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THE U.S. WAGE GARNISHMENT LANDSCAPE:

Through the Lens of the Employer

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Introduction

Wage garnishments – the legal seizure of employee pay to settle debts like child support payments, tax levies, and student debt – are impacting many U.S. employees. In fact, one in 14 such workers is carrying a wage garnishment and an estimated 12 percent of those with a garnishment have more than one type.[1]

The federal government and all 50 states allow for some form of wage garnishment. The amount of funds being garnished is staggering. For example, according to a recent report, "Approximately $1 billion in government-backed student loan debt has been garnished each year over the past several years."[2] In just a three-month period during 2015, "private debt collection companies hired by the (U.S.) Department of Education garnished more than $176 million in wages from defaulted student loan borrowers."[3]

Even as employees are confronted by the stress of having their wages garnished, their employers are saddled with the compliance burden and stress of managing those wage garnishments. Employers that fail to comply with garnishment orders can face costly penalties. In some jurisdictions, the employer can even be held liable for the full amount of an employee's judgment.

What are the main reasons for employee wage garnishment in the United States? Do employees carrying garnishments have certain characteristics that differentiate them from the overall workforce? Are there different ways for employers to view wage garnishment to gain a better understanding of garnishment issues?

In the whitepaper, "Garnishment: The Untold Story" published in 2014, the ADP Research Institute® (ADP RI) presented a first-of-its-kind look into U.S. wage garnishment, based upon anonymized payroll data of approximately 13 million U.S. workers from 2013. ADP RI has revisited the wage garnishment topic utilizing 2016 aggregated, anonymous pay data of about 12 million U.S. workers.

Importantly, the new ADP RI study presents an expanded view of U.S. wage garnishment activities through the lens of the employer, such as the average number of garnishments carried by employees. The study is also augmented with a new analysis of data to provide employers with greater insights into how garnishment may affect their workforce and organizations.

From an employer's perspective, company size, industry, and the location of employee workplaces are all crucial factors that contribute to an organization's compliance burden. This study confirms trend lines that should prompt employers of all sizes to carefully peruse its findings.

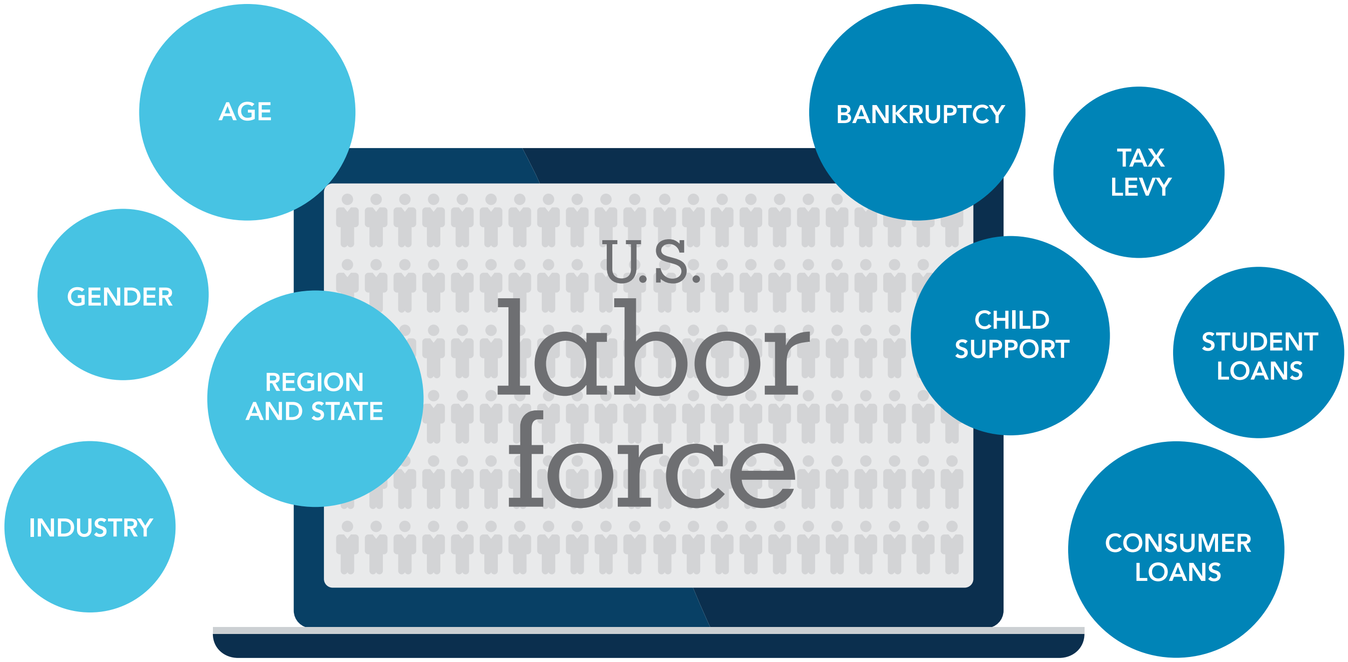
1 "Taking the grief out of wage garnishments," Julie Farraj, DHRDIVE, May 11, 2017.
2 "Wage Garnishment For Student Loans Is Exploding," Jerilyn Klein Bier, Financial Advisor, January 21, 2016.
3 "Americans just had $176 million in wages garnished by the government due to unpaid student loans," MarketWatch Personal Finance, Jillian Berman, March 22, 2016.

