Supplement

to the
Review of the
Minnesota Child Support Guidelines: Economic Basis of Current Table and Potential Updates

Submitted to:
State of Minnesota Department of Human Services

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PURPOSE OF SUPPLEMENT

The purpose of this supplement is to revisit issues with updating the table. At the September 2017 meeting, the Task Force voted to:

- Update the table to 2017 CPI, which essentially means updating to 2017 price levels because the Consumer Price Index (CPI) measures changes in price levels, and
- Stay with income shares with adjustments as needed.

This supplement provides more information pertaining to these items.

UPDATE TO 2017 PRICE LEVELS

There are several challenges to updating for price levels.

- *Prices have increased but so has incomes.* This means that the basic obligations in the table cannot be simply updated by 37.4 percent, which is the change in the price level since the table was developed in 2002.[1] Median family income has increased by 37.2 percent from 2005 through 2016.[2] The increase in income dampens the increase in price levels, but it is not a wash.

  There are additional issues in trying to rectify this.

  - Not all socio-economic classes experienced the same percentage increase in income. Rather, the increase is more or less at various income levels and for various number of children.
  - Not all socio-economic classes consume the same "market basket of economic goods" that they did in 2002. For example, they may spend more on technology now and less on other items then previously.
  - It is not clear whether the existing table is based on price levels measured for the nation, Midwest region, or the Minneapolis-St. Paul area. (There is no CPI measurement for the State of Minnesota.) From 2012 to June 2017, price levels increased by 35.3 percent for the nation and 32.6 percent for the Minneapolis-St. Paul area.
  - The release of current income data lags considerably behind the release of current price data. The most current median family income data is from 2016. The most current price data is from September 2017.

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[1] This is based on changes in the national CPI-U from mid-year 2002 to September 2017.

[2] The source is the federal Bureau of Labor Statistics Census Bureau American Community Survey (www.census.gov). The most current year available is 2016. Data before 2016 is not readily available. The data is the median income for a Minnesota married couple with own children less than 18 years old.

- There are alternative income data that could be used (*e.g.*, Minnesota wages) but they also lag.

- *CPR does not have the raw USDA data and detailed assumptions used to develop the existing table.* Any update that considers any of the issues identified above (*e.g.*, whether national or Midwest prices were used) would benefit from having the raw data and all assumptions made in 2002. It is not readily available at that level of detail.

- *Updating only for changes in price levels ignores that the USDA has updated its study and changed its methodology*. There is no obvious reason for not considering the more current USDA measurements. (The July briefing considered the most current USDA measurements.)

ADJUSTMENTS TO INCOME SHARES MODEL

It is important to discern between:

- Adjustments to the income shares model, and

- Adjustments to the economic measurements used in income shares tables.

The latter would be adjustments to the USDA, Betson-Rothbarth, and Comanor et *al*. studies used to update the Minnesota table in the July briefing.

ISSUES BROUGHT UP BY ROGERS

Rogers posed some statements that conflict with other information provided, so may be confusing the task force.

- On slide 2, he confounds issues with measurements of child-rearing expenditures and the income shares guidelines model. To be clear, income shares is not a method for measuring child-rearing costs.

- On slide 3, he implies that the per capita method, which is generally believed to contribute to overstatement of actual child-rearing expenditures, is used by the USDA to measure most categories of expenditures. That is not true. Only the child's miscellaneous expenses (*e.g.*, personal care items) are measured using a pure per capita approach and they comprise 7 percent of all expenditures on the child on average.[3]

[3] Lino, Mark, et al. (2017). Expenditures on Children by Families: 2015 Annual Report. U.S. Department of Agriculture, Center for Nutrition and Policy Promotion. Miscellaneous Publication No. 1528-2015, Washington, D.C., page 11. Available at http://www.cnpp.usda.gov/publications/crc/crc2015.pdf.

The table below summarizes the adjustments proposed in Mark Rogers' September presentation. Most of them are best handled through the parenting-time adjustment or the self-support reserve adjustment.

