

PURE INCOME SHARES OPTIONS

WHY TWO OPTIONS? There is a range of credible estimates of child-rearing expenditures, but none measure actual child-rearing expenditures with 100% accuracy. Economists have determined which estimation methodologies overstate and understate actual child-rearing expenditures, that is; the direction of the bias, but they do not know the amount of the bias.

FROM A PURELY ECONOMIC PERSPECTIVE, WE RECOMMEND THE ROTHBARTH ESTIMATOR

- Lewin (1990) assessment for the federal DHHS finds that any guidelines amount between the Rothbarth and Engel estimator to be in the credible range of actual child-rearing expenditures. The Rothbarth and Engel estimator, respectively, represent the lower and upper bounds of the credible range.
- Betson (1990, 2001) analyzed different methodologies and estimated child-rearing expenditures using various techniques. He recommends use of the Rothbarth estimator.
- The Rothbarth estimator is based on data collected in more recent years (1998-2004); whereas, the average relies on data collected in 1996-1999. In addition, the Rothbarth estimator is more statistically valid because of the larger sample size.
- All states that have updated their guidelines using new data rely on the Betson-Rothbarth estimates. The only exceptions are Georgia, which uses the average and Minnesota, which adjusted the USDA estimates. Both of these states just switched guidelines models and chose estimates that yield amounts similar to their previous percentage-of-obligor income guidelines formula.

IS IT POSSIBLE TO CREATE A PURE INCOME SHARES CHART FROM THE CURRENT CHARTS?

We could back out the combined obligation amounts from the current charts but (i) it is a time-consuming and tedious calculation; (ii) it would defeat the opportunity to make Iowa guidelines more consistent by basing it on one set of child-rearing measurements; and (iii) it would never match the current chart amounts completely because the current Iowa charts imply different amounts of child-rearing expenditures for families with the same combined income. For example, consider a case where the parents' combined net income is \$5,000 net and there are two children. The Rothbarth measurements of child-rearing expenditures finds this family spends \$1,373 and the average of the Rothbarth and Engel measurements indicate \$1,562. The amount implied in the existing Iowa charts ranges from about \$1,387 to \$1,471 per month.¹

IMPACT ON GUIDELINES AMOUNTS

The table below summarizes the difference in current chart amounts to those amounts under a Pure Income Shares table using either the Rothbarth or Average estimates of child-rearing expenditures. We use a 10% difference between the pure income shares amount and the current chart amount as a benchmark because it is the modification threshold for court-ordered cases. (The modification threshold for administrative orders is 20%.) In general, when the Rothbarth amount is not within 10% of the current chart amount, it is usually lower and when the Average is not within 10% of the current chart amount, it is usually higher. Overall, the Rothbarth is likely to come closer to current chart amounts because more orders cover one child. Nonetheless, this is the result before consideration of the impact of medical support, health insurance, and child care. In all, the difference will depend on individual case circumstances. As an aside, this is a strength of the Income Shares model: that is, it is not a "one-size model," but can adjust for the specific circumstances of the case.

Number of Children		Area of Chart	Rothbarth	Average
1 Child	About 50-60% of orders cover 1 child ²	CP Net Income < \$4,000	Most (96%) are within 10% of current amounts	Many (68%) are 10%+ more than current amounts
		CP Net Income > \$4,000	Decreases at very high incomes, particularly when the CP has net income over \$5,000.	Most (88%) are within 10% of current order amounts
2 Children	About 30% of orders cover 2 children	CP Net Income < \$4,000	About 70% are within 10% of current amounts, the remaining are mostly decreases	About 70% are within 10% of current amounts, the remaining are mostly increases
		CP Net Income > \$4,000	About 60% are within 10% are current amounts, the remaining are mostly decreases	98% are within 10% current amounts, the remaining are mostly increases
3 Children	About 10% of orders cover 3 children	CP Net Income < \$4,000	About 63% are within 10% of current amounts, the remaining are mostly decreases	About 77% are within 10% of current amounts, the remaining are mostly increases
		CP Net Income > \$4,000	About half are within 10% of current amounts, the remaining are mostly decreases	Most (99%) are less than 10% different from current amounts
4 or more Children	About 5% of orders	All incomes	Similar to 3 Children Amounts	

¹ It is \$1,387 per month when the mother's and father's incomes are \$3,500 and \$1,500 per month, respectively. It is \$1,471 per month when the mother's and father's incomes are \$3,000 and \$2,000 per month, respectively. [These amounts are derived from the current charts by adding each parent's obligation to the other parent. \$1,387 is the sum of (\$3,500 multiplied by 28.9%) and (\$1,500 multiplied by 25.0%). \$1,471 is the sum of (\$3,000 multiplied by 29.5%) and (\$2,000 multiplied by 29.3%).

² These percentages are based on national data and trends we have seen in other state child support guidelines reviews. The national data indicate the following frequencies for the number of children in child support orders: 53% cover one child; 32% cover two children; 11% cover three children; and 5% cover 4 or more children. (2003 Current Population Survey *Custodial Mothers and Fathers and Their Child Support 2003*). Generally, case file reviews find that the percent of one and two-children orders are somewhat higher.

