ECONorthwest
ECONOMICS • FINANCE • PLANNING

PHONE • 503-222-6060
FAX • 503-222-1504
INFO@PORTLAND.ECONW.COM

KOIN CENTER • SUITE 1600
222 SW COLUMBIA STREET
PORTLAND, OREGON 97201

OTHER OFFICES
EUGENE • 541-687-0051
SEATTLE • 206-262-8013

**May 11, 2010**

**TO:** **Michael Horn and Sarah Kollin, EMAPS/Washington Economic Services Administration**
**FROM:** **Andrew Dyke**
**SUBJECT:** **ARREARS STRATIFICATION OUTCOME STUDY**

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## INTRODUCTION

ECONorthwest's final deliverable for our evaluation of Washington's Arrears Stratification study was originally to report on how the arrears stratification research affected policy in the Division of Child Support (DCS). Given the 18-month grant timeline, this original scope of work optimistically assumed that study results would translate into policy change in a very short period of time. Had this happened, the project's reports combined with ECONorthwest's evaluation report would have provided other states with both caseload research to inform their own endeavors to prioritize child support debt and, if policy change was successful in Washington, an established path to a practical application of their prioritization. If unsuccessful, this project would at least have provided evidence about how *not* to approach arrears stratification.

Broadly, we see two main uses for the arrears stratification findings. First, the analysis of case characteristics and subsequent changes in arrears can inform policymakers and agency partners (e.g., prosecutors, judges, legislators) about the need for policy change to address, for example, inappropriate default order establishment. The research findings can also help to support specific policy, such as statutory changes that acknowledge the likelihood of arrears growth when an NCP's total current support exceeds 20 percent of the NCP's earnings. Second, as noted in the research report, providing access to updated NCP stratification and risk-score data can allow field staff to identify problems earlier and to target debt collection and mitigation strategies more efficiently.

The first use of the research builds support for DCS initiatives among various stakeholder groups, while the second provides practical tools to increase the productivity of DCS field staff. Statements by DCS staff indicate that DCS believes data-driven arrears stratification methods such as those developed for this project can assist the agency to reduce or eliminate the accumulation of arrears, better manage existing arrears, and improve Washington's federal performance measures related to current support and arrears. The standardized system suggested by a consistently reported stratification and risk score information would replace the current system where caseworkers rely on ad hoc reports and case-by-case reviews to manage arrears across their caseload.

As DCS management was presented study results in late March, however, DCS is only now developing an agenda for acting on the findings of the stratification study. Thus, we are left with little to describe in terms of policy change. Instead, this memo (1) describes progress to date and our assessment of how the research has developed and (2) our summary of the lessons other states have learned in developing arrears-related policy. We recommend that Washington DCS draw on the referenced literature as the division moves forward with initiatives to better manage and mitigate child support debt. ECONorthwest also agreed to assist EMAPS with the final revisions to the project research report, although time constraints did not allow trying to implement any of the significant changes to methodology suggested below.

## STATUS OF WASHINGTON'S ARREARS STRATIFICATION RESEARCH

The research for this project validates and extends earlier, related research conducted by Washington. The prior studies identified many of the key data elements and quantitative thresholds around which the current study was built. Most of the analytic work was completed in Fall 2009. At that time, ECONorthwest completed a review of the research methodology and findings. While we believe that the research was competent and demonstrated important quantitative relationships between NCP characteristics and child support debt, our review also noted a number of methodological weaknesses that should be addressed in developing a robust toolkit for caseworkers in the field.

Addressing the methodological and presentation issues we identified would not necessarily change the overall conclusions drawn from the research. But we believe that doing so would greatly improve the ease of translating research into practice and the likelihood of successful implementation. Below, we summarize key issues identified in our peer review but that have not been incorporated into the analysis:

- **Develop a clear and concise real-world example of how a caseworker would use risk score and stratification information.** It is critical that stakeholders understand why the effort to change policy is worthwhile. A concrete example of exactly how field staff would use the new information to improve debt management across the DCS caseload is central to this understanding. At present, the examples are vague and far removed from a clear expression of how risk score translates into action. We recommend

    1. Picking an interesting group of NCPs from the 2007 "testing" cohort (e.g., high-risk NCPs in strata 1 with poor payment history).

