recent Income

Annual Net Income	Median Child Support Debt	Percent with a Child Support Order	Median Monthly Child Support Order	Ratio of Debt to Net Income	Ratio of Annual Order to Net Income
$1-5,000	$10,790	63%	$280	7.58	2.11
$5,001-10,000	$8,985	64%	$276	1.23	0.44
$10,001-15,000	$7,684	63%	$285	0.62	0.27
$15,001-20,000	$6,600	64%	$303	0.38	0.21
$20,001-25,000	$5,964	64%	$329	0.27	0.18
$25,001-30,000	$5,533	64%	$360	0.20	0.16
$30,001-40,000	$5,027	65%	$401	0.15	0.14
$40,001-50,000	$4,754	66%	$453	0.11	0.12
$50,001-60,000	$4,796	67%	$497	0.09	0.11
$60,000-70,000	$4,540	68%	$526	0.07	0.10
>$70,000	$5,165	70%	$581	0.05	0.08
All recent earners	**$8,118**	**64%**	**$305**	**0.89**	**0.35**

Source: See Table 1.

III. Estimating Collectibility

We developed two approaches to examine the collectibility of child support arrears. First, we identify several factors thought to influence collectibility and characterize California's child support arrears by these factors. Second, we develop a microsimulation model to estimate how much of the $14.4 billion in child support arrears might be collected.

Characteristics Used to Analyze Collectibility

Prior research on the collectibility of child support debt and tax debt suggests the following factors are highly influential in determining collectibility:

(1) the extent to which there are income or assets available to pay the debt;
(2) whether the individual debtor lives in another state; and
(3) the age of the debt.

Income is a strong predictor of paying off one's debts, so much so that the private sector uses income to determine access to loans. In its review of unpaid tax assessments, the U.S. General Accounting Office found that if income and assets cannot be located, it is very difficult to assess and collect debt payments on an individual.[3]

State residency will influence collections. It is generally more difficult to collect from individuals who live outside of California than from in-state residents.[4] Although federal reforms have made interstate collections easier, it is still often the case that California must work with other state child support systems to secure arrears collections on out-of-state debtors, which increases the time spent and cost of collecting arrears and reduces the likelihood of collecting it.

Finally, debt research consistently shows that the older the debt the less likely it will be paid. Research on Maryland's child support debt shows that the average debt payment declines by 24 percent with each passing year.[5] The GAO's assessment of unpaid taxes found that the likelihood of full or partial collections declined dramatically after IRS's unpaid tax assessments aged one year, dropping below 30 percent after 3 years.[6]

How Collectible Are California's Arrears?

Table 6 divides California's child support arrears into different subgroups of debtors by income level, state residence, and age of debt, the three characteristics described above that prior research find are related to collectibility. When reading this table, a debt's collectibility is expected to decline as one reads from left to right and top to bottom. For example, in the upper left hand corner, Table 6 reports that 5 percent of California's child support debt is held by individuals who live in California, have held their debt for less than 2 ½ years, and have net incomes over $15,000. Prior research suggests that debt with these characteristics — relatively high net incomes, California residents, and new debtors — should be highly collectible. At the other extreme, in the lower right hand corner, Table 6 reports that 6 percent of California's child support debt is held by individuals who live outside of California, have held their debt for at least 2 ½ years, and have no recent income. Prior research suggests that, given these characteristics, this portion of California's child support debt should be extremely difficult, if not impossible, to collect.

Of course, most of California's child support arrears fall between these two extremes, but it should be noted that 70 percent of California's debt is held by individuals with annual net incomes below $10,000. Unless these debtors' income situation changes dramatically, this part of California's debt is going to be extremely difficult to collect. Of the remaining 30 percent, most is old and/or held by non-California residents. As noted above, only 5 percent of the child support debt has all three characteristics that are positively correlated with collectibility.

Table 6. Characteristics of California's Child Support Arrears, 2000

	Total	California Residents		Non-California Residents	
		New Debt	Old Debt	New Debt	Old Debt
	$14,434 (100%)	$3,149 (22%)	$8,422 (58%)	$680 (5%)	$2,183 (15%)
Recent Net Income is:					
$15,000 or more	$2,948 (20%)	$719 (5%)	$1,874 (13%)	$94 (1%)	$262 (2%)
$10,000-$15,000	$1,456 (11%)	$299 (2%)	$772 (5%)	$87 (1%)	$298 (2%)
$5,000-$10,000	$1,911 (13%)	$399 (3%)	$998 (7%)	$122 (1%)	$392 (3%)
$1-$5,000	$3,362 (23%)	$842 (6%)	$1,955 (14%)	$153 (1%)	$411 (3%)
Has No Recent Income	$4,757 (33%)	$890 (6%)	$2,823 (20%)	$224 (2%)	$820 (6%)

Source: See Table 1.

Another issue to keep in mind when assessing the collectibility of California's arrears is the amount of arrears that individuals owe relative to their income. As we noted earlier, some debtors owe sizable amounts of arrears relative to their income. Table 7 displays total arrears by debtors' income and amount of arrears owed. It shows that most of California's child support arrears are held by parents who owe large amounts of arrears, but have relatively low annual incomes. More than half of California's arrears are held by parents who owe more than $20,000 in arrears, but have annual incomes of less than $10,000. At the other extreme, only 1 percent of California's arrears are held by parents who owe less than $10,000 in arrears and have net incomes over $30,000 a year.

Table 7. Arrears Owed by Characteristics of the Child Support Debtor
(Dollars are in Millions)

Recent Net Income Levels	Total Arrears	Amount of Arrears Owed by Each Parent Debtor		
		$1-10,000	$10,001-$20,000	$20,001+
Total	$14,434 (100%)	$1,604 (11%)	$2,446 (17%)	$10,384 (72%)
$30,001+	$748 (5%)	$113 (1%)	$135 (1%)	$500 (3%)
$10,001-$30,000	$3,656 (25%)	$529 (4%)	$669 (5%)	$2,457 (17%)
$0-$10,000	$10,030 (70%)	$962 (7%)	$1,642 (11%)	$7,426 (52%)

Source: See Table 1.

Simulation Results Regarding the Collectibility of California's Arrears

Our next task is to estimate how much California can realistically expect to collect of the $14.4 billion in child support arrears. We estimate potential collections over a 10-year period since child support debt in California has no statute of limitation. We limited our estimation to 10 years because the methodology that we employ is not flexible enough to project far into the future. We should note that after the first year or two, the amounts that we estimate that could be collected decline dramatically, and, by the end of the tenth year, are quite small. This is because most debtors have relatively small debts, and, in our simulation, they pay these debts off relatively quickly. Remember, as we noted earlier, half of debtors have debts below $10,000. These are large sums of money, but many debtors can pay these amounts off. It is the 30 percent of debtors with debts over $20,000 that hold the lion share of California's debt and who will have great difficulty paying off their debts. In our simulation exercises, these latter debtors continue to make payments toward their debts for all 10 years, but because there are so few of them the total amount they pay is small. Thus, even if we had forecasted collections for 20 years, the amounts collected would not increase much.

Our simulation methodology rests upon several assumptions. First, we assume that individuals have the same net income every year for 10 years. Obviously, this assumption is an oversimplification. Debtors' incomes are going to rise and fall over a 10-year period. This volatility will depend, in part, on the performance of the overall economy, but it will also depend on the fortune and misfortune of individuals. Since we do not know whose incomes are going to experience volatility, or how the macro economy is going to perform, the easiest assumption is to assume no change. In addition, if income were to change, child support orders might change as well; as a result, our order amounts would be incorrect. For the same reasons, we assume that child support orders do not change for 10 years, unless the debtor's youngest child turns 18, in which case the order is reduced to zero.[7] We also assume that debtors' bank account balances do not change over 10 years.

We assume that individuals pay a certain percentage of their net income toward current and past child support. We employ three percentage figures — 30, 40, and 50 percent. The lower bound estimate assumes that debtors will pay up to 30 percent of their net income in current and past child support. The upper bound increases that percentage figure to 50 percent. Again, this assumption is a tremendous simplification. We could not build a more sophisticated model of collections due to a lack of necessary information. For example, we could have built a model that is more reflective of California's child support guidelines, but we do not have the net income of the custodial parent. Since a simple percentage figure is a rough estimate of the amount that could be collected, we use a range of percentage figures.

We selected 50 percent as our upper bound estimate of the percent of net income paid toward current support, arrears, and interest because orders that require a larger percentage of income appear to be uncommon. Although California law mirrors federal law on this matter, allowing up to 65 percent of net income to go toward debt reduction,

it appears that orders rarely encroach upon this higher limit. The lower bound estimate of 30 percent was selected because California guidelines regarding *current* support often require 30 percent of net income to go to current support. Since our model uses these figures to determine the amount paid toward current support as well as arrears, it seemed reasonable to use 30 percent as the lower bound.[8]

In our simulation, we assume that debtors' payments are allocated toward current support first. Once current support is paid, we assume that any remaining payment goes toward reducing interest on arrears and that any collections remaining after interest is applied to reducing arrears itself. This order for applying payments generally reflects California law, although the law is slightly more complicated; California law, following federal rules, requires that any collections from federal income tax refunds must be used to reduce interest and arrears on TANF debt rather than to pay current support. In our simulation, we also charge interest at a rate of 10 percent, calculating it on a simple basis, meaning that interest is only charged on principal. Again, the assumptions follow California law.

Although each individual pays a certain percent of their net income toward child support in our model, the amount they pay may be less than their current child support obligation. When this occurs, new debt is created. Our resulting estimate of new debt, however, reflects only part of the new debt that will emerge in California as the months and years unfold. We do not attempt to estimate future debts that result from obligors who become debtors for the first time. We only measure new debt for those who held debt in March 2000.

Finally, we should note that we do not assume in our simulation that debt held by non-California residents or debt held longer that 2 ½ years is harder to collect than debt held by California residents or new debt. Although prior research suggests that these characteristics reduce collectibility, evidence regarding the extent to which they reduce collectibility is limited and thus we did not know how much of a reduction to simulate.

Estimations of the collectibility of California's child support arrears over the next 10 years suggest that California could collect between $989 million to $1.690 billion in child support arrears in the first year, representing 7 to 12 percent of its total child support debt (Table 8). California currently collects slightly less than 7 percent of its arrears. The 12 percent collection rate requires individuals to pay up to 50 percent of their net income towards current and prior child support.

Table 8 shows that, after 10 years of paying up to 50 percent of net income to child support, $3.5 billion, at most, will be paid, representing 25 percent of the $14.4 billion of arrears in March 2000. Paying 30 percent of net income, only 16 percent of California's debt will be collected in 10 years. Thus, this simulation exercise suggests that most of the $14.4 billion of child support arrears that California had in March 2000 will not be collected in 10 years.

Table 8 also shows that after 10 years of trying to collect the $14.4 billion of child support arrears, an estimated $15 billion of unpaid interest will have been generated. As we mentioned earlier, interest accrues whenever arrears are not paid. Since most of California's arrears are not expected to be paid, we estimate that considerable interest will be generated and that little of it will be paid.

Table 8. Estimating Collectibility of California's Arrears, Using Different Assumptions Regarding the Amount of Net Income that Goes to Child Support
(Dollars are in Millions)

Estimated Amounts	Percent of Net Income Going to Child Support		
	30%	40%	50%
Could Pay the First Year	$989	$1,350	$1,690
as % of March 2000 debt	7%	9%	12%
Could Pay over 10 Years	$2,288	$2,965	$3,543
as % of March 2000 debt	16%	21%	25%
2000 Arrears Left after 10 years	$12,146	$11,469	$10,891
Unpaid Interest after 10 years	$16,803	$15,488	$14,526
New Arrears after 10 years	$10,416	$9,327	$8,610
Total Arrears after 10 years	$39,355	$36,276	$34,021

Source: See Table 1.

In addition, many of the individuals who hold child support arrears as of March 2000 are unable to meet their current child support obligations, and, thus, accrue new arrears. We estimate that, in 10 years, an additional $8.6 to $10.4 billion of arrears will be generated by individuals who hold debt in March 2000 but are unable to meet their current child support obligations. As mentioned earlier, these estimates of new arrears do not include individuals who start accumulating child support arrears after March 2000. Thus, new debt amounts may be larger than what we have presented in Table 8.

Adding up new arrears, old arrears that are not collected and interest results in a total arrears balance of $34 to $39 billion in 2010, more than double the amount of arrears in California as of March 2000.

Table 9 estimates potential collections over 10 years for different subgroups of debtors described in Table 6 if 40 percent of net income is used to pay child support. It shows that debtors with net incomes over $15,000 are likely to pay 66 percent of their debt in 10 years. The next column to the right shows that California residents with new debt

and net incomes over $15,000 have the highest repayment rate — they are estimated to pay 71 percent of their debt in 10 years. The other columns in the first row report estimated amounts of collections among debtors with incomes over $15,000 who are old California debtors, new non-California debtors, and old non-California debtors, respectively. These estimates follow the pattern predicted by previous research — those holding old debt pay less of their debt than those holding new debt and non-California residents pay less of their debt than California residents. Nonetheless, all of these groups are estimated to pay more than half of their debt in 10 years. Thus, we conclude that this portion of the $14.4 billion (20 percent of the total arrears as shown in Table 6 below) — that which is held by individuals with more than $15,000 in net income — is mostly collectible.

Table 9. Estimating Collectibility by Age of Debt, Net Income and State Residence (Assuming 40% of Net Income Goes to Child Support)

Percent of March 2000 Debt that could be Paid over 10 years assuming 40% of net income goes to child support	Total	California Residents		Non-California Residents	
		New Debt	Old Debt	New Debt	Old Debt
Recent Net Income is:					
$15,000 or more	66%	71%	66%	58%	56%
$10,000-$15,000	36%	41%	33%	34%	37%
$5,000-$10,000	18%	21%	16%	19%	20%
$1-$5,000	4%	5%	3%	5%	5%
No Recent Net Income	.4%	.3%	1%	.1%	.3%

Source: See Table 1.

The next two rows of Table 9 estimate collections for those with net incomes of $10,000-$15,000 and $5,000-$10,000. For the first group of debtors, we estimate that they could pay 36 percent of their debt in 10 years. For the second group, we estimate that they could pay 18 percent of their debt in 10 years. Given that these two groups of debtors are estimated to pay less than half of their debt in 10 years, we consider this part of the $14.4 billion of child support debt (24 percent of the total arrears as shown in Table 6 below) to be partly collectible. The pattern of potential collections predicted by prior research only partially holds among these two income groups. California residents holding old debt are estimated to pay less of their debt than California residents holding new debt, and non-California residents holding new debt are estimated to pay less of their debt than California residents holding new debt. Other collections, however, do not follow the predicted pattern. For example, California debtors holding old debt pay less of their debt than similar non-California debtors.

