

A PROPOSAL FOR MODERNIZING TANF DISTRIBUTION IN THE CHILD SUPPORT PROGRAM

DISCUSSION PAPER

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Introduction

When the Title IV-D child support program was started more than 40 years ago, it was intended to function primarily as a recovery program for the Aid to Families with Dependent Children (AFDC) program. The recovery concept included: 1) retaining child support collected for current assistance recipients to reduce the costs of their benefits; and 2) capturing child support arrearages paid on behalf of former assistance recipients to apply against funds spent while the custodial parent previously received assistance.

These concepts have been carried forward into the current child support program even though its mission has subsequently evolved to function as an important economic pillar for single-parent families. As implemented in the IV-D program's administrative structure, these recovery concepts have resulted in convoluted policies and processes. These have clouded the current mission of the IV-D program, that now focuses predominantly on family support. These concepts have also created excessive costs and administrative complexity, increased the difficulty of staff training, compromised customer service, and significantly increased the challenges of automated system development.

Given that recoupments for the Temporary Assistance to Needy Families (TANF) program, including those made on behalf of both current and former recipients, have shrunk to 4.4 percent of total IV-D collections, the time seems right to re-visit the core principles of TANF distribution that have been embedded in the structure of the program.¹ Accordingly, this discussion paper proposes a fundamental restructuring of these recovery principles that would simplify consideration of child support for current recipients and end recovery altogether for former TANF recipients. Such a modernization of distribution policy would streamline administration of the program, enhance the IV-D program's relationships with custodial and non-custodial parents alike, increase the self-sufficiency of former TANF recipients, and remove the inherent contradiction that clouds the IV-D program's mission.

We recognize, however, that this proposal does have costs in the form of reduced revenue for some (and perhaps most) IV-D programs. As a result, we are presenting this proposal in the form of a discussion paper, with the understanding that more work needs to be done to analyze the full

¹ "Distribution" is a term of art in the IV-D Program. It refers to the set of rules used by IV-D agencies to determine how much of a specific child support collection may be retained by the state to reimburse itself for assisting financially with parental responsibility to support a child, and how much of that collection must be disbursed to the family. See 45 CFR 302.51

impact of such a proposal on the fiscal strength of state and local child support programs, and that some form of fiscal consideration would need to be afforded in order to make such programs whole.

This paper is divided into the following sections:

- *Evolving mission of the IV-D program* – a summary of how the IV-D program’s dominant mission has shifted over time from welfare recovery to family support
- *Distribution described* – a brief summary of distribution policies
- *Distribution impacts* – an analysis of the effects of distribution on IV-D administration
- *Proposal to modernize distribution for current and former TANF recipients* – a description of our proposal as well as the changes in processes and automated systems that would result
- *System effects* – the need for limited re-programming of legacy child support systems and reduced development costs for new systems
- *Fiscal effects* – the likely effects of modernizing distribution on administrative costs and program funding

In our conclusion, we summarize the rationale for our recommendation that the IV-D program modernize distribution by simplifying child support reimbursements for current TANF recipients and passing through all collections for former TANF recipients.

Evolving Mission of the Child Support Program

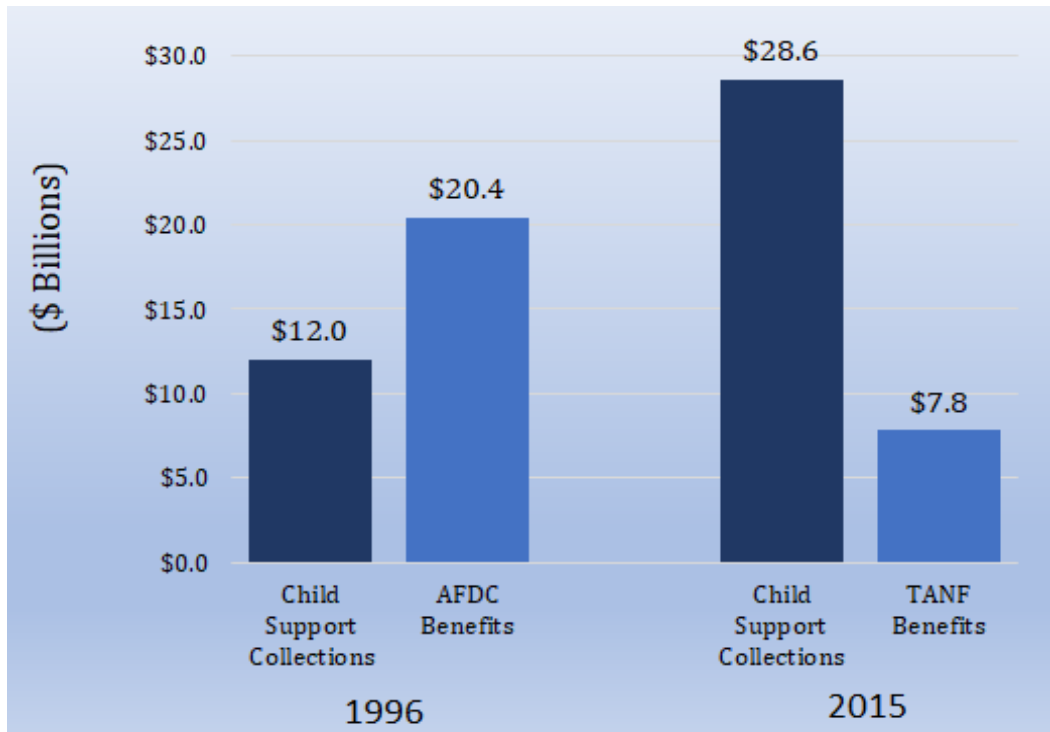
As the child support program has evolved, its role has dramatically expanded to become an important resource for former Temporary Assistance for Needy Families (TANF) cases and for cases that have never received assistance. Two factors have contributed to this evolution:

- Legislative mandates in the *Child Support Enforcement Amendments of 1984* and subsequent legislation to provide services on behalf of non-assistance families, which responded to public pressure to address the impact on children of increasing divorce rates and the continuing increase of non-marital births
- Enactment of welfare reform legislation (Personal Responsibility and Work Opportunity Reconciliation Act – PRWORA) in 1996 which led to the dramatic decline in the numbers of families receiving assistance under TANF, relative to the predecessor program of AFDC

Because of these factors, the impact of the IV-D program has grown over time while the impact of the TANF program has shrunk, to the point that the IV-D program now significantly over-shadows the TANF program in terms of the economic support it provides to single-parent families. As shown in Exhibit 1, when PRWORA was enacted in 1996, the AFDC program provided more than \$20 billion in cash benefits, primarily to single-parent families, while the IV-D program disbursed \$12 billion in collections. In contrast, during federal fiscal year (FFY) 2015, the TANF program provided

only \$8 billion in cash benefits while the IV-D program disbursed over \$28 billion in child support collections.

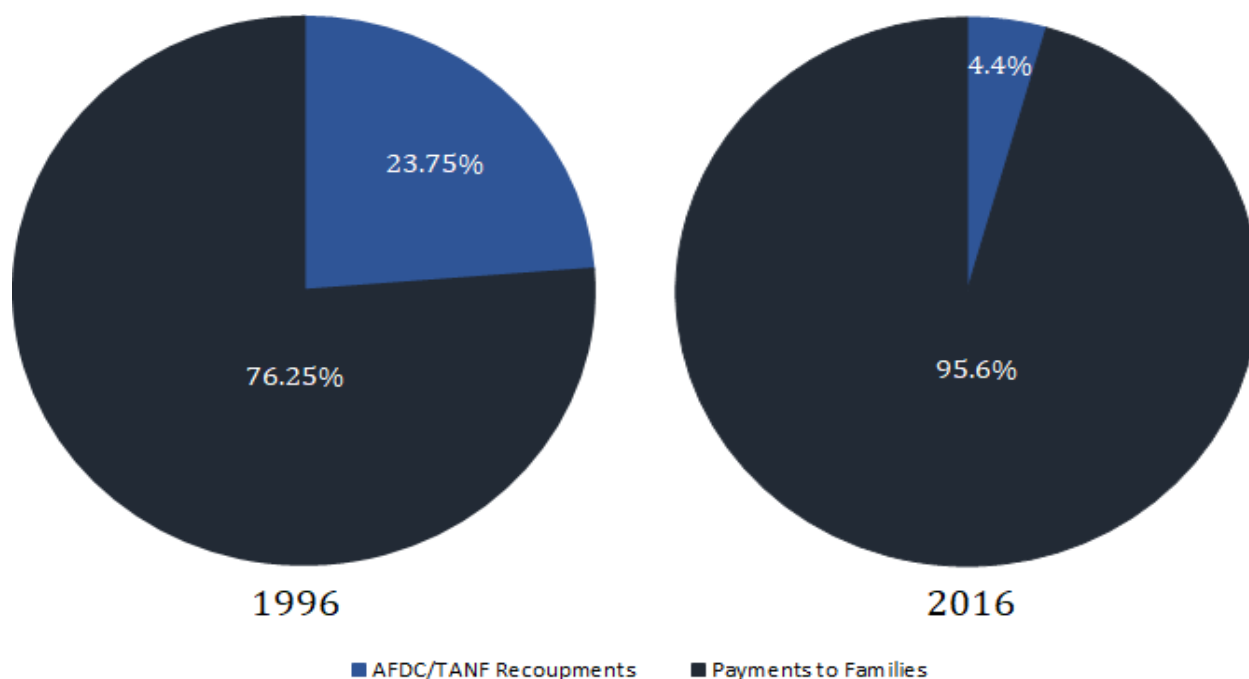
Exhibit 1
Child Support Has Eclipsed TANF as
Largest Single-Headed Family Program



With these countervailing trends, TANF recoupments have rapidly fallen as a proportion of total IV-D collections. As shown in Exhibit 2, when PRWORA was enacted in 1996 AFDC recoupments constituted almost 25 percent of total IV-D collections. However, by 2016, 20 years later, the proportion of collections constituting TANF recoupments had diminished to less than 5 percent of the IV-D total, while more than 95 percent of IV-D collections were paid directly to families.² This underscores the reality that TANF reimbursement is still a consequential function of the program, but it pales in significance compared with the direct payments that are collected for former and never recipients of TANF.

² U.S. Office of Child Support Enforcement, *Preliminary Report FY 2016*, available at https://www.acf.hhs.gov/sites/default/files/programs/css/2016_preliminary_report.pdf, Table P-1.