    2. Characterizing these NCPs (e.g., show number of NCPs by risk score with average MOA to wage ratio, total debt as of December 2007, etc.).

    3. Identifying a debt mitigation strategy (e.g., setting current support to 20% of wages).

    4. Roughly estimating the impact on subsequent arrears growth (e.g., current support in excess of 20% of wages would not have accumulated, some reasonable percentage of the remaining payments might have been paid that wouldn't otherwise have been paid).

Clearly, the example will require an assumption about the effectiveness of the identified strategy and other caveats, but it helps to make the connection between research and practical application, and it gives the audience a feel for the potential benefit of the proposed policy change. The research reports do not necessarily require this example, but presentations of research findings to non-technical audiences do.

- **Developing a real-world test of the risk score and stratification flow.** The research was not designed to test the implementation of debt management strategies. But it is intended to inform a risk prediction tool. The 2007 data and stratification flow would allow a reasonable test. One approach is to develop a regression model that, for 2007 NCPs, predicts post-2007 arrearage growth on the basis of historical information known as of December 2007. Data on actual debt growth for these NCPs could then be compared to predictions. The extent to which actual data and predicted data match provides a validation of the risk score as a predictive tool. The neural network models developed by Washington for earlier work provide a related approach.

  It is not clear from the current research report whether the risk score and stratification would *necessarily* be useful. For example, we are not told enough information about false positives—how often high-risk NCPs do not build arrears. The risk score becomes less useful the higher this false positive rate is. Results of this testing could also feed into the real-world examples developed to convey the importance of the research and its application.

- **Integrate the key outcome measures.** The analysis of payment patterns seems disconnected from the rest of the analysis, and it is not clear what actions poor payment patterns recommend. As described, the beneficial/detrimental time-ratio information appears to be useful for identifying collectible debt (as in Section 8.2). But it also seems possible that poor payment patterns identify otherwise low-risk NCPs who are building uncollectible debt. The pattern might indicate changes in an NCP's status that make payment less likely. In other words, poor payment patterns might be a predictive risk factor. Making use of the payment pattern information requires more analysis that seeks to separate cause from effect.

- **Reconsider the stratification flow.** The summary data presented in the report appear to support a claim that the strata differ in important ways. And intuitively, stratification based on order amount makes sense because cases for NCPs with zero current support due are clearly different in kind from those with positive order amounts, and the enforcement goals are different for each group. Similarly, out of state NCPs and those with no payment obligation obviously require different treatment. Conceptually, however, it isn't clear why DSHS service use should define additional strata and not, for example, incarceration history. If there is a strong case for considering services users separately from non-service users, it should be stated clearly in the report. Service use already appears in the risk score. What does the additional stratification accomplish?

- **Refine the risk score.** The main purpose for the risk score is to help DCS staff better target resources at cases for which debt collection is more likely. As a practical tool, the simplest scoring method that conveys all useful information should be preferred. At least within strata, it is also reasonable to expect that NCPs with similar risk scores have a reasonable likelihood of exhibiting similar outcomes. If we take the stratification flow to

be appropriate, it is not clear that the chosen scoring method meets these goals. Indeed, the charts often suggest the opposite:

- **NCP Cases:** A simple indicator for multiple cases (e.g., 0 = single case, 1 = multiple cases) might be adequate. Each additional case corresponds to lower average payment percentage, but the number of NCPs with many cases is small. The potentially large number of points for multiple cases complicates comparisons with other groups of NCPs, while the value of the extra detail in practice is not well established. In more technical terms, one could ask whether a model that uses the more detailed scoring fits the data significantly better than a simpler model.