The final two rows of Table 9 estimate collections for those with net incomes between $1-$5,000 and no net incomes. These debtors pay at most 5 percent of their debts in 10 years. All of these figures are very low and strongly suggest that this portion of California's debt (56 percent of the total arrears as shown in Table 6 below) is minimally collectible. Also, the pattern of collections predicted by prior research does not emerge among these two income groups.

IV. Conclusions

As of March 2000, California's child support arrears totaled $14.4 billion. The purpose of this study is to estimate how much of this debt is collectible. Using a simple simulation method to measure collectibility, we estimate that a maximum of 25 percent of California's child support arrears are likely to be collected in 10 years, leaving $10.9 billion of the original $14.4 billion uncollected. In addition, we estimate that an additional $15 billion of unpaid interest will have accumulated over this period. Adding new arrears, we estimate that, unless this issue is addressed, California's child support arrears could easily double in 10 years, reaching a minimum of $34 billion by 2010.

Our simulation results are just one piece of evidence that suggests California is unlikely to collect most of its child support arrears. We also examined three characteristics of California's child support debtors, which prior research had found are correlated with collectibility— (1) their income; (2) their state residence; and (3) the age of their debt. We found that 80 percent of California's child support debt is held by individuals with net annual incomes below $15,000. Over 70 percent of California's child support debt is held by individuals who have held it for at least 2 ½ years. Twenty percent of the debt is held by individuals who live outside of the state. Moreover, only 5 percent of California's debt is held by individuals who have all three characteristics that are correlated with collectibility — net annual incomes over $15,000, California residency, and debt less than 2 ½ years old. Alternatively, 95 percent of California's child support arrears has at least one attribute that will make it difficult to collect.

Two factors appear to be contributing to the large arrears that California is experiencing — the 10 percent interest charged on arrears and the large child support order amounts imposed upon low-income obligors. We show that in FFY 1999, California held 20 percent of the nations child support arrears, up from 10 percent in FFY 1992, the year that the California Department of Social Services informed county District Attorneys that they must charge interest on nearly all child support arrears. During that same period, states that did not charge interest on child support arrears, like New York, saw their child support arrears increase, but not at the rate experienced by California. We also show that child support orders for low-income individuals with arrears often exceed their net incomes. Nearly 400,000 debtors have recent net incomes below $5,000; yet the median child support order for this group is around $280 a month, an amount higher than their median monthly net income. Arrears will inevitably accrue when child support orders outstrip obligors' income.

Endnotes

[1] We should note that all debtors in the Integrated Data Base (IDB) have a valid social security number (SSN). As noted in our previous report, LCSAs are not allowed to submit cases with arrears to the IDB unless they have a valid SSN.

[2] Kennickell, Arthur B., Martha Starr-McCluer, and Brian J. Surette. 2000. "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances." *Federal Reserve Bulletin* (January): 1-29.

[3] United States General Accounting Office. 1998. *Internal Revenue Service: Composition and Collectibility of Unpaid Assessments.* GAO/AIMD-99-12.

[4] United States General Accounting Office. 1992. *Interstate Child Support: Mothers Report Receiving Less Support From Out-of-State Fathers.* GAO/HRD-92-39FS.

[5] Wise, Mary C. Bozza. 1998. ed. "Measuring the Collectibility of Child Support Obligations." Towson University, RESI Research and Consulting.

[6] United States General Accounting Office. 1998. Ibid.

[7] We do not know the ages of the children that are covered by the current child support order, but we do know the year in which the debtor was born for most debtors. We use this information to estimate the age of the debtor's youngest child. The formula used for this purpose is based on a regression that we estimated using data on the age of resident fathers and the age of their youngest child from the 1997 National Survey of America's Families. We use this estimated age of the youngest child to determine when the youngest child turns 18 and thus the child support order is generally no longer effective.

[8] These percentage standards may appear too high to some, but there are at least two reasons to use a relatively high percentage standard. First, we should note that every year some people pay off their child support debts in full and those collections are included in the administrative data on collections (as they should). However, we cannot identify these individuals; we only have individuals who still hold debt as of March 2000. Thus, the actual collections figures are higher than we predict simply because they include individuals who are paying off all of their arrears, but are not in our data. Using a high percentage figure is an imperfect solution to our underestimation, but it does offset the underestimation somewhat. In addition, individuals with reported income may have unreported income that can be used to reduce child support arrears.

Report 4

Validating the Collectibilty Model Using Data from the CASES Consortium

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I. Introduction

The newly created Department of Child Support Services (DCSS) was mandated to examine the collectibility of its arrears pursuant to SB 542 (1999). The Department, in turn, contracted with the Urban Institute to conduct this study. In October 2001, we developed a microsimulation model to estimate the collectibility of California's child support arrears and concluded that relatively little was collectible. The key ingredient in this model is the parent debtor's income. Important data that we did not have access to in developing this model was parent debtors' child support and arrears payment behavior. Child support payment information is collected by the Local Child Support Agencies (LCSAs) and is currently not transmitted to the State. Hence, no statewide database includes this information. Our microsimulation model assumes that all parent debtors could pay a certain percentage of their net income toward child support. In fact, though, payment patterns vary considerably across this population. Knowing who pays and how much they pay would generate a more realistic baseline for our analysis. A more realistic baseline, in turn, could be used to generate more realistic estimates of collectibility.

The purpose of this report is to validate the model used to estimate the collectibility of California's child support arrears presented in Report 3. In this report, data from 26 counties in the CASES (Computer Assisted Support Enforcement System) consortium are used to assess whether the initial collectibility model could be improved upon if we had information about child support and arrears payment behavior. CASES is an automated child support system currently serving 34 California counties. We find that our model could be improved upon and revise it. The revised model assumes that parent debtors in California have payment behaviors similar to those of parent debtors in the CASES counties. Since we expect arrears collections to improve over the 10-year period of the simulation, we also incorporate improvements in arrears collections, which reflect prior improvements in arrears collections in California.

This report consists of seven sections. In the next section, we review the original collectibility model. The third section discusses the CASES consortium data that we received. The fourth section conducts the validation exercise. The fifth section explains how we revise the model. The sixth section presents our results. The final section summarizes our findings.

II. Review of the Original Simulation Model

To estimate collectibility, we employ a static microsimulation model. Static microsimulation models are used to estimate alternative "what if" scenarios. The model characterizes current behavior as fully as possible and then generates "what if" alternatives. Our model is considered "static" because we do not model changes in parent debtors' circumstances over time. For example, we assume that parent debtors do not have additional children, that their current obligation does not change (unless their children reach majority), and that their income does not change. It is called a microsimulation model, as opposed to a macrosimulation model, because it analyzes individuals.

The key ingredient in our model is the amount of income each parent debtor has available to pay child support. Several data sources, including California tax returns and nationwide quarterly earnings records, are used to determine income for parent debtors. When we developed our original collectibility model, we found that 75 percent of the parent debtors had income in 1998 or 1999. The model also uses the following child support characteristics — whether the parent debtor has a current support obligation, the amount of the obligation, and the amount of arrears owed. We find that three-fifths of the parent debtors have a child support obligation and that its median value is $300 per month. The median amount of arrears owed is $9,447.

Our original collectibility model assumes that parent debtors pay a certain percentage of their net income toward current and past child support. We examined three percentage figures — 30 percent, 40 percent and 50 percent. The 30 percent figure is used in an effort to model current collections; the 40-50 percent figures reflect modest to large increases in collections over current levels. The model attempts to follow California law as closely as possible. We apply payments first to current support, then to interest, and finally to arrears, which is consistent with California law, but a simplification of the process. We also assume that the interest rate is 10 percent and is calculated on a simple (as a opposed to compounded) basis.

More specifically, the model determines, for each parent debtor, how much he can pay and allocates that amount to current support, interest, and arrears. If the parent cannot pay his full current support obligation, the model creates new arrears. Any new or prior arrears that remain unpaid are carried over to the next period and charged interest. These new interest costs and any prior interest costs that remain unpaid are also carried over to the next period.

The next year, the model assumes that the parent debtor has the same amount of income as he had last year. It determines the amount of child support that he can pay and applies that to current support, interest, and arrears, just as it did in the first year. After payments are allocated, the model determines how much new debt is created, how much interest to charge on unpaid arrears, and how much interest and arrears need to be carried over to the next year. If a parent debtor does not have a current support obligation, or if his youngest child reaches majority within the 10 year

simulation, the model assumes that the same percentage of income that would have gone to current and prior support now goes to reduce interest and arrears. This process continues for 10 years, producing estimates of how much parent debtors still owe after 10 years of paying child support.

Our microsimulation model also assumes that parent debtors who live outside of California are just as likely to pay child support, arrears, and interest as those who live inside of California. We made this simplifying assumption since we did not have payment information and prior research did not provide sufficient guidance to develop an alternative assumption. Prior research shows that debt is more difficult to collect from debtors who live out of state, but these studies do not estimate *how much* this will affect collectibility.

Based on this model, we concluded that parent debtors could pay 7-12 percent of their $14.4 billion debt in the first year, and 16-25 percent of their debt in 10 years. In addition, at least another $8.6 billion of new arrears and another $14.5 billion of interest would be added to the $14.4 billion. Thus, if steps are not taken to reverse this trend, California could be faced with $34 billion in arrears in 10 years.

The key assumptions of this model that we wanted to examine with data from the LCSAs are:

1) How realistic is it to assume that all parent debtors with income actually pay child support and arrears, while parent debtors without income do not?

2) Does our range of 30 percent to 50 percent of net income going to child support, arrears, and interest reflect actual payment behavior?

III. Data Used to Validate the Simulation Model

In order to improve our microsimulation model, we asked the CASES consortium to provide us with actual payment histories for the parent debtors in their counties. Although the CASES consortium is limited almost exclusively to Northern California counties, it has a tremendous capacity to respond to ad-hoc requests.

Comparing Total Arrears in the IDB and CASES Data

Twenty-six counties (listed in Table 1) were used in our validation exercise.[1] Our first task was to compare the CASES and data from the Integrated Data Base (IDB), which is maintained by DCSS, to assess whether these two data sets were consistent with one another. You may recall that the IDB data is obtained from the LCSAs. Thus we had expected that the amount of arrears reported by the IDB for the CASES LCSAs in March 2000 would be the same as found by the CASES consortium for that month and year. Table 1 shows that the arrears reported by IDB and CASES for each county are similar, but not identical. Nonetheless, when all of the counties are examined together, the CASES data reports 99.7 percent of the arrears found in the IDB. One reason why

the CASES consortium and the IDB are reporting different amounts of arrears may be because these data reflect different time periods. The CASES data reflect arrears as of March 1, 2000. The IDB data, in contrast, were extracted in mid-March 2000, but some of the LCSA reports could have reflected arrearages in February or early March 2000.

Despite these inconsistencies, we concluded that the data from the CASES consortium was sufficiently similar to that in the IDB to proceed with our validation exercise.

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

County	CASES	IDB	Ratio
Alpine	$1,200,199	$1,491,595	80.5%
Amador	$12,006,892	$15,373,573	78.1%
Calaveras	$17,081,951	$19,481,922	87.7%
Colusa	$4,725,704	$5,632,362	83.9%
Del Norte	$24,532,619	$27,017,971	90.8%
Inyo	$12,533,624	$14,958,702	83.8%
Kings	$69,989,100	$69,855,134	100.2%
Lake	$34,900,875	$38,241,694	91.3%
Mariposa	$5,527,245	$6,834,106	80.9%
Merced	$99,971,506	$82,798,880	120.7%
Modoc	$3,356,256	$4,132,109	81.2%
Mono	$2,385,126	$2,504,798	95.2%
Monterey	$160,000,447	$166,431,522	96.1%
Plumas	$8,138,536	$10,666,273	76.3%
Sacramento	$397,244,619	$379,276,375	104.7%
San Benito	$27,280,008	$25,871,066	105.4%
San Francisco	$232,327,578	$213,028,052	109.1%
San Luis Obispo	$47,039,433	$60,703,795	77.5%
Santa Cruz	$66,499,328	$59,668,362	111.4%
Sierra	$1,091,319	$1,306,397	83.5%
Siskiyou	$36,648,314	$40,952,402	89.5%
Solano	$134,341,487	$159,207,513	84.4%
Sutter	$25,405,249	$30,080,286	84.5%
Trinity	$10,405,027	$10,619,737	98.0%
Tulare	$251,302,197	$241,789,061	103.9%
Tuolumne	$15,687,933	$18,986,349	82.6%
TOTAL	$1,701,622,572	$1,706,910,036	99.7%

Source: DCSS, Integrated Data Base and CASES Consortium.

Characteristics of the Debtors in the CASES Counties

We find that debtors in the CASES counties hold less debt per person than debtors in the rest of the State. Table 2 shows that a total of 132,625 parent debtors were identified in the twenty-six CASES counties examined, representing 16 percent of the parent debtor population in California. These individuals held 12 percent of total arrears in California, or $1.7 billion of the total $14.4 billion. Hence, these counties have lower arrears per parent debtor than other counties in the state. In the CASES counties, the median amount of arrears held by each parent debtor is $6,652, but, in the State as a whole, the median amount of arrears is $9,447.

Table 2 also shows that the parent debtors in the CASES counties are more likely to have old debt, or arrears held at least 2 ½ years. Fifty-seven percent of parent debtors in all of California hold old debt, as compared to 64 percent of parent debtors in the CASES counties. The median current support is somewhat lower in the CASES counties than in the state as a whole. The median amount owed in current support in the CASES counties is $272 a month; in the whole state, the median amount is $300 a month. The percent of parent debtors with addresses outside of California, however, is similar in the CASES counties and the whole State.

Table 2. Characteristics of Debtors in CASES Data and All of California

	26 CASES Counties	All of California
Number of Debtors	132,625	834,908
Percent of California Debtors	16%	100%
Total Arrears	$1.7B	$14.4B
Percent of California Arrears	12%	100%
Median Arrears	$6,652	$9,447
Percent Who Live out of State	21%	19%
Percent with Old Debt	64%	57%
Median Current Support	$272	$300

Source: see Table 1.

Table 3 presents the distribution of arrears in the CASES counties as compared to the whole State. The amount of arrears held by parent debtors in the CASES counties is lower than that held by parent debtors in the state.

For example, while 51 percent of parent debtors in the whole of California owe $10,000 or less, 61 percent of parent debtors in the CASES counties owe $10,000 or less. Table 3 also shows that the distribution of arrears is not as skewed in the CASES counties as it is in the State as a whole. For example, 45 percent of California's arrears are held by individuals who owe more than $40,000, as compared to 34 percent in the CASES counties.

