



## Changing Penalties to Incentivise Child Support Payment

# Child Support debt is a persistent problem for both IR and customers



The existing penalty scheme adds a significant amount of financial burden to Child Support customers. There is an opportunity to rethink how we can design a penalty scheme that would make it easier for customers to make timely payments.

**\$1.041b**

Total Child Support debt for domestic customers

**79,000**

Individuals are currently in debt

**68%**

\$710m of Child Support debt is in penalties

*As of March 2019*

## *Policy is rethinking what Child Support penalties should look like*

We are making it easier for customers to “do the right thing”. In particular, changing how payments and penalties are administered, to encourage customers to pay Child Support accurately and on time.

To achieve this, the Policy team wanted to understand what changes can be implemented in Release 5.

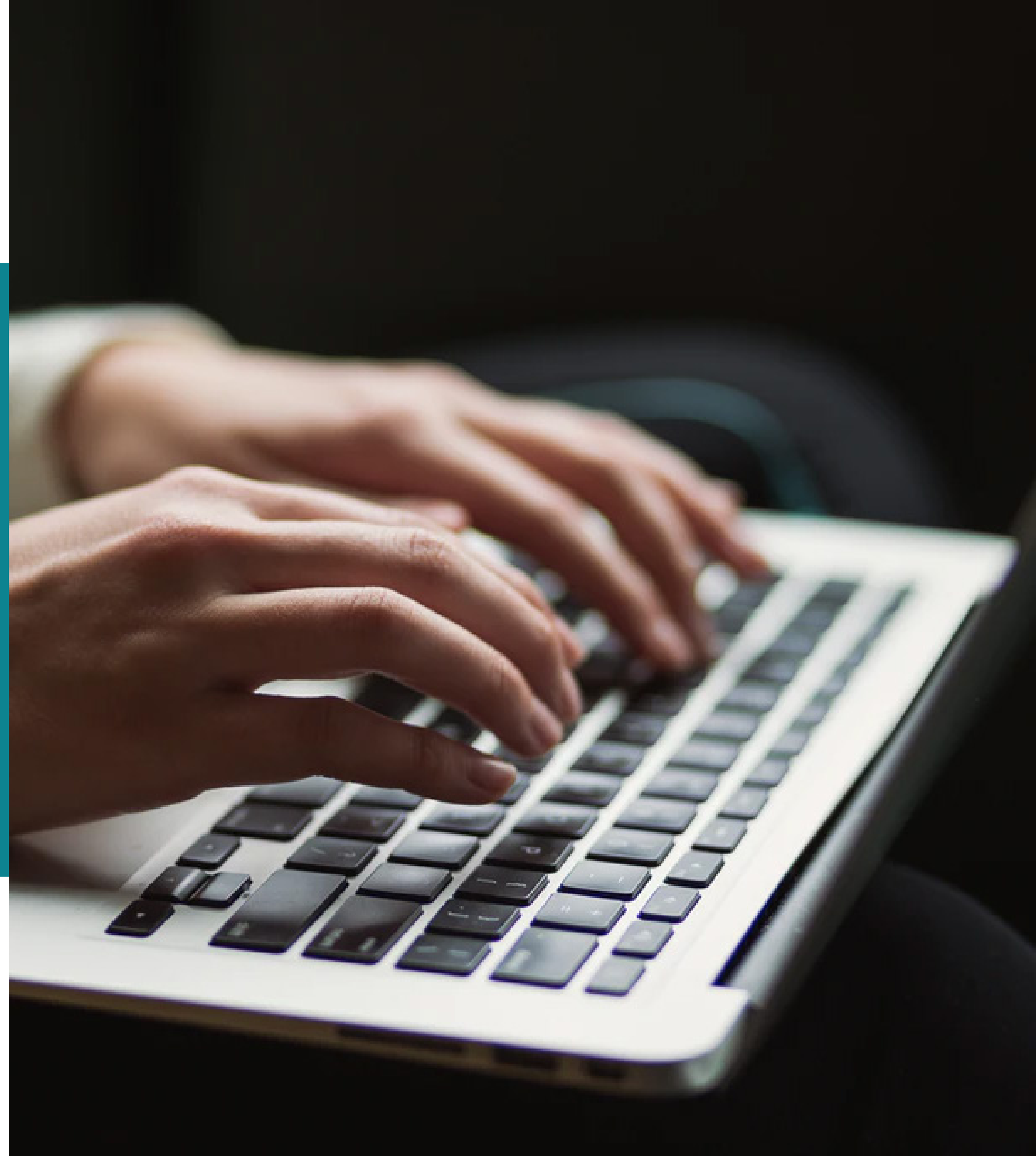




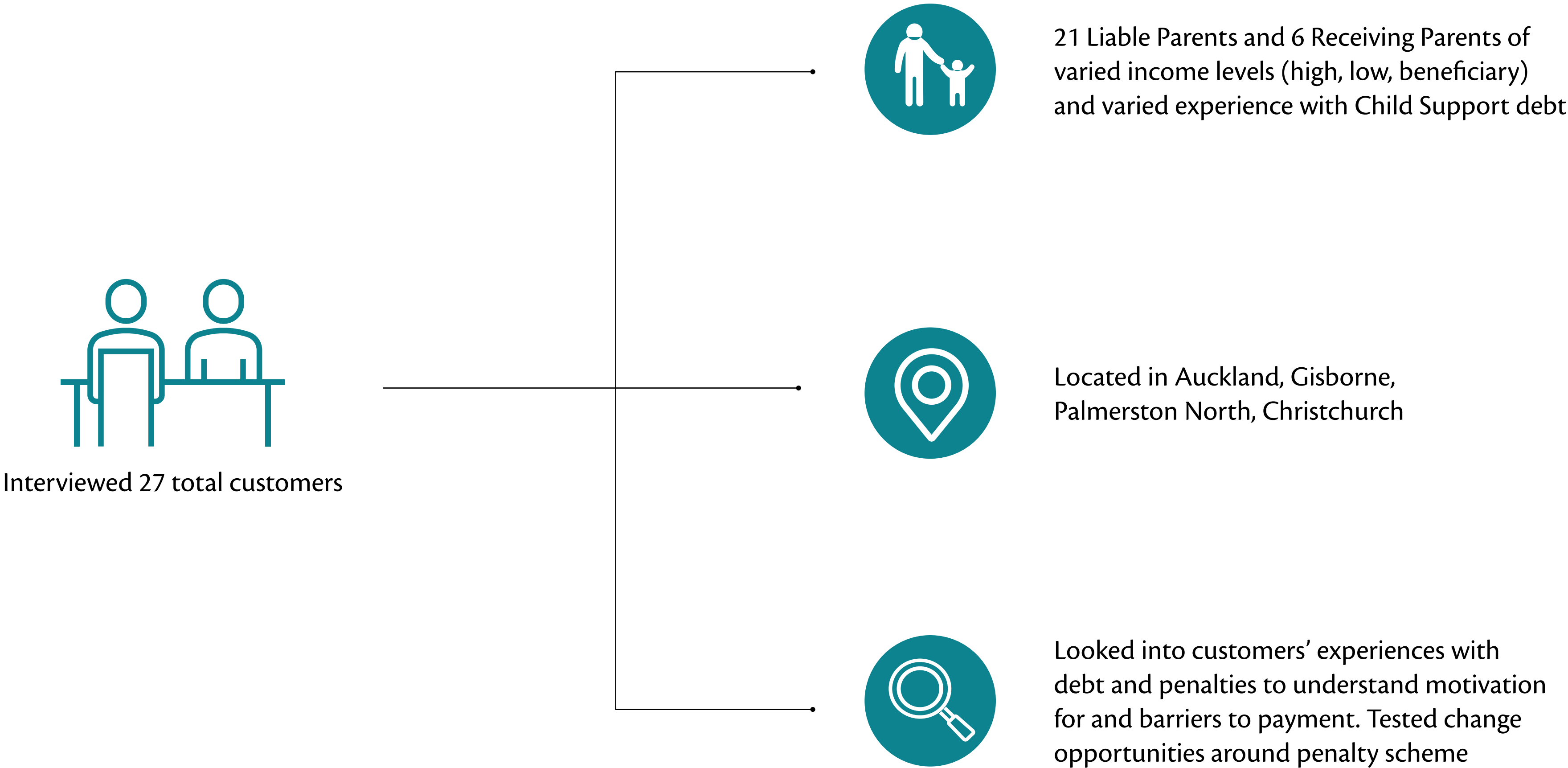
## How can Inland Revenue incentivise Child Support payment?