Exhibit 2
Welfare Recoupments 20 Years Ago and Now



TANF recoupments nationally totaled \$1.255 billion in 2016, 4.4 percent of total IV-D collections. These were divided as follows:

- *Current TANF recipients*: retained collections were \$512 million, 1.8 percent of total IV-D collections
- *Former TANF recipients*: recoupments were \$743.8 million, 2.6 percent of total IV-D collections.

Moreover, proceeds from both categories of recoupments are steadily declining: recoupments for current TANF recipients dropped by 21 percent over the prior five years while recoupments for former TANF recipients dropped by 19 percent during the same period.

These numbers demonstrate clearly the primacy of family support as the core mission of the IV-D program, while recovery of TANF benefits now accounts for only a small fraction of its bottom line collections. Despite this diminution of its role, TANF recovery still retains its outsized impact on the IV-D program's structure and operations. The complexity of the recovery processes drives excessive administrative costs, as well as creating other dysfunctions, that can no longer be justified its diminished share of program results.

Distribution Described

When the IV-D program was created, the philosophy was that child support payments made on behalf of children receiving assistance should be withheld by the IV-D program and paid directly to the IV-A program as an offset to assistance benefits received. Further, arrearages that accrued before or during any period of assistance should be tapped to reimburse any assistance received. Consequently, AFDC recipients then, and TANF recipients now, were required to assign their rights to child support. The assignment gives legal authority for the state to retain child support payments made to current assistance recipients and to recoup certain child support arrearages collected on behalf of former recipients.

The rules governing assignment of child support rights have been complex, however, so that the distribution mechanisms built into the IV-D program have also been complex, with resulting high costs and inefficiency. Most obviously, the assignment enabled a state to retain child support collected while the recipient received AFDC/TANF. However, a recipient was also required to sign over subsequent rights to arrears accumulated during any spell of AFDC/TANF receipt. Prior to 2009 (as discussed further below), the recipient was also required to sign over rights to child support arrears accrued prior to receiving assistance.

Twenty years ago, the TANF distribution rules were re-codified by the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA – P.L. 104-93), the far-reaching welfare reform legislation, and applied to all assignments of rights beginning October 1, 1997. As we discuss below, the great majority of states still follow PRWORA distribution rules. Subsequently, the Deficit Reduction Act of 2005 (DRA - P.L. 109-171) required that all states eliminate assignment of pre-assistance arrears, i.e. those arrears accrued under a child support order prior to a recipient receiving assistance, for all new TANF cases effective no later than October 1, 2009. States could also forgive pre-assistance arrears accrued under prior assignments. In addition, the DRA gave states new options for distribution, both in terms of simplifying distribution provisions and in terms of increasing the amount of TANF collections that could be passed through directly to families.³

Broadly speaking (and for purposes of readability we cannot avoid over-simplifying here), the DRA eliminated assignment of pre-assistance arrearages for new TANF cases starting no later than October 1, 2009. From that point on, any pre-assistance arrears are owed to the family, not to the state.

³ See *Action Transmittal AT 07-05*, U.S. Office of Child Support Enforcement. Available on website: <http://www.acf.hhs.gov/programs/css/policy>.

The DRA also provided a somewhat simplified distribution scheme for former assistance cases. Under this scheme, collections on arrearages are applied to family arrearages (those not assigned to the agency) and only after all family arrearages have been paid are the child support collections applied to arrearages assigned to the state.

This is not dramatically different than the PRWORA distribution scheme under which the following categories of arrearages are paid to the family first: 1) never assigned, 2) unassigned pre-assistance, and 3) conditionally assigned arrearages. These categories under PRWORA distribution are all rolled up into family arrearages under DRA. However, another category of PRWORA arrearages, unassigned during-assistance arrearages, are paid to the family only after all permanently assigned arrearages are satisfied. Under DRA, unassigned during-assistance arrearages are included in family arrearages and paid to the family before funds are distributed to state-assigned arrearages.

The other most important distinction between DRA and PRWORA distribution is that former assistance payments received from IRS tax refund offsets under DRA rules are treated like any other child support collection. Thus, they are applied to current support first, family arrearages next, and then to state arrears only after family arrearages have been completely paid down. In contrast, under PWRORA, IRS collections are paid to state-owed arrearages first.

The DRA also created two options for states that are particularly relevant to this paper. First, for former TANF recipients, it allows states to pass through to the family all arrearage collections. The specific language follows:

“(7) State option to pass through additional support with federal financial participation. (A) Families that formerly received assistance. Notwithstanding paragraph (2), a State shall not be required to pay to the Federal Government the Federal share of an amount collected on behalf of a family that formerly received assistance from the State to the extent that the State pays the amount to the family.

[Social Security Act Sec. 457(a)(7)(A)]

Second, for current TANF recipients, it allows states to pass through up to \$100 per month per family, or \$200 per month per family if there are two or more children.

While the changes that the DRA made to distribution are significant, only the ban on assignments for pre-assistance arrears is mandatory. Under the DRA, states may follow either the newer DRA distribution scheme or they can follow the older PRWORA distribution scheme. Under the DRA, states were also given options to cancel certain categories of assignments, primarily prior assignments for pre-assistance arrears. They were also given options to pass through more child support directly to the family.

