



## WELFARE REFORM INFORMATION TECHNOLOGY WORKGROUP

### Child Support Enforcement

To improve child support enforcement, welfare reform workpapers have been developed to consider: making child support services more universally available; improving enforcement and collection procedures; ensuring equity through timely review and adjustment of orders; establishing a new-hire reporting system to improve the timeliness and increase the effectiveness of wage withholding; and improving the location of putative/non-custodial parents. This paper considers ways to bring added value to the program proposals by leveraging the effectiveness of these proposals through the application of Information Technology (IT).

This paper proposes: improvements to States' automated systems, including a State centralized collection capability; a national capability to improve both intrastate and interstate processing; and other IT options for fusion with program goals. It is structured as follows:

- Section I**      Introduces the subject and provides an overview of the CSE information infrastructure proposed in this paper.
- Section II**     Presents the baseline technology at the State level, highlighting the automated capabilities that States will be required to have by 1995.
- Section III**    Discusses proposals for IT improvements to States' systems, including a technology for centralized collections.
- Section IV**     Examines the CSE Clearinghouse concept, including options for its development and the communications network which would be needed to support it.
- Section V**      Presents other IT alternatives to improve establishment and enforcement.
- Section VI**     Summarizes the proposals by child support functional area. In addition, proposal considerations are highlighted, and noted as to whether the individual proposals are appropriate for legislation/operation or should be treated as tests or demonstrations.

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## **I. INTRODUCTION**

Over the past years, many—including the States responsible for its operation—have criticized the ineffectiveness of the Child Support Enforcement (CSE) Program. Federal and State reform efforts have resulted in comprehensive legislation intended to correct the weaknesses in the program, and program improvements are expected. However, more needs to be done to ensure that both parents provide for the support and well-being of their children.

Some of the basic problems with the program stems from the organizational fragmentation, and the lack of uniformity in the programs among States, or even within a State. In effect, there is no "system" for operating the child support program. While this systemic problem affects the entire program, it has proved particularly problematic in the enforcement of interstate child support cases. Because of the organizational fragmentation and the lack of structure, automation efforts have been extremely difficult. In fact, many States have either not attempted, or have attempted and failed, to automate the entire program. Now, they will succeed—thanks to the Family Support Act provision which requires each State to have a statewide, operational system by 1995. To the extent that problems are due to a lack of information, a statewide automated system will correct some of the deficiencies associated with organizational fragmentation. Because the major portion of transactions across program operation lines are informational, i.e. State/county to prosecutor, State/county to court, or prosecutor to court, the application of technology will result in an infrastructure which can foster strong partnerships and cooperation.

The automation required by the Family Support Act, will help to alleviate another major program problem—ineffective case management. Currently, actions taken on a case are caseworker-reliant and reactive. Extensive human intervention is needed to move a case through the processes of locate, establishment, enforcement and collection. As a result, caseworkers are continuously working off a backlog of cases. Having individual caseworkers make decisions on each case was not a problem when caseloads were small. But with more than 13 million cases nationwide, this degree of individualism becomes impossible. Statewide automation projects, when implemented, will make a big difference in the management and aggressive working of a case. The systems now being developed and

implemented are proactive--designed to automatically take the "next logical step" in a process without caseworker intervention. The Family Support Act automation requirements coupled with performance standards, will go far in ensuring that all cases receive the proper service and will establish a basic structure for an operational CSE system which will move the program into a new age of service to the public.

The Massachusetts Department of Revenue serves as an example of what can be achieved through automation--the exact type of automation envisioned by the Family Support Act system requirements. Rather than relying on individual caseworker actions, case activities for the enforcement function, are routinized and handled through automation to the extent possible. Cases with similar characteristics are grouped together; decision rules determine what type of enforcement actions are to be applied to the cases within the groups; and the computer automatically takes the appropriate enforcement action.

In August 1992, when Massachusetts began its automated enforcement strategy, collections stood at 65% of the child support owed by obligors living in Massachusetts. By March 1993, with the automation strategy fully implemented, the ratio had risen to 80%. Unfortunately, the compliance rate for out-of-State obligors was much lower since Massachusetts couldn't apply its strategy to those cases. With an estimated 30 percent of cases being interstate, this same problem will be replicated nationwide unless a strong system to ensure efficient interstate case processing is instituted.

#### **A. Overview of Information Infrastructure**

The basic technology principle of this paper is the creation of a CSE information infrastructure. In creating the infrastructure, this paper introduces the concept of a Child Support Enforcement Information Clearinghouse (hereinafter the "Clearinghouse"). The Clearinghouse concept is presented as a result of the Workgroup's analysis of other papers, where reforms of the child support program were examined. With the Clearinghouse, States will have a powerful locate capability and information source, of which the FPLS will

become a part. The Clearinghouse concept and statewide automated systems are the principle entities of the infrastructure. In combination, they have the potential to improve enforcement nationally, through improved locate and increased wage withholding, and to also make a dramatic difference in interstate case processing.

To better understand this principle, this section provides a logical view of the information infrastructure concept. The options presented later in this paper relate to this technology principle and its parts: State automated systems; the Clearinghouse; External organizations; and a Communications Hub (the Network) to connect each entity. (See Figure 1)

### 1. Statewide Automated Systems

These are the first and primary entities in the CSE information infrastructure. The major processing of case actions will happen here. For illustration purposes, Figure 2 shows only some of the major data sources coming to the State system.

### 2. Clearinghouse

As its name implies, the Clearinghouse isn't a federal data system that performs individual case activities. Rather, it is a compilation of abbreviated case and employment information that logically "points" to where detailed case data resides. While information will be coming to and from the Clearinghouse for processing, the Clearinghouse will contain only enough data to do an intelligent match. The State CSE Agency still retains overall processing responsibility. It also avoids the perception that the Clearinghouse would indeed be the "mother" of all databases for the child support program.

### 3. External Organizations

Collectively, these are important entities as data sources. Standardized data transactions, e.g. electronic data interchange, will become critical to ensure the accuracy of data transmission between the various entities which form the infrastructure. Please note that only some of the major sources are listed here. As Figure 2 shows, external organizations may be other government agencies or information networks.

#### 4. Communications Hub (the Network)

In order to connect all entities in the infrastructure, a communications hub would serve as an information pipeline. Consistent with the "information superhighway" concept, this paper recognizes that there are several different options to achieve the connectivity that would be needed, with a focus on utilizing an existing network. Since connectivity can take the form of several different media, (audio, data, images, text, and video), the hub is identified not only for communication, but also for value-added network services. This would allow the testing of IT alternatives presented.

# CSE Automation Infrastructure Entity Diagram

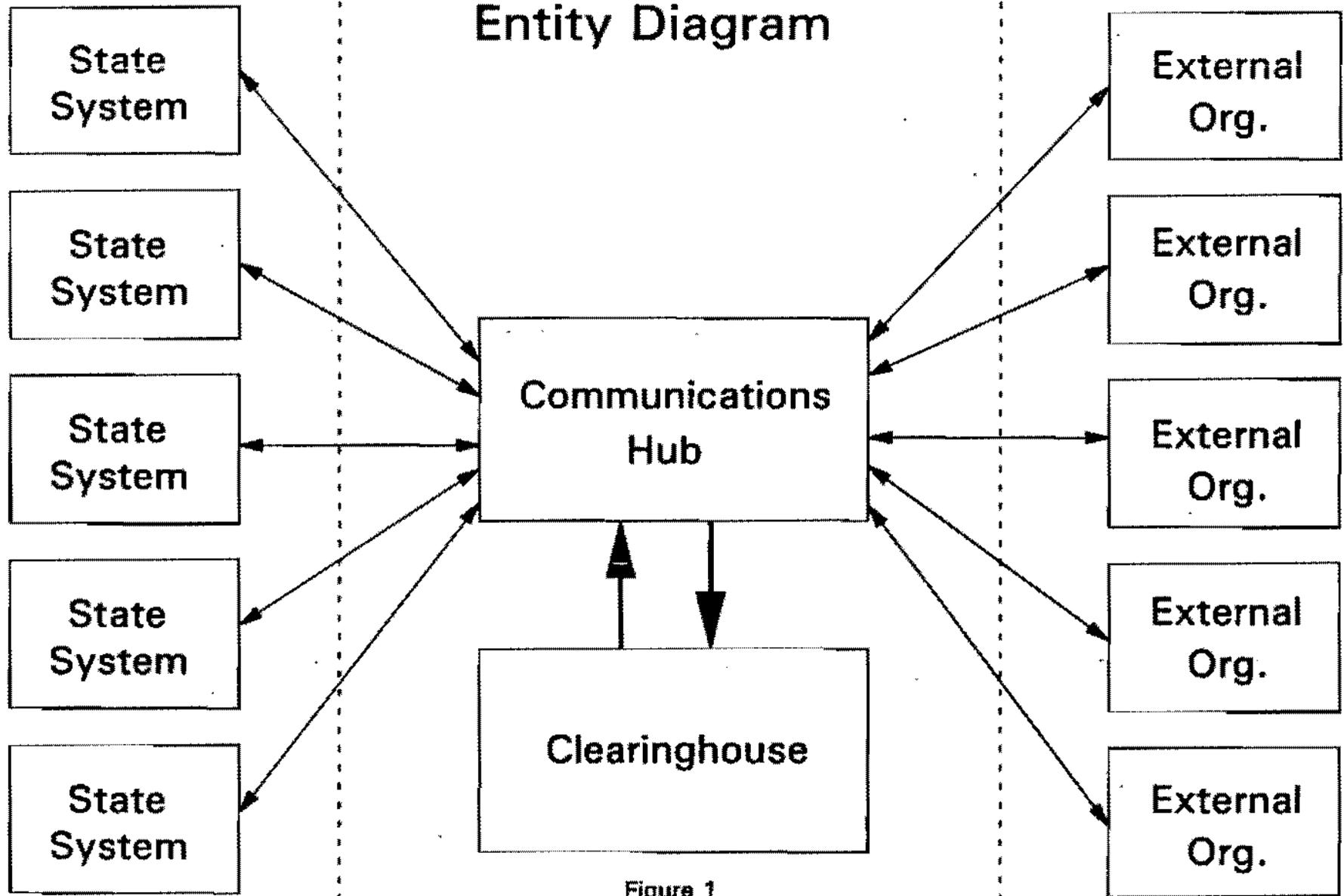


Figure 1

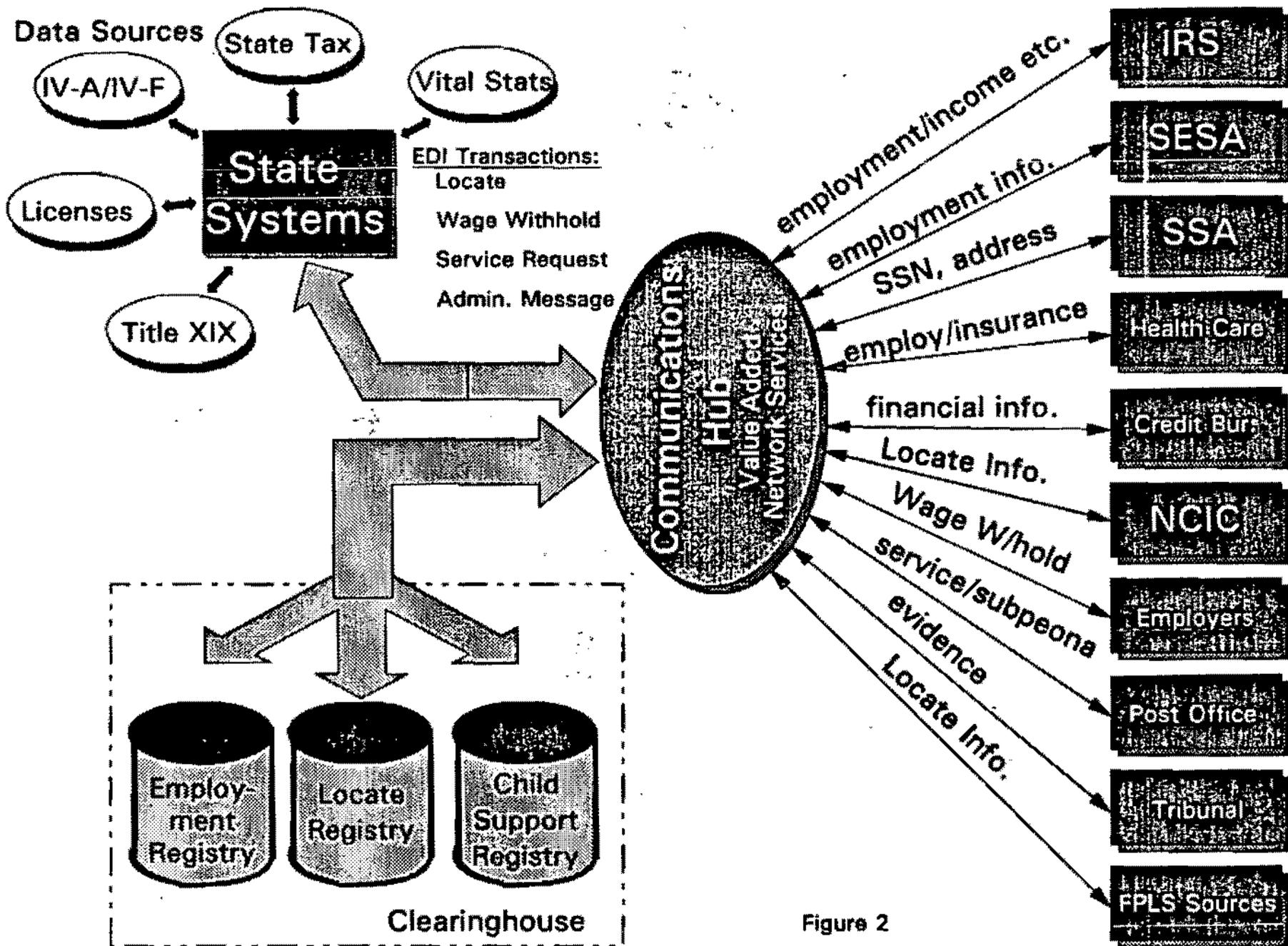


Figure 2

## **II. STATE SYSTEMS**

Given States' responsibility for administering the Child Support Enforcement (CSE) program, State systems serve as the foundation for the infrastructure discussed in the previous section. These systems are key to the success of the Clearinghouse concept.

### **A. October 1, 1995 System Requirements**

The Family Support Act of 1988 mandates the implementation and operation of a comprehensive, statewide, automated CSE system in every State by October 1, 1995. The legislation does provide waiver authority for a single system if the State has an alternative(s) which will allow the State to meet the CSE audit requirements. To obtain a waiver, implementing regulations stated strict criteria, one of which is that there must be electronic linkages to any waived alternative system. Three States have been granted waivers for the court related collection component of their statewide system, because the courts within these States already had an automated system to accept, receipt and record collections. These three States: Illinois, Kansas, and North Carolina, will each download and upload the collection information to and from the Court component of the system and the State's automated system.

In accordance with the Family Support Act requirements, a statewide and comprehensive automated CSE system will control, account for, and monitor all factors in the determination of paternity and the collection of support. While the level of automation among States will vary, all will have a system which will improve program administration and case management. As stated Section I, these new and augmented systems will be much more proactive than in the past: they will drive caseworker actions and automatically perform logical, process-related functions and routine, clerical-type activities. Caseworkers' time will be available to focus on those activities requiring human skills and/or intervention.

To be considered fully operational, the system must use automated procedures to initiate a case, perform locate, establishment, enforcement, and collection activities; and contain all data necessary to effectively manage a case and meet all Federal reporting requirements.

Specific automation requirements are contained in the OCSE's "AUTOMATED SYSTEMS FOR CHILD SUPPORT ENFORCEMENT: A GUIDE FOR STATES" (the Guide), dated June 1993. The Guide identifies specific processes to be performed to meet Title IV-D program requirements, provides a list of recommended data elements and describes the degree of automation expected from the system. Because outside influences often dictate whether certain features can be implemented, there is a certain amount of flexibility provided regarding the level of automation a State must achieve. For example, the Guide specifies that a State should establish automated interfaces with certain information sources. Yet, if one or more of those sources do not have automated capability, this requirement cannot be enforced. Similarly, some sources, while having sufficient automation, have been unwilling to establish an interface with the CSE system. In both cases, we pressure the State to have these electronic interfaces, but only require that the system have the capability to interface once automation capability becomes available. Often, if the State establishes the capability, the need to interface is pushed to a higher level within a State and with the extra attention and commitment, the interface is accomplished.

Previous papers have used the terms disbursement and distribution interchangeably. The former is the issuance of a payment to the custodial parent, where the latter is the application of AFDC payments to accounts in accordance with Federal and State rules. In automating the distribution process, all collections will be automatically allocated and applied to the appropriate account, i.e., to current payments, to arrears, to the family, to interest, etc. The distribution algorithm, particularly for AFDC collections, is complex and will be fully automated in the Statewide systems now under development. This is, however, the only part of the collection process which will use the full capability of technology. States continue to automate a currently fragmented, labor intensive and error-prone process for their payment receipt and disbursement functions. Examples of improvements which will be achieved by automating some functions in the collection process include:

- automatic billing of all cases other than those with income withholding in place;
- automatic batching and reconciliation of payments as they are keyed into the system;

- appropriate application of Federal and State rules in the acceptance, distribution and maintenance of payments received; and
- automatic generation of notices to AFDC and former AFDC recipients regarding support collections received, and to the IV-A agency regarding collections received on behalf of AFDC recipients.

The Child Support Enforcement Network (CSENet), designed to link together the statewide, automated CSE systems, is now being used as an interim solution to the linkage between systems in all States. CSENet provides data exchange support to facilitate the transfer of certain interstate child support data among States. Once fully operational, CSENet will eliminate the need for mailing certain interstate forms, and will automatically issue information to and from the initiating and responding State systems. CSENet will be operational with linkages to and from States by October 1, 1995. States are currently establishing the automated interfaces needed to make CSENet fully operational.