Data and Methodology

In this study, ADP RI analyzed aggregated, anonymized payroll data from 2016. The dataset included about 12 million employees, 16 years of age and older. Garnishments carried as of the last quarter of 2016 were used in the analysis.

Categories of garnishment included state and federal bankruptcy, court-ordered and private child support, state and federal tax levy, and a category comprised of all remaining types of judgments, such as student loans and consumer loans. The rate of garnishment was calculated as a percentage of employees having their wages garnished compared to the entire workforce.

In addition to an analysis of garnishments by demographics (age and gender), geographic profiles (region and state), and industry and wages, the study also focused on garnishments carried by employees and garnishments from a company perspective.



What Is the Current State of Garnishment?

The study revealed that approximately 7 percent of the U.S. workforce had their wages garnished. Of the four types of garnishment studied, the highest rate (3.4%) was for child support, followed by "other" general garnishments (2.9%) involving mainly student debt and consumer loans, tax levy (1.3%), and bankruptcy (0.4%).

A comparison of garnishment rates between 2013, from the paper "Garnishment: The Untold Story," and this study reveals the emergence of some significant trends. While the overall proportion of employees with garnished wages in 2016 (7%) was marginally less than rates for 2012 and 2013 (both 7.2%), through the years trends solidified, presenting no major shifts in the U.S. wage garnishment landscape.

For instance, except for the tax levy category, which decreased slightly from 1.5 percent to 1.3 percent, the rates for child support, other garnishments, and bankruptcy have all remained in line with 2013 data. The current research also introduced a new metric – the number of garnishments carried per employee, which according to the study averages 1.4 per employee.

Analysis presents additional findings through the prism of company, industry, state, and regional profiles. Each type of garnishment not only has a defined impact on each garnished employee, but also on their employers who bear the cost of wage garnishment administration and compliance.

Child Support Is Still the Chief Reason for Most Wage Garnishments

Child support continues to be the largest reason for wage garnishments in the United States in both 2013 and 2016. Half of all garnished employees carry a child support obligation, which is in line with the rate of garnishment for child support. Most states have stringent laws when it comes to the support of dependent children and wage garnishment is among the most prolific tools to ensure parents and legal guardians are meeting their obligations.

AGE	GARNISHMENT RATE (CHILD SUPPORT)	AVERAGE NUMBER OF GARNISHMENTS
16 to 24	0.6%	1.10
25 to 34	3.0%	1.21
35 to 44	5.7%	1.27
45 to 54	4.3%	1.24
55 to 64	1.8%	1.17
65 plus	0.5%	1.13

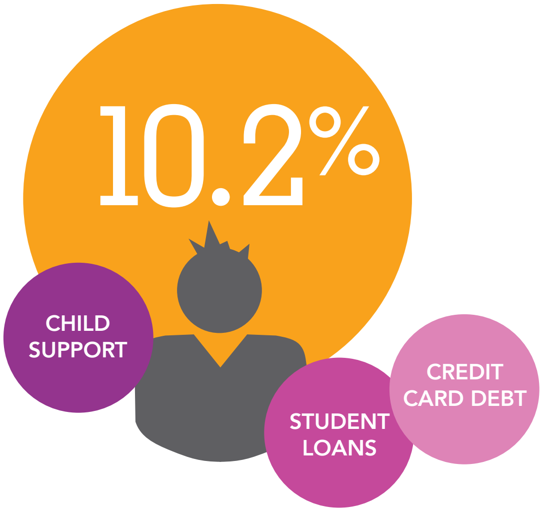
Employee Garnishment Rate and Average Garnishments by Age

