

Virginia Child Support Guidelines Review: Economic Basis of the Schedule

Jane Venohr, Ph.D.
Economist/Research Associate
Center for Policy Research
1570 Emerson Street
Denver, CO 80218
303.837.1555
jvenohr@centerforpolicyresearch.org

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Objectives of Today's Discussion

- ✓ Fulfill federal requirement to consider economic data
- ✓ Assess appropriateness of existing Virginia child support schedule
 - Compared to current economic data
 - Compared to other states & the various assumptions and economic data that they use
 - Relative to Virginia's economic conditions
 - Address low and high-income amounts separately
- ✓ Obtain input/direction from the Guidelines Review Panel to develop up to two alternative updated schedules for Virginia

Typical Steps: Building an Income Shares Schedule

1. Decide to use Income Shares model
2. Select economic basis
 - There are several different measurements of child-rearing expenditures
 - Economists don't agree on which estimate most closely measures actual child-rearing expenditures
 - Any amount between lower & upper bound of credible estimates are appropriate for state guidelines
3. Adjust for current price levels
4. Extend to 4+ children
5. Adjust for expenses considered elsewhere in guidelines calculation (e.g., actual childcare expenses are considered in worksheet)
6. Make state-specific adjustments (e.g., WV adjusts for its relatively low income, MD adjusts for its relatively high housing costs, PA adjusts for 30% timesharing)
7. Back to net/gross income; that is, the income base of the state guidelines
8. Extrapolate to higher incomes if desirable
9. Incorporate low-income adjustment (self support reserve) into schedule if desirable

Outline of presentation/discussion follows these steps

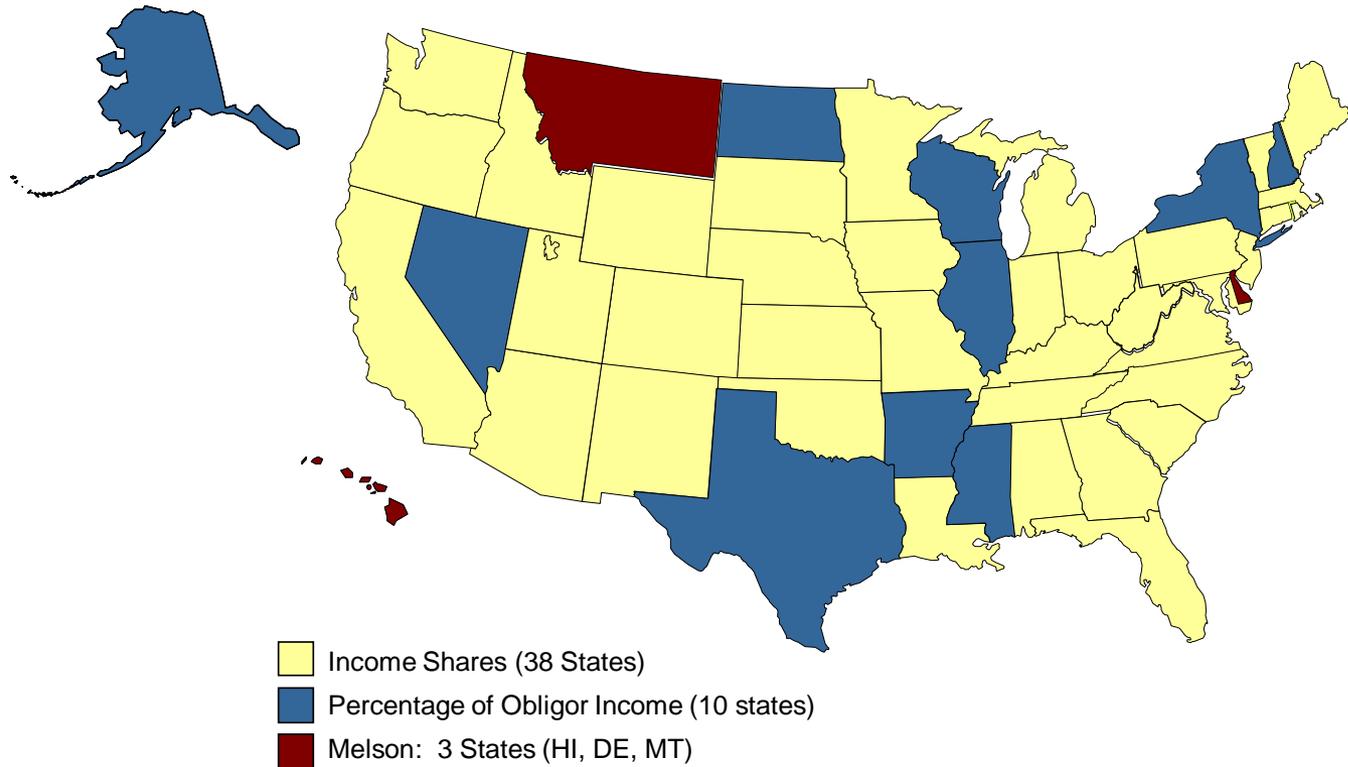
Federal Requirements of State Guidelines (45 C.F.R. § 302.56)

- **Federal History**
 - Advisory guidelines by 1987
 - Presumptive guidelines that can be rebutted based on state-determined criteria by 1989
- **Statewide child support guidelines**
 - Must be based on specific descriptive and numeric criteria
 - Take into consideration all earnings and income of the noncustodial parent
 - Provide for the child's health care needs
- **States must review guidelines every 4 years**
 - Analyze case data on application of & deviations from guidelines
 - Consider economic data on the cost of child rearing



Step 1. Selecting a Guidelines Model

Virginia Uses the Income Shares Guidelines Model



Income Shares Model Is Based on Measurements of Child-Rearing Expenditures

Income Shares model starts with the assumption that the child is entitled to same amount of expenditures the child would have received if the parents & child lived together; then, it allows for adjustments for economic realities that vary by state:

- Minimum order (\$65/month) at very low incomes
- Other children living with the parent
- Other factors

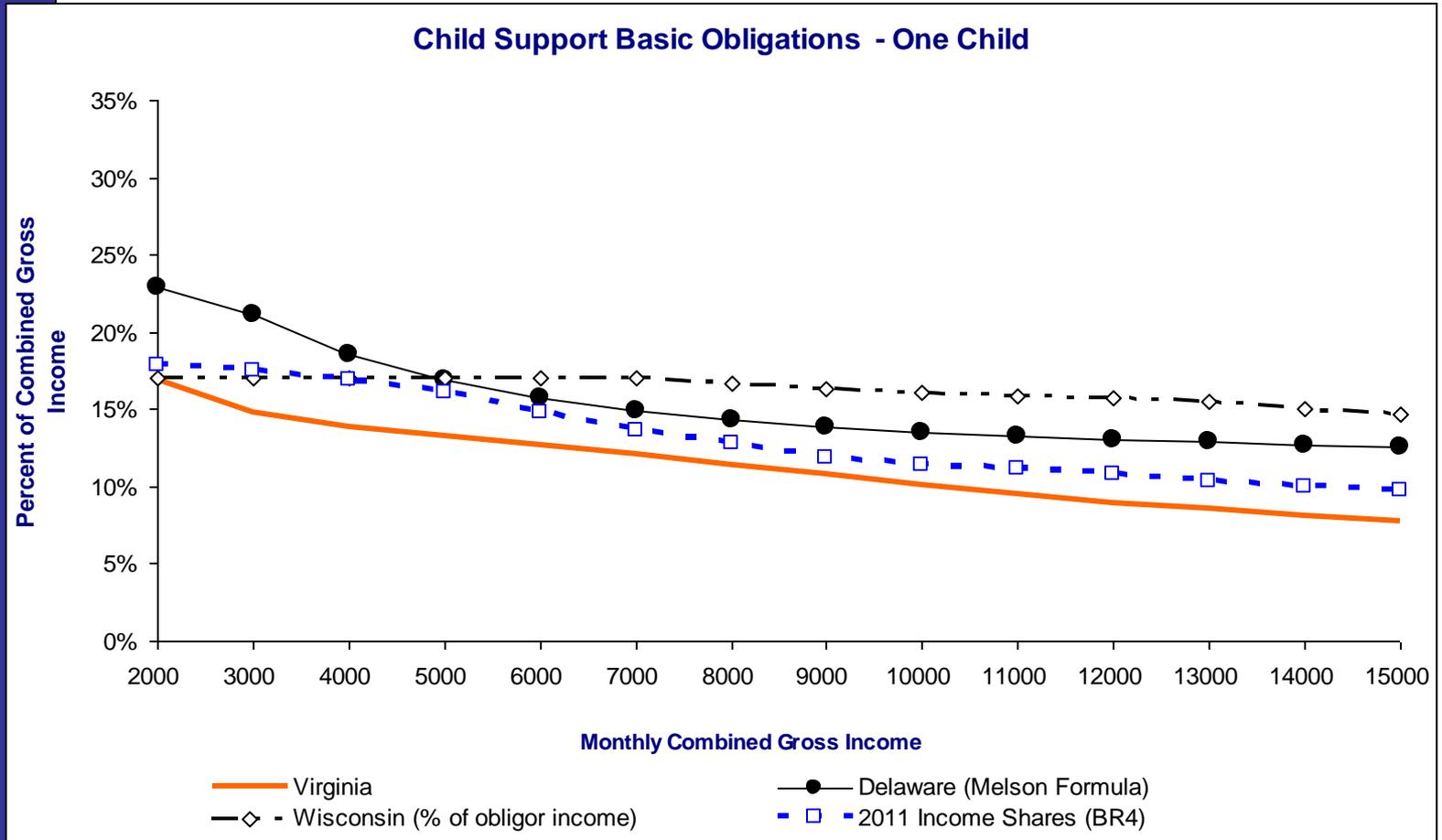
EXAMPLE: TWO CHILDREN	Mother	Father	Combined
1. Monthly Income	\$2,000	+ \$3,000	= \$5,000
2. % of Combined Income	40%	+ 60%	= 100%
3. Expenditures on Children in Intact Family			\$1,000
4. Each Parent's Share (Line 2 x Line 3)	\$400	+ \$600	= \$1,000

Origin of Income Shares Model: 1984-87 National Child Support Guidelines Project

- ❖ **Requested by Congress, Advisory Panel appointed by OCSE**
- ❖ **Developed 8 principles for state guidelines, including:**
 - Parents should share financial responsibility to their children
 - Children should share in lifestyle afforded by parent
 - Child support shouldn't impoverish parents
 - Not discourage shared physical custody
 - Be gender neutral
 - Be mindful that all children of a parent have a right to that parent's income
 - Children of divorced and never-married parents should not be treated differently
 - Not indirectly create economic disincentives to re-marry or work
- ❖ **Recommended Income Shares**
 - About 21 other states initially adopted prototype Income Shares guidelines, today about 38 states use Income Shares

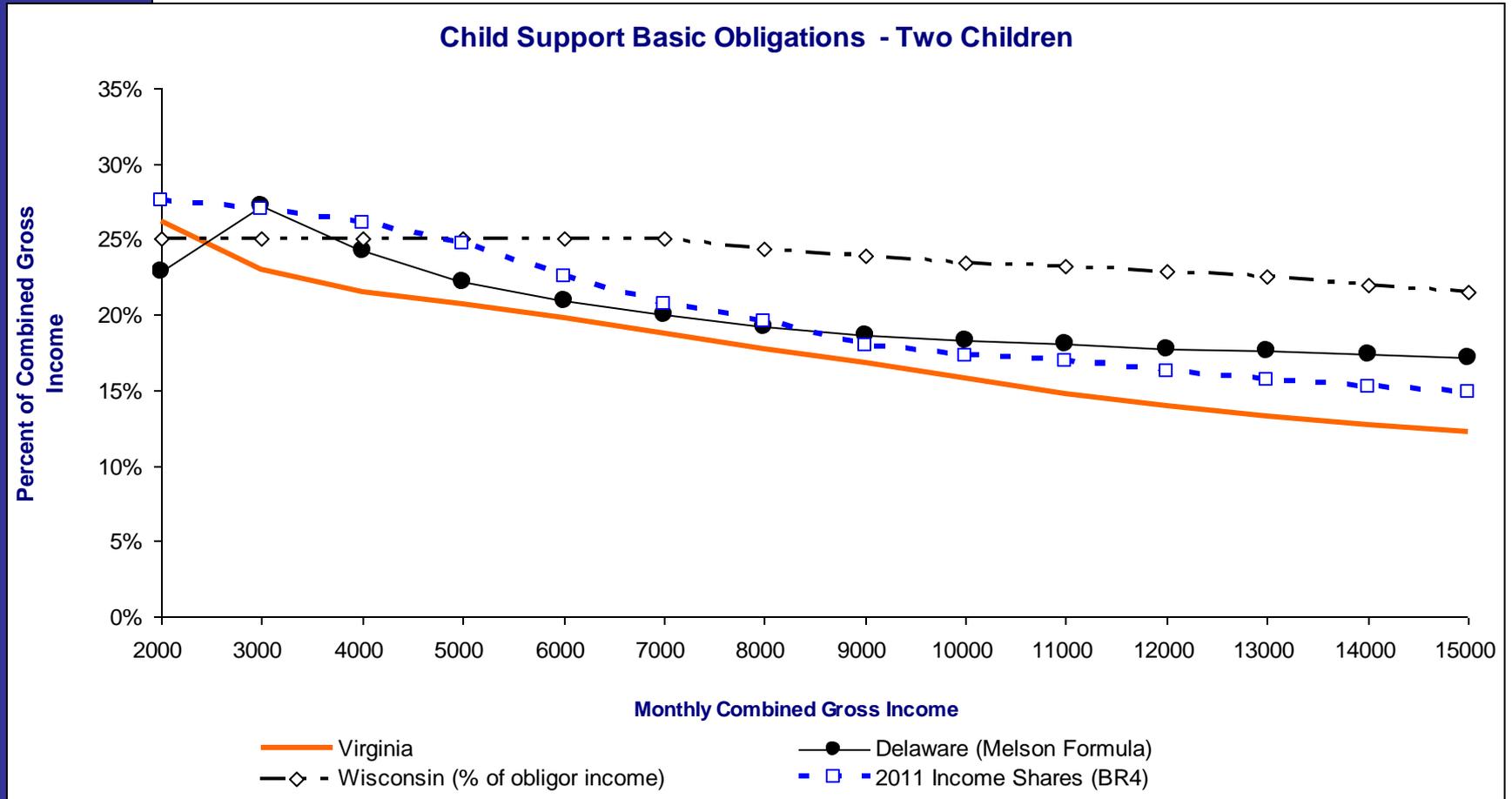
National Center for State Courts (1987). *Development of Guidelines for Child Support Orders, Final Report*. Report to U.S. Department of Health and Human Services, Office of Child Support Enforcement, Williamsburg, Virginia. Available from the Internet at: <https://www.policy-studies.com/NewsandPublications/Publications/ChildSupportPublications/ChildSupportPublicationsArchive/tabid/141/Default.aspx>

