



## BACK WHERE IT BELONGS: CALIFORNIA CAN USE NEW FLEXIBILITY TO INCREASE CHILD SUPPORT PAID TO FAMILIES

**C**hild support provides a crucial source of income for children who are not living with both parents. When absent parents do not support their families, the government steps in to help, collecting payments through the state's child support program. However, families who receive, or formerly received, cash assistance through the state's CalWORKs Program do not receive all of their child support. The state and federal governments retain – and treat as revenue – a portion of these payments in order to recoup the cost of cash benefits provided to these families. California can use two recent changes in federal law to increase the amount of child support paid to these families – with the federal government sharing the cost. In addition, states are now required to charge, and share with the federal government, a \$25 fee for certain families. California should consider paying the fee with state funds, rather than charging parents or reducing child support payments to families.

### Child Support Provides a Crucial Source of Income for Families

Child support provides a crucial source of income for parents and their children. Nationally, child support is the second largest source of income for families who receive such payments – after the mother's earnings – and lifts hundreds of thousands of children out of poverty.<sup>1</sup> Research shows that child support comprises approximately one-sixth (16.8 percent) of the income of the families who receive it. These payments make up a larger share (30.0 percent) of the income of families with incomes below the federal poverty threshold.<sup>2</sup> However, many absent parents do not meet their child support obligations, in part because they have low incomes and thus have limited ability to pay the amounts they owe.<sup>3</sup>

### The Child Support Program: An Overview

California's child support program uses state and federal dollars to collect payments owed to parents and their children.<sup>4</sup> Families are eligible for services regardless of income, although the program tends to serve lower-income families, who generally

are unable to privately enforce their child support orders.<sup>5</sup> Many families receive all of the child support collected on their behalf. However, families who receive, or formerly received, cash assistance through the California Work Opportunity and Responsibility to Kids (CalWORKs) Program do not receive all of their child support.<sup>6</sup> Federal law requires the state to retain – and share with the federal government – a portion of the child support collected on behalf of these families in order to recoup the cost of cash benefits.<sup>7</sup> However, policymakers, particularly at the national level, have begun to shift the focus of the program toward ensuring that children receive more of the child support paid by their parents, regardless of whether children have received cash assistance.<sup>8</sup> For example, the federal Office of Child Support Enforcement characterizes the child support program as a “family-first program, intended to ensure families' self-sufficiency by making child support a more reliable source of income.”<sup>9</sup>

### The Child Support Program Benefited Nearly 2 Million California Children in FFY 2005

In federal fiscal year (FFY) 2005, the child support program benefited 1.9 million California children – 11.1 percent of

**Table 1: Families and Children Served by the Child Support Program, California and US, FFY 2005**

	California		US	
	Number	Percentage	Number	Percentage
Families with Children Currently Receiving TANF-Funded Cash Assistance	454,564	25.8%	2,495,817	15.7%
Families with Children Who Formerly Received TANF-Funded Cash Assistance	856,573	48.6%	7,292,828	46.0%
Families with Children Who Have Never Received TANF-Funded Cash Assistance	451,859	25.6%	6,072,108	38.3%
Total Families*	1,762,996	100.0%	15,860,753	100.0%
Total Children*	1,914,459	n/a	17,173,286	n/a

\* Figures include a small number of children who were receiving at the time, or who had formerly received, foster care services.  
Source: US Department of Health and Human Services, Office of Child Support Enforcement

the 17.2 million children in the program in the US as a whole (Table 1). A majority of families served through the program in both California and the US are current or former recipients of Temporary Assistance for Needy Families (TANF), the federal block grant that provides funding for the state’s CalWORKs Program. These families comprised a larger share of child support cases in California (74.4 percent) than in the US as a whole (61.7 percent) in FFY 2005.<sup>10</sup>

### California’s Child Support Program Collected \$2.2 Billion in California in FFY 2005

California’s child support program collected \$2.2 billion from absent parents in FFY 2005 – 9.7 percent of child support collected nationwide (\$23.0 billion). In California, nearly two-thirds (65.0 percent) of child support was collected on behalf of current and former CalWORKs families (Table 2). In contrast, in the US as a whole, a majority (55.2 percent) of child support was collected on behalf of families who had never received TANF-funded cash assistance.

