CFFPP

Financial Literacy

and Low-Income Noncustodial Parents

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Executive Summary

The financial literacy and asset development field have grown significantly over the past decades, with a broad array of programming and services targeted to address the needs of various communities and populations. However, as currently structured, many financial literacy and asset development programs are unable to serve individuals who carry child support debt, particularly when this debt is owed to the government rather than to the custodial parent (as it is in families who have received public assistance benefits). This report addresses the specific concerns of these individuals in regard to financial literacy and asset development services.

The report addresses the following issues:

- Models of financial literacy services
- Financial literacy and asset development programs aimed at poverty reduction among low-income families (especially EITC and IDA programs) and their relevance to low-income noncustodial parents with child support debt
- Poverty reduction programs aimed at low-income noncustodial parents (primarily noncustodial fathers)
- Child support enforcement policy and its impact on low-income noncustodial parents
- Child support debt among low-income noncustodial parents and reasons for its accrual
- The need for financial literacy / asset development programs to specifically address child support debt when targeting this population

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Financial Literacy and Low-Income Noncustodial Parents

BY MARGUERITE ROULET

Introduction

The past decade has seen a growing interest in the development of financial literacy programs throughout the U.S. The aim of these programs is to help individuals and families increase their understanding of and ability to manage financial matters, with the ultimate goal of developing long-term financial stability and security. To this end, financial literacy programs offer a broad array of services that range from the provision of financial education and information, to assistance with preparation of tax and other financial forms, to the delivery of specific financial services to clients. Over time, the field has diversified, and current financial literacy curricula and trainings are frequently tailored to address the particular concerns and interests of specific target groups (e.g., high school students, new homeowners, etc.).

As the financial literacy field has developed, it has been embraced as a critical piece in the effort to reduce poverty and help low-income individuals and families transition from receiving public assistance to gaining employment and achieving a stable threshold of self-sufficiency. Increasingly, programs that work with low-income individuals emphasize not only immediate financial and employment needs, but also the building of individual and familial assets that promise economic stability over the long term. Some philanthropic organizations, such as the Ford Foundation, have made asset building a cornerstone of their current funding to address poverty reduction (see the Ford Foundation 2007). Similarly, a wide variety of government agencies have included financial literacy as a part of their program services (e.g., the U.S. Department of Housing and Urban Development, Temporary Assistance for Needy Families [TANF] agencies, the Office of Community Services/Administration for Children and Families [OCS/ACF] through its Assets for Independence Program, etc.). As OCS states:

> Asset building is an anti-poverty strategy that helps low-income people move toward

> greater self-sufficiency by accumulating savings and purchasing long-term assets. The theory behind this approach is that helping people purchase an asset, as opposed to simply increasing their income, provides stability that may allow them to escape the cycle of poverty permanently (Office of Community Services 2009).

While financial literacy and asset development programs have been credited with success in helping low-income families augment their incomes and begin to develop savings, as currently structured they can offer very little assistance to a large sector of low-income workers in the U.S., namely low-income noncustodial parents who are struggling with child support obligations.[1] These (mostly) fathers, many of whom are African American and Latino men who face substantial barriers to stable long-term employment, confront a number of challenges as a result of their status that preclude their successful inclusion in poverty-reduction programs structured around financial literacy and asset development.[2] Programs that aim to serve this population of low-income men must incorporate an understanding of and a means to address these specific barriers if they are to provide successful services. In the absence of such an approach, the provision of financial education or services (e.g., education about budget management or public benefits programs, information about predatory lending practices, etc.) will necessarily be incomplete and ultimately unsuccessful in helping these individuals improve their financial situations.

Financial Literacy Services

Financial literacy and asset building services and programs have proliferated in the U.S. over the past decade. Provided through the banking industry, federal and state government agencies, community organizations, employers, and consumer interest groups, these programs address a recognized need for financial education services in general and, more specifically, for skills related to the management of personal finances. As Bell and Lerman write:

> Does the United States have a "financially illiterate" population? Some say yes based on the low rate of personal saving. Nearly 40 percent of American households live off 110 percent of their income (Jump$tart Coalition 2004). Many low-income individuals lack a bank account and obtain cash using high-cost check-cashing firms. It is not uncommon for people to lose wealth by borrowing at high rates of interest while their savings yield much lower interest rates. Unwise debt and large numbers of personal bankruptcies are additional evidence of poor financial literacy. Surveys suggest that many Americans have a weak grasp of basic personal finance principles . . . General

attitudes towards spending and saving behavior are troubling as well. Results from [a] survey revealed that only a quarter of Americans feel very well informed about managing household finances (Jump$tart Coalition 2004) (Bell and Lerman 2005: 1-2).