Middle-Age Workers Carry the Highest Number of Garnishments

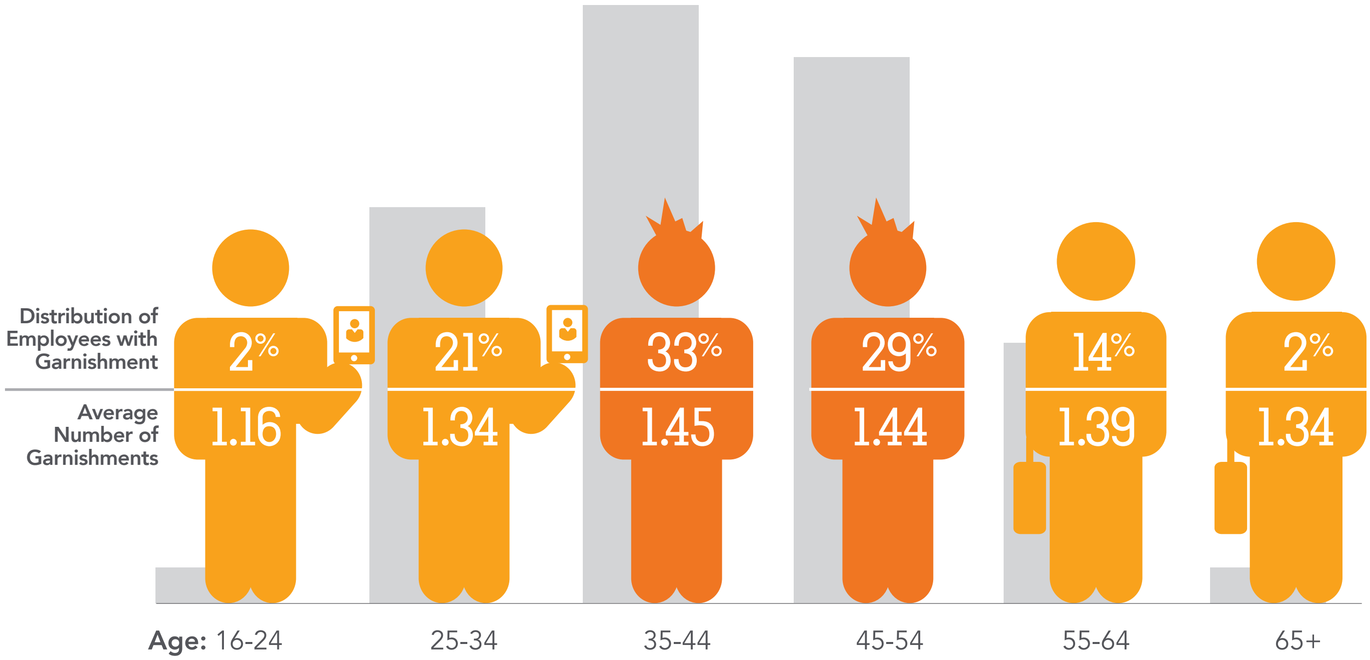
Gen Xers – employees between the ages of 35 and 54 – represent the highest number of employees with wage garnishments, with the highest overall garnishment rate (10.2 percent) in the 35-to-44 age group. Additionally, the employee-with-garnishment distribution rate is the highest for this group at 33 percent.

These middle-age workers also have the highest average number of garnishments (1.45) and corresponding rate of garnishment due to child support (1.27) and other garnishment, including student, consumer, and credit card debt (1.33).

This is not surprising since most of the child rearing is done by this age group. They are also burdened with lingering student debt from their college days, significant tax levy garnishment, and carry more responsibilities than other age groups. While employers generally benefit from the stability and job knowledge that middle-age workers bring to the workplace, those advantages come with a higher number and rate of garnishment.