Given that DRA distribution is somewhat simpler and also pays more to the family, it is surprising that only six states have adopted the DRA distribution provisions: Alaska, Hawaii, Pennsylvania,

Vermont, Washington, and West Virginia.⁴ In part, this may be testament to the inertia of existing policies and the relatively modest changes that the DRA makes. It may also represent the costs of time and resources required to make changes to state laws, automated systems, and procedures. For some states, it also reflects resistance to the small reduction in TANF recoveries that would result from adopting the DRA provisions.

The different types of arrearages that affect TANF distribution under PRWORA and DRA are shown in Exhibit 3. It is obvious from this Exhibit (again somewhat simplified) that the DRA distribution scheme is simpler. For a more detailed definition of arrearage types and distribution provisions, see Office of Child Support Enforcement Action Transmittal *AT 07-05*.

Exhibit 3
Types of Arrearages Considered in Distribution

PRWORA	DRA
Never assigned arrearages	Family Arrearages
Unassigned pre-assistance arrearages	
Conditionally assigned arrearages	
Unassigned during assistance arrearages	
Permanently assigned arrearages	Permanently assigned arrearages

Here is a brief description of these various categories:

- *Never assigned arrearages.* These include all arrearages for cases that have never received TANF or AFDC, most arrearages accrued before a family received assistance⁵, and all arrearages accrued after a family leaves assistance. Under DRA, this category is included in *Family Arrearages*.

⁴ *Interstate Reference Guide*, U.S. Office of Child Support Enforcement. Available on website: <http://www.acf.hhs.gov/programs/css/irg-state-map>.

⁵ Provided that these accrued for assignments executed on or after October 1, 2009.

- *Unassigned pre-assistance arrearages.* For cases that did have an assignment in effect prior to October 1, 2009 for pre-assistance arrearages, this category includes the amount of child support arrearages accrued prior to receiving assistance. Under the DRA, this category is included as family arrearages.
- *Conditionally assigned arrearages.* These are pre-assistance arrearages that were assigned prior to October 1, 2009 and which are owed to the family *unless* they are collected through a federal tax refund offset, in which case they are paid to the state. These can exist under PRWORA, although they are dwindling as fewer families have assignments predating October 1, 2009.⁶ There are no conditionally-assigned arrearages under the DRA because collections through the federal tax offset program are treated like any other collection. They are distributed to the family first to any satisfy current support or family arrearage obligation.
- *Unassigned during-assistance arrearages.* These are arrearages that accrue while a family is receiving assistance that exceed the cumulative amount of unreimbursed assistance. For example, if the TANF grant were \$200 per month and the unpaid child support obligation was \$300 per month, \$100 per month would be unassigned current-assistance arrears.
- *Family arrearages.* This is a DRA term that means arrearages owed to the family. It is essentially a roll-up of the following PRWORA categories: *never-assigned arrearages*, *unassigned pre-assistance arrearages*, and *unassigned during assistance arrearages*.
- *Permanently assigned arrearages.* These are arrearages that accrue while a family is receiving assistance, but only up to the amount of assistance that is received.

The most significant impact of these categories comes from the sequence in which child support is distributed for former-assistance cases. Following is the distribution sequence for the PRWORA and DRA options.

⁶ *Temporarily assigned arrearages* are another category but these convert to *conditionally assigned arrearages* when families leave the TANF program. We assume that no temporarily assigned arrearages still exist since all families with temporary assignments prior to October 1, 2009 would have left the rolls by now given the federal five-year lifetime limit on TANF benefits.

Exhibit 4
Distribution Sequences for Former Assistance Cases
PRWORA and DRA Rules

Collection Type	PRWORA	DRA
All collections except federal tax offset	Current support	Current support
	Never-assigned arrearages	Family arrearages
	Unassigned pre-assistance arrearages	
	Conditionally assigned arrearages	
	Permanently assigned arrearages	Permanently assigned arrearages
	Unassigned during assistance arrearages	
Federal tax offset collections	Conditionally assigned arrearages	Current support
	Permanently assigned arrearages	Family arrearages
	Never or unassigned arrearages	Permanently assigned arrearages

As noted above, this is a simplified description of child support distribution. Typically, there are other “buckets” for foster care and medical support recoveries, as well as for interest and various fees. Multiple periods of assistance can significantly complicate distribution. In such cases, pre-assistance, during-assistance, and post-assistance arrears must be tracked for each period.

Distribution Impacts

TANF distribution is an historical anachronism that places a tremendous drag on the modern child support program. The primary mission of the original child support program was welfare (AFDC) recovery, and in that context, the distribution scheme made some sense. Welfare stays were much

longer, and retaining child support payments had the advantage of stabilizing custodial parent income while ensuring that as much money as possible was recovered to repay AFDC benefits.

However, the mission of the modern child support program has dramatically shifted toward direct family support while TANF has shifted toward shorter stays with lifetime limits on the duration of benefits.

While the proportion of retained TANF collections has dramatically shrunk, the IV-D program has nevertheless continued to maintain the same complex structure for TANF distribution as it did earlier in the program. The systems requirements, administrative procedures, and financial accounting continue to be just as forbidding as before. However, because TANF distribution has been embedded as an integral component of the child support program for so long, it has become part of the woodwork in the program, taken for granted, and not something to be questioned.

To administer TANF distribution, IV-D agencies must develop and administer complex tracking capabilities. For current TANF cases, states must build an initial history of collection if there were prior episodes of TANF receipt and an existing child support order. For such cases, this can be a time-consuming process. A retroactive order for support established after the custodial parent leaves TANF usually results in the accrual of assigned arrears even if the custodial parent has already left assistance. Calculating distribution for current TANF cases is further complicated if the non-custodial parent has multiple cases or if the custodial parent has multiple periods of TANF receipt.