Comparison of Guidelines Models: One Child

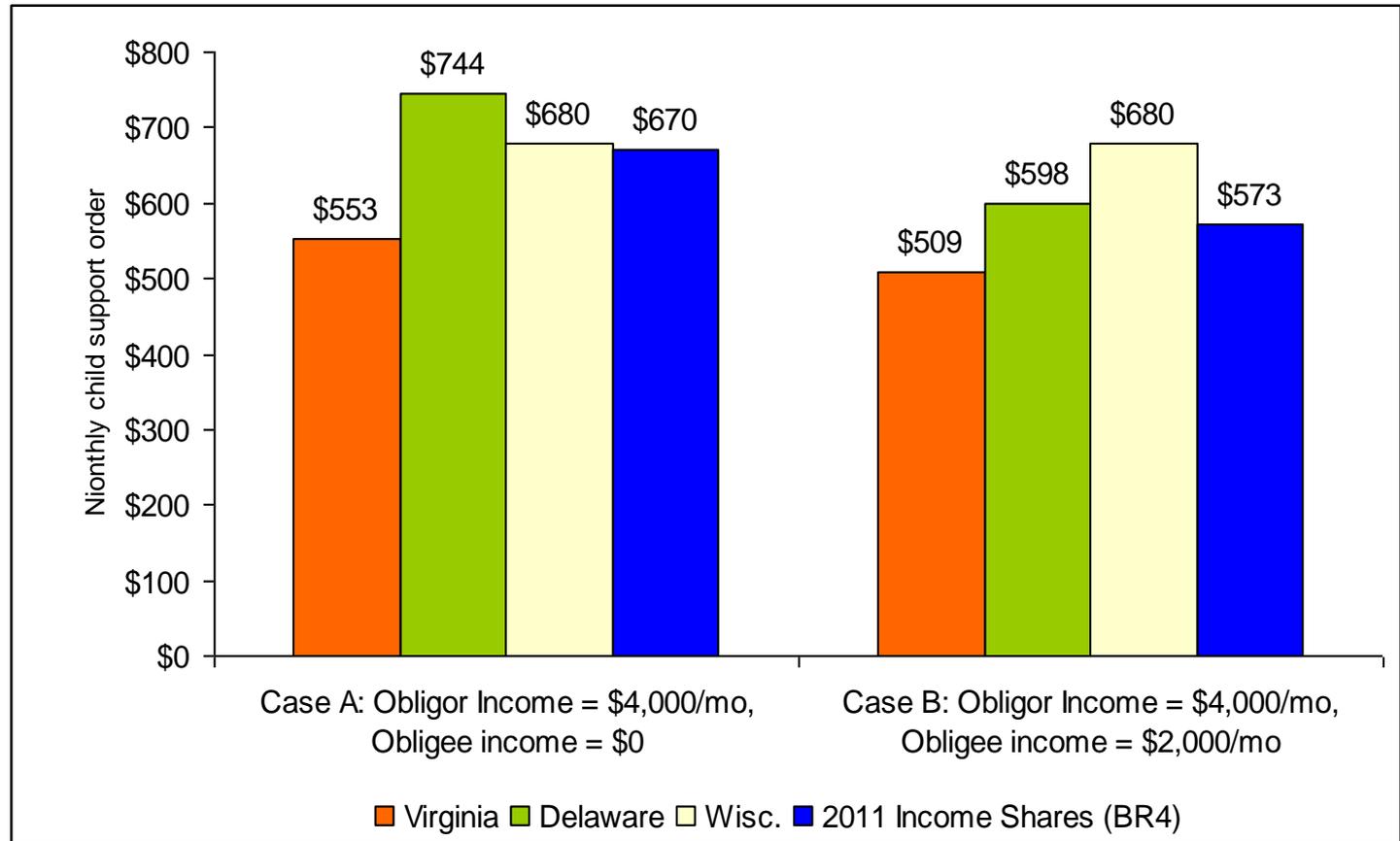


WI was first percentage-of-obligor guidelines. Delaware was first Melson formula guidelines.

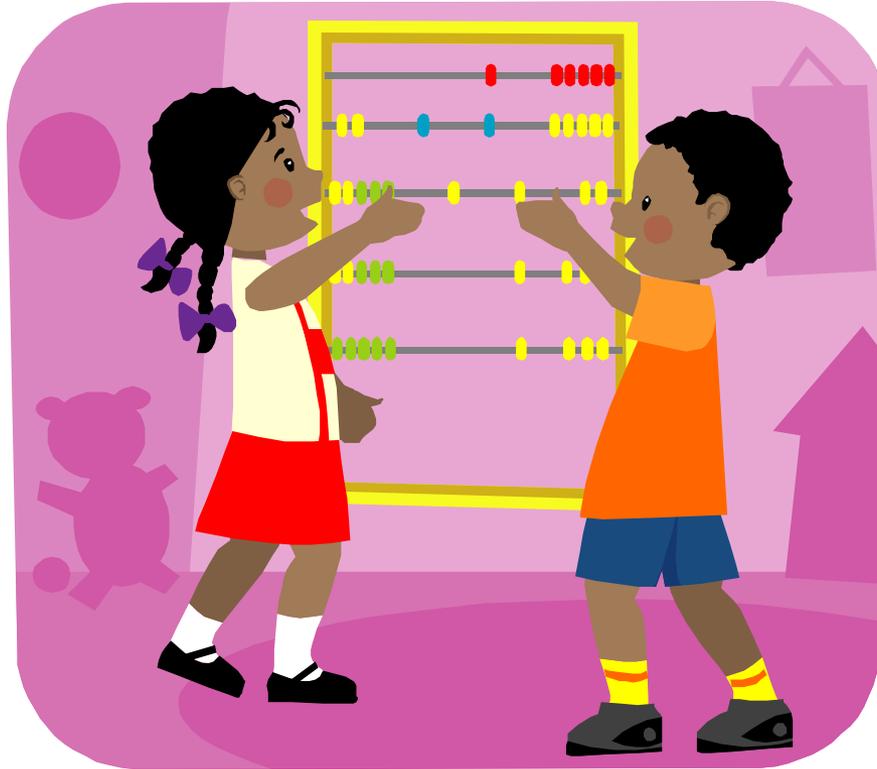
Comparison of Guidelines Models: Two Children



Comparison of Guidelines Models: One Child



The chart illustrates that obligee income does not affect the order amount in percentage-of-obligor income guidelines models (e.g., WI), but does in other guidelines models.



Step 2. Select Economic Basis of Schedule

Overview of Economic Estimates of Child-Rearing Expenditures

- The income shares model is the only guidelines model to explicitly relate to child-rearing expenditures. It relates to child-rearing expenditures in intact families.
- There are several studies that measure child-rearing expenditures. (References are at end of document.)
 - All rely on the Consumer Expenditure Survey (CES) conducted by the Bureau of Labor Statistics.
 - Measurements vary by:
 - Survey years
 - Economist developing measurement
 - Methodology for separating expenditures for children and those for adults living in the same household
- Economists do not agree on which methodology best measures actual child-rearing expenditures. The general conclusions are:
 - Some methodologies (Rothbarth) understate actual child-rearing expenditures
 - Other methodologies (Engel & old USDA) overstate actual child-rearing expenditures
 - State guidelines amounts between the lower and upper bound of credible measurements of child-rearing expenditure are appropriate amounts.

Consumer Expenditures Survey (CES)

- Consumer Expenditure Survey
- Conducted by the Bureau of Labor Statistics (BLS)
- Nationally representative sample, not sufficient to produce state-specific measurements
- Surveys about 6,000 households a quarter
- Households stay in for five quarters
- Survey considers 100s of expenditures items
- Beginning in 2004, BLS improved income measure at low incomes and add a new measurement of expenditures, “outlays,”
 - Rather than the value of current purchases, outlays includes installment payments & payments on home equity loans
- More information available at <http://www.bls.gov>

Average Child-Rearing Expenditures in Betson-Rothbarth Estimates...

INCLUDE

- Housing: rent , utilities, mortgage interest, property taxes, condo fees, home furnishings, etc...
- Transportation: finance charges, leases, gas & oil, maintenance & repairs, bus tokens, etc...
- Food:
- Entertainment: admissions, lessons, activity fees, pets, toys, equipment, etc...
- Apparel:
- Other: personal care products, reading, ordinary education fees, etc...
- \$250 Out-of-Pocket Medical Expenses: to cover band-aids, over-the-counter medicines, etc...
- Installment Payments (Betson-Rothbarth 2010 only): payments on home equity loan, installment payments on home entertainment center, etc...

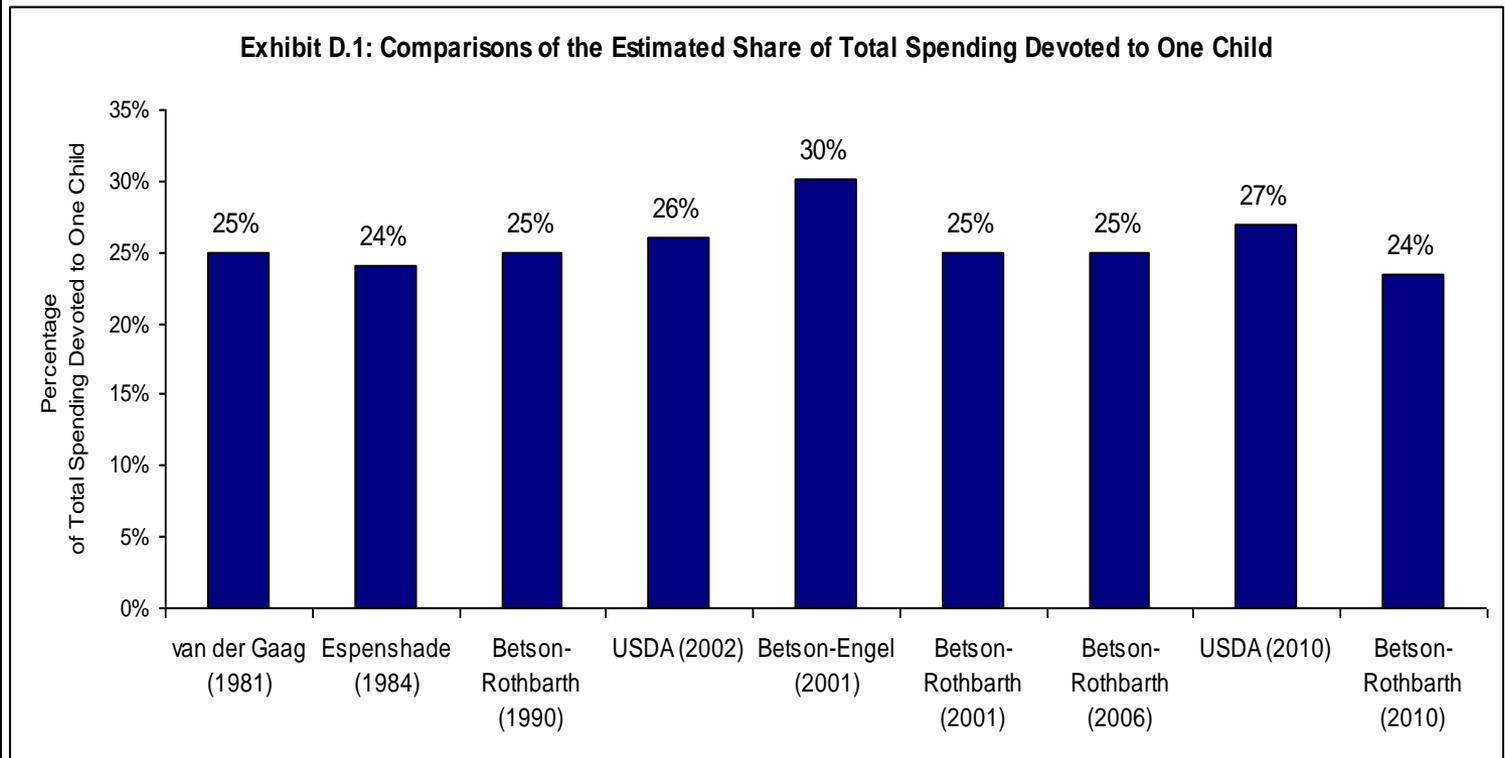
EXCLUDE

- Child care expenses
- Health insurance
- Uninsured, extraordinary medical expenses (orthodontia, asthma treatments)
- Mortgage principal payments (older estimates only)
- Net vehicle outlays (older estimates only)
- Savings & investments
- Pension contributions
- Charitable contributions and gifts outside the home