Gen X Employees (Ages 35-54) Have the Highest Garnishment Rate

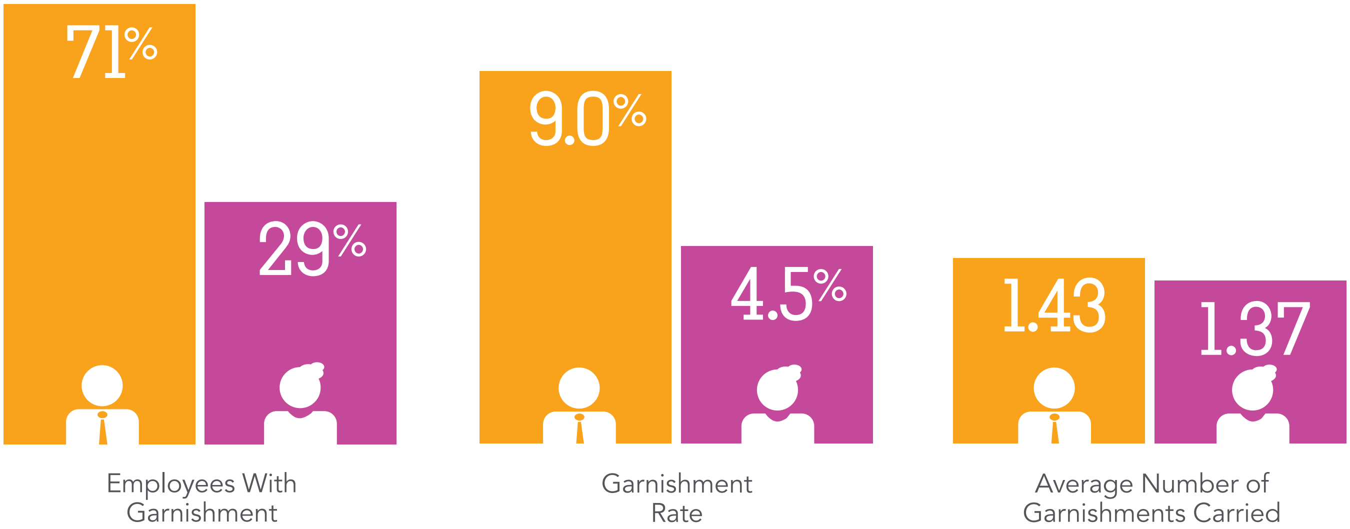


Distribution of Employees with Garnishment and Average Number of Garnishments Carried

Men are More Likely Than Women to Have a Garnishment

According to this study, men carry a higher number of garnishments than women (1.43 to 1.37), overall. Among employees having a garnishment, 71 percent are men. The garnishment rate for men is twice that of women, and overwhelmingly for payment of child support (92% vs 8%). About 60 percent of women, conversely, pay for different kinds of debt, including student loans and consumer types.

In a majority of child custody cases, women end up with the physical custody of the children and men pay for the child support – so a higher number of such garnishments for men is expected.



Gender Differences in Wage Garnishments

Garnishment Is Highest for Mid-Range Compensation Groups

The average number of garnishments and garnishment rate for all types of garnishment is highest for those earning between $20K and $60K with more than 60 percent of employees with a garnishment in this income range.

While this is especially true when it comes to child support rates and garnishments carried, the average number of child support garnishments carried per employee decreases as income increases. For instance, the number of such garnishments carried by employees earning under $20,000 averages 1.30 per employee, the average number declines to 1.10 when salaries exceed $250,000. This is an expected result. As income grows, employees are also getting older and emerging from their child-rearing days.

Who Has the Highest Garnishment Rate and Garnishments Carried?

Analysis from demographics, geography, and company-specific factors reveal that the following cohort has the highest garnishment:

Male, age between 35-55 – average age 43.8 years (one year younger than the same cohort without garnishment); average income 44K; cohort works in manufacturing in the Midwest at a company with 1,000+ employees. For this cohort, the garnishment rate is 26.3 percent and average number of garnishments carried by each employee is close to 2.

Which Employers Are Most Impacted by Garnishment?

Analysis presents employers with additional findings through the prism of company, industry, and regional profiles. Not only does garnishment have a defined impact on each garnished employee, but also on their employers who bear the costly administrative burden of garnishment compliance.