CSE systems that are certified as meeting the Family Support Act provisions will automatically generate the various documents relevant to case actions, i.e., petitions, summonses, etc. Legal documents may, however, not be standardized within a given State because of individual Court requirements. To accommodate these differences, a document generation capability will reside at the County level. The automation of Child Support Guidelines will also help in the establishment of child support orders. Similarly, systems will include automation to assist in the review and adjustment procedures and the process requirements necessary to initiate immediate wage withholding. Finally, all systems will have automatic interfaces with:

- Federal Parent Locator Service (FPLS);
- State Employment Security Administration (SESA);
- State Tax or Revenue Agency;
- Internal Revenue Service (IRS); and
- CSENet.

As discussed earlier, interfaces with other local sources and some Federal programs such as Titles XIX, IV-E, IV-A, and IV-F, will be dependent on those sources' automation capability.

#### **B. Status of State Systems**

Every State has a system development or augmentation project underway. These systems are complex and are not as far along as would be expected, considering the October 1, 1995 deadline. We expect most States will meet the required operational date, although about 10-12 may not become operational until early 1996.

All States will have the capability to maintain a record of IV-D child support cases/orders within the State. The detail of the record at the State level will depend on the design configuration of a Statewide system. For these statewide system projects, the design configuration will fall into one of three categories: centralized, distributed, or quasi-distributed. With an emphasis on centralized collections, in each of these types of configurations, billing will be automated, but other aspects of payment posting and receipting may not be.

Of the 54 States and territories, thirty-seven (37) States will have a centralized database design configuration. In a centralized design (including New York and Texas), the full child support record will include collection history and accounting information in one database at the State level. Cases may be worked at the county level. Court or attorney staff may have some data entry, but will have full data query capability. Payments may be received at the county by a clerk of the court or other designated office. Of these 37 States, 21 have laws designating the local level as the agency to accept and receipt collections, and in many cases to disburse payments.

Eight (8) other States will operate a distributed database design configuration. In a fully distributed design (including California, Michigan and Pennsylvania), an abstract record of all cases is maintained at the State level. This record contains limited demographic and record location data. The State and Counties operate on fully compatible hardware which has been appropriately sized by caseload. The State's database is part of the overall network

and connected to the actual operational data at the local, court, or prosecutor level throughout the State. The full child support record and all information about collections, as well as the automation needed to assist in accepting, posting and recording payments, is maintained at the local or regional level. All eight States will have a county level payment receipt and disbursement authority.

Nine (9) other States, (including South Carolina, Georgia, and Nebraska), will operate with a quasi-distributed database design configuration. For these States, complete AFDC records are maintained at the State level and, depending on the State, most information for non-AFDC clients is also maintained at the State level. However, in most of these States, the non-AFDC payment processing function and the "official payment record" are at the county level. In all of these States, the State maintains a record, at the State level, to indicate certain account and identifying record location.

Of the above seventeen (17) distributed and quasi-distributed State configurations, many of the Counties or courts have the responsibility for both IV-D, non-AFDC and non-IV-D payment collections.

Federal certification of statewide automated systems will ensure that each State system contains all necessary basic case information to effectively and efficiently perform all functional activities for existing IV-D requirements. However, specific State design criteria are determined by a State's laws, policies and procedures. These design criteria significantly influence the selection of the hardware/software environment, database organization, and network environment. The result is that no two systems will be designed in exactly the same way, even when they utilize the same basic operating environment, e.g., hardware, software tools, telecommunications, operating systems.

### III. INFORMATION TECHNOLOGY IMPROVEMENTS AT THE STATE LEVEL

States' development and implementation of the comprehensive, automated child support enforcement systems discussed in Section II will go far toward ensuring that: (1) the program is more responsive to the people that it serves; and (2) caseworkers are better able to manage their burgeoning caseloads. But these systems now being developed will not go as far as they must to address the dramatic improvements expected under the Welfare Reform proposals. Information technology improvements at the State level will be needed to address:

- Universality - States will be required to increase their staff, and will consequently require an increase in supporting hardware.
- Interoperability/Electronic Data Interchange Capability - There is a need to facilitate effective communications among the entities within the infrastructure by using Electronic Data Interchange (EDI) for effective locate and interstate processing. A key element in the infrastructure is to establish electronic standards and capabilities within and between statewide systems.
- Technology-Enabled Centralized Collections - There is a great need for technology to facilitate the collection and disbursement of child support payments. This need will intensify for two reasons: (1) the anticipated surge in caseloads and payments resulting from immediate wage withholding for all new support orders issued in a State after January 1, 1994; and (2) the need to simplify the withholding process for employers. While current State automation plans will result in some streamlining of payment processing, it will not eliminate the fragmented and inefficient processes for payment, receipting, processing and disbursement.
- Electronic Funds Transfer (EFT) - Barriers need to be addressed and corrected to make electronic funds transfer a way of operation within the Child Support program. Some technology related solutions are needed but the initiative needs national attention. EFT needs to be used to quickly and accurately move payments from Point A to Point B.

### **A. Universality**

If legislation mandates that all child support cases be administered by State CSE agencies, the primary technology issue becomes one of sizing the hardware and establishing procedures to handle increased volumes. It is estimated that the introduction of universality may result in a large increase in the number of child support cases. However, because the move to universality would be gradual, i.e., as new children were born to unwed mothers and as new cases applied for services, States' need for increased capacity would also be gradual. The systems which States are now developing would not be made obsolete as a result of universality. Upgrades could be introduced over time, with capacity issues addressed as actual numbers could be more closely estimated for the size of the new caseload. More staff would be required to handle the increase in cases. More personal computers and related hardware would be required for new caseworkers. Telecommunications systems would need to be upgraded or replaced to handle the additional volume, and additional processing and storage capacity would have to be added. In some States, there would potentially be the need to upgrade the operating system software or database management systems. Some may even need to establish separate databases.

### **B. Interoperability**

As discussed in Section II, no two State systems will be completely alike. We would not, nor do we need, to consider having States scrap their existing or developing systems to ensure consistency. However, as we move toward establishing communication linkages, we will need to ensure that information can be accurately transmitted between States and external entities. To do that, we will need to establish standard transaction formats, where the sender and receiver know the type of information that is being sent and know how the information will be structured. Data which are transmitted in a electronic, standardized format is known as electronic data interchange (EDI). For example, if the IRS had asset information and the State of Utah was looking for asset information on John Doe, Utah, through its CSE system, would initiate an electronic "Assets Information Request" by building an electronic information packet. The information packet would first indicate the type of information being sent, followed by all available information on John Doe which was needed to respond to the request. The information would be provided in a standard format, i.e., the name, social security number, etc. would be placed in specific segments of the information packet.

IRS, receiving the information request, would know exactly how to read the packet because it would be structured based on the fact that the packet was designated an "Asset Information Request."

EDI technology is currently in use by many government and private organizations in lieu of paper data exchanges: medical information is transmitted to Medicare by doctors; prescription data are electronically transferred from pharmacies to fiscal agents for electronic claims processing, and Sears uses EDI to electronically order goods from their suppliers and provide receipts for their delivery. CSENet provides an example of how this technology will work as it moves information on interstate cases between States using standard transaction formats. The key to success will lie in narrowly defining the type of information to be included in the EDI "packet." Since States use different naming conventions for the same data elements, States will have to map their own data elements and, with an automated program, translate these to the standard data elements and format. This will not be an easy process, but would be significantly easier than trying to impose the same system on each State at this advanced stage of States' system project life cycles.

### **C. Centralized Collections**

The focus of this discussion is not that of consideration of centralizing collections from an organizational perspective, but instead to consider an approach similar to that now being demonstrated in New York State. As a first step for consideration, the definition of centralized collections needs to change to eliminate the perception that information and control will be taken away from the local levels. Technology fusion with functional requirements can be accomplished so that the distinction is blurred between the State level (centralized process) and local level (decentralized) control.

In the New York demonstration project, electronic equipment (the type used by banks and financial institutions) and information technology-driven procedures are combined to enable the State to achieve the benefits of a centralized approach to payment processing. At the same time, the eleven pilot Districts are provided with the desired information control and an appearance of local funds control because checks bear a local level signature. The proposal here is to change the working definition of centralized collections from "designating one

point (a unit), within a State, for receiving, accounting for, and disbursing child support payments" to "having a single State level technology-enabled system (a single electronic and computer-driven process) within a State, for receiving, accounting for, and disbursing child support payments."

### 1. The Problem

Collection and disbursement of child support payments can be complex and difficult. States receive collections from a number of sources including: wage withholding; direct obligor payments; payments from other States; Federal and State income tax offset; unemployment compensation offset; lien proceeds; lottery and other windfall proceeds; and IRS full collection. Payments must be matched and credited to the correct case, the AFDC collections must be distributed, and non-AFDC collections must be promptly disbursed. Other activities include billing the obligor and monitoring the payments on each case. All of these problems can cause errors and delays in getting the support payments to custodial parents and their children.

Currently, State CSE programs use one or more of several different agencies, (e.g. county court clerks, the central IV-D agency, or a central payment clearinghouse), for receiving and disbursing payments. These agencies, may not handle non-IV-D payments and may perform only a part of the collection and disbursement process. For example, in many States the County clerks are responsible for receiving, receipting and recording monthly child support payments, and are considered the "official record keepers." Yet the State central office has responsibility for receiving, receipting and recording other collections such as: State and Federal tax offset; unemployment compensation; collections resulting from enforcement of a lien or bond; and collections from "windfall-type" payments. The State central office also has the responsibility for billing and notification of custodial and non-custodial parents.

These decentralized processes result in inefficiencies. There are: delays in recording and processing of payments; redundant processes at State and County levels; inconsistencies in State records and "official records;" inconsistent procedures and

operations among local governments within a State; and poor and excessive utilization of staff throughout the State.

Over thirty States accept, post, reconcile, and process payments at the County level. The Family Support Act automation requirements will streamline and automate States' current fragmented payment processing with the help of limited automated procedures built into the statewide systems. Distribution of collections, which is a State level function, will be an exception because it requires intensive computer resources as well as interfaces with State IV-A and IV-E programs. As a first step toward true efficiency, States need to establish a centralized collection unit which would handle payment acceptance, posting, reconciliation and disbursement, subsequent to the distribution of collections.

## **2. Centralized Collection Point is Not Enough**

States and OCSE auditors indicate that handling large numbers of payments, maintaining internal controls, and decreasing the risk of errors and delays, can be done more effectively by designating one point within the State to receive, account for, and disburse child support payments. While such a unit would be an improvement over the decentralized process, simply having one centralized collection point is not enough. As examples, Delaware and Virginia have established one point at the State level to receive, receipt, collect and bill obligors, yet their ability to efficiently process payments has only improved slightly.

Today, sixteen States (16) could implement centralized collection, since they have the statutory authority to, or currently operate their program at the State level. Twelve (12) State statutes refer to making payments through the child support enforcement agency, others have laws referencing a central depository.

States are not making investments in advanced electronic data capture and disbursement technologies. With the exception of New York in its pilot operation and, to some degree, Colorado, States with centralized collection authority or responsibility are not maximizing the efficiency of the process with technology.

### **3. Single, Technology-Enabled Centralized Collections**

A single, technology-enabled system at the State level, would include the following:

- maximum use of electronic funds transfer (EFT) technology to include the acceptance and electronic processing of collections from employers, obligors, State and Federal agencies, and the disbursement of payments to local agencies, custodial parents, and other States;
- a lockbox payment concept, combined with procedures for eliminating cash payments;
- high-speed check processing equipment, e.g., optical scanners and micro ink character recognition (MICR) processors, for electronic capture of check information, and encoding of check for expedited bank processing;
- high-performance and fully automated mail and postal procedures for the most productive and cost effective processing of incoming and outgoing mail, e.g., bar codes for routing and zip code information, pre-sorting, and labeling outgoing mail;
- technology and procedures which will allow the State to receipt collections and disburse payments as if they were handled by the local government, e.g., Payments being made to a custodial parent would appear to come from a local government;
- standardized, technology-driven procedures to capture check amounts, reconcile problems with payments and returned checks, and to capture data for updating of the statewide automated system;
- a voice response unit (VRU) providing custodial and non-custodial parents access to Agency information;
- fully automated billing and statement processing;
- outreach activities through marketing, recruiting, training and sharing information for: 1) encouraging the use of tape processing and EFT from employers and direct deposit to custodial parent accounts, and 2) electronic debit of payments from non-custodial parents; and
- quality control and audit procedures for all processing.

#### **D. Electronic Funds Transfer (Collection and Disbursement of Payments)**

To ensure the rapid and efficient movement of collections from non-custodial to custodial parents, ACF must require the use of electronic funds transfer (EFT) technology. Obligors would be provided with electronic alternatives for payment submission. Disbursements could be handled by electronic benefit transfer technology, direct deposit, or other EFT technology.

1. Wage Withholdings - Currently, ACF is in the process of "marketing" electronic fund transfer/electronic data interchange (EFT/EDI) technology to employers across the country. Because many employers rely on vendor-developed payroll software or payroll processing companies, ACF has made contact with these companies, encouraging them to develop a CSE module. Plans are being made to encourage the use of EFT/EDI by other Federal agencies in their role as model employers.

The EFT process should cut costs for both employers and CSE agencies, as well as banks, because manual processing and paper checks will be eliminated. However, for maximum benefit, the use of EFT technology by employers should be mandated through legislation. While many States currently have legislation that mandates the use of EFT in the submission of State tax withholdings, the timing requirements for submission vary based on the amount of tax to be remitted. Small employers may be totally exempt from the requirement. IRS is in the process of conducting pilot projects, in Georgia and South Carolina, using EFT for Federal tax withholdings. ACF legislation could parallel the requirements established in either State or Federal legislation, whichever was more inclusive.

2. Direct Payments from Obligors - All obligors would be encouraged to transmit payments using EFT technology. Non-custodial parents would be given the option of using: recurring automatic withdrawals, such as that used for mortgage payments, where a specific amount of money would be withdrawn on a specific date; or an automatic withdrawal initiated through a Voice Response Unit (VRU), coupled with a personal identification number; similar to what many people use for variable monthly bills. As an alternative for persons without savings or checking accounts, the non-

custodial parent could be issued a plastic card to deposit cash through an ATM machine into a State owned bank account.

3. Disbursements of Payments to Other States - Collections made on behalf of other States will, under current regulations, be transmitted to those States using EFT. Receiving banks will credit the CSE agency's account with the payments and forward the identifying information for posting and distribution. When States are transmitting "special" collections, such as a State tax refund offset, States will couple an EFT transaction with a CSENet transaction, identifying the payment so that it can be properly distributed against the certified arrearage.

4. Disbursements to AFDC Households - Many States are moving toward the use of Electronic Benefit Transfer (EBT) technology for the distribution of food stamp and AFDC benefits. In such States, any \$50 pass-through payments distributed to AFDC households will be deposited into the household's EBT account. The State could also include any custodial parent without a checking account in its EBT project. Households already having existing checking/savings accounts, regardless of whether the State used EBT, would have such payments directly deposited into those accounts. Information on deposited payments would be provided using Voice Response Units (VRUs).

5. Disbursements to Other Households - States would deposit payments into existing checking/savings accounts of custodial parents. State banks could offer "free" checking accounts or other accounts accessed through plastic card technology (e.g. ATM). Information on deposited payments would be provided using VRUs.

#### **IV. THE NATIONAL CSE INFORMATION CLEARINGHOUSE**

In an increasingly mobile society, the locate function becomes one of the key factors in the successful processing of child support cases. Currently, after States' exhaust all available internal locate resources, cases are referred to OCSE's Federal Parent Locate Service (FPLS) to match against other sources including: the Internal Revenue Service (IRS); the Social Security Administration (SSA); the Department of Veterans Affairs (VA); the Selective Service System; the Department of Defense; and State Employment Security Agencies (SESA) for employment information. OCSE has also served as the central point for the Federal Tax-Offset Program, negotiating on behalf of the States with IRS. Although FPLS is very cost effective, there are limitations. Failed locate referrals must be resubmitted. State agencies cannot access SSA or IRS databases to perform on-line name searches for SSNs. And, due to SESA system limitations, SESA matches can only be done on a semi-monthly basis for a maximum of 200,000 cases.

The Clearinghouse is intended to overcome these limitations and to incorporate nationally some of the common external matches currently being performed by some States, such as interfacing with credit bureaus. The integration of CSENet into this Clearinghouse would be both logical and cost-effective since a communications network would be constructed to receive and transmit information to and from States. The other function which would be logically handled at the national level is the identification of new-hires. The concept of a national new-hire registry, where new-hires would be matched against putative/non-custodial parents identified by States, was introduced in the New Hire Reporting welfare reform paper and is incorporated here.

This national level function would provide a more integrated environment to assist States in performing external case processing functions. Creating a national level Clearinghouse to handle these improvements makes sense because:

- central development and maintenance of applications and databases would minimize redundancies and overlaps in individual State systems;
- economies of scale can be exploited to acquire and employ more advanced and

efficient computer and network communications systems in a cost-effective manner;  
and

- it is desirable to ensure uniformity and consistency in communicating with external agencies to contain costs, improve communications, and minimize the impact on those organizations' internal operations.

This section discusses the Clearinghouse's functions, presents its operational procedures, discusses options related to its location and finally identifies telecommunications hub alternatives. In the discussion, the three registries (**Employment, Locate and Child Support**), are presented as separate entities, however they would all be a part of one database in the Clearinghouse. For each putative/non-custodial parent in the Clearinghouse, only minimal identifying data, sufficient to allow the necessary matches to be made and to allow information to flow to and from the States, would be maintained.