Table 3. Percent of Debtors and Arrears Held in CASES Data and All of California by Amount of Arrears

Arrears	CASES Data		All of California	
	Percent of Debtors	Percent of Arrears	Percent of Debtors	Percent of Arrears
$1-$1,000	15%	0%	12%	0%
$1,000-$5,000	28%	6%	22%	4%
$5,000-$10,000	18%	10%	17%	7%
$10,000-$20,000	19%	22%	20%	17%
$20,000-$40,000	13%	28%	17%	27%
$40,000-$100,000	6%	28%	10%	34%
$100,000+	1%	6%	1%	11%

Source: see Table 1.

Alternatively, Table 4 shows that the income distribution in the CASES counties is fairly similar to that of the State as a whole. Approximately 60 percent of parent debtors in the CASES counties and the State as a whole have net incomes below $10,000. Approximately 80 percent of parent debtors in the CASES counties and the State as a whole have net incomes below $20,000.

Table 4. Percent of Debtors in CASES Data and All of California by Net Income

Net Income Categories	26 CASES Counties	All of California
$0	21%	25%
$1-$5,000	23%	21%
$5,000-$10,000	15%	14%
$10,000-$15,000	12%	12%
$15,000-$20,000	9%	9%
$20,000-$25,000	7%	7%
$25,000-$30,000	5%	5%
$30,000-$40,000	5%	5%
$40,000+	3%	3%

Source: CASES Consortium; DCSS, Integrated Data Base; EDD, Quarterly Earnings; FTB, Wage Master File, Tax Files; OCSE, OCSE Data on Earnings outside CA.

IV. Validation Exercise

As discussed above, we wanted to examine several key assumptions in our simulation model using the CASES data. We start by examining whether parent debtors with income always pay something toward child support, arrears, or interest, while parent debtors without income pay nothing toward child support, arrears, and interest. Analyzing the payment behavior of parent debtors in the CASES counties during the 12-month period commencing October 1, 2000 and ending September 30, 2001, we find that this assumption is incorrect.[2]

Table 5 shows that only parent debtors with an obligation and with net incomes over $15,000 almost always paid toward child support, interest or arrears; payment rates among these debtors range from 93 percent, for those with incomes between $15,000 and $20,000, to 98 percent for those with incomes greater than $30,000. Parent debtors without an obligation and parent debtors with an obligation and net incomes below $15,000, in contrast, were less likely to pay. For example, 88 percent of parent debtors in the CASES counties who have a child support order and have net incomes between $10,000 and $15,000 paid child support, arrears, or interest. Furthermore, the percent of parent debtors paying child support, arrears, or interest decreases as net income declines and is lower at each income level for those parent debtors without an obligation. Alternatively, Table 5 also shows that parent debtors with no net income sometimes paid toward child support, arrears or interest. For example, 41 percent of parent debtors who had a current support order paid something toward their child support obligation even though they had no net income.

Table 5. Percent of Debtors who Paid toward Child Support, Arrears or Interest, and the Amount or Percent of Net Income Paid in CASES Data

	Has Current Support Order		Arrears Only	
Net Income Category	**Percent Who Paid Something**	**Amount or Percent of Net Income Paid**	**Percent Who Paid Something**	**Amount or Percent of Net Income Paid**
$0	41%	$2,879.96	36%	$1,622.73
$1-$1,000	50%	$2,548.22	48%	$1,477.44
$1,000-$3,000	59%	$2,351.59	54%	$1,548.02
$3,000-$5,000	67%	64%	58%	42%
$5,000-$10,000	79%	41%	66%	26%
$10,000-$15,000	88%	29%	73%	19%
$15,000-$20,000	93%	25%	77%	15%
$20,000-$30,000	96%	21%	79%	13%
$30,000+	98%	19%	76%	11%

Source: see Table 4.

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

V. Revising the Simulation Model

The primary revision to the microsimulation involved changing our assumptions regarding how much parent debtors could pay toward their arrears. Instead of assuming that parent debtors paid 30 to 50 percent of their net income toward current support, interest, or arrears, we assume that all parent debtors in the state of California pay arrears in the same way as parent debtors in the 26 LCSAs examined above. This methodology is explained in greater detail below.

Other improvements to the model are also made. First, we update our measure of parent debtors' net income using more recent tax information. Secondly, we change our assumption about the payment behavior of parent debtors with an obligation whose children become majority age.

Modeling Parent Debtors' Payment Behavior after the Behavior of Parent Debtors in CASES Counties

To model parent debtors' payment behavior, we first determine the percent of parent debtors in the CASES counties who paid anything toward current support, arrears, or interest by their obligation status and by their net income. Results are displayed above in Table 5. Next, we estimate annual improvements in payment rates and amounts by reviewing child support figures in California for the period between 1994 and 1997. We reviewed the percent of cases paying and the amount of support paid on current support, for noncustodial parents with an obligation, and the percent of cases paying and the amount paid on arrears, for debtors.

Table 6 reports the data that we use to predict future improvements in the California child support program. The first row shows the annualized earnings of California's manufacturing production workers. The next several rows report data on child support cases in California that have current support orders. The first of these rows reports the percent of these cases that paid child support. The next row reports the annualized amount paid per paying case. The third row takes the ratio of the amount paid to the annual earnings in the first row. Similar calculations are made for cases in California with arrears and are reported in the lower section of the table. Finally, the annual change in the percent paying and in the amount of support paid for both current support cases and arrears cases are reported in Table 6.

Table 6. Characteristics of California's Child Support Program and Annual Earnings of California's Manufacturing Production Workers

Characteristics of California	Mean	Fiscal Years			
		1994	1995	1996	1997
Annual Earnings of California's Production Workers in Manufacturing	$27,556	$26,781	$26,887	$27,709	$28,848
Current Support Cases					
Percent Paying	37.8%	37.0%	37.5%	38.4%	38.4%
Amount Paid Per Paying Case	$2,936	$2,823	$3,038	$2,733	$3,150
Amount Paid as a % of Earnings	10.7%	10.5%	11.3%	9.9%	10.9%
Percentage Annual Change in:					
Percent of Paying Cases	1.2%	--	1.3%	2.2%	0.0%
Amount Paid as a % of Earnings	1.7%	--	7.2%	-12.7%	10.7%
Arrears Cases					
Percent Paying	22.9%	21.4%	25.0%	22.4%	22.8%
Amount Paid Per Paying Case	$2,285	$2,354	$2,052	$2,117	$2,615
Amount Paid as a % of Earnings	8.3%	8.8%	7.6%	7.6%	9.1%
Percentage Annual Change in:					
Percent of Paying Arrears Cases	2.7%	--	16.8%	-10.4%	1.8%
Amount Paid as a % of Earnings	1.9%	--	-13.2%	0.1%	18.7%

Source: OCSE Annual Reports from FFY 1994-1997; California Department of Finance web site.

We decided to use the average annual growth rates from the arrears cases for our estimates of future improvements rather than the figures from the current support cases because the former grew faster than the latter. For example, we found that the percent of arrears cases that paid on arrears increased, on average, by 2.7 percent a year, while the percent of cases with current support that received payments increased an average of 1.2 percent a year. Thus, we increase the percent who pay any support by 2.7 percent a year, and we increase the amount that parent debtors earning over $3,000 pay by 1.9 percent a year, starting in the initial year of our simulation. We do not increase the amount paid by parent debtors with net incomes below $3,000 since they already pay more than 65 percent of their net income in child support. The resulting starting values for our simulation are shown in Table 7.

Finally, we assign each parent debtor in California a random number from a uniform distribution ranging from 0 to 1. If an individual's random number is less than or equal to the percent of debtors paying something presented in Table 7 for his obligation status and net income level, then the individual is assumed to pay toward child support, arrears, and interest, or toward arrears and interest, depending on his obligation status, in the initial year of the simulation. For example, a parent debtor with a current support order, a net income of $17,000, and a random number equal to .50, is assumed to pay toward current support, interest, and arrears, while a parent debtor with a random number equal to .99, but otherwise identical to the first debtor, is not. This methodology ensures that we randomly select about 96 percent of parent debtors in this category to pay toward child support, arrears, and interest.

Table 7. Percent of Debtors Paying Toward Child Support, Arrears or Interest and the Amount or Percent of Net Income Paid, First Year of the Simulation

Net Income Category	Has Current Support Order		Arrears Only	
	Percent Who Paid Something	Amount or Percent of Net Income Paid	Percent Who Paid Something	Amount or Percent of Net Income Paid
$0	42%	$2,880	37%	$1,623
$1-$1,000	52%	$2,548	49%	$1,477
$1,000-$3,000	61%	$2,352	55%	$1,548
$3,000-$5,000	68%	65%	60%	43%
$5,000-$10,000	81%	42%	68%	27%
$10,000-$15,000	90%	29%	75%	19%
$15,000-$20,000	96%	25%	79%	16%
$20,000-$30,000	99%	22%	81%	13%
$30,000+	100%	19%	78%	11%

Source: see Table 4.

Individuals assumed to pay are then given a payment amount, again based on their obligation status and income level. Table 7 presents the amount or percent of net income paid by obligation status and income level. Continuing with the previous example, Table 7 reports that parent debtors pay, on average, 25 percent of their income toward current support, interest, and arrears if they: (1) have an order for current support (2) have net incomes between $15,000 and $20,000, and (3) pay toward current support, interest, or arrears. In our microsimulation model, then, the debtor described above with a random number of .50 would pay 25 percent of his income toward current support, interest, and arrears, as long as this amount was not in excess of the total amount owed by the debtor.

Parent debtors with net annual incomes below $3,000 pay a fixed dollar amount toward child support, arrears, and interest, rather than a percentage of their net income. These parent debtors pay more than 65 percent of their net income toward child support and thus a dollar amount provides a more realistic estimate of their payment behavior than a percentage figure. Table 7 shows, for example, that a parent debtor in the IDB data with no net income, a current support order, and a random number below .42 will pay $2,880 in child support in our microsimulation model.

Each year, the percent of parent debtors paying toward current support, arrears, or interest and the percent of income paid are increased using the annual percentage increases. Table 8 displays the final payment rates and amounts after ten years using the projected increases.

Table 8. Percent of Debtors Paying Toward Child Support, Arrears, or Interest and the Amount or Percent of Net Income Paid, Final Year of the Simulation

Net Income Category	Has Current Support Order		Has Arrears Only	
	Percent Who Paid Something	Amount or Percent of Net Income Paid	Percent Who Paid Something	Amount or Percent of Net Income Paid
$0	54%	$2,880	48%	$1,623
$1-$1,000	66%	$2,548	63%	$1,477
$1,000-$3,000	77%	$2,352	70%	$1,548
$3,000-$5,000	87%	65%	76%	51%
$5,000-$10,000	100%	50%	86%	32%
$10,000-$15,000	100%	35%	96%	23%
$15,000-$20,000	100%	30%	100%	19%
$20,000-$30,000	100%	26%	100%	15%
$30,000+	100%	22%	100%	13%

Source: see Table 4.

For example, parent debtors with a current support order and net income over $30,000 pay 22 percent of their net income toward child support during the last year of our simulation, up from 19 percent the first year. The percent paying something is also increased each year by 2.7 percent for all income categories. For example, the percent of debtor parents with a current support order and no income who pay something toward child support increases from 42 percent to 54 percent over the 10 years of the simulation.

After payments are established for a particular year, the simulation first applies payments to current support if the parent debtor has a current support order.[3] Any remaining support not paid toward current support is then paid toward interest and then arrears. If the amount of income paid toward child support is less than the debtor's child support order, he accrues new arrears.

Other Improvements

In the fall of 2001, 1999 income data from the Franchise Tax Board became available, allowing us to improve our measure of recent income. Originally, recent income was constructed from debtor parents' quarterly earnings, as reported by the California Employment Development Department or the Office of Child Support Enforcement, depending on the debtor's California resident status. If this amount was equal to zero, we checked several sources for 1998 income, including California income tax information for single filers. Now that we have 1999 California income tax information, we compare the adjusted gross income for single filers in 1999 with the quarterly earnings information from inside and outside of California in 1999 and take the

maximum figure as the debtor's recent income. If we do not find income in these sources, we then check our 1998 sources of income and select the maximum amount as our estimate of recent income. Finally, if the parent debtor still has no income and is a joint filer in 1999 or 1998, then we assume his/her recent income is half the amount of the larger adjusted gross income.

Previously, parent debtors with an obligation whose children reached majority age were assumed to pay the full amount of their current support order toward arrears and interest once their child turned eighteen. Analysis of the CASES consortium data, however, proved this assumption to be unrealistic. As a result, parent debtors with an obligation whose children reach majority age are now assumed to follow the same payment patterns as parent debtors of their same income group without a child support order once their child turns eighteen.

VI. Simulation Results

Using our revised micro-simulation model, we predict that debtors would pay $843 million dollars towards arrears and interest, or 6 percent of the $14.4 billion, in the first year (Table 9). After ten years, parent debtors would only pay off $3.764 million, or 26 percent of the original $14.4 billion. This would leave $10.670 billion of uncollected arrears. In addition, new arrears are generated as a result of debtor parents not paying

Table 9. Estimating Collectibility of California's Arrears, Using Different Assumptions Regarding Interest

(Dollars are in Millions)

	10% Interest; Pay Interest First	7% Interest; Pay Interest First	10% Interest; Pay Principal First	7% Interest; Pay Principal First
Arrears in March 2000	$14,434	$14,434	$14,434	$14,434
Could Pay the First Year	$843	$843	$843	$843
As % of March 2000 arrears	6%	6%	6%	6%
Could Pay over 10 Years	$3,764	$4,025	$5,270	$5,270
As % of March 2000 arrears	26%	28%	37%	37%
New Interest	$13,111	$8,757	$13,200	$9,230
New Arrears	$10,266	$10,190	$9,642	$9,642
Total Arrears in 2010	$34,047	$29,357	$32,006	$28,035

Source: see Table 4.

their entire current support order and interest accumulates since debtor parents are not able to pay their entire arrears balances. Hence, we estimate that total arrears will exceed $34 billion in 10 years if California does nothing to stem the tide of arrears growth. We should note that our estimates do not take into account new debtors who will inevitably enter the child support system over the next 10 years. Thus, our projections regarding new arrears underestimate the actual increase in new arrears if nothing is done.[4]

We also examined what would happen to total arrears in California if the interest rate were reduced to 7 percent and if arrears payments were applied to principal first rather than interest, as is currently done (Table 9). We find that reducing the interest rate to 7 percent would reduce total arrears in 2010 by $5 billion, or 14 percent. We find that paying principal rather than interest first would reduce total arrears in 2010 by $2 billion, or 6 percent. Doing both would reduce total arrears in 2010 by $6 billion, or 18 percent.

