

Colorado Child Support Guidelines: Economic Background & Update

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Points of view expressed in this document are those of the author and do not necessarily position of the State, Commission or Court.



Objectives & Expected Outcomes

- **Identify and discuss upcoming guidelines changes (eff. 1/1/2014) & the reasons for the changes**
 - **Updated schedule**
 - **Updated low-income adjustment**
 - **Refinements to provisions for atypical income sources (i.e., retained earnings, earnings from retirement accounts, & SSDI lump sum payments)**
- **The guidelines review process**
- **The basis of the Colorado guidelines and how it compares to other states**
- **Behind the numbers in the schedule**
- **Lingering issue: addressing child's healthcare expenses**

Background Statistics

USA (2007)

- 1.7 million births to unmarried mothers
- 1.1 million children with newly divorced parents

Colorado (2011)

- 1.2 million children
 - 29% do not live in married-couple households
- 191,511 female & male householders with children
 - 36% female HH live in poverty, 19% male HH live in poverty

Colorado IV-D (2011)

- 147,522 IV-D child support cases
- 8,450 order establishments
- \$289 million of child support collected & distributed

Colorado (2008)

- 17,444 births to unmarried mothers

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

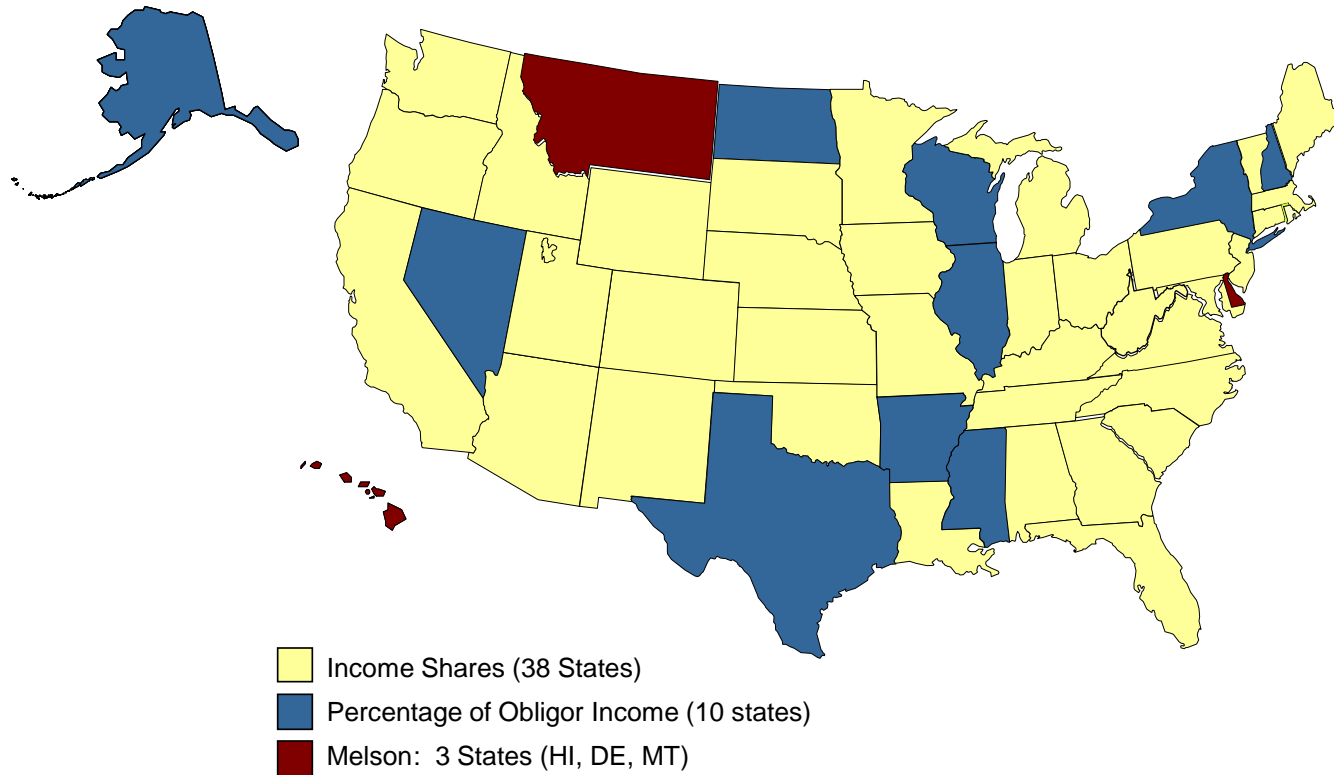
- **Federal History**
 - Advisory guidelines by 1987
 - Presumptive guidelines that can be rebutted based on state-determined criteria by 1989
- **Statewide child support guidelines**
 - Must be based on specific descriptive and numeric criteria
 - Take into consideration all earnings and income of the 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

Developing a State Child Support Guidelines

- **Part policy, part economics**
- **Policy decisions**
 - Guidelines models
 - Which economic data
 - Treatment of special factors
 - Very low incomes
 - Very high incomes
 - Additional dependents
 - Shared custody
 - Medical support



Guidelines Model: Colorado 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 at very low incomes
- Support paid for pre-existing children
- Other factors

Exhibit 1: Excerpt from Existing Colorado Child Support Schedule

Monthly Combined Adjusted Gross Income	1 Child	2 Children	3 Children
5800	807	1164	1365
5850	809	1166	1370
5900	812	1172	1375
5950	815	1176	1380
6000	818	1180	1385
6050	820	1184	1390
6100	823	1188	1394
6150	826	1193	1400

EXAMPLE: TWO CHILDREN	Mother	Father	Combined
1. Monthly Income	\$2,000	+ \$3,800	= \$5,800
2. % of Combined Income	34%	+ 66%	= 100%
3. Expenditures on Children in Intact Family			\$807
4. Each Parent's Share (Line 2 x Line 3)	\$274	+ \$533	= \$807

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 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>

History of Colorado Guidelines Reviews

- ❖ Guidelines commission appointed by governor, composition of commission set in statute
- ❖ Schedule last updated in 2001
- ❖ Reviewed in 2010/2011
 - ❖ Legislative changes made in 2013 session
- ❖ Reviewed in 2005, no update
- ❖ Reviewed a few times in the 1990's
- ❖ Originally adopted in 1986(?)
- ❖ Updated twice (1994ish and 2001)

Major Assumptions of Current Colorado Schedule/Calculation

(developed in 2001)

- Colorado guidelines are based on Income Shares model
- Schedule reflects average child-rearing expenditures from ages 0-17 in 2001
- Low-income adjustment is based on 2001 federal poverty guidelines & minimum wage
- Schedule includes all child-rearing expenditures except actual child care expenses, the child's health insurance premium and child's extraordinary, uninsured medical expenses
- Schedule includes \$250 per child per year for "ordinary" medical expenses (e.g., over-the-counter medicines)
- Adjustments for shared-parenting time are made in the worksheet



Economic and Policy Changes from 2001 to Present

Those Affecting Schedule

- Price changes: 22% increase (2001-2010) & 29% increase (2001- 2013)
- Federal tax reform in 2001/2003, accelerated, expired, extended and made permanent
- New measurements of child-rearing expenditures available

