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Testimony

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Committee on Ways and Means
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CHILD SUPPORT
ENFORCEMENT

Opportunity to Reduce Federal
and State Costs

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Health, Education, and Human Services Division



063820/154467

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss opportunities to defray growing taxpayer costs for providing child support enforcement services to individuals other than recipients of Aid to Families With Dependent Children (AFDC).

The purpose of the federal Child Support Enforcement Program is to strengthen state and local efforts to obtain child support for both AFDC and non-AFDC families. When the Congress created the program in 1975, it made child support enforcement services available to non-AFDC clients with the belief that many families might be able to avoid the necessity of applying for welfare by obtaining the support due from the noncustodial parent. Indeed, the Child Support Enforcement Program is helping nonwelfare families; preliminary data for fiscal year 1994 show that the program collected more than \$7.3 billion for about 8.2 million non-AFDC clients.

Our testimony today, based on an update of our 1992 report,¹ will focus on four key points about the non-AFDC child support program: (1) growth in non-AFDC caseloads and related administrative costs to provide collection and other services; (2) income characteristics of non-AFDC clients, specifically, our finding that many are not within the low-income population to which the Congress envisioned providing child support enforcement services; (3) alternatives for increasing non-AFDC cost recovery; and (4) an alternative fee structure based on child support collections, and the degree of flexibility states should have in implementing such a cost recovery system.

In summary, our work has shown that providing child support enforcement services to non-AFDC clients is costly. Since 1984, federal and state government non-AFDC administrative costs have risen over 600 percent to over \$1.1 billion in fiscal year 1994. During this time, non-AFDC caseloads have also risen sharply, and many non-AFDC clients being served may not be within the low-income population to whom the Congress envisioned providing services. States have exercised their discretion to charge these clients only minimal application and optional service fees, such as for offsetting federal and state tax refunds and, thus, are doing little to help recover the federal government's 66-percent share of program costs. While non-AFDC service costs increased significantly from 1984 through 1994, recoveries of these costs only increased from 2 percent to about 3 percent or from \$3 million to \$33 million. The national average cost per non-AFDC case in fiscal year 1994 was about \$136, while the average fee collected was about \$4. In contrast, private child support collection agencies, whose services are also available to non-AFDC families,

¹Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

may charge an application fee and a percentage fee, usually about 25 percent to 33 percent, of the support collected.

Because most states have opted to implement minimal fee policies, the federal government's two-thirds share of the unrecovered non-AFDC child support administrative costs is considerable--almost \$715 million in 1994 alone. For this reason, we had recommended in 1992 that the Congress amend title IV-D of the Social Security Act to (1) require states to charge a minimum percentage service fee of each successful child support collection and (2) eliminate the mandatory non-AFDC child support application fee and optional federal and state tax offset fees. To date, the Congress has not acted on our recommendations.

BACKGROUND

Child support enforcement services are provided for both AFDC and non-AFDC clients and include locating noncustodial parents, establishing paternity, and obtaining child support orders. In addition, services are provided to collect ongoing and delinquent child support through such means as mandatory wage withholding, federal and state income tax refund offsets, personal property liens, and reporting delinquent payments to credit bureaus.

Federal responsibility for this program lies with the Department of Health and Human Services' (HHS) Office of Child Support Enforcement (OCSE). State child support enforcement agencies have responsibility for administering the program at state and local levels. The federal government and the states share program costs at the rate of 66 and 34 percent, respectively.

