Remarks to Washington State Child Support Commission

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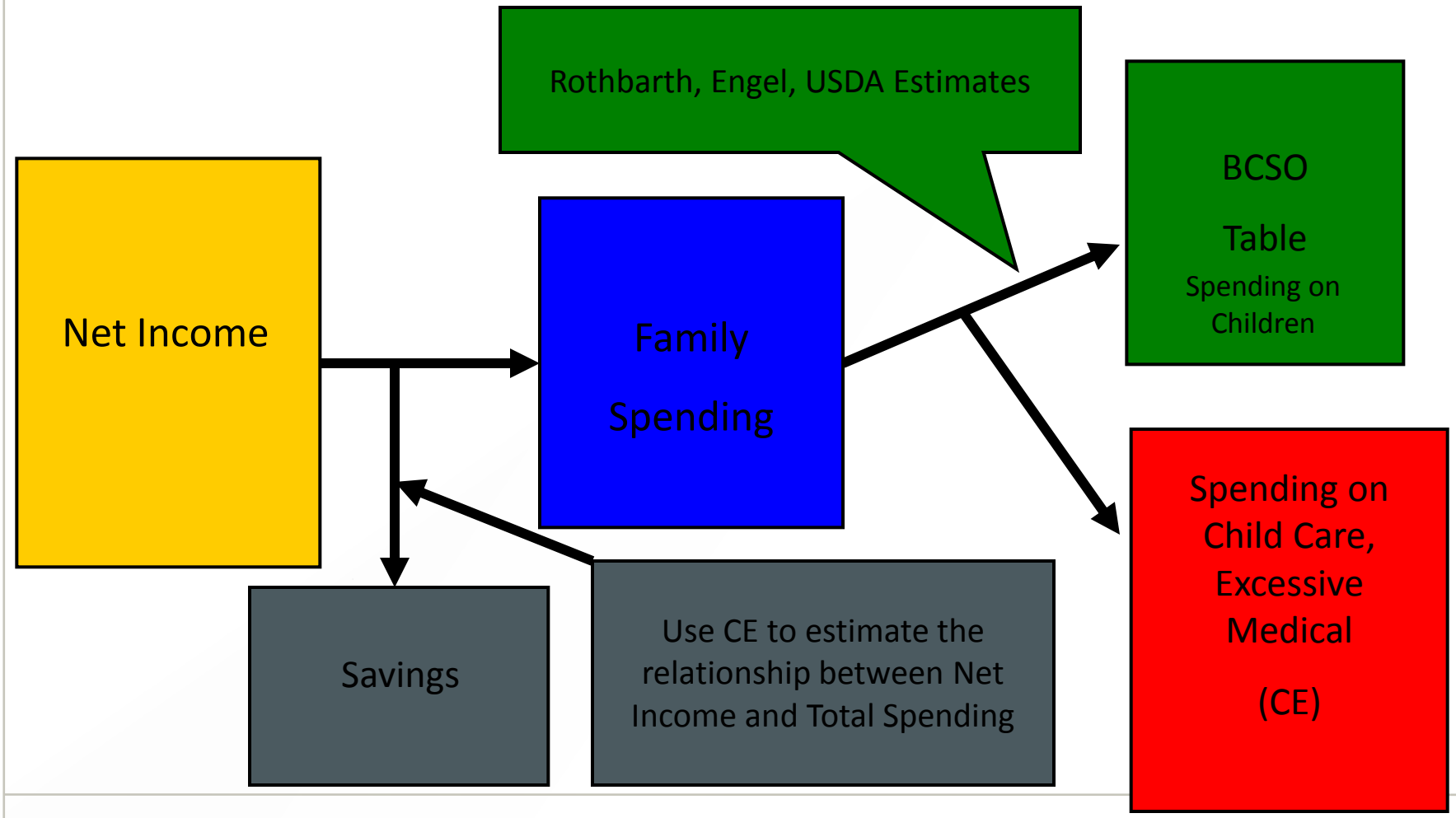
June 24, 2011

Conference Call
1 to 3 PM PST

Questions asked by Commission

- *Economic Estimates of the Cost of Children*
  - *What is the difference between 'per capita' and 'marginal' methods?*
  - *Has the cost of children risen over the last 20 years?*
  - *Why are the Betson and Florida State estimates so different?*
  - *In 2002, you recommended that Indiana not change its Economic Table. Why?*
  - *Is there good data to support an economic table expanding past $8,000 of combined monthly (?) net income?*
  - *Should the Economic Table be capped at some level of income?*
  - *Did you recommend using some type of consensus estimates across different data sets and methods? If so how would we do this?*
- *Residential Credit –Parenting Time Credit*
  - *Could you explain how Indiana's Parenting Time Credit works, how it addresses variable, fixed and duplicated expenses. How are these taken into account in the multiplier?*
  - *Where did the numbers come from for the percentage allowed for total expenditures and duplicated expenses?*
  - *Do I still recommend the Indiana Parenting Time Credit?*