The Policy team provided change options for CIE to test with customers. The aim was to bring in the customers' voices into these proposed policy changes, and understand what considerations were important for them.

CIE set out to explore opportunities for change around Child Support payment and penalty administration that would encourage customers to make timely and accurate payments.



# We talked to customers about their experiences with Child Support payment and debt



**Here is what we learnt from customers**

# Customers' past experiences influence how they engage with Child Support, and how they view penalties.

Child Support is one of many priorities in a customer's life, especially during relationship breakdown. Customers often have to deal with:

## Complex rules

Rules around payments and penalties are difficult. Many customers we interviewed didn't understand the rules and felt unprepared when they received penalty letters from IR.

They didn't know how it happened and what they had to do to fix it.

*"I'm not sure what the penalties are now... once you start getting penalties applied, it just becomes impossible to keep up."*

- Liable parent

## Competing priorities

Events leading up to the Child Support process can be stressful. Customers are dealing with changes in accommodation, income, and custody around the same time that the Child Support process starts.

*"It's very hard... to try and get yourself set up financially. Especially if you want to rent, you've got to pay bond... We split on a pretty quick moment, it took a while for me to get sorted. I had to move in with a friend first and then try and find a place to move into."*

- Liable parent

## Precarious employment

We noticed that precarious working situations affected some customers' ability to keep up with payments. Some customers felt they had no options other than to let debt build up or go back onto the benefit in order to pay.

*"I don't find out if I'm working 'til the day before... I might get a text tonight saying, 'you start at this time tomorrow'. I could probably go a whole week and not get a text, and then next week work four days and won't get the benefit."*

-Liable parent

## Emotional and financial stress

Being in debt with IR is stressful for customers. Child Support debt and penalties become both a financial and emotional burden that has downstream impact to other aspects of their lives.



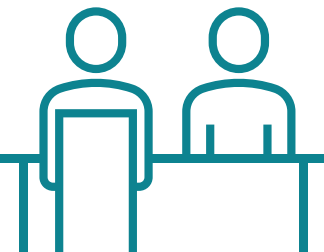
*"Last year and I had no income and I'm having to borrow money from the bank to pay."*

- Liable parent

*"I'm trying my best to get that money for you guys, I did 63 hours last week just to keep it up."*

- Liable parent

# The payment framework needs to help customers navigate the Child Support journey more easily

Key customer needs	What does it mean for customers	What does it mean for IR
 <p>Rules around payments and penalties need to be simple and clear</p>	<p>Customers said they find it difficult to remember key dates and percentages involved with penalties.</p> <p>How penalties are applied is complicated.</p>	<p>It can be hard to provide consistent advice to customers.</p>
 <p>Customers need to have practical options and flexibility</p>	<p>Customer talked about payment methods and timeframes being inflexible. Repayment options are rigid and do not take into account customers' wider context.</p> <p>There is insufficient time for customers to react to debt and penalties, once penalties start to apply.</p>	<p>Customers may disengage if they don't see other options to offset their debt. It may become harder for IR to incentivise payment.</p>
 <p>Customers need the penalty framework to help them, not punish them</p>	<p>Some customers felt IR is not working with them, but against them. They perceive that IR has high expectations for customers to manage payments correctly, and is quick to penalise if they don't.</p>	<p>The current scheme is penalising customers too quickly.</p> <p>This does not foster cooperation or incentivise customers to offset their debt faster.</p>



# Child Support rules around payments and penalties should achieve some key objectives:

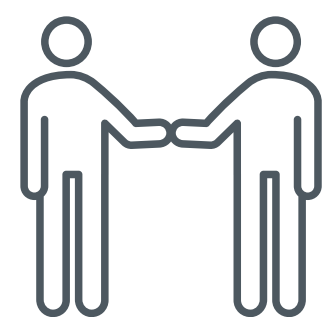
We have arrived at these key objectives from speaking to Child Support customers, as well as subject matter experts from the Policy, Families Segment, and Customer Service teams.

## What customers want



### Clarity

Rules need to be simple, easy to administer and understand. Customers would be clearly informed of their obligations and know what is expected of them.



### Flexibility

Enable customers to do what is practical to maximise the chance of making timely and accurate payments (and offset debt), therefore getting money to the qualifying child on time.



