

# **FEDERAL INCENTIVES - *MYTHS & FACTS***



**DRAP Annual  
Training Meeting  
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## Financing

*Four sources of Child Support Funding for States:*

1. Federal Financial Participation- usually 66%
2. Fees- States vary in charging fees. These charges can include application, tax intercept, attorney, genetic testing, modification fees, etc. Many States also assess a \$25 user fee on non-TANF cases with collections exceeding \$500 per year. When a State charges a fee, 66% of the proceeds are returned to the federal government.
3. State share of TANF collections- The States also receive reimbursement of TANF payments when they obtain a collection from a non custodial parent if the child is receiving TANF (or in some cases, when the child previously received TANF). The reimbursement share of this collection to the federal government is based on the Federal share of the Federal Medical Assistance Percentage (FMAP).
4. Incentives- For most States through 1999, their incentives are limited by their AFDC/TANF collections.

The old incentive system was based on AFDC/TANF collections. States and counties that had a high TANF population obviously received more federal incentives than states with a low TANF population.

### *The New Incentive Formula*

The new formula sets aside a fixed amount of money each year for federal incentive payments. Each State that meets performance and data reliability standards receives a portion of this fixed amount (a piece of the pie). Therefore, as one state substantially improves performance and receives a larger portion, the other states share of the fixed amount declines.

Example:

Suppose the incentive pool was \$1,000,000. Four States were dividing this incentive pool equally (\$250,000 each). Now one State moved ahead and collected \$400,000. The other three States would receive a reduced payment of \$200,000 each.

For Federal Fiscal Year 2010, the total incentive pool was \$504 million.

Also, every performance measure is a ratio with a numerator and a denominator.

Example:

A State has 10 cases and has established orders on 5 cases.

$$\frac{5 \text{ orders}}{10 \text{ cases}} = 50\% \text{ performance}$$

Now, the State establishes an additional order:

$$\frac{6 \text{ orders}}{10 \text{ cases}} = 60\% \text{ performance}$$

The next action involves closing two cases:

$$\frac{6 \text{ orders}}{8 \text{ cases}} = 75\% \text{ performance}$$

Many States have experienced substantial success in reducing the denominator through case clean-up and case closure.

In order to insure equity, each State will have a data reliability audit performed every year on the items used to calculate the incentives. Payment of incentives is contingent on a State's data being determined complete and reliable by Federal auditors.

### *Change in the Federal Match*

The Deficit Reduction Act of 2006 requires that the federal match for incentives was discontinued for any incentive funds expended from October 1, 2007 through September 30, 2008.

As a result of the recently enacted stimulus, the federal match for incentives was reinstated for funds expended from October 1, 2008 through September 30, 2010.

The federal match provision greatly increased the value of federal incentives.

Example:

State A wants to hire 3 full time child support employees with a total cost of \$100,000 per year using their incentive funds. With the federal match for incentive funds, the net cost to the State is \$34,000 and the federal match is \$66,000.

Without the federal match, the State must spend \$100,000 in their incentive funds.

### *Principles of the Incentive Formula*

A Work Group developed the new incentive funding measures based on certain fundamental principles.

The Child Support Enforcement Program will put children first by creating an incentive funding formula that...

- is performance based, encouraging improved program outcomes.
- helps to achieve the goals articulated in the National Strategic Plan and avoids unintended consequences
- continues to respond promptly to improvements in the desired area of performance
- recognizes maintenance of high performance as well as improvement in performance level
- requires that incentive dollars and federal matching funds be invested in the child support program
- includes a mechanism that will allow the committee to review and change the formula in the future, if necessary based on an evaluation of the results
- treats all children equitably
- is simple

Some States and counties that benefited from the old formula have seen a decrease in their federal incentive payment even if their performance improves. These States tended to have a high percentage of TANF recipients in their caseload.

## Performance Measures

1. Establishment of Paternities
2. Establishment of Support Orders
3. Collection of Current Support
4. Collection of Arrears (weighted at 75 %)
5. Cost Effectiveness (weighted at 75%)
6. Medical Support (formula to be determined)

REMEMBER: Each performance measure is a ratio. There are two obvious ways to improve the ratio - increase the numerator or decrease the denominator.

# Paternity



## Measure

- 1) Total # of Children in IV-D caseload in the Fiscal Year or, at the option of the State, as of the end of the Fiscal Year who were born out of wedlock with Paternity established or acknowledged

Total # of Children in IV-D Caseload as of the end of the preceding Fiscal Year who were born out of wedlock

**OR (State Choice)**

- 2) Total # of minor children who have been born out of wedlock and for whom Paternity has been established or acknowledged during the Fiscal Year

Total # of children born out of wedlock during the preceding Fiscal Year

## Performance Incentive Calculation

Performance Level	% of Maximum Incentive
80 % and above	100%
79%	98%
78%	96%
77%	94%
76%	92%
75%	90%
74%	88%
73%	86%
72%	84%
71%	82%
70%	80%
51%-69% (increases by 1% increments)	61%-79% (increases by 1% increments)
50%	60%
49% and below	50% if increase by at least 10% from the previous year

For Federal Fiscal Year 2010, Pennsylvania elected the Statewide Paternity Establishment Percentage (PEP).

