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**Presentation to
Georgia Child Support
Commission
September 9, 2005**

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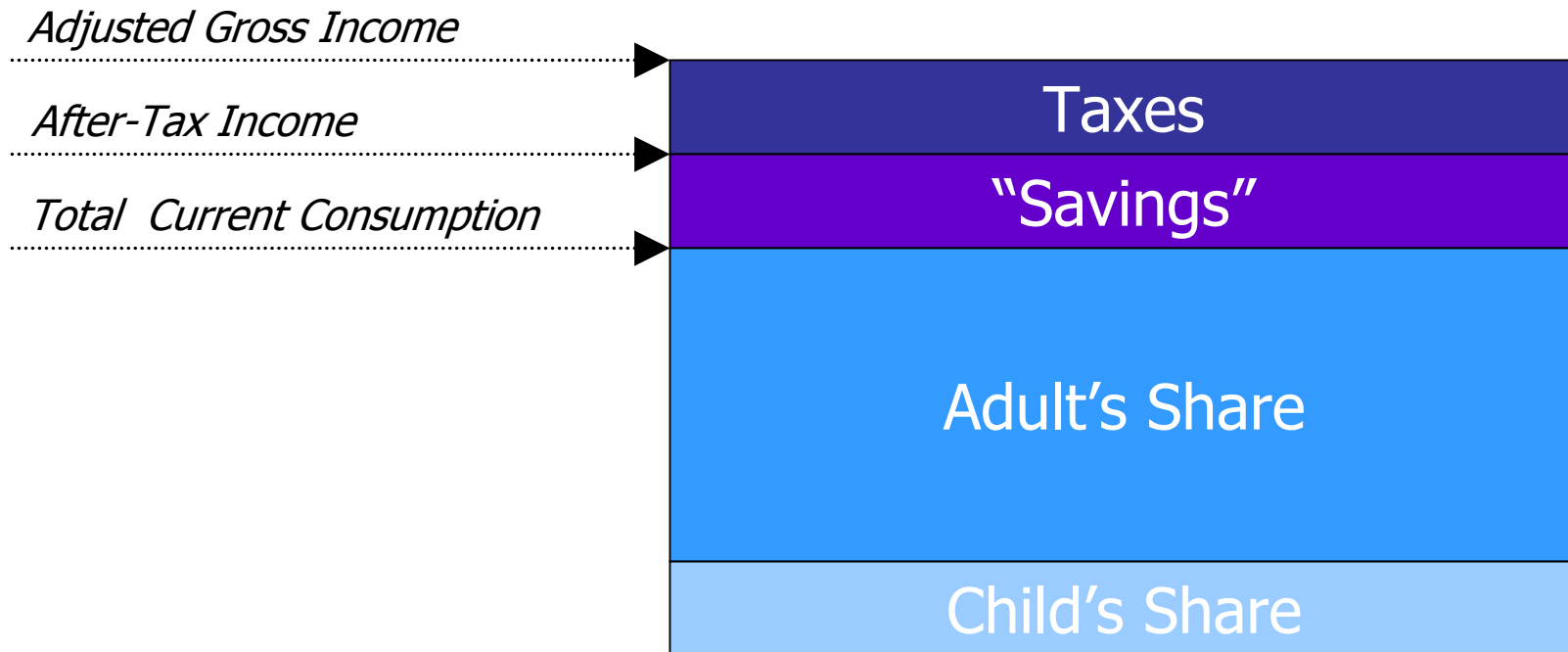
Presentation Outline

- ❖ Steps to Build Income Shares Guidelines Schedule
 - „ Selecting an estimate of child-rearing expenditures
 - „ Adjusting estimates for Georgia
 - „ Build in tax assumptions
 - „ Other steps
- ❖ Low-income adjustment
- ❖ Parenting-time adjustments
- ❖ Additional questions

Typical Steps: Building an Income Shares Schedule

1. Select economic basis (estimate of child-rearing expenditures)
2. Adjust for current price levels
3. Realign estimates based on national data if state's income differs from national average
4. Subtract child care expenses; health insurance premium; & extraordinary, uninsured health care expenses
5. Extend to 4+ children
6. Extrapolate to higher incomes if necessary
7. Adjustment for non-current consumption (optional)
8. Apply tax assumptions
9. Incorporate self support reserve in schedule (optional)

Family Consumption and Income



Basis of Step 1: Economic Basis for Income Shares Guidelines

The Income Shares model seeks to allocate to the child the proportion of parental income estimated to have been spent on the child if the household were intact.

EXAMPLE: TWO CHILDREN	Mother	Father	Combined
1. Net Annual Income	\$2,000	+ \$3,000	= \$5,000
2. % of Combined Income	40%	+ 60%	= 100%
3. Expenditures on Children in Intact Family			\$1,000
4. Each Parent's Share (Line 2 x Line 3)	\$400	+ \$600	= \$1,000

Estimates of Child-Rearing Expenditures (References)

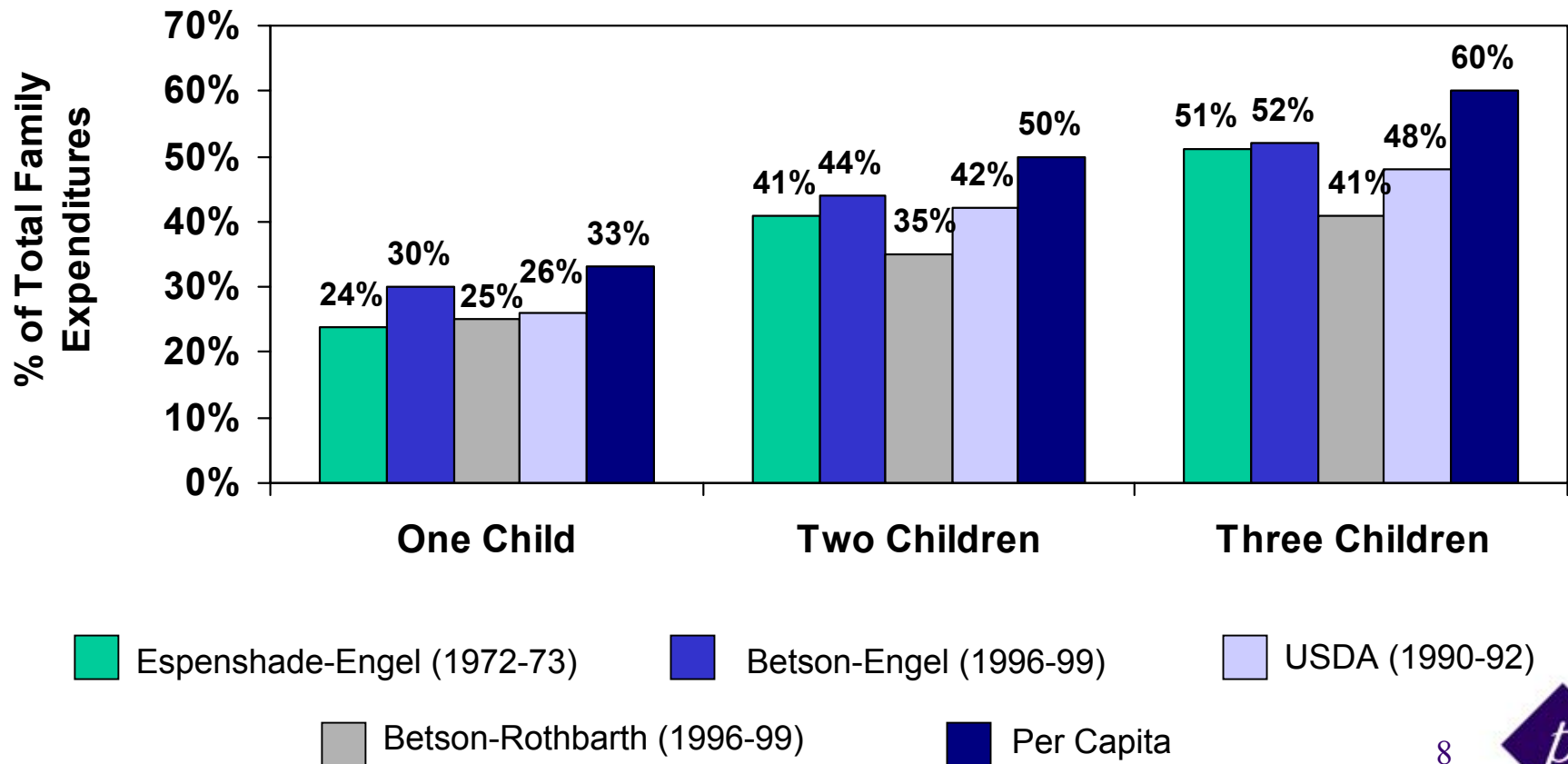
- ❖ van der Gaag (1981), Univ. of Wisconsin
- ❖ Espenshade (1984), Urban Institute for U.S. NICHD
- ❖ Betson (1990), Univ. of Norte Dame for U.S. DHHS
- ❖ Lewin/ICF (1990), Independent evaluation for U.S. DHHS
- ❖ Betson (2001), Univ. of Norte Dame for IRP, California & Michigan
- ❖ Lino (2005), Annual study by USDA

