Policies To Require and Enable Less-Educated Noncustodial Parents To Work And Provide Financial Support For Their Children.

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This discussion paper outlines three policy strategies that would make a comprehensive attack on several discrete barriers to work and child support compliance by low-income non-custodial parents (NCPs). Researchers and policy analysts have understood these barriers have been for more than a decade, but interest by policymakers in low-income NCPs may create a renewed climate for policy reform. Such a comprehensive strategy might be most easily implemented by changes in federal policy that provide incentives for states to act on provisions of state law or policy, which are, in turn, responsible for these barriers. I detail the barriers and strategies below.

STATES MUST REQUIRE DELINQUENT OBLIGORS TO PARTICIPATE IN EMPLOYMENT PROGRAMS.

Congress should reauthorize and make more permanent a block grant program that provides funds to states to extend employment services to unemployed and underemployed fathers, who are unable to meet their child support obligations. This would provide the funds states need to implement the work requirements that exist in current law for delinquent obligors. It would also allow states to provide such services to fathers who establish paternity and child support orders, but who are unable to meet their obligations. Providing these fathers with employment services would reduce uncollectable arrears.

Why I selected this policy?

While the 1996 welfare reform required states to allow courts to impose work requirements on noncustodial parents, of children on welfare, who were delinquent on their child support obligations (delinquent obligors), this was an unfunded mandate. Preferring not to re-allocate funds from other priorities, few states implemented this provision. However, several privately and federally funded demonstration projects, most with support from the Charles Stuart
Mott Foundation, provided incentives for states to provide employment services to delinquent obligors. When they did, compliance increased immediately among obligors with the ability to pay. Eventually compliance also increased among those who lacked the ability to pay, usually less-educated men, without improving the employment or earnings of all but the least-educated and experienced participants. Ethnographic studies of providers and program participants suggest one reason for the latter result. Employment programs are unable to help less-educated participants find higher-paying jobs than they can find on their own. A related explanation is that the average hourly earnings of less-educated men have declined since the mid-1970s.

In his first budget after the 1996 welfare reform, President Clinton provided a block grant funds to states so that they could fund employment services for mothers leaving welfare who were in danger of reaching their time limits. This Welfare to Work (WtW) program also authorized funding for employment services for unemployed or underemployed fathers of children who are long term welfare recipients. In part because the welfare rolls declined so dramatically by 2001, the Bush Administration did not authorize new funds for the WtW program. As a result, most states discontinued employment services to low-income fathers.

This raises a dilemma for today. Prior to 1996, the rationale for providing employment services to delinquent obligors was cost recovery. Since most children in poor custodial families were on welfare, the cost of welfare, food stamps and other public benefits extended to these children (and their mothers) created a debt to the taxpayer for which the noncustodial parent was responsible. As a condition of receiving these benefits, custodial mothers had to sign their rights to child support over to the state. By providing employment services to noncustodial fathers who were unable to pay their child support obligations, states were helping fathers to meet this debt.

Today, few children in poor custodial families receive cash assistance (TANF). Unless
they receive Medicaid or Food Stamps, mothers are no longer required to sign their rights to child support over to the state. Therefore, child support payments are owed primarily to the mother, not the state, and the public rationale for requiring courts to impose work requirements on delinquent obligors is different. Work requirements can increase child support payments received by custodial mothers, many of whom have left welfare to join the ranks of the working poor.

Besides reducing working poverty in the short run, employment services for noncustodial parents who cannot meet their child support obligations are needed for reasons of equity. Today the costs of nonmarital child-bearing are disproportionately borne by mothers and taxpayers. The 1996 welfare reform eliminated the entitlement to cash assistance and required welfare recipients to work, but it did not make former welfare recipients self-sufficient. Instead, many rely upon an array of public benefits, including Medicaid, Food Stamps, and the Earned Income Tax Credit.

The 1996 welfare reform also resulted in higher paternity and child support establishment rates, so that more poor noncustodial fathers are in the formal child support enforcement system and are responsible for a disproportionate share of the mounting, arrears being generated in that system. Without effective work requirements, these arrears are uncollectible. Thus too many poor fathers sustain themselves in the informal economy, escape any real responsibility for their children, but the public also lacks a rationale for extending them needed public assistance such as earnings subsidies and subsidized medical insurance. By avoiding the formal economy they also avoid taxes and participation in social insurance programs. This may result in short-term savings, but long term costs. Finally, studies have shown that more stringent child support enforcement reduces nonmarital childbearing. With effective work requirements the disincentive for nonmarital childbearing might be even stronger.
Finally, I chose this policy strategy because much is known about the effects of employment services for delinquent obligors. We know that such programs increase compliance, though they have no effects on employment and earnings, except for high school dropouts and fathers with little work experience. Even these results may be misleading. Enforcing work requirements on delinquent obligors induces some to pay their child support orders, rather than searching for jobs that pay less than their activities in the informal economy. But it may induce others to go out and find jobs paying as little as the jobs that they could find with the help of subsidized employment services. If so, the result would be an increase in labor force participation. Moreover, if the jobs are in the formal economy, the result may be an increase in stable employment and child support payments. Therefore, there may be hidden gains to such work requirements and employment services, which previous evaluations have ignored.