Financial literacy programs generally offer information about a broad array of issues and topics and serve a wide range of clients. One typical program, the Financial Education Center in Madison, Wisconsin, has as its objective the effort to "increase the financial literacy skills of residents in Madison and Dane County thereby empowering them to achieve financial security," and notes that, "although the primary focus is to reach low- and moderate-income individuals and families, the center is open to anyone interested in enhancing their money management skills" (Financial Education Center 2009). To this end, they offer classes in the following areas:

- Financial goal setting
- Managing student loans
- Creating wills and other important documents
- Making a spending plan
- Developing a bill paying system and organizing important records
- Tips on being a wise consumer and consumer rights
- Understanding and using credit wisely
- Reducing debt
- How to choose a financial institution
- Bank products and services
- Saving and investing basics
- Preventing identity theft

(Financial Education Center 2008)

The Office of the Comptroller of the Currency (OCC) within the U.S. Treasury Department categorizes financial literacy programs according to the following general topics:

- Basic financial services and asset building programs
- Credit management and repair
- Homeownership counseling
- Recognizing and avoiding abusive lending practices
- Small business and microenterprise technical assistance
- Financial literacy for limited English proficiency populations

(Office of the Comptroller of the Currency 2009a)

The OCC further lists the following as "Basic financial services and asset building" programs:

- General resources
- Volunteer Income Tax Assistance program (VITA)
- School programs
- Adult basic financial services
- Individual Development Accounts (IDAs)
- Retirement and financial security

(Office of the Comptroller of the Currency 2009a)

While many of these programs are directed at the general public, in recent years financial literacy programs have increasingly been tied to addressing poverty and incorporating low-income individuals, families, and communities into the mainstream economy.

Financial Literacy and Asset Development Programs Aimed at Poverty Reduction

According to the OCC, the primary benefit of financial literacy programs is that they "[help] residents of lower-income neighborhoods build wealth and participate in the American financial system" (Office of the Comptroller of the Currency 2009b). In its 2007 report, the Ford Foundation provides the reasoning for investment in such programs, noting the dramatic differences in wealth accumulation among Americans and the implications this has for individuals and families:

> A significant weakness in the [official U.S. poverty rate figure] is that it overlooks the critical question of wealth. This deficiency masks the true scope of economic hardship in the United States and the imbalance of economic opportunity that divides the nation. Fewer than 13 percent of American households live below the official poverty line, yet more than a quarter live paycheck to paycheck with negligible or nonexistent net worth. This scarcity of wealth and ownership among low-income families is especially pronounced among minorities, and it is growing. Between 1983 and 2001, the net worth of the least affluent 40 percent of American households fell by almost half (Ford Foundation 2007: 10-11).

Two of the most frequently recognized income-supplement and asset-building programs aimed specifically at poverty reduction among low-income families are the

EITC (Earned Income Tax Credit) and IDAs (Individual Development Accounts). Both programs serve broad segments of the population; as currently structured, however, they are largely inaccessible to low-income noncustodial parents.

Earned Income Tax Credit (EITC)/Earned Income Credit (EIC)

The EITC (or EIC) is widely recognized for its capacity to reach large numbers of low-income workers and for providing critical income supplements. As explained by the IRS:

> The Earned Income Tax Credit or the EITC is a refundable federal income tax credit for low to moderate income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. To qualify, taxpayers must meet certain requirements and file a tax return, even if they did not earn enough money to be obligated to file a tax return. The EITC has no effect on certain welfare benefits (Internal Revenue Service 2009).

EITC income supplements have been credited with lifting income above the poverty threshold for a significant number of families. As Robert Greenstein notes:

> Census data show that in 2003, the EITC lifted 4.4 million people out of poverty, including 2.4 million children. Without the EITC, the poverty rate among children would have been nearly one-fourth higher. Census data show that the EITC lifts more children out of poverty than any other single program or category of programs (Greenstein 2005: 4).