SPECIFIC CASE EXAMPLES						
Assumptions: health insurance & Child care are add-ons in Rothbarth & Average examples						
	1 Child			2 Children		
	Existing	Rothbarth	Average	Existing	Rothbarth	Average
Case 1: Low Income CP Income = \$0 net NCP income = \$1,500 net Children enrolled in Medicaid Cash Medical = 5% of gross income	\$455	\$468	\$499	\$616	\$639	\$674
Case 2: Low Income CP Income = \$1,000 net NCP Income = \$1,500 net Children enrolled in SCHIP Cash Medical = 5% of gross income	\$413	\$462	\$492	\$524	\$627	\$660
Case 3: Median Income³ CP Income = \$1,400 net NCP Income = \$2,000 net NCP provides health insurance Family Premium = \$200/mo ⁴ Child's share = \$142/mo	\$405	\$412	\$465	\$540	\$620	\$683
Case 4: Median Income CP Income = \$1,400 net NCP Income = \$2,000 net CP provides health insurance Family Premium = \$200/mo Child's share = \$142/mo	\$450	\$554	\$607	\$600	\$762	\$825
Case 5: High Income⁵ CP Income = \$3,500 net NCP Income = \$5,000 net NCP provides health insurance Family Premium = \$200/mo Child's share = \$142/mo	\$826	\$713	\$832	\$1,190	\$1,040	\$1,178
Case 6: High Income⁶ CP Income = \$3,500 net NCP Income = \$5,000 net CP provides health insurance Family Premium = \$200/mo Child's share = \$142/mo CP incurs child care expenses of \$500 per month	\$895	\$1,149	\$1,268	\$1,315	\$1,476	\$1,614

WHY DO THE AMOUNTS VARY SO MUCH?

The charts are based on multiple data sources. The original charts included noncustodial parent incomes of about \$800 to \$2,000 per month and custodial parent incomes of below about \$3,000 per month. Over time, the chart has been expanded outward, each time using the best data available at the time. When expanding to lower incomes, the poverty level and minimum order amounts were considered.

IMPACT OF MODIFYING EXISTING ORDERS USING PURE INCOME SHARES

First and foremost, no state has experienced a “rush to the court house” to modify orders when a new guidelines is promulgated, even states with much more drastic changes than what Iowa is considering. This is consistent with evidence from other studies that find that parents are reluctant to request modifications. In fact, a recent OCSE study found that states receive an average of 3-12 requests for review per year for every 1000 ordered cases and that about 40 percent of requests are not completed.⁷ Some of the reasons parents do not request or complete modifications are parents “don’t want to rock the boat” and they don’t want to share current income information with their former partner.

FACTORS THAT COULD BE CONSIDER FROM A POLICY PERSPECTIVE

- Guidelines amounts for very low-income obligors (near poverty level and minimum wage) should be a policy decision. That amount can be incorporated into any Income Shares format
- Cash medical support may be ordered on top of basic child support when the children are enrolled in Medicaid/SCHIP. This could result in higher order amounts for lower incomes.
- If health insurance is treated as an add-on, it could increase or decrease the total child support award. It would increase it if the custodial parent carries the child’s insurance. It would decrease it if the noncustodial parent carries the child’s insurance. Data from other states reveal that orders are adjusted for the actual insurance costs in 20 -67 percent of cases reviewed. The custodial parent provides the children’s insurance in about 40 percent of these cases. This proportion is likely to increase due to the new federal rules that no longer require the child’s insurance be pursued from the noncustodial parent’s employer when available. Rather, either parent can be required to insure the child and preferably the parent whose insurance covers the geographical area where the child lives. Most often, this would be the custodial parent because the child resides with the custodial parent.
- If work-related child care costs are treated as an add-on, it would typically increase order amounts. Data from other states reveal that orders are adjusted for the actual child care expenses in 20 -35 percent of cases reviewed. Custodian parents with higher incomes and fewer children are more likely pay for work-related child care.

³ According to the 2005 American Community Survey conducted by the Census, the median Iowa male and female earnings were \$30,882 and \$18,182 per year. These amounts are converted to after-tax amounts assuming the male files as a single individual and female files as a head of household and claims the children as dependents.

⁴ Premium amounts are 2004 averages for Iowa published by the Kaiser Family Foundation and available at <http://www.state.healthfacts.org>.

⁵ We use about 250 percent of median income as the high-income case example. This results in a combined income of about \$100,000 per year. Twenty percent of Iowa families have incomes over \$100,000 gross.

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⁷ Federal Office of Child Support Enforcement, *The Story Behind the Numbers: Impact of Modification Thresholds on Review and Adjustment of Child Support Orders* (OCSE Information Memorandum 07-04). Available at <http://www.acf.hhs.gov/programs/cse/pol/IM/2007/im-07-04.htm>.