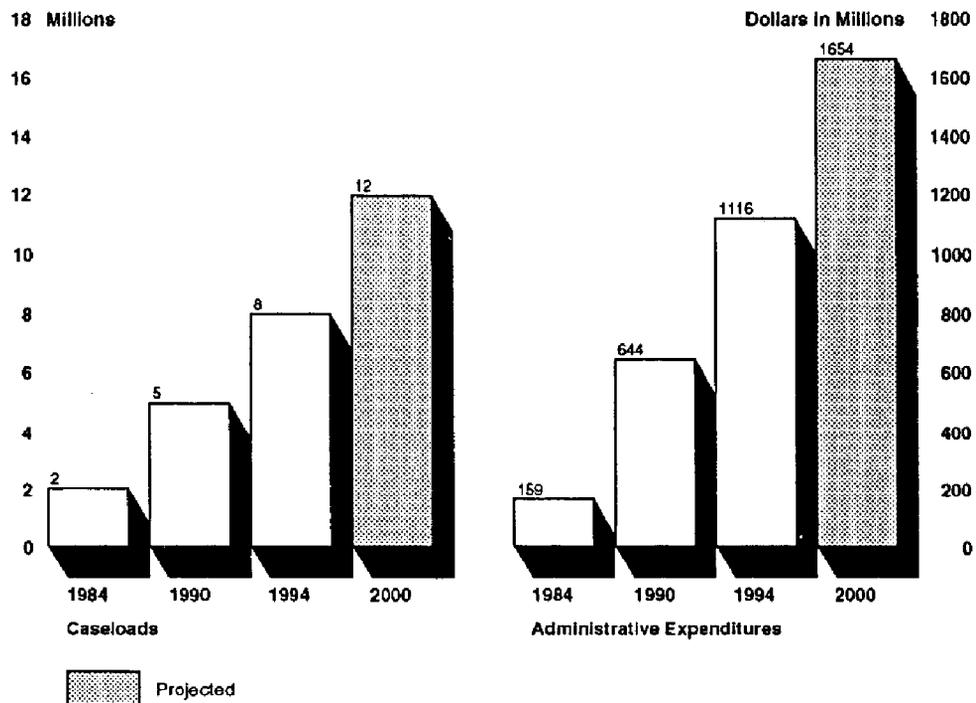
While AFDC recipients are required to participate in the child support enforcement program so that states may recover some portion of the AFDC grant, others not receiving AFDC may apply and receive the same services. In these non-AFDC cases, all child support is turned over to the custodial parent. To help defray the costs of providing these services, federal law requires that non-AFDC service applicants be charged a mandatory application fee up to a maximum of \$25. This fee must be paid to the child support agency by the applicant or the state and may be recovered later from the noncustodial parent. States also have the option of recovering actual non-AFDC service costs from the custodial or noncustodial parent and charging fees for specific services, such as offsetting federal and state income tax refunds of delinquent noncustodial parents. The federal and state governments share cost recoveries at the same rate that they share program costs.

CASELOADS, COLLECTIONS, AND EXPENDITURES HAVE RISEN, BUT FEW COSTS RECOVERED

Since passage of the Child Support Enforcement Amendments of 1984, which provided incentives to states to strengthen their non-

AFDC programs, non-AFDC caseloads, collections, and administrative expenditures have grown significantly. From 1984 through 1994, the non-AFDC caseload nearly doubled every 5 years and now exceeds the ongoing AFDC caseload. When we reported on this increasing trend in 1992, we estimated that non-AFDC caseloads and expenditures could exceed 7 million and \$1 billion, respectively, by 1995. Non-AFDC caseloads and expenditures, however, grew even more rapidly than we predicted. Figure 1 shows caseload and expenditure growth from 1984 through 1994 and provides an estimate of both for the year 2000. From fiscal year 1984 through 1994, non-AFDC caseloads rose 340 percent, from 1.9 to 8.2 million cases, and administrative expenditures increased over 600 percent, from \$159 million to \$1.1 billion. The average annual service cost per non-AFDC case also increased about 60 percent over this period, from \$85 to \$136.

Figure 1: Fiscal Years 1984, 1990, 1994, and Estimated 2000 Non-AFDC Caseloads and Expenditures



Source: OCSE's annual child support enforcement reports to the Congress for fiscal years 1984, 1990, 1994 (preliminary), and GAO's estimates for fiscal year 2000.

The non-AFDC child support program collects billions of dollars in child support, but little of the costs of providing these services is recovered. From 1984 to 1994, collections increased about 432 percent, from \$1.4 to \$7.3 billion. During this period, the administrative expenditures to provide collection and other services has risen sharply. Because most states chose to charge minimum application and service fees, cost recoveries over this same period were small, increasing from \$3 to \$33 million or from 2 percent to about 3 percent of administrative expenditures. As we reported in 1992, most states charge non-AFDC clients an application fee of \$1 or less. Appendix I provides detailed information on states' child support collections, expenditures, and costs recovered.