Numerous financial literacy programs provide outreach and information about the EITC and tax preparation services to potentially qualified workers (see, for example, the Center on Budget and Policy Priorities [CBPP] 2009).

While both men and women, custodial and noncustodial parents can be eligible for the EITC, it is currently directed primarily at households with children. In these households, the children must be under 19 years old (full-time students can be under 24; children who are permanently and totally disabled can be any age) and must live in the household for more than half the year. For the tax year 2007, CBPP calculates the following figures for custodial households:

- If you have one child and earned income less than $35,241, you can claim an EIC up to $2,853.

• If you have two or more children and earned less than $39,783, you can claim an EIC up to $4,716 (CBPP 2008a).

By contrast, individuals between the ages of 25 and 64 who live in households without minor children (e.g., noncustodial parents) qualify for a much-reduced tax credit. CBPP identifies the 2007 eligibility criteria for this tax credit as follows:

> Very low-income workers who are not raising children in their home are eligible for a small Earned Income Credit. The credit is available to people who worked full- or part-time in 2007 and:
>
> • were at least age 25 and under age 65 on December 31, 2007;
> • had earnings of less than $12,590 (or $14,590 for married workers);
> • did not have a "qualifying child" for the EIC in 2007 [i.e., see above for households with children]; and
> • were not the dependent or qualifying child for the EIC of another taxpayer in 2007.
>
> The credit for workers not raising children is worth up to $428 for tax year 2007—the average is expected to be about $240 (CBPP 2008b).

Noncustodial parents cannot qualify for the larger EITC if their children live with them for half the year or less. Thus, while the EITC is an important income supplement for many low-income custodial parents and children, and therefore central to financial literacy programs directed at low-income families, it does not target low-income noncustodial parents. Parents who do not reside with their minor children for more than half the year cannot receive income supplements beyond the limited credit noted above.[3]

Individual Development Accounts (IDAs)

Individual Development Accounts (IDAs) are matched savings accounts directed at the accumulation of funds for specific goals—typically homeownership, small business enterprises, or post-secondary education. As with the EITC, IDAs have been promoted as an asset-building tool designed to reduce poverty. In 1998, the federal government created the Assets for Independence (AFI) Program, which relies on the use of IDAs as a central means to combat poverty and develop assets among low-income families. The Office of Community Services (within the Administration for Children and Families, Department of Health and Human Services) administers the program and describes it in the following way:

> AFI Projects assist client families in a number of ways. First and foremost, they help participants save earned income in special matched savings accounts called Individual Development Accounts (IDAs). Every dollar in savings deposited into an IDA by a participant is matched from $1 to $8 by the AFI Project. The IDA mechanism promotes savings and enables participants to acquire a lasting asset after saving for a few years. Clients use their IDA savings, including the match funds, to acquire any of the following assets:
>
> • A first home
> • Capitalization of a small business
> • Post-secondary education or training
>
> To help clients with their IDA savings, all AFI Projects provide training and supportive services related to family finances and financial management. Services include:
>
> • Financial education on issues such as owning and managing a bank account or a credit card
> • Credit counseling and credit repair
> • Guidance in accessing refundable tax credits including the Federal and State Earned Income Tax Credit (EITC), child tax credit, and others
> • Specialized training about owning a home, starting a business, or attending post-secondary school (Office of Community Services 2009).

The AFI Program is specifically oriented at combating poverty (OCS represents it as an "asset-based approach to addressing poverty" [ibid.]) and is targeted at low-income clients:

> Generally, AFI Projects serve individuals and families with limited income and assets. Eligible clients include:
>
> • Those who are eligible for Temporary Assistance for Needy Families (TANF)
> • Those who are eligible for the Federal Earned Income Tax Credit (EITC)
> • Those whose income is less than two times the Federal poverty line
>
> Clients may have no more than $10,000 in net asset wealth when they enroll in an AFI Project (not including one automobile and a home) (ibid.).