The basic reason why California will not collect most of the $14.4 billion of child support arrears is that so much of the arrears are held by parent debtors with arrears in excess of $20,000. As illustrated in Table 10, our simulation model estimates that parent debtors with arrears in excess of $20,000 will pay just 17 percent of their arrears over a 10-year period. It also shows that they hold 72 percent of California's arrears. In contrast, we estimate that parent debtors who owe between $1 and $5,000 will pay back 73 percent of their arrears in 10 years. However, these debtors only owe 4 percent of California's arrears.

Table 10. Estimates of the Amount and Percent of Arrears that will be Paid Over a 10-year Period in California, by Amount of Arrears Owed

Amount of Arrears	Total Amount and Percent of Arrears as of March 2000 (millions)	Estimated Payments over 10-Year Period (millions)	Percent of Arrears Paid in 10-Year Period
$1-$5,000	$556 (4%)	$408	73%
$5,001-$10,000	$1,049 (7%)	$600	57%
$10,001-$20,000	$2,446 (17%)	$958	39%
$20,001+	$10,383 (72%)	$1,799	17%
Total	$14,434 (100%)	$3,764	26%

Source: see Table 4.

VII. Conclusions

California's child support arrears are increasing at an alarming rate and this report suggests that little of it will be collected. These findings are based on a micro-simulation model that is developed and described in this report. The model estimates the amount of arrears that parent debtors are likely to pay in the future based on their actual incomes, the payment behavior of parent debtors in 26 counties in California, and reasonable increases in collections. Specifically, it estimates that $3.8 billion, or 26

percent, of the $14.4 billion of child support arrears owed in March 2000 will be collected over a 10-year period. It also estimates that new arrears and interest will accumulate over the next 10 years and that total arrears in California could easily exceed $34 billion by 2010 if steps are not taken to curb the growth in arrears.

The basic reason why California will probably collect little of its child support arrears is because most of it is held by parent debtors who owe exceedingly large amounts of arrears. Over 70 percent of California's arrears are held by parent debtors who owe more than $20,000 in arrears. We estimate that these parents will pay back 17 percent of their arrears in 10 years. Hence, California will need to look beyond improved child support collections to reduce its large child support arrears.

We examine two reforms of California's current policy of assessing interest on arrears. Instead of assessing interest at 10 percent a year and applying payments to interest before principal, we estimate our micro-simulation model assuming that interest is assessed at 7 percent and that payments are applied to principal before interest. If the interest rate is reduced to 7 percent, we estimate that California's arrears would be 14 percent lower in 2010 than they will be if the interest rate remains at 10 percent. If payments are applied to principal before interest, we estimate that California's arrears would be 6 percent lower in 2010 than they will be if payments are applied to interest before principal. If both reforms are implemented, we estimate that California's arrears will be 18 percent lower in 2010 than they will be under current policy.

Endnotes

[1] Six CASES counties were not included in this analysis – El Dorado, Humboldt, Madera, Napa, Tehama, and Glenn. With the exception of Glenn, these counties did not have sufficient historical data to be included in the analysis. Glenn did not have sufficient payment information.

[2] We selected this period because it was the only 12-month period for which we had complete payment information from the CASES consortium. Net income, on the other hand, reflects calendar year income from 1999 (or 1998 if 1999 is not available).

[5] Not all payments by parent debtors with an obligation go toward current support first. As a result, we adjust our model by .72.

[6] Interest as a percent of the $35 billion is relatively high because we do not allow new parent debtors to enter the child support system. If we did, new arrears would be much larger and interest as a percent of total arrears would not be as large.

Report 5

Examining the Reasons Behind California's Large Arrears

I. Introduction

As we showed in earlier reports, child support arrears in California have been growing for some time, reaching $17 billion in federal fiscal year (FFY) 2001. The reasons for the accumulation of arrears are numerous and complex. Historically, others have found that the California child support program did not collect child support effectively.[1] However, we find that much of the current debt will not be collected even with aggressive enforcement efforts. In this report, we summarize the many factors that have contributed to the accumulation of arrears in California. We divide these factors into three major explanations:

1) Child support orders for noncustodial parents in the child support system are too high relative to their ability to pay child support;
2) Enforcement is incomplete; and
3) California assesses interest at 10 percent per year.

This report measures the relative contribution of these three reasons for California's child support arrears and examines each in detail. First we describe data that we received from the CASES and StarKIDs child support consortia systems, which are used in some of the analyses in this report. The next section provides an overview of the three reasons for arrears in California and estimates the extent to which each contributes to arrears. The fourth section examines four order establishment policies that appear to be contributing to arrears in California. The fifth section discusses the role of review and adjustment in arrears growth. The sixth section discusses incarcerated obligors. The seventh section reviews one reason why enforcement may not be as complete as it could be. The eighth section discusses strategies for leveraging arrears. The final section outlines recommendations that stem from the research findings in this report.

II. Data from the CASES and StarKIDs Consortia

In July 2002, we obtained child support data from four local child support agencies (LCSAs) in the StarKIDs consortium – Riverside, Santa Barbara, San Bernardino, and Fresno – to supplement the data provided by the CASES consortium. Data from the CASES consortium was obtained for earlier research and is discussed fully in Report 4. One county – Fresno – had only recently joined the StarKIDs consortium and thus their payment information was not complete. Hence, we only use data from Riverside, Santa Barbara, and San Bernardino in nearly all of the analyses using StarKIDs data.[2] The descriptive tables below are based on data from the 26 CASES counties and 3 StarKIDs counties with complete payment information.[3] Table 1 displays characteristics

of debtors identified in the Integrated Data Base (IDB) maintained by the Department of Child Support Services (DCSS) in the 26 CASES counties, the 3 StarKIDs counties, and all of California as of March 2000.

Table 1 shows that 14 percent of the debtor population resided in the 3 StarKIDs counties, and 16 percent of the debtor population resided in the 26 CASES counties in March 2000. Thus, we were able to obtain payment information for 30 percent of California's child support debtor population.[4] However, Table 1 also shows that these counties only held 26 percent of California's debt. The 3 StarKIDs counties and the 26 CASES counties held 14 and 12 percent of California's child support arrears, respectively. The median debtor in the CASES counties held a smaller amount of arrears than the median debtor in the StarKIDs counties or in the rest of the state. The median amount of arrears held in the CASES counties was $6,652, while it was $8,846 in the StarKIDs counties and $9,447 for the entire state.

Table 1. Characteristics of California's Debtors, by Consortia and Overall

	26 CASES Counties	3 StarKIDs Counties	All 58 Counties in California
Number of Debtors	132,625	119,146	834,908
Percent of California Debtors	16%	14%	100%
Total Arrears	$1.7B	$2.1B	$14.4B
Percent of California Arrears	12%	14%	100%
Median Arrears	$6,652	$8,846	$9,447
Median Annual Net Income	$6,914	$7,140	$6,349
Percent Who Live out of State	21%	18%	19%
Percent with Old Debt	64%	53%	57%
Percent with a Current Order	61%	66%	61%
Median Current Order	$272	$309	$300

Source: DCSS, IDB; EDD, Quarterly Earnings; FTB, Wage Master File, State Income Tax Returns; OCSE, Quarterly Earnings Outside of California; CASES and StarKIDs Consortia

Median annual net income in both the StarKIDs and CASES Counties was higher than the median annual net income in the entire state, which was $6,349.[5] In the StarKIDs Counties, the median annual net income of debtors was $7,140; it was $6,914 in the CASES Counties.

Just over half (53 percent) of debtors in the StarKIDs Counties held debt for at least 2½ years, fewer debtors than in the state overall and in the CASES Counties. Fewer StarKIDs debtors lived out of state as well; 18 percent as compared to 19 percent in the state as a whole and 21 percent in the CASES Counties. About two-thirds of the debtors in the StarKIDs Counties had a current support order, while 61 percent of debtors in both the state and CASES Counties had a current support order. Finally, among debtors with current support orders, the median amount of the current support

order was slightly higher than in the state as a whole or in the CASES Counties, at $309 per month.

Debtors in the three StarKIDs Counties were less likely to pay child support, arrears, or interest at every income level than debtors in the 26 CASES Counties over the 12-month period between November 2000 and October 2001. For example, Table 2 shows that 37 percent of debtors with no income in the CASES Counties paid either child support, arrears, or interest, as compared to 25 percent of debtors with no income in the StarKIDs Counties. At the other end of the income spectrum, 86 percent of debtors with net incomes over $30,000 in the CASES Counties paid child support, interest or arrears, but only 75 percent of debtors with similar income levels in the StarKIDs Counties contributed to child support, interest, or arrears. Debtors who provided support, however, paid more, on average, in the StarKIDs Counties than in the CASES Counties at nearly every income level. For example, debtors with no net income who provided support in the StarKIDs Counties paid about 10 percent more than debtors with no net income in the CASES Counties.

Table 2. Payment Characteristics of Debtors in CASES and StarKIDs Consortia

Net Income Categories	26 CASES Counties		3 StarKIDs Counties	
	Percent Who Paid	Amount or Percent of Income Paid	Percent Who Paid	Amount or Percent of Income Paid
$0	37%	$1,958	25%	$2,176
$1-$1,000	49%	$1,819	34%	$2,149
$1,000-$3,000	55%	$1,831	40%	$2,096
$3,000-$5,000	61%	50%	46%	55%
$5,000-$10,000	71%	33%	55%	35%
$10,000-$15,000	79%	23%	63%	25%
$15,000-$20,000	83%	20%	69%	21%
$20,000-$30,000	86%	17%	74%	17%
$30,000+	86%	15%	75%	14%

Source: Table 1.

III. An Overview of the Factors Contributing to Child Support Arrears

Inability to Pay High Orders vs. Incomplete Enforcement

To determine whether arrears are the result of an order set too high, we predict a current support order for each debtor based on the California guidelines, the current net income of the noncustodial parent, and the number of children subject to the order. Since we do not know the amount of visitation or the income of the custodial parent, which are other factors in the guidelines, we assume no visitation and zero income for

the custodial parent. These assumptions should yield the highest possible order a debtor could receive based upon their current net income and their number of children.

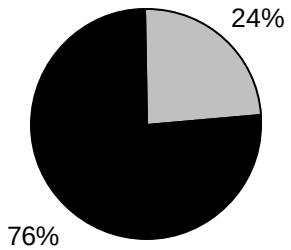
We then compare the actual support order to the predicted support order for those who have generated arrears in a given period. If the actual support order is greater than the predicted order, we conclude that the arrears were generated as a result of the order being too high for the current income of the noncustodial parent. If the actual support order is less than or equal to the predicted order, we conclude that the arrears were generated as a result of incomplete enforcement since the noncustodial parent was able to pay the order but did not. More simply:

If: Current Support Order > Predicted Support Order,
Then: Arrears are the result of an order that is too high.

If: Current Support Order <= Predicted Support Order,
Then: Arrears are the result of incomplete enforcement since the noncustodial parent had the ability to pay his/her order but did not.

Using this logic, we estimate that 64 percent of debtor parents in California, who accrued arrears over a one-year period that generally corresponded with FFY 2000 had orders that were too high relative to their ability to pay. They held 76 percent of the arrears generated that year. Alternatively, 36 percent of debtor parents who accrued arrears had an ability to pay their arrears, but did not. These debtors held 24 percent of the arrears generated that year.

Figure 1. Percent of Debt Held by Debtors Able and Not Able to Pay their Order



Source: See Table 1.

What are the specific steps taken to generate these estimates?

To conduct this analysis, we used data from the CASES and StarKIDs consortia for 29 counties.[6] We limited our analysis to cases with arrears that have the same amount of current support due in March 2000 (or later in some LCSAs) as at the end of the period for which we have payment information. We do this to ensure that the actual order did not change during the period. The exact year for which we have payment information varies by LCSA, but for the most part, it begins in November 2000 and ends in October 2001. If the amount of current support paid over the one-year period is less than the amount due over the same period, we assume the individual has generated new arrears equal to the difference between the amount of current support paid and the amount due. We limit our analysis to cases that have generated arrears in this period. We then compare the actual current support order to a predicted child support order based on the California guidelines, the current net income of the debtor parent, and the number of children subject to the order. As noted above, we assume no visitation and no income for the custodial parent when generating the predicted order. If the actual support order is larger than the predicted order, we conclude that the debtor parent's arrears resulted from an order that was too large relative to their current ability to pay. If the actual support order is smaller than the predicted order, we conclude that the debtor could afford to pay his current support order, but did not.

Interest

California assesses interest on child support arrears at 10 percent per annum, pursuant to the Code of Civil Procedures 685.010, which requires interest to accrue on all money judgments. It began charging interest in earnest in 1992, after LCSAs were told that they must charge interest at a rate of 10 percent, and that, if they had not previously charged interest, they had to go back and recalculate interest on all past due support.[7]

Federal law does not require child support agencies to charge interest on unpaid support. Hence, state practice regarding interest is governed by state law and varies considerably. An estimated thirty-two states, including California, charge interest on child support arrears.[8] Among these states, the current interest rate varies, from a low of 4 percent to a high of 12 percent.[9] Most of these states charge interest on a simple basis, as California does. Some states, however, do not routinely charge interest on arrears. New York, for example, only assesses interest on arrears if they are reduced to a money judgment by a court. Others, such as Oregon, only charge interest on arrears if a party requests it.

Views regarding whether interest should be charged also vary. Proponents of charging interest contend that it is important because it gives the noncustodial parent an incentive to pay child support before other debt and because it compensates the obligee when support is not paid on time.[10] However, many child support professionals have come to believe that charging interest, particularly at high rates, is counterproductive and does not serve either the child or the government. Charging interest can make the payment of child support arrears seem overwhelming, deterring some noncustodial

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

There is limited empirical evidence regarding the impact of charging interest on child support compliance. The most comprehensive study of this issue was conducted in Colorado, where charging interest is at the counties' discretion.[11] The study compared compliance rates in counties with and without interest and found that compliance rates were not significantly different.

We find that assessing interest at 10 percent per annum has contributed substantially to the growth in arrears in California. We estimate that 27 percent, or $3.9 billion, of the $14.4 billion of child support arrears in March 2000 was interest.

The California Legislature may want to reconsider the interest rate that it charges on unpaid child support. The current rate of 10 percent exceeds what custodial parents or the government could expect to earn in interest if the judgment had been paid on time. The IRS estimates the time value of money at 3 percentage points above the interest rate on 13-week Treasury bills. This figure has not reached 10 percent since 1990 and is currently 4 percent. Given that interest rates have been quite low for the past 10 years, it seems reasonable to reduce the rate on unpaid child support to 7 percent, which is the default rate provided in the California Constitution for money judgments. We estimated in Report 4 that if California reduced its interest rate from 10 percent to 7 percent that arrears would be 14 percent lower in 10 years.