### Families Receive a Smaller Share of Child Support Collections in California Than in the US as a Whole

Families receive a smaller share of child support collected in California than in the US as a whole.<sup>11</sup> This is because families

receiving TANF-funded cash assistance must “assign” – or sign over – all of their unpaid child support to the state, and such families comprise a larger share of California’s child support caseload than that of the US.<sup>12</sup> California’s families will receive approximately three-quarters (76.6 percent) of child support collected in 2006-07 – \$1.8 billion out of an estimated \$2.4 billion (Table 3).<sup>13</sup> In contrast, families in the US as a whole received about nine out of 10 child support dollars (90.6 percent) collected in FFY 2005 – \$20.8 billion out of \$23.0 billion.<sup>14</sup>

### California Can Use New Flexibility to Increase the Amount of Child Support Paid to Families

The Deficit Reduction Act (DRA) of 2005, signed by President Bush in February 2006, made several changes to the federal child support program.<sup>15</sup> These changes included new options for states designed to increase the amount of child support paid to families who receive, or formerly received, TANF-funded cash assistance, such as through the CalWORKs Program. The federal government has offered financial incentives to encourage states to adopt these changes. These options give California an opportunity to increase the financial security of the state’s low-income families while encouraging more fathers to pay their child support.<sup>16</sup>

**Table 2: Amount of Payments Collected by the Child Support Program, California and US, FFY 2005**

Collections on Behalf of:	California		US	
	Dollars in Thousands	Percentage of Total	Dollars in Thousands	Percentage of Total
Families with Children Currently Receiving TANF-Funded Cash Assistance*	\$293,657	13.2%	\$1,042,751	4.5%
Families with Children Who Formerly Received TANF-Funded Cash Assistance*	\$1,151,526	51.8%	\$9,253,967	40.2%
Families with Children Who Have Never Received TANF-Funded Cash Assistance	\$776,863	35.0%	\$12,709,163	55.2%
Total	\$2,222,045	100.0%	\$23,005,880	100.0%

\* Figures include collections on behalf of a small number of children who were receiving at the time, or who had formerly received, foster care services.  
Source: US Department of Health and Human Services, Office of Child Support Enforcement

**Table 3: Families Will Receive About Three-Quarters of Child Support Collected in California, 2006-07**

	Dollars in Thousands	Share of Total Collections
Collections Paid to Families*	\$1,806,634	76.6%
Collections Not Paid to Families	\$551,604	23.4%
Total Collections	\$2,358,238	100.0%

\* Includes approximately \$100 million collected in California on behalf of other states.

Note: Data are estimated for 2006-07 as of November 2006.

Source: CBP analysis of Department of Child Support Services data

## California Can Pass Through More Child Support to CalWORKs Families, While Reducing or Only Modestly Increasing the State's Cost

Currently, states may keep all of the child support collected on behalf of a family receiving cash assistance; provide the entire amount to the family; or keep a portion and give the remainder to the family. However, states must share a portion of these collections with the federal government, regardless of how much child support a state “passes through” to families. The federal government receives 50 percent of these California collections.<sup>17</sup> For on-time payments, California passes through up to \$50 per month to CalWORKs families and “disregards” – does not count – that amount in determining a family’s eligibility for CalWORKs or the grant amount. The state pays the full cost of this pass-through to CalWORKs families – an estimated \$30.3 million in 2006-07.<sup>18</sup> The state does not share any child support with a CalWORKs family if the payment is overdue, or in “arrears.”<sup>19</sup>

Starting on October 1, 2008, the federal government will waive a limited portion of its share of child support that is passed through to CalWORKs families. The federal government will forgo its share of up to \$100 per month for families with one child and up to \$200 per month for families with two or more children, whether the payment is on time or overdue.<sup>20</sup> For example, if California increased the pass-through to provide up to \$100 in child support to a CalWORKs family, the federal government would pay up to \$50 from its share of the amount collected.<sup>21</sup>

Due to this new federal incentive, California can provide more child support to CalWORKs families while either reducing or only modestly increasing the state’s cost (Table 4). For instance, the state can double the monthly pass-through – from \$50 to \$100 – while reducing the state’s cost by \$3.5 million compared to the current state policy. The state’s cost would be reduced because the federal government would share half the cost of providing a \$100 pass-through to CalWORKs families. In contrast, California bears the full cost of the current \$50 pass-through.