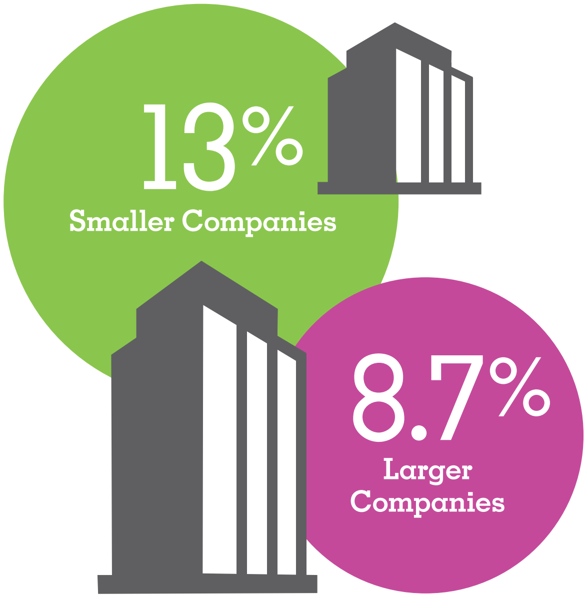
Company Size Matters When It Comes to Garnishments

The study revealed a higher garnishment rate in larger firms, as well as a greater number of employees carrying larger numbers of garnishment. While proportionally more employees carry child support garnishments in smaller size companies, larger companies proportionally have more employees with student-related and consumer indebtedness.

A higher proportion of small business firms do not have any employees with a garnishment, but almost all larger-size companies (>5000 employees) have at least one employee with a garnishment. Moreover, the garnishment rate (13%) is higher for small businesses who have garnished employees, compared to 8.7 percent for larger companies. Note also that 71 percent of companies are without any garnishment, representing 18 percent of the employees, and 90 percent of these companies are < 50 employees in size. The garnishment rate excluding the companies without garnishment is 8.5 percent.

Among midsized companies (50 to 499 and 500 to 999 employees – with 8.2 percent and 8.3 percent garnishment rates, respectively), garnishment rates are only within a fraction of a percentage point of the rate for larger companies (8.7 percent).

Significantly, if you only considered companies with garnishments in the study's data calculations, the applicable garnishment rates for these firms – regardless of size, industry and region – are generally higher.



Smaller vs. Larger Company Garnishment Rates
(Only for Companies With Employees Carrying Garnishments)

Garnishment Rate by Company Size
(For Companies With Employees Carrying Garnishments)

COMPANY SIZE	GARNISHMENT RATE
1 - 19 Employees	13%
20 - 49 Employees	8.6%
50 - 499 Employees	8.2%
500 - 999 Employees	8.3%
1000 - 4999 Employees	8.4%
>=5000 Employees	8.7%

The garnishment rate excluding companies without garnishments

8.5%

Industry Matters, Too

The goods-producing sector has higher garnishment rates, a higher average number of garnishments, and greater average income per garnished employees across all states. Average garnishment for firms with employees having some form of garnishments is 10 percent and 7 percent in the goods and service sectors, respectively. In addition, while 10 percent of service-sector firms have a garnishment rate of less than 2 percent, only 3 percent of companies in the goods-producing sector have similar rates.

It is not surprising that half (49%) of manufacturing companies have at least one employee with a garnishment and an average garnishment rate of almost 10 percent.

Average Garnishment Rate for Firms With Employees Having Some Type of Garnishment

Garnishment Rate by Industry
(Excluding Businesses Without Garnishments)

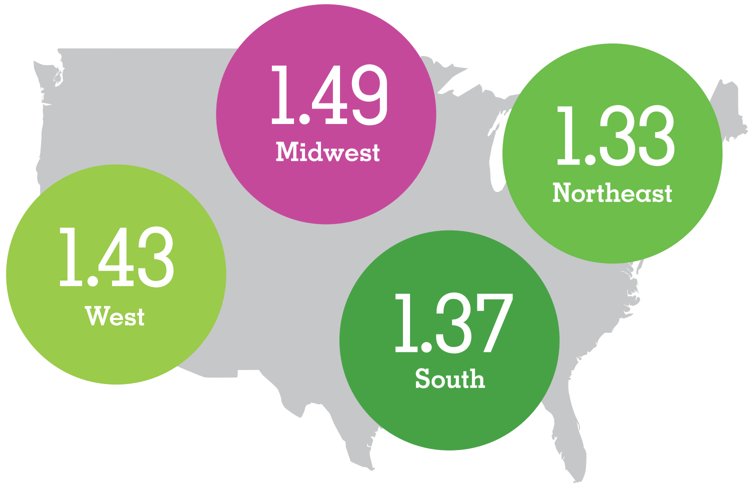
Industry	Overall Garnishment Rate
Transportation & Utilities	10.7%
Mining, Quarrying, and Oil/Gas Extraction	10.6%
Manufacturing	9.8%
Construction	7.9%
Wholesale & Retail Trade	7.7%
Leisure and Hospitality	7.4%
Information	7.0%
Education & Health Services	5.3%
Professional & Business Services	5.2%
Financial Activities	5.0%
Other Services (Except Public Administration)	4.5%

Region Also Plays a Role

The Midwest and South have proportionally higher numbers of employees with garnishments – with the Midwest leading all regions with the highest average number of garnishments held per employee (1.49). Both regions are heavily invested in goods-production.

