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## **Child Support Enforcement Program Incentive Payments: Background and Policy Issues**

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### **Summary:**

The Child Support Enforcement (CSE) program was enacted in 1975 as a federal-state-local partnership to help strengthen families by securing financial support from noncustodial parents. The CSE program serves both welfare and nonwelfare families. All 50 states and the four jurisdictions of the District of Columbia, Guam, Puerto Rico and the Virgin Islands operate CSE programs. In FY2006, the CSE program collected \$23.9 billion in child support payments and served 15.8 million child support cases. In FY2006, CSE program expenditures amounted to \$5.6 billion. The CSE program is funded with both state and federal dollars. The federal government bears the majority of CSE program expenditures and provides incentive payments to the states for success in meeting CSE program goals. P.L. 105-200, the Child Support Performance and Incentive Act of 1998, replaced the old incentive payment system to states with a revised system that provides incentive payments based on a percentage of the state's CSE collections and incorporates five performance measures related to establishment of paternity and child support orders, collections of current and past-due support payments, and costeffectiveness. P.L. 105-200 set specific annual caps on total federal incentive payments and required states to reinvest incentive payments back into the CSE program. The exact amount of a state's incentive payment depends on its level of performance (or the rate of improvement over the previous year) when compared with other states. In addition, states are required to meet data quality standards. If states do not meet specified performance measures and data quality standards, they face federal financial penalties. P.L. 109-171 (the Deficit Reduction Act of 2005) prohibited federal matching (effective October 1, 2007) of state expenditure of federal CSE incentive payments. This means that CSE incentive payments that are received by states can no longer be used to draw down federal funds. The repeal of federal reimbursement for incentive payments reinvested in the CSE program has garnered much concern over its fiscal impact on the states and has renewed interest in the incentive payment system per se. This report describes the current CSE incentive payment system, explains how state incentive payments are derived, presents some of the state trends, and discusses the following list of issues: (1) does the CSE incentive payment system reward good performance? (2) should incentive payments be based on additional performance indicators? (3) should TANF funds be reduced because of poor CSE performance? (4) why aren't the incentives and penalties consistent for the paternity establishment performance measure? (5) should incentive payments be based on individual state performance rather than aggregate state performance? and (6) will the elimination of the federal match of incentive payments adversely affect CSE programs? The data analysis in this report covers the five-year period FY2002-FY2006. This report will not be updated.

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