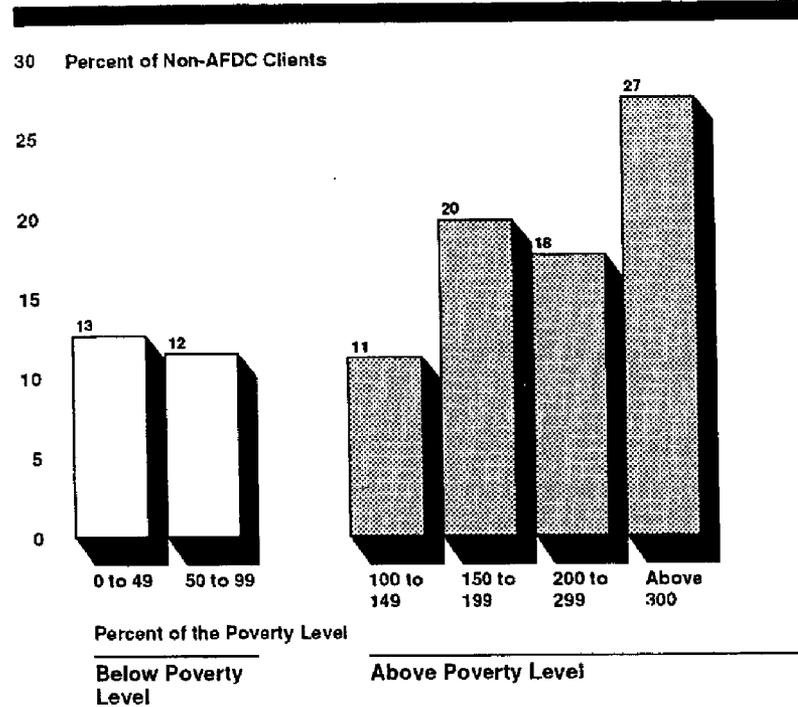
MANY NON-AFDC CLIENTS MAY NOT BE
WITHIN THE POPULATION THE CONGRESS
ENVISIONED SERVING

Many clients served by the non-AFDC child support program may not be within the low-income population to whom the Congress envisioned providing services. The Bureau of the Census' 1991 data, the most recent available, show that about 523,000 men and women, age 15 years and older, had requested child support services in that year. About 65 percent of these reported incomes, excluding any child support received, exceeding 150 percent of the federal poverty level.^{2,3} As figure 2 further illustrates, of all clients requesting services, about 45 percent reported incomes exceeding 200 percent of the poverty level and 27 percent reported incomes exceeding 300 percent. Under current state fee policies and practices, taxpayers are paying most of the cost to provide child support enforcement services to non-AFDC clients.

²Census data are generally thought to underreport the receipt of income. Answers to questions about income often depend on the memory or knowledge of one person in the household. Also, recall problems can cause underestimates of income in surveys, because people can easily forget minor or irregular sources of income.

³In 1991, the poverty threshold for a family of three persons was \$10,860.

Figure 2: Non-AFDC Clients' Income Relative to the Federal Poverty Level (1991)



Note: Data do not add up to 100 percent due to rounding.

Source: Unpublished tabulations by HHS computed from the Bureau of the Census' 1992 Current Population Survey Child Support Supplement, a public use tape.

ALTERNATIVES TO INCREASE COST RECOVERY

Federal law provides states considerable discretion in establishing fee policies to help defray non-AFDC child support administrative expenditures. Most states choose to exercise this discretion by adopting minimal fees, resulting in little cost recovery. With non-AFDC caseloads and administrative expenditures rising rapidly and the federal government paying two-thirds of the unrecovered costs, the non-AFDC fee structure and the rate at which child support services are being subsidized appear inappropriate

for a population that the Congress may not have originally envisioned serving.

When we reported on this issue in 1992, we evaluated and estimated the impact of several alternatives for increasing non-AFDC child support cost recoveries. These alternatives included mandatory application, annual service, income tax offset fees, and various combinations of each. In evaluating each alternative, we considered the effect it might have on potential clients' access to services, clients' financial resources, and states' administration. We developed these criteria after interviews with federal and state child support officials and various child support public interest groups and associations.

After examining states' fee policies and practices and considering the various alternatives, we concluded that any approach to increase cost recoveries through amending existing non-AFDC child support fee policy should not include mandatory application or fixed annual service fees. Many state child support officials view application fees as a barrier to clients who do not have the financial means to apply for services. Such fees may also discourage clients from seeking services, because the fees are paid whether or not any child support is collected. Some officials also believe that a fixed annual service fee could be cumbersome to administer, especially if it is to be recovered over a series of payments throughout the year. Finally, many state child support agency officials also oppose any fee that would be means-tested. A means test that requires states to validate clients' income through third parties would add considerable administrative and cost burdens to the program.