#### **The Need for SSN as the CSE Universal Identifier**

The Clearinghouse concept assumes that the social security number (SSN) will be the universal identifier. A universal identifier is needed to allow States to more efficiently match their own databases and to allow the correct location of an individual in an interstate case from a pool of millions. Issues related to privacy, accuracy and data integrity as a result of using the SSN, (as were cited in the Health Care Reform debate on using the SSN as the universal patient identification number), would have to be resolved. Although far from perfect, the SSN is the only available, logical choice to be the universal identifier.

#### **A. Clearinghouse Design**

The National Child Support Enforcement Information Clearinghouse is a single database which provides functional and operational capability to serve three major registries: The National Employment Registry, the National Locate Registry, and the National Child Support Registry. Each of these registries is needed for interstate case processing, and will also be used to perform national level responsibilities that are currently provided by FPLS and CSENet.

The Clearinghouse would integrate most national level data exchange activities currently being performed for States. In addition to the benefits offered for intra and inter-state case processing, the Clearinghouse would result in dramatic improvements in wage withholding. The Employment Registry, for example, would serve as a valuable source of all employer data, including new hire information. The Clearinghouse would match any new-hire record received from an employer against the Child Support Registry and immediately notify the State Agency of the match. Taking the concept one step further, the State Agency, receiving the notification of employment, could either immediately issue a notice to the employer or, if the employer had agreed to accept an electronic notification, forward an EDI transaction to the employer via the Clearinghouse. New-hire data in the Employment Registry would also facilitate the locate function, allowing establishment of paternity and child support orders.

The following explains the registries of the Clearinghouse, including database design alternatives and data capturing methods.

#### **1. The National Employment Registry**

Employment information is the most valuable data source for locate and collection activities. However, there are two major problems with the State Employment Security Agency (SESA) information currently being used. First, a significant percentage of noncustodial parents frequently change jobs in order to avoid paying child support. Current reporting mechanisms associated with income tax, Social Security, and unemployment insurance withholding, can take up to three or four months to report a new hire. Second, there is no centralized employment database to expedite the search process. To obtain employment information on out-of-state non-custodial parents, the Federal Parent Locator System (FPLS) must broadcast the request transactions to all SESAs to match against their databases. This broadcast feature becomes a limitation because small-State SESA's cannot handle the same volume of cases that a larger-State SESA might be able to handle.

To resolve these problems, the Clearinghouse would establish a National Employment Registry. The core data or foundation for the Registry would come from the SESA's quarterly employment wage reporting data and SSA's earning

database for the self-employed. This data would be supplemented by new-hire information to create a nationwide, up-to-date employment database, immediately available for the Clearinghouse to match against all non-custodial parents referred by the State for locate or wage withholding purposes. To create the initial database, both SESA and SSA would send extracts of their existing databases to the Clearinghouse. This is similar to what is now done for the Electronic Parent Locator Service by SESA's in participating States.<sup>1</sup>

The **Employment Registry** would only contain essential elements required for positive identification of putative/non-custodial parents and the employers for which they work:

- Name and SSN of employee;
- Employer Identification Number (EIN);
- Address of employer (maintained in a separate EIN data file);
- Health insurance coverage plan (if available);
- Date of hire; and
- Date of transaction.

a. New Hire Reporting

The most desirable approach to identifying newly hired non-custodial parents would be to develop a mechanism that allows a "one-time, one-step" near-realtime reporting of new hires by employers. Such a system should be designed to allow an employer to meet all new-hire or change-of-status reporting requirements imposed by a myriad of Federal, State, and local government organizations.

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<sup>1</sup>The Electronic Parent Locator Network (EPLN) is an interstate database which serves nine States - Alabama, Florida, Georgia, Kentucky, Mississippi, North and South Carolina, Tennessee, and Virginia. EPLN operates by obtaining, from each participating State, a limited extract of their SESA database, Vital Statistics, and Department of Motor Vehicles. The nine States can each query the EPLN database on-line, providing a single point of access to a variety of interstate information.

The Employment Registry would be designed in the most modular and flexible manner to allow capturing new-hire data, regardless of its source of information. Additionally, the approach selected could be one which includes a phased-in implementation, i.e. establishing a simplified CSE reporting system which could later be abandoned when another system becomes available for piggy-backing.

There are three potential options for collecting new-hire information. A discussion of each follows:

**Option I - Interface with the National Health Care Registry**

The President's Health Care Reform Plan will require firms to certify that individuals are covered under the employer's health care insurance program. Thus, an accurate, up-to-date record of an individual's employment status and health insurance plan will have to be maintained in some form of registry. The update transactions to the registry would be an ideal source of new hire information for the CSE Program.

**Pros:**

This is probably the most cost-effective and efficient option because:

- ◆ information will cover essentially every worker in the U.S., including the self-employed;
- ◆ data would include insurance coverage information which would allow the IV-D agencies or courts to determine the availability of medical insurance to the non-custodial parent for purposes of providing medical support; and
- ◆ no additional costs would be incurred by employers, States or the Federal government in providing CSE information.

**Cons:**

While this may be the most desirable option, there are two major potential drawbacks:

- ◆ may not be fully operational until 1996-1998; and

- ◆ ACF may encounter difficulties in obtaining the proper legislative authority to access the data. Media discussions have indicated the need to use the Health Care Security Card and Number for health care purposes only, and not as a national identifier. This would not rule out, however, obtaining an extract of the employer reported data.

### Option 2 - Coordinate with the Wage Reporting Simplification Project

A major Federal initiative now underway is the Wage Reporting Simplification Project (WRSP) and an associated subproject, the Simplified Tax and Wage Reporting System (STWARS). WRSP seeks to consolidate all Federal information and funds collection activities involving the employer-employee relationship, including the registry of fact-of-employment, into a single entity reporting requirement.

#### Pros:

- ◆ System and communication costs would be lowered because equipment and administrative costs would be shared among programs.

#### Cons:

- ◆ An incurred reporting burden would be placed on employers because only the CSE program would require timely reporting of employment information.
- ◆ The system may not be fully operational for sometime since the final capabilities and configuration of WRSP and STWARS are yet to be finalized.

### Option 3 - Access States' New Hire Databases

About 10 States have already begun to implement new-hire reporting systems to enable IV-D agencies to obtain employment and wage information more quickly. It is expected that more States will impose such a reporting requirement in the near future.

#### Pros:

- ◆ The information is already (or will be) available in those States which implement a new-hire reporting requirement.

### Cons:

- ◆ Most existing programs are labor intensive (employers are sending the States a copy of the W-4), no automated reporting system is in place.
- ◆ Reporting requirements differ from State to State, i.e., timing, employers required to report.
- ◆ This would be the most expensive alternative (for both employers and the CSE program) since the data would have to be maintained at both the State and Federal level.
- ◆ Since there is no assurance that all States will implement a new-hire reporting requirement, Federal legislation would be required and existing State systems would have to be brought into conformance with national requirements.

The most complete and current employment information would be resident in the National Health Insurance Clearinghouse database after all citizens enroll under the National Health Insurance program. However, the use of and access to this information, even if limited solely to an intercept of the update transaction, is controversial. Should this information becomes available to the CSE Program, however, interfaces with other employment databases would be unnecessary. Since the availability of health enrollment information may not be imminent, it would be more pragmatic to move toward creating an independent CSE new-hire reporting system.

### b. Employer Reporting of New-Hires

Because of differing technological capabilities, a variety of reporting methods would be made available to employers for reporting new-hires. The methods could apply to either State-level or National-level data capture. These would include:

#### Method 1 - Paper-based Scannable Worksheets

Most appropriate for small employers, the form could combine information currently captured on paper by States, the IRS's W-4, INS's I-9, SSA, or any

reporting requirement to identify an individual's health plan coverage. (Voluntary reporting of the existence of a child support award by a non-custodial parent could also be included.) The form could be completed on the new hire's first day, then mailed to a central State processing center for scanning (optical character recognition devices could be used for hand written submissions) and processing.

**Method 2 - Touch-Tone Telephones Combined with Voice Response Units**

Also suitable for lower volume new-hire sites, this method would require employers to have either a touch-tone telephone or tone generator on a rotary telephone. An employer PIN or other identifier would be required to prevent tampering. Voice-response units could be used to generate prompts and confirm entered data and could be programmed to support other languages such as Spanish, Mandarin, Vietnamese, etc.

**Method 3 - Off-Line Point-of-Sale Devices or Personal Computers**

This method would use a dial-in capability (modem or acoustic coupler) to connect an employer's computer or point-of-sale device (similar to credit card verification equipment) to the designated database. The number should be toll-free for ease of employer access. A standard format and application would be supplied to the employer. Once on-line, the system would accept multiple submissions. The firm could dial in, select the appropriate/compatible software and either key in data or submit it electronically. While immediate data receipt and verification would be supported, batch transmissions should be sent at night. This would be very suitable for large employers since it could be built off an employer's installed system or could be an independent stand-alone system.

**Method 4 - Other Electronic Media for Large Volume Data Transmission**

Major employers and payroll service firms with sufficient processing capacity, could easily furnish new-hire data to either State or Federal registries.

Submission of magnetic tape or other storage media is particularly useful for

medium to large employers. Next day air shipment of media is widely used and is relatively cost effective, particularly if the firm hires on a cyclical basis. On a cost per transaction basis, this would be quite inexpensive.

## **2. The National Locate Registry**

The National Locate Registry, as part of the Clearinghouse, would enhance and subsume current FPLS functions. The Clearinghouse would accept State locate referrals, matching them against available external databases (including the Employment Registry discussed above), and refer locate information back to the State for appropriate action. To maximize operational efficiency while minimizing computer resource requirements, the Locate Registry would only include the following data elements:

- Name and social security number of the putative/non-custodial parent;
- Date of birth, if available;
- IV-D agency FIPS code;
- IV-D case identification number;
- A locate indicator; and
- The date the case was submitted or new information was received to update an existing case.

In addition to matching against external information sources currently available to FPLS, three additional sources are envisioned: Credit Bureaus, the National Law Enforcement Telecommunications Network, and the National Criminal Information Center.

There are three top credit reporting agencies: TRW, Trans-Union, and CBI-Equifax. States do not consistently and efficiently access Credit Bureau data for locate, and pay between \$1.75 and \$3.75 for each paper-based credit report. The approach would be to negotiate a national contract for high volume electronic transactions and use electronic data interchange to transmit data to and from the States and the three major credit bureaus. By placing this interface at the national level, costs would be reduced both because of volume and standard electronic access with no human intervention. In addition to serving as a locate source, these credit bureaus could also provide

income and other financial information not disclosed or reported to other organizations, including the IRS. The credit bureaus interface would also serve as the reporting mechanism for delinquencies and the existence of support obligations.

ACF needs to negotiate an agreement with law enforcement agencies to access the National Law Enforcement Telecommunications Network, and the National Criminal Information Center.

### **3. The National Child Support Registry**

The Clearinghouse will maintain a registry containing all non-custodial parents which have support orders. The basic data in the **Child Support Registry** would be name and social security number information derived from State systems. It would be matched against the **Employment Registry** and, once baseline data were established, any changes in employment information would be reported back to those States "registering" the non-custodial parent. Other new/updated information available to the Clearinghouse, including health-coverage, would also be reported back to the State. The information content of **National Child Support Registry** would include the following:

- Name and SSN of the non-custodial parent;
- Date of birth of the non-custodial parent (if available);
- Current employer identification number (if available);
- Health insurance plan;
- IV-D agency FIPS code;
- IV-D case identification number; and
- Date of case submittal or date of latest update on an existing case.

### **B. Clearinghouse Operational Procedures**

The entry points for information into the system will vary widely, depending on the type of information and the party providing it. The Clearinghouse will perform top

level processing functions, aggregating inputs from employers, States, and other entities nationwide. Because of the varying size of these entities, the method of input could range from direct electronic transmission to manual transfer to a third party, having an interface which could convert paper documents into an electronic format.

### **1. The National Employment Registry (New-Hire Data)**

Since the specific method for obtaining new hire information is uncertain at this point, the following operational procedures are illustrative of the general approach.

- When the Clearinghouse first becomes operational, it will interface with all SESAs and the SSA to obtain employment abstract data to establish the initial National Employment Registry.
- On a daily basis, the Clearinghouse will interface with the designated new-hires data collection agency, e.g., IRS, SSA, Healthcare Clearinghouse, or States, to collect the new hire transactions to update the database.
- During the month after a quarter ends, the Clearinghouse will interface with SESA's to collect data to update the database and confirm the new-hire reports received from employers.
- The Clearinghouse will have daily processing cycles to match:
  - ◆ newly received employment data against all cases; and
  - ◆ the entire Employment Registry against newly received or updated State referrals.

### **2. The National Locate Registry**

- Accept child support locate transactions from States.
- On a regular basis, match all cases in the Locate Registry against all new and currently available FPLS sources, including the Employment Registry.

- When positive matches occur, transmit the information obtained, i.e., address, asset, employment, health care insurance, etc. to the initiating State.
- On an on-going basis, rematch all cases in the **Locate Registry** against newly obtained or updated external sources until the initiating State withdraws the locate request.

### 3. The National Child Support Registry

- Establish a **National Child Support Registry** to identify all non-custodial parents who have an order.
- On a daily basis, the Clearinghouse would match all cases against the **Employment Registry**, and report back to states on:
  - ◆ new-hire obligors who were previously unemployed;
  - ◆ obligors who had changed employment; and
  - ◆ obligors who changed their insurance coverage plan.

Because the Clearinghouse will have the ability to detect non-custodial parents having multiple orders issued against them in multiple States, initiating States could be alerted to coordinate the review and adjustment of cases and/or the issuance of wage withholding notices.

### C. Clearinghouse Location

There are three main options for the location of the Clearinghouse. A brief description of each follows:

#### Option I - Clearinghouse Resides at the ACF Data Center

Under this option, the application software for data capture and editing, and the database would all reside in the ACF Data Center.

#### Pros:

- ◆ This scenario is totally consistent with the current operational environment,

similar to FPLS and tax-offset.

- ◆ Although the current system may need to be upgraded to provide more processing power and storage capacity, the basic infrastructure would remain unchanged.
- ◆ ACF maintains total management control over operations.

Cons:

- ◆ The ACF Data Center would carry some redundant data which already resides in the SSA databases.
- ◆ It may not efficiently take advantage of SSA's telecommunications utilities, currently connected to all States, which will likely be expanded to interface with the Health Care Clearinghouse and nationwide employers in the future.

Option 2 - Clearinghouse Resides at SSA Data Center

SSA could be requested to expand its current database to accommodate a few specific IV-D data elements. SSA computers and its network would be responsible for all application systems and communication support.

Pros:

- ◆ SSA already maintains master records for all individuals in this country. This approach would eliminate the data redundancy concern.
- ◆ In the future, SSA's database will have current address information for most of the wage earners to allow them to forward a Personal Earnings and Benefit Estimate Statement.
- ◆ SSA, IRS and Department of Labor are involved with the Simplified Tax and Wage Reporting System (STAWRS). When the project is implemented, SSA will have a network connecting all employers in the nation.
- ◆ To ensure that every individual is provided with health insurance coverage under the Health Care Reform proposal, it is very likely that direct communication channels will be established between the Health Care Clearinghouse and SSA to cross-match their individually maintained databases. This potential setup would allow States to obtain the most current employment data.

Cons:

- ◆ Since SSA's database maintains a great deal more information than is needed for the CSE Program, the size of the record and the large database volume may create barriers to efficient and flexible processing.
- ◆ A large setup often lacks the flexibility to make system changes to accommodate new program requirements.
- ◆ ACF will no longer maintain total control over database operations. In situations where multiple projects are competing for the same system resources, child support processing may not receive priority consideration.

Option 3 - Clearinghouse Resides in Regional Clusters

Studies have shown that most non-custodial parents in interstate cases reside in neighboring States. Therefore, it is reasonable to consider establishing Clearinghouse operations in regional clusters. Each location, or cluster, would maintain a regional database.

Pros:

- ◆ Most of the non-custodial parents could be located efficiently and expeditiously since the regional cluster's database would be much smaller than a national one and thus would not require long computer processing time to complete the search procedures.

Cons:

- ◆ To locate the non-custodial parents residing in other regions, interfaces with databases maintained by other clusters would still be required. This might result in either establishing a de facto national database or requiring complicated procedures to interface with other clusters.

D. Telecommunications Hub

To support Clearinghouse operations, a large scale communications hub (or network), must be established. This network would have to handle the transmission of: employment data, including new-hire information, from other entities to the Clearinghouse; identifying information on putative/non-custodial parents; and information sent to and received from locate sources. In addition, the network would have to be able to process and direct EDI

transactions between States, the Clearinghouse, and External Organizations involved in the processing of interstate cases. This would enable connectivity to and from the Clearinghouse and the information contained in its three registries: **National Locate Registry**, **National Employment Registry**, and the **National Child Support Registry**. The design of this network must include the following salient characteristics:

- support of standard EDI transactions to allow interoperability between State systems and with external sources, and permit the Clearinghouse to receive and respond to information referrals or inquiries;
- sufficient capacity to carry information on new-hires, interstate activity, new/revised locate information, new/revised State information on non-custodial parents, and other requirements;
- interfaces with the network, as well as the network itself, would be designed based upon Federal Information Processing Standards (FIPS) to allow for interoperability and scalability;
- gateways would be available for direct network connection to other commercial networks and to allow external organizations "dial up" capability into the network using modems; and
- high level security, reliability, and availability would be accommodated by providing data encryption between all connections, use of alternate routing, and increasing fault-tolerance by incorporating points of redundancy in the design.

#### **Child Support Enforcement Network (CSENet)**

ACF has just installed CSENet which links all State IV-D agencies supporting standard transactions in processing interstate child support cases for locate, establishment, collection and enforcement functions. CSENet uses the FTS2000 X.25 Packet Switched Services (PSS). States are provided with CSENet workstations that have a dial-up port to access the PSS at a rate of 4800 (up to 9,600) bits per second

(bps). The CSENet host computer, which serves as the conduit for moving transactions between States, is connected to PSS by a dedicated 56,000 bps line at the service delivery point.