The Role of Alternative Methods to Allocate Spending to Children



Per Capita vs. Marginal

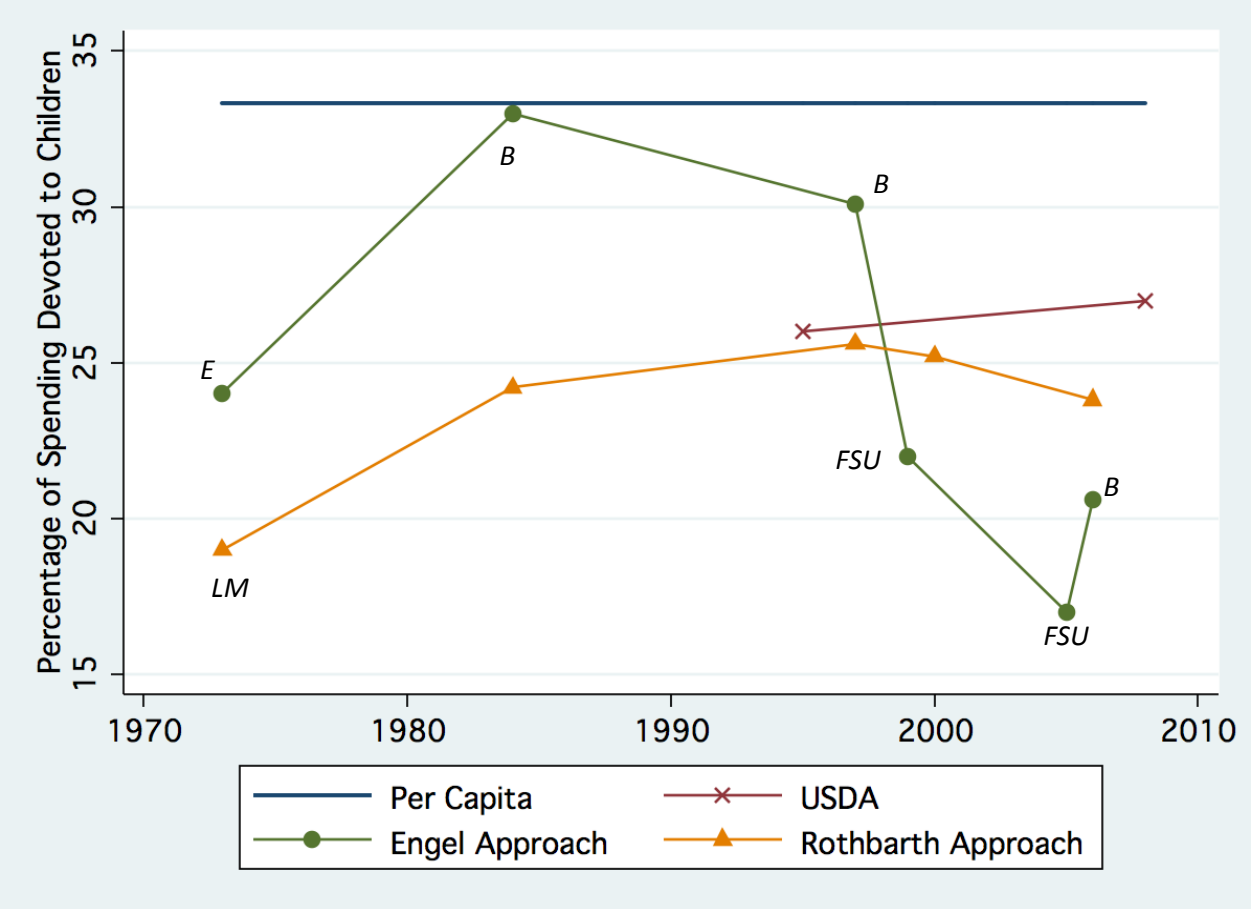
- *Per Capita – Assignment of spending to individuals or children are done a per capita basis – for example in a family of three with one child, 33% (1/3) would be allocated to the children. Take housing as an example. If the family of three with one child spent $12,000 per year on housing then $4,000 would be attributed to the child.*

- *Marginal – Assignment of spending to children is done by asking how much more would the family with children spend compared to an equally well off childless couple. If our family of three spent $12,000 on housing we would need to determine how much an equally well off childless couple would spend. If that amount is $10,000 then $2,000 would be allocated to child.*

