



Legislative Fiscal Bureau

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April 30, 2009

Joint Committee on Finance

Paper #243

Child Support Pass-Through (DCF -- Child Support)

[LFB 2009-11 Budget Summary: Page 174, #6]

CURRENT LAW

Under current federal law, child support collected on behalf of families who have never received public assistance must be distributed to the family. However, families receiving certain types of public assistance must assign their rights to child support to the state. For these families, the state must: (a) first pay to the federal government the federal share of support collected; and (b) retain, or distribute to the family the remaining amount collected. The federal share is based on the federal financial participation rate for the Medicaid program in effect during the year in which the collections were made (currently about 59% in Wisconsin).

In addition, under the federal Deficit Reduction Act (DRA) of 2005, states have the option to pass through \$100 per month to the custodial parent (\$200 per month for a family that has two or more children) without being required to pay the federal share on that amount.

Under current state law, for child support collected on behalf of families receiving public assistance from the state, the state first pays the federal government its share of the assigned child support collected and then passes the remainder of the support collected through to the Wisconsin Works (W-2) participant or caretaker supplement recipient. As a result, these families receive 41% of assigned child support collected.

The state has not yet opted to exercise the provision of the federal DRA that would allow the state to pass through \$100 per month (\$200 per month for a family that has two or more children) without being required to pay the federal share.

GOVERNOR

Require the Department of Children and Families (DCF), beginning on the bill's general effective date, to pass through 75% of child support or maintenance assigned to the state for individuals applying for or participating in W-2 or receiving caretaker supplement payments.

DISCUSSION POINTS

1. Prior to the 1996 federal welfare reform legislation, Wisconsin implemented several projects under the aid to families with dependent children (AFDC) program that required a waiver from federal law. Over the years, these projects were estimated to generate significant savings to the federal government, which were made available to the state for various purposes. However, after the temporary assistance for needy families (TANF) block grant replaced AFDC, states generally were not permitted to access accumulated waiver savings because funding in excess of a state's TANF block grant allotment could not be approved. However, the Department of Workforce Development (DWD) negotiated with the federal government for access to these monies under a child support demonstration project, which was approved on February 28, 1997 [DWD administered the child support enforcement program at that time].

2. The project began in October of 1997, and included two major components. First, most W-2 participants were allowed to receive 100% of current support payments, and the share of child support that would otherwise be paid to the federal government (59% at that time) was offset against the accumulated balance of unclaimed waiver savings. Second, a control group of W-2 participants was established to study the impact of providing the full amount of child support to families receiving assistance. Families in the control group received the greater of \$50 per month or the 41% state share rather than the full amount of support paid. For these families, the 59% federal share was paid to the federal government as generally required.

3. The study concluded the following about passing through all child support to W-2 participants: (a) the policy increased the amount of child support that mothers received (approximately from \$134 to \$152 more each year than mothers in the control group); (b) the effects on the payment of child support by noncustodial fathers were not consistent; (c) paternity establishment rates increased (1.5% to 4.4% higher than the control group); (d) there was no conclusive effect on the likelihood of receiving W-2 benefits; and (e) there were no significant differences in the overall government costs for the pass-through.

4. After the demonstration projected ended, state law was changed to require that all child support be passed through to all W-2 participants. Beginning July 1, 2002, participants who had been assigned to the control group began receiving the full pass-through of child support. The federal share of the assigned child support collected was offset against the waiver savings.

5. The federal waiver expired on December 31, 2005. As a result, 2005 Wisconsin Act 25 modified state law so that the state would not be required to pass all child support collected through to W-2 participants and caretaker supplement recipients and also pay the federal share.

Without the Act 25 changes, the state would have had to pay approximately \$1.58 for each dollar received in child support (\$1.00 to the W-2 participant or caretaker supplement recipient and \$0.58 to the federal government). Act 25 changed the requirement that all child support be passed through to W-2 participants and caretaker supplement recipients. Instead, the state must first pay the federal government its share of the assigned child support collected and then pass the remainder of the support collected through to the W-2 participant or caretaker supplement recipient.

6. DWD, in agreement with the federal government, phased in the reduction to the amount of child support passed through to the W-2 participant or caretaker supplement recipient. Instead of passing 100% through, the percentage decreased as follows: (a) 85% from January, 2006, through March, 2006; (b) 71% from April, 2006, through June, 2006; (c) 56% from July, 2006, through September, 2006; and (d) the state's share of support collected each month thereafter (currently 41%).

7. As noted above, under the federal DRA, the first \$100 per month (\$200 per month if there are two or more children) may be passed through without being subjected to the federal share. This provision is optional, not mandatory. Although current state law would allow for this modification, DCF has not yet implemented this provision.

8. The bill would pass through 75% of child support collected to W-2 participants and caretaker supplement recipients, rather than the 41% currently passed through. Rather than implement the federal DRA provision as written, which would deduct \$100 (\$200 for two or more children) from the monthly support collected, pay the federal share on the remaining portion, and then pass through the remaining state share to the family, DCF would pass through 75% of child support collected to all W-2 participants and caretaker supplement recipients.