Estimates of Child-Rearing Expenditures Underlying State Guidelines

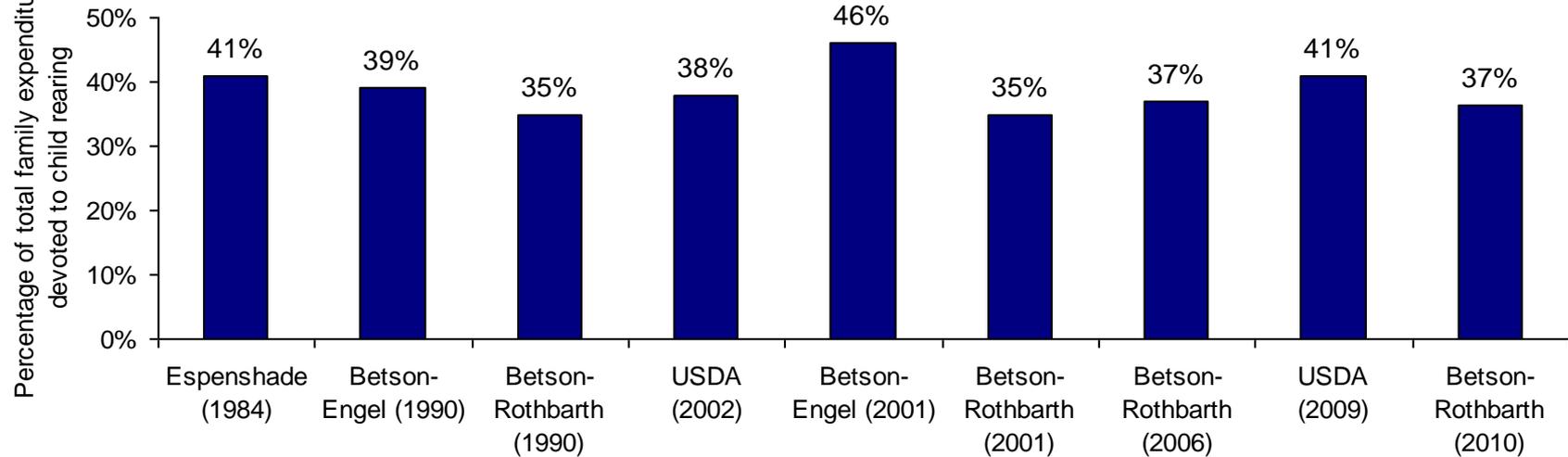
	van der Gaag	Espen-shade/ Engel	Betson/Rothbarth (BR)				Average of Betson/ Roth-barth-Engel	USDA
			1 st study	2 nd Study	3 rd Study	4 th Study	2 nd Study	
Year of Study	1981	1984	1990	2001	2006	2010	2001	Annual
Approx. Number of States Basing Guideline on Study	5 states	5 states (FL, KY, MI, VA, WA)	5 states	11 states	12 states	NC	GA	MN
Years of survey data	Various years	1972-73	1980-86	1996-99	1998-2004	2004 - 2008	1996-99	1990-92

Comparisons of Measurements of Child-Rearing Expenditures Averaged across All Incomes: One Child



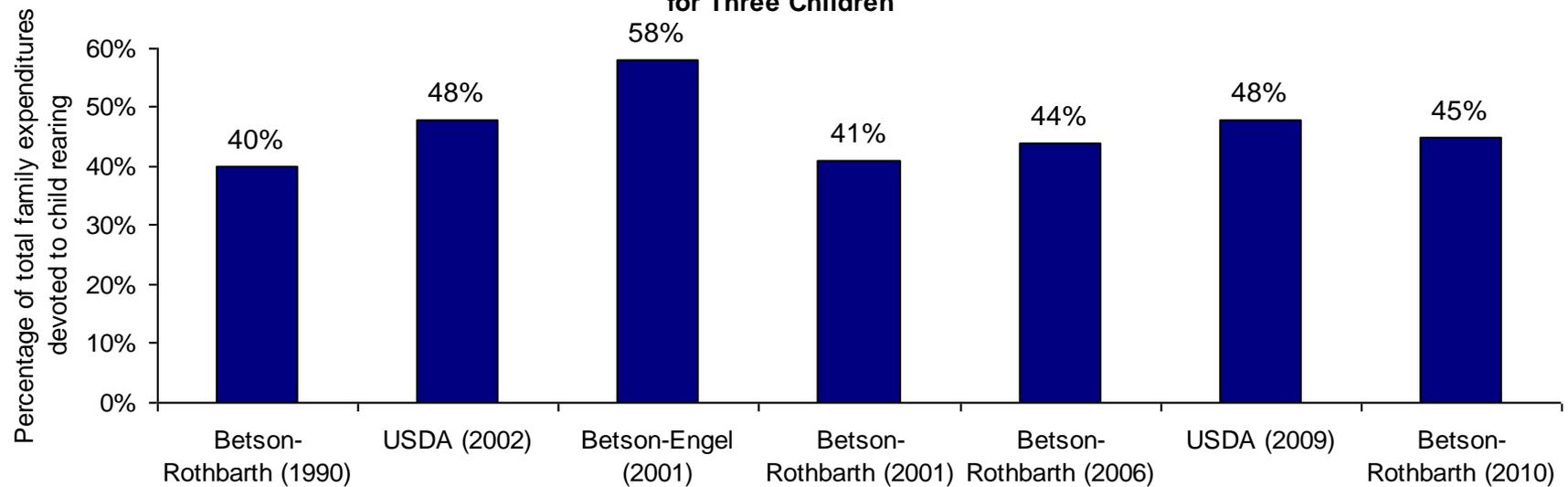
Comparisons of Measurements of Child-Rearing Expenditures Averaged across All Incomes: Two Children

Exhibit 4.2: Comparisons of Measurements of Child-Rearing Expenditures for Two Children

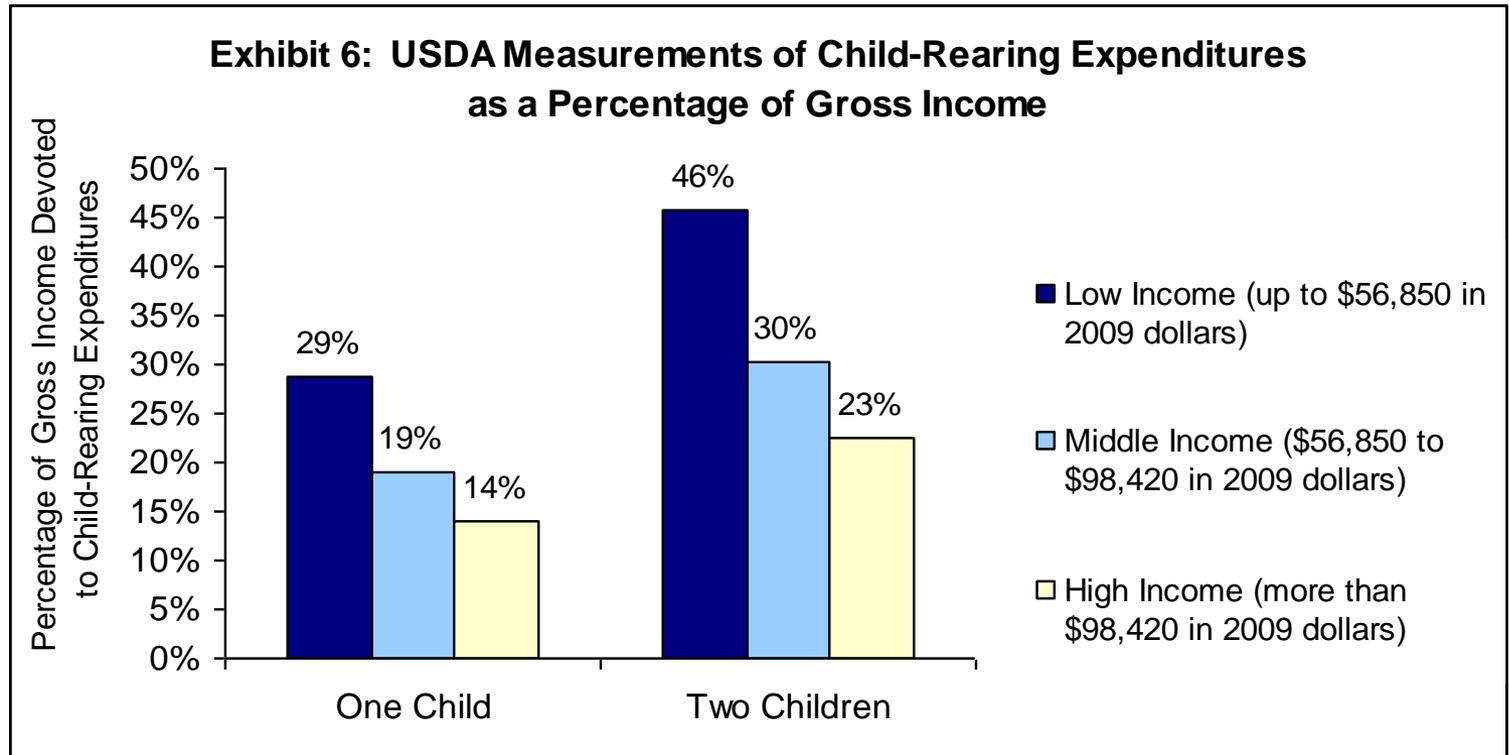


Comparisons of Measurements of Child-Rearing Expenditures Averaged across All Incomes: Three Children

Exhibit 4.3: Comparisons of Measurements of Child-Rearing Expenditures for Three Children



Measurements Indicate Percentage of Income Devoted to Child-Rearing Expenditures Decrease as Income Increases



Current Measurements of Child-Rearing Expenditures Available to Update Schedule

Lower Bounds

- **Betson-Rothbarth 3 (1998-2004 CES)– Basis of Existing Schedule** Betson, David M. (2006). “Appendix I: New Estimates of Child-Rearing Costs in State of Oregon Child Support Guidelines Review: Updated Obligation Scales and Other Considerations, Report to State of Oregon, Prepared by Policy Studies Inc., Denver Colorado. Available at http://www.dcs.state.or.us/oregon_admin_rules/psi_guidelines_review_2007.pdf
- **Betson-Rothbarth 4 (2004-2009 CES)** David M. Betson (2010). “Appendix A: Parental Expenditures on Children: Rothbarth Estimates,” in Judicial Council of California, *Review of Statewide Uniform Child Support Guidelines*, San Francisco, California.

Upper Bound (2005-06 CES)

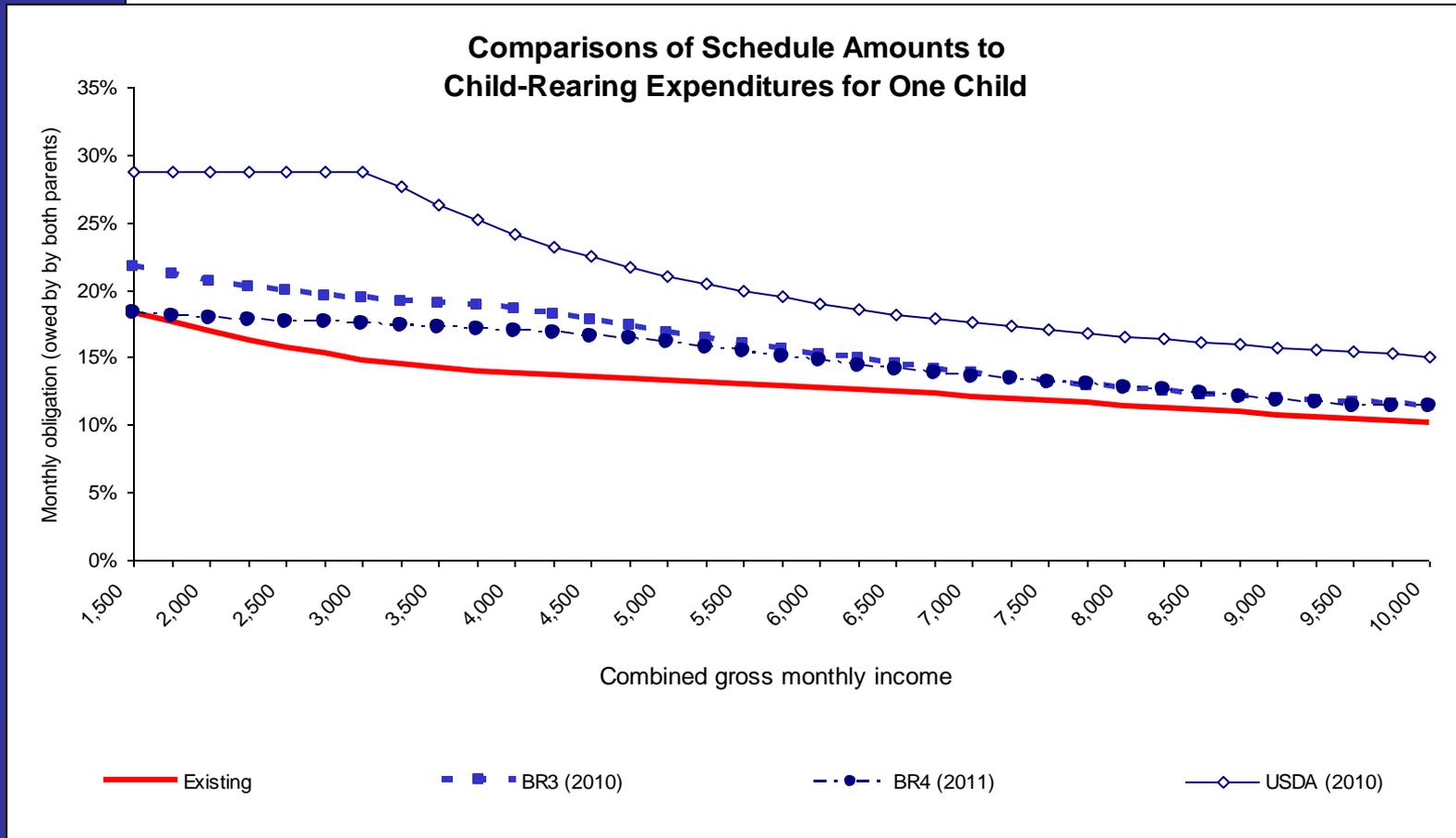
- Mark Lino (2010). *Expenditures on Children by Families: 2009 Annual Report*, U.S. Department of Agriculture, Center for Nutrition and Policy Promotion. Miscellaneous Publication No. 1528-2009. Available at <http://www.cnpp.usda.gov/ExpendituresonChildrenbyFamilies.htm>.