#### **Current Limitations of CSENet**

Although the CSENet design concept could be expanded to provide an end-to-end information network linking all State systems, and all other entities involved in interstate case processing, there are problems in using CSENet to provide the telecommunications and network services required for the Clearinghouse.

CSENet currently lacks the performance capability to transmit large volumes of data such as the employment and new-hire data required to establish and maintain the National Employment Registry.

Furthermore, the CSENet host computer and those used in States, are workstations designed to provide a communication capability only between each statewide system and the CSENet host. The workstation at the hub host site does not have the capacity or speed which would be needed to accommodate the functions presented in this paper for the Clearinghouse.

Finally, the CSENet contract prohibits a large-scale technology upgrade which would be needed to provide the computer resources and software support necessary to manage the Clearinghouse functions.

There are four options available for providing the network capability to operate the infrastructure presented in this paper. These are: (1) supplement the current CSENet with another network connecting entities beyond the current CSENet; (2) establish a new dedicated network replacing CSENet; (3) integrate with the SSA network; and (4) integrate with the new Health Care Reform network.

### Option 1 - Supplement CSENet Using Existing ACF Networking Capability

As stated above, CSENet is currently capable of linking all State IV-D agencies, and accepting and directing EDI transactions for the processing of interstate cases. A new, second network which would obtain employment and new-hire data, and interface with external organizations for locate purposes, and connecting external entities including SESAs, the Health Care Clearinghouse, IRS, SSA, Credit Bureaus, employers and post offices, could be developed by an integrator.

#### Pros:

- ◆ CSENet hardware and concept is already in place, and could be used in small and medium size States. (CSENet workstations are capable of being linked; therefore, this is a viable solution in small or medium-sized States where we could link workstations.) This would allow ACF to protect its previous investment in existing CSENet hardware.
- ◆ CSENet will be able to support basic interstate case processing functions cost effectively. Developing an interim, secondary network for other interfaces would allow us to piggy-back with other government or public networks (e.g., Health Care, SSA), should they become available.
- ◆ The basic design and knowledge for this network is already in place and ACF will continue to have total control over the network.

#### Cons:

- ◆ Some increases in management and operations overhead could be expected with two separate networks.
- ◆ If additional network services are dedicated to the CSE program, cost may be higher than desired.

### Option 2 - Establish a New Network Replacing CSENet

A completely new network could be designed which would be very similar to CSENet. A new procurement would be initiated to acquire all network communications services discussed in this paper, including FPLS and current CSENet network capabilities.

#### Pros:

- ◆ It could be designed to specifically serve the needs of the CSE Program.
- ◆ It would eliminate the overhead associated with having two separate networks.

- ◆ ACF would have total control over the network.
- ◆ ACF could protect its investment in CSENet by using the State workstations in small and medium States. In large States, a separate, larger-scale open system UNIX-type server would be needed. These servers would use the same operating software now used in CSENet workstations, which operate under UNIX.

Cons:

- ◆ All network expenses would be borne entirely by the CSE Program.
- ◆ The costs and risks associated with procuring such a large and complex network (and value-added services) would be high.

Option 3 - Integrate with the SSA Network

The Social Security Administration maintains over 1400 local and district offices nationwide. All of the offices are interconnected with the main SSA complex in Woodlawn, Maryland through an IBM SNA-based data network. This system allows for the direct query and update of SSA files from terminals and personal computers located within local and district SSA offices. This system is also linked with the SSA 800# for voice communications. SSA has begun to develop a video conferencing system which allows interviews to be conducted in various areas of the country without requiring the individuals to travel. Many of the systems and programs of SSA are compatible with OCSE systems in fact, the current ACF data center is co-located in SSA's Woodlawn complex. SSA shares resources with ACF now, e.g., SSA has allowed ACF to be part of their large-scale network (DataMover) contract with States.

Pros:

- ◆ A functional network linking the States exists.
- ◆ Connections to additional sites would be relatively easy.
- ◆ Due to usage sharing, costs would be low and readily established.
- ◆ SSA has the technical expertise to operate and maintain the network.
- ◆ ACF has a history of partnership and cooperation with SSA.

Cons:

- ◆ ACF would have little control over network functions since SSA business would take priority.
- ◆ Although SSA offices and 800# services are available for servicing clientele, they

may be stretched to capacity.

- ✦ There may be "political" opposition to having SSA assume functions closely related to non-SSA business. On the other hand, Senator Moynihan (D-NY) may support sharing resources among two of his favorite programs.

#### Option 4 - Integrate with the Health Care Reform Network

As part of Health Care Reform (HCR), a series of networks will be established to capture and transmit health care data, including enrollment, medical service encounter, and cost. These networks will connect each of the various health care plans, alliances, States, and Federal agencies with a number of clearinghouses and a central repository. The general data requirements for CSE are similar to those for Health Care Reform and the connections points are also similar, generally being States and employers. Integration, at least as far as transmitting on the same lines, is feasible.

#### Pros:

- ✦ Information requirements and connection points of HCR and CSE are similar; information flows are also alike.
- ✦ Because the HCR infrastructure is still in the design phase, it could be constructed to additionally support CSE requirements.
- ✦ CSE information security would be assured since ACF would be using the best privacy and security measurements as those designed to protect Health Care data.
- ✦ Costs would be lower because HCR and CSE would share in establishing and operating the network.

#### Cons:

- ✦ The new initiative under one network would create a very risky and uncertain project.
- ✦ HCR may not want to share its network or employer information which CSE would glean from enrollment data.
- ✦ ACF would not have complete control over the network.

In addition to the above options, ACF should closely observe the development of the new National Infrastructure Initiative (NII), an administration initiative to develop an electronic data highway providing access to computer and information services for the citizenry. Should it become available, ACF could use the infrastructure to supplement CSENet.

## **V. OTHER IT ALTERNATIVES FOR PROGRAM IMPROVEMENT**

The achievement of dramatic improvements in the program, particularly in the area of establishment and enforcement, requires testing and evaluation of technologies which offer leveraging capability. In this section, the paper proposes a number of technology strategies.

### **A. Support Proactive Paternity Establishment**

Research has shown that timing is critical in successful paternity establishment, and that ties between the mother and father are usually closest at the birth of a child. In out-of-wedlock births, research has further shown that the relationship between the unwed mother and father often diminishes rapidly after the birth. Two states, Washington and Virginia, have demonstrated the cost effectiveness of establishing paternity at the birth of a child.

IT could be further used to improve the current research findings by providing State IV-D agencies with opportunities to begin work on paternity establishment prior to the birth of a child. Interfaces could be established to access the medical claims data from Medicaid, WIC, and other programs which provide family planning services, to identify women who are receiving prenatal care. The advance information about expectant mothers could provide the following benefits:

- IV-D agencies could begin, at the earliest possible time, work to complete the establishment of paternity at the birth of a child.
- If appropriate, IV-D agencies could contact the expectant mother to inform her of the importance in establishing paternity to protect the future welfare of the unborn child.
- If acceptable to the medical community, the IV-D agencies could advise the medical provider to inform the mother about the availability of state IV-D services.

### **B. Use Video Conferencing in Lieu of Court Appearance or Administrative Hearings**

Using video conferencing instead of face-to-face contact for court or administrative hearings, especially for interstate cases, has the potential to alleviate the travel and scheduling difficulties, and improve the timeliness of hearings.

Video conferencing equipment and communication costs have been reduced significantly and steadily over the past several years. According to industry analysts, they should continue to decrease. The cost impact will be further minimized if the same video setup is used to support multiple programs, e.g., Child Support, Social Security and Veterans Affairs benefits. There is a growing presence of video in the courtroom today. According to The Washington Post, "...more than 50 courts scattered around the nation are using video hookups to arraign defendants, set bond or handle other criminal justice proceedings." Although there are some doubters, the use of video in the courtroom is helping to cut the bottom line in the money-starved justice system. Pilot initiatives for some programs have already begun in State and Federal agencies; arrangements to expand their use are possible. We believe that expanding this "accepted" technology for use in CSE is a worthwhile pursuit.

#### **C. Develop Expert Systems to Assist Users in Analyzing Legal Requirements**

A major problem associated with establishing or adjusting an interstate support order is understanding the complexity of laws and rules. There is potential for developing expert systems to assist States in this determination. For example, an expert system could be used to determine and/or provide information on:

- jurisdiction over a case, especially concerning use of long arm statutes against a non-resident or a military obligor;
- applicable state laws for the case, and the choice between either the one or two-state avenue in seeking an order;
- appropriate procedures for procuring reimbursement for past expenses for children, obtaining medical support, and modifying support awards; and
- models for review and modification, and for award guidelines.

#### **D. Use U.S. Postal Service (USPS) as the Process Server**

ACF could work with the Department of Justice and State and local law enforcement representatives to study the feasibility of using the U.S. Postal Service as the process server. This process would work as follows:

- States would forward service notices to USPS electronically via fax or electronic data interchange (EDI) technology; and

- In addition to normal mail delivery hours, USPS would make special deliveries during weekday evenings and weekends, similar to the level of service currently provided for Express Mail.

Such a process is potentially feasible and justifiable because:

- USPS has about 30,000 offices nationwide, enabling them to serve every location in the United States;
- USPS, operating as a quasi non-governmental entity, is seeking increased revenues from multiple sources and is willing to offer more services. For example, in the past year the Post Office has signed agreements with some Federal agencies to offer EDI message authentication and value added network services; and
- Since many of the notices could be delivered with other mail, this alternative could be very cost-effective.

#### **E. Establish Nationwide Evidentiary Documents Authentication Agents**

To simplify the procedures and improve the timeliness of admitting evidence to a tribunal, especially in interstate cases where the documentation authentication requirements differ, ACF could institute a program for authenticating documents. The salient characteristics of the program would include:

- Establishment of a national, elected board who would develop the qualifications and certification requirements for individuals who would be licensed as a Document Authenticating Agent (DAA);
- DAA would have authority of authenticating a paper or electronic document to be admitted to a tribunal;
- Paper documents could be stamped with seals by the DAA and mailed directly to the tribunal;
- Electronic documents, in text, image or video format, would be "signed" by a DAA using the digital signature cryptographic technique as proposed by the National Institute of Standards and Technology (NIST);
- The Tribunal would use the same cryptographic technique to verify that the electronic document received is indeed signed by the DAA; and
- All courts would admit evidence authenticated by the DAA.

Recognizing that this is a significant proposal, it would be necessary to work with the Department of Justice to jointly develop legislation if it is pursued. However, the technological capability currently exists to support such a proposal.

#### **F. Record Support Orders Electronically**

To ensure that the State which needs to enforce or modify an order can obtain the original order expeditiously and be able to comprehend the terms of the order unequivocally, ACF could develop application software which would allow Court or Administrative Law Judges offices' to record support obligations electronically, including all the following uniform terms recommended by the U.S. Commission on Interstate Child Support and conforming with pre-specified standards:

- the date that support payments are to commence;
- the circumstance upon which support payments are to terminate;
- the amount of current child support expressed as a sum certain, arrearage expressed as a sum certain as of a certain date, and any payback schedule for the arrearage;
- whether the support obligation is in a lump sum (not allocated) or on a per child basis;
- if the obligation is a lump sum, the event causing a change in the support obligation and the amount of any change;
- other expenses, such as those for child care and health care;
- names of parents;
- Social Security numbers of the parents;
- names of all children covered by the order;
- dates of birth and SSNs of children covered by the order;
- court identification (FIPS code, name and address) of the court issuing the order;
- method of payment;
- health care support information; and
- party to contact when additional information is obtained.

The electronic order would also contain the obligor's aggregated financial/non-financial data

on which the amount of award was based, including:

- total annual income;
- total liquid assets; and
- total value of other financial resources.

The same NIST proposed digital signature cryptographic technique as described above will be deployed to ensure the authenticity and security of the orders. A standard EDI transaction would be established to allow the order be transmitted to any requestor electronically. The electronic orders could be maintained at the State level or nationally in the Child Support Clearinghouse.

If it was maintained nationally, whenever new financial resource information was obtained through interfaces with external organizations such as IRS or credit bureaus, the system could automatically compare the new information against what was recorded in the original electronic order and alert the IV-D agency to review and adjust an existing order if substantial increase in the obligor's financial capability was noted.

#### G. Develop Computer-based Training Programs

The U.S. Interstate Commission, State IV-D agencies, and custodial parents seeking help in getting child support have all reported that one of the major problems in improving the program is the lack of staff and resources. We suggest that ACF take advantage of multi-media technology to develop computer-based training programs especially oriented to the training of newly hired case workers. Subject matter would include:

- Policy and procedural requirements for all major elements of the program;
- Investigative interview techniques;
- Operational instructions and procedures for available automated systems, including safeguarding the privacy and security of information residing in the automated systems;
- Methods to use when dealing with different states for interstate establishment, collection and enforcement; and
- Techniques which may be used to relieve case workers' pressure and improve the quality of "work life."

## **II. Value-Added Clearinghouse Network Services**

Once the Clearinghouse and network become operational, they can be used to deliver administrative messages, legal documents and notices to expedite the processing of interstate support cases. To ensure that documents are delivered in a format consistent with the forum State's requirements, the Clearinghouse would maintain complete references concerning applicable State and local laws, regulations and administrative procedures associated with establishment, collection and enforcement. These electronic documents could be, as discussed above, service notices for parentage or support actions to the USPS, and authenticated electronic evidentiary documents to the tribunals. They may also be expanded to include:

- National subpoenas to information sources, e.g., financial institutions, health insurance companies or employers, to obtain the most current evidences;
- Original court orders to a court or a collection enforcement agency;
- Wage withholding notice orders to employers; and
- Administrative electronic messages between parties involved in case processing.

## **I. Provide States On-line Access to SSA and IRS Databases to Obtain/Verify SSNs**

ACF could negotiate with both SSA and IRS to allow State IV-D agencies to have a direct, on-line access to their databases to validate an SSN, or to permit a name search to obtain an unknown SSN. To ensure that proper security measurements are in place, ACF would need to develop guidelines concerning:

- Physical security requirements for the area where the terminals are located;
- Internal controls to assure that the application can only be used by authorized State IV-D personnel for only the CSE Program; and
- Audit trail requirements.

To permit the States to obtain and verify SSNs directly would enable them to begin locate activities using their internal resources at the earliest possible time. Not only would this improve the timeliness of case processing, it would also save both State and Federal resources by eliminating the current steps for preparing and sending the request to the FPLS for missing SSNs.

## **VI. FUNCTIONAL SUMMARY AND NEXT ACTIONS**

### **A. Functional Summary**

In this paper, the vision and concept of a nationwide Child Support Enforcement (CSE) information infrastructure was introduced. The infrastructure consisted of four major entities: State systems, a CSE Information Clearinghouse, external organizations, and a communications hub, or enterprise network, to connect the entities for improved locate, establishment, enforcement and collections activities. The greatest improvement as a result of the infrastructure, will be to interstate case processing. The technologies targeted to improve program functional areas are identified below.

#### **1. LOCATE:**

Establish the Clearinghouse to include:

- The National Employment Registry;
- The National Locate Registry; and
- The National Child Support Registry.

Integrate the FPLS and CSENet with the Clearinghouse and improve locate through:

- Development of automated procedures for proactive locate;
- Acquiring extract data from SESAs for the Employment Registry;
- Accessing electronic Credit Bureau data at a national level;
- Accessing National Law Enforcement Network and National Criminal Information Center data; and
- Accessing new-hire information.

#### **2. ESTABLISHMENT**

- Develop expert systems to analyze laws, rules and procedural requirements for establishment and enforcement; ☉
- Develop expert system models for review and adjustment and for establishing orders using guideline formulas; ☉

- Use of video-conferencing in lieu of court appearances or administrative hearings; ☉
- Interface with Medicaid and WIC for information on women obtaining prenatal care to initiate paternity establishment prior to birth; ☉
- Establish a document authenticating agent program to allow a certified agent to authenticate evidentiary documents for admission to tribunals; ☉
- Use a digital signature approach to issue support orders electronically; ☉ and
- Issue electronic orders/notices for wage withholding. ☉

### 3. ENFORCEMENT

- Establish an Employment Registry to improve States' wage withholding capability; and
- Contract with the U.S. Postal Service as the service agent to deliver service or subpoena notices. ☉

### 4. COLLECTIONS

- Provide for a single, technology-enabled centralized collection system at the State level; and
- Fully implement Electronic Funds Transfer technology.

### 5. TRAINING

- Develop computer-based, multi-media training programs.

The ☉ symbol indicates that there is a need to test and evaluate the application on a demonstration basis. The Child Support Program has not used research funds to test information technologies, other than EFT, since interstate demonstration grant authority expired in 1987. We propose that a research capability and research funds be earmarked for information technology testing.

## **B. Other Considerations Raised In This Paper**

1. The need to use SSN as a national identifier.
2. The need to change the working definition of centralized collections.
3. The need to negotiate with the Department of Labor and SESAs for extract of employment data.
4. The need to negotiate with SSA and IRS to allow State on-line access to obtain and/or verify SSNs.
5. The need for CSE Information Technology Research and Demonstration Capability.
6. The need to negotiate a national contract with the three major credit bureaus .
7. To the extent that EDI transactions are directed to multiple government agencies, we will need to work with the American National Standards Institute (ANSI) to establish an CSE X-12 Electronic Data Interchange standard. This standard must be published in the Federal Register. (Current CSENet EDI standards are not X-12 compatible but may need to be.)

## **C. Next Steps**

While we realize that the proposed technology alternatives presented in this paper are feasible, it is important not to overlook the time necessary to implement some of these proposals. Technology changes, especially ones that impact an organization's operation, aren't fast and easy. They will take time to plan, develop, and implement. Of no small consequence is the degree of interface necessary with other entities. The coordination, and possibly legislation necessary to implement these will also take time.

