

**Income Support Policies for Low-Income Men and Noncustodial Fathers:  
Tax and Transfer Programs**

Ronald B. Mincy  
School of Social Work  
Center for Research on Fathers, Children and Family Well-Being  
Columbia University  
E-mail: [rm905@columbia.edu](mailto:rm905@columbia.edu)

Serena Klempin  
School of Social Work  
Columbia University  
E-mail: [sck2130@columbia.edu](mailto:sck2130@columbia.edu)

Heather Schmidt  
School of Social Work  
Columbia University  
E-mail: [heather.f.schmidt@gmail.com](mailto:heather.f.schmidt@gmail.com)

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## **Abstract**

Both wages and labor force participation have been declining for young, less-educated men since the mid-1970s. The purpose of this article is to examine how key income-security policy areas—including unemployment insurance, payroll taxes and the Earned Income Tax Credit, and child support enforcement—affect these men. The article concludes with policy recommendations to improve the impact of work-based subsidies on poverty among low-income men. Subsidized jobs in transitional job programs could play a critical role in helping these men access these subsidies.

*Keywords:* low-income men, noncustodial fathers, payroll taxes, Earned Income Tax Credit, unemployment insurance, child support enforcement, subsidized jobs

## **Income Support Policies for Low-Income Men and Noncustodial Fathers: Tax and Transfer Programs**

### **Introduction**

That it may take as much as a year from the end of the Great Recession, as Sum and colleagues (2009) describe, before the employment-population ratios of young, less-educated men rise is alarming. Indeed, the employment-to-population ratio of black teenagers is now 14 percent, with a 49 percent unemployment rate (Baker 2009). Of greater concern is the decline in both real wages and labor force participation for this subgroup since the mid-1970s. Even during the economic boom of the 1990s—the longest economic expansion this nation has ever seen—labor force participation and wages for young, less-educated men showed little improvement (Berlin 2007; Holzer and Offner 2006).

The purpose of this chapter is to highlight key income-security policy areas where changes are needed to meet this challenge. These include unemployment insurance, payroll taxes and the Earned Income Tax Credit, and child support enforcement. Working together, these policies have contributed to increases in employment for young, less-educated women and reductions in child poverty, but rarely have their joint implications for less-educated men been considered (Berlin 2007; Edelman, Holzer, and Offner 2006; Scholz 2007).

Before discussing these policy areas, we note that each is predicated upon work. Therefore, we begin with a brief discussion of the provisions of the American Recovery and Reinvestment Act (ARRA), which attempts to relieve some of the financial pressures of the Great Recession on states and workers.<sup>1</sup> Finally, we indicate responses needed not only by government, but also by the independent sector, through targeted philanthropy for related

research and programming, especially in relation to transitional jobs programs. Engagement by these critical actors will be necessary in order to make any policy reforms work.

### **Unemployment Insurance and ARRA Funds for Workforce Development**

The federal government's aggressive buildup of unemployment insurance (hereafter, UI) benefits under ARRA is one important indicator of the severity of the Great Recession (Shelton, Romig, and Whittaker 2009). First, ARRA provides a \$25 per week increase in benefits for workers receiving UI benefits under any one of several UI funds. Second, it extends the period during which qualified unemployed workers can claim UI benefits and does not require states to share in the additional costs. As a result of these extensions, qualifying workers can now collect unemployment benefits for up to 99 weeks (the normal limit is 26 weeks). Third, ARRA includes \$7 billion to fund provisions of the UI Modernization Act (UIMA), which encourages states to extend unemployment benefits to the part-time, part-year, and low-wage workers and those experiencing long-term unemployment (Bradley and Lordeman 2009). Fourth, the federal government is directly assuming a larger share of other costs of UI benefits. States are receiving \$500 million to administer UI programs and they do not repay or accrue interest when they borrow to replenish their UI trust funds. Additionally, workers do not have to pay income taxes on the first \$2,400 of the UI benefits they receive in 2009.

While these changes will relieve pressure on states and older workers, financial pressures on younger unemployed workers will remain. Younger workers are overrepresented among part-time and part-year and low-wage workers, so they are less likely than older workers to meet the minimum work or earnings requirements for UI benefits and they are more likely to quit or be dismissed for misconduct, which also makes workers ineligible for UI benefits. Wandner and Stettner (2000), who conducted the most recent analysis of the age distribution of UI claims,

argued that misunderstanding eligibility requirements was one reason why during the 1991–1992 recession only 53.4 percent of *unexperienced* unemployed male job losers between 20 and 25 years old applied for UI benefits, while 67.9 percent of *experienced* unemployed male job losers 25 years or older applied. Older experienced male job losers (55.6 percent) were also more likely to receive UI benefits than their younger counterparts (36.4 percent).

Many young, less-educated women who are ineligible for UI benefits are single mothers, so they can fall back on Temporary Assistance for Needy Families (TANF). But the Great Recession has taken its biggest toll on young men, many of whom are childless or noncustodial parents (NCPs) (Sum et al. 2009). Without TANF or much relief from UI benefits, these young men desperately need placement assistance, education and training, or subsidized jobs. Since broadening access to the nation’s workforce development system in 1998, when it replaced the Job Training Partnership Act (JTPA)<sup>2</sup> with the Workforce Investment Act (WIA)<sup>3</sup>, Congress has consistently reduced funding for WIA below JTPA levels (Nightingale and Sorensen 2006). ARRA provides \$4 billion in new spending for job training under WIA (Bradley and Lordeman 2009). However, the legislation sunsets in September 2010 and with the unemployment rate still hovering around 10 percent, displaced workers are much more likely than young, less-educated men to be the beneficiaries of this funding (Cooper 2010). If the stimulus package holds little hope for young, disadvantaged men, what can they expect from long-standing income security policies?

### **Payroll Taxes and the Earned Income Tax Credit**

Given downward trends in the earnings of less-educated young men, payroll tax relief for this subgroup is long overdue (Berlin 2007; Holzer and Offner 2006). Workers pay a percentage (7.65 percent) of earnings toward federal payroll taxes, which provide revenue for Social

Security, Medicare, unemployment insurance, and other social insurance programs; however, annual earnings above \$106,800 are exempt from the percentage of federal taxes that fund Old Age, Survivor, and Disability Insurance (OASDI) (Griffin 1999; Sammartino, Toder, and Maag 2002). Therefore, payroll taxes are regressive with respect to income, in contrast to income taxes, which are progressive (Burman and Leiserson 2007; Griffen 1999; Kobes and Magg 2003). In 2006, 94 percent of wage earners who made less than \$100,000 per year paid more in payroll taxes than they did in income taxes (Burman and Leiserson 2007).