Comparison of Current Measurements of Child-Rearing Expenditures Available to Update Schedule

	Betson-Rothbarth 3 (BR3)	Betson-Rothbarth 4 (BR4)	USDA
Methodology	Rothbarth	Rothbarth	USDA
Relates to actual child-rearing expenditures	Understates,	Understates	Unknown (Previous USDA methodology overstates)
Survey years	1998-2004	2004-2009	2005-2006
Basis of measurements	<p>Expenditures</p> <ul style="list-style-type: none"> • All items purchased during survey period • Actual price of item regardless whether paid in installments • excludes mortgage principal payments • includes rent, mortgage interest, etc... 	<p>Outlays</p> <ul style="list-style-type: none"> • Outlays for purchases (e.g., installment payments made over survey period). • Includes mortgage principal payments (1st & 2nd) & home equity loan payments 	<p>Multiple Sources</p> <ul style="list-style-type: none"> • Food is based on USDA food budgets • Family-related transportation allocated on a per capita basis • Marginal cost of additional bedroom (includes 15% for mortgage principal) • Other expenditures
Highest income to which applied	\$22,000 net/mo (about \$30,000 gross)	\$16,000 net/mo (about \$20,000 gross)	\$20,000 net/mo (about \$30,000 gross)
Other		Imputed income at low incomes	

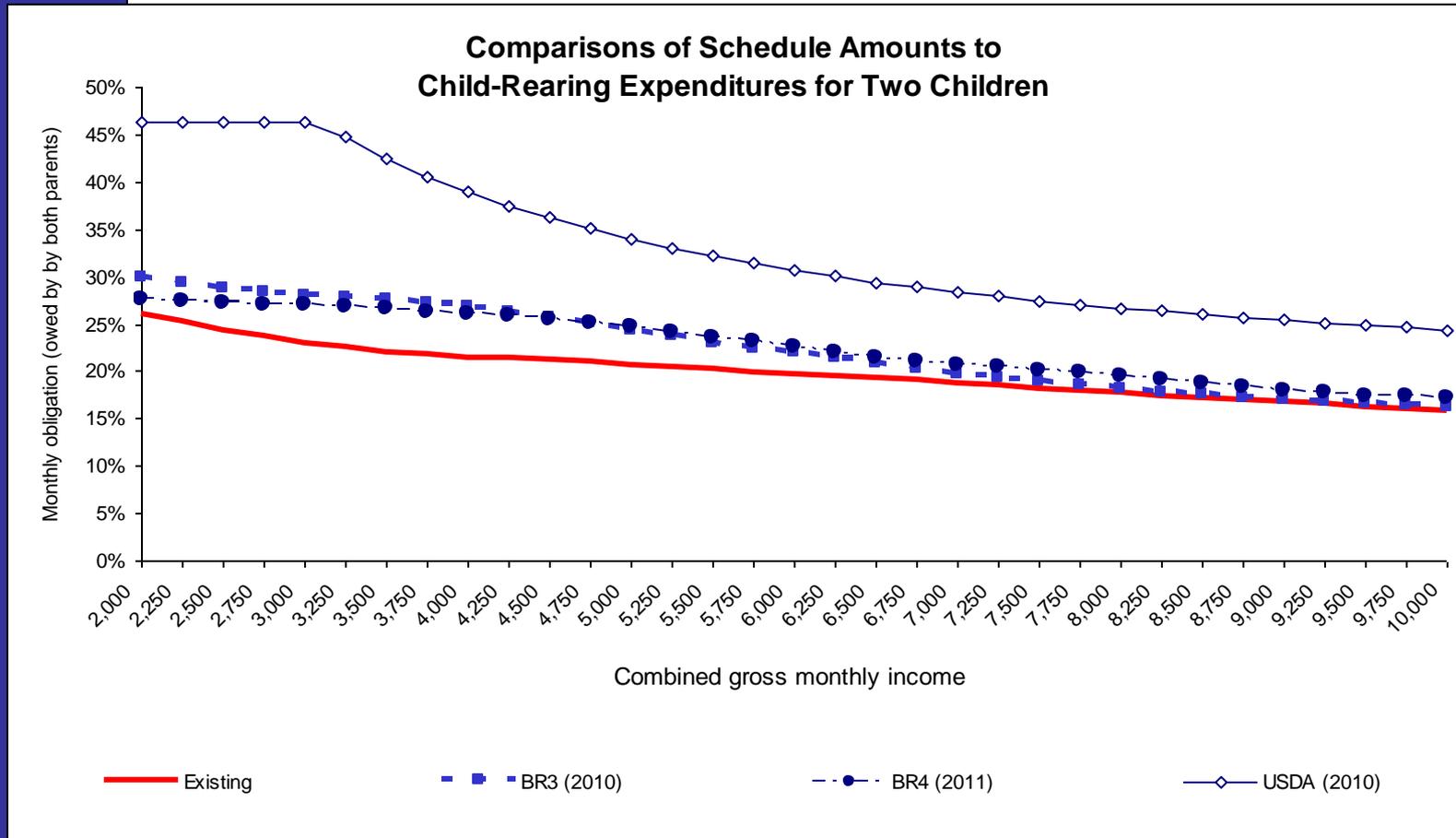
BR3 less than BR4 at low incomes, BR4 more than BR3 at high incomes.

Comparisons: One Child



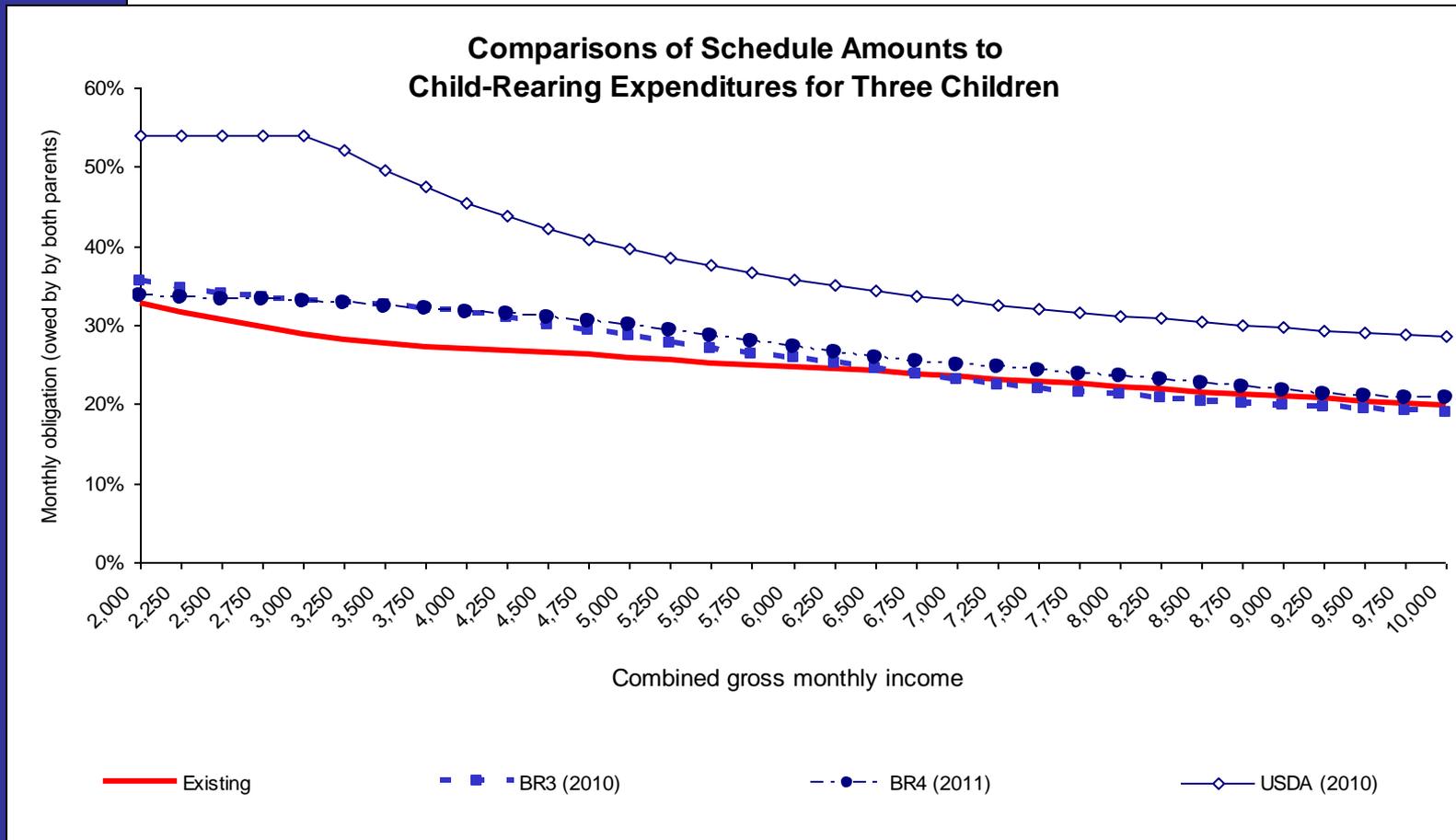
The amounts are close proximities of what updated VA schedules amount would be. All need to be adjusted for VA state income taxes. BR3 and USDA need to be updated to 2011 prices.

Comparisons: Two Children



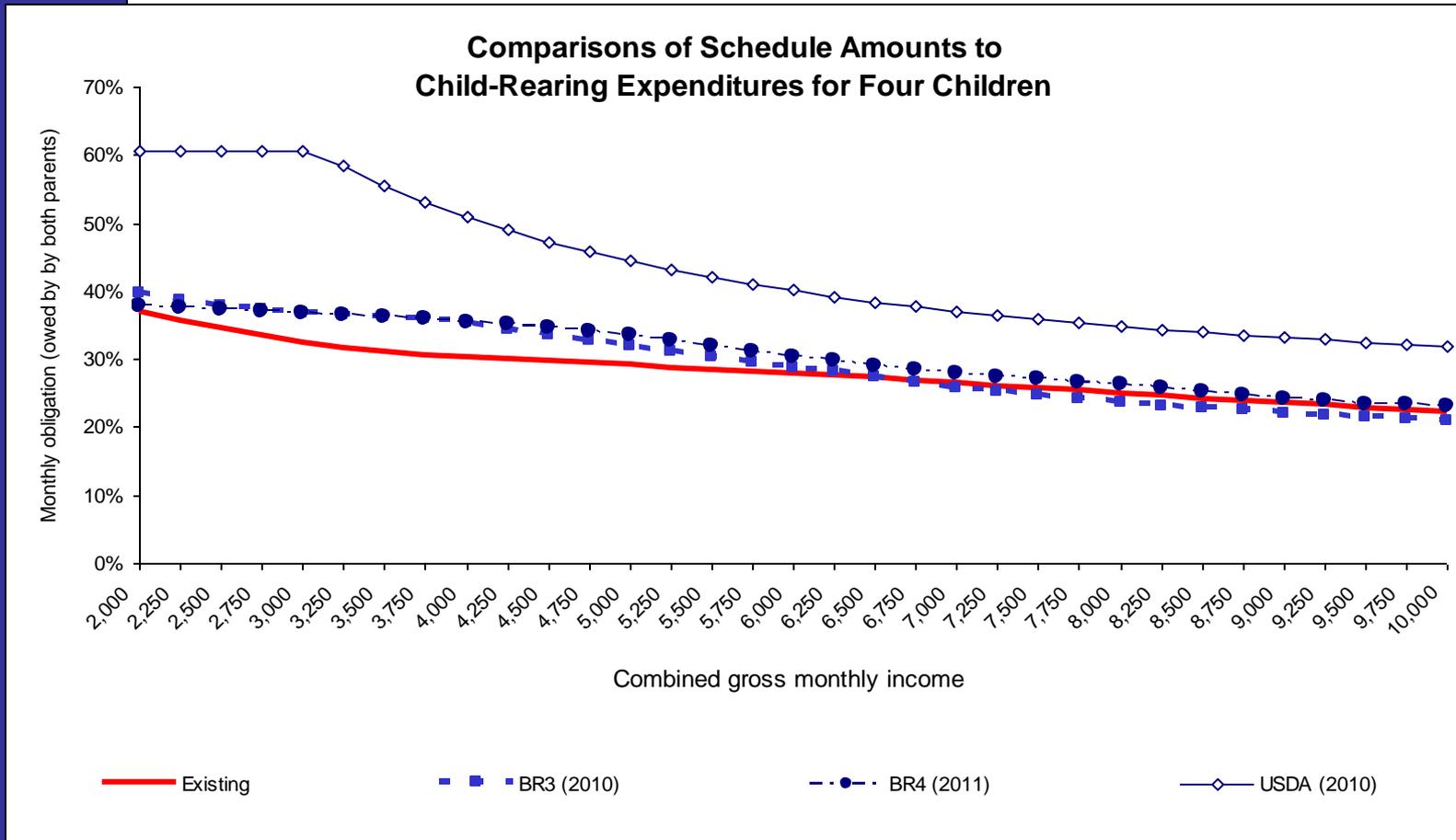
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Comparisons: Three Children