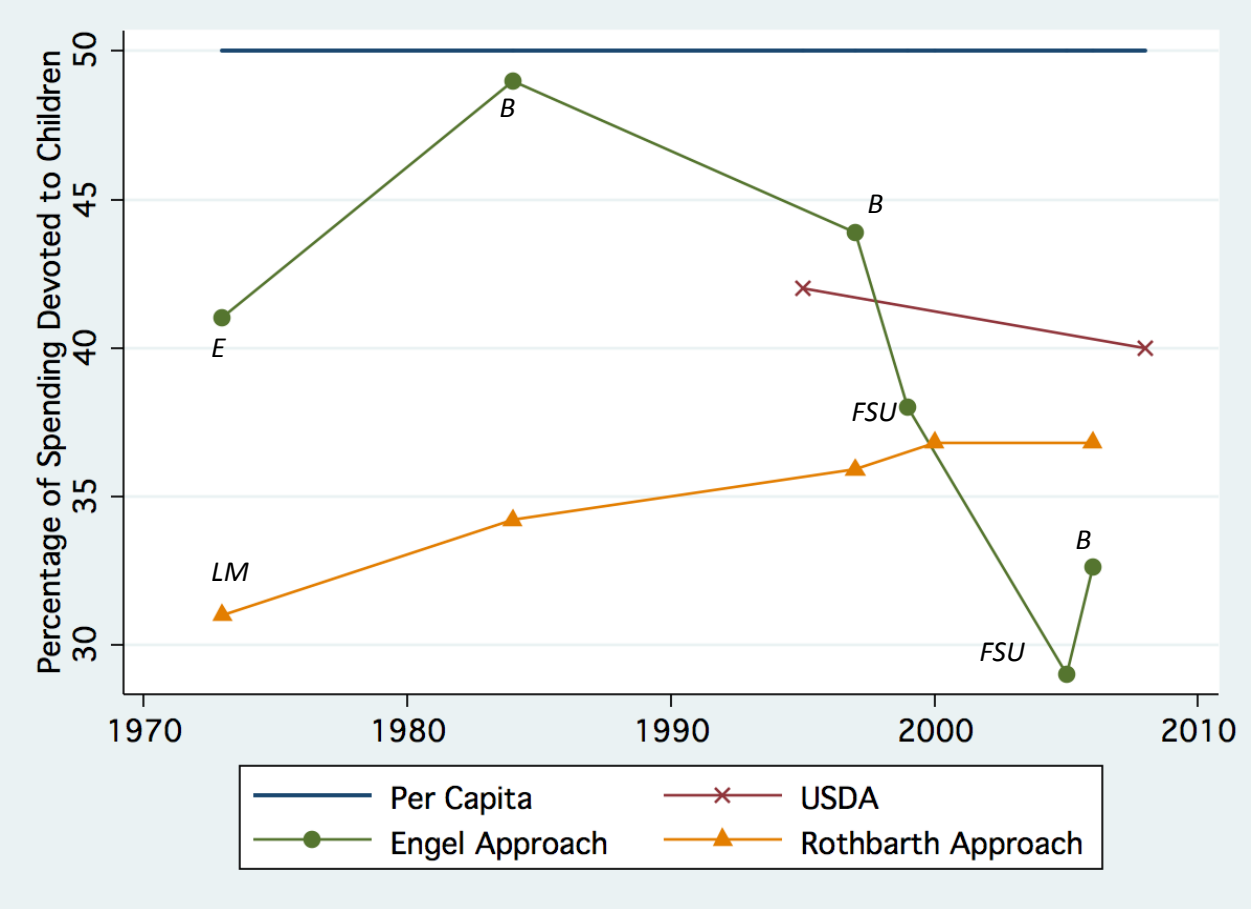
USDA, Engel, Rothbarth

- *USDA – One can allocate expenditures to individual members of a household in a reasonable manner*
- *Engel – Food shares are a good indicator of well being and the economics of scale in food consumption are reflected in all other goods.*
- *Rothbarth – The expenditures on adult goods are affected only by changes in the 'real income' of the parents and there is no 'substitution' effect between adult and children goods.*