A MINIMUM SERVICE FEE STRUCTURE WOULD HELP RECOVER TAXPAYERS' COSTS

After considering the various alternatives, we reported that (1) charging a percentage service fee of all child support collections and (2) eliminating the mandatory application fee and optional federal and state tax offset fees would provide the most appropriate alternative to finance non-AFDC child support services. This approach offers several advantages over the other alternatives we evaluated and provides significant potential for increasing the recovery of administrative costs. State child support officials with whom we discussed this approach believe that it would be simple to administer. In addition, because there is no up-front cost to the client as with an application fee, this alternative should not discourage non-AFDC clients' from seeking valuable child support services, such as location and paternity establishment, even if collections are not realized. The approach could lessen the financial burden on clients who have limited financial resources, because fees would be collected only when child support payments are received.

You specifically asked us to comment on how the alternative fee structure we recommended should be implemented, including our views on the degree of flexibility states should be afforded. The administration of such a cost recovery system should be kept as simple as possible, so as not to incur unnecessary administrative costs. Thus, every time a dollar is collected, whether from an income tax refund offset, wage withholding, or monthly child support collection, the percentage fee should be applied. States should continue to have the option to pay this fee themselves or pay the fee and recover it from the noncustodial parent. However, as under existing federal law covering application fees, states should not be able to claim the service fees they pay as a program administrative cost. With respect to states' flexibility, because most states have opted to adopt minimal fees that has resulted in recovering little of the costs of providing services to non-AFDC clients, we believe that states should have no discretion in applying the fee and be required to apply it to every dollar collected.

The amount of costs recovered under our approach would depend upon the percentage fee that the Congress would set. As illustrated in table 1, a 15-percent service fee on collections would have recovered almost all 1994 non-AFDC administrative costs. However, the Congress may not want to seek full cost recovery. At a minimum, a service fee of one-half of 1 percent (shaded row in table 1) would have recovered the \$33 million realized through existing state fee policies.

Table 1: Sharing of 1994 Non-AFDC Child Support Administrative Costs Under GAO Alternative Fee Policy

Dollars in millions

Service fee (percent of collections)	Costs paid by	
	Taxpayer	Non-AFDC client
0.5	\$1,083	\$33
1	1,043	73
2	970	146
3	897	219
4	824	292
5	750	366
6	677	439
7	604	512
8	531	585
9	458	658
10	385	731
11	312	804
12	239	877
13	166	950
14	92	1,024
15	0	1,116

Note: The 1994 non-AFDC child support collections were about \$7.3 billion and administrative expenditures were about \$1.1 billion. Shaded row represents the fee that would have had to be applied to collections to equal the \$33 million that states recovered through existing fee policies in 1994.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or other members of the Subcommittee may have.

<p>For more information on this testimony, please call David Bixler, Assistant Director, at (202) 512-7201. Other major contributors include Nora Perry, Evaluator; Kevin Kumanga, Senior Evaluator; and Chris Morehouse, Evaluator.</p>
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Non-AFDC Child Support Collections, Expenditures,
and Recovered Costs (1994)

State	Collections	Expenditures	Costs recovered	Recovered costs	
				Percent of collections	Percent of expenditures
Alabama	\$106,760,421	\$27,379,463	\$222,482	0.2	0.8
Alaska	32,206,621	6,082,670	4,060	0.0	0.1
Arizona	56,243,484	20,983,174	11,701	0.0	0.1
Arkansas	39,552,742	12,678,580	1,354,548	3.4	10.7
California	436,945,123	119,797,020	2,287,049	0.5	1.9
Colorado	50,872,695	23,518,908	69,556	0.1	0.3
Connecticut	56,982,657	17,034,182	61,075	0.1	0.4
Delaware	21,808,809	5,715,726	45,913	0.2	0.8
District of Columbia	18,464,994	5,356,147	61,459	0.3	1.1
Florida	249,915,705	46,058,374	1,389,589	0.6	3.0
Georgia	145,002,293	29,039,987	6,307	0.0	0.0
Guam	5,131,094	2,287,773	0	0.0	0.0
Hawaii	35,155,810	10,549,204	0	0.0	0.0
Idaho	26,855,589	6,123,094	561,678	2.1	9.2
Illinois	141,078,593	55,708,119	46,546	0.0	0.1
Indiana	99,680,394	6,130,016	152,431	0.2	2.5
Iowa	82,599,385	13,552,487	445,225	0.5	3.3
Kansas	62,012,286	15,444,924	12,439	0.0	0.1
Kentucky	83,448,345	10,615,707	37,120	0.0	0.3
Louisiana	91,293,397	17,719,733	259,320	0.3	1.5
Maine	23,401,836	5,634,229	2,100	0.0	0.0
Maryland	199,882,152	22,241,772	286,650	0.1	1.3
Massachusetts	127,087,260	27,694,569	3,702	0.0	0.0
Michigan	722,267,784	29,025,099	5,849,560	0.8	20.2
Minnesota	184,834,020	30,053,799	562,877	0.3	1.9
Mississippi	39,417,467	11,214,653	1,133,365	2.9	10.1