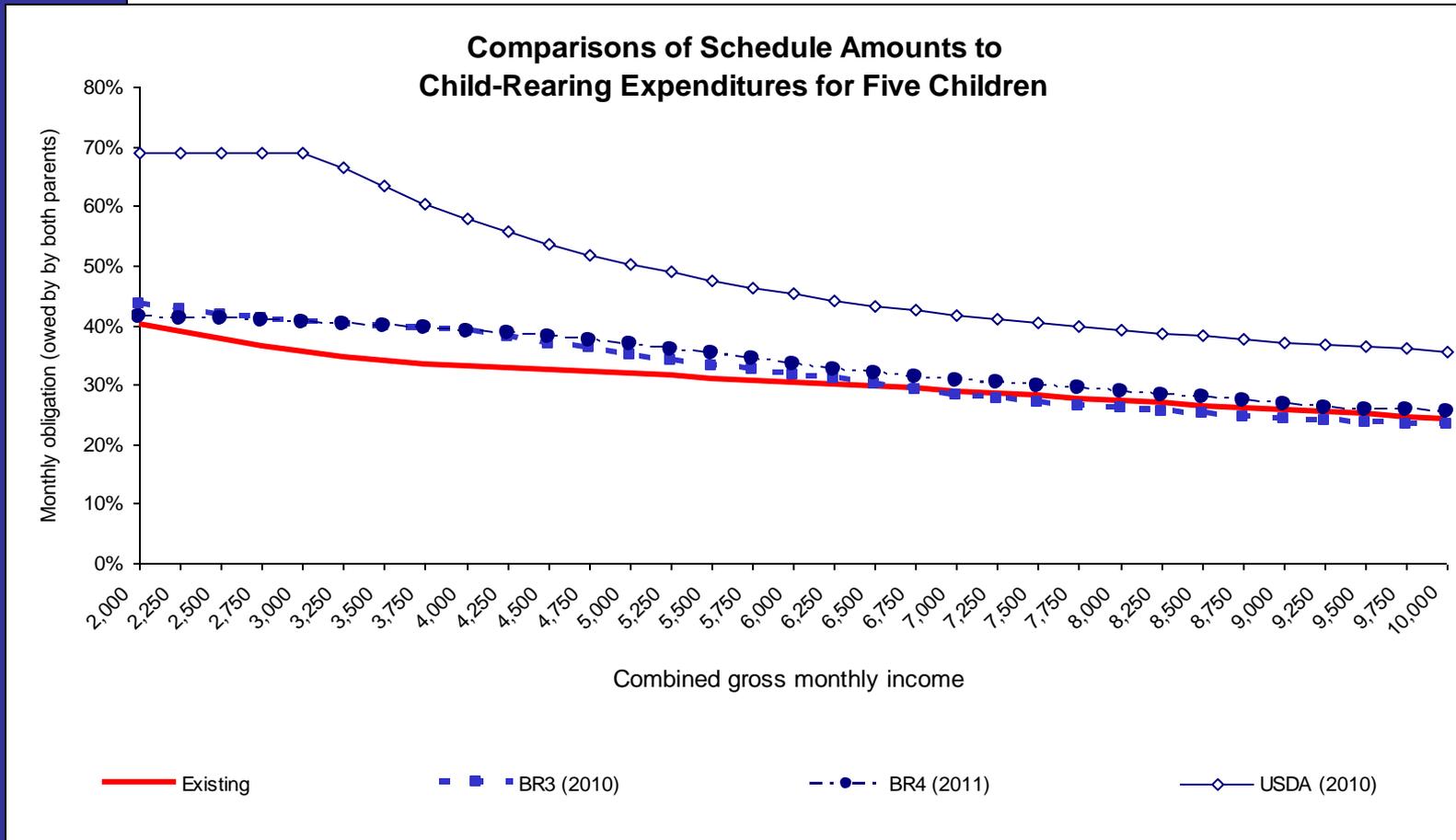
The amounts are close proximities of what updated schedules amount would be. All need to be adjusted for VA state income taxes. BR3 and USDA need to be updated to 2011 prices.

Comparisons: Four Children



The amounts are close proximities of what updated schedules amount would be. All need to be adjusted for VA state income taxes. BR3 and USDA need to be updated to 2011 prices.

Comparisons: Five Children



The amounts are close proximities of what updated schedules amount would be. All need to be adjusted for VA state income taxes. BR3 and USDA need to be updated to 2011 prices.

Comparisons: Dollar Amounts (1-3 Children)

Combined Adjusted Gross Income	One Child				Two Children				Three Children			
	Existing	BR3 (2010)	BR4 (2011)	USDA (2010)	Existing	BR3 (2010)	BR4 (2011)	USDA (2010)	Existing	BR3 (2010)	BR4 (2011)	USDA (2010)
1,500	274	326	275	430	426	475	425	694	533	562	541	811
1,750	309	370	316	502	479	538	488	810	600	636	618	947
2,000	338	413	357	574	523	600	552	926	655	709	676	1082
2,250	366	455	399	646	567	660	617	1041	710	779	754	1217
2,500	394	497	441	717	610	720	681	1157	765	849	833	1352
2,750	420	539	483	789	651	780	746	1273	816	919	911	1487
3,000	445	581	525	861	691	841	810	1389	866	990	990	1623
3,250	471	623	565	901	732	903	870	1453	917	1063	1062	1698
3,500	497	666	605	923	772	965	930	1488	967	1136	1133	1739
3,750	524	705	643	945	815	1022	988	1524	1020	1204	1202	1780
4,000	553	742	679	967	861	1075	1043	1559	1078	1267	1269	1822
4,250	583	770	715	988	907	1114	1098	1594	1135	1310	1335	1863
4,500	612	798	747	1010	954	1152	1146	1630	1193	1353	1393	1904
4,750	641	826	778	1032	997	1190	1193	1665	1247	1395	1449	1945
5,000	666	844	807	1054	1036	1216	1237	1700	1295	1426	1502	1987
5,250	690	861	829	1076	1073	1242	1268	1735	1342	1457	1538	2028
5,500	714	878	850	1098	1111	1267	1299	1771	1389	1487	1573	2069
5,750	739	896	869	1120	1148	1292	1327	1806	1435	1516	1606	2110
6,000	763	915	885	1142	1186	1318	1350	1841	1482	1545	1633	2152
6,250	788	933	900	1163	1223	1343	1373	1877	1529	1574	1660	2193
6,500	812	946	916	1185	1261	1360	1397	1912	1575	1591	1687	2234
6,750	830	956	932	1209	1288	1372	1421	1949	1610	1603	1715	2278
7,000	848	966	951	1232	1315	1385	1449	1987	1644	1614	1749	2322
7,250	866	978	970	1255	1341	1400	1477	2025	1678	1630	1783	2366
7,500	884	991	989	1279	1368	1418	1506	2062	1712	1651	1817	2410
7,750	902	1004	1007	1302	1395	1436	1534	2100	1746	1671	1850	2454
8,000	916	1016	1025	1325	1418	1453	1560	2138	1776	1691	1882	2498
8,250	929	1029	1037	1349	1441	1472	1579	2175	1804	1712	1903	2542
8,500	943	1043	1047	1372	1464	1491	1592	2213	1833	1733	1919	2586
8,750	956	1059	1056	1395	1487	1511	1606	2251	1862	1756	1935	2630
9,000	970	1074	1066	1419	1509	1533	1620	2288	1891	1780	1951	2674
9,250	982	1091	1076	1442	1527	1556	1635	2326	1914	1806	1968	2718
9,500	993	1108	1088	1465	1544	1579	1652	2364	1935	1831	1988	2762
9,750	1003	1124	1112	1489	1561	1601	1689	2401	1956	1858	2032	2806
10,000	1014	1140	1137	1512	1577	1624	1726	2439	1977	1884	2076	2850

*The amounts are close proximities of what updated schedules amount would be. All need to be adjusted for VA state income taxes. BR3 and USDA need to be updated to 2011 prices.

Comparisons: Dollar Amounts (4-5 Children)

Combined Adjusted Gross Income	Four Children				Five Children			
	Existing	BR3 (2010)	BR4 (2011)	USDA (2010)	Existing	BR3 (2010)	BR4 (2011)	USDA (2010)
1,500	602	628	604	907	656	690	665	1036
1,750	676	710	690	1059	738	781	759	1209
2,000	739	791	755	1210	806	871	830	1381
2,250	800	870	843	1361	873	957	927	1554
2,500	862	948	930	1512	940	1043	1023	1727
2,750	919	1027	1018	1664	1003	1129	1120	1899
3,000	975	1106	1106	1815	1064	1216	1216	2072
3,250	1032	1188	1186	1899	1126	1306	1304	2166
3,500	1089	1269	1266	1945	1189	1396	1392	2216
3,750	1150	1345	1343	1991	1254	1479	1477	2267
4,000	1214	1415	1417	2037	1325	1557	1559	2317
4,250	1279	1463	1491	2084	1396	1610	1641	2367
4,500	1344	1511	1556	2130	1467	1662	1712	2417
4,750	1406	1558	1619	2176	1534	1714	1781	2467
5,000	1460	1593	1678	2222	1593	1752	1846	2517
5,250	1513	1627	1718	2268	1651	1790	1890	2567
5,500	1566	1661	1757	2314	1709	1827	1933	2617
5,750	1619	1694	1794	2360	1766	1863	1973	2667
6,000	1672	1726	1824	2406	1824	1898	2006	2717
6,250	1724	1758	1854	2452	1882	1934	2039	2767
6,500	1777	1777	1884	2499	1940	1955	2073	2817
6,750	1817	1790	1916	2548	1982	1969	2108	2871
7,000	1855	1803	1954	2597	2024	1983	2149	2924
7,250	1893	1820	1991	2646	2066	2002	2191	2978
7,500	1931	1844	2029	2695	2108	2028	2232	3031
7,750	1969	1867	2067	2745	2149	2053	2273	3084
8,000	2001	1889	2102	2794	2185	2078	2313	3138
8,250	2032	1912	2126	2843	2219	2103	2339	3191
8,500	2063	1936	2144	2892	2253	2130	2358	3245
8,750	2094	1962	2161	2941	2287	2158	2377	3298
9,000	2125	1989	2179	2991	2321	2187	2397	3352
9,250	2151	2017	2198	3040	2349	2219	2418	3405
9,500	2175	2045	2220	3089	2375	2250	2442	3458
9,750	2198	2075	2270	3138	2401	2282	2497	3512
10,000	2222	2104	2319	3187	2427	2315	2551	3565

*The amounts are close proximities of what updated schedules amount would be. All need to be adjusted for VA state income taxes. BR3 and USDA need to be updated to 2011 prices.

Patterns for six children would be similar to that of five children.

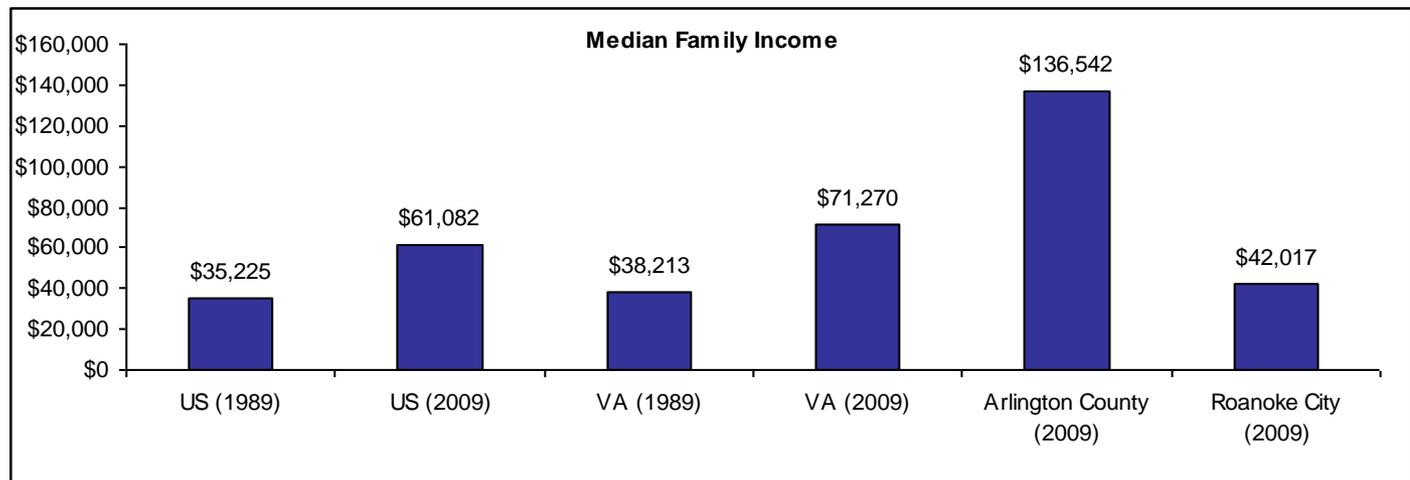


Step 3. Update to Current Price Levels

Update for Changes in Prices

What most states do	Alternatives Used by Some States
Update to most current price level (CPI) published by the Bureau of Labor Statistics	None

- Prices increased by 77.3% from 1990 to 2011
- U.S. median family income increased 73.4% from 1989 to 2009
- VA median family income increased 86.5% from 1989 to 2009
- In 2009, VA median family income was \$90,403 (2-parents) & \$28,734 (female householder)





Steps 4 & 5. Extrapolate to 4+ Children and Adjust for Childcare, Health Insurance & Extraordinary Medical Expenses

Extrapolate for 4+ Children & Adjust for Certain Expenses

ISSUE: The number of families with 4+ children in the CES is insufficient to produce reliable estimates for 4+ children

What most states do	Alternatives Used by Some States
Most states rely on the equivalence scale developed by the National Academy of Science	<ul style="list-style-type: none">• MN uses USDA scales• States based on older guidelines use Espenshade's scales

ISSUE: The schedule needs to exclude childcare expenses, health insurance premiums, and extraordinary medical expenses because the actual amounts for these expenses are considered elsewhere in the guidelines calculation.