While IDAs are available to both men and women, national evaluation studies of the federal Assets for Independence Program from August 1999 through September 2003 indicate that they are used primarily by women. The evaluation notes the

following characteristics of participants over that period:

- Approximately 80 percent of IDA holders were women.
- Slightly less than one-third of participants had incomes below 100 percent of the poverty line; the same percentage had incomes between 100 percent and 150 percent of the poverty line; and 40 percent of participants had incomes between 151 percent and 200 percent of the poverty line.
- Thirteen percent had not completed high school; approximately 30 percent had a high school diploma; over one-third had some college experience; and 23 percent had an Associate's or Bachelor's Degree or higher.
- Almost two-thirds of participants had used a checking account before they enrolled in the program, and almost half had a savings account at some time before enrolling in the program.
- Approximately half were African American, one-third were Caucasian, and 14 percent were Latino.
- Over half were single, less than one quarter were married, and less than one quarter were divorced, separated, or widowed.
- Approximately two-thirds of participants were between the ages of 26 and 45, approximately one-fifth were 25 or younger, and about 15 percent were 45 or older.
- Seventy percent of participants lived in urban areas, including inner cities; 11 percent lived in suburban areas; and 20 percent lived in rural areas.

(Office of Community Services 2004: 19-27)

Consistent with the structure of the federal AFI Program, most participants directed their savings at the goals of homeownership, small business capitalization, and post-secondary education and training. Of a total of 5,237 withdrawals made by the end of the fourth year of the assessment, 1,195 (22.82 percent) were for small business capitalization or start-up, 1,182 (22.57 percent) were for first-time home purchases, and 1,082 (20.66 percent) were for post-secondary education and training (ibid.: 35-36). One of the state-run programs included in the evaluation study permitted a broader range of assets toward which participants could save (such as an automobile or home repairs), but this program also focused primarily on AFI-sanctioned assets.

Like the EITC, IDAs have been highlighted as effective programs to help low-income individuals and families increase their income and savings, create assets, and establish a more secure financial base. However, when one examines program requirements and client characteristics, the programs do not accommodate low-income noncustodial parents who are struggling with child support obligations. To begin with,

the program objectives (homeownership, post-secondary education, and business start-up or capitalization) are out of the immediate reach of many low-income noncustodial parents. Similarly, many low-income noncustodial parents do not exhibit the economic stability that appears to be characteristic of many program clients. The evaluation of AFI participants showed that 40 percent had incomes between 151 and 200 percent of the poverty line; approximately 30 percent had a high school diploma, over one-third had some college experience, and 23 percent had an Associate's or Bachelor's Degree or higher; almost two-thirds of participants had a checking account at some point before they enrolled in the program; and almost half had a savings account at some time before enrolling in the program. The prevalence of program participants who have this degree of economic stability suggests that the program is not designed to address the more precarious situations of many low-income noncustodial parents.

Moreover, it is not clear that an asset development program in which individuals hold matched savings accounts is viable for people who carry child support debt that they owe to the custodial parent or the government, which is frequently the case for low-income noncustodial parents (see below). CFFPP interviews with several AFI and IDA program staff throughout the country, along with responses to a question posed on a national IDA program list-serv suggest that this issue is not easily resolved. Many programs are unaware of the potential conflict between child support debt and asset development and have not addressed the issue thus far. This may be a function of the fact that, like the nationally-evaluated AFI program, the vast majority of their clients have been women who are custodial parents. Other programs have been forced to eliminate IDA programs targeted at noncustodial parents because they could not find a means to overcome the barrier of child support debt. Several programs located in one state have developed local approaches to address this issue, with varying results.[4]

Thus, while both the EITC and IDA programs have been created at the national level as a primary means to help low-income workers and families achieve greater financial security and stability, neither program is currently structured to effectively engage low-income noncustodial parents. In part, this is due to the fact that these programs are targeted primarily at custodial parents, in that they require custodial status as a qualifying condition and/or operate in agencies and contexts associated with custodial parents (e.g., TANF agencies). In addition, the programs best suit people who have at least some economic stability (e.g., permanent housing, consistent income) or a certain level of education or formal financial experience (e.g., a high school degree or higher, some familiarity with managing financial accounts). These benchmarks remain out of reach for many noncustodial parents. At issue, however, is not simply

the provision of better outreach to low-income noncustodial parents. As the following section discusses, these parents are in a complicated position that makes it difficult for traditional models of economic support services to meet their needs.