Missouri	158,402,857	22,152,762	0	0.0	0.0
Montana	15,245,016	4,234,453	4,864	0.0	0.1
Nebraska	70,924,708	8,185,082	0	0.0	0.0
Nevada	36,450,819	4,095,046	35,970	0.1	0.9
New Hampshire	27,091,788	7,137,494	235	0.0	0.0
New Jersey	353,390,163	37,675,370	742,322	0.2	2.0
New Mexico	16,693,060	6,355,248	381,378	2.3	6.0
New York	385,974,245	68,478,911	127,965	0.0	0.2
North Carolina	149,824,046	25,919,928	190,879	0.1	0.7
North Dakota	15,729,819	3,683,641	15,789	0.1	0.4
Ohio	675,894,719	57,401,631*	12,835,502	1.9	22.4
Oklahoma	36,760,444	12,043,014	80,964	0.2	0.7
Oregon	112,107,719	8,388,172	162,329	0.1	1.9
Pennsylvania	734,720,564	62,053,484	49,643	0.0	0.1
Puerto Rico	101,615,083	6,134,437	0	0.0	0.0
Rhode Island	13,361,090	3,528,607	18,080	0.1	0.5
South Carolina	63,565,001	15,310,723	23,166	0.0	0.2
South Dakota	15,711,411	2,866,229	85,688	0.5	3.0
Tennessee	106,536,188	12,679,939	21,438	0.0	0.2
Texas	291,341,238	83,369,939	159,999	0.1	0.2
Utah	40,444,643	8,313,480	628,286	1.6	7.6
Vermont	10,525,657	3,946,838	0	0.0	0.0
Virgin Islands	5,205,336	1,039,192	7,893	0.2	0.8
Virginia	145,207,273	40,179,196	310,168	0.2	0.8
Washington	236,425,254	45,762,269	19,511	0.0	0.0
West Virginia	42,024,701	18,619,013	61,364	0.1	0.3
Wisconsin	299,147,224	24,840,880	2,396,686	0.8	9.6
Wyoming	11,896,182	1,583,064	20,879	0.2	1.3
Total	\$7,311,117,204	\$1,173,617,451*	\$33,247,750	0.5	2.8

*Because Ohio's fiscal year 1994 non-AFDC expenditures were not available, we estimated the amount by taking Ohio's fiscal year 1993 average cost per case and multiplying it by the fiscal year 1994 non-AFDC caseload. The total expenditures figure includes this estimate.

Note: Preliminary collections, expenditures, and costs recovered data from HHS' Administration for Children and Families, Office of Child Support Enforcement.

RELATED GAO PRODUCTS

Child Support Enforcement: Families Could Benefit From Stronger Enforcement Program (GAO/HEHS-95-24, Dec. 27, 1994).

Child Support Enforcement: Federal Efforts Have Not Kept Pace With Expanding Program (GAO/T-HEHS-94-209, July 20, 1994).

Child Support Enforcement: Credit Bureau Reporting Shows Promise (GAO/HEHS-94-175, June 3, 1994).

Child Support Enforcement: States Proceed With Immediate Wage Withholding; More HHS Action Needed (GAO/HRD-93-99, June 15, 1993).

Child Support Assurance: Effect of Applying State Guidelines to Determine Fathers' Payments (GAO/HRD-93-26, Jan. 23, 1993).

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, Aug. 13, 1992).

Medicaid: Ensuring That Noncustodial Parents Provide Health Insurance Can Save Costs (GAO/HRD-92-80, June 17, 1992).

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

Interstate Child Support: Wage Withholding Not Fulfilling Expectations (GAO/HRD-92-65BR, Feb. 25, 1992).

Interstate Child Support: Mothers Report Less Support From Out-of-State Fathers (GAO/HRD-92-39FS, Jan. 9, 1992).