What most states do	Alternatives Used by Some States
<ul style="list-style-type: none">• Subtract average child care expenses• Subtract child's healthcare expenses<ul style="list-style-type: none">• Health insurance premium• Extraordinary, out-of-pocket medical expense• Retain ordinary medical expenses in schedule (\$250 per child per year)	<ul style="list-style-type: none">• Some states (CT) include no ordinary medical expenses• Some states with older guidelines use \$100 per child per year or another amount



Step 6. Make State-Specific Adjustments

Make State-Specific Adjustments

ISSUE: Measurements of child-rearing expenditures are based on national data. Some states have higher/lower incomes or living costs or adjust for other factors

- All gross-income based guidelines adjust for the specific state's income tax
- 10 states realign national measurements for state's above/below average income: AL, CT, LA, ME, NJ, NM, OK, SC, SD, WV
- 3 states adjust for their above average housing costs- DC, MD, RI
- 3 states incorporate a "dissolution factor" (i.e., reduce schedule amounts for a standard amount of visitation/timesharing)- LA, KS, PA

Comparison of State Incomes and Housing Costs in 2009 (Amount & Rank)

	Median Family Income	Median Monthly Rent	Median Monthly Mortgage Costs	% of Mortgaged Owners Spending More than 30% of Income on Owner Costs
VA	\$71,270 (8 th)	\$989 (9 th)	\$1,739 (14 th)	35% (21 st)
DC	\$71,208 (9 th)	\$1,059 (5 th)	\$2,231 (3 rd)	39% (14 th)
MD	\$84,254 (1 st)	\$1,108 (3 rd)	\$2,034 (7 th)	39% (15 th)
RI	\$69,350 (11 th)	\$890 (16 th)	\$1,879 (9 th)	43% (6 th)
NC	\$54,288 (39 th)	\$720 (28 th)	\$1,236 (32 nd)	32% (35 th)
WV	\$47,659 (49 th)	\$552 (51 st)	\$895 (51 st)	24% (49 th)
USA	\$61,082	\$842	\$1,505	37.5%

Comparison of Basis of State Guidelines

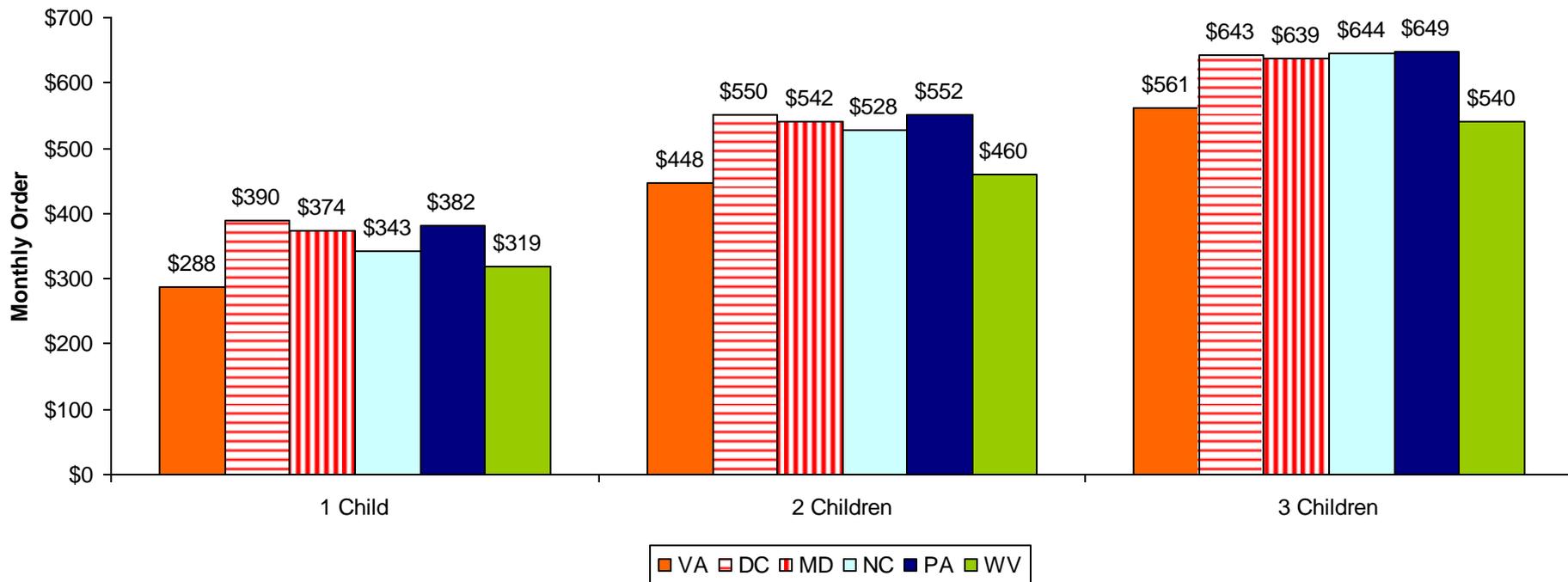
	Economic Measurements	Price levels	Other Adjustments
VA	Espenshade-Engel (1972-73)	1989ish	
DC	BR2 (1996-98)	2004ish	<ul style="list-style-type: none"> •Assumes all after-tax income is spent, no savings •Uses taxes for married couple with children
MD	BR3 (1998-2004)	2008ish	Adjusted for MD housing expenses & additional vertical equity adjustment at high incomes
RI	BR3 (1998-2004)	2007	Adjusted for RI housing expenses & variable savings rate for larger families
NC	BR4	2010	None
WV	BR2 (1996-98)	2000	Realigned national estimates for WV's below average income

Comparison of State Guidelines Amounts: Low Income (Median Earnings for Workers with Less than High School Graduate/GED)

Obligor's gross income = \$2,000/mo

Obligee's gross income = \$1,270/mo

Median Income of Workers with less than HS Degree/GED

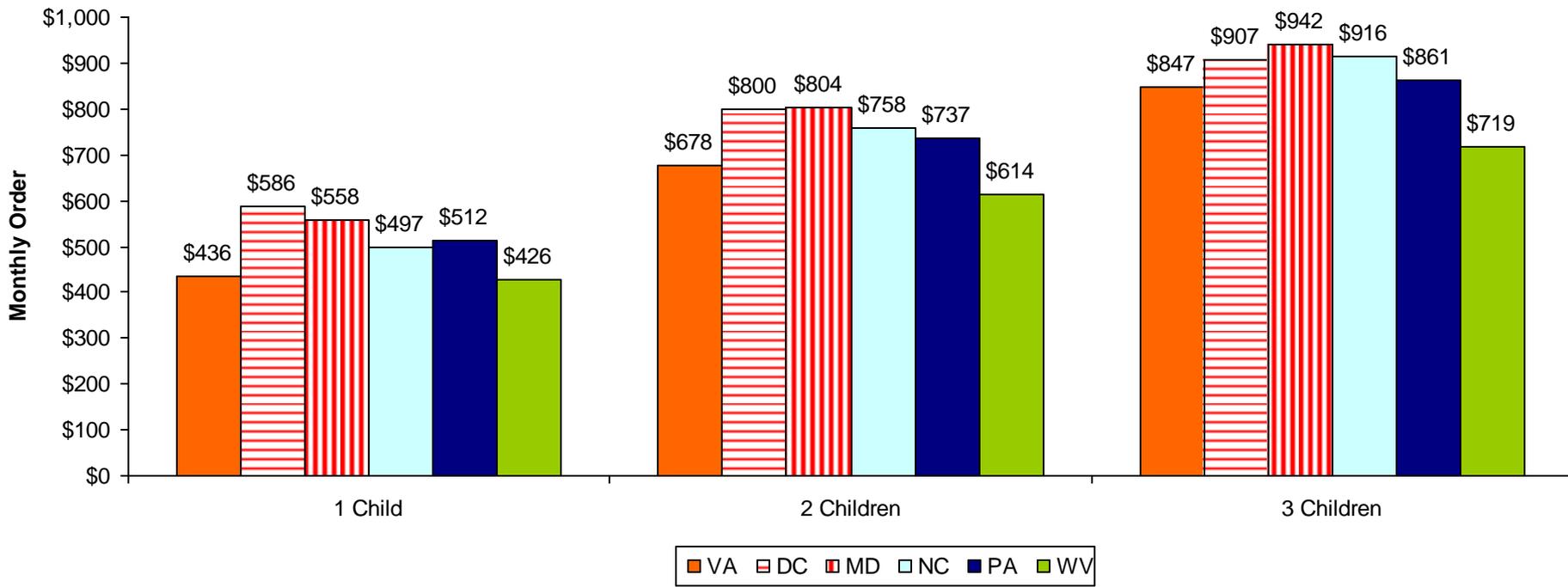


Comparison of State Guidelines Amounts: Middle Income (Median Earnings for Workers with Some College or Associate's Degree)

Obligor's gross income = \$3,400/mo

Obligee's gross income = \$2,400/mo

Median Income of Workers with Some College

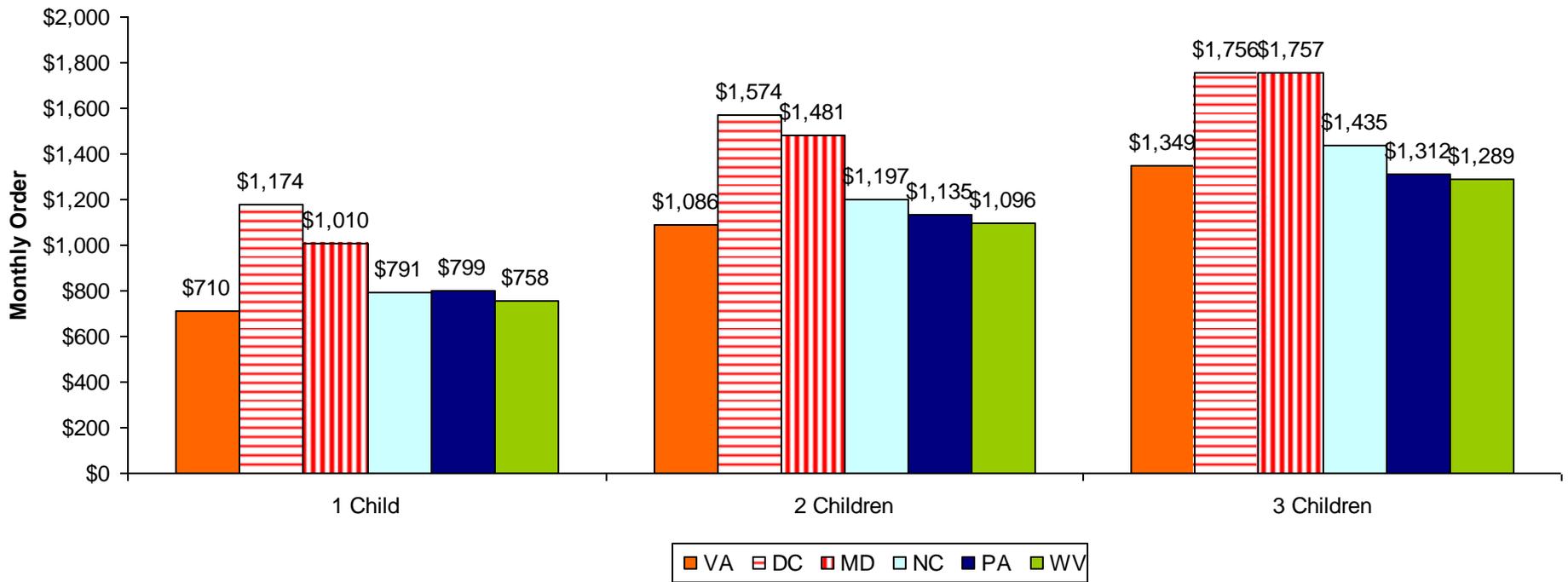


Comparison of State Guidelines Amounts: Upper Income (Median Earnings for Workers with Graduate or Professional Degree)

Obligor's gross income = \$7,800/mo

Obligee's gross income = \$4,800/mo

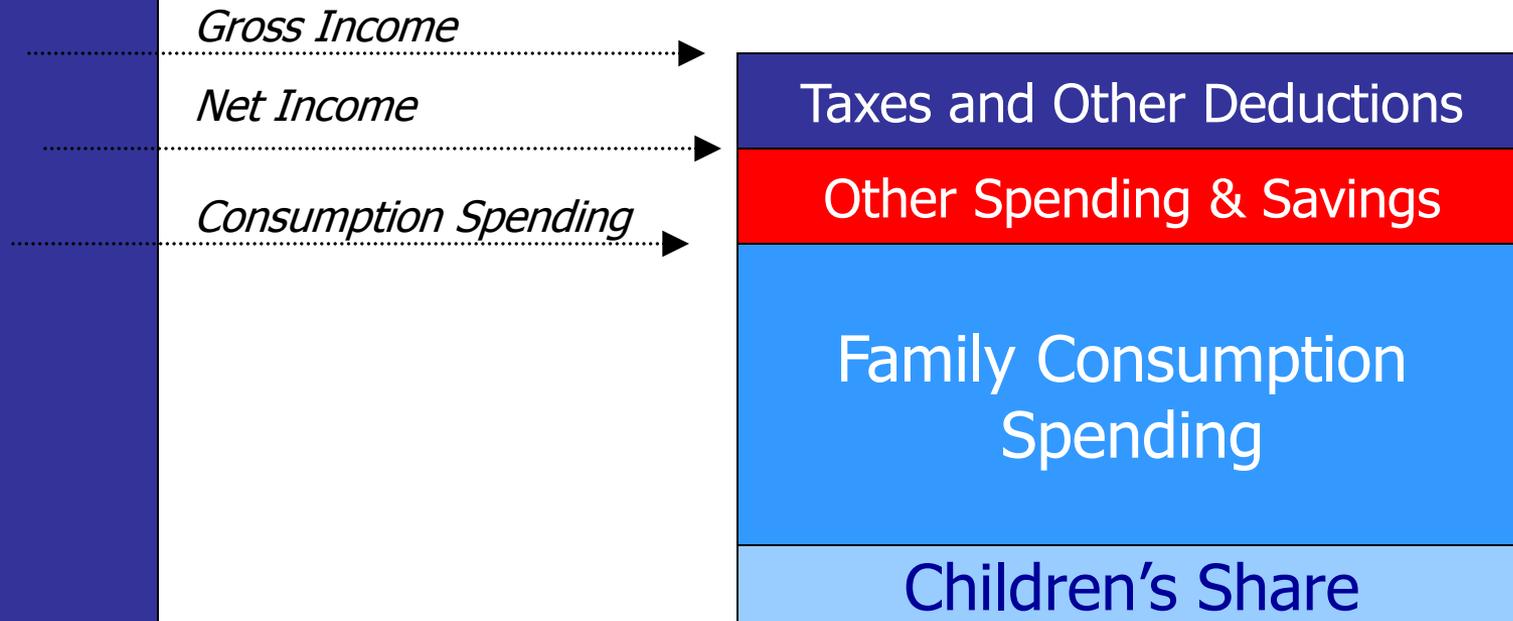
Median Income of Workers with Professional Degree





Step 7. Back Measurements of Child-Rearing Expenditures into Gross or Net Income

Family Consumption and Income



Convert to Gross or Net Income Base

ISSUE: BR measurements relate to expenditures/outlays. Families do not spend all of their net income.