Exhibit 1: Summary of Roger's Suggested Adjustments

Roger's Suggestion	***How It Can be Addressed in Income Shares Model?***
Page 6: Add a second household adjustment to the current table	Parenting-time adjustment OR restructure the model so the child's needs essentially take precedent over the obligated parent's needs (second household adjustment) On slide 14, Rogers suggests that Kansas includes a second household adjustment in its table.
Page 6: Incorporate a smoother parenting-time adjustment	Parenting-time adjustment
Page 6: Retain consideration of sharing tax dependency exemptions or make presumptive	The consequences of making it presumptive should be carefully assessed since the parent who files the federal tax dependency for the child is responsible for the child's healthcare insurance according to the Affordable Care Act
Page 6: Retain or improve self-support calculations	Self-support reserve or low-income adjustment

Combined Gross Monthly Income	Minnesota	Kansas		
		Age 0-5	Age 6-11	Age 12-18
1000	**116**	170	196	213
1050	**116**	178	205	223
1100	**145**	187	215	234
1150	**145**	196	225	245
1200	**177**	204	235	255
1250	**177**	213	245	266
1300	**212**	222	255	277
1350	**212**	230	264	287
1400	**251**	238	274	298
1450	**251**	247	284	309
1500	**291**	255	293	319
1550	**292**	264	304	330
1600	**337**	272	313	340
3200	**623**	487	560	609
3300	**636**	499	574	624
3400	**650**	512	589	640
3500	**650**	525	604	656
3600	**677**	537	617	671
3700	**691**	550	632	687
3800	**705**	562	646	702
3900	**719**	574	660	717
4000	**732**	586	674	733
4100	**746**	598	688	748
4200	**760**	610	702	763
4300	**774**	622	716	778
4400	**787**	634	730	793

An excerpt of the Kansas table for one child is shown to the left. Kansas provides different amounts based on the child's age. The Kansas amounts are generally less than the Minnesota amounts at low incomes. At middle incomes, the Minnesota amounts are about the same as the Kansas amounts for older children.

ADJUSTING THE ECONOMIC MEASUREMENTS OF CHILD-REARING EXPENDITURES

The July briefing considered three current measurements of child-rearing expenditures for updating the existing Minnesota table:

- The most current USDA study
- The Comanor study
- The most current Betson-Rothbarth study, which forms the basis of most income shares tables.

Each of the three measurements of child-rearing expenditures could be modified for some reason specific to that measurement. Those adjustments were shown in Exhibit 2 of the July briefing and shown again at the end of this document.

There is **no** economic methodology for separating the child's share of expenditures from the household's total expenditures that **all** economists will agree best measures actual child-rearing expenditures. For every methodology there is a critic. Most conventional economists believe that the Rothbarth methodology understates actual child-rearing expenditures.[4] Comanor is critical of both the USDA and the Rothbarth methodogies and suggests both overstate actual child-rearing expenditures.

As show in the July briefing, there are substantial differences between the measurements.

USDA MEASUREMENTS

One of the most compelling reasons for adapting the new USDA measurements is that the current table is mostly based on an older USDA study. Adapting the new USDA measurements (with no adjustments) would produce decreases and increases depending on the income range.

Increases at Lower Incomes. For the one-child and two-child amounts, it would produce up to a 29 percent increase in basic obligations for combined gross incomes below $3,500 per month. Some of this may be offset by the new parenting time adjustments. Some appropriate factors that may further dampen that impact are: re-align how the USDA adjusts for the number of children and expand the low-income adjustment. The USDA adjustment for number of children varies substantially from the formula developed by the National Academy of Science.[5] Some of the proposed increases would exceed the 20 and 28 percent threshold that is cited as evidence in the new federal rules to justify the low-income adjustment requirement of state guidelines.[6]

Decreases at Combined Gross Incomes above $10,000/month. The new USDA amounts would generally produce decreases above combined gross incomes of $10,000 per month. This is because the upper part of the existing schedule is not based on USDA measurements, rather it is based on Engel measurements. (The Engel methodology is believed to overstate actual child-rearing expenditures.)