To finalize the Clearinghouse system design concept and data collection methodologies, we believe that further explorations and/or studies are required in the following critical areas:

- We believe that the most complete and up-to-date employment information source will be national health insurance enrollment data. Consultation with higher authority is needed to determine the availability of the data for welfare reform purposes in the future;
- The Health Care Agency will most likely have a high performance network to transmit and receive the health care data. Any new or expanded network efforts for the CSE Program needs to be closely coordinated, or perhaps be part of the legislation on Health Care Reform efforts;
- ACF needs to issue a contract to an objective and not-for-profit organization to conduct a detailed study, in close coordination with SSA, to determine the most cost-effective and efficient system environment to support Clearinghouse operations;
- ACF and the Department of Labor need to discuss and examine the best short-term solution for the Clearinghouse to obtain the SESA employment data to establish the National Employment Registry, and the most appropriate long-term alternative to access the information, if the Health Care registry is not available. These areas may also need legislative action;
- ACF needs to discuss with the U.S. Postal Service its long-range plan to develop a value-added network to provide nationwide EDI service support;
- ACF needs to negotiate with the Department of Justice concerning access to the National Law Enforcement Telecommunications Network, and the National Criminal Information Center. This could also require legislative action; and
- ACF needs to organize focus groups, on a regular basis, to identify other potential innovative technology not addressed in this paper.



CHILD SUPPORT ENFORCEMENT AND ASSURANCE

CHILD SUPPORT ASSURANCE

JULY 1993 - DRAFT

CHILD SUPPORT ASSURANCE

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EXECUTIVE SUMMARY

[To be completed when paper completed]

## CHILD SUPPORT ASSURANCE

### I. BACKGROUND

Statistics available indicate a consistent inability, over the past decade and a half, of the child support system to insure a reliable and adequate income source for a great number of our nation's children living in potentially eligible families. The numbers are well known and often cited: only 58 percent of families potentially eligible have a legally enforceable award, 50 percent of those families with an award receive the full amount due and 25 percent receive nothing. Poverty among children in single parent households is unacceptably high -- upwards of 50 percent of these children are poor.

It has long been recognized that child support enforcement, even under optimal scenarios, cannot reduce current poverty and welfare dependency rates by a substantial amount. Yet reform efforts over the past twenty years have focused primarily on the enforcement side of child support, that is, ensuring that the noncustodial parent is held accountable for support ordered. There can be little argument that these efforts have resulted in child support income for many custodial families. Hidden in the averages and percentages used to assess the effectiveness of the child support system, which indicate little improvement over the past decade and a half, is a dramatic increase in the size of the demographically eligible population, from just less than 8 million families in 1979 to over 12 million in 1991. Also obscured is the fact that the composition of the population has shifted over time to harder to serve families with considerably more never married female heads of households relative to other groups.

Given the combination of a child support system which has been largely ineffective in keeping up with changing demographics, the inability of inter-family transfers to insure sufficient income to many custodial families and a welfare system that has little support, proposals have come forward to provide a publicly funded child support payment.

Under these proposals, the government would provide an assured payment if child support from the noncustodial parent was not forthcoming or fell short of a minimum guaranteed amount. Depending on design, such a system could insulate middle income and wealthier families against risk of irregular or late payment while targeting help to low income families by providing a supplement when the noncustodial parent earns too little to meet a minimum payment.

In this paper we will explore the design and administration of such a system, including issues of: eligibility, benefit structure, interactive effects, financing and implementation. Each of these issues have been explored in greater detail in separate papers.

#### The Emergence of Child Support Assurance/Insurance

Garfinkel was one of the first to propose an overhaul of the current private child support system which included the recognition that private support alone would not substantially increase the economic well-being of eligible families. Garfinkel (1982) proposed a publicly funded child support benefit as part of a total reform of the private child support system. The total reform package, Child Support Assurance System, included the use of uniform guidelines to set award levels, universal wage withholding to collect current and past due support and a guaranteed minimum benefit. While the first two parts of the proposal moved forward in Wisconsin and eventually made their way into federal law, the guaranteed minimum benefit was never implemented in Wisconsin.

More recently, Ellwood (1988) has included a guaranteed minimum benefit in his welfare reform proposals. His proposal, Child Support Enforcement and Insurance has two major components: enforcement and insurance. The first component would be based on a new system to establish paternity in all cases of out of wedlock birth and to dramatically change enforcement of child support obligations so that all noncustodial parents pay a fair amount of support for their children. Under the insurance segment, a minimum insured child support payment would be provided, so that single parents could count on some support even when the noncustodial parent is unable to pay.

Several bills and proposals have also come from Congress calling for demonstration projects or national implementation of child support assurance. Former Congressman Downey and Congressman Hyde proposed a national child support enforcement and assurance program which included the minimum benefit (1992). Senators' Dodd, Rockefeller and Bradley have included demonstration projects for a guaranteed minimum child support benefit in proposed legislation. The National Commission on Children, the Commission on Interstate Child Support Enforcement and the American Bar Association have endorsed pilot testing of the child support assurance concept. Many advocacy groups, including the Children's Defense Fund, have endorsed a national program.

New York is the only state to implement a variation of the child support assurance model. The New York Child Assistance Program (CAP), currently in operation, is a variation of a child support assurance program. It is limited to AFDC recipients, requires an award and provides a guaranteed benefit to those who qualify. The guaranteed benefit when combined with work will make a family economically better off than if they relied solely on AFDC for income support. Some portion of the guarantee remains in effect until the families' income reaches 150% of poverty. Relevant aspects of the New York program are discussed throughout this paper.

Of all the features of a reformed child support system probably the most controversial is the publicly financed guaranteed benefit. While most would agree that increasing enforcement efforts to secure adequate support from noncustodial parents is a proper role for Federal and state government, the creation of a new publicly financed income transfer program is met with more resistance. A review of the written comments to the Downey/Hyde proposal (1992) indicate that central to this resistance are the issues of cost, child support cooperation and compliance disincentives that may be created by a such a new public income transfer. In order to be a politically acceptable welfare alternative, a public benefit should not be too costly, should increase the custodial parents' incentive to work and should provide positive incentives for both the custodial and noncustodial parents to cooperate/comply with the child support enforcement system. In addition, such an income

transfer should not produce undesirable behavioral incentives such as adversely impacting on labor supply, or encouraging out of wedlock births or family dissolution.

## II. BENEFIT DESIGN

While child support enforcement and assurance proposals have received considerable public support, benefit design issues remain controversial. Eligibility criteria and payment amount can be structured in an unlimited number of ways to meet both budget requirements and program goals. However, such decisions must be reached carefully if the program is to provide meaningful support for a significant number of single parent families and insure that a positive behavior response is elicited.

### A. Eligibility Issues

Eligibility focuses on whether the benefit would be available to all custodial families regardless of award, income and/or marital status or whether access to the benefit should be restricted to some subgroup. We explore the following eligibility options in this paper:

- 1.) Requiring an award
- 2.) Requiring cooperation
- 3.) Requiring a means or income test
- 4.) Restricting eligibility to single parents
- 5.) Requiring noncustodial parent participation

While each of these criteria are discussed separately below, they need not be viewed as mutually exclusive. For example, eligibility could be based on the existence of a child support award in conjunction with a requirement for ongoing cooperation to assist in the State's enforcement efforts. Alternately, such a strategy could be linked with a requirement that the noncustodial parent demonstrate some propensity toward compliance with the terms of the order such as payment of a nominal amount of support or participation in employment activities.

#### 1. Award Status

The arguments for restricting eligibility to those families with a child support award include: cost, system 'integrity', administrative ease and creation of a positive incentive to get awards. The arguments against such a restriction include: possible exclusion of many needy children who through no fault of their own do not have an award and creation of a new class of 'unworthy poor.'

Restricting access to the child support assurance system to those with awards would certainly reduce the costs of the program. First, many families who might otherwise be eligible would be excluded from participating. In 1989 there were 9.96 million women with at least one child under 21 potentially eligible for private child support. Of these 5.75 million or 57.7 percent had a child support award (of those, 4.95 million were supposed to receive support). Thus, 4.2 million families without an award would not be eligible to participate in a child support assurance program.

Further, restricting the benefit to those with an award may disproportionately impact on poor families. Of the 3.21 million poor families potentially eligible for support only 1.39 million or 43.3 percent had an award. For the 6.75 million nonpoor potentially eligible families, 2.39 million families did not have an award. Thus, if we assume no behavioral response, such a restriction on eligibility would severely limit poor families access to the benefit; the award requirement excludes 57 percent of poor families versus 35 percent of nonpoor families. In addition, restricting the benefit would disproportionately effect people of color who are much less likely to have an award.

The key to this structure, however, is the anticipated behavioral response -- that is, custodial parents will be more likely to fully cooperate in establishing paternity and pursuing support from the noncustodial parent and possibly to increase employment efforts if the existence of an award were a condition of eligibility. Similarly, depending on funding structure, this eligibility criteria could effect the level of effort and resources States are willing to provide in pursuing support orders quickly.

In addition, costs would be reduced because requiring an award for

eligibility ensures that the government may recover at least some portion of the public benefit from collections due from the noncustodial parent. Without an award, the noncustodial parent is not legally obligated to pay support and the government can not recoup the benefit. Payment reciprocity rates vary little by marital status - ranging from a low of 72 percent for remarried women to a high of 80 percent for separated. Even for poor women, 66 to 74 percent of those with an award and due payment receive something. Thus, the government could expect to recoup at least some of its financial outlay for the vast majority of families who might participate in a restricted-access child support assurance program.

System integrity is central to many arguments for restricting access to the assured benefit to those with an award. System integrity is synonymous with fostering parental responsibility and is one aspect that differentiates child support assurance from welfare. This may be important in garnering public support for a new income transfer program. A system which requires an award would support the theme that one parent should not be required to do the work of two while at the same time recognizing that for many families, two parents living apart cannot provide adequate income support. For the custodial parent, parental responsibility begins with the identification of the child's father and cooperation in securing paternity, an award and payment. For the noncustodial parent this means, at a minimum, cooperating with the system and complying with court ordered support payments. In addition, for the noncustodial parent this may mean participating in employment training or public service jobs in order to meet his/her obligations.

Having a system with 'integrity' is not without costs. First, many custodial families may be excluded from participation through no fault of their own. If the enforcement system, because of its fragmentation, scarce resources and general inability to act, is unable to locate the noncustodial parent or is otherwise unable to secure an order, the children will suffer despite the full cooperation of their custodial parent. While we do not have a sense of the true impact of 'full cooperation,' we do know that of the 2.4 million non-AFDC families without an award, 17 percent

report having sought the assistance of the IV-D agency in securing support. Of the mandatory IV-D participants, AFDC and Medicaid recipient families who by definition must cooperate with the child support enforcement agency, 65 percent do not have awards.

Administrative ease is another strong argument for requiring a child support award for eligibility. As Mary Jo Bane pointed out in her testimony on the New York CAP, the award requirement provides an objective criteria which is simple to administer. Anything less than the award requirement requires that subjective assessments be made by individual support staff and would allow discretion on the part of child support staff resulting in inequities between states, localities and even workers. In addition, such a system would require a costly administrative system of appeal.

A final argument for a system that requires an award, and perhaps the most compelling, is that it will create incentives for custodial parents to cooperate fully in order to attain eligibility. There is some evidence from the New York CAP program, which requires an award, that such a system does create positive incentives to secure an award. In the first year of operation the program resulted in a 10 percent increase in the number of awards.

In summary, there appears to be a good, objective case for limiting eligibility to an assured benefit to those with an award. This includes cost containment, maintaining the system's 'integrity', administrative ease and appropriate incentives. The restriction sends the message that this is not welfare by another name but an income transfer program for people who are 'playing by the rules' and thus should not be subjected to stigma and disincentives of the current welfare system.

The main case against such restricted access is that it may exclude many potentially eligible children through no fault of their own; many who play by the rules could lose the game through system failure. This exclusion impacts disproportionately more poor than nonpoor children and more people of color. Thus restricted access also poses the risk of creating a new class of 'unworthy' poor who could be singled out for a more punitive and less generous income

support program.

2. Cooperation Status

a. Upfront Cooperation

Few would advocate that an assured child support benefit should be made unconditionally available since there would be no incentive for the custodial parent to cooperate under such a system. However, there is at least one argument for extending access to those who cooperate but fail to secure an award -- those who play by the rules and fail because of the system's inability to respond in timely and appropriate ways should not be penalized.

Of the 4.2 million families without an award, 2 million have had at least some contact with the child support enforcement system and a high portion of those families are living in poverty. There are just too many stories, either real or imagined, of women who have provided detailed and current information on the location of the noncustodial father only to have the child support enforcement system fail to act in timely fashion.

Extending eligibility also reinforces the positive incentives of a child support assurance program. Providing access to those who cooperate reinforces the incentives for the custodial parent to provide the information needed for the enforcement agency to secure an award.

However, there are many reasons for not providing a 'blanket' extension of eligibility to those who cooperate but do not have an award. These include: benefit cost, administrative burden and costs, and applicant 'gaming' of the system. It is true that extending access to those without an award will increase benefit costs -- without an award the government cannot recoup the benefit outlay. Using a crude measure of cooperation it can be estimated that an additional 2 million families would be eligible for the assured benefit; that is, 2 million families with no immediate potential for benefit recoupment.

Applicant gaming of the program, again whether real or imagined,

needs to be carefully considered in formulating eligibility criteria. Lerman (1988) believes that a more stringent eligibility factor may be necessary because evidence has shown that custodial parents are not especially cooperative with child support efforts. The public may be amenable to a new program which reinforces parental responsibility but one that can be easily manipulated by the applicant would be politically doomed. The criteria for assessing cooperation must be as objective as possible, easy to understand and administer.

There are possibilities for designing eligibility criteria that try to balance the concerns about gaming of the system with concerns about holding parents responsible for events that are not within their control. Senator Bradley's bill (S. 689 - a bill to improve interstate enforcement of child support), which would provide for child support assurance demonstration projects, requires a support order to be in place as a condition of eligibility but includes a cooperation provision which recognizes that system failure should not be the reason that families would be denied access to an assured benefit. The bill provides a much stricter definition of cooperation (the mother must name the father and provide information to verify the identity of the person named so that process can be served) and further provides that if the enforcement agency fails to secure an award within 12 months of the custodial parent providing such information, then the family becomes eligible to participate in the assured benefit plan. In essence this shifts the burden to perform from the custodial parent to the state enforcement agency.

Regardless of whether eligibility for the assured benefit is by award, cooperation of the custodial parent or some mix of the two as envisioned under the Bradley bill, a 'good cause' exemption policy will be needed for cases where there is demonstrated abuse or other form of domestic violence and where securing child support would endanger the parent and/or child(ren). As under the current AFDC rules, good cause exemptions may also be necessary for cases where the child was conceived as a result of rape or incest.

## b. Cooperation in Ongoing Enforcement

While the idea of extending eligibility to those who cooperate in securing awards may not be considered ideal from an administrative point of view, the notion of requiring cooperation does not disappear after establishment of the initial award. It may in fact be necessary to mandate continuing cooperation in securing support.

Under this strategy, the requirement for custodial parent cooperation would not end at eligibility. To improve the likelihood of benefit recoupment, custodial parents would be required to cooperate in ongoing enforcement activities, including securing the noncustodial parents' compliance by, for example, providing information on his/her whereabouts or assets, and providing authorization to conduct a review and modification of the award.

One lesson learned from the New York CAP is that focusing efforts on securing awards without attention to compliance does not result in increased child support collections. Thus the issue of cooperation is more complex than simply extending eligibility to a group without a child support award. If the noncustodial parent stops paying, the question arises as to what the responsibility of the custodial parent should be and how to tie fulfillment (or nonfulfillment) of that responsibility to continued eligibility for the assured benefit.

## 3. Income Testing

The argument for restricting access to the assured benefit by income testing focuses on 'target efficiency' -- providing benefits to only those in need and reducing benefit costs. The arguments against such a restriction center on recreating the welfare system we are trying to dismantle, administrative costs, disincentives to work and marry, disincentives to the custodial parents to cooperate and noncustodial parents to comply with child support enforcement, and finally, the segregation of a subgroup for special, possibly negative, attention.

Income testing, by definition, would result in less benefit costs

and more of the benefit dollars going to the 'truly' needy. Income testing would also reduce to zero the chance that any benefit would go to the mother with the \$100,000 income -- the horror story that whether real or imaginary would come up in discussions. In an non-income tested child support assurance plan proposed by Senator Rockefeller, which required an award, 500 million public dollars would go to women with annual incomes of \$60,000 or more.

Findings in a paper by Meyer, Garfinkel, Oellerich and Robins (1992) indicate that the proportion of public benefit dollars going to families with incomes above 200% of the poverty line would be about 10 percent in an non-income tested scenario and 3 percent in an income tested scenario (the income test being family income below the median income). The proportion of benefit distribution going to those families with higher incomes declines as the system moves from one which requires an award to one that is unconditional. This is because many more poor families do not have an award.

In addition to varying the amount of benefit in relation to child support paid, income testing would add the further complexity of varying the benefit by the earned and other unearned income of the custodial parent (or family). This would require periodic reporting of income and verification of those reports. The costs of administering a new income tested program thus may outweigh the gains in target efficiency but this is an empirical question which must be answered if this alternative is considered.

Income testing also reduces benefits as other sources of income increase -- it is an additional tax on earnings and other income. A benefit that is reduced in response to earned income reduces work effort. As the rewards for work are reduced so is the custodial parent's propensity to secure employment.

Additionally, a marriage penalty may be created if the definition of income included a spouse's income. That is, there would be some disincentive to marry -- potentially troublesome since marriage is a route out of poverty for many single parent families. Of course not counting a new spouse's income makes the assured benefit a positive incentive to marry in some respects since it

could be perceived by the marriage partner as reducing the burden of supporting the custodial parent's children.

Finally, income testing segments the custodial parent and his/her family from the mainstream, segregating the poor. Such segregation may result in stigmatizing a large number of children as well as demoralizing their custodial parents. In addition, segregating this population could result in future negative attention due to fiscal constraints.