Administering TANF distribution for former assistance cases is even more complex. Arrearages must be classified into the proper category or “bucket” (e.g. permanently-assigned arrearages versus never-assigned arrearages) then paid to the state or the former recipient in accordance with the priorities established by federal and state policies. As noted above, these distribution priorities vary depending on the federal typology selected (PRWORA vs. DRA) as well as other specific policy choices made by the states.

The complexity of distribution has major impacts on administration of the child support program. The most important effects are discussed below.

Higher Administrative Costs

This process of identifying and correctly allocating amounts of assigned arrearages is complex and costly. It increases required skill levels and training costs for staff, not just financial specialists who must account for distribution of collections, but also customer-facing staff who must understand and explain payments distribution to IV-D program participants.

Earlier through Policy Studies Inc., a group of former IV-D Directors informally estimated that the ongoing administrative costs for TANF distribution amounted to 6 – 8 percent of the total

administrative costs of the program.⁷ This is not an authoritative number, but it does provide an indication of the impact of TANF distribution on program efficiency and cost-effectiveness.

In addition, the requirements for TANF distribution significantly inflate the costs of developing and maintaining child support automated systems. Because these systems have to maintain a multitude of buckets to store various categories of arrears, and because the logic required to support proper distribution of payments for current and former TANF recipients is complex, TANF distribution is a significant contributor to the high cost of new and transferred IV-D systems.

Recently Veritas HHS reviewed feasibility studies performed for the Delaware and Oregon system transfers. In the feasibility studies, the costs of the recommended transfers were estimated using a function-point methodology for each major component of the potential systems. A review of these cost analyses enabled us to develop estimates of the proportion of development costs for these two child support systems that could be attributed to TANF distribution functionality.

Based on this review, we estimate that elimination of TANF distribution would have saved five percent of the cost of developing the Oregon system and seven percent of the cost of developing the Delaware system. Given that the costs of new automated child support enforcement systems typically range from \$75 million for a small state, to \$100 million or higher for a mid-size or larger one, eliminating TANF distribution functionality would result in significant savings to this cost category.

Most of the complexity stems from the need to categorize arrearage collections and distribute them according to a state's priorities. Although TANF reimbursements are less than five percent of collections, the administrative structure for TANF distribution remains embedded in the infrastructure of the program and creates significant unnecessary costs and inefficiency.

It is important to point out that these higher administrative costs do not increase collections. Instead they are incurred just for the purposes of properly placing child support payments into the right bucket, and diverting specified payments to the government.

Customer Service

TANF distribution can also create major customer service problems. When collections are made on child support arrears on behalf of a former TANF recipient, diverting some or all of those payments to reimburse past assistance can create emotional distress for both parents. The parent to whom the support is owed, who is likely to be hard-pressed financially, may be overjoyed at hearing of a

⁷ Letter from Robert G. Williams to the Subcommittee on Human Resources, House Ways and Means Committee. Estimate based on informal survey of selected IV-D Directors.

sizable arrears collection, but then be let down hard upon learning that much of the payment will be retained by the government. The parent who owes the support may be disappointed to learn that his child(ren) will not benefit from his payment. Responding to distribution-related customer complaints and confusion requires extra training and places additional stress on staff – above and beyond the normal stress of handling the emotionally charged topic of child support in general.

Compromised Mission

Recouping arrears from former TANF recipients to repay the cost of TANF benefits received in the past compromises the mission of the IV-D program. As the program has evolved, its essential mission is to collect support from non-custodial parents to improve the well-being of children in custodial parent (or shared parenting) households. The distribution function for former TANF recipients has the opposite purpose: to divert arrearage collections from children and their custodial parents to the government. This creates internal contradictions in program administration that cloud the program mission for staff and program participants alike.

Based on results from the Wisconsin full pass-through project, it is likely that TANF recoupments and direct payment to the assistance agency have an adverse impact on compliance.⁸ Because the custodial parent never sees these payments, the non-custodial parent perceives the child support payments as being paid to the government, rather than benefiting the family, thus reducing their motivation to pay.

Reduced Self-Sufficiency

From the perspective of the former TANF custodial parent, intercepting child support arrearage payments through the TANF distribution process is a deterrent to self-sufficiency. It reduces the capacity of former recipients to remain self-sufficient when they are most vulnerable, just as they are attempting to adjust to life without benefits. It is likely that recoupment of child support from former TANF recipients increases TANF costs as some families return to the TANF rolls because the diversion of child support payments reduces their capacity to remain independent.

⁸ A Wisconsin study on the full pass-through of child support found statistically significant increases in paternity establishment and child support payment rates when all child support collected on behalf of current TANF recipients was paid directly to those recipients. The effects were particularly pronounced for mothers who had not received AFDC/TANF in the prior two years. See Maria Cancian and Daniel R. Meyer, *The Child Support Demonstration Evaluation: Research Summary*, Institute for Research on Poverty, University of Wisconsin-Madison, May 2007. Available at: <http://www.irp.wisc.edu/research/childsup/csde/csdesummary.html>.