BETSON-ROTHBARTH MEASUREMENTS

One reason that justifyies a switch to the Betson-Rothbarth measurements is that they form the basis of most state guidelines including those of Iowa, Nebraska, and South Dakota, which are neighboring

[4] Lewin/ICF. (1990). *Estimates of Expenditures on Children and Child Support Guidelines*. Report to U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation. Fairfax, Virginia.
[5]Citro, Constance F. and Robert T. Michael, Editors. (1995). *Measuring Poverty: A New Approach*. National Academy Press. Washington, D.C.
[6] U.S. Department of Health and Human Services. (Dec. 20, 2016). "Flexibility, Efficiency, and Modernization in Child Support Enforcement Programs." *Federal Register*, Vol. 81, No. 244, p. 93562. https://www.gpo.gov/fdsys/pkg/FR-2016-12-20/pdf/2016-29598.pdf.

states. Like the USDA, adaption of the Betson-Rothbarth produces decreases and increases depending on the income range and number of children, but the changes are not as large as updating for the USDA.

- *Modest decreases (about 2-3 percent) for one child for combined gross incomes of about $5,000 - $8,000 per month*. The decreases for two children are slightly more for this income range: 3- 4 percent, but become gradually higher for combined gross incomes above $6,000 per month.
- *Larger decreases for combined gross incomes below $5,000 per month.* The decreases are as large as 28 percent at incomes near $2,000 per month.
- *Larger decreases for combined gross incomes above $10,000 per month.* Like a USDA update, decreases at this income range result from using the Engel measurements of child-rearing expenditures (rather than using the 2002 USDA measurements).

As suggested in Exhibit 2, one assumption about the Betson-Rothbarth measurements that would change the patterns identified above would be to adopt a different tax assumption. The comparisons assume all income is taxed at the rate of a single taxpayer with no dependents. (This is the assumption used by most states.) Alternatively, the Betson-Rothbarth measurements, which are not based on gross income, could be converted from after-tax income to gross income assuming the tax rates of a married couple claiming the number of children for whom support is being determined as dependents. This assumes there is more income available for child-rearing expenditures and would increase the Betson-Rothbarth obligations at every income. The District of Columbia uses this assumption.

Another alternative assumption that would increase the amounts at higher incomes is assuming all after-tax income is spent. This would ignore savings and expenditures on outside gifts among higher incomes.

Comanor Measurements

As show in the July briefing, adopting the Comanor measurements would produce substantial decreases (in the 50 and 60 percent range) for most incomes.

Exhibit 2: Major Factors and Assumptions Underlying Minnesota Child Support Guidelines Table and Updated Tables						
	Basis of Existing Minnesota Table	Summary of Basis of Other States	Updated Option A (USDA)	Updated Option B (Betson)	Updated Option C (Comanor)	Impact of Alternative Assumptions
1. Measurement of child-rearing expenditures	Mostly USDA (2001) for gross incomes of $2,000 - $8,500/mo for 2+ children.[7] Other sources include Betson-Rothbarth (BR)[8] measurements (for 1 child for $3,300-$7,299 and Betson-Engel (BE) for very high incomes.	29 states rely on Betson-Rothbarth (BR) measurements.	USDA 2017 study	Betson-Rothbarth 2010 study	Table 10 of Comanor slides	Few alternatives, could use rural USDA (but not justifiable), could also use another table of Comanor.
2. Guidelines model	Income shares	39 states rely on the income shares model. The other two models used by states are the percentage-obligor income model and the Melson formula.	Income shares	Income shares	Income shares	Several alternatives
3. Adjustments for state cost of living	Housing expense in USDA (2001) were adjusted because the USDA methodology used at the time was believed to overstate housing expenditures.	States with extraordinary high or low incomes or cost of living often adjust BR measurements, which reflect national data	None (USDA changed its methodology for measuring housing expenditures)	None	None	MN is close to average so no adjustment is probably warranted (*e.g.*, MN price parity is 97.6% while US prices are on average 100%)[9]
4. Tax assumptions	No tax assumption needed for USDA measurements because USDA measurements are gross-income based	BR measurements, based on expenditures/after-tax income, must be backed in to gross income. Most states doing so use federal and state income tax and FICA withholding formula and in prevailing year	Not applicable	Use income withholding formula for single/head-of-household tax-payer	Not applicable	2017 tax rates, different tax assumptions (*e.g.*, married couple with same number of children for whom support is being determined), base guidelines would increase BR table amounts