- **Number of CSDB report groups:** Allowing a risk score point for each service group an NCP uses complicates the scoring without necessarily adding useful information. For example, in most charts, individuals with more than six or seven service groups appear very similar in terms of payment and debt. We again recommend either limiting the contribution of this factor to a small number of points (e.g., 1 = one service, 2 = multiple services) or include indicators for the most important services (e.g., separate indicators for food stamps, TANF, Medicaid, or all other groups). Further analysis would be required to determine the best approach.

- **High order to wages, low wages, and high debt load indicators:** Although these risk factors account for relatively few points, it seems likely that they contain a great deal of information about the likelihood of future debt growth. The more rigorous statistical modeling suggested above would help to support the maximum number of points assigned to each risk factor and the most appropriate cut points for each subscale (e.g., the most informative level at which an NCP earns a point for having a high order-to-wages ratio).

As suggested by these comments, the scaling of the risk score is not intuitive given the available information. For example, should an NCP with services in five CSDB groups be considered more, less, or equally risky than one with one service, high order to wage ratio, low wages, and a DOC record? The risk score puts these NCPs in the same category. Ideally, one point in each category should correspond roughly to the same increase in "risk." Much of the discussion in the report uses the risk score to classify individuals only as high or low risk, suggesting that a much simpler scoring method would suffice in practice.

In summary, Washington's research report presents convincing, if at times confusing, evidence about the correlations among various NCP characteristics and arrears. Developing tools for caseworkers based on this research requires more work. Strengthening the methodology is likely to lead to a more useful tool, while developing more concrete examples of real-world applications would help to convince policymakers and stakeholders of the case for action. The final step in deriving maximum value from the research is tying the risk score and stratification data to specific debt management strategies that Support Enforcement Officers (SEOs) can employ in the field. While a summary of research findings to date will help build support among partner agencies for DCS policy initiatives, we believe continued work to strengthen the findings as well as their presentation is also important.

## NATIONAL CONTEXT

With the research foundation established, Washington DCS is currently developing policy responses to the increasing child support debt load. But the recent policy discussion has not yet progressed to detailed recommendation for change. Rather than discuss the changes in policy, or lack thereof, pursuant to dissemination of Washington's arrears stratification research, we present a brief review of related research from across the US that provides context as Washington continues its work in this area. We do not evaluate the feasibility of specific policy options, although many of the examples listed could provide Washington with a model on which to build its own approach to arrears management.

A common goal of state-level child support agencies is to reduce the current amount of arrears owed. States are also increasingly, and explicitly, targeting minimization of future arrears accumulation. The amount of debt involved is not trivial. From 1975 to 2006, for example, roughly $105 billion in arrears had accumulated across the nation (OCSE 2008). And the debt is not evenly distributed across the country—about 40 percent of these arrears were held by nine states: Arizona, Florida, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas (Sorensen 2007).

Policy Studies Inc. (2004) identifies several ways in which arrears management, at the state level, is important: [1]

- Arrears collection is used as a federal performance measure
- Current support collection is used as a federal performance measure
- It may solve problems arising from past miscommunication
- It may solve problems arising from policy rather than the willingness of debtors to pay
- It may lead to more efficient use of agency resources
- It may enhance the public image of the agency
- It may accurately identify a set of debtors able and willing to pay their arrears

In this section, we summarize findings from the child support literature to outline the characteristics of current and likely future debtors and highlights groups worth targeting for increased collections. We also describe several policy strategies suggested or implemented elsewhere that seek to deal with child support debt. These policy strategies come from a variety of sources. Some of the strategies have been implemented in several states, others have undergone pilot-level implementation, and others remain untested.

But there is a consistent theme that aligns with a fundamental recommendation from OCSE: "the best ways to avoid the accumulation of arrears are to set appropriate orders initially, modify orders via simple procedures promptly when family circumstances change, and immediately intervene when current support is not paid" (OCSE 2004).