On the other hand, the Northeast (a region with a large professional and business services presence) carries the lowest average number of garnishments (1.33). Its employees also have the lowest overall garnishment rate (4.8%), while employees in the West carried the highest number of garnishments for tax levy.

Except for the West, all other regions have a similar proportion of employees with child support garnishment.



Average Number of Garnishments by Region

A Snapshot of Garnishment Rates at the State Level

States with a substantial presence of goods-producing facilities have a large percentage of employees with high garnishment rates. States with more of a service-based economy tend to fare better. For example, among the top 15 states that constitute 70 percent of U.S. employment, Indiana and Wisconsin each has the highest garnishment rate (10.5 percent), while Massachusetts has the lowest rate at 2.8 percent.

Wisconsin, Ohio, Michigan, and Indiana also have the highest garnishment rates for child support, which are driving their overall rates. In addition to employees in Virginia, those in Indiana and Wisconsin carry, on average, the largest number of garnishments per person at 1.6.

Garnishment Rates at the State Level

STATE	OVERALL RATE	CHILD SUPPORT	OTHER
Indiana	10.5%	5.3%	5.6%
Wisconsin	10.5%	5.5%	4.3%
Michigan	10.2%	5.4%	5.0%
North Carolina	9.8%	3.3%	2.8%
Ohio	9.2%	5.5%	3.7%
Massachusetts	2.8%	1.8%	0.6%

Conclusion

Wage garnishments continue to impact U.S. businesses and their employees. Approximately 7 percent of employees in 2016 – about the same percentage impacted in 2013 – are carrying an average of 1.4 garnishments. Goods-producing companies continue to see higher employee garnishment rates than firms in the service sector.

For employers, the size of the company and/or industry can have a bearing on the prevalence of wage garnishment activity.

In many instances, there is a correlation between high garnishment rates and the largest average number of garnishments carried. The largest companies (>5000 employees) not only have the highest garnishment rate, their employees are also burdened with the largest number of garnishments.

Goods-producing companies have higher garnishment rates and a higher average number of garnishments per affected employee than service-sector companies. This may imply variations between blue- and white-collar work environments.

From a regional perspective, businesses in the Midwest and South have proportionally higher numbers of employees with garnishments – the Midwest leading all regions with the highest average number of garnishments held per employee. This may well be since there are more good-producing facilities in these regions and manufacturing remains the highest garnished industry in the United States. Accordingly, a significant number of goods-producing firms are in the top five individual states with the highest garnishment rates.

The garnishment rate and average number of garnishments seems to be having a disproportionate impact on workers (ages 35 to 44), who earn between $20,000 and $60,000. A likely reason? This is typically the age range for peak individual debt load and can result in wage garnishment situations. The overall rate consistently falls from age 45 to retirement. Factors, such as employment opportunities that offer greater stability and higher wages, may mitigate conditions that create the need for wage garnishments in this age group.

As the garnishment rate and number of garnishments carried by men continues to exceed those of women in the workforce, industries that traditionally employ higher numbers of men may continue to experience higher overall garnishment rates.

Lastly, trend lines have formed, linking the findings from the whitepaper, "Garnishment: The Untold Story" and this study. For example, virtually all four major reasons for wage garnishment studied – child support, tax levy, bankruptcy, and other (student loans, consumer debt, etc.) – have remained generally constant in terms of proportion relative to the overall wage garnishment rate. Unless there is a change in the underlying reasons that trigger garnishment action, there is no reason to believe that the current trends will not continue. However, greater job stability and higher wages could do wonders.

Does the Study Reveal Any Good News?

Yes. Employees who have no garnishment are earning, on average, approximately 25 percent (about $10,000) more per year than those carrying a garnishment. Employers benefit from a lighter administrative burden and fewer workers who are stressed, humiliated, and distracted from taking home a garnished paycheck.

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