Example One:

Total # of Children in IV-D caseload in the Fiscal Year or, at the option of the State, as of the end of the Fiscal Year who were born out of wedlock with Paternity established or <u>acknowledged</u>	<b>98</b>
Total # of Children in IV-D Caseload as of the end of the preceding Fiscal Year who were born out of wedlock	<b>100</b>

Performance Level = \_\_\_\_\_  
% of maximum Incentive = \_\_\_\_\_

**Do you have any suggestions for increasing the numerator for the Statewide PEP?**

# Establishment of Support Orders



Measure

Number of IV-D Cases with Support Orders during the Fiscal Year  
Total Number of IV-D Cases during the Fiscal Year

## Performance Incentive Calculation

<b>Performance Level</b>	<b>% of Maximum Incentive</b>
80 % and above	100%
79%	98%
78%	96%
77%	94%
76%	92%
75%	90%
74%	88%
73%	86%
72%	84%
71%	82%
70%	80%
51%-69% (increases by 1% increments)	61%-79% (increases by 1% increments)
50%	60%
49% and below	50% if increase by at least 5% from the previous year.



*Example*

<u>Number of IV-D Cases with Support Orders during the Fiscal Year</u>	<u>72</u>
Total Number of IV-D Cases during the Fiscal Year	100

Performance Level = \_\_\_\_\_  
% of maximum Incentive = \_\_\_\_\_

**Do you have any suggestions for increasing the numerator for Establishment of Support Orders?**

**Do you have any suggestions for decreasing the denominator for Establishment of Support Orders?**

# Collections on Current Support



Measure

Number Dollars Collected for Current Support in IV-D Cases

Total Dollars Owed for Current Support in IV-D Cases

## Performance Incentive Calculation

Performance Level	% of Maximum Incentive
80 % and above	100%
79%	98%
78%	96%
77%	94%
76%	92%
75%	90%
74%	88%
73%	86%
72%	84%
71%	82%
70%	80%
41%-69% (increases by 1% increments)	51%-79% (increases by 1% increments)
40%	50%
39% and below	50% if increase by at least 5% from the previous year.

*Example*

<u>Number Dollars Collected for Current Support in IV-D Cases</u>	62m
Total Dollars Owed for Current Support in IV-D Cases	100m

Performance Level = \_\_\_\_\_

% of Maximum Incentive = \_\_\_\_\_

**Do you have any suggestions for increasing the numerator for Collections on Current Support?**

**Do you have any suggestions for decreasing the denominator for Collections on Current Support?**

# Collections on Child Support Arrearages



## Measure

Total Number of eligible IV-D cases Paying Toward Arrears  
 Total Number of IV-D Cases with Arrears Due

Note- if arrears are owed to the family and arrears are owed to the State-only those cases in which payments are made to the family are counted as cases paying toward arrears.

## Performance Incentive Calculation

Performance Level	% of Maximum Incentive
80 % and above	100%
79%	98%
78%	96%
77%	94%
76%	92%
75%	90%
74%	88%
73%	86%
72%	84%
71%	82%
70%	80%
41%-69% (increases by 1% increments)	51%-79% (increases by 1% increments)
40%	50%
39% and below	50% if increase by at least 5% from the previous year.

*Example*

<u>Total Number of eligible IV-D cases Paying Toward Arrears</u>	<u>61,000</u>
Total Number of IV-D Cases with Arrears Due	100,000

Performance Level = \_\_\_\_\_

% of Maximum Incentive = \_\_\_\_\_

**Do you have any suggestions for increasing the numerator for Collections on Arrears?**

**Do you have any suggestions for decreasing the denominator for Collections on Arrears?**

# Cost Effectiveness



Measure

Total IV-D Dollars Collected  
Total IV-D Dollars Expended

Performance Incentive Calculation

<b>Cost Effectiveness Ratio</b>	<b>% of Maximum Incentive</b>
5.00 and above	100%
4.50 - 4.99	90%
4.00 - 4.49	80%
3.50 - 3.99	70%
3.00 - 3.49	60%
2.50 - 2.99	50%
2.00 - 2.49	40%
1.99 and below	0%

*Example*

Total IV-D Dollars Collected                      80m  
Total IV-D Dollars Expended                      20m

Performance Level = \_\_\_\_\_  
 % of maximum Incentive = \_\_\_\_\_

**Do you have any suggestions for increasing the numerator for Cost Effectiveness?**

**Do you have any suggestions for decreasing the denominator for Cost Effectiveness?**

## Calculation of Base

### Formula

2 (Current Assistance \$ + Former Assistance \$ + Medicaid Assistance)  
+ Nonassistance Collections + Fees Retained by Other States =

Expanded Incentive Collection Base

Note: A State receives double credit for collections on Assistance, Former Assistance and MEDICAID assistance cases.