Those Affecting Low-Income Adjustment

- Minimum wage increased
- Federal poverty level increased

Other

- 2008 Medical Support Rules & the Affordable Care Act

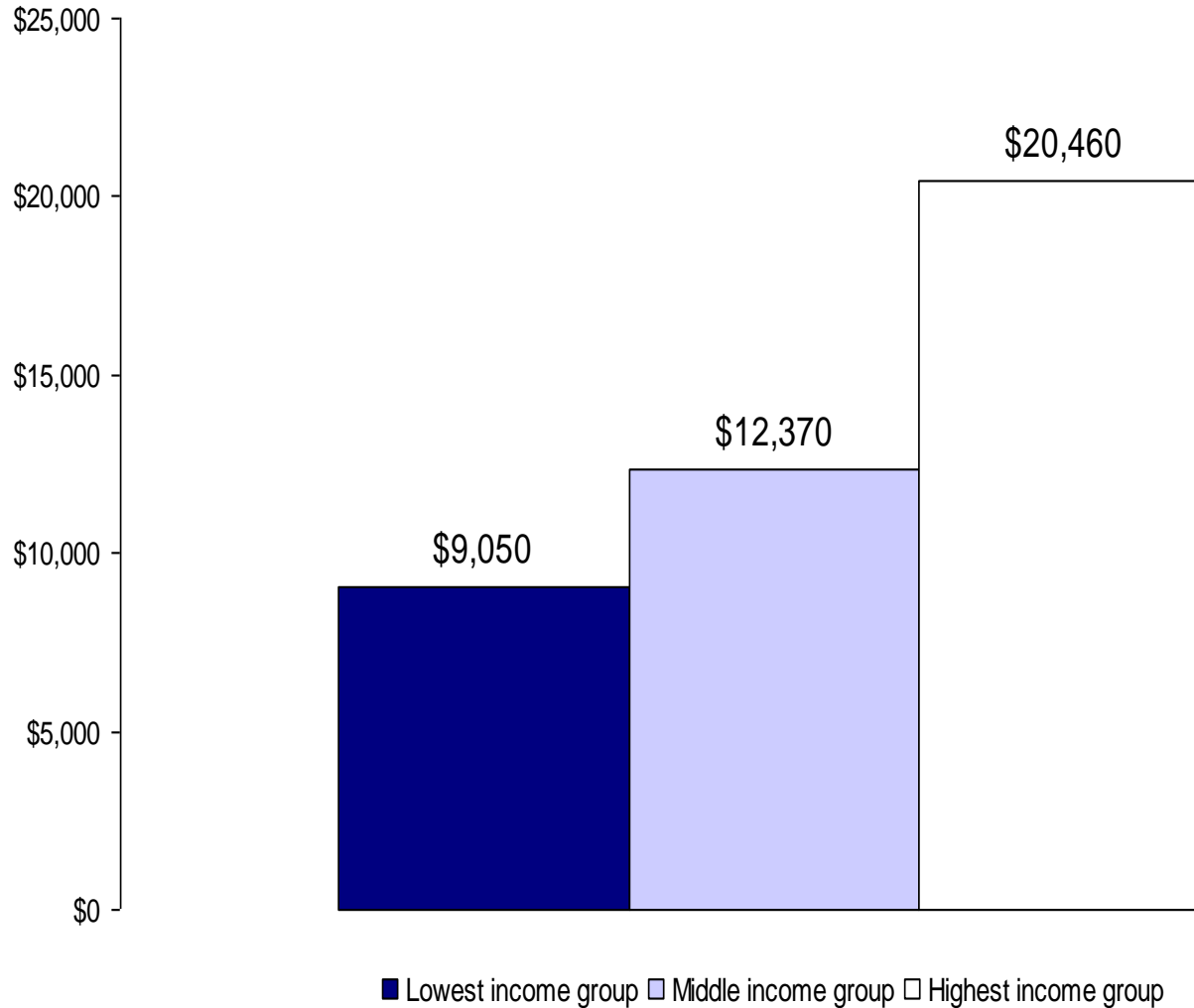
Measurements of Child-Rearing Expenditures

- ❖ **Economists don't agree on which methodology best measures actual child-rearing expenditures.**
 - Upper bound is USDA Mark Lino (2012), Expenditures on Children by Families: 2011 Annual Report, U.S. Department of Agriculture, Center for Nutrition and Policy Promotion. Miscellaneous Publication No. 1528-2011 Available at:<http://www.cnpp.usda.gov/Publications/CRC/crc2011.pdf>
 - Lower bound is Betson-Rothbarth (David M. Betson, 2011 "Appendix A: Parental Expenditures on Children: Rothbarth Estimates," in Judicial Council of California, *Review of Statewide Uniform Child Support Guidelines*, San Francisco, California)
 - Basis of CO Schedule (David M. Betson (2001), "Chapter 5: Parental Expenditures on Children," in Judicial Council of California, *Review of Statewide Uniform Child Support Guidelines*, San Francisco, California.

- ❖ **Any amount between upper and lower bound is appropriate state guidelines amount** (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, Lewin/ICF, Fairfax, Virginia)

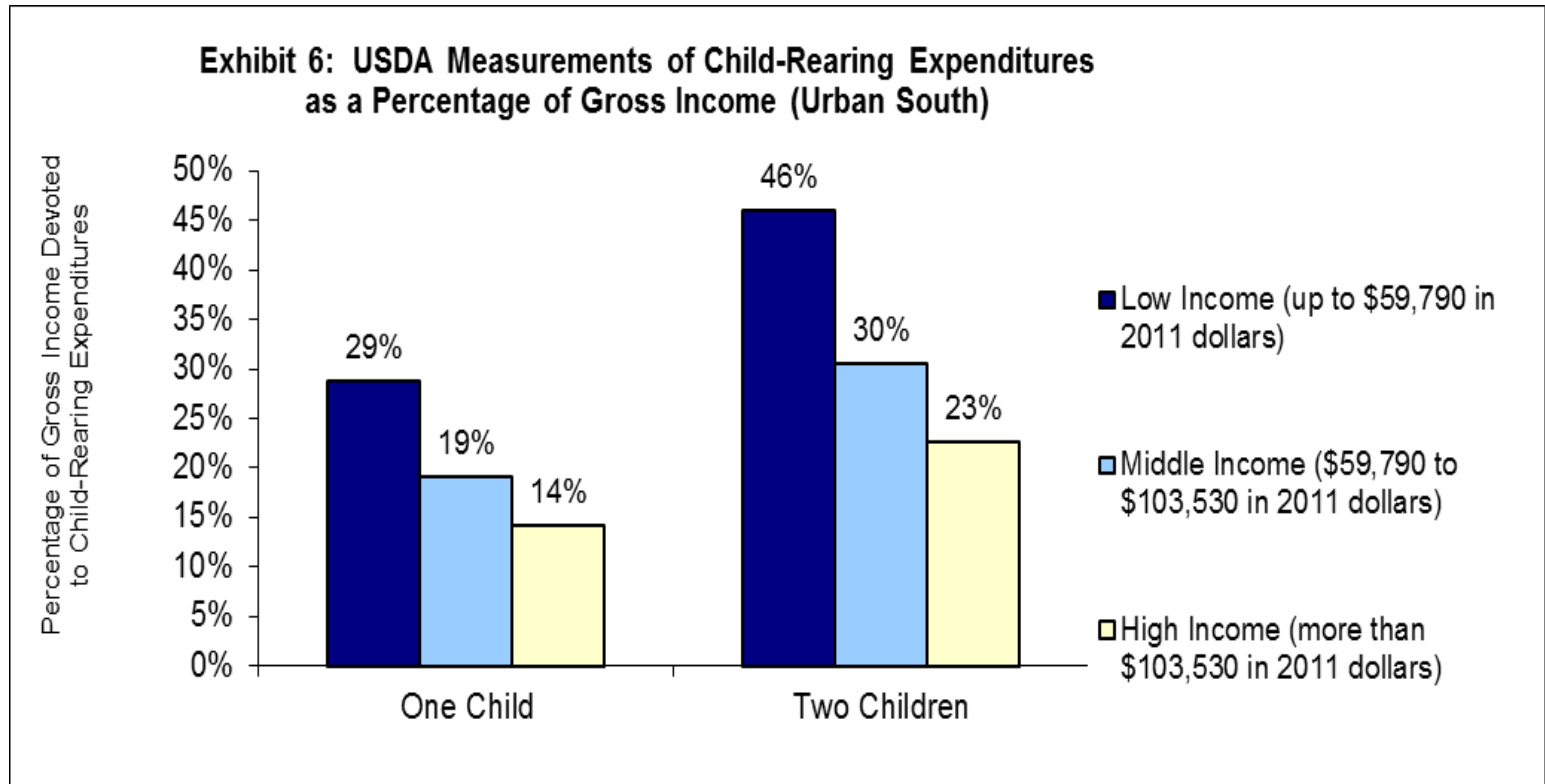
Annual Expenditures on Children:

Source: 2011 USDA

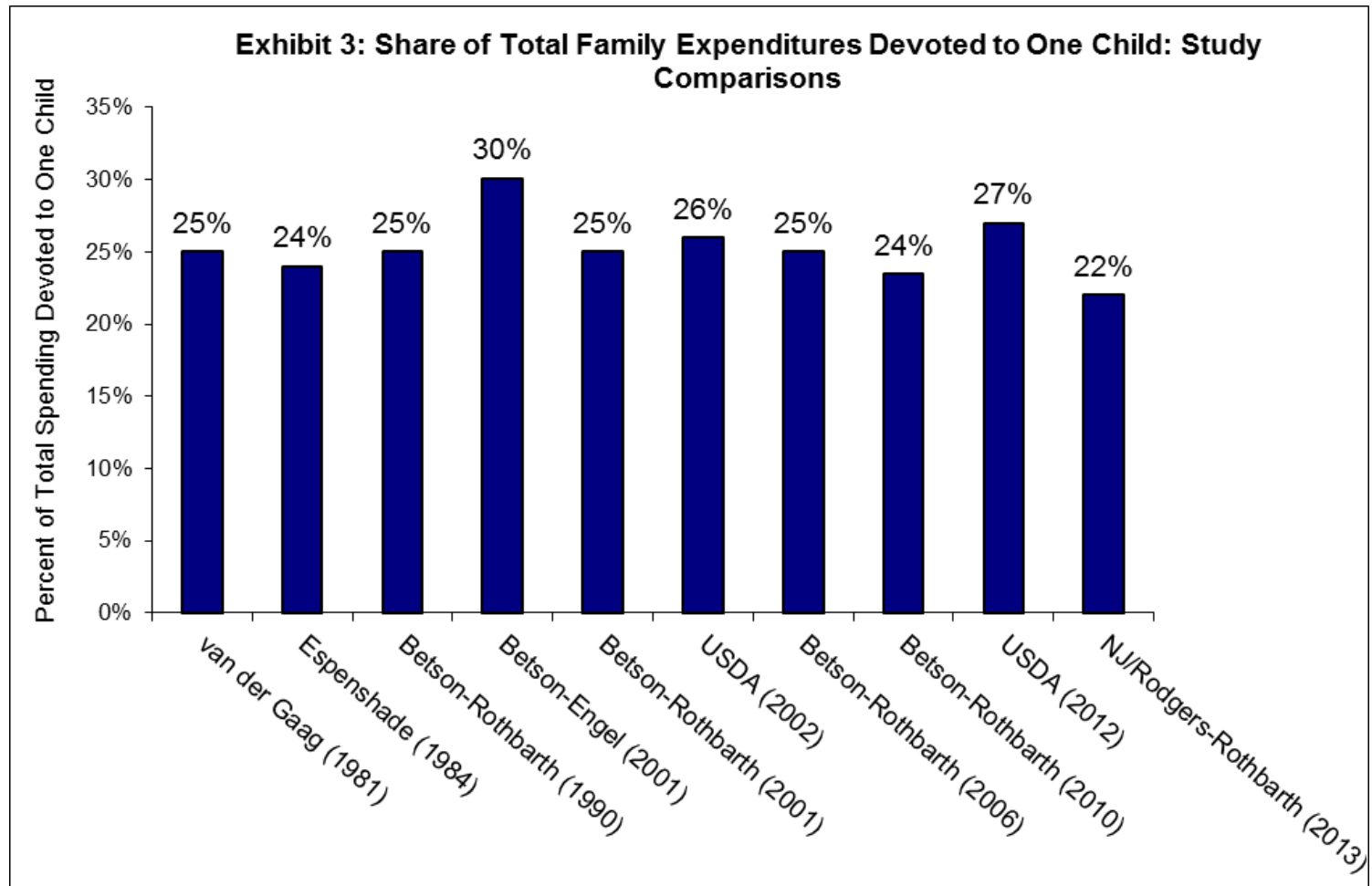


Annual Expenditures on Children:

Source: 2011 USDA (South)



Comparison of Economic Studies: One-Child Amounts Averaged Across All Incomes



References

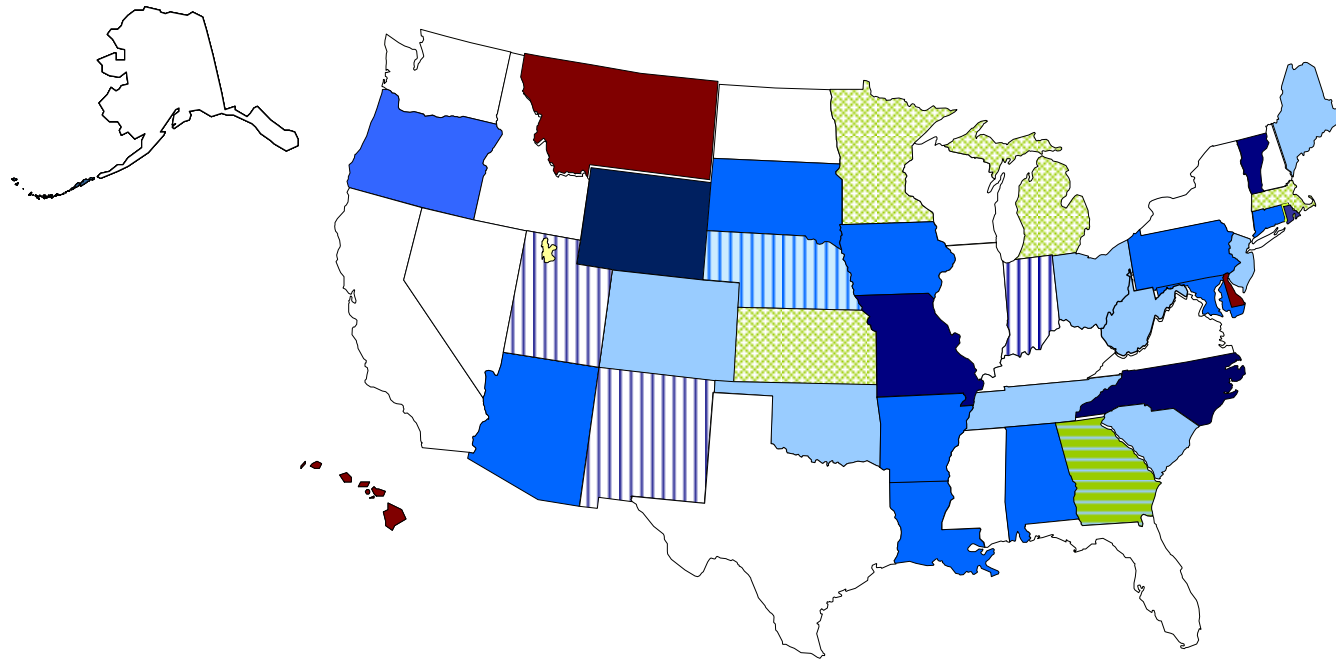
- David M. Betson (1990) *Alternative Estimates of the Cost of Children from the 1980-86 Consumer Expenditure Survey*, Report to U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, University of Wisconsin Institute for Research on Poverty, Madison, Wisconsin.
- David M. Betson (2001), "Chapter 5: Parental Expenditures on Children," in Judicial Council of California, *Review of Statewide Uniform Child Support Guidelines*, San Francisco, California.
- David M. Betson (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.
- David M. Betson (2011). "Appendix A: Parental Expenditures on Children: Rothbarth Estimates," in *Judicial Council of California, Review of Statewide Uniform Child Support Guidelines*, San Francisco, California.
- Thomas J. Espenshade (1984) *Investing in Children: New Estimates of Parental Expenditures*, Urban Institute Press: Washington, D.C..
- Mark Lino (2011), *Expenditures on Children by Families: 2011 Annual Report*, U.S. Department of Agriculture, Center for Nutrition and Policy Promotion. Miscellaneous Publication No. 1528-2010 Available at:
<http://www.cnpp.usda.gov/Publications/CRC/crc2011.pdf>
- Jacques van der Gaag (1981). *On Measuring the Cost of Children. Discussion Paper 663-81. University of Wisconsin Institute for Research on Poverty, Madison, Wisconsin.*
- New Jersey Child Support Institute (March 2013). *Quadrennial Review: Final Report*, Institute for Families, Rutgers, the State University of New Jersey, New Brunswick, NJ. Available at:
http://www.judiciary.state.nj.us/reports2013/F0_NJ+QuadrennialReview-Final_3.22.13_complete.pdf