### Reciprocity

Payment and penalty rules should be administered by IR on the assumption that most customers want to do the right thing, and IR should be seen as working with customers towards the same goal.

## What the Business wants



### Feasibility

Within the business, there is willingness and capabilities to implement this change through service and operations.



### Effectiveness

By implementing this change, it will increase Child Support payment to receiving parents and reduce debt.



### Certainty

This change will give customers more certainty on how rules are being applied, and what will happen as an outcome. Parents can contextualise how missed payments and penalties would impact them.

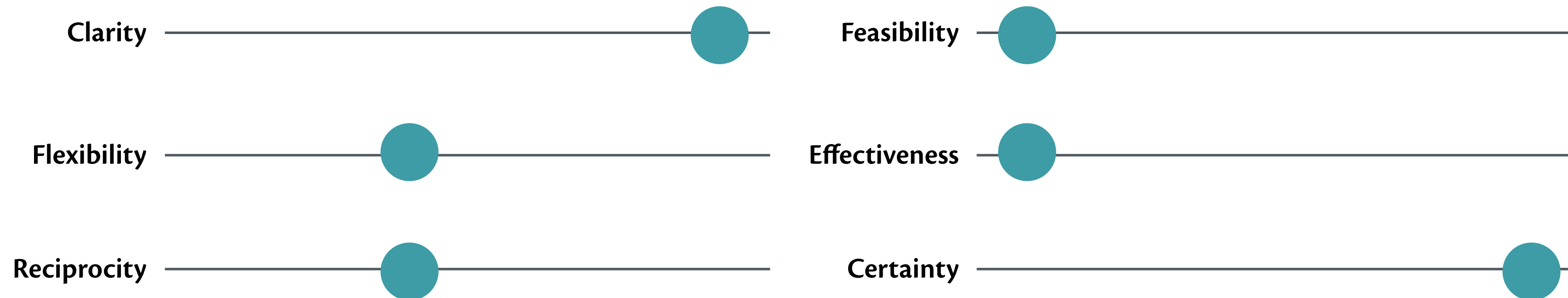
## We tested 7 proposed changes to payment and penalty rules with customers

What was taken into consideration:

- Feedback and concerns from both customer groups - liable and receiving parents
- How would each proposed change impact on customers' ability and willingness to pay
- If the change was implemented, how could IR address customers' concerns



# 01. Remove *all* penalties



*“If you just remove all penalties people will go, well, I haven’t got it, and then they’ll go two, three months without, and it is funding a service to look after their kids. So I don’t think that will work.”*  
 - Liable parent

*“The removal of penalties is not really an option. Cos there’s a reason why people go through IRD, for that security.”*  
 - Receiving parent

## What did customers say?

Liabile parents and receiving parents we spoke to didn’t support this option.

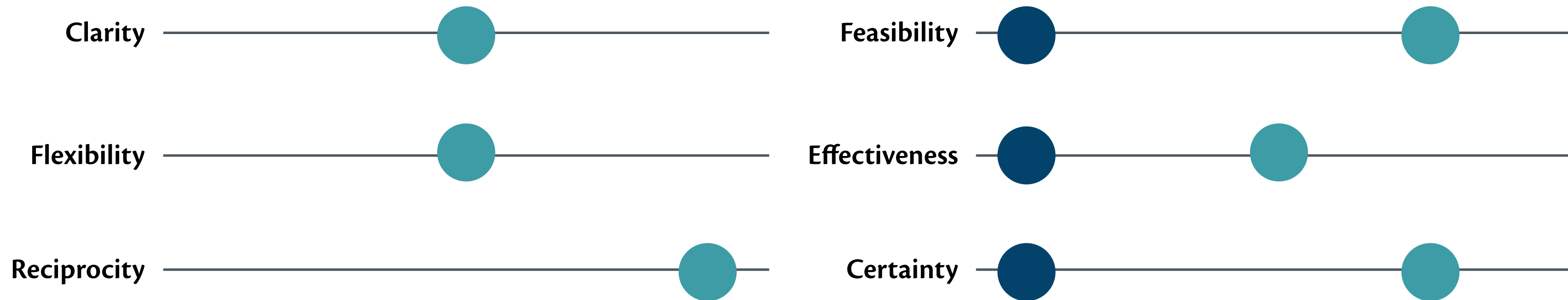
Most customers we spoke to said there needs to be accountability for failing to meet their obligations.