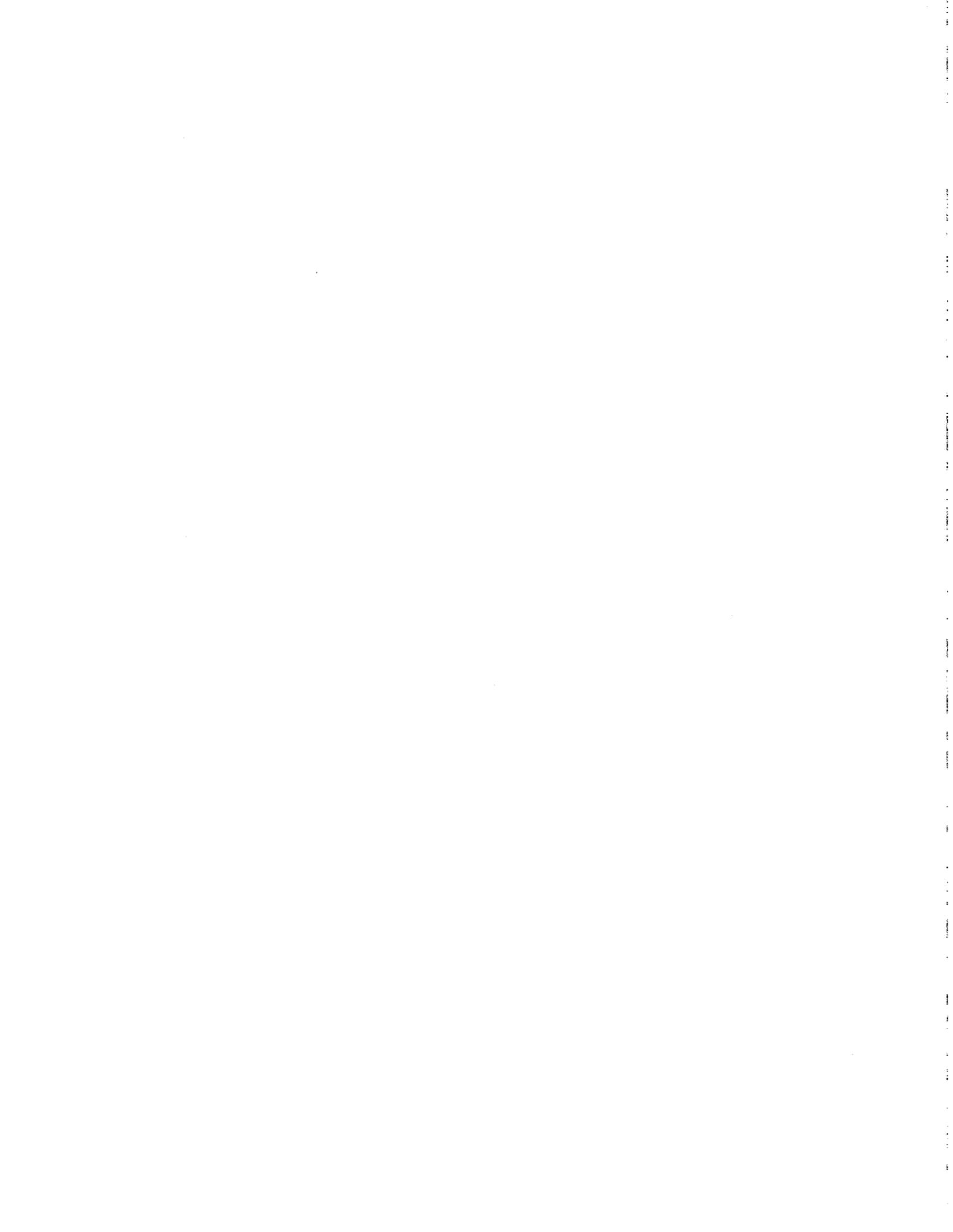
Interstate Child Support Enforcement: Computer Network Contract Not Ready to Be Awarded (GAO/IMTEC-92-8, Oct. 23, 1991).

Children's Issues: A Decade of GAO Reports and Recent Activities (GAO/HRD-90-162, Sept. 21, 1990).

Child Support Enforcement: More States Reporting Debt to Credit Bureaus to Spur Collections (GAO/HRD-90-113, July 31, 1990).

Interstate Child Support: Better Information Needed on Absent Parents for Case Pursuit (GAO/HRD-90-41, May 24, 1990).

Child Support: State Progress in Developing Automated Enforcement Systems (GAO/HRD-89-10FS, Feb. 10, 1989).



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