[1] DCS would benefit from a similarly concise statement of the importance of the arrears stratification research.

# CHARACTERIZING CHILD SUPPORT DEBTORS

## CURRENT DEBTORS

In 2004, the Office of Child Support Enforcement (OCSE) reported that 63 percent of debtors had reported earning little or no income. This group of debtors held 70 percent of the arrears in 2004. About a third of all debtors had no reported earnings;[2]

these debtors held over 42 percent of the arrears in 2004 (OCSE 2004). Another 29 percent of debtors reported earnings under $10,000 and held about 28 percent of the arrears in 2004 (OCSE 2004). In addition, NCPs with multiple current orders, interstate orders, and orders over 10 years old were likely to owe large sums of arrears (Sorensen 2007). Further investigation suggests that debtors reporting no earnings had access to funds not readily identified by commonly used methods to identify earnings. Some of these debtors had bank accounts with positive balances, others were receiving federal benefits that could be used toward making child support payments, and some had begun employment since the original order was determined. Others, however, were deceased or incarcerated, thus providing evidence for their current inability to make payments (OCSE 2004).

A 2007 study looking at 9 states determined that 11 percent of NCPs held 54 percent of the total arrears in those states. Furthermore, each of these debtors owed more than $30,000 (Sorensen 2007). About 15 percent of NCPs did not owe arrears in these states, and 57 percent of NCPs owed less than $5,000 each in arrears (Sorensen 2007). In summary, a large percentage of NCPs owe arrears (85 percent in the 9-state study area), however a large percentage of the arrears owed (54 percent in the 9-state study area) are held by a relatively small group of NCPs (11 percent in the 9-state study area).

## LIKELY FUTURE DEBTORS

From the above description of current debtors, it appears as though current debtors and future NCPs reporting no earnings will likely hold a large portion of the arrears owed. A 2006 study projects that future arrears will decrease among debtors who have income sources such as stocks, bonds, dividends, interest, and tax refunds but will likely increase among debtors receiving non-employee compensation, wage income, and unemployment insurance (Lewin Group 2006).

To date, states have not widely experimented with predictive modeling, although Washington's earlier work and Virginia's follow-up work are two exceptions. However, a number of policy strategies described below have been associated with decreases in both the number of debtors and the total arrears owed suggesting that obligors not affected by these policy strategies are more likely to become debtors and that arrears would increase if not for these policy strategies.

# POLICY STRATEGIES

Our brief review identified several policy strategies aimed at reducing the number of debtors as well as the total arrears owed. Some of these strategies have been implemented in some states,

[2] Not all earnings are reported to the state (i.e. earnings from illegal activities, unreported cash earnings, unreported wage earnings, etc.), hence some of those reporting no earnings likely had some form of undocumented income (OCSE 2004).

others have been implemented in pilot projects, and others have yet to be implemented. Assessments regarding the effectiveness of each of these strategies are by and large unavailable. But with time, we expect research into the effectiveness of each strategy to be completed. Washington is well positioned to be part of these efforts.

## INITIAL ORDER DETERMINATION STRATEGIES[3]

States differ in their techniques for determining the value of the initial order. In some cases, the order is relative to the amount deemed necessary for the child, in other states the amount is relative to the amount the NCP can afford to pay. In many states, if the NCP falls short of the state's initial income-verification requirements, the state will determine the order based on an array of protocols. Research suggests that many state protocols for determining orders result in orders that are beyond the financial means of the NCP.

The literature includes a number of specific policy strategies to improve the determination of orders, including:

- Increase the data sources available to case workers for use in determining current income (i.e. state/federal personal income tax returns, credit bureau reports, new hire database, and other existing databases) and review and amend statutes to ensure the legality of using these data sources (Policy Studies, Inc. 2006).
- Expand investigation into non-employee compensation (Lewin Group 2006).
- Use minimum wage to determine the value of the order if the NCP has reported no income (Sorensen 2003).
- Create a decision matrix to assist caseworkers in using all of the available data to determine the order (Policy Studies, Inc. 2006).