Alternatively, California may want to consider revising its interest policy so that it looks more similar to that used by the FTB and IRS, which employ a two-pronged system of charging interest and penalties on taxpayers who underpay their income taxes. The FTB and IRS charge a relatively low interest rate for most tax underpayments that reflects the time value of money. As noted above, this rate is currently around 4 percent. Penalties are charged when individuals are found to have seriously underpaid their taxes without justification. They are usually calculated as a percentage of the underpayment and can be considerable. In the child support area, an interest rate could be routinely charged on unpaid child support, similar to the one charged by the FTB on tax underpayments, while penalties could be assessed if there is evidence of active evasion on the part of the noncustodial parent. This approach ensures that late payments reflect the time value of money, but does not penalize noncustodial parents for nonpayment unless there is reason to do so.

When debtors pay arrears in California, the child support program applies those payments to interest first and then to principal. Most other states that charge interest on a simple basis, as California does, apply payments to principal first rather than to interest, which reduces the amount owed. As far as know, there is no a priori reason for charging interest before principle. In Report 4, we estimated that if California reversed this order, it would reduce its arrears balance by 6 percent over a 10-year period.

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

The statewide child support data that we have access to for this study (i.e. the Intercept Data Base) does not indicate how much of arrears are interest. However, we obtained information about interest from 27 LCSAs in two of California's Child Support Consortia – CASES and StarKIDs.[12] Using these data, we calculated the percent of arrears that are interest in these LCSAs. We then estimated an ordinary least squares regression on the 27 LCSAs. The dependent variable was the percent of arrears that are interest in each LCSA. The explanatory variables were the average arrears per debtor in an LCSA and the percent of debtors in an LCSA who have held debt for at least 2 ½ years and have not made an intercept payment for 9 years. We used these variables as controls because we thought they would be positively related to the dependent variable, which they are. Then we predicted the percent of arrears that are interest in the other 31 LCSAs using our estimated equation. Finally, we created a weighted average of the predicted values for these 31 LCSAs and the actual values for the 27 LCSAs to derive our estimate of 27 percent.[13]

IV. Order Establishment

Four policies appear to contribute to order establishment at levels that exceed the noncustodial parent's ability to pay. These policies involve: (1) the child support guidelines; (2) default orders; (3) the presumption of income at a high level; and (4) back support. Each policy is discussed below, followed by our analysis of their impact on California's arrears.

Guidelines

Federal law requires that all states use child support guidelines to establish the amount of the child support order.[14] Child support guidelines provide a numeric formula to determine the amount of the order. All state guidelines consider the noncustodial parent's income and number of children in the calculation of the amount of the obligation. In addition, other factors such as medical and child care costs are frequently considered. Some state guidelines only consider the noncustodial parent's income but the majority of guidelines, including California's, consider both parents' income. These guidelines must be reviewed by the state every four years. The Judicial Council of California last reviewed California's guideline in 2001.[15]

According to the Judicial Council of California's report, one of the most common and frequently discussed issues among states that have reviewed their guidelines concerns low-income obligors. The basic concern is that child support guidelines are setting orders too high relative to low-income obligors' ability to pay, possibly alienating them from their children and contributing to child support arrears.

According to the California Judicial Council report, many state guidelines allow a low-income adjustment in some form. Most rely on a "self-support reserve" so that some amount of income is set aside for the minimal basic living expenses of the noncustodial parent before the child support obligation is determined. In many states, this self-support reserve is incorporated into the schedule so it is not obvious to guidelines users. The self-support reserve in most states, however, is considerably below the federal poverty level for one person because few states periodically update the self-support reserve or set it at or above the poverty level.

California does not have a self-support reserve, but does have a low-income adjustment that, if applied, reduces a low-income noncustodial parent's support obligation. If the obligor's net income is less than $1,000 per month, the court must rule on whether a low-income adjustment shall be made. If the court determines that a low-income adjustment should be given, it may reduce the formula-determined order by up to the percentage difference between the obligor's net monthly income and $1,000.[16] Table 3 shows an example of the low-income adjustment for a noncustodial parent with one child, no visitation and no income for the custodial parent. If a noncustodial parent's net monthly disposable income is $500, the guideline order is $116. Under the low-income adjustment, the order can be reduced to as little as $58.

Table 3. Noncustodial Parent Monthly Support Obligation under California Guideline and Low-Income Adjustment

Net Monthly Income	Monthly Guideline Support Order	Order with Maximum Low-Income Adjustment
$1,000	$250	N/A
$750	$185	$139
$500	$116	$58
$250	$54	$14

Source: Department of Child Support Services.

The Judicial Council of California report finds that very few obligors who are eligible for a low-income adjustment receive one. They reviewed a random sample of child support orders from nine counties that were established or modified in 1999. Income information was available for only 40 percent of the obligors. Among those cases that had the obligor's income, 13 percent of the obligors were eligible for a low-income adjustment, but only 6 percent of these obligors received one.

The Judicial Council recommended that if California continues to have a low-income adjustment, the adjustment should be made presumptive to ensure that it will be applied. Specifically, the report says "The Legislature should consider adopting or amending current law to make application of these [low-income] adjustments presumptive subject to proof that the adjustment is not appropriate in a particular case."

The Judicial Council did not make a specific recommendation regarding the appropriate level of income at which a low-income adjustment should be applied, but it did recommend that the current amount -- $1,000 per month — be reviewed.

Default Orders

A child support order is set by default when a noncustodial parent fails to appear in the child support case being brought against him or her. There are many reasons why a default order may occur. Two reasons, in particular, cause concern:

1) Noncustodial parents are not aware of the legal proceeding being brought against them; and

2) Noncustodial parents are aware of the legal proceeding, but they do not understand that they are required to make a legal appearance.

In California, a LCSA must file a summons and complaint with the Superior Court of California against a noncustodial parent to establish a child support order. The summons and complaint contains a proposed judgment, indicating the amount of the child support order. The complaint must be served upon the noncustodial parent, but, as we explain below, the specific method of service is not dictated by state law. Once the summons and complaint is served upon the noncustodial parent, he or she has 30 days to file an answer with the court. If the noncustodial parent does not file an answer with the court, the proposed judgment becomes the child support order by default.

Seventy-One Percent of Debtors Have an Order Set by Default

We estimate that 71 percent of the parents who owed child support arrears in March 2000 had at least one child support order set by default. This default rate is dramatically higher than that reported by other states or jurisdictions, but is consistent with the findings of the California Judicial Council, who reported in their 2001 guidelines review that 68 percent of orders established in 1999 by the LCSAs (then District Attorney's offices) were entered by default.[17] We explain below how we derive this estimate.

Several factors may contribute to the high default rate in California. One factor is the method used to notify noncustodial parents of the complaint being brought against them, known as service of process. Service of process is the formal delivery of documents initiating a court action. In California, documents in civil proceedings do not

have to be delivered to the person named in the proceeding, referred to as personal service. If a complaint cannot be hand delivered to the person, "substitute" service is allowed, which essentially means that any adult can be served the summons and complaint at the residence or employment of the noncustodial parent. If that fails, service by publication is allowed, which means LCSAs can publish the notice of the complaint in the newspaper.[18] Substitute service and service by publication make it possible that noncustodial parents are not aware of the legal proceeding being brought against them.

Personal service should be the preferred method of delivering a child support complaint. It can be increased by improving the information used to locate the noncustodial parent. While some LCSAs use an exhaustive list of services to locate the respondent before issuing a summons and complaint, other LCSAs issue summons and complaints based upon minimal information. Prior to making any service attempts, LCSAs should be encouraged, if not required, to use the telephone to call noncustodial parents and employers to find current locate information. Once accurate locate information is obtained and the complaint is going to be served, the process server should have direct access to the caseworker involved. If personal service is not initially successful, LCSAs and process servers should seek alternative locate information before turning to substitute service.

Lack of personal service, however, is not the only factor that may be contributing to high default rates. A noncustodial parent may not understand what the summons and complaint means. Recent changes have been made to the summons and complaint in California, making it considerably easier to understand, but it is still quite complicated. A simple one-page cover sheet might help that says something like "**URGENT! YOU HAVE BEEN NAMED THE FATHER OF A CHILD. IF YOU DO NOT RESPOND TO THIS NOTICE YOU WILL BE ORDERED TO PAY CHILD SUPPORT. YOU WILL NOT RECEIVE A HEARING REGARDING THIS MATTER UNLESS YOU RESPOND."** Other jurisdictions have tried this approach and believe it to be helpful.[19]

Other means of notifying the noncustodial parent about the legal proceeding, besides the summons and complaint, may also reduce the incidence of default orders. Some LCSAs send a letter to the noncustodial parent before the summons and complaint is issued, informing them that a complaint is about to be issued and asking for their cooperation.[20] Other LCSAs send a letter after the complaint has been served, inviting noncustodial parents to contact the LCSA regarding the complaint and encouraging them to stipulate to the child support order rather than file an answer.[21] Additionally, some LCSAs also work with noncustodial parents who contact them about the complaint, explaining the judgment, verifying its accuracy, and accepting new information. Although we are not aware of any empirical evidence that these tactics reduce default orders, we would expect them to help.

Using the MBSAC to Determine the Amount of the Order

California statute mandates that if a noncustodial parent's actual income or income history is unknown at the time the summons and complaint is issued, LCSAs must presume income at a level that generates a child support order equal to the minimum basic standard of adequate care (MBSAC) for the number of children involved. This law became effective in late 1997. The MBSAC is used by California's Temporary Assistance for Needy Families (TANF) program, known as CalWORKs, when determining whether a family is eligible for the program. In general, if a family's income is above the MBSAC level for their family size, they are not eligible for CalWORKs.

In the past, LCSAs were not required to take steps to identify the actual income of the noncustodial parent and thus it appears that few did. Instead, summons and complaints were routinely issued using a presumed income amount. Most LCSAs considered it the responsibility of the noncustodial parent to file an answer to ensure that the child support order reflected his or her actual income.

The intent of this law was to set orders high enough that noncustodial parents would come forward and ask that their orders be set aside and a new order be established that reflected their ability to pay. Unfortunately, it does not appear that noncustodial parents come forward; instead orders are set at MBSAC levels and rarely changed as we show below.

Nearly Half of Debtors who had a Default Order Set in 1998 or 1999 had their Order Set at an MBSAC Level

We estimate that 47 percent of debtor parents who had their child support orders set by default in 1998 and 1999 had their orders set at a MBSAC level. We explain below how we arrive at this estimate. This finding is consistent with the findings of the California Judicial Council, which reported that 28.5 percent of LCSA orders (called District Attorney orders in the Judicial Council study) set in 1999 were based on presumed income. Since presumed income is only used in default cases established by LCSAs and 68 percent of the LCSA cases were set by default, this means the 42 percent of the default cases in the Judicial Council study were based on presumed income, and, thus, set at the MBSAC amount.

We should note that orders set at MBSAC levels far exceed the ability to pay of the typical noncustodial parent with arrears. We showed in Table 1 that the median annual net income of parent debtors in California was $6,349, or $529 per month. Table 4 shows that in October 2001, the amount of income needed to generate an MBSAC order is $2,145 per month, or $25,740 per year, about four times the median net income of debtors.[22]

Most states presume income for a noncustodial parent based on the assumption that he/she could earn the minimum wage at a full-time, year-round job, which would have been $14,040 in California in 2003, or $1,170/month, 45 percent less than the amount

presumed to generate a minimum MBSAC order.[23] This assumption is certainly more realistic than presuming income that generates a MBSAC order.

Table 4. Presumed Income and Child Support Orders under California's Minimum Basic Standard of Adequate Care

Number of Children in the Order	Presumed Monthly Net Income of Noncustodial Parent	Child Support Order
1	$2,145	$423
2	$2,200	$693
3	$2,265	$1,022

Source: Department of Child Support Services, CSSIN Letter 01-34 (Order amounts increase with additional children. See endnote 22 for a complete listing of order amounts.)

We recommend that LCSAs maximize the use of actual income or income history when establishing child support orders. Quarterly earnings and tax information should always be reviewed before setting an order. Presuming income should only be used as a last resort if actual income or income history information is not found available. We should note that we found individual-specific information on 85 percent of the noncustodial parents in the IDB system.

Back Support

Assessing back support means that a court has required the payment of child support for a period prior to the date that the child support order was established. Under California law, LCSAs may seek back support for non-welfare families to the date of filing the summons and complaint, but they may seek additional back support for welfare families, referred to as retroactive support, for up to one year prior to the date of filing. Any back support collected on behalf of welfare families, up to the amount of public assistance received by the custodial family, goes to the government to reimburse it for providing welfare to the family. Prior to the current law, California allowed LCSAs to seek three years of retroactive support for welfare families.

States do not have to charge back support. Nonetheless, most do.[24] The length of time that is counted towards back support varies among states, with some charging back support from the date the child was born, while others charge for a set period of years, as California does. Still others seek back support only to the date of filing the summons and complaint, as California does for non-welfare cases. Furthermore, some states treat public assistance cases differently, as California does, but, most states treat public assistance and non-public assistance cases the same.

Proponents of back support argue that the responsibility for a child begins at birth and that charging back support prevents noncustodial parents who purposely try to evade

child support authorities from benefiting from their evasion. However, it appears that charging back support deters noncustodial parents from paying child support. A recent study by the Office of Inspector General for the U.S. Department of Health and Human Services found that obligors who were charged back support were less likely to pay support than obligors who were not charged back support.[25]

We measure the extent to which back support was sought from debtors who had their orders established during the first two months of 2000. We selected this period because the most recent changes in state law regarding retroactive support went into effect January 1, 2000 and the underlying data used throughout this analysis was extracted from the IDB in March 2000.

Using data from 27 CASES LCSAs for the first two months of 2000, we find that 39 percent of the cases associated with debtor parents who have children on or formerly on welfare were assessed back support and the median amount of back support assessed was $3,418. The median number of months that back support covered was 18 months.

Table 5. Measuring Back Support in 27 CASES LCSAs

Characteristics of Cases Associated with Debtors Whose Orders Were Established in January and February of 2000		Children Ever-On Welfare	Children Never-on Welfare
Percent of Cases Assessed Arrears Prior to the Order Establishment Date		39%	23%
For those with arrears prior to the order establishment date			
Median Number of Months of Back Support		18	8
Median Amount of Back Support Ordered		$3,418	$1,271

Source: CASES Consortium

Debtors with children currently on or formerly on welfare were nearly twice as likely to be assessed back support and when they were assessed, their median assessment was nearly three times as large as debtors with children never on welfare in 27 CASES LCSAs in 2000.