For most low-income individuals who have children, various tax credits and programs decrease their tax burden to zero, or a negative amount, which is then reimbursed. The most important of these credits for low-wage workers is the Earned Income Tax Credit (EITC), which is the nation's largest antipoverty program (Holt 2006). In 2007, the EITC provided \$49 billion to nearly 2.5 million Americans households (IRS 2009a). Initially proposed by Senator Russell Long (D-LA) in 1975 as an antipoverty program targeted to low-income workers with children, the credit offsets payroll taxes for low-income workers and refunds the difference, if any (Holt 2006). Since then the EITC has expanded broadly for low-income working families; by 1998 it had surpassed the amount of aid provided by other child poverty programs. However, it has expanded far more slowly for workers without custody of children. It was not until 1993 that an EITC was even established for these workers (Holt 2006). The most recent expansion to the credit, enacted under ARRA, created an additional credit for families with three or more children. This additional credit was intended to provide temporary support during the recession, and thus only applied to the 2009 and 2010 tax years (IRS 2009b). However, both President Obama's 2010 and 2011 budgets contained a proposal to make this expansion permanent<sup>4</sup> (U.S. Dept. of Treasury 2009, 2010).

The EITC schedule is defined using three distinct ranges: a phase-in, or subsidy range, in which each additional dollar of earned income<sup>5</sup> increases the credit until a maximum credit is reached; a flat range, at which the credit remains constant as the worker's earnings increase; and a phase-out range over which the credits declines until workers' earnings makes them no longer eligible for the credit. The schedule for each of these three ranges differs according to marital status and number of children (none, 1, 2, and 3 or more).

For example, in the 2009 tax year, the credit for a single tax filer with two children rises in the phase-in range by 40 cents for each additional dollar earned. The maximum credit for such a tax filer is \$5,028 when earnings are between \$12,570 and \$16,420, which is between 88 percent and 115 percent of the earnings of a full-time, full-year (hereafter, fully employed) minimum wage worker. Workers with higher earnings are in the phase-out range where the credit declines by 21 cents for each additional dollar of earned income, and the credit completely phases out when earnings reach \$40,295, which is 282 percent of the earnings of a fully employed minimum wage worker. Corresponding amounts for a single parent with one child are: an increase of 34 cents for each additional dollar of earned income during the phase-in range, a maximum credit of \$3,043 for those who earn between \$8,950 and \$16,420, and a decrease of 15.98 cents for each additional dollar of earned income during the phase-out range, with the credit completely phasing out when earnings reach \$35,463. By comparison, childless workers receive far less from the EITC. The credit rises by a mere 7.65 cents for each dollar of additional earned income during the phase-in range, and phases out at the same rate. The maximum credit is just \$457 for workers with earnings between \$5,970 and \$7,470, which is between 42 percent and 52 percent of the earnings of a fully employed minimum wage worker. The credit

completely phases out when earnings reach \$13,440, which is 94 percent of these earnings (Scott 2008).

Not surprisingly, given the structure of the EITC, single mothers have been the largest group of recipients (Holt 2006). During the 1990s economic boom, welfare reform efforts increased the proportion of EITC recipients who were single mothers, while childless, less-educated workers, particularly men, saw only modest employment gains during those years (Blank and Schmidt 2001; Holzer and Offner 2006). In addition to a lack of employment gains, several other reasons help explain why less-educated men receive fewer benefits from the EITC than single mothers. First, some are employed in the informal economy, so only the formal part of their earnings can be subsidized through the tax system (Rich, Garfinkel, and Gao 2007). Second, many income-eligible young men are either unaware of the credit, uninformed about how to file for the credit, or do not file tax returns (Mincy, Jethwani-Keyser, and Klempin, in progress). Finally, some are prohibited from applying, because they are younger than 25, the age minimum requirement for the credit.

Ranging in cost from \$3 billion to roughly \$34 billion, several legislative proposals address barriers to participation in the EITC, including those that young, less-educated men are most likely to face. These include increasing the childless worker credit, establishing a special credit for noncustodial parents (NCP/EITC), and reducing the minimum age requirement.

#### *Expansion of the childless worker EITC*

Childless workers are the only taxpayers in the United States who owe federal income tax when their income is below the poverty level (Aron-Dine and Sherman 2007). The EITC offsets only half of the earnings deducted for payroll taxes for childless workers (Gitterman, Gorham, and Dorrance 2007). To avoid taxing childless workers into poverty and to provide work

incentives for workers with low wages, a number of bills have been introduced in the past few years to expand the childless worker EITC.

However, even if the childless worker credit were increased to avoid taxation-induced poverty, childless workers would still gain little or nothing from the EITC under current law. As early as 2007, a bill proposed by Representative Charles Rangel (HR 3970<sup>6</sup>), warned that minimum wage increases would result in nominal credits for childless workers fully employed at the minimum wage and render such workers ineligible for the EITC by 2009 (Aron-Dine and Sherman 2007). In 2008, fully employed, but childless, minimum wage workers earned \$12,812<sup>7</sup> and the EITC for childless workers phased out completely at \$12,880 (IRS 2009b; Scott 2008). The resulting credit for such workers was approximately \$50 (Figure 2). By 2010, the annual earnings of fully employed minimum wage workers will reach \$15,080,<sup>8</sup> well in excess of the income level (\$13,460) at which the childless EITC phases out completely.

(Figure 1 Here)

(Table 1 Here)

To prevent workers with poverty-level wages from owing federal income tax and improve work incentives, Representative Rangel proposed an expansion of the credit in 2007<sup>9</sup> (HR 3970). HR 3970 would (a) extend the credit's phase-out period (increasing the starting point to \$10,900 and the ending point to \$16,620); (b) increase the credit rate for workers earning less than \$5,720 from 7.65 percent to 15.3 percent of earnings; and (c) increase the maximum credit to \$875. The estimated cost of this proposal was \$3 billion per year (Aron-Dine and Sherman 2007).

In 2009, Representative Henry Waxman included an even more ambitious approach to expanding the childless worker EITC in the American Clean Energy and Security Act.<sup>10</sup> This

proposal would expand the childless credit by increasing both the phase-in and the phase-out rates from 7.65 percent to 15.3 percent, and by increasing the beginning of the phase-out range to \$11,640. The expansion would be effective starting in 2012 and would double the maximum credit for childless workers from \$457 to \$914. Although these increases would cover fully employed minimum wage workers, these workers would still earn too much to receive the maximum credit (Edelman, Greenberg, Holt, and Holzer 2009).