Customers were concerned removing penalties would encourage liable parents to avoid paying and would do little to reduce debt.

## What did subject matter experts say?

Although this option may provide high levels of clarity and certainty for customers, within the business there was very low interest in implementing it.

# 02. No penalties by default, start applying penalty if customer falls into arrears more than x times per year



*“I think penalties should be for people who are actually seriously trying to get out of their responsibilities, rather than a standard parenting right across the board for everybody”  
- Liable parent*

*“I’d expect this from any company... if I’m normally really good then I would hope that I wouldn’t get penalised for a couple of times.”  
- Receiving parent*

### What did customers say?

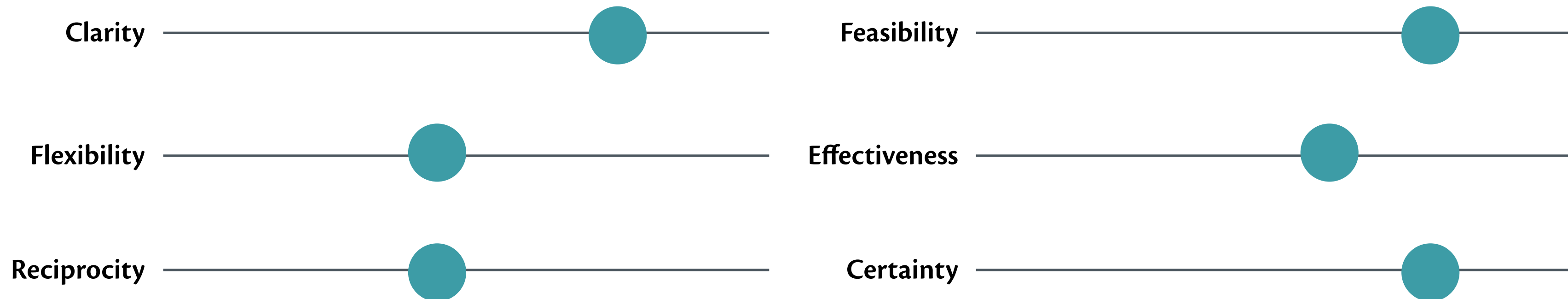
A number of customers told us they would expect some form of leniency is given to them, when they have always been compliant.  
A strong theme emerged from the interviews – penalties should be reserved for ‘people who are trying to get away with Child Support’.

### What did subject matter experts say?

This option is very feasible to implement as an automated business rule. Feasibility, effectiveness, and certainly would decrease if this rule needs to be applied with discretion from customer service officers.  
It’s important to consider how this may impact receiving parents, if liable parents are given some leniency.



# 03. Remove *incremental 2% penalty* – *initial 2% and 8% penalties apply as usual*



*“If someone’s missed their payments for a couple of months, [and IR] ‘snowballs’ them straightaway with 8% and monthly fees... that is going to cripple them... then what’s the point of them actually trying to pay it off?”*  
*- Liable parent*

## What did customers say?

We’ve noticed a lack of engagement from customers when we presented this option. It’s a common theme that customers found it hard to quantify percentages. They prefer to work with dollar figures.

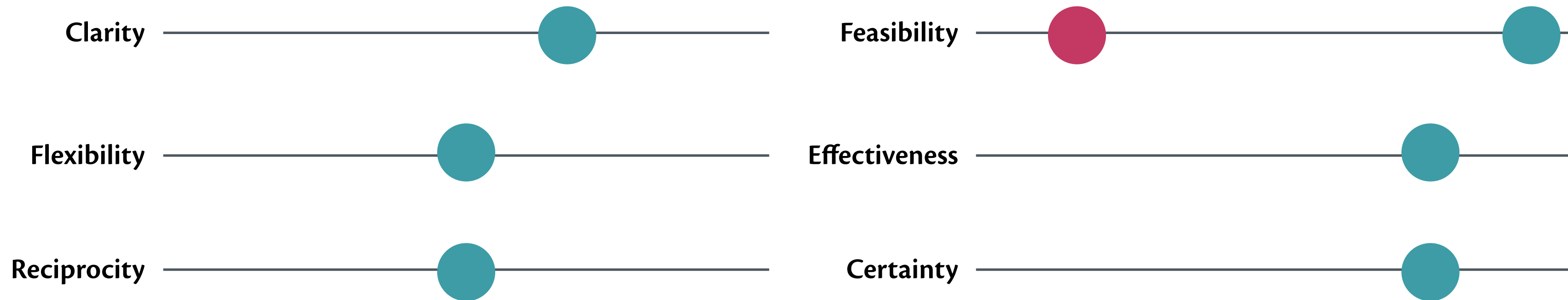
Some customers still thought that initial penalties are being applied too quickly.