### Example

State A collected 4m in current assistance	x2 = 8m
5m in former assistance	x2 = 10m
12m in never assistance	= <u>12m</u>
Incentive collection Base	30m

Note - Weighing is tied to cost neutrality. There is a total pool of incentive money established. Each State's share will be affected by how every other State performs under the new incentive formula. For example in FY 2008, the total pool is \$483 million.

The entire calculation is contained in 45 CFR 305.2-305.35.

## Important Points about Federal Incentive Calculations:

1-Remember, paternity establishment, order establishment, collection on current support and collection on arrears are ratios. You can improve performance either by increasing the numerator or by decreasing the denominator.

2- One large non-paying order can have a tremendous impact. For example, if you have one order for \$3,000 that is not paying and 30 orders for \$100 that are paying, your current support payment ratio is 50%. If you have 60 orders at \$100 that are paying, your rate improves to 66%. You would need 120 orders at \$100 per month that are paying faithfully to make up for the one large order of \$3,000 that is not paying to reach 80%.

3- Note- You receive double credit for performance increases from 70% to 80%. If your county performance increases by 1%, your % of the maximum incentive increases by 2%. For example, at 72% performance, you receive 84% of the maximum incentive, but at 73%, you receive 86% of the maximum incentive.

4- You only receive credit for distributed collections. Suppose you receive five payments on arrears during the year but can not find mom. You receive no credit.

5- The arrears ratio is calculated per case. The amount of arrears is irrelevant. If you have one \$5.00 collection paid to the family during the year on a case with \$20,000 in arrears, you receive full credit. On the other hand, if you have a case with \$100 in arrears and receive no payment, you receive no credit on that case.

6-The impact of a closed case is complex. Closing a case has an immediate impact on the current support ratio but does not affect collections on arrears until the next year. For example, suppose you have \$100,000 due in current support for the year. After the first two months of the federal fiscal year, you are able to close 10 cases with orders of \$200 per month on each order. This reduces your denominator by \$20,000 (10 cases times \$200 each = \$2,000 per month times 10 months = \$20,000). This would reduce your denominator by \$20,000. If you close these 10 cases with 1 month remaining in the federal fiscal year, your denominator will be reduced by \$2000. However, if these cases have arrears, your arrears denominator would not decrease until the next Federal Fiscal Year.

7-It is very difficult to improve performance on current collections late in the fiscal year. For example, if a State collects \$50 with \$100 due for each of the first 10 months of the year and improves dramatically to collect \$70 with \$100 due for each of the last two months, their performance only increases to 53.3% for the year.

8- With the economic downturn, States may see a decrease in their cost effectiveness. If the total IV-D dollars collected decreases or stays the same while IV-D costs increase, the cost effectiveness will decrease.

9- In early 2009, I compared one State's cases reported for Federal Offset and the total cases with arrears at some point during the year. Less than 50% of all cases with arrears were reported to Federal Offset. A primary reason for this large discrepancy is pay cycles. For example, if an NCP receives two paychecks per month, he/she will be in arrears for ten out of every twelve months. These cases usually have arrears eliminated in the two months when the NCP receives three paychecks. These cases are often not submitted for federal offset.



### Incentive Calculation Example

There are only two states in this example. The amount of available funds is \$30 million.

#### STATE A

Collection Base - \$ 80 million in collections on TANF and \$80 million on former TANF cases. Also, the State collected \$80 million on non-TANF cases. The Collection Base is \_\_\_\_\_.

Measure	Perform. Level	Percent of Incen.	X Collecti on Base of _____	Enter 1.0 for items 1, 2, and 3 and .75 for 4 5	Propor. State Incen Payment (column 4 x column 5)
1. Paternity	.82				
2. Order Estab.	.70				
3. Current Support	.50				
4. Arrears Paying Cases	.38 (last year .38)				
5. Cost Effect.	4.48				

**Total** \_\_\_\_\_

**STATE B**

Collection Base - \$ 20 million in TANF and \$ 10 million on former TANF cases. Also, the State collected \$40 million on non-TANF cases. The collection base is

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Measure	Performance Level	Percent of Incen	X Collecti on Base of _____	Enter 1.0 for items 1, 2, and 3 and .75 for 4 5	Propor. State Incen Payment (column 4 x column 5)
1. Paternity	.60				
2. Order Estab.	.55				
3. Current Support	.50				
4. Arrears Paying Cases	.70				
5. Cost Effect.	3.48				

**Total** \_\_\_\_\_

### Computing the State Share

<b>State</b>	<b>Proportionate State Incentive Payment</b>	<b>The Total Pool</b>	<b>State % of Total Pool</b>	<b>State Share of the \$30 Million total Pool</b>
A				
B				