



Child Support Cuts Starting to Shrink Family Income: Reversing Cuts Now Will Provide a Needed Boost to the Economy

by Vicki Turetsky
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Quick action is needed by Congress this year to reverse counter-stimulative federal cuts to state and child support programs included in the Deficit Reduction Act of 2005 (DRA). Allowing these cuts to take effect will result in lay-offs of child support enforcement workers, and even worse, will cost families with children at least a billion dollars a year. In contrast, preventing the loss of federal funds to state and county child support programs will provide needed state relief, while ensuring that families do not lose support in an economic downturn. According to several economists, “restoring funding to the child support program would produce timely, well targeted stimulus to the economy with minimal increases in the federal deficit.”¹

The majority of single parent families—17 million children—receive child support services from the publicly-funded child support program.² Child support is the financial contribution made by non-custodial parents to their children. Along with earnings, child support is the backbone of family budgets—the second largest source of income for poor families receiving it. The program secures more cash to more working families than almost any other family assistance program—\$22 billion in private child support payments every year. The program also secures private health care coverage for children through their parents’ employers.

Families rely on child support to make ends meet—and spend child support dollars quickly. Three-fourths of single parent families with incomes below 200 percent of poverty receive child support services, and most of these families receive support payments.³ The average child support payment received by low-wage families is nearly \$4,000 per year, and is used to meet the basic needs of children.⁴ Support payments play a stabilizing role during economic downturns, helping working families get from paycheck to paycheck and weather job losses. Families spend the money very quickly. State data suggests that 97 percent of child support funds dispensed to family debit cards are spent down by the end of the month.⁵

States and counties are starting to implement deep cuts right now. During an economic downturn, spending cuts can deepen and prolong a recession—“an automatic destabilizer,” according to economist Joseph Stiglitz.”⁶ The child support cuts total 17 percent of child support program funding, requiring states and counties to lay off staff and cut back on services. For example, one medium-sized state is preparing to lay off 300 child support enforcement staff and cut back on a major state contract to expand employer health care coverage through child support. While most states enacted temporary stop-gap funding until the end of this state fiscal year (generally until June 30), 12 states lack even temporary funding and have begun to implement the cuts. These 12 states account for 18 percent of the national child support caseload and most have projected budget gaps in FY 2009.⁷ Although it is still unclear what will happen when stop-gap funding runs out in June, many states are planning for cutbacks. According to economist Mark Zandi, “cuts in state and local government outlays are sure to become a substantial drag on the economy later this year and into 2009.”⁸

Child support spending cuts will hurt state budgets already under strain. States facing child support federal funding cuts have two choices. They can either replace the child support funding with increased state and local spending—making less money available for other needed assistance and benefits to families, such as Medicaid. Or, they can reduce their spending in the child support program—cutting back on enforcement efforts for working families and increasing spending in related programs, including TANF, Medicaid, and Food Stamps. Higher performing states will suffer the greatest funding losses (because the cuts are made to performance-based funding). Lower performing states will slip further, risking substantial penalties in the form of reduced TANF funds.⁹

Child support spending cuts will intensify fiscal pressures on county budgets. In most of the large states, counties provide the front-line child support enforcement services to low income families. These counties must depend upon county revenues to fill the gap in child support program funds left by the federal cuts. Yet, anticipated property tax declines mean funds are not available to counties to make up the funding cuts, and some counties are bracing for staff lay-offs of a third or more. In a number of counties, staff lay-offs are expected to take place in local district attorney offices responsible for enforcing support orders.

Spending cuts will result in long-term damage to the child support program. According to a preliminary Congressional Budget Office estimate, \$1 billion per year in support payments will go uncollected, even if states replace half of the federal funds cut by the DRA. A study by the Lewin Group found that the child support cuts are expected to impact all types of families in the program, including interstate cases, and will especially impact the ability of child support agencies to collect support payments consistently and on time.¹⁰ The cuts jeopardize customer call centers, timely payment processing, consistent enforcement efforts, child support pass-through expansions, child health insurance initiatives, efforts to identify relatives available for foster care placements, and domestic violence and prisoner reentry initiatives.