Lewin's Assessment of Estimates of Child-Rearing Expenditures

- ❖ Engel methodology overstates actual child-rearing expenditures
- ❖ Rothbarth methodology understates actual child-rearing expenditures
- ❖ USDA methodology overstates actual child-rearing expenditures
- ❖ Any amount between those estimated with the Rothbarth and Engel methodologies are appropriate for state guidelines amounts
- ❖ Use Rothbarth estimate to judge whether state guideline is too low

Comparison of Estimates of Child-Rearing Costs (survey data years)

Average Child-Rearing Expenditures as a Percent of Total Family Expenditures



Estimates Underlying State Guidelines Schedules

	van der Gaag	Espenshade/ Engel	Betson 1 /Rothbarth	Betson 2 /Rothbarth	USDA
Year of Study	1981	1984	1990	2001	Annual
Number of States Basing Guideline on Study	5*	8*	14	8**	MN- adjusted effective 2007
Years of survey data	Various years	1972-73	1980-86	1996-99	1990-92

*Estimated and mostly states that have never updated their schedules

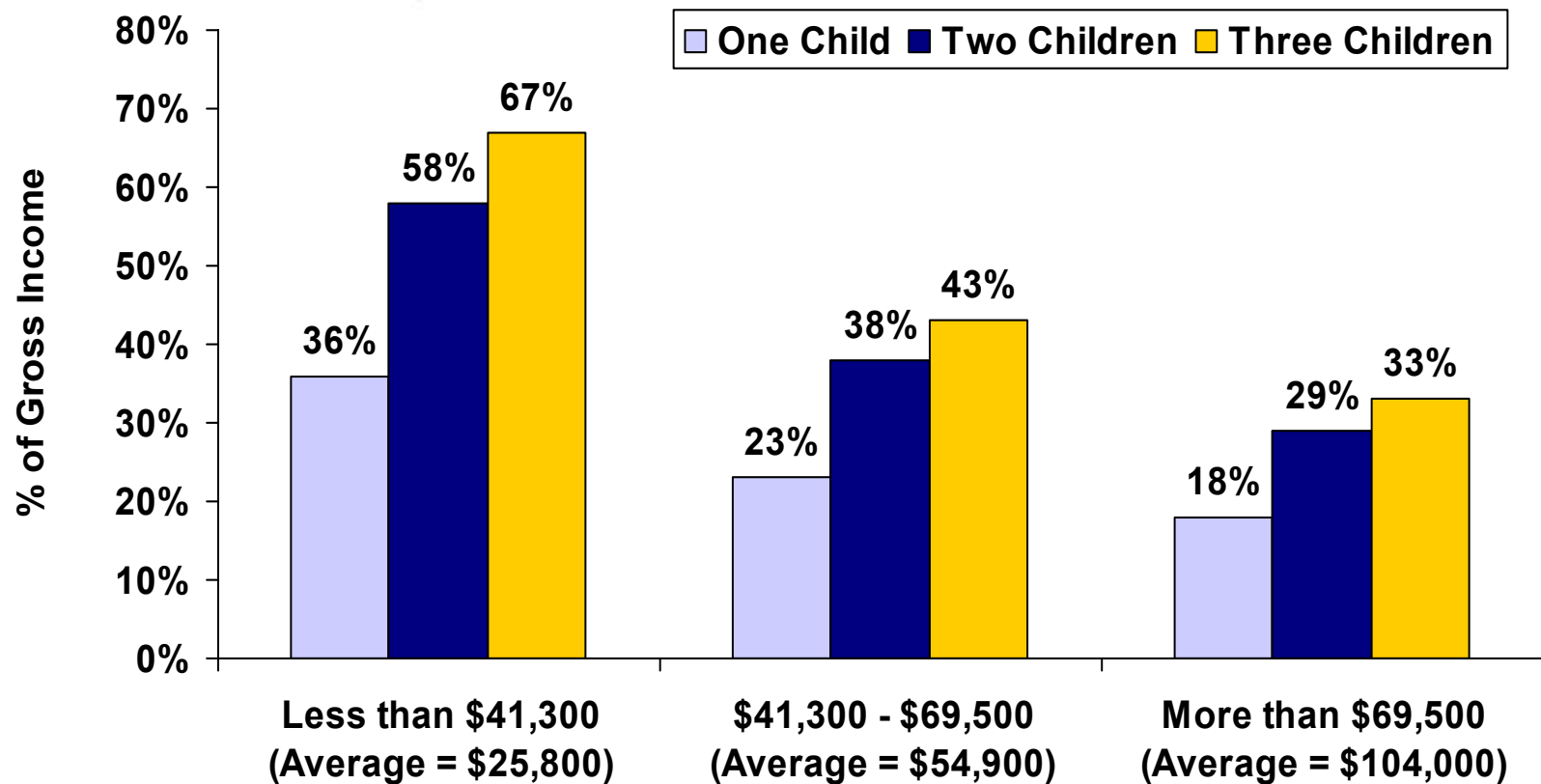
**AZ, CT, MO, NC, OR, TN, VT, WY

From USDA Table 11

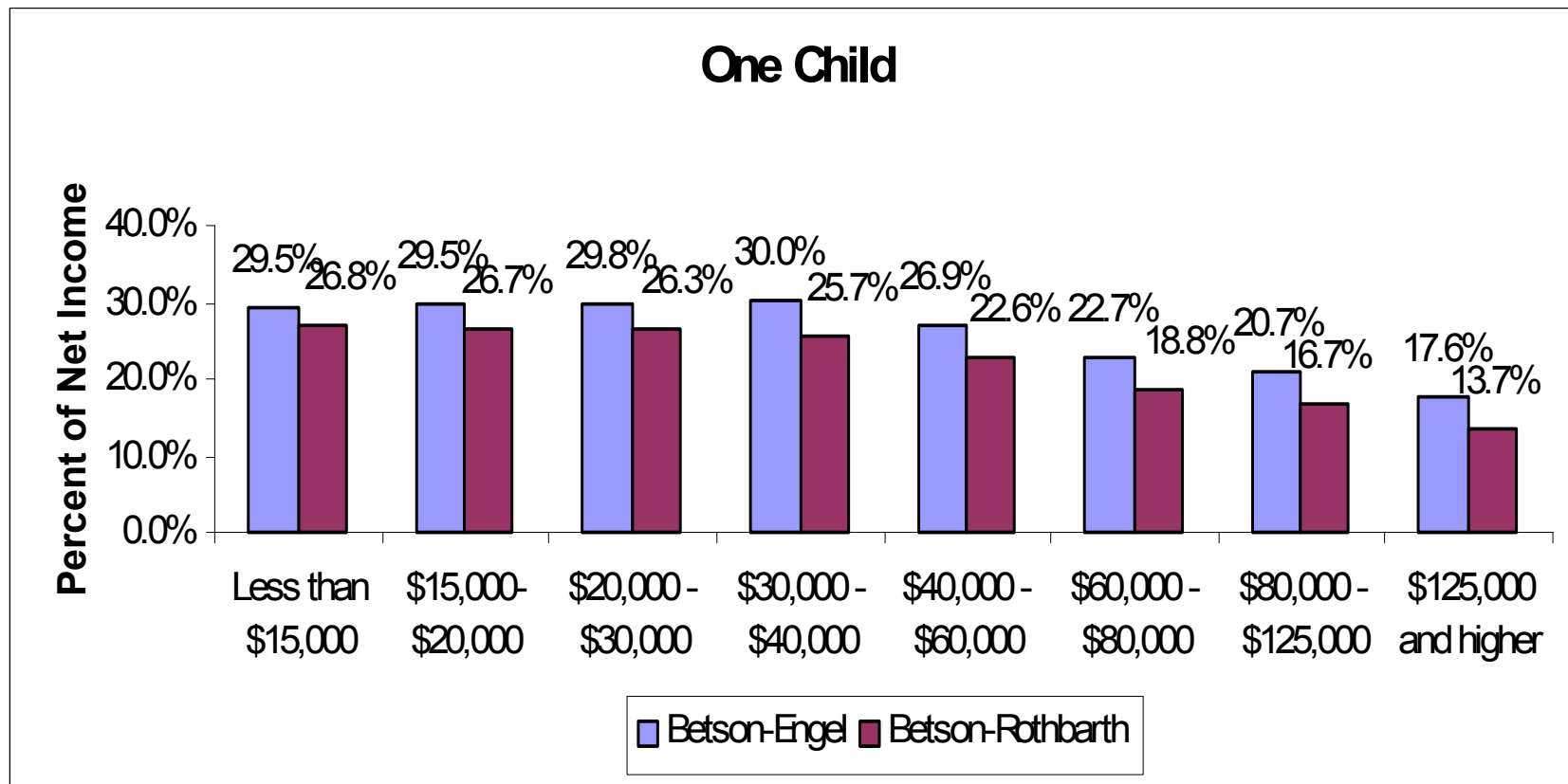
Average percent of household expenditures attributable to children in husband-wife families

Child expenditures	Estimator			
	Engel	Rothbarth	Per capita	USDA
Number of children				
One	30%	25%	33%	26%
Two	44%	35%	50%	42%
Three	52%	41%	60%	48%

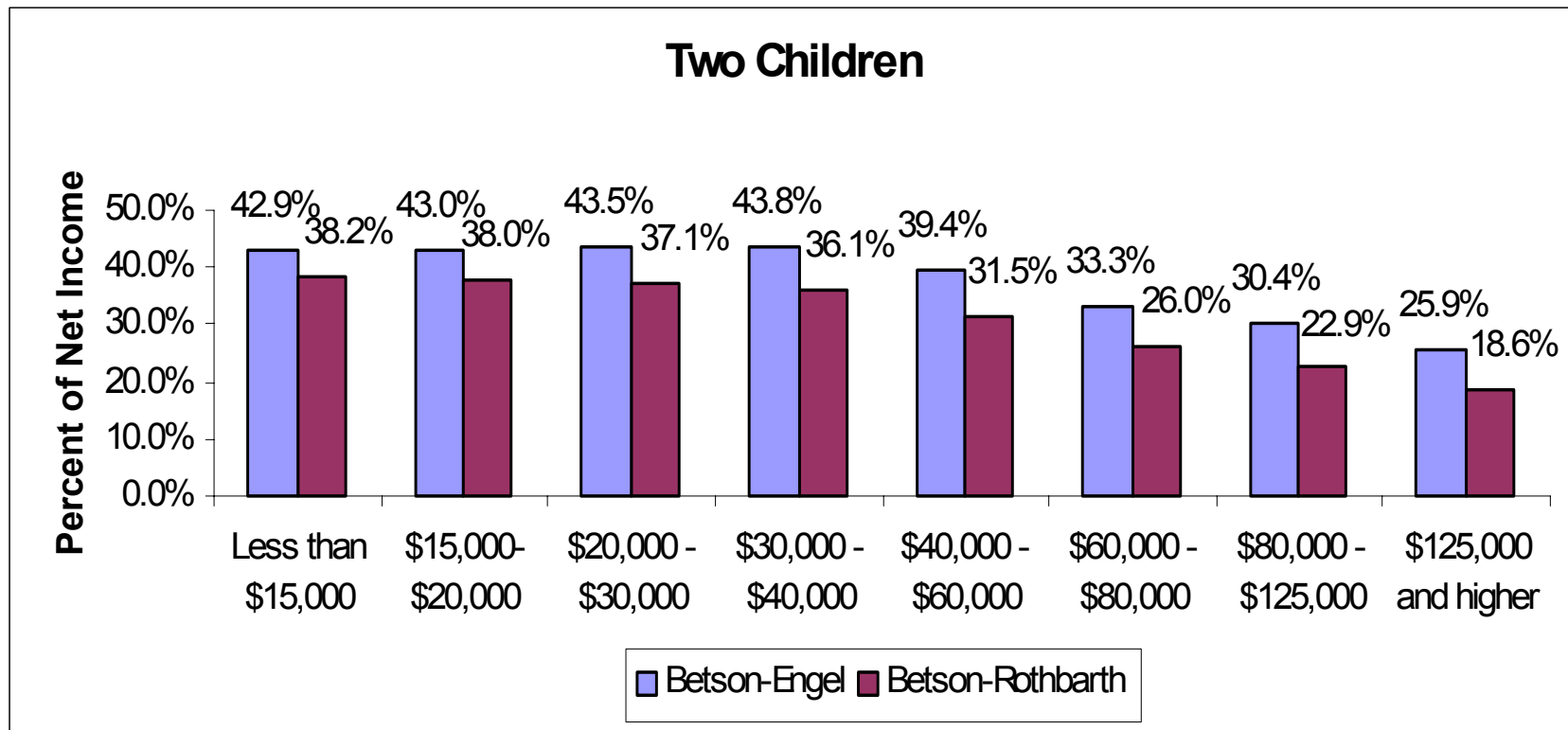
USDA Estimates of Child-Rearing Costs over a Range of Gross Incomes (South 2004)