## What did subject matter experts say?

Different from customers’ lack of engagement, subject matter experts we spoke to believed removing incremental penalties would make a visible reduction to IR’s debt.

# 04. Remove *incremental 2% penalty* – give customers an *extra 3 week grace period* between initial 2% and 8% penalties

If the business has to let customers know how many days they have left to make payment



*“Reasonable because... they give you time to come up with that amount of money that you are supposed to pay... it at least gives you a chance to even pay it... a week is actually too short. Anything can happen within that week.”*  
- Liable parent

*“I’ve only had to pay a penalty once when I forgot ... you miss the payment and it’s, “bang”, a penalty... grace period would be nice, just for people who it just slips your mind.”*  
- Liable parent

## What did customers say?

All 21 liable parents we spoke to, highlighted the importance of having a grace period. These customers wanted to have a reasonable timeframe to get to a financial position where they can begin offsetting debt.

Some customers hoped to use the grace period as an opportunity to get IR.

Some receiving parents asked us if IR could let them know when grace period might affect their payments.

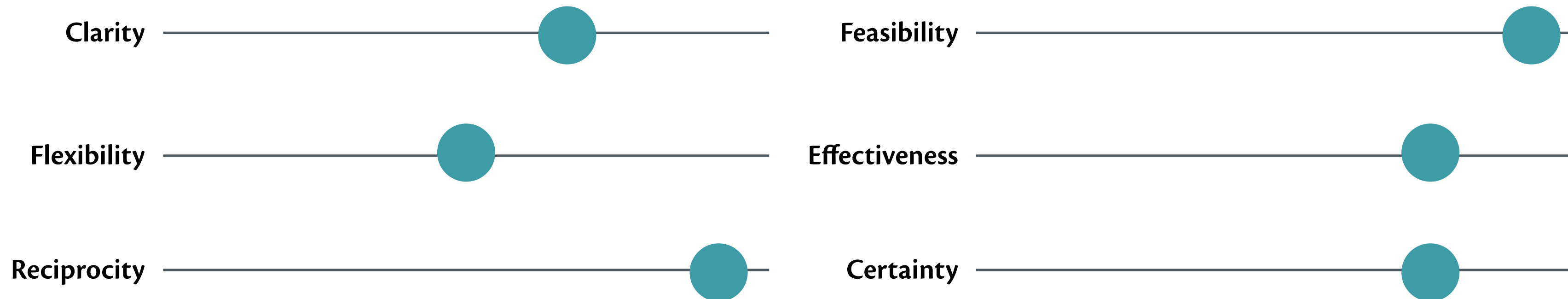
## What did subject matter experts say?

Subject matter experts from the Families segment we spoke to indicated that this option has high feasibility to be implemented.

It is unclear if the business would be able to notify customers if grace periods would affect payment dates for receiving parents, as well as how grace periods are tracking for liable parents.

However, with START enabling more automation in R5, IR could explore automated text/email reminders.

# 05. Remove incremental 2% penalty – give customers a 3 month grace period before any penalty applies



*“Penalties shouldn’t be [applied] for the first three months... if I had to start paying \$380 from the day we split, I’d still be living in a mate’s spare bedroom”*  
- Liable parent

*“I could probably manage if it was a week late, I could just focus on the most important things and put the others aside for a week. If it was a month later then obviously that would throw me off.”*  
- Receiving parent

## What did customers say?

Customers were asked to reflect on their experiences when Child Support began for them. A common theme was that when partners separate and Child Support process started, customers’ situations are in flux, and they felt unprepared to start making payments immediately.

Many customers emphasised on the need for longer grace period at the beginning of their Child Support process.

