Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 485 (as passed by the Senate)
Sponsor: Senator Valde Garcia
Committee: Families and Human Services

Date Completed: 9-11-03

RATIONALE

Under current law, parents with child support arrearages are assessed a surcharge at an 8% annual rate. For some, who might be struggling to make the initial payments, the surcharge is an added burden that hinders their ability to continue paying support. Reportedly, several other states have reduced their child support surcharge by tying it to an adjusted prime rate. Some people believe that Michigan also should assess this rate in order to encourage parents to continue paying their past-due child support.

CONTENT

The bill would amend the Support and Parenting Time Enforcement Act to revise the interest rate on child support arrearages. The bill would take effect January 15, 2004.

Currently, as of January 1 and July 1 of each year, a surcharge calculated at an 8% annual rate is added to past due child support payments. Under the bill, the surcharge would be calculated at a rate equal to the adjusted prime rate determined by the Department of Treasury under Section 23 of the revenue Act at the time the surcharge was scheduled. (Section 23 states that the term "adjusted prime rate" means the average predominant prime rate quoted by not less than three commercial banks to large businesses, as determined by the Department. The adjusted prime rate must be based on the average prime rate charged by not less than three commercial banks during the six-month period ending on March 31 and the six-month period ending on September 30.)

MCL 552.603a

BACKGROUND

The following table shows the adjusted prime rate on July 1 between 1986 and 2002.

Year	Rate
1986	9.4%
1987	7.5
1988	8.7
1989	10.6
1990	10.3
1991	9.6
1992	7.1
1993	6.0
1994	6.0
1995	8.5
1996	8.5
1997	8.3
1998	8.5
1999	7.8
2000	8.5
2001	9.1
2002	5.0

On January 1, 2003, the adjusted prime rate was set at 4.8%.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument
Sometimes a person has difficulty in meeting his or her child support obligations, which is compounded by the 8% surcharge added to

the past-due amount. If this surcharge interferes with the person's ability to make further payments, he or she might not be able to pay at all. By tying the surcharge to the adjusted prime rate, which is already done for other court ordered money judgments, the bill still would penalize parents for making late payments but would not make it so difficult that they stopped paying. Since the adjusted prime rate tends to reflect the state of the economy, the interest rate on support arrearages also would correspond generally to economic circumstances. During down times, when jobs might be scarce and incomes stagnant, the interest rate would be lower, as a rule, than it would be during times of economic growth.

Legislative Analyst: Julie Koval

FISCAL IMPACT

The bill would have an indeterminate fiscal impact on State government. The amount of overdue child support payments was approximately $7.2 billion as of December 31, 2002. The surcharge for six months at the current rate is calculated to be approximately $288,000, or a 4% surcharge. The bill would require the use of an adjusted prime rate that would fluctuate every six months. The adjusted prime rate in July 2002 was approximately 4.95% annually, while the rate was 4.75% annually in January 2003. This fluctuation is tied to the market. For example, in calendar year 1994, the February rate was 6% annually but 13 months later 9% annually; therefore, the child support payments surcharge would have been 3% or 4.5%, respectively.

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