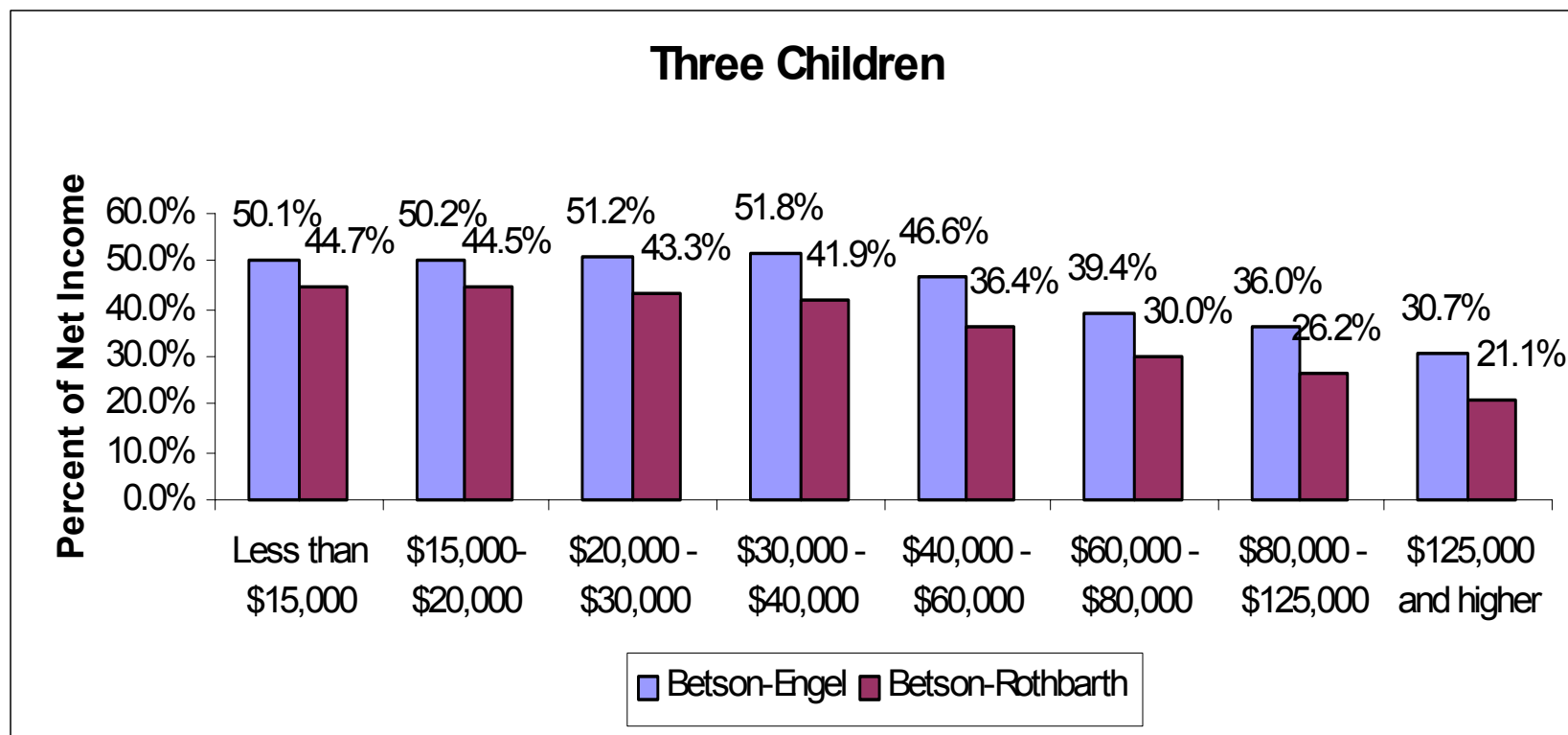
Comparisons of Engel & Rothbarth Estimates from Betson Using 1996-99 Data: One Child



Comparisons of Engel & Rothbarth Estimates from Betson Using 1996-99 Data: 2 Children

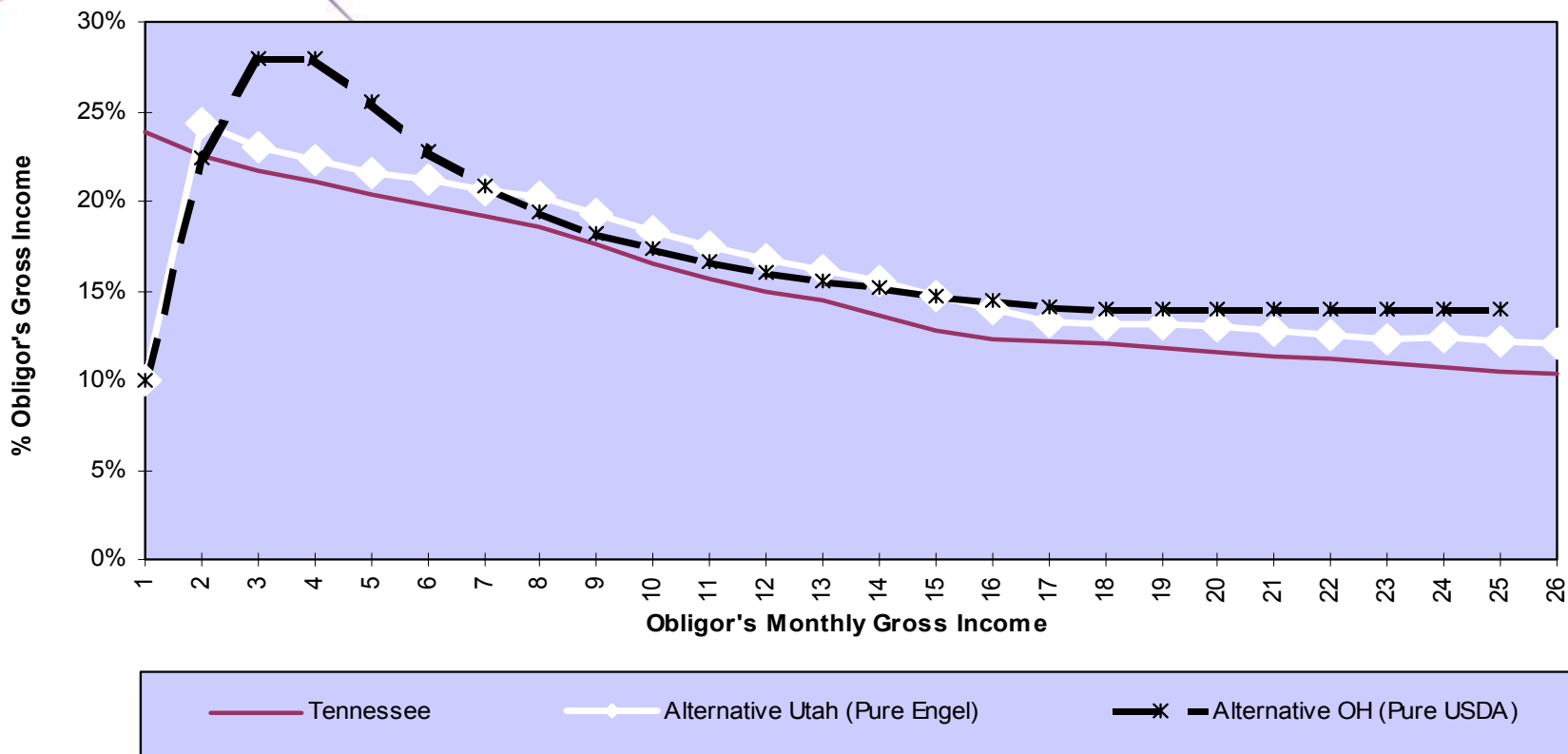


Comparisons of Engel & Rothbarth Estimates from Betson Using 1996-99 Data: 3 Children