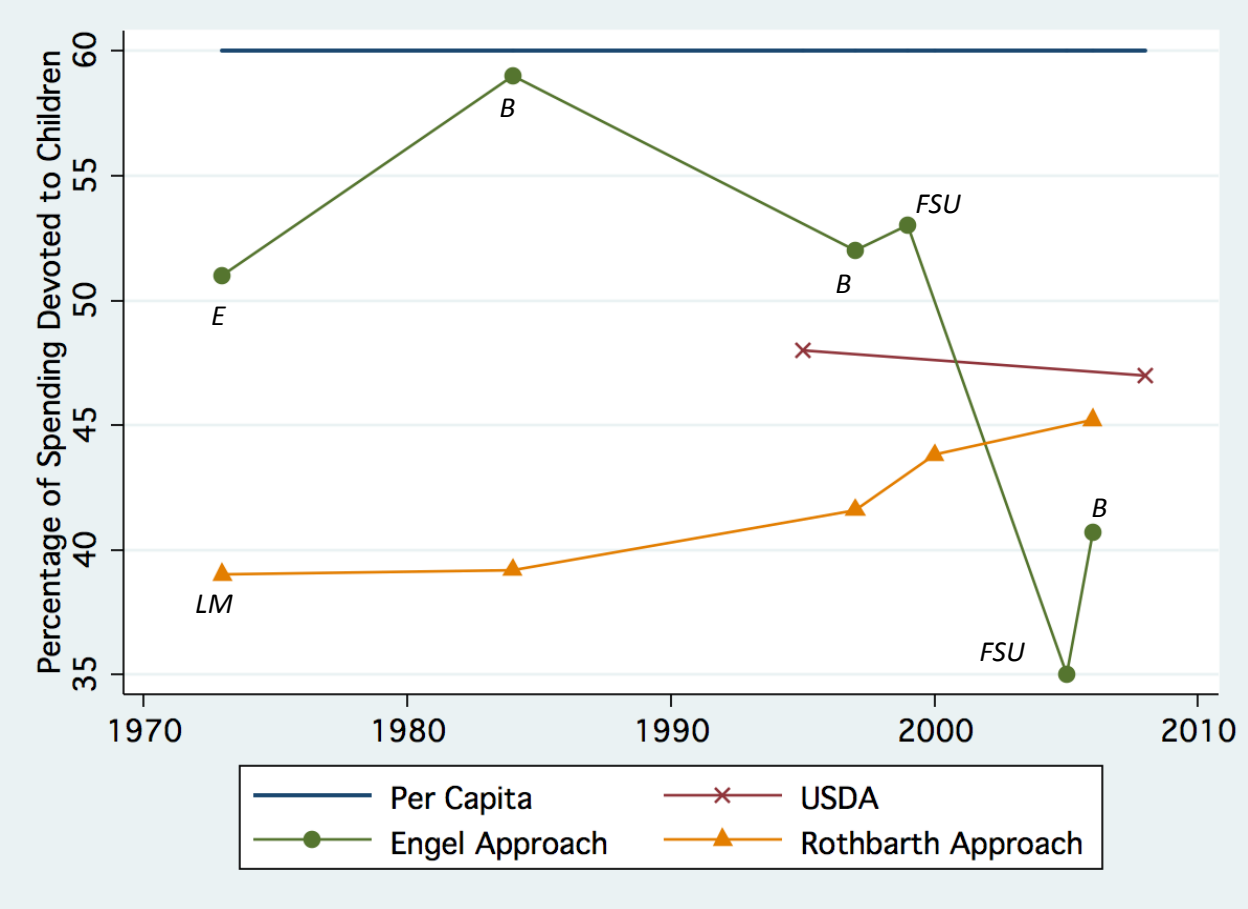
One Child


Percentage of Spending Devoted to Children
15
20
25
30
35
1970
1980
1990
2000
2010
B
B
E
FSU
B
LM
FSU
Per Capita
USDA
Engel Approach
Rothbarth Approach