Increasing the speed of order establishment may also prove beneficial. Prior to 2006, most new orders in Texas were determine through a judicial process. An initiative aimed at increasing administrative involvement in order determination and decreasing the amount of time between the opening of a case and the establishment of an order was shown to decrease arrears accumulation by about 10 percent (Sorensen 2006).

## COMMUNICATION STRATEGIES

Research suggests that increasing the frequency of communication between caseworkers and NCPs along with increasing the speed with which the communication is initiated reduces the arrears owed. Increased communication can also reduce the number of defaults thus producing more realistic orders. This improved process could effectively reduce the need to rely on NCP-initiated order modification requests in the future—requests that NCPs do not necessarily make, even if they would clearly benefit. A 2009 study in Colorado found that mail-based communication with NCPs with high arrears did not effectively increase collections. However,

[3] As of 2001, Washington used imputed income as part of the administrative process or when the NCP did not respond. Washington used the U.S. DOL Net Income chart for gender and age groups in determining imputed income. Research has suggested that Washington does a better job of estimating income than other states (CPR 2001).

for new orders into the system, telephone communication with NCPs was shown to improve the likelihood of payment (CPR 2009).

Other strategies to improve communication that are discussed in the literature include:

- Improve the location information for service of process (Sorensen 2003).
- Expand outreach to employers and increase new hire compliance (Policy Studies, Inc. 2006).
- Enhance automation and interface features in child support system (Policy Studies, Inc. 2006).

## INTEREST RATE STRATEGIES

Research has indicated interest on arrears has heavily influenced the historically increasing value of arrears owed. Depending on the objectives of the state, the reduction or removal of interest owed on arrears could help reduce the value of arrears owed. If interest is added to arrears, states should ensure that the interest rate is reasonable and that it is applied correctly (Sorensen 2003).

## ORDER MODIFICATION STRATEGIES[4]

A large number of debtors make little or no income, leading to accumulation of arrears the NCP is unlikely to ever pay off without a dramatic change in circumstances. Improving processes for order modification have been suggested as a way to increase the share of orders that NCPs can realistically pay off. A natural focus is on events that significantly change an NCP's situation and ability to pay the original order in full. Examples include spells of unemployment, disability, and incarceration.

Below is a list of potential policy strategies regarding the modification of orders:

- Implement an arrear forgiveness strategy that eliminates or reduces arrears owed by the NCP relative to his or her ability to repay
- Consider time spent incarcerated and remove arrears accrued during that period (Lewin Group 2006).
- Consider lowering the threshold required for order modification (OCSE 2006b).
- Implement a simplified modification request procedure and in-person negotiations to facilitate order modification (CPR 2009).
- In the modification process, consider significantly reducing government-owed arrears (CDCSS 2008).[5]
- Provide both lump sum and payment schedule options for debtor repayment (CDCSS 2008).

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[4] As of 2001, a parent or agency in Washington could request the Conference Board hearing which could lead to a write off of some arrears, the arrangement of a lump sum payment, or a resolution of some past disputes (CPR 2001).

[5] California has set up a seemingly successful program, the Compromise of Arrears Program (COAP). About $90 million in arrears have been settled in the first four years of the program with about $12 million being collected in the process. Several conditions must be filled to be eligible for participation in the COAP (i.e., debtor must owe more than $5,000, the debtor must be unable to pay off all arrears within the next three years, etc.) (CDCSS 2008).

Several states have implemented amnesty strategies in which some NCPs are incentivized to pay some amount of their arrears. Different states use different incentives and have different requirements. Some incentives include debt forgiveness and waived incarceration in exchange for steady future payment.