What most states do to convert expenditures to net income	Alternatives Used by Some States
<ul style="list-style-type: none">• Only necessary among Betson estimates, not USDA• Use ratio of expenditures to net income from same data used to estimate child-rearing expenditures	<p>DC applies % of total expenditures devoted to child-rearing expenditures to all net income. This produces higher amounts at high incomes.</p>

What most states do to convert net income to gross income	Alternatives Used by Some States
<ul style="list-style-type: none">• Only necessary among Betson estimates, not USDA• Use IRS employer withholding formulas for single taxpayer	<ul style="list-style-type: none">• DC assumes tax rates for a married couple with an equivalent number of children for whom support is being determined. This produces higher amounts at high incomes.• VT uses two sets of table: one is the child support schedule based on net income, the other is a gross to net income conversion table

Example: Most Income Shares Schedules Are Backed into Gross Income Using State & Federal Tax Rates

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

Example of Vermont's Standardized Net

**Step 1:
Find each
parent's
after tax
income**

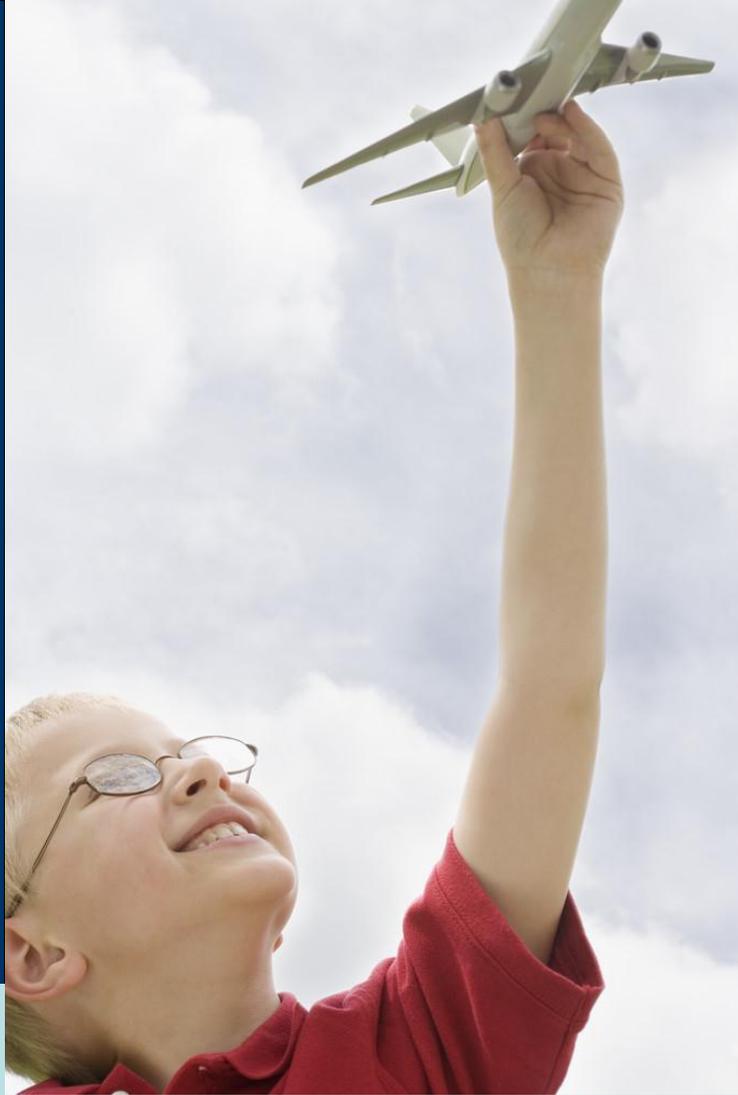
Gross Monthly Income	Custodial Parent After Tax Income					Noncustodial Parent After Tax Income
	One Child	Two Children	Three Children	Four Children	Five Children	
2500	2231	2422	2461	2488	2514	2063
2550	2265	2454	2494	2523	2549	2102
2600	2304	2483	2527	2559	2585	2140
2650	2342	2511	2560	2595	2621	2179
2700	2381	2539	2593	2630	2656	2218
2750	2420	2567	2627	2665	2692	2256
2800	2459	2595	2660	2699	2727	2295
2850	2497	2623	2693	2732	2763	2334
2900	2536	2658	2733	2771	2805	2372
2950	2575	2697	2776	2815	2851	2411
3000	2613	2735	2820	2859	2897	2450

**Step 2: Plug
combined
after tax
income into
schedule**

Combined Monthly Net Income	One Child	Two Children	Three Children	Four Children	Five Children
2500.00	615	854	980	1093	1202
2550.00	627	870	999	1114	1225
2600.00	639	886	1018	1135	1248
2650.00	651	903	1036	1155	1271
2700.00	662	919	1055	1176	1294
2750.00	674	935	1073	1197	1316
2800.00	686	952	1092	1218	1339

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 8. Extrapolate to High Incomes

Treatment of High Income in State Guidelines

- Most income shares guidelines stop their schedules at the highest income for which the measurements of child-rearing expenditures are reliable
- 16 states guidelines provide a formula for an infinite amount of income
- Most income shares specify that the highest amount in the schedule is a floor

Colorado Revised Statutes §14-10-115(10)(a)(II)(E): The judge may use discretion to determine child support in circumstances where combined adjusted gross income exceeds the uppermost levels of the guideline; except that the presumptive basic child support obligation shall not be less than it would be based on the highest level of adjusted gross income set forth in the guideline.

Treatment of High Income in Virginia

	One child	Two children	Three children	Four children	Five children	Six children
10000	1014	1577	1977	2222	2427	2596
\$10,000 - \$20,000	Add the amount of child support for \$10,000 to the following percentage of gross income above \$10,000					
	3.1%	5.1%	6.8%	7.8%	8.8%	9.5%
\$20,000- \$50,000	Add the amount of child support for \$20,000 to the following percentage of gross income above \$20,000					
	2%	3.5%	5%	6%	6.9%	7.8%
Above \$50,000	Add the amount of child support for \$50,000 to the following percentage of gross income above \$50,000					
	1%	2%	3%	4%	5%	6%

The 16 High Income Formulae

Exhibit 6.7. Comparison of High-Income Formulae in State Guidelines that Provide Formulae for Infinite Incomes

State	Guidelines Model	Advisory or Presumptive Formula at High Incomes	Formula at Highest Income Applies to...	Basic Percentages Applied to Highest Income Considered in Guidelines ^a				
				1 child	2 children	3 children	4 children	5 children
California	Income shares	Advisory	After-tax income above \$10,000/mo	12%	19.2%	24.0%	27.6%	30.0%
Delaware	Melson ^b	Presumptive	After-tax income	16%	24%	30%	35%	38%
Hawaii	Melson ^b	Presumptive	After-tax income	10%	20%	30%	30%	30%
Illinois	% of obligor income	Presumptive	After-tax income but case law imposes limits	20%	28%	32%	40%	45%
Indiana	Income shares	Presumptive	Gross income above \$10,000/wk	7.1%	10%	11.5%	12.9%	14.2%
Michigan	Income shares	Presumptive	After-tax income above \$8,855/mo	10%	15%	19%	22%	23%
Nebraska	Income shares	Advisory	After-tax income above \$15,000/mo	10%	10%	10%	12%	13%
Montana	Melson ^b	Presumptive	After-tax income	14%	21%	27%	31%	35%
N. Hamp.	% of obligor income	Presumptive	After-tax income	25%	33%	40%	45%	45%
New York	% of obligor income ^c	Advisory	Gross income less FICA & NYC taxes	17%	25%	29%	31%	35%
Penn.	Income shares	Presumptive	After-tax income above \$30,000/mo	6.5%	8.0%	9.2%	10.3%	11.3%
Tenn.	Income shares	Presumptive	Gross income above \$28,250/mo	6.81%	7.22%	7.77%	8.05%	8.66%
Virginia	Income shares	Presumptive	After-tax income above \$50,000/mo	1%	2%	3%	4%	5%
W. Virginia	Income Shares	Advisory	Gross income above \$15,000/mo	8.8%	12.9%	15.3%	16.9%	18.3%
Wisconsin	% of obligor income	Advisory	Gross income above \$12,500/mo	10%	15%	17%	19%	20%
Wyoming	Incomes shares	Presumptive	After-tax income above \$8,958/mo	5.9%	7.0%	7.7%	8.6%	9.4%

Comparison of Basic Child Support Obligations at High Incomes

One Child

Combined Gross Income	VA	BR3 (2010)	BR4 (2011)	DC	MD	NC	WV
10000	1014	1140	1137	1557	1271	1094	1054
15000	1169	1415	1466	2198	1942	1415	1338
20000	1324	1676	1679	2754		1737	1778
25000	1424	1886	1913			2059	2218
30000	1524	1944					2658

Two Children

Combined Gross Income	VA	BR3 (2010)	BR4 (2011)	DC	MD	NC	WV
10000	1577	1624	1726	2098	1811	1661	1524
15000	1917	2013	2224	2929	2847	2146	1934
20000	2257	2378	2533	3619		2582	2579
25000	2432	2668	2882			3017	3224
30000	2607	2748					3869

Three Children

Combined Gross Income	VA	BR3 (2010)	BR4 (2011)	DC	MD	NC	WV
10000	1977	1884	2076	2350	2101	1999	1794
15000	2367	2331	2673	3250	3379	2579	2276
20000	2757	2746	3028	3968		3041	3041
25000	3007	3073	3439			3501	3806
30000	3257	3164					4571



Step 9. Develop Low-Income Adjustment

Selected Federal Studies on Low-Income Obligor

Federal Office of Child Support Enforcement (2011) *Family-Centered Innovations Improve Child Support Outcomes*, Promoting Child Well-Being & Family Self-Sufficiency Fact Sheet Series, http://www.acf.hhs.gov/porgams/cse/pubs/factsheets/child_support/

Federal Office of Child Support Enforcement (2007) *Story Behind the Numbers: Effects of Child Support Orders on Payments by Low Income Parents*, IM-07-04 (April 10, 2007)

Office of Inspector General. 2000. *The Establishment of Child Support Orders for Low Income Non-custodial Parents*. OIG-05-99-00390, Washington, D.C.: Department of Health and Human Services.

Office of the Inspector General. 2002. *Child Support for Children on TANF*, February 2002. OIG-05-99-00392, Washington, D.C.: Department of Health and Human Services.

Peters, Jo. 2003. *Determining the Composition and Collectibility of Child Support Arrears, Volume 2: The Case Assessment*. Olympia, WA: Washington Department of Social and Health Services.

Sorensen, Elaine and Chava Zibman. 2000. "A Look at Poor Dads Who Don't Pay Child Support," New Federalism: Discussion Paper 00-07. Washington, D.C.: The Urban Institute.

Sorensen, Elaine, Liliana Sousa, Simon Schaner . 2007. "A Look at Poor Dads Who Don't Pay Child Support," New Federalism: Discussion Paper 00-07. Washington, D.C.: The Urban Institute. <http://aspe.hhs.gov/hsp/07/assessing-CS-debt/index.htm>

Center for Policy Research and Policy Studies Inc. 2003. OCSE Responsible Fatherhood Programs: Client Characteristics and Program Outcomes. Report to the federal Office of Child Support Enforcement, Denver, CO. Available on the Internet at: <http://fatherhood.hhs.gov/Stability/RespFaPgmsClientChar.pdf>.

Federal Office of Child Support Enforcement Initiatives

PAID- Project to Avoid Increasing Delinquencies

<http://www.acf.hhs.gov/programs/cse/resources/paid/>

- Aims to help states develop policies and practices that increase the collection of current support and prevent and reduce arrears
- Targets several child support areas including “setting appropriate orders” for improvement
 - encompasses state guidelines
- Suggests states ask themselves...
 - Do our guidelines include provisions for low-income NCPs, such as a maximum percentage of income or a self-support reserve, to accommodate the NCP’s basic needs?”
 - Do we presume income at a reasonable standard when no income information is available (such as presuming minimum wage rather than the State standard of need or State average income)?