Noncustodial Fathers and Poverty Reduction

Over the past 15 years, increasing attention has been given to the need for low-income noncustodial fathers to contribute financially to their children and their children's mothers in order to increase household incomes and reduce poverty. Financial support from noncustodial fathers was central to welfare reform when the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA) was passed, placing a new emphasis on identifying fathers of children receiving public assistance, establishing their legal paternity, and, perhaps most critically, establishing and enforcing the payment of child support orders. The focus on fathers has continued since PRWORA, with the most recent welfare reauthorization legislation, the Deficit Reduction Act of 2005, incorporating fathers both directly (through fatherhood-related programming) and indirectly (through marriage promotion programs).

However, even as federal and state legislators and policymakers have made fatherhood a focus of social welfare policy, the economic situations of many low-income fathers have deteriorated (Holzer and Offner 2006, Mincy et al. 2006, Primus 2006). Recent research has shown that less educated men (i.e., those with a high school degree or less who are not enrolled in post-secondary education or training), and especially less-educated African American men, are in a vulnerable economic position. As the authors note in a recent Urban Institute publication devoted to examining the situations of African American men:

> More than a quarter (27.7 percent) of less-educated non-enrolled young men [ages 16 to 24] reported no earnings in 2001... Nearly half (46.2 percent) of less-educated non-enrolled young black men reported no earnings in 2001 (Mincy et al. 2006: 4).

In contrast to White and Latino men, as well as to White, Latino, and African American women, the employment situation of African American men has deteriorated over the past several decades—even during periods of overall economic growth (Holzer and Offner 2006). There is a growing consensus among scholars who have explored these declining trends among young African American men that two critical contributing factors are (1) the high rate of incarceration of African American men and (2) the impact of the child support enforcement system on men who are noncustodial fathers.

There has been a sharp increase in the rate of incarceration of low-income African American men in recent decades. This trend has widened the disparity in incarceration rates between African American men and other men in the U.S. and reduces the employment prospects of African American men in general, regardless of their personal involvement with the criminal justice system (see Mincy, ed. 2006). The second factor—child support enforcement—is possibly less well understood and is less well known; however, it has critical implications for the economic situations and prospects of low-income African American men. A significant proportion of low-income African American men are noncustodial fathers, and these men face barriers that are not typically recognized or understood by most social service providers. According to figures from Nightingale and Sorensen, in 1998 nearly one-quarter of less-educated young African American men were nonresident fathers (Nightingale and Sorensen 2006: 193), and according to Haskins, approximately 50 percent of less-educated African American men are fathers by age 34 (Haskins 2006: 249). For these men who are noncustodial and/or nonresident fathers, the barrier of child support enforcement can prohibit them from developing personal and familial economic stability and security.

Child Support Enforcement and Low-Income Noncustodial Parents

The child support enforcement system has undergone numerous changes over the past two decades. Under PRWORA, improving child support enforcement became a priority, based on the presumption that the poverty of custodial mothers and children was in large part attributable to the lack of financial support from noncustodial parents. The argument was that if these men supported their children, fewer custodial families would live in poverty and fewer families would therefore require public assistance. Accordingly, efforts were made to streamline the child support system, to increase the number of families and individuals involved with the system, and to increase the penalties for noncompliance. Guidelines were developed and/or revised to set consistent statewide child support orders, custodial parents receiving public assistance were required to cooperate with the child support system, increasing numbers of paternities were established among families in which the parents weren't married, automatic wage withholding was instituted for child support orders, a New Hire Directory was established and used to track the employment of noncustodial parents, and laws were passed to prohibit courts from forgiving unpaid child support debts and

to make this debt immune from bankruptcy declaration.

The purpose of these reforms was to increase the number of cases in which the noncustodial parent was identified, to make it more difficult for noncustodial parents to conceal their employment, to make payment of child support automatic and consistent, and to eliminate the possibility that child support debts be forgiven by a court (unless expressly requested by the custodial parent/interested party). The rationale was that child support paid by the noncustodial parent directly benefits his/her child and can be an important source of income that helps custodial families escape or avoid poverty. Recent studies do, in fact, show that for low-income custodial households receiving child support, the income from child support can represent as much as 30 percent of their annual household income (Sorensen 2003: 2).