#### *Noncustodial parents and the Earned Income Tax Credit*

Noncustodial parents (NCPs), even while required to provide financial support to their nonresident children, are ineligible to claim their nonresident children for tax purposes. Instead, they are eligible for the same Earned Income Tax Credit as childless workers with no such additional financial obligations. Of the many legislators to propose expansions of the childless worker EITC, Senator Evan Bayh and then-Senator Barack Obama were the first to propose an additional federal EITC targeting NCPs (S 1626<sup>11</sup>), which Senator Bayh reintroduced in the summer of 2009 (S 1309<sup>12</sup>). This proposal, modeled on the Noncustodial Parent Earned Income Tax Credit (NCP/EITC) in New York State and Washington, DC, applied the same income requirements for noncustodial parents as for all childless workers, but doubled the credit that NCPs received by increasing the credit's phase-in and phase-out rates from 7.65 percent to 15.3 percent. The proposal also increases the phase-out income threshold by basing the threshold on a percentage of annual minimum wage income (defined as the federal minimum wage effective on January 1 of that year multiplied by 2000<sup>13</sup>). For the 2010 tax year, the phase-out threshold would be 70 percent of annual minimum wage income, and would gradually rise to 100 percent of annual minimum wage income by 2014. From 2015 onwards the threshold would be indexed for inflation (Solomon-Fears, Falk, and Pettit 2009). To qualify for the additional benefit,

however, NCPs would have to pay their child support in full for the current tax year. Therefore, in order to fully understand the implications of this proposal, we consider the size of the credit not only in the context of minimum wage earnings, but also in the context of earnings and child support compliance.

Because the childless worker credit in Senator Bayh's proposal is half the NCP's credit, fully employed, but childless, minimum wage workers in 2010 would be barely eligible, but similarly employed NCPs would still receive about \$250, about \$125 more than the cost of tax preparation services (see Figure 3). In comparison, a single mother with two children pays about \$350 for tax preparation services, and receives an EITC of more than \$5,000, or about \$1,700 for each member of her household. The maximum NCP credit in 2010 under S 1309 would be less than \$1,000, but this credit is available only to NCPs with earnings between \$5,900 and \$10,150, roughly 40 percent to 70 percent of the earnings of a fully employed minimum wage worker. Only NCPs who were unemployed for a substantial portion of the year or were part-time / part-year workers would be income eligible for the maximum value of the NCP/EITC.

However, unemployed and underemployed NCPs are those most likely to have defaulted on their child support orders. As much as 70 percent of total child support arrears in the United States are owed by NCPs earning less than \$10,000 a year (Sorensen, Sousa, and Schaner 2007). Therefore, those most likely to be income eligible for the maximum value of the NCP/EITC are also those most likely to be ineligible for the credit due to child support noncompliance. Thus, proposals that condition eligibility for the childless worker credit or NCP/EITC on full compliance during the year are, at best, feeble attempts to offset payroll taxes for low-income NCPs and feeble attempts to provide them with incentives to work and comply with their child support obligations. Indeed, Wheaton and Sorensen (2009) estimate that only 5 percent of all

NCPs would benefit from the S 1626, NCP/EITC proposal. Preliminary estimates, based upon the Fragile Families and Child Well-being Study, show that only 9 percent of the income-eligible NCPs of children born just 2 years after the 1996 amendments to title IV-D would benefit from this proposal (Mincy and Miller, forthcoming).

(Figure 2 Here)

Despite the difficulties posed by the full child support compliance requirement in S 1309, we believe that the proposal's use of the minimum wage as the basis of the phase-out threshold is crucial in order for the EITC to have a significant impact on low-income childless workers and noncustodial parents. As illustrated in Figure 2, the childless worker credit phased out at such a low income threshold in 2008 that many low-wage childless workers barely qualified, and fully employed minimum wage workers became ineligible for the credit in 2009 after scheduled minimum wage increases. Nonetheless, it is important to recognize that the proposal's increases occur gradually over a span of 5 years, so that fully employed minimum wage workers would not receive the maximum credit until 2014.

In order to avoid the complications of the child support compliance requirement described above, several other EITC expansion proposals do not include a specific NCP/EITC, but instead address the needs of NCPs through their childless worker proposals. For example, supporters of HR 3970 see all childless workers as either future NCPs or future parents. This proposal also ties the increase for childless workers to Representative Rangel's desire to lower the minimum age at which a person becomes eligible for the credit. If these changes occur, NCPs and childless workers, as future parents, will have stronger labor-force attachments earlier, and will be better be able to provide for all potential children. Representative Davis also follows this approach of reaching NCPs through the childless worker credit in HR 2979<sup>14</sup>. The increased

credit for childless workers in this proposal would be equal to 20 percent of earnings up to a maximum earnings amount (Solomon-Fears, Falk, and Pettit 2009). Additionally, proposals from several policy analysts agree that expansion of the childless worker credit is sufficient to address the needs of NCPs (Greenberg, Dutta-Gupta, and Minoff 2007; Edelman, Holzer, and Offner 2006; Carasso, Holzer, Maag, and Steuerle 2008; NYC 2008).

By contrast, Wendell Primus (2006), now senior policy advisor on budget and health issues to House Democratic Leader Nancy Pelosi, offers a radically different proposal that is specifically targeted at the children and families of NCPs. It would provide benefits for up to one-half of the EITC for families of NCPs who pay at least half of their child support order, with the amount varying by the percentage of support paid. This proposal is aimed at the fact that fathers behind on their child support are the exact people that could benefit and be aided in the payment of that support with the supplement of the EITC. Few others support this proposal because it poses even more administrative complexities than the NCP/EITC proposals.

#### *The minimum age requirement*

Workers must be at least 25 years old to receive the EITC. A primary motive for this criterion is to deny the credit to full-time students. Unfortunately, this criterion denies the credit to many less-educated young men who are otherwise eligible, but who are not full-time students, including noncustodial parents (NCPs). Among 24 million poor adults, about 60 percent either have no children or are NCPs (Greenberg, Dutta-Gupta, and Minoff 2007, 27). Using data from the Fragile Families and Child Wellbeing Study, which is representative of unmarried births in large cities (Reichman, Teitler, Garfinkel, and McLanahan 2001), we calculated that at the birth of the child, the median age of unmarried nonresident fathers was 25 years old and that only 3 percent of fathers were students. Denying these less-educated young NCPs (and their children)

access to the EITC to prevent full-time students, who also work, from receiving the EITC seems an odd compromise.

If policymakers are committed to denying full-time students who are younger than 25 years old the credit, the IRS could try excluding those under 25 whose parents claim them as dependents. Whether the credits accruing to income-eligible workers, who are full-time students and financially independent of their parents, outweighs the potential benefits to young low-wage workers who are not full-time students is an empirical question. Support for lowering the minimum age requirement appears to be growing, however, as evidenced by Representative Rangel's proposal, HR 3970, and others (Greenberg, Dutta-Gupta, and Minoff 2007; NYC 2008; Scholz 2007). Additionally, although neither S 1309 nor HR 2979 proposes lowering the age requirement, they both call for a study examining the effect of the age eligibility restriction on young noncustodial parents' (a) ability to pay child support, (b) child support compliance, and (c) relationship with their children.

