

# CLASP

CENTER FOR LAW AND SOCIAL POLICY

## Families Will Lose \$8.4 Billion in Uncollected Support If Federal Matching Funds for Child Support Incentive Payments Are Eliminated

By Vicki Turetsky

The House spending reconciliation bill included deep cuts in federal funding for child support enforcement. There were two major cuts in funding — a cut in the overall federal match rate in the program and a prohibition on receiving federal matching payments when they reinvest their child support performance incentive payments in the child support program. In recent days, there have been indications that the cut to the match rate may not remain in the final conference agreement on the budget bill, but that the prohibition on drawing down federal matching funds on state performance incentive payments would remain in the final bill.<sup>1</sup>

Some have argued that this prohibition would not hurt families, but would simply close an unintended loophole. This is not the case, however. The Congressional Budget Office estimates that this change in federal law would mean that \$8.4 billion in child support owed by noncustodial parents over the next ten years — and \$2.9 billion over the next five years — will now go uncollected if the incentive match is eliminated. This is money right out of the budgets of families who need the child support owed to them to meet their children's needs.

According to CBO, eliminating the federal match for incentive payments reinvested in the child support program would result in a reduction of \$4.9 billion in federal funding for child support efforts over the next ten years (\$1.6 billion over the next five years). These are funds states use to establish and enforce child support obligations, obtain health care coverage for children, and link low-income fathers to job programs. Attached are state-by-state charts that allocate by state the CBO's estimates of uncollected support payments and reduced federal funds that would result from eliminating the federal match on incentive payments.

Congress overhauled the child support performance incentive system in 1998. Since the early days of the child support program, states received federal incentive payments, but were not held to specific performance standards. In addition, states were permitted to spend the incentive payments in any way they chose, and were not required to reinvest their incentive payments in the child support program. For example, some states returned the incentive payments to their state treasury. However, states could draw down matching funds if they chose to spend their incentive payments on reimbursable child support activities.

In 1998, Congress replaced the old incentive statute with a performance-based system that includes both incentive payments and penalties. States are measured on five performance measures. If states fail to meet minimum standards, they will incur a penalty against their TANF funds of 1 to 2 percent in the first year and up to 5 percent for multiple-year failures. If they perform adequately, they will receive neither a penalty nor an incentive payment. If their performance has improved, they will earn a partial incentive payment. The better a state performs, the higher the incentive payment, up to a capped amount. In 2006,

---

<sup>1</sup> The author appreciates the assistance of Sharon Parrott in preparing this report.

incentive payments are capped by statute at \$458 million.

As a part of the redesigned performance incentive system, Congress directed states to reinvest their incentive payments in their child support programs. For the first time, states were required to spend their incentive payments on reimbursable child support activities, unless they received permission from HHS to spend the money on closely-related but non-reimbursable activities (such as fatherhood programs). Congress intended that when states spend their incentive payments on reimbursable child support activities required under the state plan, they receive federal reimbursement at the standard matching rate. See attached appendix.

The intent was to create a pool of funds available to states (especially poorer states and smaller states) to improve their child support performance. This pool was designed to include both the incentive payments and the draw-down on federal matching funds. At the time the incentive system was redesigned, child support programs in most states were substantially under-funded compared to other children's programs, and performance was abysmal. In 1998, states were only collecting child support in 23 percent of cases.

This performance-based funding system has accomplished exactly what it was designed to do. By 2004, states had doubled their collection rates, collecting child support in 51 percent of cases, and significantly improving their performance on every other measure. In fact, performance has steadily improved every year since the performance incentive system was adopted. Not only has performance improved, but state investment has increased faster than federal funding. The Office of Management and Budget has rated the child support program among the most effective federal programs.

If the federal match on incentive payments is withdrawn, state performance will almost certainly slip. The research is clear that child support funding and performance are directly related. As state performance slips, states will lose incentive payments, and many states will fall into penalty status. They will have less money available to improve their child support performance, creating a downward spiral of reduced funding and performance. As states incur penalties, this downward spiral will affect funding and performance for both the child support and TANF programs.