For comparative purposes, we also examined debtors with children who have never been on welfare. Among these cases, only 23 percent of them were assessed back support. Unlike welfare cases, their back support should only reflect the period between the date of filing and the order establishment date. We find that the median number of months that back support covers for these cases is 8 months. In addition, the median amount of back support assessed was $1,271, about a third as much as the median amount assessed debtors with children on or formerly on welfare.

How did we arrive at the frequency estimates for default orders, MBSAC use, and back support?

Statewide information on the use of these order establishment procedures was unavailable, and unfortunately, the information that we were able to access was not from a representative sample of LCSAs. Hence, our estimates of incidence for these policies are rough.

Accurate data on default rates were available for ten LCSAs – Alpine, Amador, Colusa, Kings, San Francisco, Santa Cruz, Sierra, Solano, Sutter, and Tulare. To predict default rates for the other 48 LCSAs, we estimated a linear relationship for the ten LCSAs between their default rates and the number of debtors in their LCSA. We used this estimated equation and the number of debtors in each LCSA to predict a default rate for the other 48 LCSAs. We produced a weighted average of the ten actual default rates and the 48 predicted default rates to generate our 71 percent figure.

We were only able to determine whether an order was set at an MBSAC amount in nine LCSAs – Kings, San Francisco, Riverside, San Bernardino, Santa Barbara, Santa Cruz, Sutter, and Tulare. We used the same approach as described above for default rates to extrapolate to the other 49 LCSAs.

Estimation of the incidence of retroactive support was only possible for the 27 CASES LCSAs.[26] Because we only examine a two-month period, we could not generate LCSA-specific estimates of retroactive support. Hence, we estimate retroactive support characteristics for the 27-LCSA sample and make no attempt to extrapolate to the rest of the state.

Measuring Whether Default Orders, Orders Set at MBSAC Levels, and Back Support are Associated with Low Payment Rates and Large Arrears Balances

In this section of the report, we examine whether payment rates are significantly lower and arrears balances significantly higher among debtors whose orders were affected by these policies as compared to individuals whose orders were not affected by these policies. The underlying data for this analysis are from 1998 and 1999 and the following ten LCSAs – Alpine, Amador, Colusa, Kings, San Francisco, Santa Cruz, Sierra, Solano, Sutter, and Tulare.[27] We selected this time period and set of LCSAs to ensure that we had accurate information on all three policies.

We employ ordinary least squares regression analyses to ascertain whether payment rates and arrears balances differ significantly depending upon whether the debtor has a default order, was assessed back support, or has an order set at a MBSAC level. This method allows us to control for other intervening factors that might influence payment behavior and arrears. The dependent variables in our regressions are: the amount of arrears and whether a debtor paid child support or arrears over the past 12 months.

Our regressions include the following control variables:

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

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

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

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

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

Debtors with default orders set at MBSAC levels were 27 percent less likely to pay support and had 58 percent higher arrears balances than similarly situated debtors without MBSAC orders. Finally, debtors assessed back support were 5 percent less likely to pay support and had 17 percent higher arrears balances than similarly situated debtors who were not assessed back support. All of these percent differences were statistically significant at the 95 percent level.

Table 6. Payment Characteristics and Arrears Balances of Debtors in Ten CASES LCSAs, by Type of Policy Affecting the Order

Debtors by Type of Policy Affecting Order	Average Arrears as of March 2000	Percent Who Paid Support Over a One-Year Period
Default Orders		
Debtors w/ a Default Order	$11,313	57%
Similarly Situated Debtors w/o a Default Order	$9,001	69%
Percent Difference	26%	-17%
MBSAC Order		
Debtors w/ an MBSAC Order	$15,424	49%
Similarly Situated Debtors w/o an MBSAC Order	$9,774	67%
Percent Difference	58%	-27%
Back Support		
Debtors w/ Back Support	$13,611	59%
Similarly Situated Debtors w/o Back Support	$11,618	62%
Percent Difference	17%	-5%

Source: CASES Consortium; DCSS, Integrated Data Base; EDD, Quarterly Earnings; FTB, Wage Master File and Tax Files; OCSE, OCSE Data on Earnings outside CA

V. Review and Adjustment

Federal Procedures Regarding Review and Adjustment

Traditionally, courts' authority to modify child support orders was derived from state statute or common law. Prior to the Family Support Act of 1988 (FSA), the only way to modify a child support order was for one of the parents to petition the court for a modification based on a "substantial change in circumstances." The person requesting modification was responsible for filing the motion, serving notice, hiring a lawyer, and proving a change in circumstances of sufficient magnitude to satisfy statutory standards.

Because this approach to updating orders was so cumbersome, the FSA required states to periodically review and adjust child support orders in accordance with state child support guidelines. The rationale behind the mandatory review and adjustment was to ensure that child support orders remained consistent with a state's child support

guidelines. Child support orders are expressed in fixed dollar amounts, and over time the needs of the child and the financial circumstances of either parent may change. Without periodic review and adjustment, child support obligations could become inadequate and no longer reflect parents' ability to pay.

The FSA required states to review and adjust all child support orders in public assistance cases at least every three years. The only exception was if the state determined that a review was not in the child's best interest. In non-public assistance cases that were administered by the IV-D agency, states were required to review and adjust child support orders at least every three years, if either parent requested a review.

If a 3-year review found that a child support order was not consistent with the state's child support guidelines, then federal law required states to adjust the child support order regardless of the size of the inconsistency. However, in order to avoid a rule that posited that *any* inconsistency was an adequate basis for modification, federal government regulations allowed states to develop a "reasonable, quantitative standard" for determining when a modification would occur.[28] Nearly all states have adopted such quantitative standards.[29]

The quantitative thresholds that states developed to determine when a modification was warranted vary considerably. In California, a new child support order must vary from the current order by at least 30 percent and at least $50 to warrant a modification. No other state has a 30 percent threshold.[30] Instead, percentage thresholds vary from 10 percent to 25 percent; 15 percent is the most common. Furthermore, most states do not have a dollar threshold; if they do, it varies from $15 to $100.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) relaxed the federal requirements for mandatory review and adjustment of child support orders. Under PRWORA, periodic reviews are no longer required. Instead, states must review orders every three years at the request of either parent, or at the request of the state child support agency in public assistance cases. States, however, must still notify parents, in both TANF and non-TANF cases, of their right to a review every three years. In addition, if states decide to continue to review and adjust child support orders, PRWORA allows them to continue to review and adjust orders based on the guidelines (as under pre-PRWORA), or alternatively, to implement a cost-of-living adjustment or an automated review process.

Laws Regulating Review and Adjustment in California

California, like most states, no longer requires LCSAs to conduct periodic reviews of their public assistance cases.[31] Nonetheless, LCSAs are still required to provide written notice of the right to request a review, and, thus, nearly all reviews conducted by LCSAs are parent-requested.

As noted above, California's threshold states that an order must change by 30 percent of the current order and by $50 a month. California applies this threshold to all requests for review and adjustment, regardless of the three-year cycle. We should note, however, that DCSS is currently promulgating regulations that will lower the threshold for review and adjustment to 20 percent or $50 a month, whichever is less.

Half of Debtors with a Child Support Order Met the Current California Standard for a Downward Modification but only 16 Percent of them Received One

We examine the extent to which debtors meet the current California standard for a downward modification and the incidence of adjustments among these debtors using data from the CASES and StarKIDs consortia for 31 California LCSAs.[32] In these LCSAs, we find that 50 percent of the debtors with a child support order met the current California standard for a downward adjustment, but only 16 percent of them received a downward adjustment over the next 20 months. If we relax the California standard to the proposed 20 percent or $50, whichever is lower, standard, we estimate that 55 percent of debtor parents would have met this criteria for a downward modification, but only 16 percent of them received one over the next 20 months.

Table 7. Measuring the Need for and Receipt of Downward Modifications in 31 California LCSAs

Percent of Debtors who Met the Current California Standard for a Downward Adjustment (30 percent and $50, whichever is higher)	50%
Of these Parents, Percent who Received a Downward Adjustment in the Next 20 Months	16%
Percent of Debtors who Met an Alternative California Standard for a Downward Adjustment (20 percent or $50, whichever is lower)	55%
Of these Parents, Percent who Received a Downward Adjustment in the Next 20 Months	16%

Source: see Table 1.

Over 80 Percent of Debtors Who Had Their Orders Set at a MBSAC Level Met the Current California Standard for a Downward Modification but only 17 Percent of them Received One

We also examined a subgroup of debtors, all of whom had their orders set at a MBSAC level, and found that 82 percent of them met the current California standard for a downward modification in March 2000. We also found, however, that only 17 percent of these debtors received a downward adjustment over the next 20 months. These

findings strongly suggest that all debtors who had their orders set at MBSAC levels should have their orders reviewed and modified, if appropriate.

How Did We Arrive at these Findings?

To determine whether a debtor needed an adjustment, we predicted a child support order for each debtor who had a current support order in March 2000 as well as 12 months later.[33] The predicted order is based on his/her current income, the number of children on the order, and the California guidelines. To use the California guidelines, we also needed to know the custodial parent's income and the noncustodial parent's visitation rate. Since we did not have this information, we assumed that the noncustodial parent was not awarded visitation and the custodial parent had no income because these two conditions yield the largest child support order under the California guidelines for each level of income and number of children assuming there are no add-ons, such as child care.

California's current threshold for recommending adjustments is a 30 percent and $50 change, Thus, if the predicted order is more than 30 percent less than the current order and is more than $50 a month less than the current order, then we conclude that the debtor parent would meet the standard for a downward adjustment. We also determine whether a debtor would meet the standard for an adjustment if the California standard was reduced to 20 percent of the original order or $50 a month, whichever is lower.

Our estimates should yield lower bound estimates of the proportion of debtors in these LCSAs that meet the California standard for a downward modification since we assume that every debtor parent has no visitation and every custodial parent has no income when determining the new order amount. If the custodial parent, in fact, has an income or there is some visitation, then the predicted order would have been even lower and we may have found even more debtor parents that met the California standard for a downward modification.

We should note that we do not estimate how many debtor parents need an upward adjustment because we do not have an obvious upper-bound assumption regarding visitation and custodial parent income, as we did when estimating the need for a downward adjustment. When estimating the need for a downward adjustment, we made the obvious lower-bound assumptions regarding visitation (zero) and custodial parent income (zero). When estimating the need for an upward adjustment, we need upper-bound assumptions for visitation and custodial income. If we assume that the noncustodial parent shares visitation equally with the custodial parent and that the custodial parent has more income than the noncustodial parent, obvious upper-bound assumptions, then the noncustodial parent should not have an order, and thus there is no need for adjustments.

VI. Incarcerated Obligors

We find that relatively few debtors are in state prison at any point in time. In August 2000, we found 22,790 debtors, less than 3 percent of the debtor population, in state prison. This figure, however, does not include those in local jails or in federal prison. Nationally, 62 percent of the incarcerated population is in state prisons.[34] Hence, the percent of debtors in custody could be as high as five percent, still a relatively small portion of the population.

Nonetheless, the incarcerated should be examined due to their unique predicament. The median arrears for this group was over 50 percent higher than other debtors in March 2000. At that time, half of them owed less than $14,564; the other half owed more. In addition, 66 percent of them had a current order, the median monthly amount of which was $291, only nine dollars less than the median monthly amount among all debtors.

The ability of the incarcerated to pay child support, however, is severely limited. Only half of the debtors in state prison in August of 2000 had reported income in 1998 or 1999. The median net income of those with reported income was only $2,881.

There are a number of good reasons why orders should be modified for prisoners. First, accumulated arrears may make it more difficult for prisoners to make a successful transition from prison back to the community. Ex-offenders may face wage attachments up to 65 percent of their income if they do become employed and can face driver's license suspensions or other coercive enforcement measures. Additionally, families do not benefit from arrears that can never be paid. Finally, since prisoners are unlikely to be able to make current support payments and payments on arrears, failure to collect in these cases will negatively influence the federal performance measures and, hence, the amount of incentives the state receives from the federal government.

A Massachusetts study of incarcerated and paroled child support obligors found that they owed an average of $227 to $313 per month.[35] Only 8 to 11 percent of inmates had received a modification of the monthly support order. The average arrears owed to the state ranged from approximately $6,600 among parolees to over $8,000 among prison inmates. The study also found that the routine adoption of a $50 child support order level for all inmates upon entry to a prison would result in the accumulation of average arrears balance of $4,407 versus $20,461 during incarceration and the avoidance of approximately $16,014 in additional child support debt for each inmate. The report recommended that those with prison sentences should have their orders modified immediately upon entry to prison.

VII. Child Support Enforcement

State child support agencies have some of the toughest child support enforcement tools in the world, including new hire directories, immediate wage withholding, license suspension, financial institution data match, and passport revocation. Due to data constraints, we could only examine wage withholding, which is considered by many in the child support community to be the most effective enforcement tool available to child support. Below, we describe the extent to which wage withholding is used and its impact on payment behavior. We start by giving some background information about the development of wage withholding.

Background on Wage Withholding Policies

Wage withholding is the primary method used by the child support program to ensure child support payments. Wage withholding refers to the automatic deduction of child support payments from a noncustodial parent's paycheck. Prior to 1988, federal law mandated wage withholding, but only when obligors fell behind in their child support payments. During the 1980s, many states began to implement wage withholding before obligors became delinquent, a practice referred to as "immediate" wage withholding. Because this practice was considered highly effective in collecting child support, Congress mandated immediate wage withholding for all new cases in the child support system.

Until the mid-1990s, one weakness with the wage withholding process was that once obligors moved to another job, wage withholding orders did not immediately follow. Child support agencies would not find out about job changes until months later, through their automated earnings information. To reduce the amount of time that lapses between the start of a job and the placement of a wage withholding order, Congress mandated in 1996 that states establish comprehensive directories of new hires. The new hire directories gather information from employers about all newly hired employees. The state, in turn, matches this information to their child support records and generates wage withholding orders that are sent to employers.

Wage Withholding in 29 LCSAs in California

Table 8 shows that 70 percent of debtors in 29 LCSAs in California had a wage withholding order in place in 2000.[36] Using multivariate regression analysis, we also find that debtors with wage withholding orders in place are more likely to pay child support or arrears than similarly situated debtors without wage withholding orders in place. Specifically, we find that 70 percent of debtors with a wage withholding order in place paid child support or arrears over a 12-month period. In contrast, only 43 percent of similarly situated cases without wage withholding orders in place made payments over the same period. Hence, debtors with a wage withholding order in place were 64 percent more likely to pay support over a one-year period than similarly situated debtors without a wage withholding order in place in 29 California LCSAs.