#### *Child support enforcement*

***Welfare and child support.*** Besides proposing the original EITC, Senator Russell Long also sponsored title IV-D of the Social Security Act, which created the Federal Office of Child Support Enforcement (OCSE) (Garfinkel 1992). Reimbursing taxpayers for the cost of welfare benefits was an important motive for title IV-D, which allowed states to collect child support from fathers of children receiving welfare.<sup>15</sup> Welfare policy continued to provide an important link between the EITC and child support enforcement during the welfare reform efforts of the 1990s. An important rationale for the major increase in the EITC in 1993 was an effort to “make work pay,” so that single mothers leaving welfare-for-work would be better off than those who remained on welfare (Ellwood 1988).

Policymakers also hoped to reduce welfare recidivism by increasing child support payments to mothers leaving welfare for work. OCSE had long required local child support agencies to open a welfare-related child support case, once a custodial mother started receiving welfare benefits. Doing so became increasingly difficult, however, because much of the growth of welfare caseloads after the early 1980s was due to the growth in nonmarital births. In the case of nonmarital births, paternity must be established before a child support order can be established. Therefore, universal paternity establishment became a centerpiece of the 1990s welfare reform.

In-hospital paternity programs were established by executive order in 1992, and shortly thereafter paternity establishment rates began to rise (Legler 1996). In addition, several provisions of the 1996 Amendments to section IV-D have further extended the paternity establishment rate growth (Mincy, Garfinkel, and Nepomnyaschy 2005; Pirog and Ziolk-Guest 2006). These amendments allow states to increase sanctions against mothers receiving TANF benefits who fail to cooperate with the state in identifying the father (with exceptions for cases of rape and incest). In cases in which OCSE identifies fathers, they have the option to voluntarily acknowledge paternity. Without a voluntary acknowledgement, courts can conduct genetic testing of the mother, child, and putative father so that a judge can rule on an order of paternity<sup>16</sup> and then establish a child support order.

***Child support compliance, arrears and the EITC.*** The Office of Child Support Enforcement (OCSE) estimates that over \$105 billion in child support arrears have accumulated over the past 20 years (OCSE 2007). Noncustodial fathers (NCPs) who do not have (and most likely will not soon have) the financial resources to pay either their current child support or the accumulated arrears are held accountable for a substantial amount of these arrears (Office of

Inspector General 2000; Sorensen, Sousa, and Schaner 2007). Low-income NCPs who do not pay their child support orders tend to be younger, have lower levels of work experience, be poorly educated, and have more problems with drugs and alcohol (Mincy and Sorensen 1998). Many spend a substantial part of their time in prisons where child support orders accumulate even though market earnings are forbidden. These factors lead to less stable employment, thereby making these fathers less likely to be in compliance with their child support orders.

While there is little evidence that the child support burdens of low-income fathers reduce their employment or labor force participation rate (Freeman and Waldfogel 2001; Holzer, Offner, and Sorensen 2005), there is preliminary evidence that when arrears are high relative to fathers' income, formal labor force participation declines (Miller and Mincy 2009). Individuals with the most debt have the highest average monthly child support orders, and are expected to pay a considerably higher percentage of their income toward support than those with little or no arrears (Sorensen, Sousa, and Schaner 2007). Indeed, up to 65 percent of earned income can be garnished by OCSE in most states if the father is behind in his child support payments<sup>17</sup> (Holzer, Offner, and Sorensen 2005).

Several studies have also found that low-income NCPs are obligated to pay a higher proportion of their income in child support than middle- and high-income NCPs, which results in result in lower levels of compliance among low-income NCPs (Huang, Mincy, and Garfinkel 2005; Meyer, Ha, and Hu 2008). Waller and Plotnick (2001) found that low-income NCPs felt overwhelmed by child support orders that were too high, and that this may have led them to avoid market earnings or formal child support and thus pay nothing. Although these fathers may still be making informal contributions to the mothers or guardians of their children, the extent of informal support is difficult to measure. While few studies have specifically studied the amount

of informal support provided by NCPs, Nepomnyaschy (2007) found that informal child support payments by never married NCPs were (imperfect) substitutes for formal child support payments. If a NCP has a child support order, but pays informally, his arrears continue to grow because informal supports does not count toward compliance with child support.

In addition to having troubling implications for formal labor force participation, the child support enforcement system may operate in ways that impede the effectiveness of the EITC. As previously mentioned, many current proposals to expand the EITC for NCPs require full compliance with child support orders during the current year. Additionally, states are entitled to collect any past-due child support owed to the state from federal tax refunds.<sup>18</sup> The law allows states to offset arrears by taking a portion or all of the EITC, as long as the amount of support owed is at least \$500. This is of particular concern, because low-income NCPs are the most likely group of NCPs to have accumulated child support arrearages.

Several factors can contribute to the growth of arrears for low-income NCPs. For example, child support orders are often calculated using an “imputed income” rather than actual income when the NCP is not present for court on the day that the order is being determined, or if the NCP is unemployed or underemployed (Office of Inspector General 2000). In some states, imputed income is based on the minimum wage, while in other states is it based on the TANF standard of need for a child (Sorensen 2004). Some states also charge the father for welfare payments received by the mother prior to the establishment of the child support order, or include the Medicaid costs for the birth of the child in the support order (Lerman and Sorensen 2003). When these factors are included in computing child support, they can become prohibitively high.

The difficulty and cost associated with modifying a child support order further contribute to noncompliance and the growth of arrears. Federal law states that a modification can only be

granted after the NCP demonstrates that his circumstances have changed in such a way that the current child support order is “unconscionable,” a difficult standard to meet (Baron 1999). Additionally, changes in circumstances cannot be voluntary, and courts will not grant petitions for modifications if the NCP has temporarily quit his job, even to pursue further education. Twenty-one states consider incarceration “voluntary unemployment” and therefore not a justification for modifications (Pearson 2004). Some states require a percentage change or a minimum dollar change in the NCP’s income. Other states determine whether a modification is appropriate based on the schedule that the state used to decide original child support orders—if the amount will change based on the schedule, then a modification may be granted. Even if an NCP qualifies for a modification of the order, however, it is rarely pursued because the court process is difficult, expensive, and time consuming.

Interest charges are the primary factor contributing to the growth in arrears (Sorensen, Sousa, and Schaner 2007). Eighteen states charge interest on a regular basis (every month or every other month) and an additional 18 states charge interest intermittently (for example, interest may not be charged until the TANF case is closed). The increase in arrears has been significantly larger for the states that charge interest regularly than for states that either do not charge interest or only charge interest intermittently.