Estimates of Child-Rearing Expenditures Underlying State Guidelines

	van der Gaag	Espen - shade/Engel	Betson/Rothbarth				Average of Betson/Rothbarth-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	7 states	5 states	8 states including CO	12 states	NC, RI, VT & WY	GA	MN
Years of survey data	N.A.	1972-73	1980-86	1996-99	1998-2004	2004 - 2008	1996-99	1990-92

Economic Basis of State Guidelines

- 1st or 2nd Betson-Rothbarth study
- 3rd Betson-Rothbarth study
- 4th Betson-Rothbarth study
- Partially on 3rd B-R study
- 25+ year old study or unknown study
- Melson formula
- Not based on B-R & updated in last 8 years (GA is based on average of Betson-Engel and 2nd B-R)

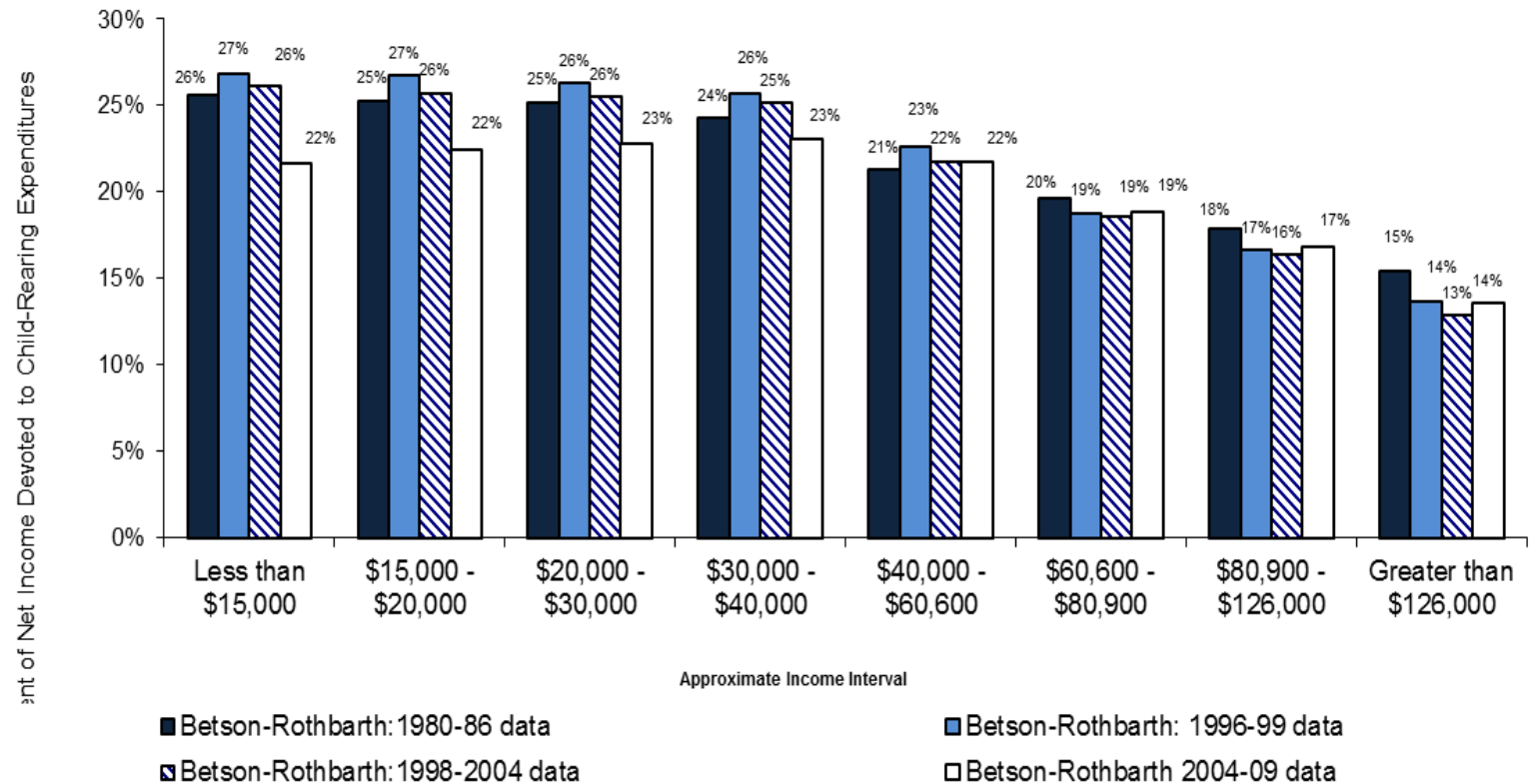


Underlying Data Source: Consumer Expenditures Survey (CES)

- 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
- BLS changes over time
 - improved income measure because concerns with the observation that expenditures exceeded income particularly at low incomes
 - added 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>

Comparison of BR Measurements Over Time and Across Income Ranges : One-Child Amounts