Two Children



Three Children



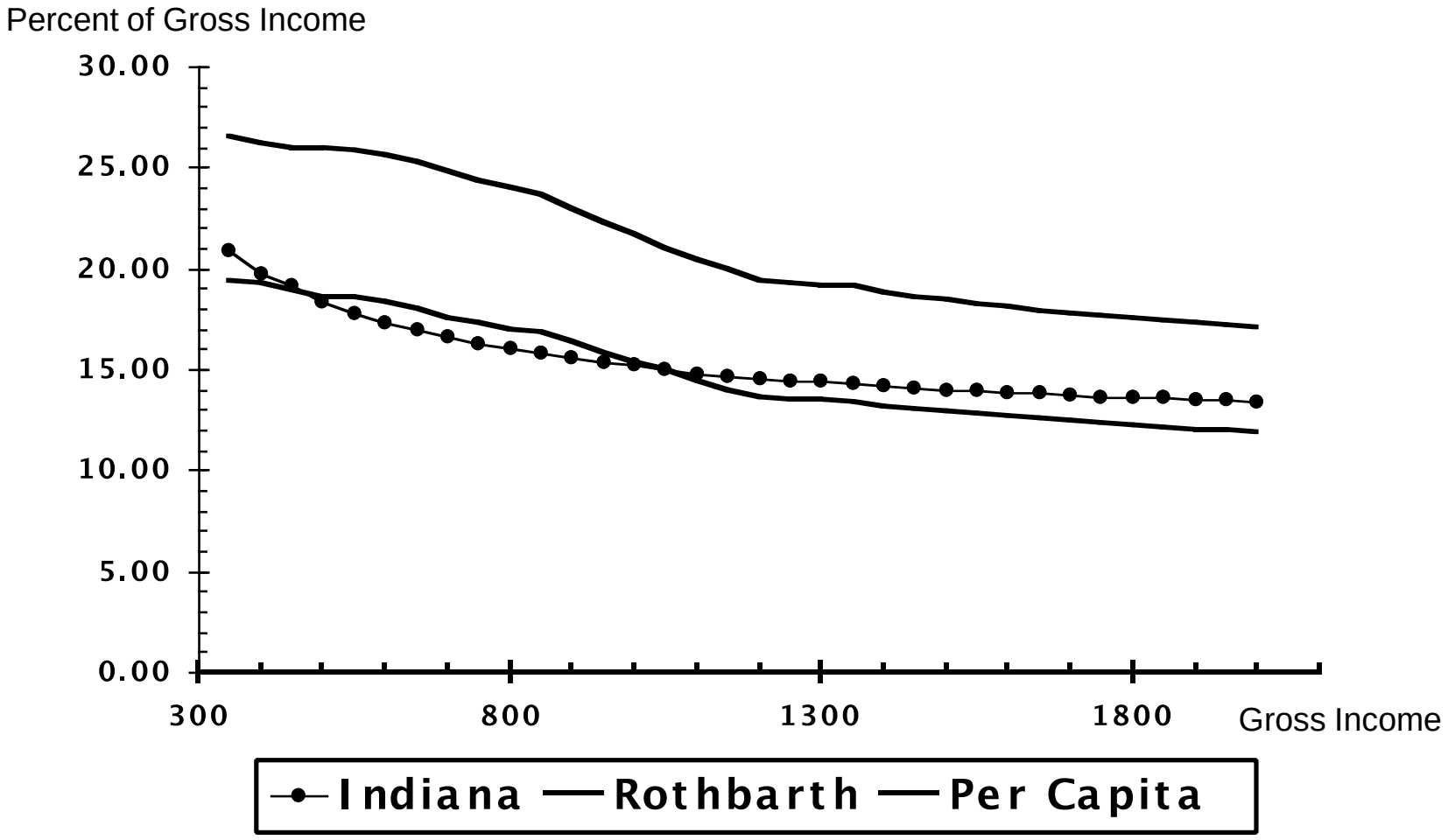
	Increase in Child Spending Due to:	
	Second Child	Third Child
Per Capita	50%	20%
USDA:		
2009 Report	48%	18%
1995 Report	62%	14%
2004-2009 CE (Betson, 2010)		
Engel	58%	25%
Rothbarth	55%	23%
2004-2006 CE (McCalab et al, 2008)		
Engel	71%	21%
1998-2003 CE (Betson, 2006)		
Rothbarth	46%	19%
1998-2001 CE (McCalab et al, 2004)		
Engel	73%	39%
1996-1998 CE (Betson, 2000)		
Engel	46%	18%
Rothbarth	40%	16%
1980-1986 CE (Betson, 1990)		
Engel	48%	20%
Rothbarth	41%	13%
1972-73 CE		
Engel (Espenshade, 1986)	71%	24%
Rothbarth (Lazear and Michael, 1988)	63%	26%

Why Are There Differences?

- *Based upon samples, consequently over time estimates will vary due to sampling variability (3 percentage points)*

- *Different Models (USDA, Engel and Rothbarth) make different assumptions*
- *Different sample selection criteria*
- *Different functional forms assumptions*
- *Vary quality of data – in recent years the quality of the food expenses have been questioned and more imputation from the Diary Survey is being utilized for food away from home (2009 and later).*

In 2002, I recommended that Indiana not change its Economic – It was based upon considerations like this one



Net Income Limits

- *States are required to have guidelines that apply to all cases and hence incomes and states comply with this requirement in different ways:*
  - *Providing a mathematical formula to extend the Economic Table to all incomes*
  - *Orders with high incomes being the discretion of the Judge with the presumption that the order not to be less than the highest entry in the table*
- *The net income limits of the economic table should be chosen to reflect the level of income we can reasonably and accurately determine spending on children from a data source. Currently the CE is the only available data sets that can be used to estimate spending on children. Due to the top-coding of income and expenditures as well as smaller sample sizes, I would limit the economic table to net incomes less than $15,000 per month or $180,000 on an annual basis.*