Given these policies, it is not surprising that low-income NCPs are reluctant to earn market wages, which would qualify them for the EITC, or to enter the formal child support enforcement system. Nor is it surprising that never-married mothers and mothers with TANF benefits are less likely than other mothers to receive the full amount of child support due. In 2007, 51 percent of custodial parents who were divorced and had child support awards received

the full amount due, compared to about 40 percent of separated and never-married parents, and 34 percent of parents receiving public assistance (Grall 2009).

*Policy recommendations*

***Short-term: Workforce.*** In the short-term, the administration must see that ARRA funds are used to meet the training needs of low-income workers, particularly less-skilled and less-educated younger men, who have borne the brunt of job losses in the recession (Smeeding, Garfinkel, and Mincy 2009; Sum et al. 2009). As we move out of the recession, many dislocated workers will be prepared to find new jobs immediately; however, many people will need to acquire new skills to find work in new sectors so that they can restore as much of their former earnings as possible. The effects of the 1998 reorganization of the workforce development system, which included a broadening of its reach and successive reductions in funding, will be glaring as both disadvantaged and dislocated workers stream into One-Stop Centers. It will be even more difficult to provide training to the many less-educated young men in need. In the rush to create and fill positions, and to ensure that former welfare recipients do not lose their foothold in the labor market, states are likely to neglect the training needs of less-educated workers, especially men. To avoid this situation, expenditures of ARRA funds must be carefully monitored to guarantee that the emphasis on training actually occurs.

***Long-term: Payroll-tax relief and child support enforcement.*** A critical near-term goal is to reverse the decline in disposable incomes of childless workers, especially NCPs. Unless we do so, “make work pay,” which has been a hallmark of income security policy for the past decade, will be an unrealized goal for these young men, their children, and families. Reversing declines in income involves policy reform at the intersection of the EITC and child support enforcement, a daunting task because the federal government administers the former, while state

governments, for the most part, administer the latter. Thus wide variations could exist across states in the proportion of less-educated NCPs who actually receive an expanded childless worker credit or NCP/EITC. To avoid this discrepancy, much of the policy reform must occur at the federal level.

The most direct method of focusing reform at the federal level is to use the childless worker credit, rather than the NCP/EITC, to increase the disposable incomes of less-educated NCPs. This is the approach many recommend and the approach Representative Davis takes in HR 2979, which is currently before the 111<sup>th</sup> Congress (Soloman-Fears, Falk, and Pettit 2009). While the objective of providing greater support to nonresident fathers who have child-related expenses than to truly childless workers is laudable, it is very difficult to do so in practice, largely because the Internal Revenue Service and the Office of Child Support Enforcement each have independent needs for privacy and data security. The administrative challenges associated with verifying whether or not the NCP has a formal child support order, whether or not that order has been paid in full, and whether or not the father is income eligible and meets the tax requirements; and then rapidly sharing that information across the two agencies, cannot be underestimated. Further, the experience in New York State with the NCP/EITC suggests that few potentially eligible NCPs actually receive the credit (Cade 2008), because filing for the credit is costly and the net benefits are low (Mincy, Jethwani-Keyser, and Klempin, in progress).

Therefore, it might be much easier and more effective to allow all NCPs to apply for an enhanced childless credit. If NCPs owed child support arrears, states could intercept the credit, just as under current law. Wheaton and Sorensen (2009) argue that an intercepted credit provides little or no incentive for work or child support compliance, but this assumption is untested. According to low-income NCPs and the providers that serve them in New York, even an

intercepted credit provides an automatic mechanism to pay down arrears, thereby increasing monthly disposable income (Mincy, Jethwani-Keyser, and Klempin, in progress). One can still question, however, how much of the credit should be intercepted because of arrears.

The answer to that question, like the answer to the question of whether or not to condition EITC eligibility on full child support compliance, depends upon the sensitivity of child support receipt to the business cycle. Surprisingly, there is little research on this question, but recent reports suggest that child support default rates are rising during the Great Recession (Bosman 2009; Miller and Mincy 2009). It seems merciless to insist on full compliance with child support during the longest recession in the postwar period, especially while forgiving debts accumulated on Wall Street and Main Street. However, the federal government enters the debate about how to manage child support arrears at great peril. State experiments with arrears abatement strategies demonstrate that it is possible to devise such strategies for NCPs with incomes of \$20,000 or more, but not for those with lower incomes, who are the NCPs with the highest arrears (Hong 2008; Sorensen, Sousa, and Schaner 2007). Both HR 2979 and Senator Evan Bayh's companion legislation (S 1309) provide demonstration funds for states to work on this and other complicated issues about child support and low-income NCPs. Congress should pass and fund this legislation so that states can use arrears abatement strategies to address the question of tax interception as well as of EITC eligibility.

Addressing these questions is important. Defaults on current child support payments would exclude fewer NCPs from the NCP/EITC than not having a formal child support order (Wheaton and Sorensen 2009; Mincy and Miller, forthcoming). However, the two conditions may be related. Low-income NCPs and custodial mothers may avoid the formal child support system, because the former cannot afford to comply and therefore do not compile the legal

market earnings needed for the EITC (Huang and Pouncy 2005). If so, addressing the range of challenges that child support enforcement poses for low-income NCPs will ultimately determine whether or not they can access work-based subsidies, which are now the primary antipoverty strategies available to low-income Americans.

***Long-term: Unemployment insurance and workforce.*** In the longer-term, policy for low-income men and fathers should address three additional ARRA-related foci. First, we should assemble and build on the lessons we learn from states that use UIMA funds during the Great Recession to extend unemployment benefits to part-time, part-year, and low-wage workers. Second, ARRA's temporary infusion of WIA training funds could well sunset before the economic recovery creates enough tightness in the labor market to affect the demand for less-educated young male workers. Subsequent budgets must add enough funding to WIA so that training services are available to help reverse the secular decline in the earnings of less-educated men. Third, we must renew a commitment to the research and development necessary to identify, test, and disseminate a set of effective workforce development strategies for increasing the skills and earnings of less-educated men. Over the past 15 years, little attention has been paid to the improvement and development of such strategies. Programs such as Youth Build and the Job Corps began with private funding for research, development, and advocacy. These programs have become established parts of the Department of Labor's offerings. A few private foundations continue to invest in career, sector-based, and youth development strategies, in the hopes of spurring additional innovations that could advance federal programming. ARRA's funding of training in high growth and emerging industries and sector-based training could provide additional support to such efforts, but it is unlikely to provide support for the application of these strategies to disadvantaged workers. Funding programs for disadvantaged workers, as well as the

advocacy that leads to public adoption of innovations in employment-training for disadvantaged workers, has been the role of private philanthropy. Unless private philanthropy plays this role on a larger scale, how will we identify the Youth Builds and Job Corps of tomorrow?