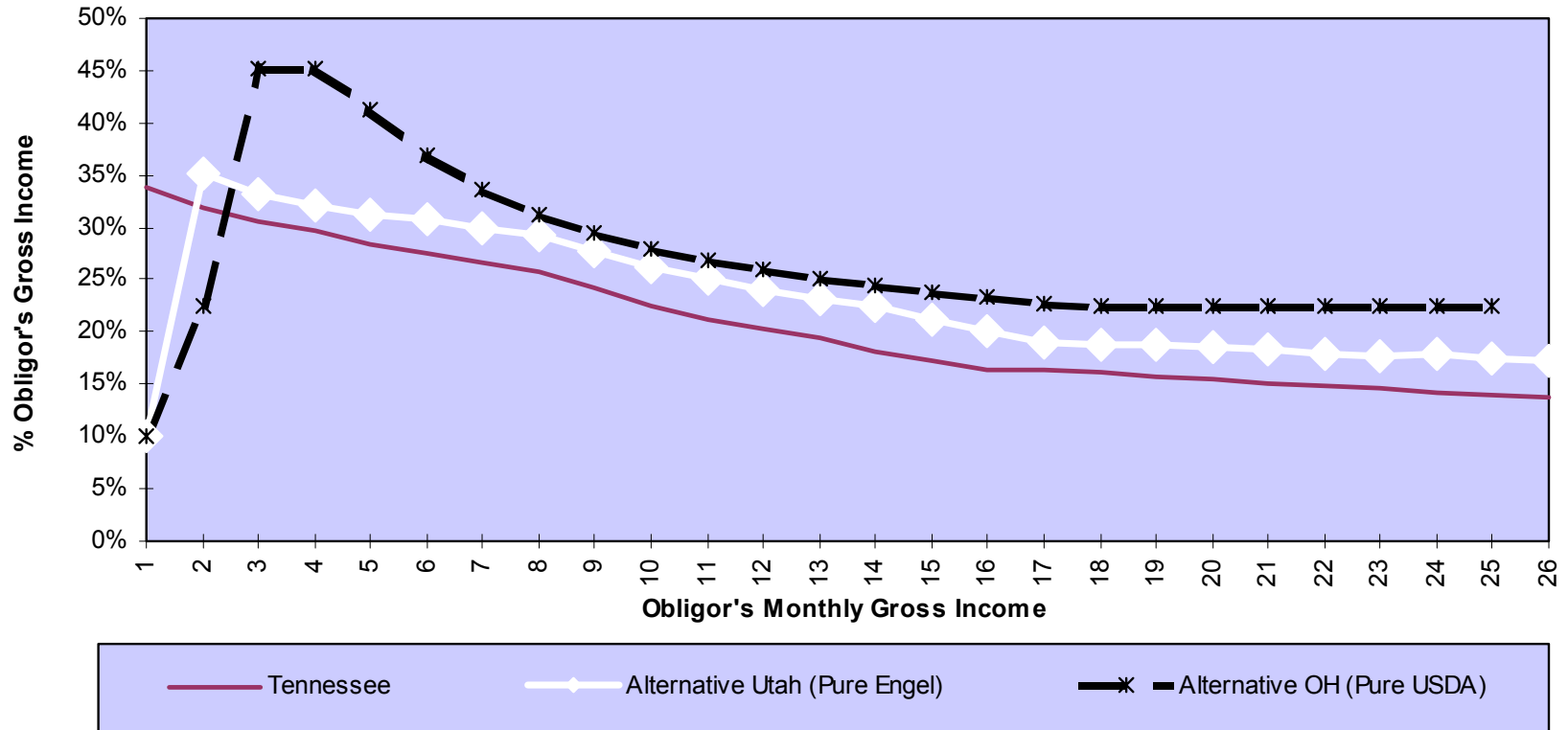
Comparisons of Base Support: 1 Child, Obligee Income = \$0, No Add-Ons

Child Support Formulas - One Child
Obligee Income = \$0



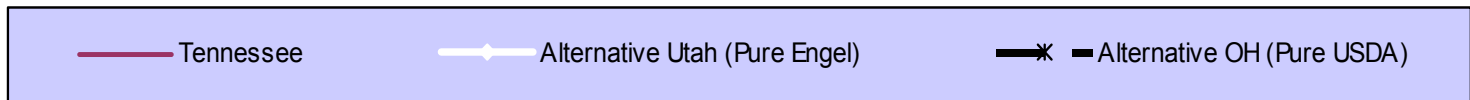
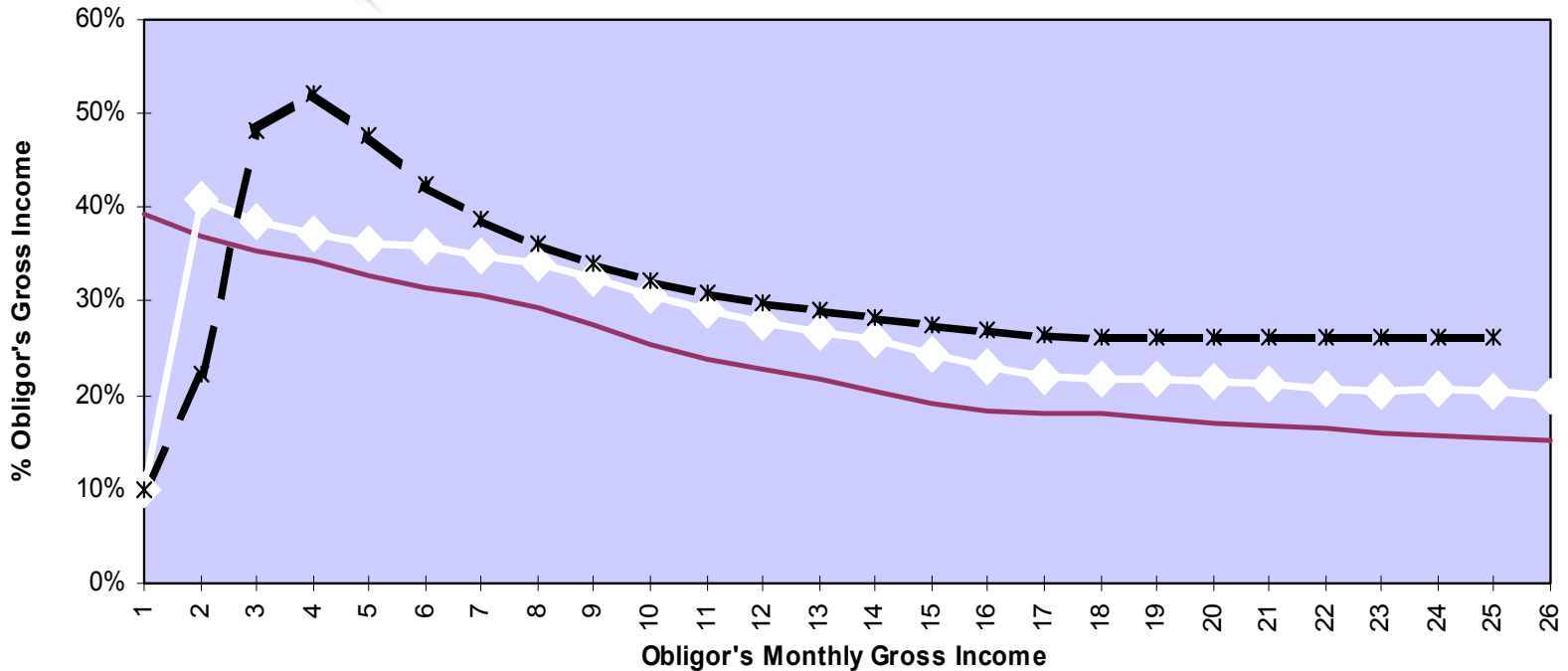
Comparisons of Base Support: 2 Children, Oblige Income = \$0, No Add-Ons