However, if a custodial parent and child receive (or have received) public assistance, the child support transaction is no longer between the custodial family and the noncustodial parent, but between the custodial family, the state, and the noncustodial parent. This shift radically changes the system's implications both for the household of the custodial family and for the noncustodial parent. Under current law, when custodial parents apply for certain types of public benefits, they are required to assign their rights to child support to the state. The assignment means that child support ordered by the court to be paid by the noncustodial parent is owed to the state rather than to the custodial family (in an amount up to the total amount of cash benefits plus interest paid to the custodial family). In turn, the state has the option to pass on some or all of what it has collected to the custodial family, or to retain the child support paid as reimbursement for payments made to the family by the state. As of June 1, 2007, twenty-six states retain all child support paid by noncustodial parents as reimbursement for public assistance their children have received (at the time of this writing, two of these states have legislation to pass some portion through to the custodial family starting in October 2008). In practice, this means that the custodial family never receives and therefore derives no financial benefit from child support that the noncustodial parent has paid. The remaining 24 states and the District of Columbia follow a variety of policies (e.g., passing through up to $50 or $100, or keeping the child support as reimbursement but increasing the TANF benefit by a specified amount) (Justice 2007).

In addition to giving states the right to retain child support payments, the assignment also gives states the power to enforce child support orders and removes this power from custodial parents. (Any custodial parent can voluntarily request the state to assume enforcement actions by paying a fee to the child support enforcement agency

[IV-D agency], but custodial parents who receive certain kinds of public assistance are required to do so and to cooperate with the child support enforcement agency in this process or risk losing benefits.) Over the past 15 years, the enforcement measures employed by states have become increasingly stringent, including such actions as: increased use of default child support orders (see below), automatic wage withholding, interception of tax refunds, liens on personal assets, suspension of professional and driver's licenses, reliance on civil contempt prosecution and incarceration in response to nonpayment, and increasingly, criminalization of nonpayment under new state and federal laws, leading to heightened incarceration rates of noncustodial parents charged with criminal misdemeanor and felony offenses. These last enforcement measures are not reserved for egregious cases of nonpayment, but have become a routine means of addressing nonpayment (May 2004). While these measures have been effective in increasing compliance with child support orders among noncustodial parents who are able to pay (Sorensen 2003), they have had unintended consequences for low-income noncustodial parents, including an increase in debt, incarceration, and consequent economic insecurity.

Child Support Debt Among Low-Income Noncustodial Parents

Many noncustodial parents carry child support debt. For example, in 1999, 82 percent of fathers in Maryland and 84 percent of fathers in Oregon who owed child support had accumulated child support arrears. The arrears are not insubstantial, averaging between $6,301 (Oregon) and $6,834 (Maryland) per parent. While these figures are high, child support debt is even higher for noncustodial parents whose children receive public assistance. The percentage of cases with arrears, the average amount owed to the state and to custodial parents, and the percentage of cases with arrears over $10,000 are all higher among these typically poorer parents (Primus 2006).

This pattern is similar on a national level. The Urban Institute recently conducted a review of child support arrears in nine large states (Arizona, Florida, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, Texas) and the nation as a whole on behalf of the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. According to the study:

> In the nine study states, the obligors who owed over $30,000 in arrears, whom we refer to as high debtors, were quite different from other obligors. A major difference was the amount of reported income that high debtors had compared to other obligors. Nearly

> three quarters of the high debtors had no reported income or reported incomes of $10,000 a year or less… Just as high debtors tended to have no or low reported income, arrears tended to be concentrated among obligors with these characteristics. In the nine study states, 70 percent of the arrears were owed by obligors who had either no reported income or reported income of $10,000 a year or less (Sorensen et al. 2007: 1, 3).

Other studies also support the finding that the incomes of low-income noncustodial parents are very low:

> In 1998, about 50% of low-income noncustodial parents had reported earnings that were below the poverty level of $8,050 for one person. Median income was $7,884. An assessment of child support arrearages in California revealed that in that state, 25% of parents with child support arrears had no recent income whatsoever (DHHS, OIG and Sorensen et al. cited in May 2004: 8).

Moreover, much of the child support debt that is owed by low-income noncustodial parents is not owed to the custodial family, but instead to the government as reimbursement for public assistance provided to the custodial family. In California, as of March 2000:

> Of the $14.4 billion in arrearages, some 70 percent was owed to state and federal governments, while 30 percent was owed to custodial mothers. Most of the debt was over two years old. While 80 percent of the fathers had some or recent earnings, many had very low incomes or no income at all (Roberts in Primus 2006: 216).

The reasons for the high accumulation of debt among low-income noncustodial parents are well documented. In addition to unstable or no employment and low income, several child support policies and practices also contribute to the accumulation of debt among low-income noncustodial parents.