*Meanwhile: Mandated participation in subsidized/transitional jobs programs.* A constant theme of this paper is that low rates of employment, labor force participation, child support order establishment, and child support compliance dilute the potential impacts of all work-based policies on poverty among disadvantaged men. To have a greater impact, these systems must be expanded to cover workers with weaker attachment to mainstream employment and child support. UIMA and proposals to increase payroll tax relief for NCPs through the childless worker credit take this approach. Given the recent thrust of income security policy, which predicates assistance on work and responsibility, the more enduring approach will rely upon higher rates of employment, labor force participation, child support order establishment, and child support compliance among disadvantaged men. The challenge is finding a strategy that will accomplish this in the face of the secular decline in labor force participation among less-educated men and the sluggish demand for their labor in the next several years, following the Great Recession.

Arguing that culture rather than economic incentives or slack labor markets was the primary reason for low employment rates among poor men, Mead (2007) proposed to reduce poverty among such men by mandating work for parolees under work mandates and NCPs who do not pay their child support obligations. This recommendation would apply the same paternalistic approach that Mead argues was so critical to the success of welfare reform. Under his proposal, ex-offenders and NCPs who did not pay their child support obligations would be mandated to participate in work programs where their job-search efforts would be closely

supervised by case managers. If they were unable to find private-sector jobs within 30 days, these men would be required to participate in subsidized jobs and required, in the case of NCPs, to pay child support.

Some of the elements of Mead's proposal are already in place. We recommend building upon these elements by expanding transitional jobs programs for disadvantaged men already subject to work mandates (i.e., some parolees and NCPs who do not pay their child support obligations). Such an approach is appropriate whether the reason for not working is poor soft skills, the upshot of what Mead calls culture, low economic incentives, or low private sector demand for less-educated workers.

Transitional jobs programs employ participants in subsidized jobs and help them acquire work experience so that they can compete in the labor market and eventually obtain unsubsidized jobs. The Center for Employment Training (CEO) is developing a particularly important model for ex-offenders in New York. Most of CEO's clients are less-educated black and Latino men, with the vocabulary, deportment, and interpersonal relationships that enable them to survive in hyper-masculine urban environments. To help them learn a different set of skills, which they will need to acquire and sustain unsubsidized jobs, CEO provides soft skills training. It also provides case management services and referrals to meet a variety of other needs, including health, housing, food security, and substance abuse treatment. However, many of CEO's clients must find a job as a condition of parole. Many of CEO's clients are also NCPs with child support obligations that grew during incarceration, so CEO also helps clients modify their child support orders (child support intermediation). These services are typical of workforce intermediaries who serve less-educated men. However, since CEO's clients are ex-offenders, acquiring a job immediately upon release is critical so that they can meet parole requirements, pay for daily

expenses, and pay child support. Therefore, CEO combines the foregoing services with subsidized jobs in which CEO is the employer of record (Redcross, Bloom, Azurdia, Zweig, and Pindus 2009). This distinguishes CEO from many other workforce intermediaries, who must rely upon unsubsidized jobs in the private sector to place their clients.

Early evaluations results of the CEO model show that it produces short- and long-term reductions in recidivism, but only short-term gains in employment and earnings. Long-term gains in employment and earnings probably do not occur, because once the period of subsidized employment ends, treatment group clients are able to find unsubsidized jobs at no higher rates (and paying no higher wages) than control group members (Redcross et al. 2009; Bloom 2009). This is consistent with several decades of demonstrations project research involving disadvantaged men (LaLonde 1995). Still, by teaching clients soft skills and helping them comply with their child support obligations, CEO ensures that disadvantaged men are developing the habits that increase gains to their children and to society from subsidized employment. Along with the long-term reductions in recidivism, the CEO model may yet prove cost-effective in the long run.

This model (i.e., subsidized employment along with case management, soft skills training, and child support intermediation) should be expanded to serve NCPs who cannot pay their child support obligations. At present we are content to apply the same child enforcement tools to these NCPS as the tools we use to coerce payments from NCPs who are able to pay. Since many never find a stable job or pay the child support due, the result is exponential growth in arrears. Neither NCPs, nor taxpayers, nor custodial families benefit from this approach.

Clearly, these men should not be allowed to continue to shirk their obligations to their children. Whether they are unable or unwilling to find private-sector jobs on their own, they

should be required to take subsidized jobs, paying the minimum wage. States already have the authority to mandate delinquent obligors to participate in employment services, but the number of states making use of these mandates fell after 2001, when federal subsidies for such programs were eliminated along with funding for the Welfare-to-Work program. Few if any of these programs produced long-term gains in employment or earnings, although they did report gains in the number of NCPs who paid some child support. Moreover, these programs may or may not have provided effective soft skills training.

We agree with Mead that states should impose (existing) mandates on NCPs who do not pay their child support obligations, but unlike Mead we think these mandates should be simple: either pay the full amount of the child support order or go to work immediately in a transitional jobs program, combining the core CEO elements: (1) subsidized jobs, (2) case management services, (3) closely supervised soft skills training, and (4) child support intermediation.

We have two reasons for mandating immediate participation in subsidized jobs, rather than using subsidized jobs as jobs of last resort, as Mead (2007) recommends. First, we are persuaded that slack demand for less-educated workers, mainstream-soft-skills deficits (the upshot of Mead's cultural explanation), and poor work incentives all play some role in explaining the low employment rates among disadvantaged NCPs. Any or all of these factors could delay job placement in the private sector, after a mandate is imposed. Mandating NCPs to participate in a subsidized job immediately after indicating that they cannot pay their child support obligations would facilitate automatic wage withholding, which would increase income to custodial families and reduce the accumulation of arrears. Second, immediate participation would promote greater child support compliance and lower arrears, which would help qualify NCPs for a variety of work-based supports, such as the NCP or childless EITC, which presently

elude them because they work in the informal labor market, have high unemployment rates, avoid filing taxes, and pay their child support informally, if at all. Thus, our approach puts taxpayers, custodial families, and NCPs on the right long-run path, but does so immediately.

NCPs could transition out of subsidized jobs if they found a private sector employer who provided automatic wage withholding. There would be no incentive to take an unsubsidized job, unless it paid more or offered more favorable employment conditions than subsidized employment. Therefore, subsidized jobs should place more demands on participants than jobs in the private sector. However, we would qualify the mandate for subsidized jobs by noting that some NCPs should be exempt from transitional jobs programs, including disabled NCPs, or NCPs who have caregiving responsibilities for family members. Though many disadvantaged men are not fulfilling their responsibilities to their children, they are providing care and support to other family members, especially their mothers, who may be ineligible for disability and Medicaid benefits or who are receiving inadequate support from those programs. Ignoring these other caregiving responsibilities would force these NCPs to ignore their mandates, which would mean further financial or other sanctions for a population that already owes a disproportionate share of total arrears and is overrepresented in the nation's prisons and jails.