9. According to DCF, the U.S. Department of Health and Human Services has indicated that passing through a higher percentage of child support collected is an acceptable alternative to the federal DRA provision as written. The 75% pass-through amount is an estimate of the maximum amount that can be passed through to W-2 participants and caretaker recipients without having to pay additional funds to the federal government for the federal share of assigned child support collections. DCF indicates that passing through a higher percentage of assigned child support collected is preferable to implementing the federal DRA provision as written because it would be easier to program the Kids Information Data System (KIDS), the certified statewide automated child support system, and to administer.

10. For example, W-2 or caretaker supplement families that receive child support may have more than one noncustodial parent paying support to the family, if the family has more than one child. The \$200 passed through to the family would have to be calculated based on all child support orders that affect the family. This may be more complicated to track than a simple percentage of the overall child support amount.

11. In addition, another example assumes a W-2 or caretaker supplement family with one child who receives \$100 per week in child support. In the first week of the month, the family

would receive \$100. However, for the remainder of the month, the family would receive \$41 per week. DCF believes that implementation of the DRA provision as written would generate approximately 3,500 additional phone calls monthly to explain the new distribution of child support. DCF states that a straight percentage of the overall child support distributed to every W-2 participant or caretaker supplement recipient for every child support order that affects the family would be easier to explain and to understand.

12. Both the Governor's proposal and an alternative to provide the \$100/\$200 DRA pass-through to each family would increase the amount of child support received by custodial parents, and both options are estimated to be revenue-neutral for the state budget. However, there are distributional implications for the families receiving support. Relative to the DRA pass-through, the Governor's proposal would provide more money to families that have relatively high support payments and less money to families that have relatively low payments. The following table shows the monthly pass-through amount under current law, under the federal DRA provision as written, and under the 75% amount under the bill for a W-2 participant or caretaker supplement recipient with one child who receives \$75 in child support, \$100 in child support, \$150 in child support, \$200 in child support, and \$250 in child support. It is assumed that the federal share will increase to 60% in the 2009-11 biennium, and the state share would decrease to 40%.

TABLE 1

**Amount of Assigned Child Support Collected
Passed Through to Families**

Child Support Amount <u>Collected</u>	<u>Current Law (40%)</u>	<u>DRA Provision</u>	<u>AB 75 (75%)</u>
\$75	\$30	\$75	\$56
100	40	100	75
150	60	120	113
200	80	140	150
250	100	160	188

13. If the intent is pass through as much child support as possible to the W-2 participants and caretaker supplement recipients who receive the least amount of child support, the Committee may wish to direct DCF to implement the federal DRA provision as written. In other words, the Committee may wish to direct DCF to subtract the first \$100 per month (\$200 per month for two or more children), then pay the federal share on the remainder of the assigned child support collected, and finally pay the remaining state share to the W-2 participant or caretaker supplement recipient for each W-2 and caretaker supplement family.

14. However, DCF indicates that the cost to implement the DRA provision as written would total \$1,332,000, while the cost to implement the 75% pass-through would total \$657,800. Costs to implement the DRA provision as written would include 12,000 programming hours for

KIDS (\$984,000), increased operational costs (\$180,000), and increased customer service phone calls (\$168,000). Costs to implement the 75% pass through would include 8,000 programming hours for KIDS (\$656,000) and increased operational costs (\$1,800).

15. It should be noted that the bill does not provide funding for increased costs of implementing the 75% pass-through. Any implementation costs of the DRA provision under any alternative would be absorbed by DCF and would result in postponing other KIDS projects until these changes are made.

16. It should also be noted that DCF has recently indicated that these amounts of programming hours necessary to make the pass-through changes would require an effective date for the 75% pass-through of October 1, 2010, and for the DRA provision as written of February 1, 2011. Under AB 75, the 75% pass-through would be effective on the bill's general effective date. This should be modified to reflect that the 75% pass-through would take effect on October 1, 2010.

17. On the other hand, if the intent is to pass through as much child support as possible to W-2 participants and caretaker supplement recipients, the Committee could require DCF to pass through 100% of child support collected for W-2 participants and caretaker supplement recipients. Costs to implement the 100% pass-through would total \$165,800 and would include 2,000 programming hours for KIDS (\$164,000) and increased operational costs (\$1,800). The effective date for a 100% pass-through would be July 1, 2010.

18. However, if DCF passes through 100% of child support collected for W-2 participants and caretaker supplement recipients, the net federal share (after the DRA provision is applied) would still have to be paid to the federal government. Estimates of the federal share would total \$619,600 GPR. Assuming an effective date of July 1, 2010, the Committee could provide \$619,600 GPR in 2010-11 to fund the 100% pass-through.