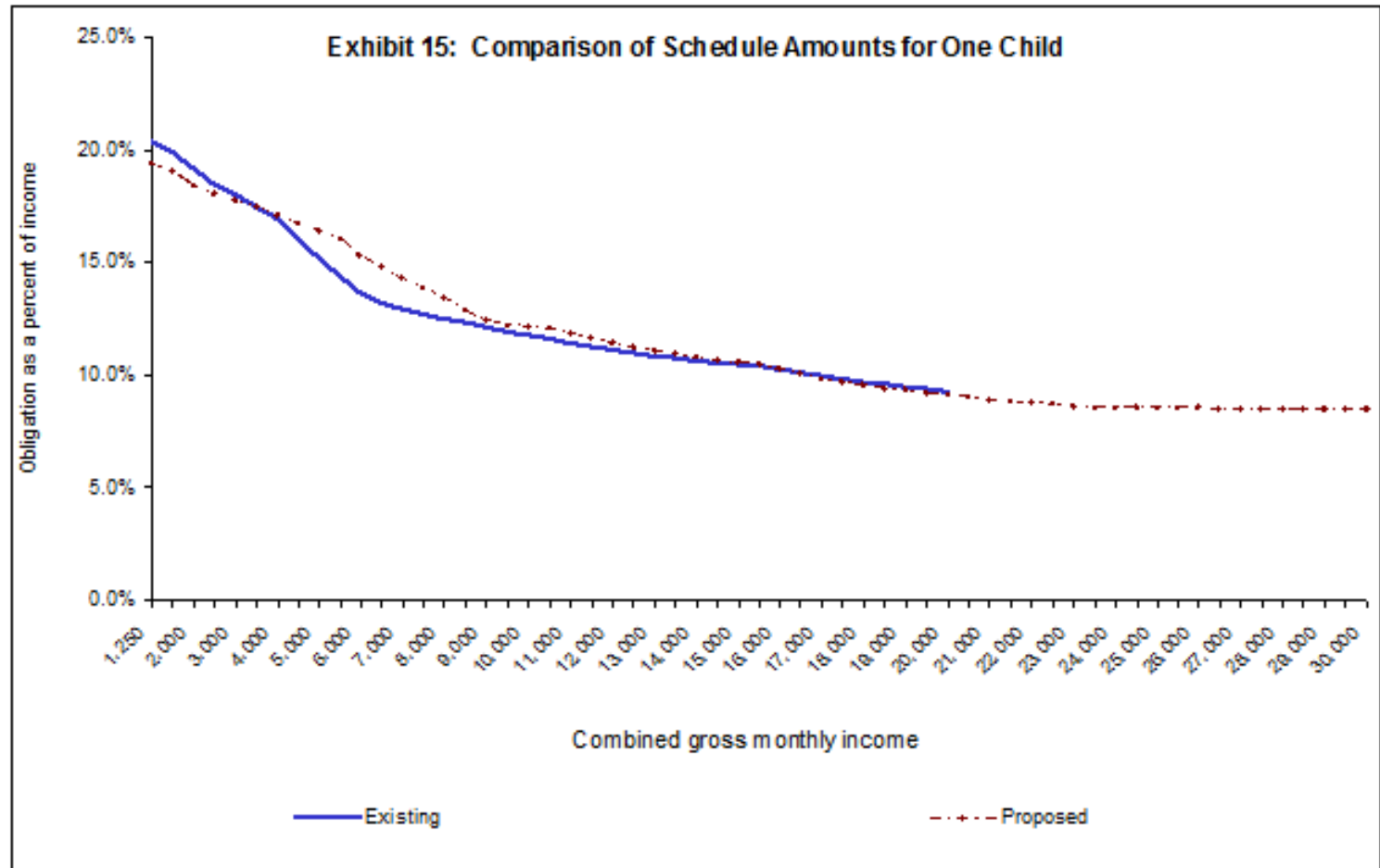
Exhibit 7: Child-Rearing Expenditures: One Child