Lack of Income and Unstable Employment

The foremost reason low-income noncustodial parents accumulate child support debt is that they are unable to pay the amount that has been ordered. As Sorensen et al. found:

> The main characteristic that differentiates obligors who paid their entire current support order from those who paid none or some of their current support order is the amount of reported income they had. Obligors who paid their current support order in full had median annual reported income of $30,579, while obligors who paid some of their current support order in the past year had median annual reported income of $16,800, and obligors who paid none of their current support order in the past year had

median annual reported income of $66. Nearly half of the obligors (48 percent) who paid none of their current support in the past year had no reported income; another 36 percent reported income of $10,000 a year or less (Sorensen et al. 2007: 63).

Default orders

When noncustodial parents do not appear in court for their child support hearings (for whatever reason), judges and court commissioners may set a child support order by default. Frequently this order is set at a higher level than accords with the actual income of the noncustodial parent. Studies have suggested that such default orders are quite common and are a leading cause of high child support debt among noncustodial parents. For example, as state child support representatives noted in a 2003 discussion to address arrears, "in California [in 2000] about 70% of all orders are established by default—usually with high amounts in the erroneous belief that this would encourage noncustodial parents to appear and appeal. In L.A. County, the default rate is over 80%" (Office of Child Support Enforcement 2003: 9).

Imputed income

Even when noncustodial parents do appear in court, it is not guaranteed that a child support order will reflect their income. For example, if they are unemployed or have only partial employment, judges and court commissioners may base their child support order on an imputed income (e.g., one that reflects full-time minimum wage employment or higher). Income imputation and default orders generally result in child support orders that are proportionately higher for low-income noncustodial parents than for higher-income parents (see Levingston and Turetsky 2007).

Difficulty modifying orders

Child support orders are subject to regular reviews. In addition, if noncustodial parents experience a change in circumstances (e.g., loss of employment), they have the right to seek a modification of their child support order to reflect their new circumstances. In practice, studies have shown that such modifications are infrequently granted (Sorensen and Turner 1997, Levingston and Turetsky 2007).

No modification during incarceration

Courts often do not consider incarceration to be appropriate grounds for granting a

modification of a child support order, even if the noncustodial parent has no source of income during the period of incarceration. Some state laws preclude the consideration of incarceration as grounds for modification on the argument that incarceration can be viewed as a form of "voluntary unemployment" (Levingston and Turetsky 2007: 191). Studies have shown that incarceration leads to significant accumulation of arrears for individuals (see May 2004).

Interest

As noncustodial parents accumulate arrears, many states assess interest on the arrears. According to a recent study, 18 states routinely charge interest on arrears, 18 additional states and Guam intermittently charge interest on arrears, and 14 states, Puerto Rico, the Virgin Islands, and the District of Columbia do not charge interest on arrears. This study found that "the primary factor that has caused arrears to grow so dramatically has been the assessment of interest on a routine basis" (Sorensen et al. 2007: 8).

The Sorensen study additionally found that the factors mentioned above produce child support orders for noncustodial parents identified as "high debtors" (who are frequently low-income noncustodial parents) that are high relative to those of other parents:

> High debtors were expected to pay considerably more of their reported income in current support than other obligors. The median percent of reported income that high debtors were expected to pay in current support was 55 percent. Among non-debtors, the median percent of reported income that was supposed to go to current support was 13 percent... Among current support obligors with reported incomes of $10,000 a year or less, their median order represented 83 percent of their reported income (Sorensen et al. 2007: 15, 9).

All of these factors and costs lead to the quick accumulation of child support arrears among low-income noncustodial parents. In addition, the forms of enforcement employed by child support agencies (such as civil arrest on contempt charges) further interfere with employment and make earning capacity more precarious and unstable. (For example, there is substantial ethnographic evidence of noncustodial parents being arrested on civil contempt or criminal nonpayment charges for child support and losing their jobs as a result, even if the stay in jail is short term.) Frequently, the level of debt among low-income noncustodial parents quickly rises to insurmountable levels, reaching tens of thousands of dollars or more. This debt burden further reduces the parent's financial security and feeds into increased personal instability. Furthermore,

low-income noncustodial parents can often only find temporary employment or work that is unstable, making payment toward this debt extremely difficult, regardless of their intent to support their children.

