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MAY POLICY BRIEFING

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Gap in Income Between Rich and Poor is Widest on Record

A recent report from the Center on Budget Policy and Priorities (CBPP) examined data from the U.S. Congressional Budget Office (CBO) that reveal a record income gap between the rich, the middle class, and the poor in the United States. According to CBPP:

- In 2006, the top 1 percent of households had a larger share of the nation's after-tax income, and the middle and bottom fifth of households had smaller shares, than in any year since 1979, the first year the CBO recorded data on income gaps.
- Between 1979 and 2006, real after-tax incomes rose by 256 percent (\$863,000) for the top 1 percent of households, compared to 21 percent (\$9,200) for households in the middle fifth and 11 percent (\$1,600) for households in the bottom fifth.
- The CBO data, when examined with data from prior research, reveal that in 2006, there was greater income concentration at the top of the income distribution than at any time since 1929.
- In 1979, when the data begin, the average after-tax incomes of the top 1 percent of households were 7.9 times higher than those of the middle fifth of households. Top incomes climbed at a higher rate than other income groups over the next decades; in 2006, the top 1 percent of households had 23 times the income of the middle fifth. When compared to the poorest fifth of households, the gap grew at an even faster rate, from 22.6 times more income for the top 1 percent in 1979 to 72.7 times more in 2006, more than tripling the rich-poor gap over 27-year period.

The report notes that tax reductions enacted under the Bush administration have served to increase the concentration of after-tax income at the top of the spectrum, because high-income households received the largest tax cuts in both dollar terms and as a percentage of income.

The report, *Income Gaps Hit Record Levels In 2006*, is available at www.cbpp.org

Committee Addresses Issue of Inappropriate Default Child Support Orders

A report from the lengthily titled National Judicial-Child Support Task Force on Avoiding Inappropriate Orders Subcommittee of the Department of Health and Human Services Administration for Children and Families was issued recently. The report summarizes a study completed by the subcommittee that included a survey of 14 states on presumptive default orders (child support orders that are set in the absence of the noncustodial parent and presume the parent's income, often full-time at minimum wage). The subcommittee's goal was to determine the causes of default child support orders and to encourage states to try new approaches to establishing appropriate orders. Lower rates of default orders would improve collections and avoid escalating child support arrears.

The Subcommittee identified the following challenges to establishing an appropriate order:

- Lack of accurate and complete information (relying unduly on presumptive income or support amounts);
- Lack of effective notice to noncustodial parents, which results in parents not being aware of legally binding proceedings;
- Lack of functional notice to the noncustodial parent (plain English and translations) that prevents an understanding of the steps that must be taken to respond and of the consequences for not responding; and
- Lack of encouragement/support and communication with both parents, which results in nonparticipation, especially by the noncustodial parent.

A related challenge identified by the subcommittee is that most state automated child support enforcement systems are not able to track default orders, so there is currently no statistical basis to determine which problems with collecting child support are related to the order's establishment by default.

Another challenge that was identified is the ongoing need for better communicating child support process information. Both child support agencies and judicial entities reported that their clients found the child support process to be complex and hard to understand. The complexity is compounded by clients with limited education, or who possess diverse language backgrounds, and/or have particular difficulty responding for reasons such as incarceration.

Among the 14 surveyed states, half were able to estimate the percent of current support collected from default orders and compare this to the percent of current support collected from the entire caseload. Of these states, only Washington and Texas collected from default cases at a rate that was more than half of the rate for all cases. Three states (AZ, GA and NE) had collection rates for default cases that were half or less than the rate for all cases. In Ohio, the rate was about two-thirds for

default vs. the entire caseload, and in Wisconsin, default order collection rates were just 14 percent compared to the rate of collections for the entire caseload.

The report also identifies opportunities for states to influence the setting of default orders, procedurally, legislatively, and through court rules. It is available at <http://www.acf.hhs.gov/programs/cse/pol/DCL/2009/dcl-09-15a.pdf>

Food Stamp Use Up, Stimulus Funds to Aid Families and State Economies

According to a recent analysis by Stateline.org, in the twelve months ending February 2009, the recession pushed 4.8 million individuals to enroll in the Food Stamp program (now called the Supplemental Nutrition Assistance Program or SNAP), an increase of 17.4 percent. In seven states, participation jumped by more than 25 percent over the period. By February 2009, there were more than 32.5 million food stamp recipients nationally.

As states contend with growing numbers of unemployed families, they have been pushing to find and enroll eligible families for food stamp benefits because the U.S. Department of Agriculture pays all of the benefits and approximately half of the administrative costs of the program. For families who receive food stamps and unemployment benefits, states can often avoid paying for public assistance programs such as welfare and Medicaid that require more funding from the state.