In sum, income testing could provide for better targeting of benefit dollars and reduced benefit costs. However, income testing brings with it increased administrative burden and administrative costs as well as disincentives to work and marry, and the potential stigmatization of a large portion of our nation's children.

#### 4. Single Parents Only

Restricting access to the assured benefit to single parents would reduce benefit costs and be relatively simple and inexpensive to administer. Much of the rhetoric on child support has been focused on the plight of single parent families -- they are the families most in need of financial supports. Thus restricting access to the assured benefit to single parent families would seem consistent.

Restricting access to single parents could result in targeting benefit dollars on the poor without the burden of income testing. Custodial parents who (re)marry have access to the resources of their spouse and require less in the way of public support.

In 1989 there were 9.96 million custodial families. Of these, 2.53 million or 25 percent were currently married. Poverty rates for married custodial parents and their children are much lower than for single parent families, 7 percent for currently married families vs. 41 percent of single parent families.

However, terminating the assured benefit with (re)marriage creates a marriage penalty and could discourage marriage resulting in prolonged poverty for many children. The marriage penalty here is a bit more severe than simply counting the new spouse's income for an income test because the new spouse could inherit the total

responsibility for the support of his/her stepchildren regardless of their income level. Of course, while the public support might cease, the responsibility of the noncustodial parent would not (unless the stepparent took steps to adopt the children).

##### 5. Requiring Noncustodial Parent Participation

One of the premises of a child support assurance guarantee is that the custodial parent should not be expected to bear the responsibility of both parents. Yet discussions of eligibility generally focus on expectations of the custodial parent with little or no mention of the noncustodial parent (other than as the recipient of a stronger enforcement strategy in the case of willful noncompliance with an order for support). Since half the equation of the child support assurance guarantee is to provide support when the noncustodial parent is unable, it may be reasonable to provide at least some limited demands on the noncustodial parent in those cases.

There are several options for including the noncustodial parent at least partially in the eligibility design.

First, the parent could be required to pay at least a nominal amount of child support, whether or not gainfully employed, or perhaps in exceptional cases, to provide some type of in-kind support. Alternately, or in conjunction with a nominal payment, the parent could be required to enter the JOBS program or take a public service position at minimum wage. The noncustodial parent thus would work off at least a portion of the support provided. Many people would conceivably find this approach to be a very attractive one.

While such a strategy would promote parental responsibility and may be viewed as an catalyst to securing future support, it is not without issue. If eligibility was conditioned upon participation by the noncustodial parent and if a noncustodial parent refused to accept such conditions, either because of indifference or confidence that the children will be protected by the AFDC safety net, a large number of families the program is designed to target

for support would unfairly be restricted from receiving the benefit. In addition, the administrative burden associated with month to month monitoring of the noncustodial parent as well as the costs associated with the added job service may prove prohibitive.

Mandatory work programs for father that are not tied directly to eligibility for the mother are another possibility, although the cost of administering and providing jobs in such programs causes some concern.

Another strategy is to condition the fathers' eligibility in certain education and job training services to the mothers eligibility and participation in child support assurance.

Final results of the Parents Fair share demonstration projects may provide some insight as to how to best involve noncustodial parents in the design structure.

Nevertheless, providing for the active involvement of noncustodial parents who are unable to provide a minimum support amount for their children in the benefit design may serve to ultimately limit the length of time public child support is necessary while also sending the message that child support enforcement and assurance is not welfare by another name.

#### Summary

The primary argument for restricting the eligibility for the assured benefit is benefit cost -- restrictions limit the number of families who can participate, thus the number who receive benefits and resulting benefit costs.

The primary arguments against limiting eligibility focus on the fact that most limits increase administrative burden and costs and create disincentives -- disincentives to cooperate and comply with child support enforcement efforts, and disincentives to work and marry/remarry. Restricting access to the assured benefit may bring with it the risk of recreating the welfare system that we are seeking to replace. Child support assurance should not be 'welfare as we know it' by another name.

## B. Benefit Structure and Amount

The goal of the benefit in any child support assurance scheme, regardless of how it is structured, is to provide a reliable income stream to the custodial parent and reduce the incidence of poverty for children living in custodial families. Additionally, an assured benefit may, depending on the gap between the public benefit and the fathers ability to pay, result in some income redistribution.

### Benefit Structure

A child support assured benefit can take on any one (or a combination) of three forms:

a minimum guarantee - an amount not tied to either the level of the award or the payment;

an insurance value - based on some specified percentage of the award; and finally,

an incentive value - tied to the payment of private child support.

To date most proposals for an assured benefit system have focused on the first benefit structure, a minimum guarantee. In all such proposals the guarantee is set at some absolute value, usually as an increasing function of the number of children yet totally unrelated to the amount of the individual's child support award or to the payment of the private support. Although the amounts vary depending on the proposal, they generally fall in the range of \$1,000 - \$3,000 for the first child, with a reduced amount for the second and third child and a lower amount for any subsequent children. The minimum guarantee pays the most public dollars to those who receive the least in private support. The benefit reduction rate is usually set at 100 percent meaning that for each dollar of private support paid the public benefit is reduced by one dollar. Thus a guarantee combined with the 100% benefit reduction rate does not provide for incentives for payment. In theory lower benefit reduction rates, which might induce some positive payment

behavior, are possible.

An alternative approach to a public benefit would be to guarantee a specific percentage of the individual's child support award. This approach would increase benefits due to the number of children implicitly because both income shares and percent of income guidelines adjust award levels for the number of kids but would also provide the highest benefit to those least in need. Under this approach those with the highest awards would receive the highest guarantee while poor custodial families with concomitantly poor noncustodial parents would receive much lower benefits. Those without awards would not be entitled to any benefit. Of course, both these situations could easily be remedied by establishing a floor and ceiling for the guaranteed benefit. Such a structure could also create a perverse incentive for establishing higher awards than the noncustodial parents' ability to pay may indicate. This could be eliminated by the strict application of the child support guidelines. As with the guaranteed minimum benefit structure a benefit reduction rate would be imposed on any payments of private child support and depending upon the rates employed create incentives or disincentives to pay.

A final approach to structuring a benefit would be to link the amount of the public benefit directly to the payment of the private support -- in the form incentive payments. Under this approach a custodial family would receive an additional payment, say 25 cents, for each dollar of private child support received. For those without an award or those who received no support for a month there would be no public payment. While such an approach would create incentives for both the custodial and noncustodial parents to comply with child support enforcement it does not meet the goals of a child support assurance system that seeks to provide a regular, minimum level of support to custodial families.

A combination of approaches one and three (minimum guarantee and incentive payments) would provide for a regular, minimum level of support even for those who receive no support as well as create positive payment incentives. Such a structure could look very much like an EITC with phase in and phase out rates combined with a low minimum benefit.

## Level of Benefit

There is some disagreement, beyond the issue of cost, as to the appropriate benefit level. Advocates of a high benefit (e.g. Garfinkel, Ellwood) argue that an upper level is necessary to truly provide meaningful support to the family and significantly impact poverty. Critics argue however that a higher benefit may decrease work effort and increase the incentive for custodial and noncustodial parents to collude. They believe that the benefit should be comparatively modest to insure child support assurance remains distinct from welfare while providing a strong work incentive.

Still others argue that the level of the assured benefit should not exceed what the vast majority of custodial parents would receive if support were paid in full on time, again so that it will not be viewed as a government income transfer. Lerman and others believe that the level should be set at a rate where a set percentage of noncustodial parents' support would not need subsidy. In 1989, the median amount of child support received for a custodial family with one child was \$2000 while the seventy-fifth percentile was \$2880. This would imply that for 50 to 75 percent of the custodial families due support for one child a minimum benefit in the range of \$2000 would be appropriate.

Without specifying a recommended benefit amount, it would appear reasonable that the guarantee should be sufficient to provide that along with even a minimum wage job or part-time employment at slightly above minimum wage, most families in most states would be better-off than on welfare and to provide increased economic stability for non-welfare participants. Based upon a hypothetical one parent family with two children the combination of half time work at minimum wage plus the new EITC, Food Stamps and a child support assurance benefit of \$3000 would have a net disposable of \$11,064 or just below the 1992 poverty line of \$11,189 for a family of three. The results of the New York Child Assistance Program (CAP) demonstration, although not strictly comparable to an assured benefit, showed an increase of 25 percent between the treatment and control group in both earnings and award rates with a CAP benefit in the \$3000 range for one child.

Finally, as provided in the next section, equally important as the amount of the benefit are the interactive effects, or treatment of such benefits in determining eligibility for other forms of assistance and for income tax purposes.

### C. Interactive Effects

The value of an assured benefit, as well as the costs and benefits derived, cannot be determined by simply considering the eligibility criteria and the gross amount of support provided. Equally important are the interactive effects, or treatment of such benefits in determining its net value. This section presents an explanation of how child support is currently treated for eligibility determination purposes and discusses the interaction of an assured benefit with various types of public assistance, including a time-limited welfare program, and the issue of tax treatment.

#### 1. Program Interactions with Private Child Support and Child Support Assurance

A child support assurance benefit provides a custodial parent who meets eligibility requirements with a specified amount of child support when the non-custodial parent fails to pay or is unable to pay child support up to a guaranteed benefit. As such, it is the transfer of a child support payment from the government to the custodial parent and may be considered "public" child support, while "private" child support involves the transfer of a child support payment from the non-custodial parent to the custodial parent.

#### Private Child Support

Child support may be viewed as income to the custodial parent. Consequently, decisions must be made on how the income should be treated in making eligibility determinations for public benefits which are income tested. Treatment can impact a recipient's cooperation in child support enforcement efforts, a noncustodial parent's willingness to comply as well as administrative complexity. For example, when a dollar received in child support

reduces the total of other benefits by more than a dollar cooperation with child support authorities by the mother and father may be diminished. Some thus view a pass-through or discount of child support vis a vis benefit eligibility or entitlement as a financial incentive to cooperation; however, there is little evidence that existing incentives have much impact on compliance.

Currently, private child support is treated in different ways by the major means tested assistance programs (a more detailed explanation including examples is provided in Appendix A):

#### Public Child Support (Child Support Assurance)

The treatment of public child support, or the assured benefit, with respect to eligibility for public benefits would likewise need to be determined. However, this is problematic, for as the above chart shows, the treatment of private child support is not uniform across programs or necessarily uniform within programs. Depending on the degree of State discretion, eligibility requirements may vary from State to State. Thus, the current treatment of private child support presents no clear cut precedent for how public child support should be treated.

As with private support, there is also a need to consider the incentive effects of the treatment of public support. There is little empirical evidence to suggest that manipulation of a public benefit alone can create substantial incentives to cooperate and comply with child support enforcement. For example, the \$50 pass through used in AFDC has not been shown to have a strong relationship with cooperation and compliance. In fact it could be argued that the current system creates negative incentives for both parents, that is, incentives to subvert the collection and enforcement system. The New York Child Assistance Program (CAP) appears to be having some modest success in increasing the number of awards secured, yet payment compliance has not improved.

#### AFDC

Payment of an assured benefit can be structured to affect or not

effect AFDC eligibility and benefit amount, depending on program goals and budgetary decisions. The assured benefit could be treated as unearned income and similar to private support (with the exception of the \$50 disregard), fully offset the AFDC payment level; be treated specially and only partially offset the AFDC payment (the Downey-Hyde proposal would have provided a 50 percent offset); or, be disregarded in its entirety.

Many supporters of child support enforcement and assurance believe that it should be fully deductible to make clear that it is an alternative to welfare, not a supplement, designed to provide a strong incentive to self-sufficiency. Unlike AFDC, if a family were to work, the assured child support guarantee would be of considerable benefit because they could keep their child support regardless of earnings. Since the AFDC benefit would be lowered, this may in fact make it easier for families to leave welfare. Under this theory, if the benefit were not deducted, families would have no strong incentive to seek employment or to cooperate with child support enforcement efforts since in effect they would simply receive a larger welfare payment with the accompanying work and child support cooperation disincentives.

In addition, replacing AFDC with child support enforcement and assurance would increase public acceptability since the emphasis on government assistance would be shifted from the custodial parent's actions to that of the noncustodial parent and because costs would be significantly lower than if treated as an AFDC supplement. However, if treated differently than private support, in terms of the current \$50 disregard, it may be difficult to administer.

Those in opposition to full deductibility of the payment for AFDC eligibility purposes claim that it would add few new benefits to families on welfare and, in turn, provide little incentive to cooperate in the pursuit of private support (unless the assured support benefit were higher than the AFDC benefit level). They support either partial or complete disregard of the assured payment for purposes of determining AFDC eligibility and payment amount.

Complete or partial disregard of the public assured benefit might provide a major incentive for AFDC recipients to cooperate with the

child support agency, though the current \$50 disregard has not proven to be much of an actual incentive and it would clearly increase benefits for families on welfare, especially those who chose not to work (unless States reduced AFDC grants). However, a complete or partial passthrough would retain if not amplify the current disincentive for work associated with the AFDC program and result in significant cost increases to the Federal and State governments.

#### Medicaid and Other Forms of Public Assistance

How a given program treats unearned income will determine how a minimum payment will affect eligibility. As provided in the discussion of private support, current program rules are inconsistent and vague in many programs with interactive effects of other program benefits and incentive effects difficult to measure.

For the great majority of programs, like Food Stamps, Housing Assistance and Head Start, which are income-tested but treat private support as income, treatment of the public portion of a child support assured benefit as income would have little net effect. Since the benefit guarantee would probably not be significantly higher than required under an award for support, the effects would be the same as if the parent were paying in full.

However, this effect cannot be considered in isolation. To the extent that receipt of an assured benefit is a net increase in income to a family currently reliant on multiple means-tested benefits, the results can be less than a positive incentive to cooperate. In a worst case scenario, receipt of a \$3,000 assured benefit can result in a loss of AFDC, Housing Assistance, Child Care, Food Stamps and potentially Medicaid. To illustrate the dimension of potential for interactive effects, the following chart provides an illustration of multiple program participation by persons in January 1991:

Percent of Individuals Who Receive:

And Those Who Receive:	Food Stamps	AFDC	Medicaid	Assisted Housing
Food Stamps	100	90	65	51
AFDC	50	100	49	35
Medicaid	74	100	100	53
Assisted Housing	30	24	27	100
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Total Persons (In Thousands)	18,143	10,018	20,481	10,505
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Source: Survey of Income and Program Participation (SIPP), Wave 4 of the 1990 Panel

While design of an assured child support benefit cannot be structured to correct the current disincentives built into what has been viewed as an uncoordinated system of public support, it clearly reaffirms the case for welfare simplification and coordination efforts. (However, a separate paper attempts to address possibilities for coordinated treatment an assured benefit).

Were the guaranteed benefit to be disregarded in considering income for purposes of multiple income tested programs, the effects would be substantial. Noncustodial parents would have little incentive to comply in paying support, since noncompliance would allow receipt of the child support assured payment and the other program benefit(s). If the benefit level were high enough, a universal child support enforcement and assurance program could significantly impact eligibility for other programs, if not counted as income.

While Medicaid is also means-tested, the treatment effect is not as clear-cut as other means tested programs since AFDC eligibility also provides categoric eligibility for Medicaid. When a family loses AFDC eligibility, they may also lose Medicaid (though recent

expansions to Medicaid eligibility requirements will insure that all children living below the poverty line are covered regardless of their eligibility for other programs).

Current rules provide a temporary Medicaid extension for a family who loses AFDC due wholly or partly to the increase receipt of child support. This extension could be applied to the public portion of the assured benefit to protect child support cooperation and work incentives at limited costs since the extension is temporary. In addition, if aggressive efforts to pursue medical coverage from the absent parent were included in the reformation of the child support enforcement process, single-parent family reliance on Medicaid should decline.

## 2. Time-limited Welfare

Few discussion of a child support assurance minimum guarantee have been coupled with a strategy of time-limited welfare. However, the benefits of a child support guarantee in a time-limited environment are compelling. Since an assured benefit would not be affected by employment, it would provide families added support during welfare transition to assist in achieving real self-sufficiency. If, as has been asserted, a custodial parent can support a family through a combination of even part time work and child support or the assured child support benefit, a strong foundation for time-limiting welfare is produced. Further, if the guaranteed receipt of child support were coupled with medical support in the form of health insurance from the noncustodial parent, a custodial parent may leave welfare with greater confidence that the families needs will be met.

Time-limited welfare may also have beneficial effects on child support enforcement efforts. Parents would have an immediate incentive upon entering AFDC to cooperate with the child support agency to establish an order for support. Added pressure would also be placed on child support enforcement agencies and the courts to get an award in place which may provide a much needed incentive for providing the resources necessary to improve program results.

There may be some argument for providing less stringent eligibility requirement for the child support assurance guarantee if welfare is

time-limited and child support agencies can not meet the added pressured for quick results. If a family did not meet the eligibility criteria for the assured support under the current welfare environment, the family's needs would be protected by the AFDC 'safety net.' However, if eligibility criteria were restricted to the presence of a support award, which despite the custodial parent's efforts could not be obtained, such families would not fair well in a time-limited environment. While this is more a manifestation of time-limited welfare than an effect of the assured benefit, it may make a case for providing some flexibility in the eligibility design of the assured benefit if a time-limited welfare strategy is pursued. The Bradley bill language or something similar that would allow cooperators to become eligible if the agency has not established or enforced the award in a two year period might well be considered.

### 3. Taxation

Currently, private child support is not counted as taxable income to the custodial parent. Some have argued that reversal of this policy coupled with an allowance for the custodial parent to deduct support paid for income tax purposes would provide much needed incentive for noncustodial parents to comply with support orders. Others contend that this would be unfair to the custodial parent unless adjustments were made to support guidelines to restore the full value of the support. While this argument will not be resolved here, it is important to understand the tax treatment of private support when considering tax treatment of the public portion of support.