Proposal for Modernizing TANF Distribution

TANF recoupments have sunk below five percent of total child support collections and are continuing to decline, yet there is no evidence that the administrative structure is any less costly to maintain. As a result, we believe it is time to consider modernizing distribution for TANF recipients. Our proposal has two components:

1. Distribution for current TANF recipients would be simplified
2. Distribution for former TANF recipients would be ended

Distribution for current TANF recipients would be simplified

States would have the option to pass through and disregard any amount of child support without being required to reimburse the federal government for its share. If a state has a pass-through or wishes to implement one, as provided under the DRA, that amount would not be retained and would be passed through to the family. The remainder of the collection (if any) would be retained, up to the grant amount.

To the extent the state elected not to disregard child support against current TANF benefits, any child support collected would be counted and retained by the child support agency, up to the amount of that month's TANF grant. Any amount in excess of the TANF grant would be paid directly to the family.

If the child support collection included payment of arrearages, all arrearages would be retained by the State (up to the point where the state has been fully reimbursed), without regard to when they were accrued. Collections retained while receiving TANF would include current support, arrearages accrued prior to receiving assistance, and arrearages accrued while receiving assistance.⁹ This simplification would eliminate the need to classify arrearages as assigned or unassigned.

TANF recipients would continue to execute assignments of rights to child support, but only for the amount of child support due and collected while they receive TANF benefits. TANF recipients would still be required to cooperate with the child support program as a condition of receiving TANF benefits, and would continue to be sanctioned for non-cooperation.

⁹ For eligibility purposes, a state's TANF program might choose to spread accounting for arrearage collections across several months, rather than counting it all in one month, just as it does for other lump-sum income.

Recoupment for former TANF recipients would be ended and all arrears collected would be passed through to the family

Any child support collected after a family left TANF would be paid to the family, including retroactive support. This includes IRS collections. Implementation of this proposal would eliminate the concept of state-owed arrears.

Other Considerations

Our proposal addresses the most significant adverse effects of distribution policy as it currently stands: 1) classifying and administering various arrearage categories for current TANF recipients, especially those with prior episodes of assistance, and 2) retaining arrearages collected on behalf of former TANF recipients: monitoring, tracking, and classifying the collections in a myriad of categories, then transferring some of the funds back to the state rather than passing them through to the custodial parents and their children. It would greatly simplify the child support program and clarify its mission.

Note that we are not proposing any change to child support collections for foster care cases. Unlike child support collections for TANF cases, child support collections for foster care do not reimburse the program for benefits provided to the family. Rather they reimburse the state for costs incurred in caring for the child in its role as surrogate parent.

Our proposal emphasizes simplicity for applying a current TANF recipient's child support collections to TANF reimbursement. Only child support collected while a family is on the TANF rolls would be retained, without regard to the collections status as current support, retroactive support, or arrearage type. This would minimize administrative and system costs, and make it easier to explain results of the process to IV-D custodial and non-custodial parents.

Our proposal does not take a position on whether all child support for current TANF recipients should be passed through. This is a separate issue. The Wisconsin study (referenced above) tested the impact of passing through all child support to current TANF recipients, but did not test changes to distribution for former TANF recipients.¹⁰ It showed positive effects and no significant additional costs for such a pass-through. However, the positive effects were small and mostly limited to paternity establishment. That is, there were no statistically significant differences in the rate of new orders established, nor were there statistically significant differences in the rate of payment. The pass-through was estimated to be cost-neutral in the experimental implementation, but this

¹⁰ Maria Cancian and Daniel R. Meyer, *The Child Support Demonstration Evaluation: Research Summary*, previously cited.

resulted from an unexplained reduction in child care subsidies received by recipients eligible for the pass-through, not a decrease in TANF benefits.

Colorado has implemented a full pass-through for current TANF recipients as of April 2017, with the State appropriating funds to relieve counties of resulting losses in revenue. It will be testing the impact of a full pass-through on child support payments and TANF participation.

While there is considerable interest in a full pass-through for current recipients, there are also valid arguments for continuing to retain child support collections for that group. Retaining collections essentially counts child support as TANF income, just as child support is counted as income for the Supplemental Nutrition Assistance Program (SNAP) and other means-tested programs. With TANF administered through a block grant, this could be regarded as a legitimate policy decision for a state.

Retaining child support collections for former TANF recipients is harder to justify. It involves diverting child support out of the household of the custodial parent and the children and transferring it back to the state, even as that household is striving to be self-sufficient. The rationale is that the collections are used to reimburse prior benefits, yet no other assistance program has a similar requirement. For example, there is no requirement that a family reimburse SNAP benefits that it has received, nor is there any kind of analogous requirement for Medicaid (other than the limited case of birthing expenses, which only a handful of states still attempt to recoup).

Furthermore, retaining child support collections for former TANF recipients is directly contrary to what has become the primary mission of the IV-D program, which is to collect money on behalf of custodial parents and their children. Pulling money out of the custodial parent's household causes confusion on the part of IV-D customers, and dissonance for the staff who must administer these complex distributions and explain them to confused and sometimes angry parents.

Interestingly, as stated earlier, the DRA allows states to pass through all child support to former TANF recipients without penalty, while allowing states to pass through only part of child support to current TANF recipients. Based on the Interstate Reference Guide, there is only one state, Wisconsin, that has taken advantage of the provision allowing a state to pass through child support to former TANF recipients. But a significant exception in Wisconsin is that the State retains any arrearage collections for former TANF recipients made by means of an IRS tax offset. Despite this exception, Wisconsin's policy demonstrates that there is no federal impediment to states passing through all arrearage collections for former TANF recipients at any time.