How will employment services for non-custodial parents impact poverty and enhanced poverty alleviation?

About 3.5 million noncustodial fathers, almost 1/3 of all non-resident fathers, are poor. There are about as many poor noncustodial fathers as there are poor custodial mothers, although studies cannot assert that all poor custodial mothers had children by poor fathers. Among poor non-custodial fathers about 1 million pay child support, despite their poverty status, the remaining 2.5 million default on their child support orders. Poor non-custodial fathers differ from other noncustodial fathers. The former tend to be young, poorly educated, never married minority men. Only about half of all poor non-custodial fathers worked, but they earned less than $5000 in 1999. Thus increasing employment among non-custodial fathers who cannot pay their child support orders would not only reduce their poverty directly, but it would reduce poverty
among custodial mothers and children, assuming some of the increased income would be used to make a child support obligations would reduce poverty directly.

Child support income constitutes about 25 percent of the incomes in low income households that receive it. Estimates of the reduction in poverty rates vary from 7 to 11 percentage points in divorced households to 5 percent in all custodial families. These estimates could be high or low for several reasons. First, they do not account for the effect of increased child support payments on the labor force participation of mothers in households receiving child support. Second, they do not account for the reduction in informal child support that arises when non-custodial fathers pay through the formal system.

Finally, previous evaluations of multi-site demonstrations of employment services for delinquent obligors show increases in compliance by those who actually use employment services increases. However, results are usually driven by only a few sites. We know little about the characteristics that distinguish the sites producing strong results from other sites. This is a subject for future research.
DESIGN AN EARNED INCOME TAX CREDIT FOR NON-CUSTODIAL PARENTS WITH HIGHER WORK INCENTIVES, HIGHER INCOME ELIGIBILITY LIMITS, AND LESS STRINGENT REQUIREMENTS FOR CHILD SUPPORT COMPLIANCE THAN ARE AVAILABLE IN CURRENT STATE LAW AND PROPOSED FEDERAL LAW.

Because the federal Earned Income Tax Credit (EITC) played helped to increase employment among former welfare recipients and the wages of all less-educated workers, especially men, have fallen consistently since the mid 1970s, many federal and state policymakers are considering expansions of earned income tax credits to childless workers and creating an earned income tax credit for noncustodial parents who work and support their children. While this is encouraging current and proposed expansions of the EITC, which might help non-custodial parents, offer work incentives and income eligibility requirements that are too low and compliance requirements that are too stringent.

For example, under the only proposal for a federal NCP-EITC (S. 1696), NCPs who earn $5900 annually would receive the maximum value of the credit ($451) in the 2008 tax year. NCPS earning up to $8190 annually would receive the same credit. For NCPs with higher earnings, the value of the credit would decline until it reached zero for NCPs with annual earnings of $14,090. These earnings represent 52, 72, and 124 percent, respectively, of the earnings of an NCP employed full-time and full year at the minimum wage. Such an NCP would receive a credit of only $209.

By contrast, under the federal EITC, a custodial parent with one child and annual earnings of $33995 would receive the maximum value of the credit ($2,917) in 2008. A custodial parent with two or more children and annual earnings of $38995 would receive the maximum federal EITC, which is $4,824.
Thus, the proposed federal legislation provides only a small work incentive for NCPs, and only if they comply with their child support order in full. This means paying 12 times their monthly child support order during the year. However, with such low earnings, employment instability, and the complexity and high cost of modifying child support orders, few less-educated non-custodial fathers would meet this criteria. For example, in a 9 state study of arrears, noncustodial fathers with earning below $10,000 paid less than 50 percent of the annual amount of child support owed. As a result, under the proposed legislation, only NCPs with earnings less than a full-time, full year worker at the minimum wage would qualify for small work incentives on the basis of their income. But with such low earnings, many would be disqualified on the basis of non-compliance. Finally, since full compliance with child support is also a condition of receiving the more generous childless credits proposed by some members of Congress, many less-educated NCP’s, who look like childless workers for tax purposes, would be denied a work incentive under these proposals as well.