Moreover, California can give up to \$100 per month to CalWORKs families with one child and up to \$200 per month to families with

two or more children for a modest additional annual state cost of \$4.0 million.<sup>22</sup> Increasing the pass-through by these amounts would provide CalWORKs families with an estimated additional \$38.0 million in child support, with most of this increase paid by the federal government.

## California Can Provide More Child Support to Former CalWORKs Families, with the Federal Government Sharing Half the Cost

Families who leave CalWORKs currently receive all ongoing monthly payments and most of the overdue support collected on their behalf, including child support recovered from a state tax refund owed to the absent parent. However, the state and federal governments currently keep overdue child support that is recovered from a federal tax refund owed to the absent parent. Starting on October 1, 2008, the federal government will waive, with no limits, its share (50 percent) of child support recovered from a federal tax refund if California pays the entire amount to a family who has left CalWORKs. For example, if a \$2,000 federal tax refund is recovered, the family would receive the full amount, while the state and federal governments would each forgo \$1,000 that would otherwise be used to recoup the cost of cash assistance previously paid to the family.<sup>23</sup>

The CBP estimates that former CalWORKs families could receive more than \$100 million per year in overdue child support if California adopts this option.<sup>24</sup> The state’s cost in forgone revenue would be slightly less than half the amount families would receive.<sup>25</sup> In addition to boosting the incomes of former CalWORKs families, this option would allow California to treat state and federal tax refunds equivalently by giving all of the funds to former CalWORKs families who are owed overdue child support payments.

## Policymakers Should Consider Using State Funds to Pay the New Federal Fee

In addition to the new options to provide more child support to families, the DRA requires states to charge an annual \$25 fee if at least \$500 in child support is collected in a year for families who have never received TANF-funded cash assistance.<sup>26</sup> California must comply with this provision starting on January 1, 2008.<sup>27</sup> The state must pay approximately two-thirds of the fee (\$16.50) to the federal government and can keep the remaining \$8.50. In order to implement the fee, California may:

- Reduce the child support paid to a family by the amount of the fee;
- Charge the fee to a parent; or
- Pay the federal share of the fee out of state funds.

**Table 4: California Can Substantially Increase Child Support Paid to CalWORKs Families While Reducing or Only Modestly Increasing the State's Costs (Dollars in Millions)**

Amount of Child Support the State "Passes Through" to CalWORKs Families:	Total Amount Passed Through Annually to CalWORKs Families	Federal Share	State Share	Additional Child Support Provided Annually to CalWORKs Families Compared to Current State Policy	Annual State Savings (-) or Cost (+) Compared to Current State Policy
<b>Current State Policy*</b>					
Up to \$50, regardless of the number of children	\$30.0	\$0.0	\$30.0	n/a	n/a
<b>Options for Increasing Child Support Paid to CalWORKs Families</b>					
Up to \$50 for one child and up to \$100 for two or more children	\$37.0	\$18.5	\$18.5	\$7.0	-\$11.5
Up to \$100, regardless of the number of children	\$53.0	\$26.5	\$26.5	\$23.0	-\$3.5
Up to \$80 for one child and up to \$160 for two or more children	\$57.0	\$28.5	\$28.5	\$27.0	-\$1.5
Up to \$100 for one child and up to \$200 for two or more children	\$68.0	\$34.0	\$34.0	\$38.0	\$4.0

\* The Department of Child Support Services assumed a current annual state cost of \$30 million in estimating the total annual cost of increasing child support paid to CalWORKs families. The state cost of the current pass-through is estimated to be \$30.3 million in 2006-07. Source: CBP analysis of Department of Child Support Services data

Taking the fee out of a payment would reduce the amount of child support received by families. Charging the fee to parents could be costly and administratively cumbersome. For example, the state would have to modify its computer system to collect and track the fee, which would be "prohibitively costly," according to the Department of Child Support Services.<sup>28</sup> In addition, the state would have to pay the federal share of the fee if the state cannot collect the fee from a parent. Although the state could keep \$8.50 of each \$25 fee collected, this amount would likely be more than offset by the state's start-up and ongoing costs related to the fee. Policymakers should consider paying the federal share of the fee out of state funds, at an estimated cost of \$1.8 million in 2007-08, as the Governor proposes in his 2007-08 Proposed Budget.<sup>29</sup>

## Conclusion

Child support provides a crucial source of income for parents and their children. However, the state and federal governments keep – and treat as revenue – a portion of the child support collected on behalf of current and former CalWORKs families. Recent changes in federal law allow California to increase the amount of child support paid to these families, with the federal government sharing the cost. For example, California can pass through substantially more child support to CalWORKs families while either reducing or only modestly increasing the state's cost compared to the current \$50 pass-through policy.