By modernizing distribution, the IV-D program would achieve major benefits in reduced administrative and system development costs, as well as improved customer service, better compliance, and increased consistency of mission. There would be benefits for the IV-A program as well, in the form of increased self-sufficiency and reduced reapplications by former TANF recipients. These are substantial benefits, which we believe greatly exceed the costs of the proposal.

Fiscal Effects

Our proposal will redistribute TANF reimbursements for former TANF recipients into the households of those recipients and their children. By doing so, it will reduce TANF recoupments by about \$744 million, at current levels of collection, though this amount continues to decline.¹¹ To put it in perspective, as discussed above this amount represents only 2.6 percent of total child support collections.

This revenue loss will affect states and the federal government. In some states, it will also affect counties. The state share of the former TANF collections is about \$331 million. The federal share of the former TANF collections is about \$413 million.¹²

The sticking point for this proposal is that some states rely on TANF recoupments to fund part of the IV-D program's administrative costs. On average, the state share of recoupments from former TANF recipients (which our proposal would eliminate), amounts to 14.5 percent of the state share of IV-D administrative costs.¹³ In other words, to the extent that the state share of former TANF recoupments is used to fund IV-D administrative expenditures, the average state would lose almost 15 percent of its funding if recoupments for former TANF cases were to go away.

While this loss of former TANF reimbursements would be real, and would have ramifications for state TANF funding as well as child support administrative costs, there would be substantial offsetting benefits. First, the loss of recoupments for TANF expenditures would translate into an equivalent amount of increased benefits for custodial parents and their children. The additional funds would be paid after they left the TANF rolls, which is the very point at which they would most need support to avoid having to re-apply for benefits. Thus, re-distributing funds to former TANF families would likely reduce the incidence of such households needing TANF benefits again. The

¹¹ We are assuming that our proposal to simplify distribution for current TANF recipients would be revenue-neutral. However, all revenue from retained arrearages for former TANF recipients would be lost.

¹² OCSE does not publish the state share of collections for former assistance recipients. However, the state share of total TANF and Foster Care Collections is 44.5 percent. Applying this percentage to collections for former TANF recipients results in an estimate of \$331.0 million in FFY2016 state share of collections for former TANF recipients. See Office of Child Support Enforcement, *Preliminary Report FY 2016*, Tables P-14 and P-15.

¹³ Based on figures from the *OCSE Preliminary Report FFY 2016*, the state share of all TANF recoupments is 44.45%. Applying this percentage to former TANF recoupments yields an estimate of \$331.0 million for the state share (\$743.8 million x 44.45%). The state share of IV-D administrative costs is \$2,283.7 million.

resulting gain in self-sufficiency would reduce the impact of eliminating distribution to former TANF cases, but there is no available research that would allow us to estimate how much of an impact there would be.

Eliminating distribution for former TANF cases would also substantially reduce administrative and systems costs for the IV-D program. As discussed above, PSI estimated that distribution activities account for 6 to 8 percent of total IV-D administrative costs. This estimate covers all distribution costs, including those for current TANF recipients. We propose simplifying distribution for current TANF recipients and eliminating distribution for former TANF recipients. These changes account for the lion's share of all distribution costs because most of the complexity in the distribution process relates to the need to classify collections based on the various categories of arrearages.

To derive an estimate of administrative savings, we conservatively estimate that these changes would eliminate at least 80 percent of total distribution costs. Using the six percent lower bound of the PSI estimate of distribution costs (6 – 8 percent of total administrative costs), we estimate that distribution costs for former TANF cases are 4.8 percent (80 percent times 6 percent) of total IV-D administrative costs. This would have amounted to total savings of \$274.9 million in 2016; the state share would have been \$109.6 million.

Thus, while states would lose \$331 million based on their share of foregone former TANF recoupments totaling \$743.8 million (based on 2016 collections), this would be partially offset by administrative savings of an estimated \$109.6 million. Stated another way, administrative savings for states would amount to an estimated 33 percent of the loss in recoupments. This would help mitigate the impact on the IV-D program for states that rely on TANF reimbursement for part of their administrative funding.

Using the same methodology, the federal share of former TANF reimbursements is \$412.8 million. This can be compared with the federal share of estimated administrative savings, which is \$165.3 million. Thus, any loss of federal reimbursements from former TANF cases would be offset by an estimated 40 percent of administrative savings that would result from modernizing distribution. Implied by this analysis is that distribution for former TANF cases has a federal benefit-cost ratio of only 2.5:1, which is further indication of the low productivity obtained from this activity.

It is important to note that administrative costs for distribution do not generate any additional child support collections. Instead, these dollars are spent only on administrative activities: classifying the collections, placing them into the correct arrearage categories, prioritizing them based on the distribution scheme (PRWORA or DRA), and paying them into the proper account. Eliminating

these costs would not reduce collections. In fact, eliminating former TANF distribution may increase collections as non-custodial parents see more money going to their children instead of the government.

The fiscal impact for states depends on the funding structure of each state's IV-D program. States with an enterprise funding model, under which most of the program has been supported by federal incentives and TANF recoupments, will suffer most. States with robust TANF programs will also be affected more than states whose TANF rolls have dwindled. For states that absorb TANF recoupments as credits to the TANF program, or back into the general fund, the impact on IV-D funding of losing recoupments for former TANF recipients may be less noticeable.