'Consensus' Estimates

- *I have never recommended but I did make the suggestion that it might be helpful to adopt a 'Bayesian' approach where different estimates be combined to form a single estimate by weighting each separate estimate by the probability that the group believes the estimate to be correct.*

- *For example assume that you believe that there is something to like about the USDA as well as the Rothbarth and Engel approaches. However, you believe that the USDA is the most appealing followed by the Rothbarth and then the Engel and you can quantify these beliefs in terms of the estimate being correct (for example the probabilities are 50% for USDA, 30% Rothbarth and 20% for Engel) the the consensus estimate would*

.5 x USDA + .3 x Rothbarth + .2 x Engel

Shared Parenting and Child Support Credits

Shared Parenting

- *In 1995, I wrote a paper addressing the question of shared residential parenting and the Income Shares Model. After delivering that paper at a conference, I worked with the state of New Jersey to implement my proposal.*
- *Later Indiana in 2002 adopted a much simplified version of the New Jersey.*
- *After initial hesitation from some Judges and Lawyers about the complexity of the form, today it is widely accepted and welcomed as a companion to the state's Parenting Time guidelines.*

Considerations

- *The Economic Table's construction is based upon the assumption that what will be spent on the children will the same as if the parents and children shared a single residence, i.e., the marriage continued. I believe that implies that the Economic Table reflects sole physical custody. Although some states argue there is incorporated some shared parenting time already in their table.*

- *When shared parenting occurs then*
  - *Some expenses will be 'transferred' from the CP to the NCP – the CP will not be incurring the expense but the NCP will when the children are residing with the NCP. Example such as food*
  - *Some expenses will be 'duplicated' in both households – the CP and NCP will incur these expenses in their households even when the children don't reside with them. Primary example is housing.*
  - *Some expenses will be 'controlled' and hence incurred by the CP even if the children reside with the NCP. Example are ordinary medical care and clothing.*

Hypothetical Example

- *Let us assume that there is one child where the amount in the Economic Table for the parents' combined income is $10,000 per year and during the year, the child resides with the NCP 30% of the overnights.*
- *We will assume that the NCP's share of combined income is 60%*
- *We will make the following assumptions about the composition of expenses:*
  - *40% ($4,000) are transferred;*
  - *50% ($5,000) are potentially duplicated;*
  - *10% ($1,000) are controlled.*
- *Observation: if all of the duplicated expenses are incurred by the NCP the total spending on the child rises from $10,000 to $15,000 – shared parenting is more costly than sole parenting (but is likely beneficial to the child).*

Sole Custody

OOP Expenses		
Transferred	*$4,000*	*0*
Duplicated	*$5,000*	*0*
Controlled	*$1,000*	*0*
Total	*$10,000*	*0*
Child Support	*- $6,000*	*$6,000*
Net Expense	*$4,000*	*$6,000*

OOP Expenses if 30% Overnights

- *If the child spends 30% of the time with the NCP then the NCP is incurring $1,200 (= .30 x $4,000) of expenses and relieves the CP of these expenses.*
- *The NCP provides an additional space in their household for the child. Assume that this space given that it used only by the child represents 80% of the cost of space provided by the CP or .60 x $5,000 or $3,000 per year.*

30% Overnight – No Credit

OOP Expenses			
Transferred	*$2,800*	*$1,200*	
Duplicated	*$5,000*	*$3,000*	
Controlled	*$1,000*	*0*	
Total	*$8,800*	*$4,200*	
Child Support	*- $6,000*	*$6,000*	
Net OOP Expense	*$2,800*	*$10,200*	*(78.5%)*

Credits

- *Transferred – Since the NCP has already 'paid' for his share of these expenses in the child support order (no credit) they should be granted a credit for this amount plus the CP's share of these expenses that the NCP is now making. In other words the full amount of transferred expenses should be credited ($1,200).*

- *Duplicated – Since these are 'new' expenses, the credit should reflect the CP's share of these expenses. In other words, $1,200 (= .4 x $3,000).*

- *Total Credit = $1,200 + $1,200 = $2,400*

30% Overnight – With Credit

OOP Expenses			
Transferred	*$2,800*	*$1,200*	
Duplicated	*$5,000*	*$3,000*	
Controlled	*$1,000*	*0*	
Total	*$8,800*	*$4,200*	
Child Support	*- $6,000*	*$6,000*	
Credit	*$2,400*	*- $2,400*	*($3,600)*
Net OOP Expense	*$5,200*	*$7,800*	*(60%)*