The effectiveness of these strategies is mixed. PSI (2004) identified several factors to consider when implementing an amnesty strategy:

- Extensive preparation by the agency
- Extensive publicity and media coverage
- An alternate plan for NCPs that have barriers to meeting the requirements set out in the deal
- Agency capacity to handle an increased work load for the duration of the program

A 2009 report suggests that debt modification may not always be effective, however. The requirements for modification eligibility and the process of requesting modification are often difficult to meet and comprehend. An effort in Colorado to simplify the process only slightly increased the number of participating NCPs. Most of NCPs found that the process was still too complicated and did not result in much benefit (CPR 2009).

Some states have implemented programs in which NCPs receive debt forgiveness in exchange for their participation in employment support/retention programs. These programs are beneficial in that both the NCP and the agency have something to gain in the short-term and the long-term (Ovwigho 2005).

## RETROACTIVE SUPPORT STRATEGIES[6]

Some states require new NCPs to make payments on past years in which the order was not yet in place. Limiting the period covered by retroactive support or eliminating it altogether likely will decrease future arrears (OCSE 2006a). A 2000 study done in Colorado tested a semantic approach to collecting on arrears from retroactive support orders. In its study, the state sent letters to some NCPs that described the retroactive support orders as “debt”, to the rest of the NCPs, the letters described the retroactive support orders as “retroactive support”. However, the study found no statistical difference in the amount of retroactive support paid by the NCPs in the different groups (PSI, 2003).

## CASE STRATIFICATION

Other strategic approaches that attempt to stratify arrears cases to a very limited degree include:

- Continue to pursue debtors with no reported income and those with low levels of income (Lewin Group 2006).
- Target debtors with government income as their original order may deserve modification as it was likely based on pre-job loss wages (Lewin Group 2006).

[6] As of 2001, Washington’s policy was for payments to go back five years from the date of filing in paternity cases only. This sum is treated as an arrear in negotiations (CPR 2001).

- Expand efforts to collect arrears from out of state debtors.

Other states (Minnesota and Oregon are two examples) have experimented with case assessment and classification strategies that characterize NCPs according to their willingness and ability to pay. DCS should consider a survey of these methods to better understand what works in the field and what doesn't.

## POLICY AND STRATEGY IN THE STATE OF WASHINGTON

Our review did not identify any states that have implemented a systematic methodology for identifying current debtors or likely future debtors in a manner similar to that proposed by the Washington research. Several states, including Washington, have specific criteria that must be met for debtors to be eligible for consideration for arrear restructuring or order modification programs. These programs, however, tend to focus on negotiating a solution rather than prescribing a solution based on debtor characteristics.

One study paid particular attention to Washington, and changes that could be made in their approach to arrears management. In determining the value of NCP orders, Washington (and many other states) has created a schedule for caseworkers to consult. A 2005 study compared Washington's child support schedule to the schedules of other states and found it to be inadequate in several areas (Policy Studies, Inc. 2005). Table 1, below, is a summary of provisions within Washington's schedule that differ from other states along with the impact these departures from the norm may have on providing equal and adequate support. Furthermore, about 40 percent of the orders in Washington at the time of the study were equal to the value identified by the schedule; the remaining 60 percent of orders were either deviations from the schedule or miscalculations (Policy Studies, Inc. 2005).