Child Support Formulas - Two Children
Oblige Income = \$0



Comparisons of Base Support: 3 Children, Oblige Income = \$0, No Add-Ons

Child Support Formulas - Three Children
Oblige Income = \$0



Step 2: How Income Shares States Adjust for Current Price Levels

NORM

- ✓ Update estimates using Consumer Price Index (CPI)

Example: Convert 1996-99 data to 2005 price levels using CPI

ALTERNATIVES

- ✓ None

Step 3: Realign National Estimates to Account for State and National Average Differences

NORM

- ✓ No Adjustment

ALTERNATIVES

Betson-Rothbarth estimates

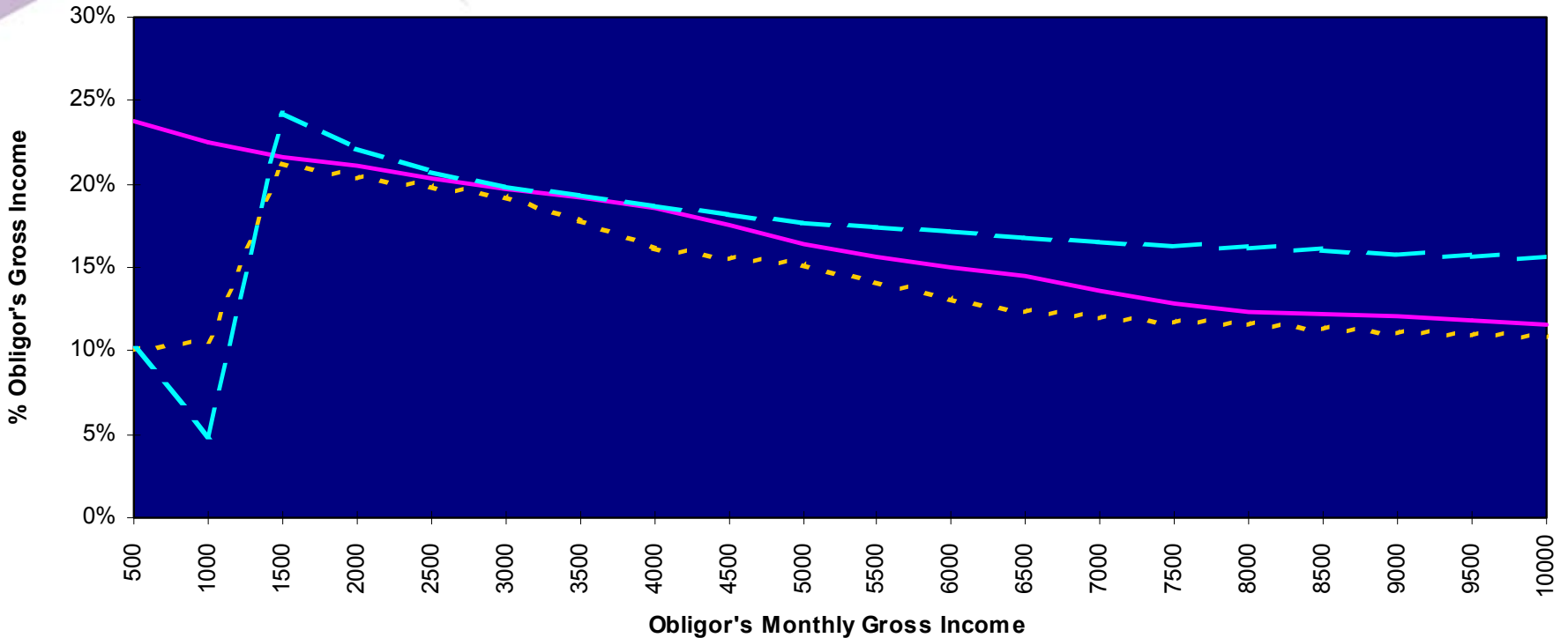
- ✓ Realign national estimates using Census data on income distribution
- ✓ Used by states ranked exceptionally high or low in income

USDA

- ✓ Estimated for Regions (NE, South, Midwest & West)