Assumptions

- *Assumptions about the share of expenses transferred and duplicated are inferred from spending patterns of intact families with children. The amount of controlled expenses are estimate to be the 'residual' after assumptions of transferred and duplicated expenses.*

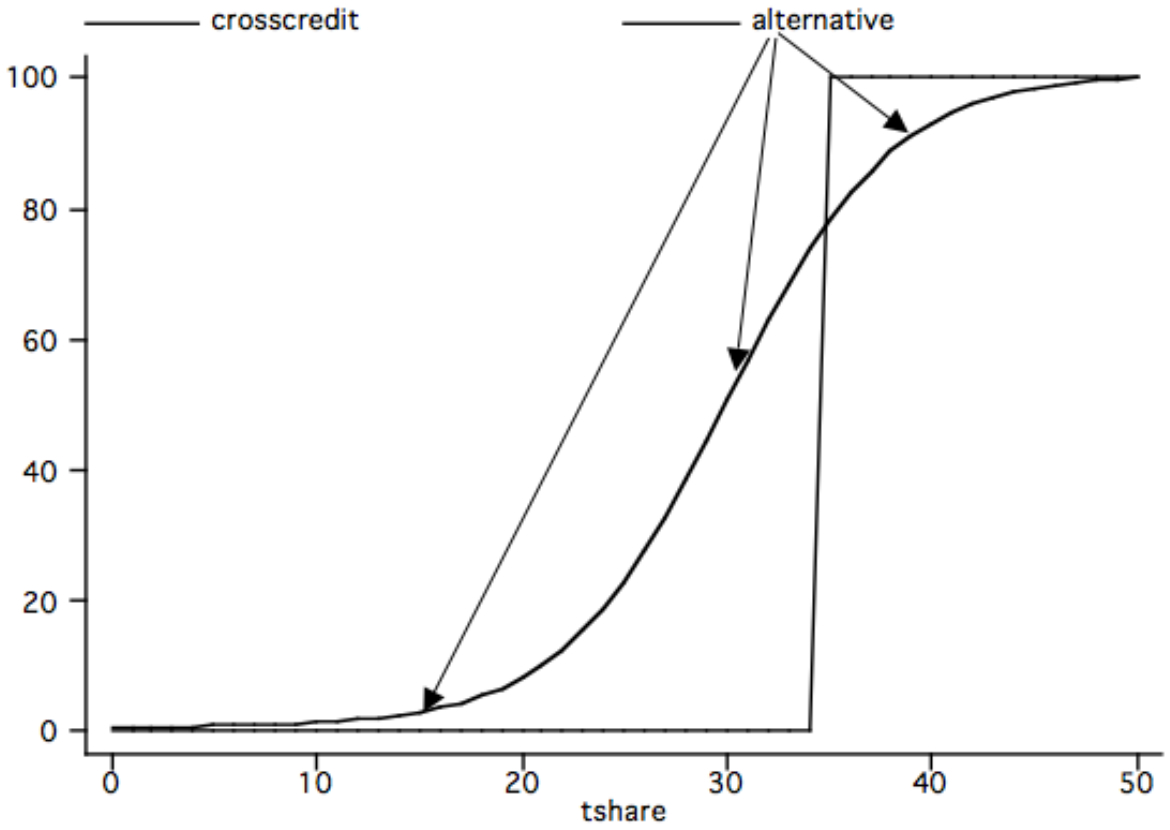
- *New Jersey adopted transferred expenses as 37% and duplicated costs at 38% while Indiana chose to assume that 35% of all expenses were transferred and 50% were duplicated.*

- *Total amount of expenses incurred given t percent of overnights =*

$$BCSO \times .35 \times t + BCSO \times .5 \times p(t)$$

where p(t) reflects a phasing in of duplicated costs (see next slide)

Duplicated Expense Phase-In



Indiana's Worksheet

PARENTING TIME CREDIT WORKSHEET

Line:		
1PT	Enter Annual Number of Overnights	
2PT	Enter Weekly Basic Child Support Obligation – BCSO (Enter Line 4 from Child Support Worksheet)	_____.__
3PT	Enter Total Parenting Time Expenses as a Percentage of the BCSO (Enter Appropriate TOTAL Entry from Table PT)	._____
4PT	Enter Duplicated Expenses as a Percentage of the BCSO (Enter Appropriate DUPLICATED Entry from Table PT)	._____
5PT	Parent's Share of Combined Weekly Income (Enter Line 2 from Child Support Worksheet)	._____
6PT	Average Weekly Total Expenses during Parenting Time (Multiply Line 2PT times Line 3PT)	_____.__
7PT	Average Weekly Duplicated Expenses (Multiply Line 2PT times Line 4PT)	_____.__
8PT	Parent's Share of Duplicated Expenses (Multiply Line 5PT times Line 7PT)	_____.__
9PT	Allowable Expenses during Parenting Time (Line 6PT – Line 8PT)	_____.__
	Enter Line 9PT on Line 7 of the Child Support Worksheet as the Parenting Time Credit	