## Table 1 Comparison of Schedule Provision Treatment between Washington and Other States (Policy Studies, Inc. 2005)

| Schedule Provision | Treatment in Washington | Treatment in Other States | Impact of Washington's Provision on Providing Adequate Support to Children | Impact of Washington's Provision on Providing Predictable Order Amounts & Treating Similarly Situated Cases Equally |
|---|---|---|---|---|
| Adjustments for Children from Other Relationships | Schedule permits a deviation but does not specify a formula<br>"Whole Family Approach" is frequently used. | 40 states subtract court-ordered support from the party's income<br>35 states provide a formula for additional children not subject to a court order | The "Whole Family Approach" reduces award amounts by much more than methods commonly used in other states.[7]<br>The average reduction in the award amount for additional dependents is $122 per month. | Decision makers do not all use the same methodology<br>The "Whole Family Approach" works when the noncustodial parent has additional children, but not when the custodial parent has additional children. |
| Treatment of Residential Schedule (Shared Physical Custody) | Schedule permits a deviation when the child spends a significant amount of time with the parent making support transfer payments but does not specify a formula | 34 states specify a formula<br>Most of these states also specify a timesharing threshold for applying the adjustment | The average reduction is $315 per month. PSI was unable to assess the adequacy of this reduction. | 13% percent of the Schedule deviations are due to the residential schedule<br>Decision makers vary in when an adjustment is made and the amount of the adjustment |
| Adjustment for Low-Income Noncustodial Parents | Allows a parent to retain a "basic subsistence level," which is set at the needs standard ($1,036 in 2004).<br>Minimum order is $25 per month per child | Most states set basic subsistence level at or near the poverty level effective in the year when their schedule was last revised. The 2004 poverty level is $776 per month. Most states set their self support reserve in the $600-$700 range. | 26% of Department of Child Support (DCS) orders are set at $25 per month, which is about 2 percent of a noncustodial parent's after-tax income from full-time, minimum wage employment.[16] | There is some inconsistency among decision-makers as to whether they use the needs standard with or without shelter costs. |
| Imputation of income to the custodial parent in public assistance cases. | Not addressed | Most states allow the imputation of income when a parent is voluntarily unemployed or underemployed; however, most do not count any means-tested income as income in the determination of support. | When the NCP's income is minimum wage and the custodial parent receives public assistance, the imputation of income to the custodial parent makes little difference in the award amount, but it could if the self support reserve amount changed. | Decision makers vary in whether they impute income to the custodial parent in public assistance cases. |
| Income from overtime or second jobs. | The definition of income includes overtime income. | About half of the states include income from overtime/ second jobs or provide a deviation for it. | Too few cases to analyze or assess impact. | There were few deviations due to income from overtime or second jobs. |
| Tax assumptions used to convert | Schedule is based on net income. | 29 states base their guidelines on gross income | Insufficient data to analyze impact. | Most decision makers start with the parties' gross incomes and convert to net |

[7] The "Whole Family Approach," essentially takes the per child amount from the Economic Table for all of the party's children (i.e., number of children for whom support is being determined and the number of additional dependents) and then multiplies that per child amount by the number of children for whom support is being determined. This effectively reduces support by about one third when there is one child for whom support is being determined and one additional dependent. The percentage reduction is less when there are more children.

| Schedule Provision | Treatment in Washington | Treatment in Other States | Impact of Washington's Provision on Providing Adequate Support to Children | Impact of Washington's Provision on Providing Predictable Order Amounts & Treating Similarly Situated Cases Equally |
|---|---|---|---|---|
| gross to net income. | | 22 states base their guidelines on net income, yet a few of these states standardize the tax assumptions to be used to convert gross to net income. | | income using gross-to-net calculators. Some decision makers routinely assume the tax filing status of both parties is single with no dependents. Still, other decision makers make a variety of assumptions about a party's tax filing status. |
| Schedule is no longer presumptive above combined net incomes of $5,000 per month. | Schedule is advisory from $5,000-$7,000 and stops at $7,000. | Most state schedules stop at combined incomes of $10,000-$20,000 month.<br>Many states guidelines specify that the highest income in a schedule is the minimum amount to be ordered in cases where the income exceeds the amount in the schedule. | Some decision makers cap support at the basic obligation for $7,000 per month even if income exceeds $7,000 per month. | The schedule is not complied with in 23-29 percent of orders with combined net incomes above $5,000 per month. |
| Cap on support award amounts. | The child support obligation cannot exceed 45 percent of a parent's net income, except for good cause. | Only a few states provide a cap (Pennsylvania for cases with additional children only, Indiana and New Mexico). | Support may be inadequate in cases with several children or high child care or extraordinary uninsured medical expenses. | The limit is applied in about 1% of orders. |

## DCS POLICY DIRECTIONS

DCS believes that data-driven arrears stratification methods can assist the agency to (1) reduce or eliminate the accumulation of arrears, (2) manage existing arrears, and (3) improve Washington's federal performance measures related to current support and arrears. We understand the policy discussions related to the arrears stratification risk score to be preliminary at this point, although the issues the research can address are not necessarily new. Instead, the research quantifies the importance of addressing arrears and builds the case for change.