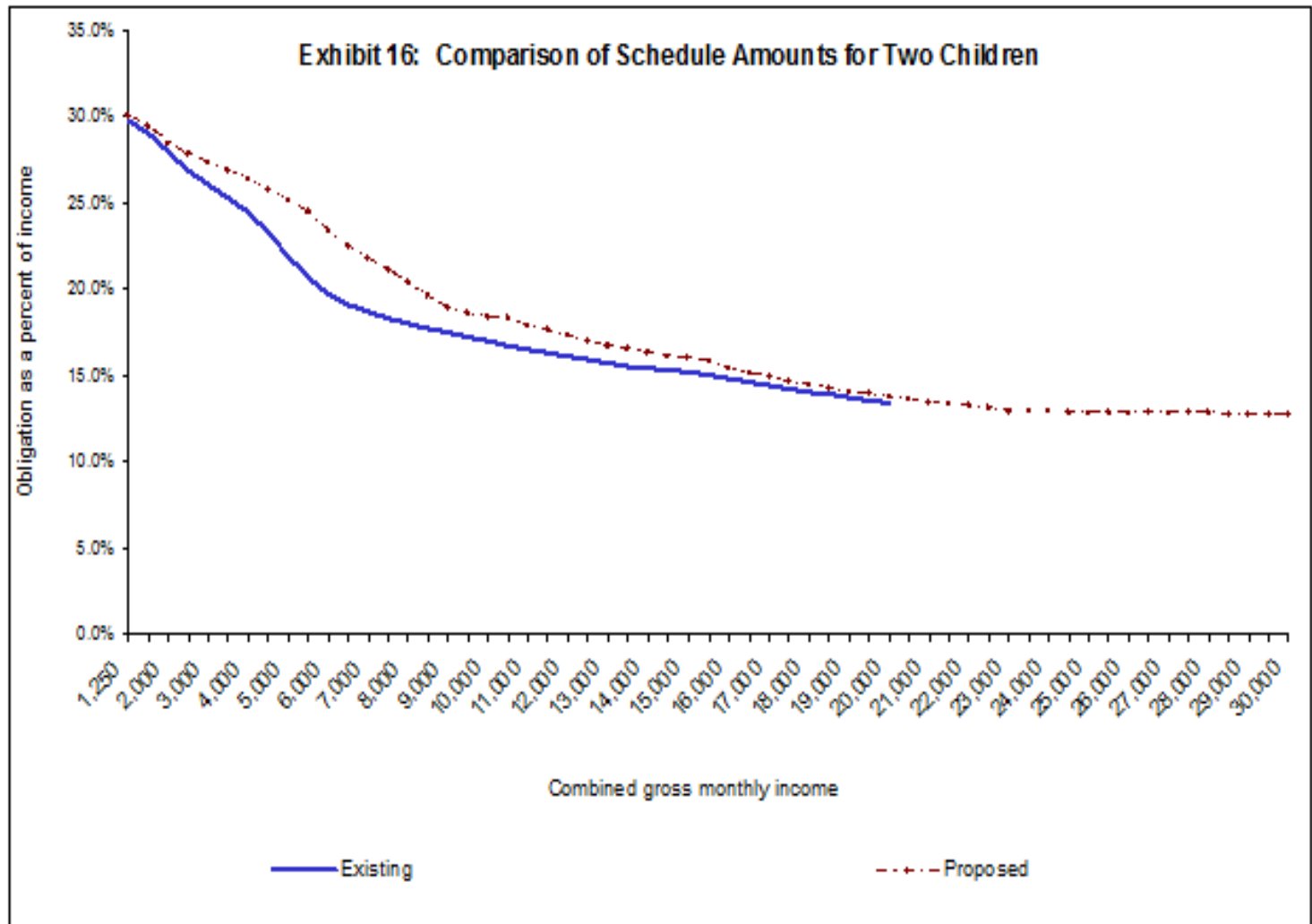


Comparison of Existing & Updated Schedule

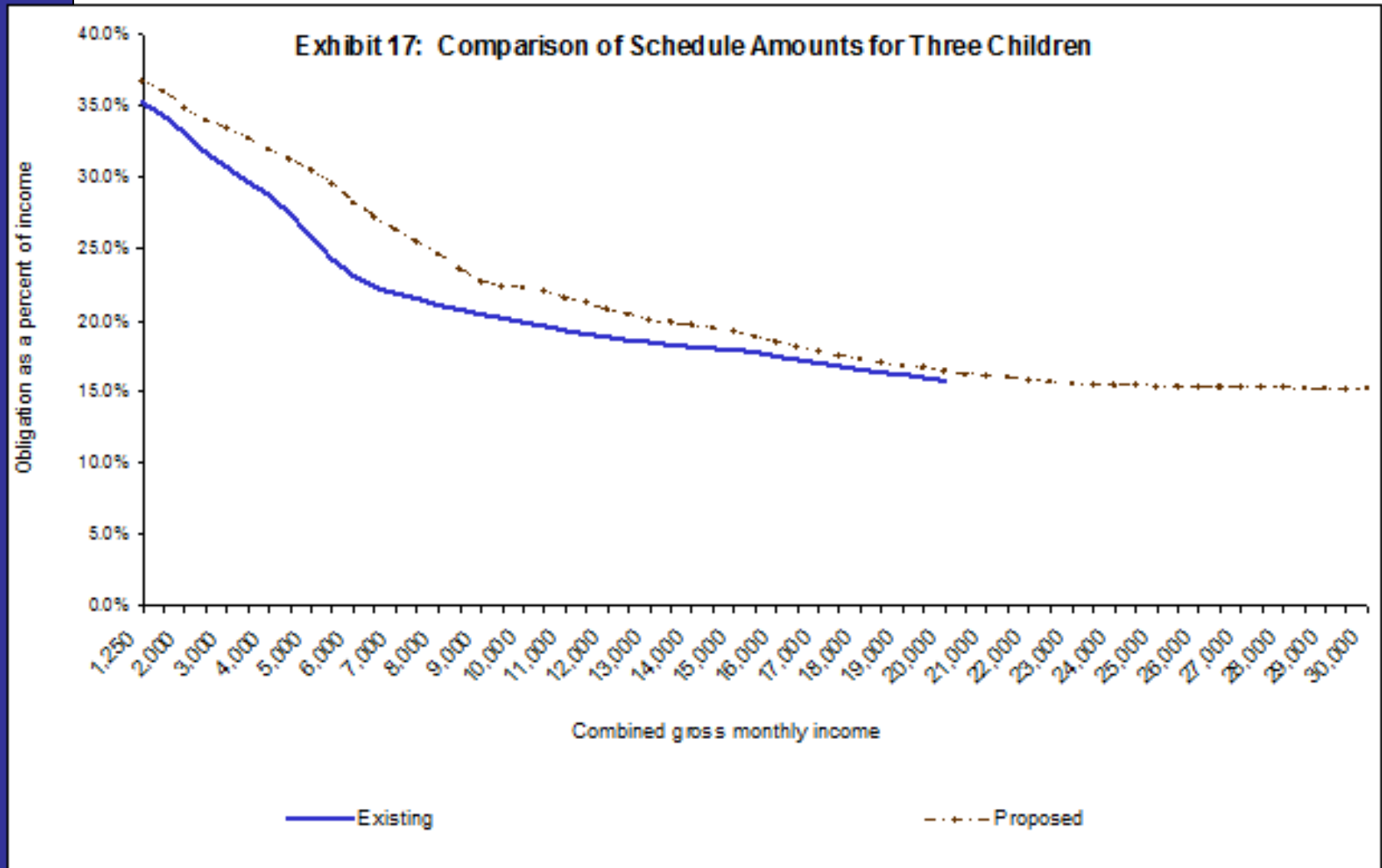
Comparisons: 1 Child



Comparisons: 2 Children

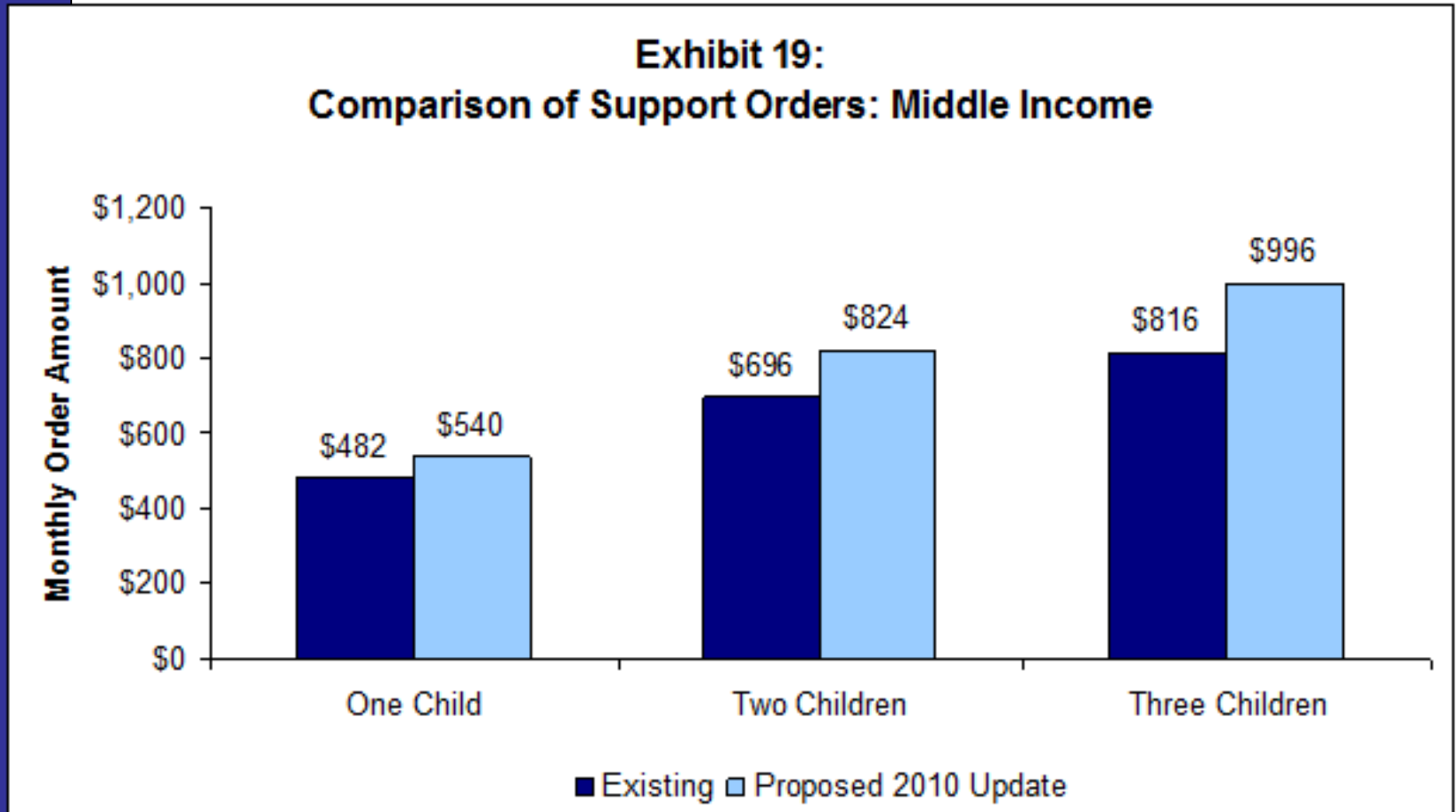


Comparisons: 3 Children



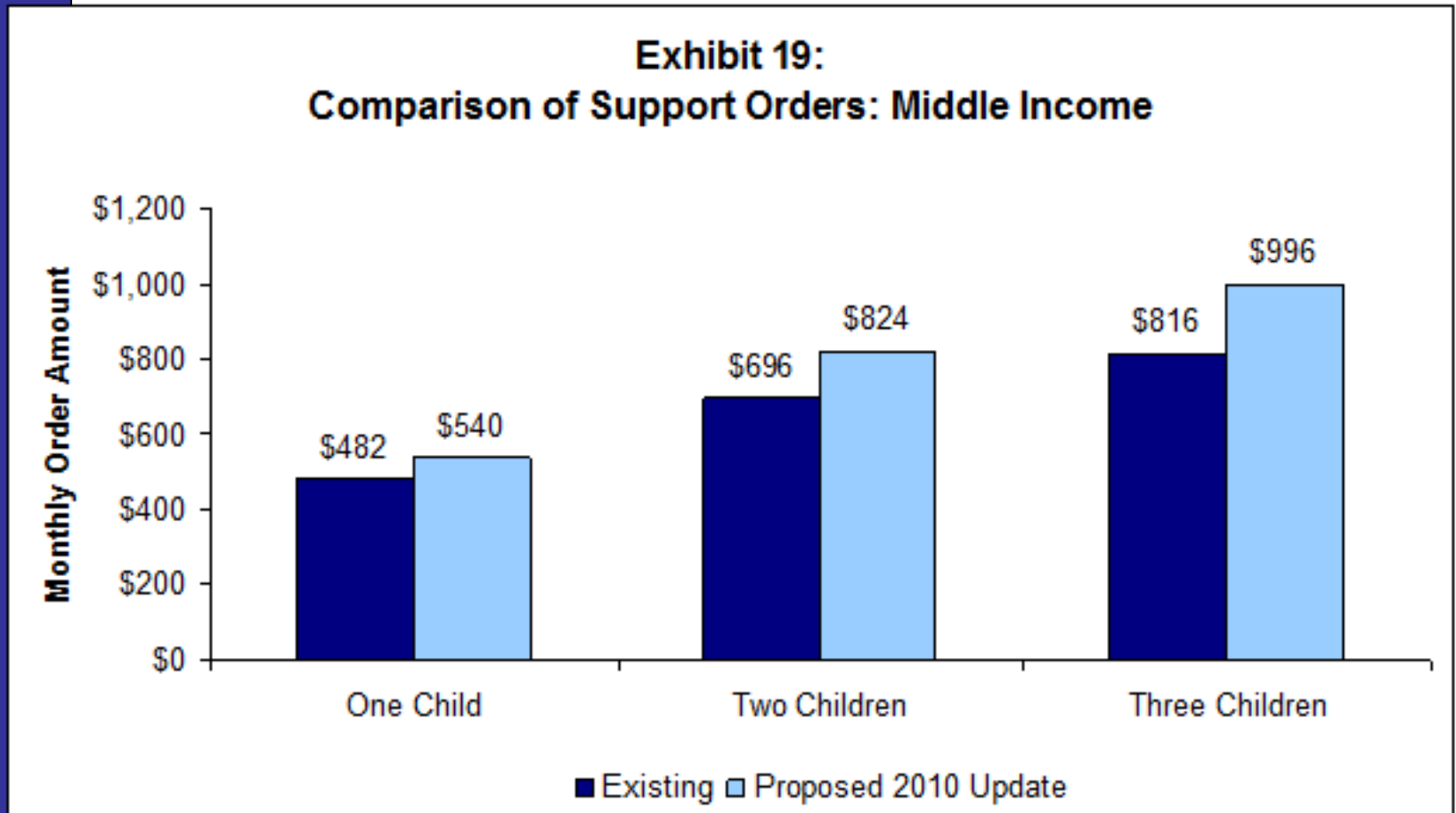
Comparisons: Median Income

(\$5,750 combined gross, 60%/40% NCP/CP income ratio)



Comparisons: High Income

(\$15,000 combined gross, 60%/40% NCP/CP income ratio)



Comparison of Existing & Updated Schedule

	1 Child	2 Children	3 Children	4 Children	5 Children	6 Children
Percent of Orders	51% of orders	32% of orders	12% of orders	5% of orders involve 4, 5 or 6 children		
Percentage Change						
Average	2%	7%	10%	11%	13%	15%
Median	1%	6%	9%	10%	12%	14%
Range	-7% to 13%	-1% to 19%	2% to 23%	3% to 24%	5% to 26%	6% to 28%
Combined Gross Incomes						
≤\$3,500/month or less	-3%	2%	6%	7%	9%	10%
≤\$3,501-\$7,000/month	7%	13%	17%	18%	20%	22%
≤\$7,001-\$10,000/month	5%	11%	14%	16%	17%	19%
≤\$10,000-\$20,000/month	1%	5%	7%	8%	10%	12%
Dollar Change						
Average	\$21	\$116	\$184	\$230	\$288	\$208
Median	\$16	\$123	\$201	\$250	\$313	\$237
Range	-\$35 to 106	-\$4 to 229	\$7 to 318	\$12 to 371	\$19 to 433	\$28 to 500
Combined Gross Incomes						
≤\$3,000/month or less	-\$12	\$15	\$42	\$56	\$72	\$92
≤\$3,001-\$7,000/month	\$56	\$149	\$221	\$262	\$310	\$363
≤\$7,001-\$10,000/month	\$52	\$165	\$250	\$300	\$361	\$429
≤\$10,000-\$20,000/month	\$5	\$111	\$181	\$234	\$304	\$384