19. Alternatively, the Committee could adopt a smaller increase in the percentage passed through to the families, pay the federal share, and have the state retain the remaining amount. As a result, W-2 participants and caretaker supplement recipients would receive more child support than they are currently receiving, but additional funds retained by the state could be used to support TANF-related programs or replace GPR funds that currently support these programs. The following table shows the total monthly child support amount that would be passed through to W-2 and caretaker supplement families, the total amount paid to the federal government, and the total amount retained by the state under current law (at 40%), under a 50% pass-through amount, under a 60% pass-through amount, under a 70% pass-through amount, and under the bill's proposed 75% pass-through amount. Similar to the 75% pass-through, it is assumed the effective date for a smaller increase in the percentage passed through to the families would be October 1, 2010.

TABLE 2

**Annual Distribution of Assigned Child Support
Under Various Alternatives**

<u>Percentage of Pass-through</u>	<u>Paid to Families</u>	<u>Increase Over Current Law</u>	<u>Federal Government</u>	<u>Decrease From Current Law</u>	<u>Retained by State</u>	<u>Increase Over Current Law</u>	<u>Total Support</u>
Current Law (40%)	\$1,311,680	N/A	\$1,967,420	N/A	\$0	N/A	\$3,279,100
50%	1,639,600	\$327,920	1,016,300	-\$951,120	623,200	\$623,200	3,279,100
60%	1,967,400	655,720	937,000	-1,030,420	374,700	374,700	3,279,100
70%	2,295,300	983,620	857,700	-1,109,720	126,100	126,100	3,279,100
AB 75 (75%)	2,459,300	1,147,620	818,000	-1,149,420	1,800	1,800	3,279,100

20. The amounts in Table 2 reflect annualized numbers. Because the effect date would be October 1, 2010, the actual amounts retained by the state would be for nine months in 2010-11. Therefore, if the Committee chooses another percentage for the pass-through amount in order to increase funding for TANF-related programs, funding for TANF-related programs would increase as follows: (a) at 50%, \$467,400 PR in 2010-11; (b) at 60%, \$281,000 PR in 2010-11; and (c) at 70%, \$94,600 PR in 2010-11. These funds could be used to increase TANF-related expenditures or decrease GPR funding.

ALTERNATIVES

1. Approve the Governor's recommendation to increase the amount of child support passed through to W-2 participants and caretaker supplement recipients to 75% of the amount of child support collected, rather than the state's share under current law (currently approximately 41%), but modify the effective date to be October 1, 2010.

2. Modify the Governor's recommendation to require DCF to implement the DRA provision as written. In other words, require DCF to pass through the first \$100 of child support (\$200 for two or more children) to W-2 and caretaker supplement families, pay the federal share, then pass through the remaining amount to W-2 and caretaker supplement families, for each W-2 participant and caretaker supplement recipient. The cost to implement this alternative would be more than double the cost to implement any other alternative and would require postponing other KIDS projects until these changes are made. Require the effective date for this provision to be February 1, 2011.

3. Modify the Governor's recommendation to increase the amount of child support passed through to W-2 participants and caretaker supplement recipients to 100% of the amount of child support collected, rather than the state's share under current law (currently approximately 41%). Require the effective date to be July 1, 2010. As a result, DCF would be required to pay the federal government the net federal share of child support passed through (the federal share after the

DRA amount of \$100 or \$200 is accounted for) in the amount of \$619,600 GPR in 2010-11.

ALT 3	Change to Bill
	Funding
GPR	\$619,600

4. Modify the Governor's recommendation to increase the amount of child support passed through to W-2 participants to one of the following amounts, rather than the state's share under current law (currently approximately 41%). Require the effective date to be October 1, 2010. As a result, the state would retain a portion of the child support collected as indicated:

a. Pass through 50% of the amount of child support collected on behalf of W-2 participants and caretaker supplement recipients. The state would retain \$467,400 PR in 2010-11 for expenditures in TANF-related programs.

ALT 4a	Change to Bill
	Funding
PR	\$467,400

b. Pass through 60% of the amount of child support collected on behalf of W-2 participants and caretaker supplement recipients. The state would retain \$281,000 in 2010-11 for expenditures in TANF-related programs.

ALT 4b	Change to Bill
	Funding
PR	\$281,000

c. Pass through 70% of the amount of child support collected on behalf of W-2 participants and caretaker supplement recipients. The state would retain \$94,600 in 2010-11 for expenditures in TANF-related programs.

ALT 4c	Change to Bill
	Funding
PR	\$94,600

5. In addition to adopting an alternative under Alternative 4a, 4b, or 4c, eliminate the same amount of GPR in TANF-related programs.

a. In addition to Alternative 4a, eliminate \$467,400 GPR in 2010-11 from TANF-related programs.

ALT 5a	Change to Bill
	Funding
GPR	- \$467,400

b. In addition to Alternative 4b, eliminate \$281,000 GPR in 2010-11 from TANF-related programs.

ALT 5b	Change to Bill
	Funding
GPR	- \$281,000

c. In addition to Alternative 4c, eliminate \$94,600 GPR in 2010-11 from TANF-related programs.

ALT 5c	Change to Bill
	Funding
GPR	- \$94,600

6. Delete provision. As a result, W-2 participants and caretaker supplement recipients would continue to receive the state's share of assigned child support collected on their behalf (currently approximately 41%).

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