Although the evidence is anecdotal and based on a limited number of conversations, we understand that DCS field staff frequently create ad hoc caseload reports to investigate arrears accumulation and develop debt management strategies for individual NCPs. These conversations further suggest that staff would welcome an evidence-based tool that would provide standardized, timely information that would reduce the need for ad hoc reporting. In addition, DCS recognizes many of issues identified above in Washington's current child support schedule, order establishment processes, and other aspects of the state's child support system.

In many cases, however, the cooperation of external partners would be required to implement new policies that effectively target arrears. DCS has identified the Washington Association of Prosecuting Attorneys (WAPA) and county courts as key participants in their efforts to improve how the state deals with child support arrears. Project research can be used to support the case for change, but this also requires a clear presentation of how, based on the research, the proposed policies are likely to benefit DCS and its partners. Identifying specific barriers to policy change will require investigating the implications of specific proposals. As summarized by EMAPS,[2] DCS is exploring four broad policy directions:

- **Set appropriate orders to prevent debt growth.** Example changes in policy suggested by EMAPS include updating the current Washington Child Support Schedule, reducing default orders, and maximizing the use of all available income data to set more appropriate order amounts. The research clearly demonstrates the importance of setting an order that an NCP might reasonably be able to pay. Refining the research as described earlier in this document would add confidence that the chosen thresholds (e.g., the focus on earnings of $1,400 or less) are appropriate.

- **Modify orders promptly based on changes of family circumstance.** Changes in factors such as employment status, use of DSHS services, incarceration, and multiple child support orders are related to changes in payment patterns and, thus, to changes in arrears. The research does not directly address the effect of a *change* on subsequent payments. But, at a minimum, a regularly updated risk score would allow SEOs to easily identify significant changes in status and possibly preempt debt growth with an appropriate intervention. To be useful, however, changes in risk score must provide a meaningful summary of likely changes in payment behavior (see our comments, above, about scaling the risk score). Identifying change is less valuable if an SEO must then do additional work to separate meaningful change from "noise" in the scoring mechanism.

[2] EMAPS Arrears Stratification meeting handout (4/21/10)

- **Develop different case management strategies based upon NCP characteristics.** Changes in any component of the risk score can indicate a variety of debt management strategies. As suggested in the research report, low-risk NCPs with poor payment history make better targets for enhanced debt collection efforts than do high-risk NCPs. Case closure, debt write-offs, and order modification are more appropriate for the latter group.

- **Cooperate with other partners to help NCPs overcome their barriers.** A renewed interest in prevention of arrears, as opposed to mitigation, would suggest encouraging greater cooperation between DCS and prosecutors, other government agencies, and community partners to, for example, more intensively work with young NCPs before they accumulate multiple orders and current support obligations that exceed their ability to pay. Other possibilities include increasing co-location of DCS employees and staff from partner agencies. When properly presented, the arrears stratification research becomes an informational tool to strengthen these partnerships.

The timeline for implementing policy change differs for each topic. Outreach can occur relatively quickly, while piloting and implementing tools for field staff takes more time, as might necessary statutory change. DCS has been working on some aspects of these policy options. For example, DCS reports having a workgroup investigating modifications to the child support schedule. Communications and outreach based on the arrears stratification research is at an earlier stage. Educational outreach, particularly for judges and other courtroom actors is seen as vital to success.

These policy directions are largely consistent with the available, albeit limited, evidence accumulating from other states about best practices in arrears management. We encourage Washington to consider the experiences of other states as it pursues policy change to improve arrears management.

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