Table PT

ANNUAL OVERNIGHTS			
FROM	TO	TOTAL	DUPLICATED
1	51	0.000	0.000
52	55	0.062	0.011
56	60	0.070	0.014
61	65	0.080	0.020
66	70	0.093	0.028
71	75	0.108	0.038
76	80	0.127	0.052
81	85	0.150	0.070
86	90	0.178	0.093
91	95	0.211	0.122
96	**100**	**0.250**	**0.156**
101	105	0.294	0.195
106	110	0.341	0.237
111	115	0.388	0.280
116	120	0.434	0.321
121	125	0.476	0.358
126	130	0.513	0.390
131	135	0.544	0.417
136	140	0.570	0.438
141	145	0.591	0.454
146	150	0.609	0.467
151	155	0.623	0.476
156	160	0.634	0.483
161	165	0.644	0.488
166	170	0.652	0.491
171	175	0.660	0.494
176	180	0.666	0.495
181	183	0.675	0.500

Would I still recommend an Indiana type credit

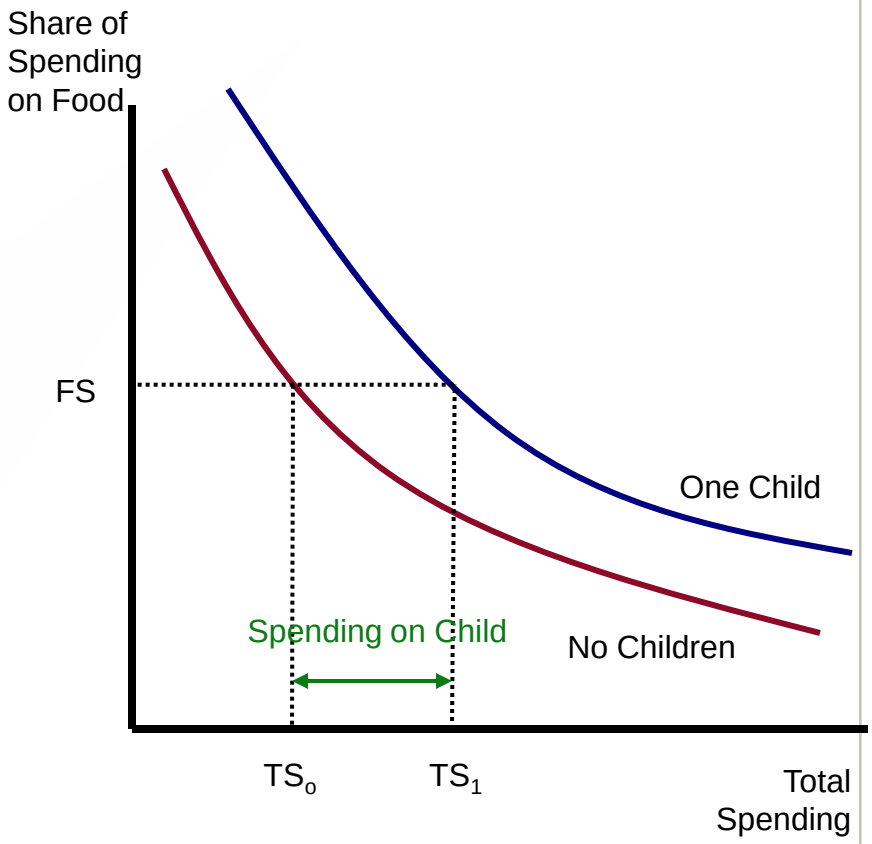
- *Yes!*
- *It promotes equity and maintains the sharing of expenses as was envisioned in the Income Shares Model*
- *It is relatively easy and understandable to those who read the explanation provided in the guidelines*
- *It is quite easy to implement in most child support calculators*

Further Questions?

Other Possible Slides

Engel

- *As families become wealthier, they spend a smaller share of their spending on food.*
- *Families with children are 'poorer' than families without children hence families with children will spend more on food holding total spending constant.*
- *If the food share is a reasonable indicator of family well being then we can estimate the marginal cost of children by comparing the level of total spending between families with and without children needed to maintain the same food share.*



Rothbarth

- *As total spending increases, adults spend more on themselves*
- *Holding total spending constant, adults without children spend more on adult goods*
- *Adult goods are a reasonable indicator of the standard of living (preferences of adults for adult goods are separable from other consumption groups: shared consumption and child goods)*