Promoting Child Well-Being & Family Self-Sufficiency (aka, the bubble chart)

http://www.acf.hhs.gov/porgrams/cse/pubs/factsheets/child_support/

- “collecting support depends on employment for noncustodial parents, cooperation between parents, and parents’ emotional connection with their children.”
- Recommends establishing realistic child support orders

Summary of Findings from Studies

- **Most (over 70 percent) of the arrears is owed by noncustodial parents who earn \$10,000 per year or less**
- **Child support arrears owed in the IV-D Child Support Enforcement Program**
 - \$110 billion owed nationally
 - \$2.2 billion owed in Virginia
- **About a quarter of noncustodial fathers have reported incomes below the federal poverty level**
- **29% of poor nonresidential fathers who are not paying child support are institutionalized, mostly in prisons**
- **Many have support orders that exceed 50% of their reported income**
- **Washington State finds that arrears accrues if order amount exceeds 20% of reported gross income when income is below \$1,400/mo**
- **Factors contributing to arrears**
 - Imputed income exceeds actual income; income is typically imputed in default cases or cases when the NCP is sporadically employed
 - Multiple orders
 - Retroactive arrears and interest
 - Other: guidelines amounts and lack of modifications

Caveat to above: this is based on “reported” income, some noncustodial parents that appear to have low, reported income have income from other sources. This is corroborated by mandatory work programs where there is a “smoke-out” effect– i.e., payments when the NCP is required to work

Typical Low-Income Adjustments in State Guidelines

Minimum order = \$50/month (mode), VA = \$65

About 30 States Rely on Self Support Reserve (SSR) Test

- Incorporate a self support reserve based on 85-135% poverty level
 - \$907.50/month (2011 poverty level for 1 person)
 - Phase-out typically occurs between \$1,400 & \$2,800/month gross (varies with SSR & # of children)
- 2 Versions of SSR Test
 - In Schedule (RI, PA, NC)
 - Shaded area protects self support reserve when CP also has low income (SC)
 - In Worksheet (DC, VT, W.Va)
- Merit: Simple
- Limitation: Considers the NCP's subsistence only

Other Methods

- Arbitrary but gradual adjustment between policy-decided minimum order and minimum wage/income threshold
- Equalize after-tax, after-child support income between the two households

How SSR Test in Schedule Work (NM tests SSR against Net Income)

Gross Income = \$1,200
 After Tax Income = \$1,059
 Self Support Reserve = \$ 851 (2007 poverty level)

Work Incentive \$208
 X .90
 = \$187

Draft: May 19, 2007

New Mexico							
Expenditures on Children by Family Income							
After-Tax Income	Combined Adjusted Gross Income	One Child	Two Children	Three Children	Four Children	Five Children	Six Children
938	1050.00	237	346	410	453	500	544
978	1100.00	247	360	427	472	521	567
1019	1150.00	257	375	444	491	542	590
1059	1200.00	267	389	461	509	562	612
1098	1250.00	276	402	476	526	581	632
1138	1300.00	285	416	492	543	600	653
1177.65	1350.00	295	429	507	561	619	673

Draft: May 19, 2007

New Mexico						
Proposed Updated Schedule of Basic Support Obligations						
Combined Adjusted Gross Income	One Child	Two Children	Three Children	Four Children	Five Children	Six Children
1200.00	187	189	191	193	195	198
1250.00	223	225	228	230	233	235
1300.00	258	261	264	267	270	273
1350.00	294	297	301	304	307	310
1400.00	304	333	337	341	344	348
1450.00	313	367	371	376	380	384

Adjusted Schedule is Lesser of 2 Amounts:
 \$187 or \$267

Example of "Shaded Area" Approach

NOTE: Noncustodial parent income only for the darker shaded areas of the schedule on the first page; combined parental income for the remainder of the schedule.

Combined Adjusted Net Income	One Child	Two Children	Three Children	Four Children	Five Children	Six Children
900.00	44	45	45	46	46	47
950.00	89	90	91	92	93	94
1000.00	134	136	137	139	140	142
1050.00	179	181	183	185	187	189
1100.00	224	227	229	232	234	237
1150.00	269	272	275	278	281	284
1200.00	303	318	321	325	328	332
1250.00	315	363	367	371	375	379
1300.00	327	409	413	418	422	427
1350.00	339	454	459	464	469	474
1400.00	352	500	505	511	516	522
1450.00	364	529	551	557	563	569
1500.00	376	547	597	604	610	617
1550.00	388	564	643	650	657	664
1600.00	400	582	687	697	704	712
1650.00	412	599	707	743	751	759
1700.00	424	616	727	790	798	807
1750.00	436	633	746	834	845	854
1800.00	448	650	766	856	892	902
1850.00	460	667	786	878	939	949
1900.00	472	684	806	901	986	997
1950.00	484	701	826	923	1015	1044
2000.00	496	718	846	945	1040	1092
2050.00	508	735	866	968	1064	1139
2100.00	520	753	886	990	1089	1184

Example of SSR Test in Worksheet

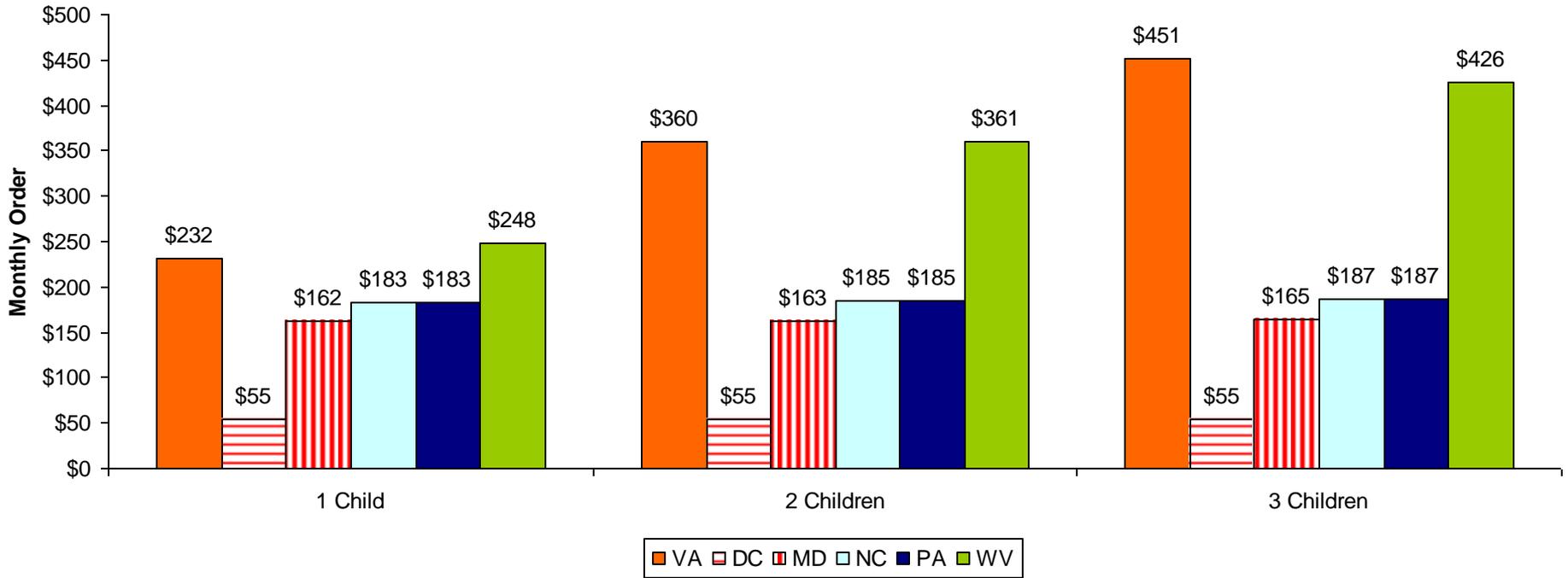
Example of a Self Support Reserve Test (adapted from the Vermont Child Support Guidelines Worksheet)			
	<i>Custodial Parent</i>	<i>Noncustodial Parent</i>	<i>Combine d</i>
1. Monthly Net Income	\$800	\$1,200	\$2,000
2. Proportional share of income (Line 1 for each parent divided by line 1 "Combined")	40%	60%	100%
3. Basic Obligation from Schedule (2 children)			\$700
4. Parental Support Obligation (Line 2 for each parent multiplied by line 3)	\$280	\$420	
5. Self Support Reserve Amount		\$851	
6. Income Available for Support (Line 1 minus line 5)		\$349	
7. Monthly Support Payable (Enter the smaller of line 4 or line 6)		\$349	

Low-Income Adjustments in Neighboring States

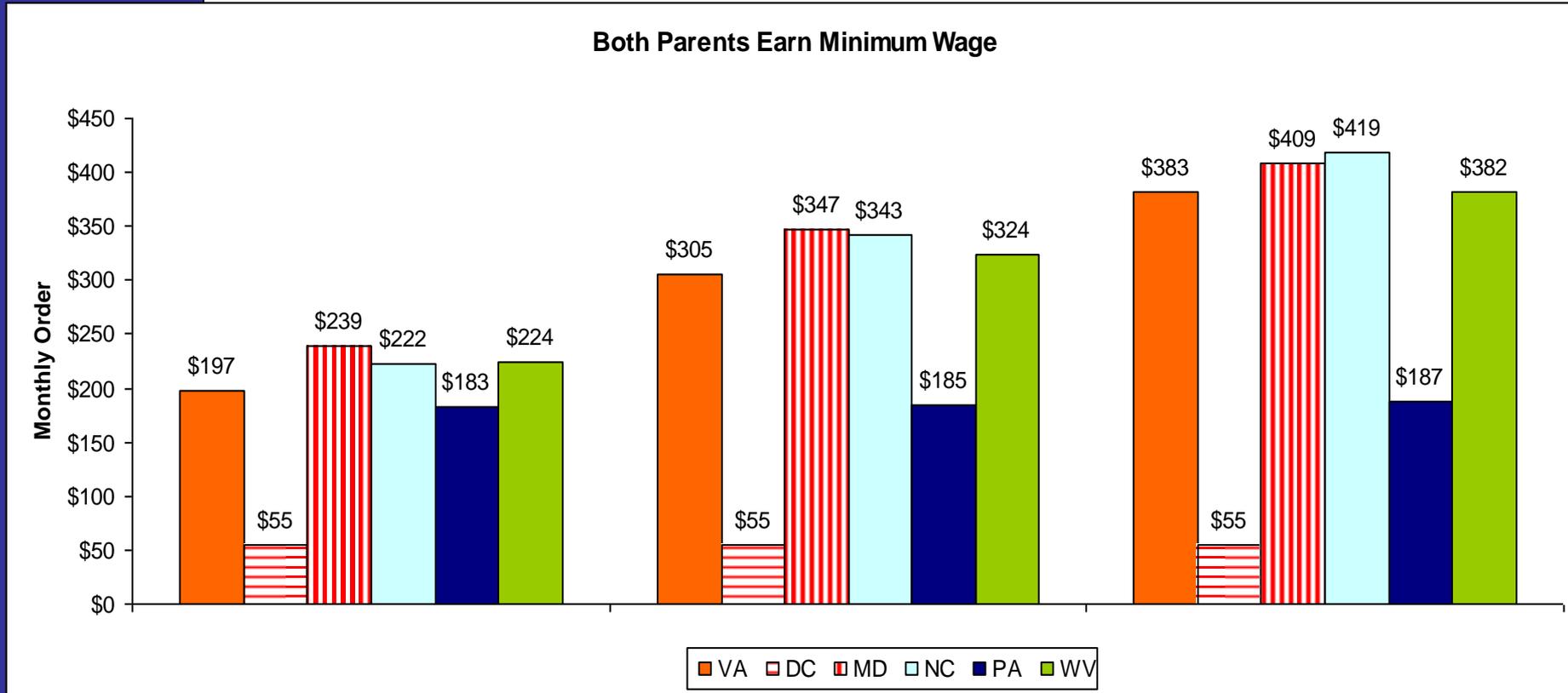
	Min-imum Order	Income Threshold for Min. Order	Low-Income Adjustment	SSR
VA	\$65	Below \$600	Incorporated into Schedule	About \$480
DC	\$50	Low-income adjustment can never be less than \$50	Worksheet	133% FPL
PA	\$50	Varies by number of children	Shaded area	\$867
MD	\$20-\$150	\$1,200 & below	Incorporated into Schedule	2008 FPL
NC	\$50	Below \$1,050	Incorporated into Schedule	\$902.50
WV	\$50	Low-income adjustment can never be less than \$50	Worksheet (order amount is difference between 80% of gross income and SSR)	\$500

Order Amounts when Obligor Earns Minimum Wage (\$7.25 per hour X 40 hrs per week = \$1,256/mo)

Obligor Earns Minimum Wage, Oblige Income = \$0



Order Amounts when Both Parents Earn Minimum Wage



The comparisons illustrate the merits of the “shaded area” and “adjustment in the worksheet” when the custodial parent has income. DC and PA retain lower order amounts when the custodial parent has income because they apply these methods. NC and MD do not.



Conclusions and Next Steps

Conclusions and Next Steps

Conclusions

- VA schedule is too low relative to current child-rearing expenditures
 - There are a few exceptions for 3+ children at incomes of \$7,000 - \$10,000)
- VA schedule is too low relative to those of nearby states
- There is some justification for an upward adjustment to national measurements of child-rearing expenditures for a VA schedule
 - But, there is also concern of pricesticker shock
- VA low-income adjustment could be updated and tweaked
- VA high-income formulae are too low

Next Steps

- Prepare fully updated schedule based on direction of Panel
- Possibly prepare two updated schedules for review
- Once approved, write report

Questions???

CPR's Recommendations for Each Step

	CPR's Recommendation	Panel's Recommendation
1. Guidelines model	Policy decision	Income Shares
2. Economic Basis	BR3 or BR4	
3. Price levels	July 2011 or most recent	
4. 4+ Children	Nat'l Academy of Science Equivalence scales	
5. Adjustments for add-ons	Childcare, insurance & extra. med in excess of \$250 per child per year	
6. State-specific adjustments	At a minimum, state income tax rates	
7. Back to gross income	Use CES data	
8. High income extrapolation	Economic data can produce a schedule up to \$20,000 or \$30,000 gross. Extrapolating to higher incomes is a policy decision.	
9. Low-income adjustment	Policy decision	

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