Low-Income Noncustodial Parents, Child Support Debt, and Financial Literacy/Asset Development Services

Child support debt makes it virtually impossible for low-income noncustodial parents—and particularly low-income fathers of color—to benefit from financial literacy and asset development services as they are currently structured: they have little or no earnings; their wages are garnished at high levels; their tax returns are often intercepted by state and federal governments to pay child support arrears; they have limited if any ability to develop savings (as liens are placed on assets); and they have very little employment stability over time.

To effectively serve this population, financial literacy and asset development programs must specifically address child support debt—whether through incorporating this understanding into existing financial literacy programs or developing programs aimed specifically at low-income noncustodial parents with child support debt (see May 2008 for a discussion of such programs[5]). Child support debt differs from other forms of debt (i.e., it cannot be eliminated through bankruptcy, it cannot be forgiven by the custodial parent if s/he has assigned her/his rights to the state, nonpayment can subject the individual to incarceration on civil contempt charges as well as criminal misdemeanor and felony offense charges, etc.). Child support debt must, therefore, be addressed differently and become integrated with other aspects of financial management and education. The ultimate benefit of structuring services to meet the specific needs of low-income parents with child support debt would be felt not only by noncustodial parents themselves, but also by their children and families.

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Footnotes

1. Within policy discussions, the range of individuals referred to as "low-income" can be quite broad. CFFPP's policy focus is narrower and concentrates on noncustodial parents in financial positions equivalent to custodial parents who qualify for TANF and other public assistance programs. These parents typically have very low earnings and have unstable and intermittent, if any, employment. While this scope may seem narrow, it includes large numbers of people, many of whom are African American and Latino men who are frequently the subject of economic and family policy in the U.S. In addition, these groups make up the bulk of parents who are struggling with child support – as evidenced by the findings of a 2007 study of child support arrears commissioned by the Department of Health and Human Services, which calculated that in the states reviewed, "70 percent of [child support] arrears were owed by obligors who had either no reported income or reported income of $10,000 a year or less" (Sorensen et al. 2007: 3).

2. Both mothers and fathers are noncustodial parents, and many of the issues they face are similar regardless of gender. Our focus in this report, however, is on the concerns of noncustodial parents who are fathers. We focus on fathers because many of the public policies and programs that are directed at parents carry the presumption that custodial parents are mothers and noncustodial parents are fathers, and this presumption has influenced the ways in which the policies and programs have been conceptualized, developed, and carried out in practice. This in turn has direct implications for the individuals and families who are subject to the policies or participate in the programs.

3. New York State has expanded its EIC program to include larger credits for some noncustodial parents. In tax year 2006, a qualifying noncustodial parent could be eligible to receive up to $1,030 from the state government. To qualify, noncustodial parents must meet the eligibility requirements for the federal earned income credit, as well as the following eligibility criteria:

Must have a child support order in place payable through a New York State collection unit (i.e., cannot be an informal payment agreement with custodial parent)

Child support order must be in effect for at least half of the tax year

Must have paid 100% of all child support due for the tax year

(Earn Benefits Online: Buffalo 2008)

This program, as well as other pilot programs throughout the state carried out under the New York State Fatherhood Initiative's "Strengthening Families Through Stronger Fathers" project, are currently being evaluated. For information on these programs, visit the New York State Fatherhood Initiative website (http://dads.ny.gov/main/fatherhood/) or contact the director, Mr. Kenneth Braswell.

4. These programs are all located in Pennsylvania, which has greater flexibility in organizing its IDA programs than most other states. Based on CFFPP's conversations nationally, the IDA network within Pennsylvania also appeared to be the most aware of the potential barrier posed by child support debt and to have taken some initial steps to acknowledge it (e.g., including questions about child support debt on IDA applications and holding preliminary discussions with the child support/domestic relations offices).

For more information about their program, contact the Family Savings Account Program, Pennsylvania Department of Community and Economic Development. They can also be accessed through the program website www.newPA.com (search: Family Savings Account Program).

5. One concern regarding such programs is that they frequently require noncustodial parents to maintain regular payment of child support over time in order to qualify or to receive program benefits. Given that one of the primary difficulties for low-income noncustodial parents is the instability of employment (Waller and Plotnick 1999: 45), this requirement can represent a significant obstacle to successful participation in such programs.

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