Table 8. Wage Withholding Characteristics of Debtors in 29 LCSAs of California

Percent of Debtors with Wage Withholding Served	70%
Percent of Similarly Situated Debtors that Paid Support Over a One Year Period if they:	
Have a Wage Withholding Order	70%
Do Not Have a Wage Withholding Order	43%
Percent Difference	64%*
If they Paid, the Average Amount Paid for One Year Among Similarly Situated Debtors if they:	
Have a Wage Withholding Order	$4,562
Do Not Have a Wage Withholding Order	$3,781
Percent Difference	21%*

Source: see Table 1.

* p < .05. See text for a list of the control variables included in the regression.

Debtors with a wage withholding order in place were 64 percent more likely to pay support over a one-year period than similarly situated debtors without a wage withholding order in place in 29 California LCSAs

Our regression analysis also examined the amount of support paid among cases that paid child support or arrears over a one-year period. We find that among these cases, those with wage withholding orders in place paid an average of $4,562 over a 12-month period, while similarly situated cases without wage withholding orders in place paid $3,781. Hence, debtors with a wage withholding order in place paid 21 percent more than similarly situated debtors without a wage withholding order in place.

These regressions were run on all debtors in the 29 LCSAs. The dependent variables were: 1) whether or not the debtor paid child support or arrears over a 12-month period, and 2) the amount that was paid among those who provided support. The control variables included the net income of the noncustodial parent, a variable indicating whether a current order was in place, the number of children on the order, the number of years since the order was first established, and a variable indicating whether the debtor's children were currently on or formerly on welfare.

These findings confirm what others argue - that wage withholding is a powerful enforcement tool. Hence, California will want to take even more aggressive steps to ensure wage withholding orders are in place.

VIII. Leveraging Existing Arrears

Since most of California's arrears are not realistically collectible, California may want to consider developing policies to leverage its state-owed arrears. Policy development in this area will need to be mindful of the argument that reducing the amount of arrears

owed rewards irresponsible behavior and discourages obligors from paying on time, undermining the effectiveness of the child support program.

Nonetheless, there are good reasons to consider compromising arrears. The primary concern about large arrears balances is that they may drive obligors away from their children and discourage them from paying current support. Another reason to consider compromising arrears, often cited by child support advocates and the media, is that large child support arrears suggest that the child support program is failing. Although this conclusion is simplistic, large arrears do suggest that something is amiss. A third reason to consider compromising arrears is that federal incentives for the child support program now reward states that have a large percentage of arrears cases paying toward arrears. Policies that encourage debtors to pay arrears will improve California's performance on this measure.

The federal government has issued guidance in this area, indicating that states have discretion to compromise arrearages owed to the state.[37] Previously, some child support administrators thought they were not allowed to compromise arrears. Federal law requires states to have laws that make unpaid child support a judgment by operation of law and prohibit courts from retroactive modification of arrearages. But, parties who own the arrears, such as the state, may choose to compromise the arrears that are owed to them.

Several states have begun to experiment in this area, typically implementing pilot projects.[38] Other states have adopted statewide policies in this area. Below, we summarize some of these efforts.

Forgive Interest or Arrears to Increase Arrears Payments. Some states have agreed to waive interest or some percentage of principal owed to the state in exchange for a lump-sum payment of the total debt. Massachusetts waives all interest and penalties owed to the state in exchange for a lump-sum payment of the total debt. Vermont has developed a formula that requires a percentage lump-sum payment of the total debt, the percentage being dependent upon the estimated number of years that it would otherwise be required to pay off the debt.[39]

Waive Interest to Increase Current Support Compliance and Regular Payments toward Arrears. Massachusetts waives interest charges if a noncustodial parent is paying at least 75 percent of their current support order and is making payments towards arrears.[40]

Leverage Arrears Among Low-Income Obligors to Help them Overcome Barriers to Work and Pay Child Support. Several states, including Connecticut, Iowa, Maryland, Minnesota, and Missouri, are in the process or already have initiated pilot projects that reduce arrears for low-income obligors in exchange for successfully completing a fatherhood program, getting a job, and paying current support in full for a specified period.[41]

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

We recommend that the California Legislature give DCSS the authority to consider all of these options. The last one, in particular, deserves consideration since we show that child support orders for low-income obligors in California have tended to exceed debtors' ability to pay child support. California, for example, may want to consider eliminating state-owed arrears associated with default orders set at MBSAC levels since these orders do not reflect parents' ability to pay.

IX. Conclusions

This report estimates that approximately three-quarters of California's arrears result from policies and practices that set and keep child support orders at levels that exceed noncustodial parents' ability to pay child support. These practices are then compounded by assessing interest on arrears at 10 percent a year. Specific policies and practices that appear to contribute to these large arrears are:

1. Not applying the low-income adjustment;
2. Establishing orders by default;
3. Setting default orders at an MBSAC amount;
4. Assessing back support;
5. Rarely modifying child support orders; and
6. Assessing interest on arrears at 10 percent a year.

In order to reduce arrears and their growth in the future, we recommend that DCSS and the California Legislature consider the following reforms:

- ***Make the Low-Income Adjustment Presumptive and Review Level***

- ***Reduce the Default Rate:***

    1. *Improve service of process by obtaining better locate information from the custodial parent and through automated sources*
    2. *Use personal service, rather than substitute service, as the preferred method*
    3. *Further simplify summons and complaint*
    4. *Use pre- and post-service letters*
    5. *Use time and date certain default appointments*

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

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

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

- ***Limit Back Support for Welfare Cases to the Date of Filing as is Done in Non-Welfare Cases***

- ***Review and Adjust Child Support Orders More Routinely***

    1. *Modify orders quickly on change of circumstance*
    2. *Lower the quantitative threshold for determining when to modify an order*
    3. *Review and adjust child support orders that are based on presumed income so that they reflect actual income information*
    4. *Suspend orders by operation of law while noncustodial parents are incarcerated if they have no income or assets*

- ***Lower the Interest Rate Charged on Arrears***

    1. *Lower the rate from 10 percent to 7 percent or revise the interest structure to a two-pronged system of interest and penalties*
    2. *Apply arrears payments to principal before interest*

- ***Give DCSS Authority to Leverage State-Owed Arrears***

Although we suggest fundamental reforms in the child support program that should reduce the part of arrears that is largely uncollectible, we do not intend to imply that vigorous enforcement should not be pursued. We estimate that 36 percent of California's child support debtors have the ability to pay child support and do not. These debtors hold 24 percent of California's child support arrears. Every effort should be made to collect arrears from these debtors. We also find that wage withholding, considered to be the most effective enforcement tool available to child support agencies, is widely used and effective in California. This enforcement tool should be even more aggressively pursued.

Endnotes

[1] The Little Hoover Commission. 1997. *Enforcing Child Support: Parental Duty, Public Priority.* Report #142. May.

[2] Fresno is only included in the interest and modification analyses.

[3] The 27th CASES LCSA, Glen, does not have complete payment information. As a result, it is rarely used in our analyses. It is used in the interest, retroactive support, and modification analyses.

[4] We found an overlap of 3,762 debtors who were in both the CASES data and the StarKIDs data. Hence, our combined number of debtors for all 29 counties was 248,009.

[5] Net income as described in Report 4 is used in this report as well.

[6] The 29 LCSAs with payment information are: Alpine, Amador, Calaveras, Colusa, Del Norte, Inyo, Kings, Lake, Mariposa, Merced, Modoc, Mono, Monterey, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Francisco, San Luis Obispo, Santa Barbara, Santa Cruz, Sierra, Siskiyou, Solano, Sutter, Trinity, Tulare, and Tuolumne.

[7] California Department of Social Services. 1992. FSD Letter No. 92-15. July.

[8] U.S. Department of Health and Human Services. Office of Inspector General. 2000. *State Policies Used to Establish Child Support Orders for Low-Income Non-custodial Parents.* July. OEI-05-99-00391.

[9] U.S. Department of Health and Human Services, Office of Child Support Enforcement. Online Interstate Roster and Referral Guide. http://ocse3.acf.hhs.gov/ext/irg/sps/selectastate.cfm

[10] Venohr, Jane, David Price and Esther Griswold. 2000. *Part I: A Study of Interest Usage on Child Support Arrears.* State of Colorado. Denver, CO: Policy Studies Inc.

[11] Ibid.

[12] The 27 LCSAs with interest information are: Alpine, Amador, Calaveras, Colusa, Del Norte, Fresno, Glenn, Inyo, Kings, Lake, Mariposa, Merced, Modoc, Mono, Monterey, Plumas, Riverside, San Benito, San Francisco, San Luis Obispo, Santa Barbara, Sierra, Siskiyou, Solano, Sutter, Trinity, and Tulare.

[13] Each LCSA is weighted by the number of debtors in the LCSA.

[14] Child Support Enforcement Amendments of 1984. Pub. L., No. 98-378. 1984. Codified at 42 U.S.C § 667(a).

[15] Judicial Council of California. 2001. *Review of Statewide Uniform Child Support Guideline.*

[16] Cal. Family Code § 4055(b)(7).

[17] Judicial Council of California. 2001. *Review of Statewide Uniform Child Support Guideline.* We are not surprised that our figure is slightly higher than that reported by the Judicial Council because our samples are different. We examine noncustodial parents who are behind in their child support payments as of March 2000, regardless of when their order was established; the Judicial Council looks at cases that were opened in 1999, regardless of their subsequent payment history.

[18] For a discussion of the various methods LCSAs use to serve noncustodial parents, see California State Auditor. 1999. *Child Support Enforcement Program: Without Stronger Leadership, California's Child Support Program will Continue to Struggle.* August.

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

[20] See for example, San Mateo County Department of Child Support Services. 2002. "Child Support 101: What do Local Child Support Agencies Do?" September.

[21] Ibid.

[22] MBSAC amounts vary over time, by region, and by number of children. For or a complete listing, see: http://www.dss.cahwnet.gov/shd/docs/Ref_Tables-CalWORKs.pdf.

[23] U.S. Department of Health and Human Services. Office of Inspector General. 2000. *State Policies Used to Establish Child Support Orders for Low-Income Non-custodial Parents.* July. OEI-05-99-00391.

[24] Ibid.

[25] U.S. Department of Health and Human Services, Office of Inspector General. 2000. *The Establishment of Child Support Orders for Low Income Non-custodial Parents.* July. OEI-05-99-00390.

[26] The 27 CASES counties are: Alpine, Amador, Calaveras, Colusa, Del Norte, Glenn, Inyo, Kings, Lake, Mariposa, Merced, Modoc, Mono, Monterey, Plumas, Sacramento, San Benito, San Francisco, San Luis Obispo, Santa Cruz, Sierra, Siskiyou, Solano, Sutter, Trinity, Tulare, and Tuolumne.

[27] Alpine, Amador, Colusa, Sierra and Solano have MBSAC information, but were not used in our estimates of the incidence of MBSAC orders because these counties had too few debtors with orders established in 1998 and 1999 to generate reliable numbers. We include them in our regression analysis because these regressions do not need reliable LCSA-specific estimates.

[28] Morgan. Laura. 1997. *Child Support Guidelines: Interpretation and Application.* Aspen Law & Business. New York, NY: Aspen Publishers.

[29] U. S. Department of Health and Human Services. 1999. Office of Inspector General. *Review and Adjustment of Support Orders.* March. OEI-05-98-00100.

[30] Ibid.

[31] Ibid.

[32] The two additional counties, beyond the 29 listed in endnote 12, are Fresno and Glenn.

[33] When determining whether a debtor needed and received a downward modification, his or her case had to be open throughout the 12-month period analyzed.

[34] U.S. Department of Justice. Bureau of Justice Statistics. *Correctional Populations in the United States. 1997.* http://www.ojp.usdoj.gov/bjs/pub/pdf/cpus97.pdf.

[35] Thoennes, Nancy. 2002. *Child Support Profile: Massachusetts Incarcerated and Paroled Parents*. Denver, CO: Center for Policy Research.

[36] Wage withholding orders include those imposed by the LCSAs as well as those imposed by the Franchise Tax Board. The latter information was merged onto our IDB data by the Franchise Tax Board and reflected wage withholding orders in place as of October 2000.

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

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

[39] Ibid.

[40] Ibid.

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

Report 6

Earnings Ability of Noncustodial Parents in California's Child Support System

I. Introduction

Earlier reports indicated that noncustodial parents with child support arrears in California had relatively low incomes. This result generated an interest in ascertaining the earnings ability of all noncustodial parents in California's child support system. Although many noncustodial parents in the California child support system have child support arrears, many do not. Hence, earlier reports on the earnings ability of noncustodial parents with arrears need not reflect the earnings capacity of all noncustodial parents. Knowing the income distribution of noncustodial parents in the California child support system could help the California Department of Child Support Services (DCSS) better understand how to serve its clients.

The purpose of this report is to characterize the earnings ability of all noncustodial parents in California's child support system. The next section describes the data used to conduct this analysis. The third and fourth sections describe the results. The final section summarizes our findings.

II. Data from the Master Case Listing

The Department of Child Support Services has a Master Case Listing (MCL), which consists of all child support cases in the IV-D system. These cases may or may not have a child support order. If a child support order has been established, the case may or may not have arrears. Thus, the MCL has a broader range of cases than the Integrated Data Base (IDB) that had been used in earlier reports. These data are collected by DCSS as part of their performance review process. In this analysis, we use the MCL created in September 2000, which consists of all child support cases in the California child support system as of December 31, 1999. Local Child Support Agencies (LCSAs) were required to provide specific information about each case, including the first and last name, social security number, and date of birth of the noncustodial parent.

We compared these data to administrative data that were published in the Child Support Statistical Trend Analysis Report (CSSTAR) for Federal Fiscal Year 1999. These data also come from the LCSAs, but they represent slightly different periods—the MCL reflects cases as of December 31, 1999 and CSSTAR reflects cases as of September 1999. Nonetheless, Table 1 shows that the number of cases in these two data sets are quite similar.