The public portion of a child support assured benefit could be provided tax-free as is currently the case with private support or made taxable to reduce the cost of providing the benefit. If an assured benefit were universal, as opposed to means tested, making the benefit taxable could allow benefits to be targeted more closely to the poor and allow a portion of the benefit to be recouped when paid to middle and upper income families.

However, taxation of the public portion of an assured benefit does not come without a cost. Some individuals who currently do not file taxes may be required to so. In addition, taxation of the

benefit would undoubtedly add to the complexity of the tax system especially in terms of reconciliation issues should private support remain untaxed.

For example, consider the situation where a family received a public assured benefit one year, wholly due to the noncustodial parent's noncompliance with the terms of a support order, which was subsequently paid in full the following year. Should the government retain the arrearage payment the following year to recoup the benefit, the family would lose that portion of the support paid as taxes on the public benefit, which would have been tax free if paid on time. While this could be considered as part of the cost of doing business rather than devising a complicated tax reconciliation process, the custodial parent again ends up sacrificing income because of the noncustodial parents noncompliance.

### III. ADMINISTRATION AND FINANCING ISSUES

The conceptual framework of the child support insurance program is the key to determining its administrative structure. Child support insurance could be thought of as a cash assistance program with a regular monthly benefit check offset and augmented by the payment of private child support to the government. Alternately, it could be considered a supplementation to private child support which would temporarily fill a resource gap for custodial parents when non-custodial parents are unable or unwilling to pay.

The basic administrative and financing requirements would be similar for the two program models but the administrative milieu would not. This administrative milieu could affect the behavior of custodial and non-custodial parents and government policy makers and program operators. Such effects could be both positive and negative.

Much of the writing about child support insurance has not provided a specific description of how the administrative framework for the program. Most often, based on the writings of Garfinkel, et al, child support assurance appears to be considered as a public benefit augmented by private support.

This model is based on the assured child support benefit programs in some European countries and on the retirement and disability programs authorized under the Social Security System. It assumes a standard benefit amount with higher benefits paid when private support exceeds the maximum benefit. The benefit is issued on a regular basis, e.g., the same day each month. The benefit is indexed in some fashion so that it increases with the cost of living. Entitlement to the benefit would be universal (based on the existence of a child support award or an attempt to establish one), and every family in the program would get a benefit check. The primary financing mechanism would be from the vigorous enforcement of child support obligations owed by non-custodial fathers. The goal of such a system is to provide custodial parents with a reliable and constant non-welfare source of income which does not depend on the vicissitudes of the relationship between the custodial and non-custodial parent or the economic misfortunes of the non-custodial parent. This benefit would look very much like a social security benefit for children with absent parents.

The alternate scheme would focus on the transfer of private child support and consider the benefit as an augmentation to the transfer of private support. Under this model the transfer of private child support between parents would be the primary purpose of the system. As under the current rules for non-AFDC cases, child support payments would be transferred to the custodial parent within days of being received and recorded by the governmental agency responsible for collection. A supplemental or "gap" payment would be made at regular intervals after determining how much support had been paid for that month. Entitlement would be universal, but participation would not be mandatory. As with the prior scheme, vigorous enforcement of support would be key in improving the transfer of private support. The financing of the benefit would come primarily from tax revenues, because the majority of benefits would be for families whose non-custodial parent is unable to pay--that is cases in which the award is less than the benefit. The goal of the system would be to ensure that children receive financial support from both parents on a regular and on-going basis. This benefit system would look very much like unemployment insurance.

The unemployment insurance approach promotes the visibility of private child support, making a clear distinction between the private transfer and the public subsidy. Under this model it matters to both the custodial and non-custodial parent if the full amount of child support is paid on a timely basis. However, it does not entirely protect nor isolate the custodial parent from the actions of the non-custodial parent.

The choice of administrative system and structure of the benefit is not a technological issue. Existing automation technology can support either model. One may, however, choose the administrative structure best suited to support public perception which will have the most positive political saliency and potential behavioral effects.

#### A. Administration

The requirements for administering a child support insurance program are relatively simple. First, there has to be an organized process to identify who would be eligible to receive an insured benefit. Second, the responsible government agency has to have information on the amount of private child support due and the amount of private child support paid. Third, the entity must have the ability to generate notices and payments based on a comparison between the private child support due and paid and the amount of payable child support insurance. In the world of high tech automation, none of these tasks is particularly complicated or expensive, except for the enforcement activities which would lead to increased recoupment.

#### Basic Elements of Administration

In designing a child support enforcement and insurance system, it is not imperative that a single agency perform all the functions. It is crucial, however, that all of the administrative functions be linked. These include identification of the eligible clients and the amount of the child support due; tracking and reporting of payments made; and the disbursement of payments.

##### 1. Program Entry

All government programs have some mechanism in place for determining who is participating in the program. This is true of entitlement as well as discretionary programs. For example, even though an individual is eligible for retirement benefits at age 65 (assuming he or she has retired), the government does not automatically send out a check without some initiating action by the eligible individual. Accordingly, some mechanism must be developed to identify who would receive a child support benefit. How simple, or complicated, this identification process is depends substantially on the choices made about who is eligible to receive an insured benefit and whether child support insurance is linked to the IV-D system.

If an insured benefit is linked to participation in the IV-D system, program entry would be a relatively simple process. The application for IV-D services (and for AFDC benefits, as well) could include information about the child support insurance program and allow for the individual to simply agree or decline to participate. The IV-D program would have all the information needed to activate participation in the system because it has award and payment information and other factors needed to determine the insured benefit payment. If the assured benefit was calculated and paid by another entity, all CSE agencies (by 1995) should be able to transmit such information electronically.

If the insured benefit is paid by a State or Federal agency, other than the IV-D agency, a decision would have to be made about allowing families to participate outside the IV-D application process. For example, would the insured benefit agency take applications directly? If the custodial mother has an award and payment is made through non-IV-D wage-withholding monitored by the courts, does she have to apply for IV-D services before she is eligible to participate? If custodial parents without awards were potential eligible, could cooperation be determined outside the IV-D system (e.g. special administrative law judges) or would determination of cooperation only be possible by IV-D program. Under the current IV-D program structure applying for IV-D services is considered proof that the custodial parent is really trying to get private child support. If, however, a public benefit results from the application for IV-D services, cooperation may be more difficult to determine.

Universal participation of all eligibles would probably make the most sense in terms of administrative simplicity. Under this scenario, once a parent entered the child support system, either under a universal child support enforcement strategy (discussed under separate cover) or by referral or application, inclusion in the child support guarantee would be automatic unless the parent opted-out. Thus a prerequisite of obtaining the benefits of an insured child support system would be, at a minimum, participation in the child support enforcement program. This would also insure that all necessary actions were undertaken to make recoupment from the noncustodial parent possible.

Using IV-D as the entry point for an assured benefit would provide a more uniform system of accounting and prevent further complication of the existing rules for distribution of private support. To the extent that AFDC rules were changed to provide payment of all child support to the family administration simplicity would increase.

## 2. Tracking and Reporting Payments

Tracking and monitoring child support payments is critical to the operation of a child support insurance system since it provides the basis for determining if a government-guaranteed payment will be provided to a family in any given month. Unless the entire system was federalized, this function would most easily remain lodged within the existing Title IV-D agency.

The key is that payment information must be recorded centrally, must be available for comparison against the amount due under the child support order and must be accessible both to the agency which pays the insured payment and to the agency which provides enforcement. Ideally, tracking and reporting would be handled at the State level, and would be tied into a central registry which included location and order information, and act as a central clearinghouse for payments and disbursements.

The central clearinghouse concept would facilitate the necessary receipt, posting and disbursement functions that would be necessary. This argues for acceptance of payments electronically, through Automatic Teller Machines (ATM) or similar mechanisms such as Electronic Fund Transfer Systems (EFT). By using centralized

processing EFT payments or checks could be logged in and compared with the support order. For payments equal to or above the threshold that would trigger a guaranteed payment, the payment would simply be deposited into an account preparatory to being reissued for payment to the custodial parent. For private child support payments below the threshold guarantee, information regarding the shortfall would need to be forwarded to the government unit responsible for authorizing a guaranteed payment. The private child support could then be sent to the custodial parent directly with the public child support issued as a separate payment. Alternatively the private child support could be deposited preparatory to being combined with additional funds to bring the total to the level of the guarantee and forwarded as a combined check to the custodial parent.

While states are moving in the direction of centralized collection for their IV-D caseload, most states still do not have a centralized collection and disbursement system which would allow quick and efficient processing of an insured benefit payment. If states meet the requirements for state-wide automated systems, which must be in place no later than October 1, 1995, the needed information should be available through the state-wide system, even if the collections and distribution functions are still decentralized.

It is not necessary for that payment of the insured amount be made by or through the States, so long as the States could calculate who was owed an insured benefit and certify to another agency--perhaps at the Federal level--disbursement of the appropriate amount. Similarly, tracking and handling of payments could equally be performed at different levels of government or by different agencies if this were deemed desirable. What is absolutely essentially is that the recording of payments received be accomplished quickly with little lag time and that comparisons between amounts due and amounts received be readily accessible to insure the correct amount of insured benefit is paid.

### 3. Disbursement and Reconciliation of Payments

Ideally, child support paid by the noncustodial parent, whether supplemented by a guaranteed payment or not, should be paid to the

custodial parent within the time frames for distribution currently in regulation. However, the need to determine whether child support paid for a given month is above or below the threshold for a guaranteed payment may necessitate a time lag to ensure that no more than one payment needs to be sent. The current timeframes for payment of the \$50 disregard in AFDC cases, providing for payment within 15 days of the end of the month, would probably allow sufficient time for payment receipt, adjustment and disbursement. Since the payment would be insured, providing the custodial parent with advance notice of at least the minimum amount of support which will be received at the same time every month, the delay should not cause undue concern.

Alternately, to meet the current non-AFDC child support distribution time frames, a decision could be made to pay all custodial parents their guaranteed amount up-front, and then simply to credit any child support paid during the month against the balance, with a second check forwarded to families once an overage was realized. This, however, would entail greater administrative cost and burden.

Erroneous guaranteed payments could be handled in several ways:

- Rolling adjustments. Adjustments could simply be made to amounts due in the following month, particularly in the case of overpayments which needed to be recouped.
- Immediate correction. In the case of underpayments, a second check could be sent to the custodial family during the same month to make up the shortfall.
- Recoupment of overpayments over time. Recoupment could also be accomplished through small collections over a period of time (or by small reductions in the guaranteed payment over the same period.)

#### Administering Agency(cies)

A child support insurance program could conceivably be administered at the Federal or State level building on existing technology, with

the decision perhaps ultimately depending on the location of a child support registry(ies).

If administered at the Federal level, a Federal system with some type of automated interface would have to be developed. This interface would be necessary to establish the insured benefit case and maintain accounting records supplied by the States. Assuming collections were retained at the State level, States would report to the Federal system support owed and collections received to enable the Federal system to determine shortfalls and the need for an insured benefit. Payment of the insured portion of the benefit could be made by the Federal agency with the State child support agency responsible for remitting all private support collected. The Federal system would inform the state of any insured payment made and could be used to make Federal-state expenditure adjustments through the IV-D program.

This structure would be extremely complex, duplicative and costly unless designed in conjunction with some greater Federal role in the enforcement of child support. It would necessitate the issuance of two checks if the child support collection function were retained at the State level and duplication of records.

The technology to efficiently implement a benefit may be more readily available at the State level. While it is certain that not all state Child Support Enforcement Agencies are sufficiently automated to operate such a program now, one of the minimum requirements for making such payments--having a statewide system which can track amounts of child support due and paid--is part of the state system requirements which must be met by the end of 1995. Even if all states are not certified by then, most states should have the programming capacity by that time.

The role of the State child support agency could be expanded to issue child support insurance checks, or make the necessary adjustment to private support since they would have the information readily available to determine if an insured benefit were necessary and the amount and would ultimately be responsible for recoupment. This would clearly require a considerable expansion of State resources to insure that child support enforcement enhancements necessary to support the insured support system did not suffer.

Alternately, the State welfare agency could issue the check based on information obtained from the child support agency since an automatic interface between the agencies is required beginning in 1995. However, this would clearly impact the perception that child support insurance is welfare by another name. A separate State agency could also administer the insured benefit but like the split Federal/state system discussed above, this would appear less efficient given the need for a separate system and duplicative records.

### Costs of Administration

At this time the cost of administering an insured system has not been estimated. The administrative cost will largely be dependent on the ability to build on the existing child support system or the tax system rather than having to develop alternative tracking and payment systems. Administrative costs will also increase in direct proportion to the complexity of the rules governing benefit interactions. If private child support and public child support are treated differently for program eligibility determination and for payment of taxes, the potential for necessary recomputation of benefits and taxes upon recoupment is increased.

One possible way of limiting continuous benefit and tax recalculation would be to follow, in part, the current AFDC offset rules. While there would be no general assignment of support to the state, any public child support paid would become a debt owed the state or Federal government. Recoupment would be made on the State (or Federal) debt and there would be no allowance for benefit recalculations based on the changing mix of public and private support. This practice has had some negative consequences. Child support debts owed the state often get priority over child support debts owed the family and sometimes over current support. Secondly, the non-custodial parent may be treated unfairly. Many states currently establish retroactive child support awards back to the date of the birth of the child when a state debt (AFDC or Medicaid) is involved. When there is no state debt, awards are usually established only back to the date of filing.

## E. Financing the Costs of an Assured Benefit

The Child Support Insurance benefit has been estimated by one agency to cost between \$2 - \$17 billion depending upon the benefit level, eligibility criteria and enforcement success. Administrative costs would be in addition to this amount. In view of the Federal budget deficit and desire to control its size, it is necessary to consider how to pay for the child support insurance benefit.

Garfinkel asserted that the early Wisconsin form of child support assurance would pay for itself by improving enforcement and reducing welfare payments while at the same time promoting work among poor custodial parents. While this may be overly zealous, an aggressive system of child support enforcement, coupled with reduced poverty levels and decreased AFDC caseloads which could potentially result from the work incentive provided, should impact the net costs of a child support insurance system. To the extent that the insured benefit is taxed, costs would be further reduced.

This section reviews a variety of cost reduction and financing strategies. These strategies are not mutually exclusive. In fact, it is expected that several will be integral to any insured benefit program. What is important to remember is that the best method of financing a insured benefit scheme is cost avoidance, that is, the maximum and timely collection of private child support.

### Recoupment

There are several aspects of an insured benefit scheme which affect the government's ability to recoup insured benefits. The first is the effectiveness of the enforcement of current child support orders. The second is the extent to which families without awards are provided benefits. The third is the method used for recoupment.

#### o Enforcement

The key element in financing a child support insurance benefit system is recoupment of the payment from the noncustodial parent (in cases where the payment was necessitated by the parent's

noncompliance). This is why it is imperative that any system of insured support be coupled with a strategy for improved enforcement. Data from the most recent Child Support Supplement of the Current Population Survey indicates that about 25 percent of non-custodial parents do not pay any support that is currently due and that another 25 percent pay less than the full amount due.

While unemployment and low income are related to the non-payment of awards, the vast majority of fathers who do not pay support have sufficient resources to do so (Bartfeld and Meyer, 1992; Sorenson, 1993). Improved efficiency in collecting current support in a timely fashion will reduce the overall cost of both the benefit and program administration.

When the non-custodial parent is already obligated to pay support, the government's primary responsibility is to ensure that the private support due is paid. Increased enforcement reduces the need for assurance payments and increases the rate of recovery for those insured payments that are made. If the assured benefit is set low, say at \$1500 per year, about 75 percent of non-custodial parents are already obligated to pay at least that amount. Therefore, the potential for recoupment through enforcement is high. If the assured benefit is set high, at \$3,000 per year, the effect of greater enforcement on recoupment is reduced. Sixty percent of non-custodial parents have annual support obligations set at less than \$3,000. (Census, 1991)

If all awards for current support were modified using current guidelines, the amount of the private support available to offset the assured benefit could significantly increase. Sorenson (1993) estimates that the amount of child support owed by non-custodial parents with current awards, could double if Wisconsin guidelines were applied to their current incomes. However, a word of caution is needed on the potential affects of guidelines and updating on award amounts. Estimates on the effect of guidelines using national data have been much more optimistic than the results of studies on the actual application of guidelines within the states. The findings of Theoness, Tjaden, and Pearson (1991); and Calibur, Associates, (1992) indicate that guidelines and updating increase the average award amount by less than 20%, although the amount of

increase for individual awards can be substantially higher.

c Restricting Eligibility to Awards

Requiring an award prior to participation significantly reduces the cost of an assured benefit program. Expanding eligibility for the assured benefit to families without an award decreases the probability that recoupment will be an primary mechanism for financing the benefit. Currently about 42 percent of women with children under age 21 have no award.

If these families are allowed to participate, than the entire cost of the insured benefit will be borne by the government, unless and until an award is established. The government could, by operation of law, establish the non-custodial parent as responsible for such insured benefit payments, much as is done with AFDC cases in some states today. However, the awarding of retroactive support to repay the federal and state government is one aspect of the current welfare system which has alienated both custodial and non-custodial parents (Furstenberg, Sherwood, and Sullivan, 1992). Generally speaking in the AFDC context, the majority of this past child support debt is uncollected and uncollectible. Currently only 6 percent of AFDC child support due for a prior year is collected by State IV-D agencies.

o Method of Recoupment

The method of recoupment of the insured payment from child support payments will also effect the amount of recoupment. There are two ways to conceptualize the payment and recoupment methodology.

The first is to view payment and recoupment as month to month or continuous. If in one month the private child support was less than the insured benefit because the obligor did not pay the full amount due, in the next month any private support payment above the guaranteed amount would be used to recoup the previous insured benefit. The custodial parent would receive more than the guarantee amount only when the private child support was in excess of the sum of the guaranteed benefit and any insured benefit arrears.