Inadequate work incentives are not the only problem with actual or proposed expansions of the EITC to non-custodial parents. For example, New York State passed NCP-EITC legislation in 2006. The maximum value of the credit was $1030 for NCPs with annual earnings between $6000 and $8999. The credit was lower for NCPs with higher earnings and was completely phased out for NCPs with annual earnings of $32,000. Although NCPs in New York with full-time, full-year earnings at the (federal) minimum wage did not receive the maximum credit, did they receive more than they would have under the proposed federal legislation? Yes, if they paid their child support obligations in full. However, this would have been difficult. Note that the income eligibility requirements in New York State are about the same as under the proposed federal law and New York State uses the same criteria for child support compliance: 12
times the NCPs monthly child support order. Therefore, NCPs with low earnings, who receive the highest work incentives under the New York State law, are still likely to be disqualified, because at such low earnings they are unlikely to have paid all the child support due.

To provide real work incentives to NCPs, the maximum credit needs to be available to NCPs with annual earnings at least as high as annual earnings of workers who are employed full-time, full-year at the minimum wage and the standard for compliance, must be less stringent. For example, policymakers could consider setting the compliance criteria for a federal NCP-EITC equal to 12 times the minimum child support order (often between $20 and $50 per month) many states use when the NCP’s income is at or below a self support reserve. This reserve is often based upon the federal poverty line for a single-person household ($10,400 in 2008). By this reasoning, NCPs with annual earnings about $1000 below those of a full-time, full year worker at the minimum wage would be eligible for a federal NCP-EITC if they made annual child support payments between $240 and $600.

Why I selected this policy?

The wages of less-educated workers have declined since the mid-1970s. This helps to explain why “making work pay,” was such an important principle in the Clinton Administration’s welfare reform strategy. This principle was manifest in the substantial 1993 expansion of the federal Earned Income Tax Credit (EITC), which played such an important role in increasing employment among former welfare recipients. However, less-educated men have faced even more dramatic declines in earnings than less-educated women and there is some evidence that stronger child support enforcement in recent decades has contributed to reductions in labor supply among prime aged black men.
New York State and the District of Columbia have already passed legislation authorizing an NCP-EITC. Participation in the New York State program during the first year was less than expected. Low earnings incentives and stringent compliance requirements are possible causes for the low take up rates. The New York State legislation that introduced the NCP-EITC, also included funding for employment programs for unemployed and underemployed NCPs. Some programs served NCPs who were mandated to participate by the courts because they defaulted on their child support obligations. Others recruited clients, who were not under court mandate. Although program staff explained the NCP-EITC to their clients, few complied because they had not paid their child support obligations in full.

Finally, as will be discussed below, many low-income non-custodial fathers fail to appear at hearings intended to establish their child support orders, so their orders are established by default. Without information about earnings, courts frequently set default orders, assuming full-time, full-year earnings at the minimum wage. Setting the earnings at which NCPs receive the maximum value of the NCP-EITC at this level seems consistent with this practice.

How will a federal EITC with larger work incentives, higher income eligibility limits, and less stringent compliance criteria reduce poverty and impact poverty alleviation?

In combination with the foregoing policy strategy, which would provide employment services to delinquent obligors, an NCP-EITC with a stronger work incentive, higher income eligibility limits, and less stringent compliance criteria might help to induce more low-income obligors into the formal economy. If so, it would also help to reduce poverty among NCPs and among children in poor custodial families. But here much new research is needed. Although, an assessment of the employment impacts of the New York State NCP-EITC is under way, the
stringent compliance standard currently used in New York State would make the employment impacts, and therefore the impacts on poverty, if any, lower than the policy strategy proposed here. Moreover, this assessment will not use the most rigorous design for estimating the counterfactual employment rates and earnings that NCPs in New York would have experienced in the absence of the New York State NCP-EITC. Thus, mounting a demonstration project in which eligible NCPs are randomly assigned to receive the proposed NCP-EITC and the federal childless EITC, including existing compliance criteria, is needed to assess the impacts of the proposed strategy on employment, earnings, child support compliance, and poverty alleviation.
SUSPEND OR REVERSE PRACTICES THAT INCREASE ARREARS IN EXCHANGE FOR PARTICIPATION IN EMPLOYMENT SERVICES BY UNEMPLOYED OR UNDEREMPLOYED DELINQUENT OBLIGORS OR PAYMENT OF CURRENT CHILD SUPPORT BY LOW-INCOME NONCUSTODIAL PARENTS.

The policy might work as follows. States could suspend interest and penalties on existing arrears during each month that unemployed or underemployed delinquent obligors participate in employment services and each month that low-income noncustodial parents with existing arrears paid their current child support orders. States could also set child support orders of unemployed or underemployed, delinquent obligors to the minimum order during each month they participate in employment services. Finally, states could reduce arrears owed to the state (by 10 percent, for example) during each month that such obligors with arrears participate in employment services and further reduce arrears owed to the state at a higher rate (say, 25 percent) during each month that low-income noncustodial parents with arrears pay their current child support orders.