Table 1. Number of Open Cases by County Reported in the 2000 Master Case Listing and the Child Support Statistical Trend Analysis Report, FFY1999

County	MCL	CSSTAR	Ratio
Alameda	58,383	59,166	0.99
Alpine	174	168	1.04
Amador	1,886	1,979	0.95
Butte	19,598	19,886	0.99
Calaveras	2,235	2,797	0.80
Colusa	1,046	1,061	0.99
Contra Costa	58,511	57,952	1.01
Del Norte	4,273	4,517	0.95
El Dorado	9,395	9,166	1.02
Fresno	71,357	71,477	1.00
Glenn	1,982	2,143	0.92
Humbolt	8,743	8,978	0.97
Imperial	11,143	*	*
Inyo	1,871	1,906	0.98
Kern	55,927	54,927	1.02
Kings	10,011	10,234	0.98
Lake	6,772	6,986	0.97
Lassen	1,858	1,942	0.96
Los Angeles	578,357	552,773	1.05
Madera	7,576	7,561	1.00
Marin	4,152	4,328	0.96
Mariposa	983	1,008	0.98
Mendocino	6,127	6,280	0.98
Merced	17,746	16,923	1.05
Modoc	1,109	1,107	1.00
Mono	601	586	1.03
Monterey	22,984	22,421	1.03
Napa	5,459	5,824	0.94
Nevada	5,534	5,334	1.04
Orange	102,306	107,859	0.95
Placer	11,655	12,008	0.97
Plumas	1,604	1,648	0.97
Riverside	118,998	123,560	0.96
Sacramento	81,028	74,501	1.09
San Benito	4,054	4,000	1.01
San Bernadino	160,899	167,045	0.96
San Diego	141,320	164,038	0.86
San Francisco	28,888	30,475	0.95
San Joaquin	36,198	47,456	0.76
San Luis Obispo	7,690	8,224	0.94
San Mateo	17,086	18,317	0.93
Santa Barbara	17,931	18,448	0.97
Santa Clara	72,428	72,742	1.00
Santa Cruz	10,643	9,628	1.11
Shasta	16,530	16,926	0.98
Sierra	212	205	1.03
Siskiyou	4,912	4,949	0.99
Solano	25,054	26,893	0.93
Sonoma	20,074	22,929	0.88
Stanislaus	37,209	37,526	0.99
Sutter	8,076	8,281	0.98
Tehama	5,019	5,126	0.98
Trinity	1,344	1,340	1.00
Tulare	40,057	45,353	0.88
Tuolumne	4,682	4,198	1.12
Ventura	33,533	32,046	1.05
Yolo	12,276	13,318	0.92
Yuba	11,167	11,601	0.96
Total	**2,008,666**	**2,030,070**	**0.99**

*County data not published in CSSTAR

In order to match the MCL to other state administrative records, we needed to convert the MCL from a case-level record format to a person-level record format. In other words, each record needed to represent a noncustodial parent instead of a child support case. We converted the MCL data into a person-level format by combining all child support cases into one record if they had the same last name and a valid social security number (SSN) for the noncustodial parent. If a case did not have a valid SSN for the noncustodial parent, then cases were combined if they had the same last name and date of birth (DOB). If a case was missing the necessary information to combine cases into a person-level record (i.e., it did not have a valid social security number, or a last name and/or a birth date), then we assumed that each case represented a noncustodial parent. As a result, our estimate of the number of noncustodial parents is an upper-bound estimate.

Table 2 shows that the Master Case Listing consisted of 2 million cases that were open as of December 31, 1999. We found that 1.7 million of these cases, or 87 percent, had a valid social security number (SSN). Another 204,403 open cases, or 10 percent, had a last name and date of birth. Only 3 percent of the open cases (56,768) did not have a valid SSN or a last name and/or date of birth.

Table 2. Number and Percent of Cases and Noncustodial Parents in the 2000 Master Case Listing, by Identifying Information

Total Number of Open Cases	2,008,666 (100%)
with a valid SSN	1,747,495 (87%)
w/o a valid SSN, but with a last name and DOB	204,403 (10%)
w/o a valid SSN and w/o a last name and/or DOB	56,768 (3%)
Total Number of Noncustodial Parents w/ an Open Case	1,634,253 (100%)
with a Valid SSN	1,399,024 (86%)
with Arrears	780,213 (48%)
w/o Arrears	618,811 (38%)
w/o a Valid SSN, but with a last name and DOB	178,461 (11%)
w/o a Valid SSN and w/o a last name and/or DOB	56,768 (3%)

Source: DCSS, 2000 MCL, IDB.

We then rolled up the case-level data with valid SSNs to the person level, assuming that cases with the same SSN were associated with the same person. We identified 1.4 million noncustodial parents with a valid SSN. Nearly 800,000 of these parents had arrears that had been sent to the IDB for intercept purposes. We also rolled up open cases without a valid SSN to the person level, assuming that cases with the same last name and DOB were associated with the same person. We identified 178,461 noncustodial parents without a valid SSN, but with a last name and a DOB. We do not know whether these parents had arrears. The remaining cases (56,768) did not have a valid SSN nor a last name and/or DOB. We assume that each of these cases represented a different noncustodial parent. Again, we could not determine whether these parents had arrears. Summing noncustodial parents with a valid SSN and without

a valid SSN, we estimate 1,634,253 noncustodial parents in the California child support system had an open child support case as of December 31, 1999.

III. Income Characteristics of Noncustodial Parents

Matching the 2000 MCL with the 1999 California quarterly earnings data from the Employment Development Department, we found 673,523 noncustodial parents, or 49 percent of noncustodial parents with a valid SSN. This match rate is similar to that found for the IDB.[1] Table 3 reports the median earnings and the earnings distribution of noncustodial parents with a valid SSN in California's IV-D system. In 1999, noncustodial parents had significantly lower earnings than the average California worker. The median earnings among these parents was $13,551, as compared to $16,574 among all California workers. Examining the earnings distribution shows that this discrepancy results because the overall population of California workers is substantially more likely to earn $40,000 or more. The greatest discrepancy in the distributions is between the percentages of noncustodial workers and California workers earning greater than $70,000. Seven percent of California workers earned more than $70,000 in 1999, as opposed to only 1 percent of noncustodial workers.

Table 3. Annual Earnings of Noncustodial Parents with a Valid SSN, All California Workers, and Noncustodial Parents with Arrears: 1999

	Noncustodial Parents with a Valid SSN	All California Workers	Noncustodial Parents with a Valid SSN and Arrears
Number with Positive Earnings	673,523	16,431,363	408,288
Percent with earnings:			
$1-5,000	26%	25%	25%
$5,001-10,000	15%	12%	15%
$10,001-15,000	12%	10%	13%
$15,001-20,000	11%	9%	11%
$20,001-25,000	9%	7%	9%
$25,001-30,000	7%	6%	7%
$30,001-40,000	9%	10%	10%
$40,001-50,000	5%	7%	5%
$50,001-60,000	3%	4%	2%
$60,001-70,000	1%	3%	1%
$70,001 or more	1%	7%	1%
Median Positive Earnings	$13,551	$16,574	$14,110

Source: DCSS, 2000 MCL, 2000 IDB; EDD, 1999 quarterly earnings.

We also compared noncustodial parents with a valid SSN to noncustodial parents identified by the Department's IDB as having arrears. Table 3 shows that noncustodial

parents in the IV-D system who have reported earnings have very similar earnings to debtors with reported earnings. We had expected to find that noncustodial parents in the IV-D system had higher earnings, on average, than noncustodial parents with arrears. We had thought that since they had not fallen behind in their child support, they might have higher earnings.

Since we were surprised to find that noncustodial parents in the IV-D system were no better off than noncustodial parents with arrears, we decided to match the MCL data to all of the income sources that we had available. Below, we review how many noncustodial parents we found in these data and then examine their income distribution overall, and by arrears status. Unfortunately, unlike the IDB data, the data on all noncustodial parents was not matched to national quarterly earnings from the federal Office of Child Support Enforcement or the Wage Master List from the Franchise Tax Board (FTB) as was the data on debtor noncustodial parents.

Table 4 reports the number of noncustodial parents for whom income data was found, by the data set in which income data was first located. The data sets are ranked in the same way that we ranked them in Report 3. For comparative purposes, we have added the Report 3 figures on debtors here.

Table 4. Number and Percent of Noncustodial Parents and Child Support Debtors found in Data Containing Income Information

	Number (%) of Noncustodial Parents in MCL			Number (%) of Child Support Debtors in IDB
	Total	W/o Arrears	With Arrears	
With a Valid SSN	1,399,024 (100%)	618,811 (100%)	780,213 (100%)	834,908 (100%)
In EDD (1997-1999)	840,402 (60%)	355,175 (57%)	485,227 (62%)	511,790 (61%)
In Tax Data (1996-1999), but not EDD	92,393 (7%)	48,487 (8%)	43,906 (6%)	29,661 (4%)

Source: DCSS, 2000 MCL and IDB; EDD, Quarterly Earnings (1997-1999); FTB, Income Tax Returns for 1996-1999.

We find income data in the EDD file for approximately 60 percent of all the subgroups of noncustodial parents examined. Income data are found in the tax files for four to eight percent of the noncustodial parents for whom no income data were found in the EDD file.

To construct recent income from the EDD and tax data, we first identified whether noncustodial parents filed a single or joint tax return. If an individual filed a single return, we compared his 1999 earnings and 1999 federal AGI and set his income equal

to the maximum. If both were missing for 1999, we then compared his earnings and federal AGI in 1998, and, subsequently in 1997, if 1998 data were missing, taking the maximum value as his income. If neither earnings nor federal AGI was available for 1997, income was set equal to 1996 federal AGI. Should an individual filing alone have neither earnings nor federal AGI for any of the years between 1996 and 1999, his income was set equal to 0. For individuals filing joint returns, we set income equal to earnings in the most recent year earnings were available. If earnings were missing in 1999, 1998, and 1997, income was set equal to half of the recorded federal AGI in the most recent year federal AGI was not missing. Again, an individual's income was set equal to 0 if we did not find any earnings or federal AGI information.

Surprisingly, the resulting income distributions (displayed in Table 5), like the earnings distributions, were very similar for all noncustodial parents, regardless of whether the noncustodial parent held debt. Approximately 80 percent of both noncustodial parents with arrears and noncustodial parents without arrears had incomes less than $20,000. Four percent or less of debtors and non-debtors had incomes over $50,000. Additionally, median income barely differed between noncustodial parents with and without arrears; median income among noncustodial parents without arrears equaled $14,073, as compared to $14,520, among noncustodial parents with arrears.

Table 5. Recent Income of Noncustodial Parents in California's IV-D System who have a Valid Social Security Number

	Noncustodial Parents with a Valid SSN		
	Total	**W/o arrears**	**W/ arrears**
Total Number	**1,399,024**	**618,811**	**780,213**
Percent with the following incomes:			
$0	44%	45%	44%
$1-10,000	21%	21%	21%
$10,001-20,000	14%	14%	14%
$20,001-30,000	9%	8%	9%
$30,001-40,000	5%	5%	6%
$40,001-50,000	3%	3%	3%
$50,001-60,000	1%	2%	1%
$60,001-70,000	1%	1%	1%
$70,001 or more	1%	1%	1%
Median Positive Income	$14,326	$14,073	$14,520

Source: DCSS, 2000 MCL and IDB; EDD, Quarterly Earnings (1997-1999); FTB, Income Tax Returns for 1996-1999.

IV. Other Characteristics of Noncustodial Parents

We also examined other characteristics of noncustodial parents by their arrears status, including their age, their filing status, and their participation in Medi-Cal. We find that noncustodial parents without arrears were younger than noncustodial parents holding arrears. Table 6 shows that 30 percent of noncustodial parents without arrears are under 30, while only 17 percent of noncustodial parents with arrears were under 30. The median age for noncustodial parents without arrears was 35; it was 38 for those with arrears.

Table 6. Age Distribution of Noncustodial Parents

	Total	W/o Arrears	W/ Arrears
Number of Noncustodial Parents with a DOB	1,392,816	614,704	778,112
Under 30	23%	30%	17%
30-39	38%	38%	38%
40-49	29%	24%	33%
50+	10%	8%	12%
Average Age	37	35	38

Source: DCSS, 2000 MCL.

Filing status data, like the data on federal AGI, came from California tax returns for 2000. Table 7 reports our results. It shows that only 36 percent of noncustodial parents in the IV-D system who filed a California tax return filed as a single person, compared to 45 percent of California tax filers in general. In addition, only 31 percent of these noncustodial parents were married and filed a joint return, while 39 percent of California tax filers used this filing status.

Table 7. Filing Status for those who Filed a California Tax Return in 2000

	Noncustodial Parents with a Valid SSN			All California Taxfilers
	Total	W/o arrears	W/ arrears	
Number who Filed	464,448	228,340	236,108	13,126,133
Percent:				
Single	36%	31%	42%	45%
Married, filing jointly	31%	33%	28%	39%
Married, filing separately	2%	2%	3%	1%
Head of Household	31%	34%	27%	15%
Surviving Spouse	0%	0%	0%	1%

Source: DCSS, 2000 MCL; FTB, 2000 California tax returns.

Table 7 also shows that noncustodial parents in the IV-D system who filed a California tax return were twice as likely as all California tax filers to file as a head of household.

In order to qualify as a head of household, an individual must not be married and must live with their minor children for at least half of the year and provide at least half of their support. Interestingly, noncustodial parents without arrears are more likely than noncustodial parents with arrears to file as a head of household. Thus, we find that a relatively large minority of noncustodial parents in the IV-D system who filed a tax return in 1999 were supporting resident children.

Finally, we examined Medi-Cal participation among noncustodial parents. Results are shown in Table 8. Noncustodial parents without arrears were fifty percent more likely to participate in Medi-Cal than noncustodial parents with arrears.

Table 8. Medi-Cal Participation Rate Among Noncustodial Parents with Valid Social Security Numbers

	Percent on Medi-Cal
Overall	12%
Without Arrears	15%
With Arrears	10%

Source: DCSS, 2000 MCL; DHS, Medi-Cal records.

IV. Conclusions

We use data created by the California Department of Child Support Services, called the Master Case Listing (MCL), to identify noncustodial parents in the IV-D system. These data are collected from all 58 counties and include information on all cases as of December 31, 1999. The MCL was matched to California tax returns filed in 1997-2000 and California quarterly earnings information from 1997-1999.

Two-thirds of the noncustodial parents in the MCL have income reported either in the aforementioned California quarterly earnings data or the California tax returns data. For those with income information, earnings are substantially lower than the typical California taxpayer. In 1999, median earnings were $13,551, compared to $16,574 for California workers. Forty-one percent earned $10,000 or less in 1999, as compared to only 37 percent of California workers. Just 1 percent of noncustodial parents earned above $70,000, versus 7 percent of California workers.

Finally, we find that 31 percent of noncustodial parents in the IV-D system who file a California tax return file as a head of household, which means they are single and living with minor children who they support. In contrast, only 15 percent of California tax filers file as a head of household. Thus, we find that a substantial minority of noncustodial parents who file a tax return are supporting resident children on relatively little income. Enforcing child support among these parents will inevitably lower the living standard of their resident children.

It is important to note, however, that we have not compared the earnings ability of noncustodial parents in the IV-D system to that of custodial parents. Other research suggests that if we had made this comparison, we would have found that custodial parents in the IV-D system have even lower incomes than noncustodial parents.[2] Needless to say, the lack of income among these mothers and fathers is a serious problem, especially for the children involved.

Endnotes

[1] See Report 2.

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