The child support program ensures that both parents support their children—so that taxpayers do not need to. The child support program is a front-end program, collecting child support so that families can remain self-sufficient. It is in the federal government's budgetary interest to fund the child support program at a level that reinforces parental responsibility and produces results for families. ***Federal funds spent on the child support program directly reduce federal outlays in other programs.*** When families do not receive child support, they need more help from public assistance programs. The Urban Institute found that the child support program more than pays for itself in reduced direct budgetary outlays in TANF, Medicaid, Food Stamps, and other needs-based programs. Every \$1 spent by federal, state and county governments yields \$4.38 in private funds paid by noncustodial parents to support their children.

**TABLE 1**  
**Cuts to Federal Funds if Incentives Are Not Matched**  
(\$ millions)

<b>State</b>	<b>5-year Cut 2006-2010</b>	<b>10-Year Cut, 2006-2015</b>
<b>Nationwide</b>	<b>-\$1,636.0</b>	<b>-\$4,893.0</b>
Alabama	-\$14.1	-\$42.3
Alaska	-\$7.0	-\$20.9
Arizona	-\$18.0	-\$53.8
Arkansas	-\$12.1	-\$36.2
California	-\$158.3	-\$473.3
Colorado	-\$17.4	-\$52.1
Connecticut	-\$12.5	-\$37.2
Delaware	-\$4.6	-\$13.6
Dist. Columbia	-\$2.2	-\$6.4
Florida	-\$90.4	-\$270.4
Georgia	-\$38.1	-\$114.0
Hawaii	-\$5.6	-\$16.9
Idaho	-\$8.4	-\$25.2
Illinois	-\$30.4	-\$91.0
Indiana	-\$25.5	-\$76.3
Iowa	-\$26.1	-\$78.1
Kansas	-\$11.9	-\$35.6
Kentucky	-\$27.5	-\$82.2
Louisiana	-\$21.2	-\$63.4
Maine	-\$8.4	-\$25.2
Maryland	-\$19.7	-\$59.0
Massachusetts	-\$33.0	-\$98.8
Michigan	-\$104.8	-\$313.3
Minnesota	-\$47.0	-\$140.6
Mississippi	-\$11.7	-\$35.0
Missouri	-\$37.9	-\$113.4
Montana	-\$3.8	-\$11.4
Nebraska	-\$13.1	-\$39.2
Nevada	-\$4.9	-\$14.6
N. Hampshire	-\$6.5	-\$19.4
New Jersey	-\$58.9	-\$176.1
New Mexico	-\$3.5	-\$10.5
New York	-\$94.8	-\$283.4
North Carolina	-\$46.2	-\$138.0
North Dakota	-\$5.6	-\$16.6
Ohio	-\$111.1	-\$332.4
Oklahoma	-\$12.4	-\$37.0
Oregon	-\$21.5	-\$64.2
Pennsylvania	-\$95.6	-\$286.0
Rhode Island	-\$4.6	-\$13.7
South Carolina	-\$13.0	-\$38.9
South Dakota	-\$5.5	-\$16.4
Tennessee	-\$28.0	-\$83.7
Texas	-\$126.2	-\$377.4
Utah	-\$13.3	-\$39.6
Vermont	-\$4.3	-\$12.9
Virginia	-\$38.5	-\$115.0
Washington	-\$48.5	-\$144.9
West Virginia	-\$13.6	-\$40.7
Wisconsin	-\$52.4	-\$156.6
Wyoming	-\$4.3	-\$12.7

CLASP calculations based on preliminary estimates by the Congressional Budget Office of the cut in federal child support funding if federal law is changed so that states no longer receive federal matching payments when they reinvest child support incentive payments in the child support program. The total cut was allocated by state based on each state's share of child support incentive payments in 2004, the latest available data.