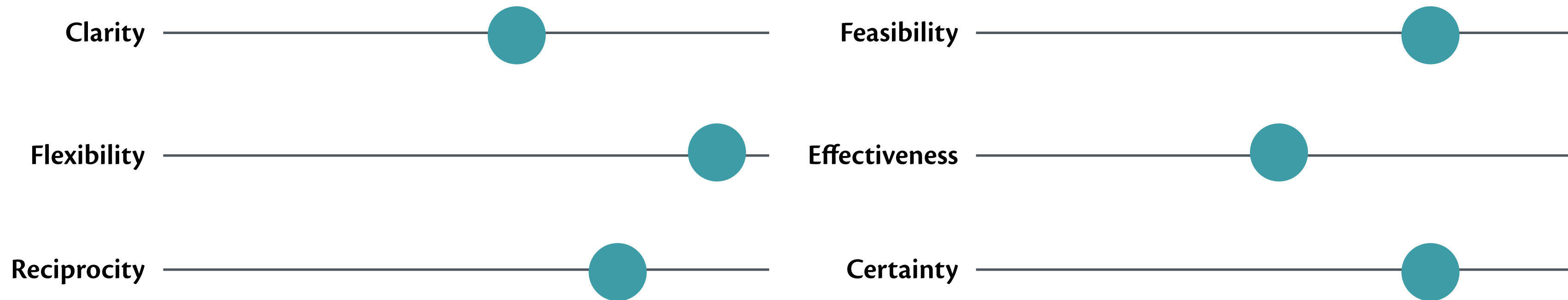
Some receiving parents expressed concerns over receiving payments late as a result.

## What did subject matter experts say?

Subject matter experts we spoke to indicated that there is willingness from the business to implement this change.

The business is also implementing a more comprehensive 3 month onboarding process for new liable parents. Allowing a 3 month grace period can help customers more effectively at avoiding debt.

# 06. Customers can apply for *more flexibility* with due dates if they have irregular income flow and cannot pay the full amount



*“Because I do sole trader work as well, having flexibility on the payment dates would probably make a huge difference.”*  
- Liable parent

*“I think that’s awesome because flexibility is critical”*  
- Receiving parent

### What did customers say?

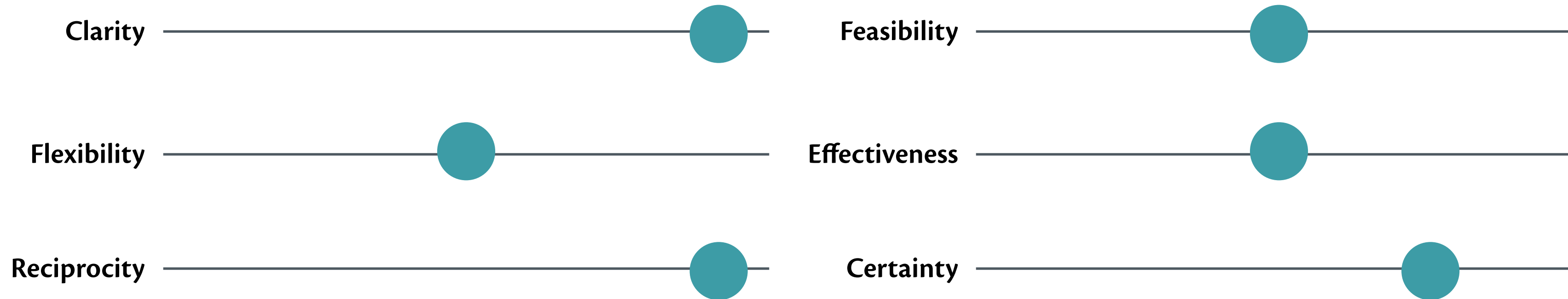
A key theme that ran through customer interviews was the importance of having flexibility. Some liable parents who run businesses or are self-employed saw this as a way to reduce their stress around the end of every month, as business expenses are often due around the 20th of each month.

### What did subject matter experts say?

This change option would require customers to apply individually, it would be easy for IR to administer. Requiring payments to be made by the end of the month would not negatively affect receiving parents, as they usually receive payments around the 6-7th of the following month.



# 07. *Automatically write-off* penalty without needing customers to contact when customer has paid a notable amount



*“So this is humanity... it’s not hard and fast, I think that’s really good and it’s a reward as well.”*  
*- Liable and Receiving parent*

*“Even every year say, “You’ve got so much owing but you’ve kept up your payments ... so let’s help you out a wee bit here.””*  
*- Liable parent*

### What did customers say?

When talking to customers, it became clear that many became disengaged with the IR processes, and it may lead to customers either forgetting or avoiding to contact IR when change happens.