Comparisons: 1 Child, Oblige Income = \$0

Child Support Formulas - One Child
Oblige Income = \$0



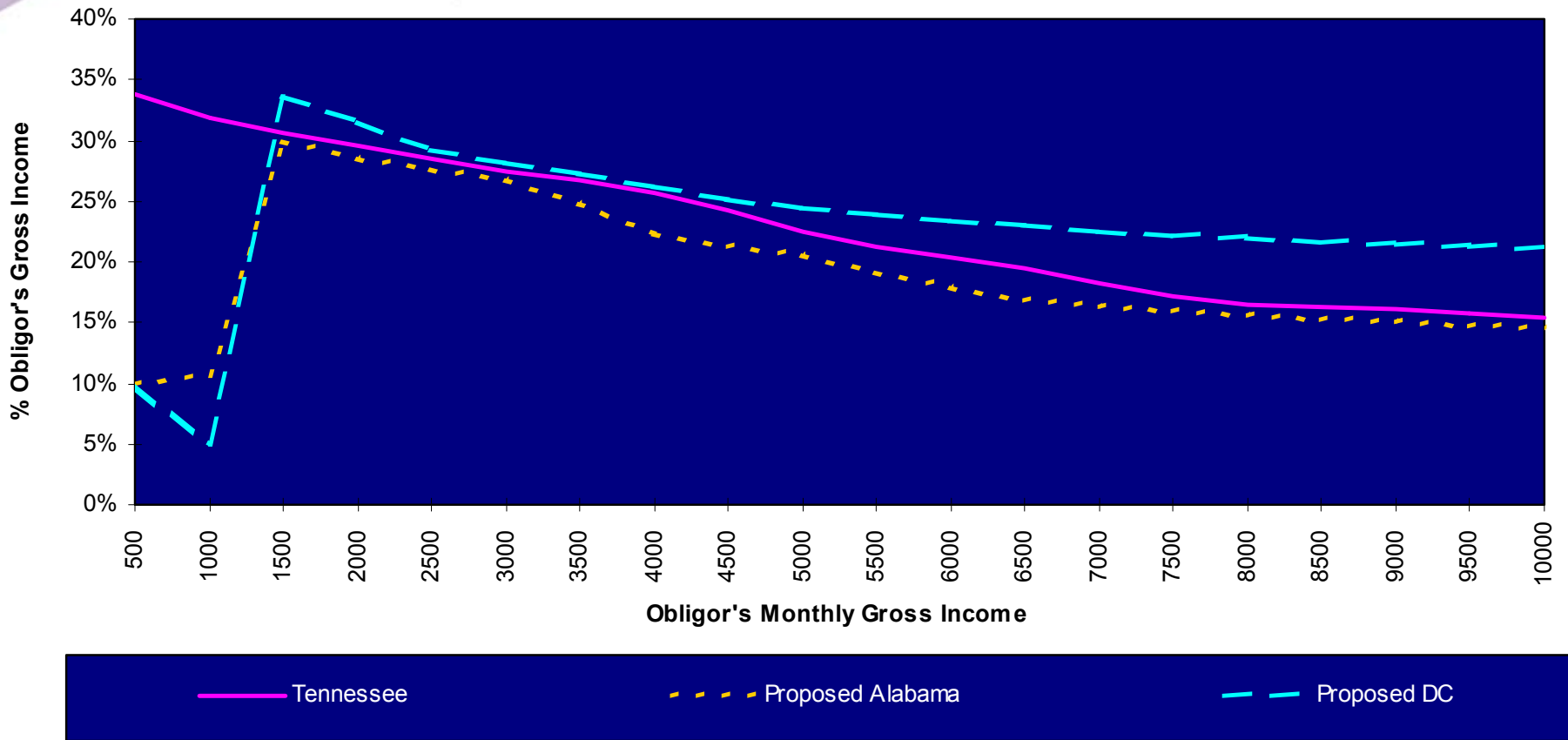
— Tennessee

- - - Proposed Alabama

- - - Proposed DC

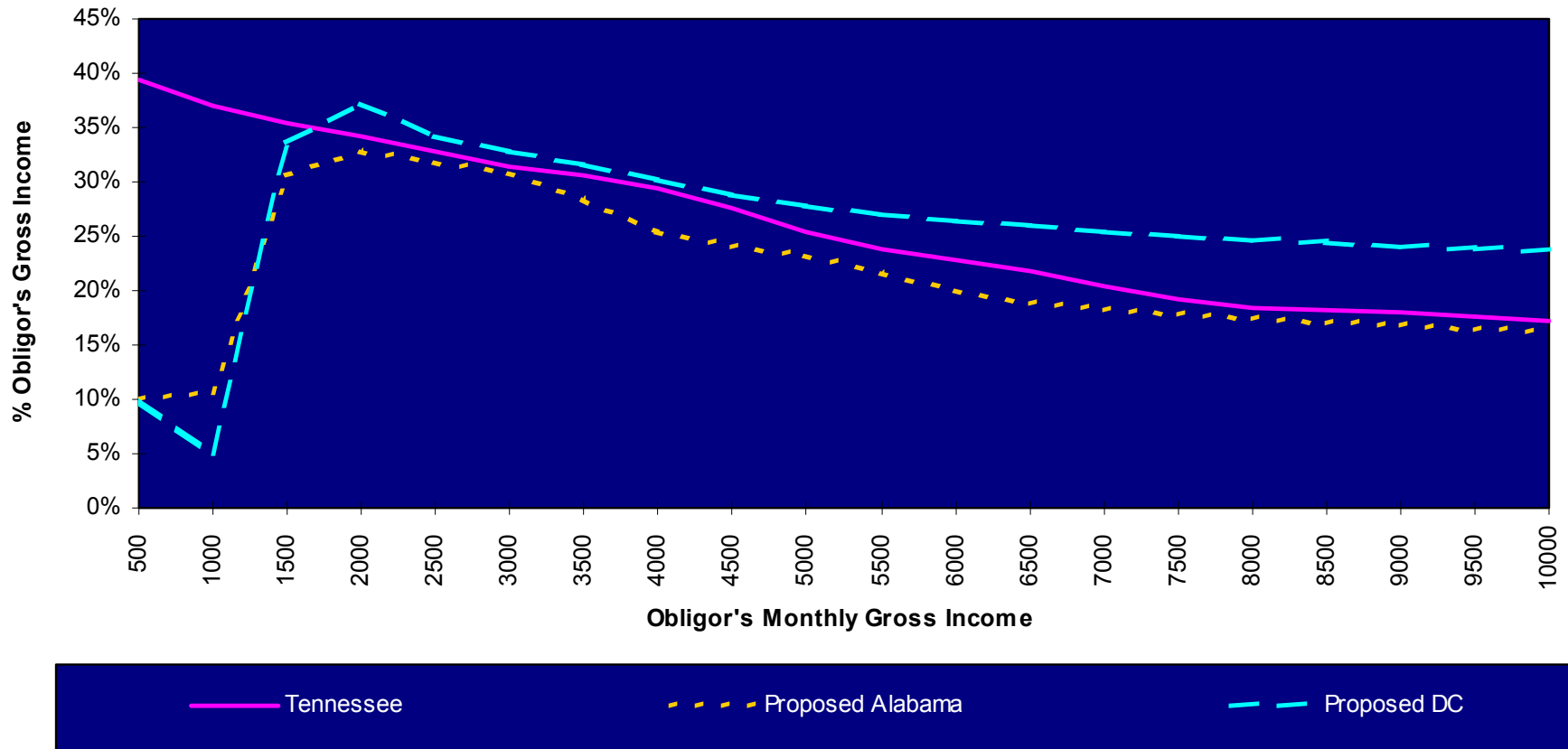
Comparisons: 2 Children, Oblige Income = \$0

Child Support Formulas - Two Children
Oblige Income = \$0



Comparisons: 3 Children, Obligee Income = \$0

Child Support Formulas - Three Children
Obligee Income = \$0



Step 4: Subtract “Add-Ons” from Estimates of Child-Rearing Expenditures

NORM

- ✓ Subtract average child care expenses
- ✓ Subtract child’s healthcare expenses
 - ✓ Health insurance premium
 - ✓ Extraordinary, out-of-pocket medical expense
- ✓ Retain ordinary medical expenses in schedule (\$250 per child per year)

ALTERNATIVES

- ✓ None
- ✓ Quasi-exception: CT

Step 5: Adjust for 4+ Children

- ❖ Betson estimates for 1, 2 and 3 children
- ❖ USDA estimates for 2 children

NORM

- ✓ Use equivalence scales published by the National Research Council (1996)
- ✓ Use USDA equivalence scales

ALTERNATIVE

- ✓ Pre-1996 Income Shares schedule used equivalence scales implied by Espenshade