In addition, the state can boost the incomes of former CalWORKs families by providing these families with overdue child support recovered from a federal tax refund, which is currently retained by

the state and federal governments. Families could receive more than \$100 million per year in overdue child support if California adopts this option. The state's cost in forgone revenue would be slightly less than half the amount families would receive. This cost may appear to be prohibitive, given the state's ongoing fiscal constraints. However, providing more child support to these families would increase their incomes, thereby increasing the well-being of low-income parents and children who have transitioned off CalWORKs.

Finally, the state should consider paying the federal share of the new \$25 fee with state funds at an estimated cost of \$1.8 million in 2007-08, rather than charging parents or reducing child support payments to families by the amount of the fee.

Scott Graves prepared this Budget Brief. The California Budget Project (CBP) wishes to thank Curt Child, formerly of the National Center for Youth Law, and staff with the Department of Child Support Services for their generous time and insightful comments. The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at [www.cbp.org](http://www.cbp.org).

## ENDNOTES

- <sup>1</sup> Elaine Sorensen and Chava Zibman, *Child Support Offers Some Protection against Poverty* (The Urban Institute: March 2000), pp. 1 and 3.
- <sup>2</sup> Elaine Sorensen, *Child Support Gains Some Ground* (The Urban Institute: October 2003). Data are from the 2002 National Survey of America's Families. The federal poverty threshold for a family of three with two children in 2005 was \$15,735.
- <sup>3</sup> Elaine Sorensen and Helen Oliver, *Policy Reforms are Needed to Increase Child Support from Poor Fathers* (The Urban Institute: April 2002), pp. 1 and 4.
- <sup>4</sup> The program is administered by the Department of Child Support Services through county child support agencies. In addition to collecting child support payments, the program locates non-custodial parents, establishes paternity, and enforces child support and medical support orders. At the federal level, the child support program is overseen by the Office of Child Support Enforcement in the US Department of Health and Human Services. In 2001, 60.0 percent of single-parent families in the US participated in their state's child support program. Linda Mellgren, et al., *Characteristics of Families Using Title IV-D Services in 1999 and 2001* (US Department of Health and Human Services: October 2004), downloaded from [http:// aspe.hhs.gov/hsp/CSE-Char04/index.htm](http://aspe.hhs.gov/hsp/CSE-Char04/index.htm) on November 28, 2006.
- <sup>5</sup> Elaine Sorensen, *Child Support Gains Some Ground* (The Urban Institute: October 2003), p. 1.
- <sup>6</sup> CalWORKs replaced the former Aid to Families with Dependent Children Program in 1998. Support for CalWORKs comes from a fixed federal Temporary Assistance for Needy Families (TANF) block grant of \$3.7 billion per year, along with \$2.7 billion in state and county funds. See California Budget Project, *CalWORKs: California's Welfare-to-Work Program* (February 2004).
- <sup>7</sup> The state also keeps – and shares with the federal government – child support collected on behalf of children who have received foster care services. However, these children comprise a small proportion of the child support caseload both in California and nationally.
- <sup>8</sup> Vicki Turetsky, *In Everybody's Best Interests: Why Reforming Child Support Distribution Makes Sense for Government and Families* (Center for Law and Social Policy: September 2005), p. 6.
- <sup>9</sup> Office of Child Support Enforcement, US Department of Health and Human Services, *National Child Support Enforcement Strategic Plan FY 2005-2009*, p. 1.
- <sup>10</sup> The child support program is based on "cases" rather than "families." A case is an absent parent plus his or her children with the custodial parent in common. Therefore, a case is not equivalent to a family. For example, siblings who have only a custodial parent in common would be included in separate cases. However, for simplicity, this report uses the term "families" when referring to the child support program.
- <sup>11</sup> However, the state and federal governments cannot retain more child support than the amount of cash assistance paid to a family.
- <sup>12</sup> However, California "passes through" up to \$50 in child support to CalWORKs families from the state's share of a collection, as allowed by federal law. In addition, the state and federal governments retain some of the child support collected on behalf of families who formerly received TANF-funded cash assistance.
- <sup>13</sup> As shown in Table 3, an estimated \$551.6 million of the child support collected in California in 2006-07 will not be paid to families. The state will retain an estimated \$267.4 million; the federal government, \$252.7 million; and the counties, \$31.6 million in order to recoup the cost of cash assistance provided to current and former CalWORKs families. Department of Child Support Services, *2007-08 Governor's Budget: Budget Change Proposals and Local Assistance Administrative Costs and Collections Estimates* (January 2007).
- <sup>14</sup> The federal Office of Child Support Enforcement (OCSE) does not provide state-level data regarding the distribution of child support dollars between families and government. Therefore, this analysis uses data provided by the state Department of Child Support Services, in addition to the federal OCSE data.
- <sup>15</sup> See Vicki Turetsky, *Child Support Provisions in the Fiscal Year 2006 Federal Budget Bill and 2007 Budget Proposal* (Center for Law and Social Policy: February 17, 2006) for a complete summary of the child support provisions in the DRA.
- <sup>16</sup> Research suggests that absent parents are more likely to pay their child support if a larger share of these payments goes directly to their children, rather than being retained by the state and federal governments. Daniel R. Meyer and Maria Cancian, *W-2 Child Support Demonstration Evaluation Phase 1: Final Report Volume 1: Effects of the Experiment* (Institute for Research on Poverty, University of Wisconsin – Madison: April 2001).
- <sup>17</sup> Child support collected through the child support program is shared with the federal government based on a state's Federal Medical Assistance Percentage (FMAP), the rate the federal government uses to determine the federal share of a state's Medicaid expenditures. California's FMAP is 50 percent, so the state must pay half of any child support that is collected on behalf of CalWORKs families to the federal government.
- <sup>18</sup> Giving a share of monthly child support to CalWORKs families represents a cost to the state because the state reduces the amount of such payments that it would otherwise count as revenue.
- <sup>19</sup> Instead, overdue support is shared among the federal, state, and county governments.
- <sup>20</sup> This option also requires states to disregard any child support that is passed through to a family when determining a family's eligibility for TANF benefits or the grant amount.
- <sup>21</sup> California could pass through the full amount of child support to a CalWORKs family, even if the collection exceeds the \$100 or \$200 monthly limits included in the DRA. However, the state would have to pay the federal government 50 percent of any amount that exceeds the limits.
- <sup>22</sup> These estimates assume that the state passes through child support to CalWORKs families only from on-time payments, as under current state law. California could also provide child support to CalWORKs families from overdue payments, although doing so would result in reduced state savings or additional state costs since California currently does not provide any portion of an overdue payment to a CalWORKs family. In addition, these estimates do not reflect any one-time costs associated with reprogramming the state's child support computer system. Any such costs would likely be minor if the state only increased the amount passed through to families