[7] Based on analysis documented in Venohr, Jane. (Sept. 16, 2015). *Economic Basis of Minnesota Basic Schedule and Parenting-Time Expense Adjustment.* Report to the Child Support Work Group, Minnesota Department of Human Services, St. Paul, MN.

[8] Betson is the economist (Professor David Betson, University of Notre Dame) preparing the estimates. "Rothbarth" is the economic method for determining the child's share of total expenditures.

[9] U.S. Bureau of Economic Analysis. (2016). Real Personal Income for States and Metropolitan Areas, 2014. http://www.bea.gov/newsreleases/regional/rpp/rpp_newsrelease.htm .

		and use the tax schedule for single/head-of-household				
5. Price levels	Appears to be based on 2002 price levels	Most states use the Consumer Price Index (CPI) from the year in which they updated their schedule	June 2017	June 2017	June 2017	No known alternatives
6. Adjustments for more than 3 children (and possibly amounts between 1, 2 & 3 children)	Appears to use USDA multipliers	Most states use equivalence scales developed by the National Academy of Science	USDA equivalence scales	National Academy of Science Equivalence Scales	Comanor's measurements up to 3 children, an alternative method would need to be used to extend to 4 or more children	National Academy of Science Equivalence Scales could be applied to the USDA measurements. (This would reduce the USDA amounts for more children.) The USDA equivalence scales could be applied to the BR measurements or Comanor. This would increase the amounts for more children.
7. Exclude highly variable child-rearing expenses	Appears to be excluded, specifics unknown	Most states exclude all but $250 per child per year to account for ordinary, out-of-pocket medical expenses. This approximates the average amount from a national survey.	Excluded all but $250 per child per year to account for ordinary, out-of-pocket medical expenses	Excluded all but $250 per child per year to account for ordinary, out-of-pocket medical expenses	Childcare expenses were not excluded	Comanor amounts would be less if childcare expenses were excluded. Adding more or less ordinary medical expenses would increase or decrease the table amounts. Including none is technically feasible. Adding more may not be technically feasible.
8. Families that spend more/less of their Income	USDA does not make an adjustment for families that spend more than their expenditures	Most states cap expenditures so they don't exceed after-tax income, then use the actual expenditures to income ratio for the remainder of the schedule	USDA does not adjust for families that spend more than their income, that is why the amounts are higher at very low incomes	Capped expenditures so they don't exceed income. The cap lowers amounts at incomes below about $4,000 gross per month	Unknown	One alternative is to eliminate the cap; this would increase the amounts at lower incomes. DC assumes families have no savings. This would increase the BR amounts at all incomes, particularly higher incomes. Nebraska also makes alternative assumptions about expenditures to income ratio that result in the Nebraska amounts being higher.
10. Low-income adjustment and minimum order	Included	Most states include	Not addressed	Not addressed	Not addressed	More efficient to decide table and layer on low-income adjustment later

11. Adjustment at high incomes	Extrapolated amounts above $8,500	Most states stop schedule at $20,000 to $30,000 per month, where economic data is no longer reliable	Reliable to about $20,000 gross per month	Reliable to about $25,00 gross per month	Not clear how high could go	See specific options