Step 6: Extrapolate Estimates of Child-Rearing Expenditures to Higher Incomes

NORM

- ✓ Typically not necessary
- ✓ Depends on which estimate & whether realigned

ALTERNATIVES

- ✓ None

Step 7: (Optional) Make Adjustment For Non-Current Consumption Items

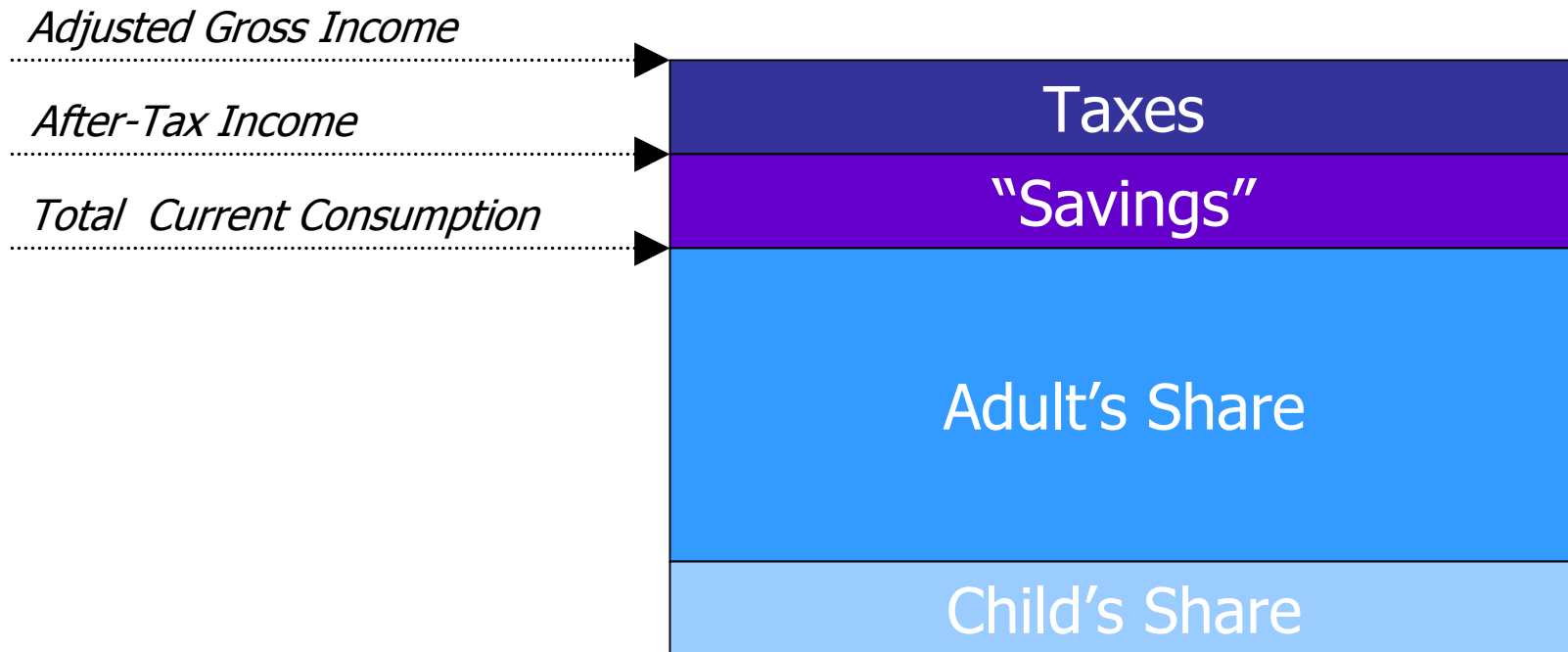
NORM

- ✓ Most Income Shares states use ratio of expenditures to net income from same data used to estimate child-rearing expenditures

ALTERNATIVES

- ✓ DC Proposed: Apply % of total expenditures devoted to child-rearing expenditures to “savings”

Family Consumption and Income



Composition of Expenditures for Average Family CEX (1996-99)

- ❖ Housing (41%)
- ❖ Food (21%)
- ❖ Transportation (14%)
- ❖ Entertainment (7%)

- ❖ Apparel (6%)
- ❖ Medical (5%)
- ❖ Other (7%)

Step 8: Apply Tax Assumptions

NORM

- ✓ Only necessary among Betson estimates, not USDA
- ✓ Use IRS Employer withholding formulas for single taxpayer

ALTERNATIVES

- ✓ DC Proposed: Use IRS Employer withholding formulas for married couples with children

Example: Tennessee Income Shares Schedule is Backed into Gross Income

Hidden Net Income Column	Combined Gross Income		One Child	Two Children	Three Children	Four Children	Five + Children
2035.00	2500.00		510	712	821	916	1007
2073.67	2550.00		518	724	834	930	1023
2112.35	2600.00		527	735	847	945	1039
2151.02	2650.00		536	747	860	959	1055
2189.70	2700.00		544	758	873	973	1070
2228.37	2750.00		553	770	886	987	1086
2267.05	2800.00		561	781	898	1002	1102
2303.26	2850.00		569	792	911	1015	1117
2336.93	2900.00		577	802	922	1028	1130
2370.61	2950.00		584	812	933	1040	1144
2404.28	3000.00		592	822	945	1053	1159
2437.96	3050.00		600	833	957	1067	1174
2471.63	3100.00		608	844	970	1081	1190
2505.31	3150.00		616	855	982	1095	1205
2538.98	3200.00		624	866	995	1109	1220

IRS Tax Publications and Their Use in Child Support Guidelines

	IRS Circular E (Employer Withholding)	1040 Year-End Individual Filings
Use in State Guidelines	<ul style="list-style-type: none"> ❖ Most gross-income guidelines are actually “standardized net” based on Circular E ❖ Most net-income guidelines calculators use Circular E 	<ul style="list-style-type: none"> ❖ The parties’ 1040 is preferred by most net-income guidelines, but not typically provided.
Head of Household	Formula is the same for single	Head of household and single formulas differ
EITC	Only partially advanced to families with children	Full EITC
Child Tax Credit	Not advanced	Full credit

Step 9: Incorporate Self Support Reserve into Schedule

Allows obligor sufficient income to maintain a subsistence level of living

- Typically set Self Support Reserve at or near poverty level for one person
- Establish a minimum order below Self Support Reserve (\$50/month)

Common Approach among Income Shares States

- ✓ Incorporate in schedule
 - With shaded area
- ✓ Incorporate in worksheet

Shaded Area Method: If NCP's income falls in shaded area, assume CP income = \$ 0)

	1 Child	2 Children	3 Children	4 Children	5 Children	6 Children
1000.00	105	106	107	108	109	111
1200.00	245	248	250	253	256	259
1400.00	301	386	390	395	399	403
1600.00	336	472	525	531	536	542
1800.00	370	520	597	666	674	681
2000.00	406	569	655	730	803	820
2200.00	442	619	713	795	874	951

The amount of the order using the shaded method shall never be more than the amount if the income of both parents was used

Self Support Test in Worksheet

	Mother	Father	Combined
2. Monthly Adjusted Gross Income	\$500	\$1000	\$1500
3. Percentage Share of Income	33%	67%	100%
4. Basic Obligation			\$323
7. Each Parent's Share	\$107	\$216	
ABILITY TO PAY CALCULATION			
11. Self Support Reserve		\$798	
12. Income Available for Support		\$202	
13. Lesser of Line 12 and 7		\$202	

Parenting-Time Adjustment

NORM

- ✓ Adjustment is made in the worksheet
 - ❖ Cross-credit adjustment
 - ❖ Variations of Indiana method

ALTERNATIVES

It is possible to incorporate in schedule, but know of no Income Shares states that do

OTHER QUESTIONS