Disengaged customers who don’t set up regular repayments don’t qualify for automatic penalty write-off. These customers are likely to pay more penalties than those who have regular payment deductions.

### What did subject matter experts say?

The business has indicated this change may be feasible to implement, and it may reduce Child Support debt slightly.

We could anticipate that implementing this rule could give customers significantly more certainty - that they would not accumulate further debt during their repayment.

**Bringing it all together**

# Bringing everything together

- There is consensus among customers we interviewed to keep penalties as an incentive to keep Child Support “top of mind”.
- Customers’ lives are complex. Therefore they would like to have more flexibility and longer grace periods, so they would be at a better position to make Child Support payments.
- With any policy changes, customers need rules to provide clarity, flexibility, and the perception that IR is working “with” them.

*“When you’ve got your money organised and then you find out you’ve got a penalty... Where’s it going to come from? The only place it can come from is from the food and that’s going against what the Child Support’s about.”*  
- Liable parent

*“I agree with penalties, but I feel if someone misses one payment after ten years and then goes straight back they shouldn’t be penalised.”*  
- Liable parent








*“That penalty does make sure I’m on track with the date a bit more, so to take it away would mean I’d be able to be like, I don’t have to pay it today, even though I could.”*  
- Liable parent





# Bringing everything together

Here is a summary view of the key takeaways informed by this research - taking into account perspectives of liable and receiving parents we interviewed, and considerations from the business.

Proposed changes		Overall recommendation	
1	Remove all penalties		Customers disliked this option and it's unlikely to incentivise more regular and own-time payments.
2	No penalties by default, apply penalty if customer falls into arrears more than x times per year		Customers supported this. Not applying penalties straight away takes into account customers' complex circumstances.
3	Remove incremental 2% penalty – initial 2% and 8% penalties apply as usual		Customers perceived this as no improvement, but IR believes this will reduce debt made up of accumulated penalties.
4	Remove incremental 2% penalty – give customers an extra 3 weeks grace period between initial 2% and 8% penalties		Customers viewed this as intuitive. The business already shows willingness to implement this. We may need to consider how receiving parents would be impacted.
5	Remove incremental 2% penalty – give new customers 3 months grace period before any penalty applies		Customers viewed this as intuitive. This can be implemented together with the newly established onboarding process. Need to consider how this would impact receiving parents.
6	Customers can apply for more flexibility with due dates if they have irregular income flow		Customers wanted more flexibility provided that this will not cause delay to receiving payments. Customers need to apply for this.
7	Automatically write-off penalty when customer has paid a notable amount		This will help disengaged customers who pay back on irregular basis. Subject matter experts imagined this would help some customers.



# We have also identified some areas of opportunities where IR can provide customers with the support they need the

## Customers want clear, simple and relevant information at the beginning of their Child Support journey

IR can provide more relevant information and more tailored support at the beginning of customers' Child Support experience. Customers can manage their Child Support better if they are well-informed and are confident to take the next step.

Rules around payment and penalty need to be simple and in non-technical terms.

There's an opportunity to optimise the Child Support customer experience, so that parents are given consistent and reliable information.

## There are operational opportunities to improve customers' engagement, especially around key moments of change

Customers can disengage easily, it may be difficult for them to navigate the process around payments, debt and penalties.

There is an opportunity to re-engage with customers at key moments – e.g. when a customer applies for benefit, inquires or registers for business tax, or exits employment.

## Customers would benefit from more proactive measures

Many customers expect IR and Work and Income to collaborate to help customers who move in and out of benefits.

Customers we spoke to welcomed the concept of having a third party to help them find employment and training, provide life skills training, provide support around mental health and wellbeing.

*"What is a penalty?"  
- Liable parent*

*"Every time you ring up you're on the phone for hours, and it depends who you speak to. You ring up one day and they'll tell you this, ring up the next day, slightly different."  
- Liable parent*

*"I just don't like dealing with most government departments. They sent me a letter... I don't actually deal with it... I've got other things to worry about"  
- Liable parent*

*"A lot of people would expect StudyLink, WINZ, IRD all to be talking... it'll help with Child Support because then you're not going to miss payments."  
- Liable parent*



**Inland Revenue**  
Te Tari Taake

## **Customer Insight & Evaluation**

**ISBN: 978-0-478-42450-8**