Overview of Low-Income Adjustment

Selected Findings from Studies of Low-Income Parents

- **Most (over 70 percent) of the arrears is owed by parents who earn \$10,000/yr or less**
- **Child support arrears owed in the IV-D Child Support Enforcement Program**
 - \$111.3 billion owed nationally
 - \$ 1.1 billion owed in Colorado
- **About a quarter of noncustodial fathers have reported incomes below the federal poverty level**
- **29% of poor, non-paying fathers are institutionalized, mostly in prisons**
- **Many have support orders that exceed 50% of their reported income**
- **Studies from Washington State & Orange County, CA find 20% of gross income is the threshold between payment/non-payment**
- **Factors contributing to arrears**
 - Retroactive arrears and interest
 - Imputed income exceeds actual income, particularly in default
 - Multiple orders
 - Other: guidelines amounts and lack of modifications

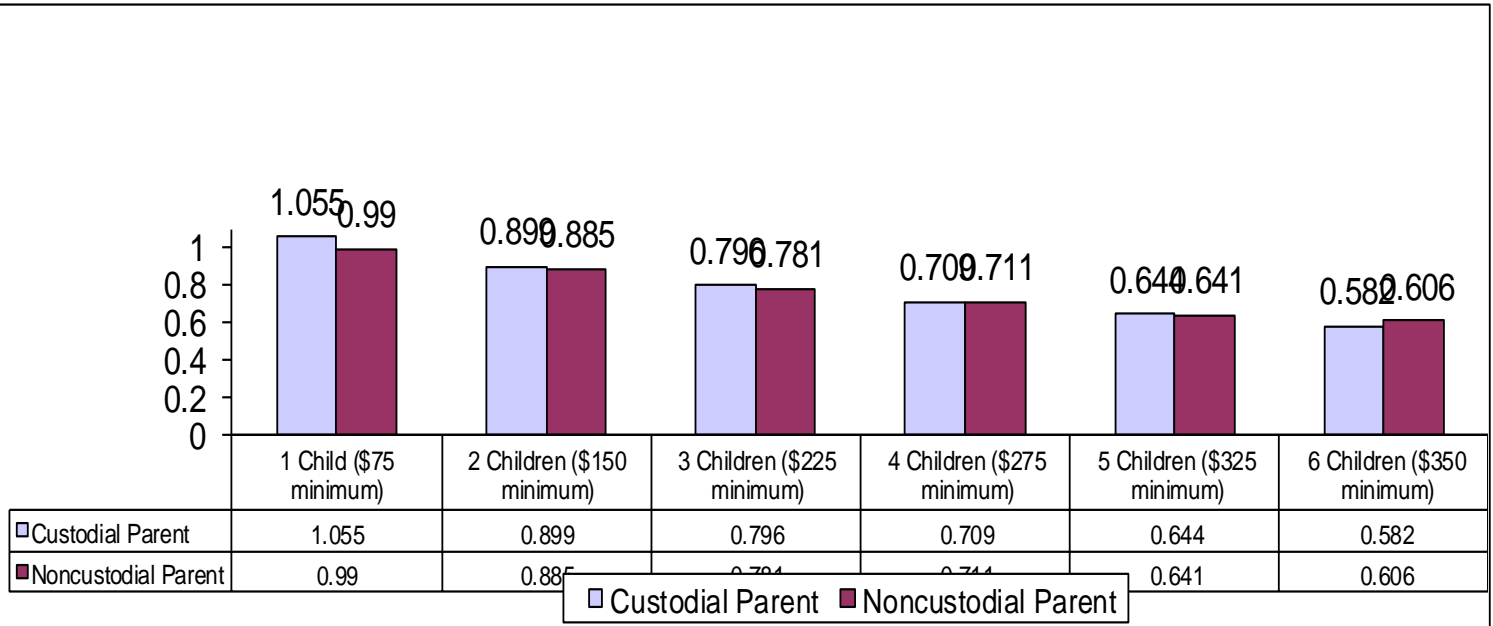
Existing Low-Income Adjustment

- Minimum order of \$50/month below \$850
- From \$900 - \$1,850
 - 40% of income above \$900/mo +
 - \$75 for 1 child
 - \$150 for 2 children
 - \$225 for 3 children
 - \$275 for 4 children
 - \$325 for 5 children
 - \$350 for 6 or more children

OR

- Ordinary amount based on schedule amount

Economic Basis of Existing Low-Income Adjustment: equalizes after-tax income/after-child support income as a percent of the poverty level assuming each parent earns minimum wage.



