

INTERNATIONAL CHILD SUPPORT PAYMENTS

Summary of Review and Recommendations

Background

In recent months, the international payments team at OCSE has been developing recommendations to address the problem created by the refusal or unwillingness of some countries¹ to accept child support payments by check. The team investigated the capacity of U.S. states to disburse payments other than by check, and researched options available for the international transmission of funds. This paper summarizes the findings of that work and the recommendations.

State Capacity

The payments team is very grateful for the assistance of state IV-D programs and the regional program specialists for their assistance in providing information concerning state capacity to send and receive international payments electronically. Regional program specialists interviewed all states about possible alternatives to checks and challenges with those alternatives. The results are summarized below.

Incoming Payments

1. **Wire Payments:** 17 states currently have the capacity to accept incoming wire payments. Only six states have received payments this way. Where wire payments are received, the process can be very manual.
2. **International ACH Transactions (IAT):** Only one state reported receiving payments this way.

Outgoing payments

1. **Check only:** 39 states can only disburse payment by check. These states do not currently have the capacity to use IAT, wire payments or EPCs for international payments.
2. **Wire Payments:** 19 states have the capacity to issue wire payments. Only five states reported issuing payments currently by wire. States reported that wire payments are expensive and often involve manual processes. Only 21 states are able to bundle payments in order to issue one payment for multiple cases. (This is a possible option to reduce the overall cost of wire payments.)
3. **Electronic Payment Cards (EPC):** Six states are able to offer EPCs to foreign custodial parents.
4. **International ACH Transactions (IAT):** Only two states are currently able to disburse international payments by IAT.

This information was essential to ensure that the recommendations developed are realistic for states and address the challenges they face.

¹ The countries that have requested that U.S. programs stop sending payments by check and send payments electronically are Austria, Hungary, Netherlands, Slovakia, Switzerland, and the Czech Republic.

Research Findings

Our research confirmed that it is likely that more countries will be asking the United States to discontinue the use of checks for international child support. The use of checks is decreasing in all countries and the international check clearing process is becoming more expensive and much more challenging as countries process fewer checks. A long-term, economically viable, electronic payment solution for states needs to be developed, as well as short-term solutions to address the immediate issue of getting payments to custodial parents in countries that will not accept checks for child support.

Key findings from the research include the following.

1. Wire payments can be used to send child support but are too costly to be used as a regular means of sending child support on a per-case basis. (Costs range from \$20 – 40 per transaction.)
2. International ACH, using the same network and processes that are currently used in the United States for disbursing payments domestically, is the preferred alternative but will be costly to develop on a state-by-state basis. Only California and Virginia currently have the capacity to send payments in this way.
3. Other options, such as internet-based funds transfers, currency brokers and remittance providers are not currently suitable for international funds transfers, particularly for payments to foreign government agencies.
4. Electronic Payment Cards can be used for direct payments to custodial parents in other countries, but the fees for their use are high, and separate arrangements must be made to get the payment data to the foreign Central Authority.
5. Some countries have opened bank accounts in the United States to receive payments from U.S. programs but not every country is able to do this.
6. Banking regulations differ from country to country and there is no common global standard for electronic payments. This means that as new countries join the Convention, new processes for payment with the country need to be developed and implemented.
7. Caseloads and payments volumes for international cases are low, making it challenging to justify significant investment at an individual state level to develop solutions for electronic payments.

Based on these findings, the following recommendations are made.

Recommendations

1. (States) For payments being sent to Austria, Hungary, Netherlands, Slovakia, Switzerland, the Czech Republic, and any other country that refuses to accept U.S. checks, on an interim basis, states should send payments by wire transfer to the Central Authority of those countries.
 - a. To reduce the costs associated with wire payments, states may, but are not required to, bundle payments for more than one case and send those in one wire payment.
 - b. Where bundling or rolling-up payments necessitates holding funds beyond two days, the consent of the custodial parent is required, but that consent may be provided by the Central Authority on behalf of a foreign custodial parent.

Rationale: While long-term solutions are being developed, interim solutions need to be put in place to ensure that payments reach custodial parents in those countries where U.S. checks are being refused. Wire payments to the Central Authority of the foreign country, for disbursement

by the Central Authority to custodial parents, are the preferred option. Bundling of payments for more than one case is an acceptable means of reducing the costs associated with wire transfers.

OCSE is prepared to assist states in the implementation of this option by obtaining and sharing the necessary banking and central authority information for the identified countries, and to assist in obtaining the consent of the Central Authorities to the holding of payments, if required, to allow for bundling of payments.

2. (States) Where a state offers to send an EPC to a foreign custodial parent for the payment of child support,
 - a. If requested by the foreign Central Authority, a mechanism must be available to advise the foreign Central Authority of any payments sent to the creditor using the card.
 - b. The currency conversion charges, fees paid by the custodial parent and any transaction costs charged by the card issuer to the custodial parent should be disclosed to the foreign central authority and the custodial parent.
 - c. Fees, if any, charged to the foreign custodial parent for the use of the card should be accounted for in the calculation of the balance owing under the foreign order.

Rationale: As direct payments to a foreign custodial parent bypass the Central Authority, if requested, an alternative means of advising the Central Authority of payments should be put in place so that the Central Authority is able to properly monitor the case. From a practical perspective, EPCs are most likely to be viable with countries such as Mexico, where there is little involvement from the Central Authority.

In situations where an EPC is required in order to get a child support payment to a foreign custodial parent, states must be mindful of the fees charged to foreign custodial parents. If the order being enforced is a foreign one, these fees and currency conversion charges must be accounted for in the determination of the outstanding arrears. PIQ-04-02 provides guidance concerning the disclosure of fees/charges for EPCs and applies to cards issued to foreign custodial parents, including the requirement to disclose the fees to the foreign central authority.

3. (OCSE) Assess the feasibility of a centralized solution for the management of all incoming and outgoing international payments.

Rationale: The most effective long-term alternative to checks is International ACH (IAT). This allows states to leverage the processes already used for sending and receiving payments in the United States. However, in order to develop IAT, each state will have to make changes to its automated systems to provide the additional data required for IAT, ensure that its SDU or state bank has a correspondent relationship with a bank in each receiving country, and continually enhance those services as other countries join the Convention. The burden on states to develop and maintain the IAT process is difficult to justify, given the small international caseload.

A centralized solution to manage all incoming and outgoing international payments is likely to be more cost-effective and better positioned to adapt to changes in international payments than development of IAT on a state-by-state basis. A centralized process would develop and maintain IAT processes, as well as disburse funds using other mechanisms, if necessary for specific foreign countries. A feasibility study reviewing the operational, financial, organizational and technical feasibility of a centralized solution will determine whether this is a reasonable option.

4. (OCSE) Provide information to foreign countries about the process to open a bank account in the United States.

Rationale: If a foreign country that is not able to accept checks is able to open a U.S. bank account, this provides a viable short-term solution for U.S. states, as payments can be sent using domestic ACH to that bank account. The foreign country will then be responsible for the foreign currency conversion of those payments and getting the funds to their home country. Norway and the Netherlands have opened bank accounts, and some Canadian provinces are investigating this option. OCSE will provide information and assistance, as needed, to foreign countries that wish to investigate this option.