This month to month recoupment assures the custodial parent a regular payment of at least the assured benefit payment amount. It also minimizes the Federal cost because recoupment from any amounts paid over the insured benefit is immediate. However, continuous recoupment does not necessarily increase the amount of child support received by the parent during the year, unless the award itself is less than the insured benefit. Additionally, procedures would have to be specified to handle increases in the award obligation, to ensure that such increases benefitted the custodial parents and were not exclusively used to recoup benefit arrears.

The alternative recoupment method follows the current child support rules for payment of current support to a family with an AFDC arrearage. The amount of support for the current month is always paid first and recoupment can only take place from amounts in excess of the current month support. This recoupment method maximizes the support paid to the family but may lead to greater Federal outlays. It is not possible to simulate this second method, because our microsimulation models do not have appropriate month to month data on payments and because data on arrears payments is not collected for individual families. CSE administrative data indicates that about a quarter of all child support collected represents payments for prior year support.

In sum, the government's ability to maximize recoupment is dependent on increasing enforcement to reduce non-payment of current support obligations, restricting eligibility to those families with awards, and using a month-to-month recoupment strategy.

#### Federal/State Cost Sharing

The decision on how to share the cost of the insured benefit and any resulting welfare savings could have significant budgetary impact on the Federal and state government. If the benefit is federally funded, with a dollar for dollar reduction in AFDC benefits, the Federal government would finance the elimination of welfare in about one-third of all States, assuming a moderate to high benefit level and liberal eligibility criteria. This could increase the federal cost substantially. AFDC benefits are matched by the federal government at a rate of 50 to 80 percent with a

national average of about 54 percent.

Were the Federal government to fully finance the insured benefit or to provide a larger share than currently provided for AFDC, States would have a real impetus to move swiftly and efficiently to establish support (or cooperation) since this would reduce their AFDC costs. However, the states would have less motivation than they currently do for substantial investment in enforcement, especially for orders with low award amount. Because the Federal government, not the States, would be responsible for paying the difference between private support and the amount of the assured benefit, States would reap AFDC cost avoidance benefits whether or not the order was paid.

Such orders are more likely to represent a more politically active constituency within the state. Higher awards are associated with higher educational attainment and higher levels of income. These are also characteristics associated with increased levels of political activism.

In order to promote full state cooperation in a situation where the costs and benefits between the states and Federal government were not equally shared, cost sharing arrangement could be structured to provide incentives for improved child support activities. For example, there could be variable cost-sharing. The insured benefit could be fully federally funded in cases where a support order had been established; the state could be required to share the cost when it had been unable to establish a support order despite the full cooperation of the custodial parent. This would insure that parents who play by the rules do not lose while providing a real impetus for States to establish awards.

Alternatively, more encouragement for enforcement could be provided through enhanced Federal funding for CSE cases in which the public benefit exceeded the amount of the support award. Enhanced funding could also be paid for any CSE cases where the collection was equal to or exceeded the guaranteed amount. It would then be worthwhile for the state to vigorously pursue enforcement. The enhanced funding could be further limited to those cases where the State was providing employment services to the noncustodial parent. However, in any case of a multi-tiered matching structure, cautioned would

need to be exercised to minimize administrative complexity and allow a clear audit trail.

A simpler mechanism might be for the Federal government to pay an increasingly higher proportion of the insured benefit based on overall indicators of state performance rather than on a case by case basis. For example, if the state had orders established for 90 percent of the IV-D caseload and was collecting on 80 percent of all cases with orders, the Federal government would pay 100 percent of an assured benefit. If state performance was considerably less, so would the FFP for the insured benefit.

There is clearly an appeal to the conceptual and administrative simplicity of a totally federally financed child support insurance benefit. However, there is also financial risk in a system where the Federal government must rely on the effectiveness of the State to reduce the Federal outlays. To the extent that the Federal government can share the risk it will reduce its overall cost and potentially enhance the outcome for families as a result of improved child support compliance.

#### Program Offsets

Program offsets affect the cost of an insured benefit through the relationship of the insured benefit to other federal programs. If the insured benefit is treated as income for all means-tested programs, then the Federal cost of the assured benefit would be partially offset by the reduction in Federal costs in these programs. When states share in the cost of these programs, they would also share in any reduction of costs due to income from an insured benefit. The programs with the greatest potential for impact are AFDC, Medicaid, Food Stamps, SSI and Housing Assistance.

Existing means-tested programs treat all or most private child support as income. If public child support is treated the same as private child support, payment of a child support insured benefit would replace one public dollar with another. To the extent that the Federal matching rates in the two programs were similar there would be little extra cost. If a child support insurance program was accompanied by cost-efficient enforcement of child support,

total government cost could actually decrease (although no more than it would if the same increased enforcement efforts were directed towards payment of private child support under the current system). However, even if there is a \$1 for \$1 offset between an insured benefit and means-tested programs, government costs would increase substantially. Government costs would always exceed recoupment potential if eligibility was extended to families that currently do not have awards or the benefit guarantee was significantly higher than the amount of private support due.

Were the guaranteed benefit to be disregarded in considering income for purposes of multiple income tested programs, the cost would be substantial. Additional families would be eligible for benefits. Noncustodial parents would have little incentive to comply in paying support, since noncompliance would allow receipt of the child support insured payment and the other program benefit(s). If the benefit level were high enough, a universal child support enforcement and insurance program could significantly impact eligibility for other programs, if not counted as income.

#### Cost Recovery and Collection of Fees

A fee could be added to child support collections as a way of financing the child support assurance benefit costs not recouped in other ways (i.e., cases where the support award is less than the guaranteed benefit). Alternately, or in conjunction, late payment fees or other penalties for late payers can be added in order to secure additional revenues. While this financing method would not be capable of fully funding the insured payment, it could be used to reduce the amount of the payment which must be paid from other sources.

In order to insure fairness and reduce complexity, the fee could be built into the child support guidelines by providing that a set percentage of the support order was dedicated to payment of costs or that a set amount would be established in the order for payment of costs, similar to provisions depicting which parent is responsible for the cost of legal proceedings. If built into the child support collection structure, fee collection could be easy to administer since the agency must process collections anyway.

## Options for Financing the Public Portion of an Insured Benefit

After the cost of a child support insurance benefit is reduced by all possible recoupment, offsets and cost sharing efforts, there will be a residual child support insurance benefit that must be funded through other sources. The most likely source is an appropriated entitlement from the general tax fund. A second possibility is a capped appropriation. A third less likely possibility is a targeted tax like the unemployment insurance tax.

The appropriated entitlement follows the example of such programs as AFDC, Medicaid and the EITC. The Federal government agrees to pay some or all of whatever is paid out in benefit costs. In the program the States operate that is usually less than 100 percent, although not always. In the case of the EITC, although technically not an entitlement program, the Treasury is authorized to use tax revenues to pay that portion of the EITC which exceeds the employees tax withholding.

A capped appropriation would be one mechanism for the government to use to control the cost of a child support insurance program. It would allow for the benefit amount to be adjusted on an annual basis so that it doesn't exceed the appropriated amount and would provide the President and the Congress with additional budget flexibility. The JOBS program is funded with a capped appropriation.

Lastly special taxes could be considered. These taxes could be targeted on individuals who are likely to most likely to benefit from a insured child support benefit. Appendix B reviews some special tax possibilities.

## IV. IMPLEMENTATION

This section presents a set of options for implementation of a child support assurance benefit (which would be part of the child support enforcement and insurance reform strategy). The options are divided into three categories. The first is full implementation, where the child support assurance program would be implemented nationally as part of the overall welfare reform

strategy. The second category of options is phased implementation. Under these options child support assurance would be phased in over time. The last category is for a demonstration period, where states or large substate jurisdictions would test either specific assumptions or administrative structures. These options would be tested to see how well they fit with the other welfare reform options and budget constraints.

#### A. Full Implementation

Many supporters of the child support insurance benefit system argue that the needs of families are too great and the current system too weak to justify any delay or fragmentary approach to implementation. They support immediate nationwide implementation of the system. To the extent that a support assurance benefit is critical to other aspects of welfare reform, or that delay could jeopardize the ability to support a time-limited welfare benefit or a work support program this approach may be compulsory.

A decision to move forward on a nationwide basis would appear feasible assuming financing issues are resolved. Critical issues in the design of a child support insurance system are well-known and, at least the suspected effects of design variables, well analyzed. While these design decisions may be controversial and lacking political consensus, they would not appear to hinge on implementation strategy nor does implementation hinge on these decisions. While more limited implementation may reduce the risks associated with untested variables, the statute could provide some protection by granting the Secretary authority to adjust design variables in reaction to results.

However, the more immediate issue under this strategy is timing. Even in the absence of budgetary constraints and design issues, sufficient time must be provided to allow for implementation. Depending on the design of the insured support system, this could mean enactment of State legislation, development of new automated systems and hiring and training of additional staff. Such changes could be necessary, though to a varying extent, at different levels of government and multiple administrative agencies.

The timing of other aspects of welfare reform also effect the

timing of the assured benefit. The success of a child support insurance strategy is heavily dependent on successful State efforts to establish paternity and support orders and to collect child support. While the enforcement reforms of the child support enforcement and insurance strategy need not be in place before implementation of the insured benefit, program success and financial recoupment will suffer to the extent that sufficient time has not elapsed to reap the benefits of the enforcement improvements.

#### B. Phased Implementation

Under the phased implementation option, child support assurance is presented more as a long term strategy to improve the economic well-being of children than a necessary part of time-limited welfare. Phased implementation is perhaps not so much a separate option, but rather an alternative to immediate full implementation. As such, decisions would still have to be made regarding the scope of the benefit and its interaction with other means-tested programs. The two most promising alternatives for phased implementation are age-based and state-based.

##### Age-Based Phased Implementation

###### Description

Age-based implementation would build on the strategy used to expand Medicaid coverage to all children under poverty over a 10 year time period. Under this strategy, child support assurance would be implemented for families with the youngest children first. States could be given up to two years to implement an assurance program for children 0 to 3 year of age and an additional 2 years to bring in children from 4 to 6 year of ages. There after an additional 3-year age cohort could be added every year. It would take about 8 years for the entire eligible population (up to age 18) to be covered.

###### Discussion

This strategy targets young families who are the most at risk for long-term welfare dependency and who are often most adversely

affected by the low-wage rates and high unemployment of young non-custodial parents. Dependency reduction and avoidance at this stage would have high pay-off. Such a phase-in is also complementary to the proposed hospital based paternity establishment initiative. Providing an incentive for establishing awards and collecting support payments, even if at nominal amounts, for these young families is the next step in ensuring both parents remain economically responsible for their children. It also provides extra support to families which may have the most difficulty juggling the demands of training, work and child care. This extra income could help in covering extra child care costs or providing the custodial parents with the option of a less than full-time work schedule.

### State Based Implementation

#### Description

This option would allow implementation of a child support assurance benefit on a state by state basis, over some extended time period. When states are sufficiently automated to be able to track and distribute an assured benefit, they would be allowed to participate in the program. State participation could also be restricted to States that had efficient and effective child support program. A target date for all states to implement the program would need to be set to ensure that all States implemented the program in a reasonable time period.

#### Discussion

All states should have the basic capacity to run an assured benefit program by 1996. However, given other child support mandates and constrained resources, it might be advisable to require that states meet certain child support performance standards before implementation of CSEI be approved. Such a scheme might avoid a displacement of effort which could interrupt continued improvements in basic child support services.

Phased implementation would also allow the costs of the program to grow slowly, perhaps even allowing for some tinkering of the benefit package during the long implementation phase-in. Some potential problems could result from having a few states offering

such a program, while their neighbor States did not. While there is little empirical evidence that supports States' claims that families have migrated from other states to receive more generous benefits, there would certainly be concerns about immigration resulting from the offer of an insured benefit.

## C. Demonstration Option

### Description

Under this option child support assurance would be tested in large scale demonstrations before implementing or proposing national legislation. This is the strategy proposed in bills introduced by Rockefeller (S. 663), Bradley (S 689), Roukema (H.R. 1600), and Kennelly (H.R. 1961). States would be eligible to apply for demonstrations if they meet certain criteria which would facilitate the efficient and effective implementation of a state-wide demonstration. Demonstration authority should include enhanced matching for the demonstrations.

### Discussion

There are three types of issues to be tested. The first is whether the assumptions underlying an assured benefit actually have the intended effect. That is, does an assured benefit motivate more women to seek awards and does the certainty of the payment increase economic sufficiency and stability. Evidence from current welfare reform demonstrations would seem to indicate that intensive case management as well as enhanced benefits seem necessary to achieve improved child support outcomes, at least for the AFDC population. Effects on the non-AFDC population may be different. The second issue is related to implementation of the program. Often demonstrations of program implementation issues can reduce or eliminate some of the problems that arise at the beginning of a new national program. The third issue is one of cost. Estimates of the cost of implementing a new program are often crude guesstimates at best. Demonstrations would allow for better estimating of the potential national costs of the program.

Table 1

Potential Eligible for Various Eligibility Criteria.

All families	Single Parent	Single parent & poor	Re-married & poor	Re-married
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Total Families

Families with  
Awards

Families Without  
an award  
who cooperate

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Numbers derived from output TRIM2 child support simulations using  
March 1990 CPS

Table 2  
CHILD SUPPORT ASSURANCE  
DESIGN ISSUES  
SUMMARY TABLE

<u>Restriction</u>	Admin. Burden	<u>IMPACTS</u>		Poverty	Benefit Cost
		Admin. Cost	AFDC Part.		
Universal	Minimal	Minimal	High	High	Expensive
Require Award	Simple	Cheap	Limited	Limited	Reduced
Require Cooperation:					
a. Initial	Difficult	Expensive	High	High	Increased
b. Ongoing	Difficult	Expensive	?	?	Reduced
Income Test	Moderate- Difficult	Expensive	Limited	Limited	Reduced
Single Parent	Simple	Cheap	High	High	Reduced

APPENDIX A

TREATMENT OF PRIVATE CHILD SUPPORT IN MEANS-TESTED PROGRAMS

<u>Program</u>	<u>Treatment</u>
Sec. 8 Housing Assistance	income-tested; private child support arrearages and current payments included in income
Head Start	income-tested; private child support considered income at Dept. level; unsure of how local level considers it, but expects it would be counted
LIHEAP	income-tested; private child support not dealt with specifically in the statute -- states have flexibility in determining their own definition of income as long as they are "clearly erroneous"
JWPA	income-tested; private child support excluded by statute
Medicaid	income-tested; follows rules for AFDC or SSI; AFDC varies by state; private child support is income for SSI
Nat'l School Lunch Program	income-tested; private child support considered income
School Breakfast Program	income-tested; private child support considered income
AFDC - Current Support	first \$50 disregarded; remainder goes to the State for reimbursement for current grant; any current support remaining goes to the recipient and are counted as income
AFDC - Arrearages	income-tested; first retained by State to reimburse past assistance; remainder given to family and counted as income
Food Stamps - Current Support	income-tested; counted in total as net income
Food Stamps - Arrearages	income-tested; considered resources and are counted against the \$2,000 liquid resource limit
SSI - Current and Arrears	70% of current support and arrearages are counted against the benefit entitlement in the month received
WIC	income-tested; all private child support considered income

## APPENDIX B

### TAXED BASED FINANCING OPTIONS

Even under optimal circumstance, a child support insurance system will result in increased government expenditures since that portion of the insured benefit provided to families where the noncustodial parent is unable to pay would necessitate public financing. Provided below are options for financing some portion of these increased costs. The following criteria were used to arrive at and evaluate the different financing options:

- \* **ADEQUACY:** The financing mechanism should be adequate to finance the child support assurance.
- \* **ADMINISTRATIVE EASE:** The financing mechanism should be easy to administer fairly and effectively.
- \* **ABILITY TO PAY:** The mechanism should reflect the ability of different population groups to pay.
- \* **RELATIONSHIP TO THE PROGRAM:** The financing mechanism should be designed to reach populations that would benefit from the insurance benefit.
- \* **FAMILIARITY:** The financing mechanism should be an item with which the public at large is relatively familiar.
- \* **POLITICAL FEASIBILITY:** The financing mechanism must be realistically supportable by both the Congress and the public.

#### Impose a Tax on Divorce or Separation Agreements Where There are Dependent Children

A fee or tax would be placed on securing divorces or separation agreements where children are involved.

#### PROS

- o This would be seen as an incentive to avoid the problem of breakup.
- o Those who cause the problem would pay the price.
- o Some fees are customarily charged for court and administrative services.

#### CONS

- o May cause some to avoid getting agreements; which would hamper securing child support orders.
- o Puts a cost on persons in economic and emotional need.
- o May be difficult to collect on co-habiting cases.
- o Revenue possibilities limited.
- o Penalizes those who marry vis a vis those that don't.

Divorce/Separation Insurance by Imposing Additional Income Tax Charge on Married Tax Filers with Children

PROS

- o Likely to bring in adequate revenues.
- o Relative administrative ease since this information is already included in the W-4 and on the 1040 tax forms.
- o Payment made by those who might possibly benefit.
- o Payment is made on the ability to pay.

CONS

- o May be viewed as a marriage penalty.
- o Much political resistance to income tax increases.
- o Conflicts with tax deduction for children.
- o Those never married/cohabitating get benefits without paying

Compulsory Insurance for Divorce/Separation Financed Through the Unemployment Compensation System

All employers now in the unemployment compensation system would be required to withhold a set portion from compensation to insure against divorce and separation with dependent children.

PROS

- o If structured properly could adequately finance the child support assurance.
- o The unemployment compensation system is relatively easy to administer, employers file quarterly with the State Employment Security Office. Annual payments are forwarded to finance the administration of the system.
- o Would allow State supplementation should that be desired.
- o This is a familiar system to employers and employees.
- o Not viewed as a 'tax the rich' scheme.
- o No adverse incentives created.

CONS

- o Does not tax according to ability to pay.
- o Coverage is limited and eroding.
- o May be viewed as disruptive by the States.
- o Taxes singles and those without dependent children who would never benefit.