Although the cost of subsidized employment is an issue, we have identified two sources of funds to finance our proposal. The first arises from a \$45 million (of \$50 million proposed in President Obama's FY 2010 budget) appropriation by Congress to the Department of Labor for a transitional jobs initiative to serve individuals with significant barriers to employment. Ex-offenders and noncustodial parents are particular groups targeted by this initiative (U.S. Department of Labor 2009). The second arises from the President Obama's fiscal year 2011 budget, which, if approved, would redirect \$500 million from the Bush

Administration's Healthy Marriage Initiative to a new Fatherhood, Marriage, and Families Innovation Fund. Half of this fund would provide competitive grants to states for comprehensive responsible fatherhood programs that rely on strong partnerships with community-based organizations (Administration for Children and Families 2010). Besides funding services, building knowledge about effective practices, which could be replicated by TANF, child support, justice, and other agencies is central to these new funding opportunities.

Finally, these new federal funds would support competitive state grants, but because few child support or criminal justice agencies have built the capacity to provide the four components of transitional jobs programs, these agencies must develop partnerships with community-based programs. The components of the CEO model have been developed by many community-based ex-offender, workforce development, and responsible fatherhood programs, using sporadic funding from the private donor community. It is time for private donors to increase their funding of these community based efforts, to leverage the federal funds that will be flowing through the states.

## Notes

<sup>1</sup> *American Recovery and Reinvestment Act of 2009*, Public Law 111-5, 111<sup>th</sup> Cong., 1<sup>st</sup> sess. (February 17, 2009). ARRA also substantially increases unemployment benefits and the federal share of the costs of operating the unemployment insurance system. We cover this topic in our section on unemployment insurance below.

<sup>2</sup> *Job Training Partnership Act of 1982*, Public Law 97-300, 97<sup>th</sup> Cong., 2<sup>nd</sup> sess. (October 13, 1982).

<sup>3</sup> *Workforce Investment Act of 1998*, Public Law 105-220, 105<sup>th</sup> Cong., 2<sup>nd</sup> sess. (August 7, 1998).

<sup>4</sup> At the time this article was submitted for publication, the 2011 budget had not yet been approved. Thus it was unknown whether or not the EITC expansion for families with 3 or more children would become permanent.

<sup>5</sup> The EITC is calculated based on either earned income or adjusted gross income, whichever is greater.

<sup>6</sup> *Tax Reduction and Reform Act of 2007*, HR 3970, 110<sup>th</sup> Cong., 1<sup>st</sup> sess.

<sup>7</sup> Annual minimum wage (full time, full year) for 2008 calculated as 29 forty hour weeks earning \$5.85 per hour and 23 forty hour weeks earning \$6.55 per hour. Minimum wage increased on 7/24/08.

<sup>8</sup> Annual minimum wage (full time, full year) for 2010 calculated as 52 forty hour weeks earning \$7.25 per hour.

<sup>9</sup> Three other bills were introduced to expand the credit for childless workers around the same time: one by Representatives Yarmuth and Ellison, one by Senator Kerry and Representative Pascrell, and one by Senators Bayh and Obama (Aron-Dine and Sherman 2007).

These proposals tend to build upon Representative Rangel's proposal since he is chair of the House Ways and Means Committee.

<sup>10</sup> HR 2454, 111th Congress. 1st sess.

<sup>11</sup> *Responsible Fatherhood and Healthy Families Act of 2007*, S 1626, 110th Cong., 1st sess.

<sup>12</sup> *Responsible Fatherhood and Healthy Families Act of 2009*, S 1309, 111th Cong., 1st sess.

<sup>13</sup> As previously noted, we calculated annual minimum wage based on the maximum number of possible working hours (52 weeks x 40 hours a week = 2080), rather than the 2000 formula. Therefore our calculations are fairly substantially higher: For 2008, \$12,812 compared to \$11,700. For 2009, \$14,268 compared to \$13,100. For 2010, \$15,080 compared to \$14,500. In order to truly cover all full time, full year minimum wage workers, we believe that EITC calculations should account for the maximum number of possible working hours.

<sup>14</sup> *Julia Carson Responsible Fatherhood and Healthy Families Act of 2009*, HR 2979, 111th Cong., 1st sess.

<sup>15</sup> *Social Security Act, U.S. Code 42 § 657*. Accessed at [www.westlaw.com](http://www.westlaw.com). The *Child Support Enforcement Amendments of 1984* amended title IV-D to require OCSE to provide fee-based services to custodial parents not receiving public benefits (Public Law 98-378, 98<sup>th</sup> Cong., 2<sup>nd</sup> sess.).

<sup>16</sup> *Social Security Act, U.S. Code 42 § 666*. Accessed at [www.westlaw.com](http://www.westlaw.com).

<sup>17</sup> *U.S. Code 15 § 1673(b)*. Accessed at [www.westlaw.com](http://www.westlaw.com).

<sup>18</sup> *Code of Federal Regulations 45 § 303.72*. Accessed at [www.westlaw.com](http://www.westlaw.com).