One policy decision that could mitigate the financial impact of this proposed change would be to apply the full pass-through for former TANF recipients only going forward. There are some equity arguments for not cancelling state-owed arrearages retrospectively because eliminating state-owed arrears could be regarded as unfair for similarly situated families where the non-custodial parents paid off their accumulated arrears before the policy change. By applying such a new policy going forward, the cost impact would be much lower at first, but would build gradually over time. The flip side is that benefits would be phased in, rather than being entirely realized at the point that modernization occurred.

The loss of revenue from this proposal would be offset by many program efficiencies, and would be accompanied by many benefits in terms of system efficiency, customer service, and mission clarity. However, the fiscal impact on the program would still be significant enough that any modernization of TANF distribution needs to be accompanied by careful attention to the fiscal impacts of passing through all child support collections for former TANF recipients. Any such analysis should take into account the administrative savings potentially realized for the IV-D program and the savings to the TANF program from reducing the recidivism of former recipients. In addition, identifying a fiscal mechanism for offsetting the loss of program revenue would ensure that the effectiveness of state programs would not be adversely affected by an otherwise beneficial proposal.

Automated System Effects

As discussed above, modernizing TANF distribution should have salutary effects on child support automation by lessening the complexity of statewide automated systems. However, there would be short-term costs because of the need to simplify distribution for current recipients and turn off distribution capability for former TANF recipients.

Modernizing distribution would require some re-programming of existing automated state child support systems. However, the re-programming should be minimal since states would simplify distribution for current TANF cases and essentially turn off the distribution process for former

TANF cases. They would continue to retain any collections received while the family is currently receiving TANF, then simply pass through all collections to families after they leave the TANF rolls. Because of the difficulty and time required to make any significant changes to legacy child support systems, these changes may not be trivial, but they should not be overwhelming for states. Further information on the estimated cost of such changes would be useful.

States developing new statewide child support systems would benefit from modernizing TANF distribution because the new requirements would be far simpler. Earlier we cited our estimate that new system development costs would be reduced by 5 – 7 percent if all distribution functionality were eliminated. This would be \$5 to \$7 million for a \$100 million system. Of course, building in functionality to retain collections for current TANF recipients would reduce these savings, but presumably not by much given how much less complicated the process would be.

Conclusion

In summary, TANF distribution has become an expensive and unproductive anachronism as the program has matured and its mission has evolved. Because TANF recoupments have shrunk to a small fraction of total IV-D collections, maintaining distribution's convoluted infrastructure and diverting child support collections out of the pockets of former TANF families have become increasingly difficult to justify.

Given the outsized administrative burden, increased administrative costs, and other adverse effects, we propose that the IV-D program modernize distribution in two respects: 1) dramatically simplify the treatment of child support for current TANF recipients, and 2) end the distribution of government-owned arrearages that are collected on behalf of former TANF recipients.

Modernizing TANF distribution would:

- Reduce IV-D administrative costs required to track the complex provisions governing distribution of arrearage collections for TANF cases
- Reduce the costs for development, testing, and implementation of new IV-D automated systems
- Increase former TANF recipients' self-sufficiency
- Improve compliance with child support orders
- Improve customer service
- Resolve existing contradictions in the program's mission

If our assumptions are correct, it appears that the IV-D program is spending approximately \$275 million to classify and recoup \$744 million in reimbursement for former TANF cases. With a total benefit-cost ratio of 2.7:1, this is a very inefficient process. Moreover, as reimbursements from

former TANF cases continue to decline, this ratio will only get worse. It is important to remember that this administrative expenditure does not lead to any increased collections. It is only used to track and classify arrearage collections for these families, and apportion the funds between the family and the government. This is not a productive use of funds.

More disturbing is the impact of former TANF distribution on the custodial parents and their children. The distribution process diverts funds out of these households at the very time that their financial situations are likely to be most fragile. For many, it is quite likely that losing those resources can trigger a re-application to TANF and a loss of self-sufficiency.

For the IV-D program, TANF distribution is an unsatisfying process. It is difficult for staff to gain competency, it is hard to explain to parents, and it is directly contrary to what has become the primary mission of the program: to transfer more money into the households of custodial parents and their children.

As Wisconsin has demonstrated, states already have the flexibility under the DRA to pass through all arrearages to former TANF recipients. It would be desirable for more states to make this change and to evaluate the impact on program costs, TANF re-use by former TANF recipients, and other issues.

We are presenting this as a discussion paper because we recognize that eliminating TANF recoupments would take away revenue equivalent to almost 15 percent of the state share of IV-D administrative costs. To maintain the program's effectiveness, means would have to be identified at the federal or state levels to offset this loss in revenue. Indeed, it would be useful to obtain more information on this proposal's fiscal impact on IV-D agencies, including the costs of modifying legacy automated systems.

Whether states choose to continue retaining child support collections for current TANF recipients is a different issue and discussed only tangentially in this paper. Under our proposal, states could continue retaining child support collections while a custodial parent is receiving current TANF assistance. But by simplifying distribution for current recipients and ending distribution for former recipients, we would eliminate an anachronistic and inefficient process that serves as a drag on program efficiency, an irritant to customer service, and a cloud on the IV-D mission. This would be an important step in modernizing the IV-D program nationally.