Spending cuts will cut off services to unemployed fathers. In a number of states, federal funds cut by the DRA help fund community-based programs that provide the most disadvantaged noncustodial parents with job training and placement services. In addition, cutbacks are expected in state and county initiatives to reduce orders during periods of unemployment, including coordination with large state employers during lay-offs and the military during deployment. Without these funds, unemployed noncustodial parents will have less access to employment services and limited opportunity to obtain relief during periods of unemployment—resulting in accumulation of high debts and increased participation in the underground economy and crime.¹¹

Reversing the child support cuts would produce timely, well-targeted stimulus. Economist Stiglitz recommends stimulus measures that provide the “biggest bang for the buck.”¹² The child support program is incredibly cost-effective— for every dollar spent by the federal government, \$6.50 is collected on behalf of working families. Research shows that for every dollar that the federal government spends on the child support program, it saves nearly a dollar on means-tested program, such as Food Stamps, Medicaid, and Supplemental Security Income. According to several economists, restoring the funding cuts “will cost the federal government next to nothing because federal spending on public assistance programs will decline.”¹³

¹ Jan. 23 and 24, 2008 letters to Chairman Baucus signed by seven economists nationally recognized as experts on low-income “fragile” families and the child support program, including Elaine Sorensen (Urban Institute), Irwin Garfinkel and Ronald Mincy (Columbia University), Steve Garasky, (Iowa State University), Robert Lerman (American University), and Harry Holzer, (Georgetown University).

² Altogether, the child support program collects \$24 billion per year and provides services to 17 million children. More than half of these children receive cash payments. The remaining children receive other services to establish legal parentage, obtain support orders, and secure health care coverage. The child support program pass through \$22 billion to families and withhold \$2 billion to repay public assistance. This \$2 billion is shared between federal and state governments and treated as government revenues. New options in the DRA would allow states to pass through all collected support to families—but the funding cuts have put pass-through expansions on hold in many states.

³ Linda Mellgren, *et al.*, *Characteristics of Families Using Title IV-D Services in 1999 and 2001*, U.S. Department of Health and Human Services, 2004, available at: <http://aspe.hhs.gov/hsp/CSE-Char04/index.htm>; Elaine Sorensen, *Child Support Gains Some Ground*, Urban Institute, 2003, available at <http://www.urban.org/publications/310860.html>.

⁴ The term “low-wage families” is used here to mean those families between 100 and 200 percent of poverty. Sorensen, 2003.

⁵ Most states disburse child support payments to families through debit cards or by direct deposit.

⁶ Joseph E. Stiglitz, “How to Stop the Downturn” (editorial), *Washington Post*, Jan. 23, 2008; Elizabeth McNichol and Iris Lav, *17 States Face Total Budget Shortfall of at Least \$1 Billion in 2009*, Center on Budget and Policy Priorities, Jan. 24, 2008, available at <http://www.cbpp.org/1-15-08sfp.htm>.

⁷ Unpublished National Child Support Enforcement Association state survey; McNichol and Lav, 2008. Seven states with projected gaps in their overall state budget for FY 2009 failed to enact temporary stop-gap child support funding for FY 2008, including Alabama, Arizona, Maine, New Jersey, New York, Rhode Island and South Carolina. Two additional states with projected budget gaps in FY 2009, Iowa and Maryland, passed partial child support funding for FY 2008. Seventeen other states have projected budget gaps in FY 2009 and beyond, including California, Connecticut, Florida, Illinois, Kentucky, Massachusetts, Michigan, Minnesota, Mississippi, Missouri,

Nevada, Ohio, Oklahoma, Texas, Vermont, Virginia, and Wisconsin. Although these states passed full or partial stop-gap funding in FY 2008, these states may have difficulty sustaining this increased funding commitment in coming years.

⁸ *New Zandi Analysis Finds Rebates More Effective As Stimulus if They Include Lower-Income Workers*, Center on Budget and Policy Priorities, Jan. 22, 2008, available at <http://www.cbpp.org/1-22-08bud.htm>.

⁹ The Lewin Group and ECONorthwest, *Anticipated Effects of the Deficit Reduction Act Provisions on Child Support Funding and Performance*, 2007, available at http://www.nccsd.net/documents/nccsd_final_report_revised_2_437782.pdf.

¹⁰ Lewin Group, 2007.

¹¹ Jan. 24, 2008 letter to Senator Baucus from Harry Holzer.

¹² Stiglitz editorial.

¹³ Jan. 23 and 24, 2008 letters.