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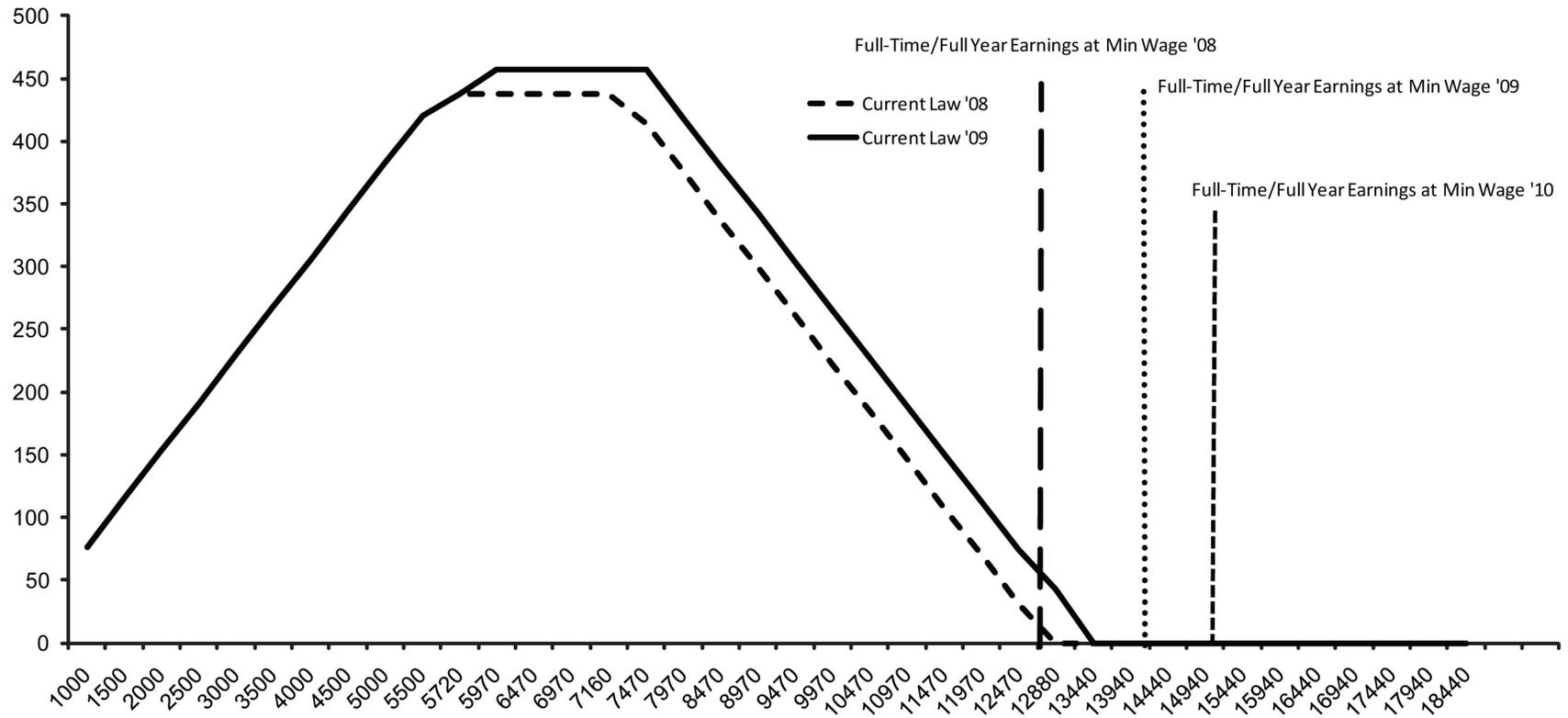
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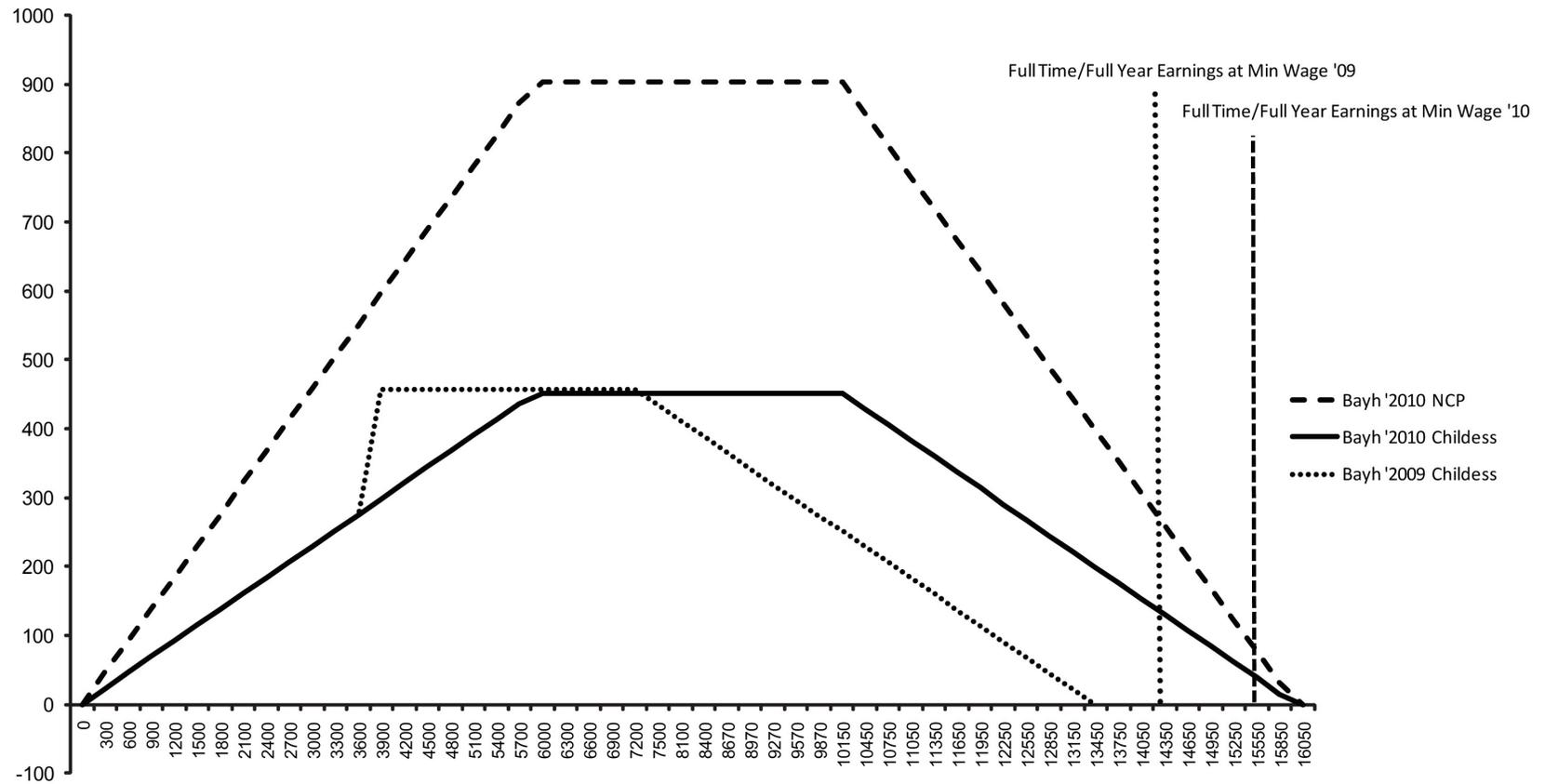
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**FIGURE 1**  
**EITC for Single Childless Workers**



**FIGURE 2**  
**S 1309 Childless Worker and NCP EITC**



**TABLE 1**  
**EITC for Single Childless Workers**

Current Law by Tax Year	Income Range for Maximum Credit, and Respective Maximum Credit	Annual Minimum Wage Earnings and Respective Credit	Income Where EITC = 0
2008	\$5,720 – \$7,160      \$438	\$12,812      \$48	\$12,880
2009	\$5,970 – \$7,470      \$457	\$14,268      \$0	\$13,440
2010	\$5,980 – \$7,480      \$457	\$15,080      \$0	\$13,460