Individuals earning less than \$13,000 per year can receive \$200 in food stamps per month. A family of four, making less than \$27,000, can receive up to \$668 per month, according to the U.S. Department of Agriculture (USDA).

The implementation of the federal stimulus plan is providing a 13.6 percent increase in benefits. For individuals, the stimulus plan adds \$24 a month to their debit cards; families of four get an additional \$80, families of eight get \$144, and larger families get \$18 for each additional member. Unlike most other recovery act programs, the additional food stamp benefit will not expire, and states can extend the duration of benefits for certain unemployed workers without children who otherwise would be eligible only for short-term assistance.

The boost in food stamp funding is expected to have a significant positive impact on the overall economy, because, according to Moody's chief economist Mark Zandi, "People who receive these benefits are hard-pressed and will spend any financial aid they receive very quickly." Every \$1 spent on the food stamp program adds \$1.73 to local economies because food sales create related jobs and further consumer spending.

The report, *Food Stamp Stimulus Hits State Economies*, is available at www.stateline.org/live/details/story?contentId=401013

Child Support in the News

- The **Texas** Attorney General's office is being sued by a former Assistant Attorney General who, along with several lawyers in the AG's office, claims that she was coerced into signing an affidavit against her will that accused Judge David Hanschen of judicial misconduct, and then was fired from her job for refusing to cooperate. Judge Hanschen has been critical of the child support collection tactics of the AG's office for what he claims are unfair and deceptive practices used to award and collect child support.

In February 2007, Judge Hanschen complained that the AG's office had a practice of having men "sign in" to the child support office, and inserting a paragraph on the sign-in sheet that effectively forfeited the right to challenge the court's decision. He later declared that the office's process for notifying presumed fathers of their court dates violated due process. Hanschen also feels that a 4-year statute of limitations on allowing for DNA testing to determine paternity is unfair to men who may be misled into signing a paternity acknowledgment by the state or by the mother without understanding the consequences.

- In a recurring story that reflects the state of the economy, **Ohio** county child support agencies are reporting a spike in requests for child support order modifications due to loss of employment, and a greater share of child support collections coming from unemployment checks. Montgomery County reports a 60 percent increase in modification requests over the first three months of 2009 compared to the same period in 2008, with similar increases in several other counties.

In Greene County, Ohio, the child support agency collected \$139,000 in child support payments from unemployment checks in the first three months of 2009, compared to \$48,000 in the first three months of 2008, a jump of 190 percent. Up to half of an unemployment check can be deducted for child support.

The state is also facing a deadline to implement a federal law that went into effect last year, requiring some form of medical support for the child, even when health insurance is not available to either parent.

In **Georgia**, the number of parents who owed child support and were receiving unemployment benefits jumped from 4,000 last year to 16,000 as of March 2009.

In **Illinois**, the rising unemployment rate has led to a slowdown in child support collections by the Illinois Division of Child Support Enforcement, and an increase in support paid out of unemployment benefits.

- Lifetime TV plans to air a new reality series, *Deadbeat Dads*, which will follow the founder of a private child support enforcement company (the National Child Support Center) as he tracks down and confronts fathers who owe child support. Commercial child support companies like the National Child Support Center have been identified by the Center for Law and Social Policy (CLASP) as an unregulated industry with illegitimate practices that “strip income from low and moderate-income families that could have been spent on housing, childcare, clothing and school expenses, or saved for their children’s education. They trap custodial parents in perpetual contracts. They also exploit the child support indebtedness of low and moderate-income non-custodial parents through the use of predatory and abusive tactics that increase their debt levels and often destroy their credit histories and interfere with parenting relationships.” CLASP describes complaints it has collected that “routinely allege that companies make money in four illegitimate ways: (1) promising help with back support, but instead pocketing a fee from ongoing monthly support; (2) taking a cut of support collected by state child support agencies; (3) demanding payments from grandparents; and (4) coercing payments from non-custodial parents that are not owed or authorized by state law.”
- In a related story, another private child support collection company, Supportkids, Inc. of Austin, Texas, has been forced to transfer 20,000 of its cases to a New Hampshire law firm as a result of a loan default. Supportkids had used the cases as collateral on a loan, and when the company was unable to refinance its loan, the lender handed the cases over to the law firm.

Supportkids charges an initial \$475 case development fee to custodial parents and takes a 34 percent commission on overdue child-support payments. When it accepts a case, it requires that the parent who is behind on the payments send the money to the company, which takes its cut and forwards the balance to the parent who is caring for the child or children.

The company was not able to notify clients in advance of their cases being transferred. Affected clients were told in a letter that Supportkids no longer has current information on their cases and that the law firm has their case files and should be contacted with questions or for new information on their cases.

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