Why I selected this policy strategy?

Arrears in the child support enforcement system have reached $100 billion and accrue disproportionately to noncustodial parents with annual earnings less than $10,000. One of the most consequential practices responsible for the growth of arrears is charging interest and penalties on arrears. States and child support enforcement agencies began this practice to coerce compliance from divorced NCPs who dominated the child support caseload in earlier decades. However, since the mid-1980s increases in paternity establishment rates for children born to unmarried parents have dramatically increased the share of unmarried, NCPs with child support orders. Since these NCPs typically have lower incomes than divorced NCPs, charging interest and penalties on arrears has little chance of coercing compliance.

What’s more, unmarried NCPs are also overrepresented among current and former
offenders. Many states treat incarceration as voluntary unemployment. Unless incarcerated NCPs successfully petition to have their child support orders suspended or modified downward, arrears continue to accumulate (with interest and penalties) until they are released. This has had a dramatic impact on the growth of arrears, especially among black men. For example, 42 percent of the unmarried fathers of a representative sample of children born in large cities in the late 1990s were ever incarcerated. By one recent estimate, 60-80 percent of incarcerated adults are parents, mostly less-educated men.

Another practice is responsible for the dramatic growth of arrears. When noncustodial parents fail to appear at hearings at which their child support orders are established, courts in some states use full-time and full year earnings at the minimum wage to impute income and set child support orders accordingly. Courts in other states set child support orders proportional to the benefits paid on behalf of the custodial family (TANF, Food Stamps, and Medicaid). The resulting (default) orders often vastly over-estimate the NCPs ability to pay. This is especially likely to occur for men with criminal backgrounds, who are over-represented among NCPs with low earnings, children receiving public assistance, and those who avoid the formal legal system.

The growth in uncollectable arrears has prompted several states to undertake demonstration projects designed to abate arrears owed to the state in exchange for compliance on existing orders. Results show this strategy helps to reduce arrears among NCPs with earnings of $10,000 or more. This is helpful, but insufficient because studies show that the NCPs with lower earnings are responsible for a disproportionate share of arrears. Therefore, strategies to reduce uncollectible arrears must go further.
How will a strategy to lower arrears among unemployed and underemployed delinquent obligors and NCPs with low annual earnings reduce poverty and impact poverty alleviation?

There is much inertia in the child support enforcement system. As the proportion of children born to unmarried parents has grown, it has been difficult to adapt or discard practices developed to increase the collections from divorced NCPs. Moreover, changing child support enforcement law and practice has been a low priority issue within the Department of Health and Human Services, but this is changing because of the growth of uncollectable arrears and interest on the part of federal and state legislators in expanding the childless EITC and the NCP-EITC. Federal law requires interception of the tax returns for filers with child support arrears. This lowers the incentive to work for low-income noncustodial parents and weakens the potential work incentives intended in childless and NCP-EITC proposals. Simply stated, the poverty reducing potential of EITC expansions, arguably, depends upon removing features of the nation’s income security system that reduce the work incentives arising from the EITC.

What’s more, anti-poverty strategies in the last 20 years have placed increased emphasis on asset-building and financial incentives (such as the pay-for-performance pilot demonstration in New York City Schools.) But, the flip side of asset-building, namely debt reduction, may be especially salient for poor men. This is because custody automatically resides with mothers of non-marital children. In some cases a non-marital birth creates a new poor family. In other cases, such a birth drives deepens the poverty of families that are already poor. But because paternity and child support order establishment are now more certain, unmarried births are create obligations low-income fathers. Since mothers and taxpayers should not bear the cost of non-marital births alone, this is as it should be. However, after insuring that a child support obligation occurs, current policies merely track the conversion of unmet obligations into debt, and escalate
the result. The child, the mother, and the taxpayer are no better off, and the father has less incentive to continue schooling or participate in the formal economy, because his disposable income, after taxes, arrears, current child support payments, is too low. This strategy uses the reduction of arrears as a financial incentive to induce these NCPs to participate search and prepare for work, participate in the formal economy, and pay their current support. In combination with the other two strategies, it should reduce poverty among NCPs and custodial families. However, demonstration of these effects by randomly assigning NCPs to receive these incentives or the status quo is warranted.

Finally, the framework for demonstrations involving all three strategies would exist if S. 1696 became law. Since Senator Obama is the sponsor of S. 1696, the chances of leveraging public funds in support of such demonstrations will become clearer in the next two months.
References


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