Problems with underlying assumptions:

- Based on min. wage of \$5.15/hr, Colorado increased its min. wage & now updates it annually for inflation (\$7.78 in 2013)
- Federal poverty updated annually
- Uncertainty of federal tax code

Premises of Updated Low-Income

- Minimum order varies with the # of children: \$50 + \$20 for each additional child (e.g., \$50 for 1 child, \$70 for 2 children, \$90 for 3 children....)
- Self-support reserve (SSR) test in worksheet
 - Difference between obligor gross income and SSR
 - Or
 - Regular guidelines calculation
- Self-support reserve = 120% of 2010 federal poverty level for 1 person
 - $\$902.50$ (2010 FPL) \times 120% \cong \$1,100

Proposed Low-Income Adjustment

Incomes below \$1,100

- Minimum order
 - \$50/mo + \$20 per additional child for incomes below \$1,100

Above \$1,100

- Minimum Order Amount + (Obligor gross income minus \$1,100)

OR

- Ordinary calculation based on schedule amount

Example:

Obligor Income = \$1,250, Obligee has no income

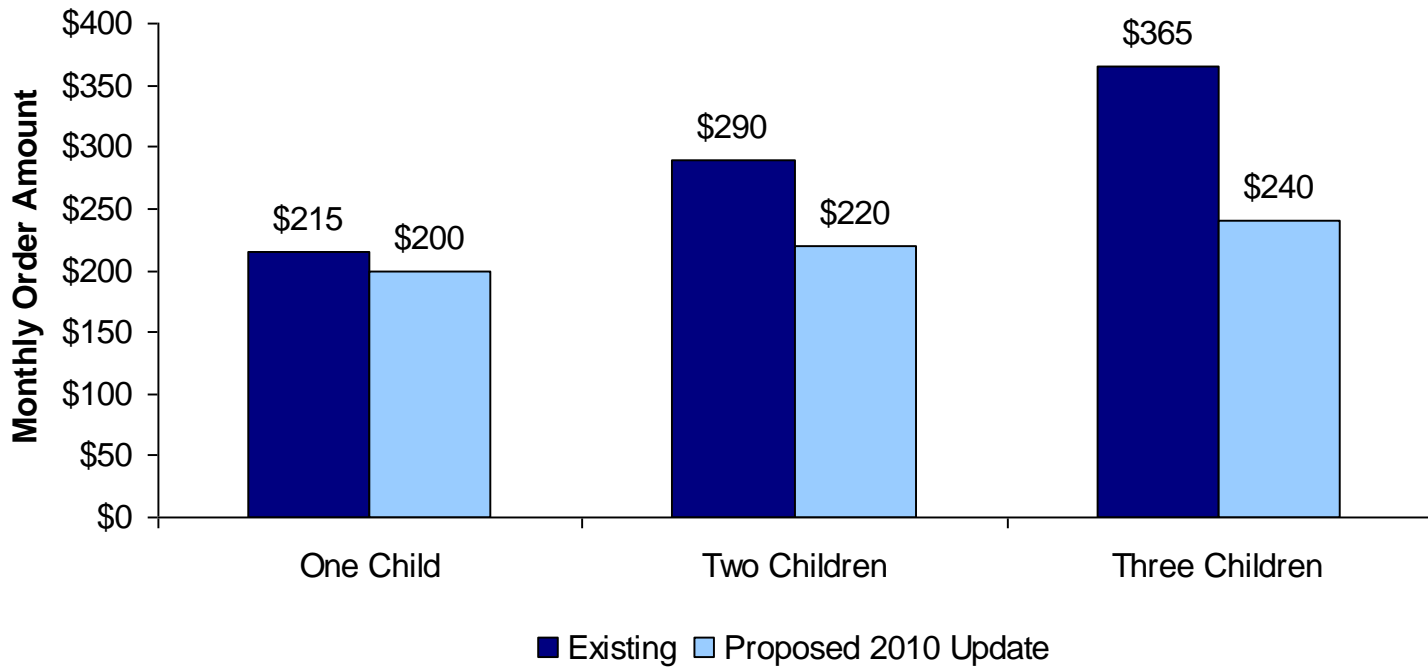
$\$50 + (\$1,250 - \$1,100) =$

$\$50 + \$150 = \$200$ (schedule amt = \$243)

Comparisons: Low Income

(obligor earns f-t, fed. min. wage, obligee income = \$0)

Exhibit 18:
Comparison of Support Orders: Obligor Earns Minimum Wage





Other Information & Questions

Average Child-Rearing Expenditures in Betson-Rothbarth Estimates Used for Child Support Schedules...

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...
- 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 medical expenses
- Mortgage principal payments (older estimates only)
- Net vehicle outlays (older estimates only)
- Savings & investments
- Pension contributions
- Charitable contributions and gifts outside the home

Average Budget Shares

Budget Share (Percentage of Total Outlays) from CES 2004-2009				
Expenditure Category	Childless Couple	One Child	Two Children	Three or More Children
Food	15.7%	16.0%	16.8%	18.3%
Housing	37.9%	41.2%	41.4%	40.9%
Apparel	2.6%	3.1%	3.2%	3.6%
Transportation	20.3%	19.9%	19.0%	18.4%
Entertainment	7.2%	6.4%	6.8%	6.3%
Healthcare	6.1%	5.3%	5.3%	4.6%
Personnel Care	.7%	.6%	.6%	.5%
Education and Reading	1.9%	1.8%	1.7%	1.7%
Miscellaneous	7.6%	5.7%	5.2%	5.7%

Health Insurance & Unreimbursed Medical Expenses in Colorado Guidelines

Current Provision: Colorado Revised Statute 14-10-115 (10)

- (b) The **payment of a premium to provide health insurance coverage on behalf of the children** subject to the order shall be added to the basic child support obligation and shall be divided between the parents in proportion to their adjusted gross income.
- g) Where the application of the premium payment on the guidelines and schedule of basic child support obligations results in a child support order of fifty dollars or less or **the premium payment is twenty percent or more of the parent's gross income**, the court or delegate child support enforcement unit may elect not to require the parent to include the child or children on an existing policy or to purchase insurance. The parent shall, however, be required to provide insurance when it does become available at a reasonable cost
- (h) (I) **Any extraordinary medical expenses incurred on behalf of the children shall be added to** the basic child support obligation and shall be divided between the parents in proportion to their adjusted gross incomes.
- (II) **Extraordinary medical expenses are uninsured expenses, including copayments and deductible amounts, in excess of two hundred fifty dollars per child per calendar year.** Extraordinary medical expenses shall include, but need not be limited to, such reasonable costs as are reasonably necessary for orthodontia, dental treatment, asthma treatments, physical therapy, vision care, and any uninsured chronic health problem. At the discretion of the court, professional counseling or psychiatric therapy for diagnosed mental disorders may also be considered as an extraordinary medical expense.

Selected Statistics on Medical Support

- Health insurance is ordered as provided in 33% of IV-D cases nationally
- 73% of IV-D children eligible for Medicaid or CHIP
- Findings from various states
 - Among all orders adjusted for private health insurance: NCPs & CPs carry the child's insurance almost equally
 - Among IV-D orders: NCPs carry it more often

Conclusion & Questions