**TABLE 2**  
**Projected Impact on Federal Child Support Collections**  
(\$ millions)

<b>State</b>	<b>5-year Cut 2006-2010</b>	<b>10-Year Cut, 2006-2015</b>
<b>Nationwide</b>	<b>-\$2,900.0</b>	<b>-\$8,400.0</b>
Alabama	-\$25.1	-\$72.6
Alaska	-\$12.4	-\$35.8
Arizona	-\$31.9	-\$92.4
Arkansas	-\$21.5	-\$62.2
California	-\$280.5	-\$812.6
Colorado	-\$30.9	-\$89.4
Connecticut	-\$22.1	-\$63.9
Delaware	-\$8.1	-\$23.4
Dist. Columbia	-\$3.8	-\$11.1
Florida	-\$160.2	-\$464.2
Georgia	-\$67.5	-\$195.6
Hawaii	-\$10.0	-\$29.0
Idaho	-\$14.9	-\$43.2
Illinois	-\$53.9	-\$156.2
Indiana	-\$45.2	-\$131.0
Iowa	-\$46.3	-\$134.1
Kansas	-\$21.1	-\$61.2
Kentucky	-\$48.7	-\$141.1
Louisiana	-\$37.6	-\$108.8
Maine	-\$14.9	-\$43.3
Maryland	-\$35.0	-\$101.4
Massachusetts	-\$58.6	-\$169.6
Michigan	-\$185.7	-\$537.9
Minnesota	-\$83.3	-\$241.4
Mississippi	-\$20.7	-\$60.1
Missouri	-\$67.2	-\$194.8
Montana	-\$6.8	-\$19.6
Nebraska	-\$23.2	-\$67.3
Nevada	-\$8.7	-\$25.1
N. Hampshire	-\$11.5	-\$33.4
New Jersey	-\$104.3	-\$302.2
New Mexico	-\$6.2	-\$18.0
New York	-\$168.0	-\$486.6
North Carolina	-\$81.8	-\$237.0
North Dakota	-\$9.9	-\$28.5
Ohio	-\$197.0	-\$570.6
Oklahoma	-\$22.0	-\$63.6
Oregon	-\$38.0	-\$110.2
Pennsylvania	-\$169.5	-\$490.9
Rhode Island	-\$8.1	-\$23.5
South Carolina	-\$23.0	-\$66.7
South Dakota	-\$9.7	-\$28.1
Tennessee	-\$49.6	-\$143.7
Texas	-\$223.7	-\$647.9
Utah	-\$23.5	-\$68.0
Vermont	-\$7.6	-\$22.2
Virginia	-\$68.2	-\$197.5
Washington	-\$85.9	-\$248.8
West Virginia	-\$24.1	-\$69.9
Wisconsin	-\$92.8	-\$268.8
Wyoming	-\$7.5	-\$21.8

CLASP calculations based on preliminary estimates by the Congressional Budget Office of the total cut in federal child support collections if federal law is changed so that states no longer receive federal matching payments when they reinvest child support incentive payments in the child support program. The total loss in collections was allocated by state based on each state's share of total child support incentive payments received in 2004, the latest available data.

## APPENDIX

### Federal Statutes Requiring Reinvestment of Incentive Funds and Authorizing Federal Match

*Paragraph (f) of the Child Support Performance Incentive Act of 1988 (42 U.S.C. 658a(f)) provides:*

A State to which a payment is made under this section shall expend the full amount of the payment to supplement, and not supplant, other funds used by the State.--

- (1) to carry out the State plan approved under this part; or
- (2) for any activity (including cost-effective contracts with local agencies) approved by the Secretary, whether or not the expenditures for the activity are eligible for reimbursement under this part, which may contribute to improving the effectiveness or efficiency of the State program operated under this part.

*The child support matching funds statute (42 U.S.C. 655(a)(1)) provides:*

**(a) Amounts payable each quarter**

- (1) From the sums appropriated therefore the Secretary shall pay to each State for each quarter an amount—

(A) equal to the percent specified in paragraph (2) [66 percent] of the total amounts expended by such State during such quarter for the operation of the plan approved under section 654 of this title.

(B) ...

except that no amount shall be paid to any State on account of amounts expended to carry out an agreement which it has entered into pursuant to section 663 of this title [child custody and missing children agreements]. In determining the total amounts expended by any State during a quarter, for purposes of this subsection, there shall be excluded an amount equal to the total of any fees collected or other income resulting from services provided under the plan approved under this part.