from \$50 to \$100, regardless of the number of children in a family. Reprogramming costs could be higher if the state varied the pass-through amount according to the number of children in a family.

<sup>23</sup> In this example, the amount forgone by the state includes \$50 that would otherwise be kept by a county, since counties receive 2.5 percent of child support collections that are not paid to families. This example also assumes that the amount of cash assistance previously paid to the family is at least \$2,000, since the state and federal governments cannot retain more child support than the amount of cash assistance paid to a family.

<sup>24</sup> CBP analysis of Department of Child Support Services and federal Office of Child Support Enforcement data.

<sup>25</sup> The federal government would pay 50 percent of the cost of this option; the state, 47.5 percent; and the counties, 2.5 percent.

<sup>26</sup> Prior to passage of the DRA, federal law required families who had never received cash assistance to pay an application fee of up to \$25 for child support services. California currently charges a fee of one cent and pays the fee with state funds.

<sup>27</sup> The DRA required states to begin charging the new fee as of October 1, 2006. However, states may begin charging the fee later if state legislation is needed to implement it. The Department of Child Support Services interprets the DRA to require California to begin charging the new fee as of January 1, 2008.

<sup>28</sup> Department of Child Support Services, *2007-08 Governor's Budget: Budget Change Proposals and Local Assistance Administrative Costs and Collections Estimates* (January 2007).

<sup>29</sup> Department of Child Support Services, *California Department of Child Support Services 2007-08 Governor's Budget: Budget Highlights* (January 2007).