



## Fiscal Estimate Narratives

DWD 4/10/2003

LRB Number	03-1107/3	Introduction Number	AB-250	Estimate Type	Original
<b>Subject</b>					
Calculating child support					

### Assumptions Used in Arriving at Fiscal Estimate

This bill changes the methodology used to set child support in Wisconsin from the Percentage of Income Standard to an Income Shares model. The new formula is likely to lead to lower child support orders across all income levels and thereby potentially increase reliance on public assistance.

### Long-Range Fiscal Implications

Opposition to Wisconsin's use of a flat percentage has centered on the argument that a 'one size fits all' approach to setting child support results in awards which are insufficient to meet the needs of children in low income families and excessive to meet the needs of children in high income families. The model proposed in SB 250 is commonly referred to as an 'Income Shares' model. Although the percentage standard itself begins with an income sharing approach to setting child support, the key difference is that the percentages in an Income Shares Model decline as income increases. The Income Shares Model also calculates the percentage against the combined incomes of both parents, prorating the obligation between them. Wisconsin studied the Income Shares Model at the time the Percentage of Income Standard was adopted and rejected it for a variety of reasons. The Wisconsin Department of Health and Social Services contracted with the Institute For Research on Poverty at the University of Wisconsin Madison to study this issue. As a part of the child support research conducted for the Department by IRP, Jacques van der Gaag conducted a study of the economic literature related to the cost of raising children. Van der Gaag found that the proportion of income parents devoted to their children remained relatively constant up to very high income levels. Van der Gaag's report looked at five studies of expenditure on children, all but one of which supported this theory. The Income Shares Model relies on the one study that did not by Thomas Espenshade.

Although the issue was a debatable one, Wisconsin opted for a method which set child support as a

proportional share of parent's income, as being preferable to a regressive method such as the Income Shares Model, under which low income parents would pay a higher percentage of their incomes in child support than wealthier parents. The authors of the Wisconsin Percentage of Income Standard also believed that if each parent worked, the child(ren) should benefit from the increased income, something that wouldn't happen under a model in which the percentage decline as income increases. While the Percentage of Income Standard itself only considers the income of the custodial parents under limited circumstances, the standard presumes that the custodial parents is sharing the appropriate percentage of his or her income with the children.

The reliance of the Income Shares Model on Espenshade's calculations has been criticized for employing several economic calculations that have the effect of unduly lowering the amount of the child support obligation. Espenshade's study focuses on children in a two parent household. It therefore, ignores the increased costs associated with a family that is now living in two households.

Espenshade's calculations were based on the federal government's Consumer expenditure Survey for 1972-73. As such, they looked only at "current consumption" expenditures. Current consumption, by definition, excludes such items as gifts, charitable contributions, personal insurance, pensions, taxes, repayment of principal on a mortgage, and savings. The Income Shares Model then, doesn't include any of these when calculating the cost of raising children. While it is logical for the formula to assume that current consumption expenditures decrease as a percent of total income as income increases wealthier parents provide a significant percentage of their income to their children in non-current consumption forms like savings, trusts and investments, none of which are taken into consideration by the Income Shares Model.

The Income Shares Model also examines only the marginal costs of children, in other words, the difference in cost between the expenses of two adults with children and two adults without children. The expenses for the children under this analysis is less than if the family's expenses were divided equally among the total number of family members.

Finally, the Income Shares Model can result in major disparities between the standard of living in the custodial household and the standard of living in the noncustodial household when there is a large disparity in the incomes of the two parents. As an example, assume a two children family, CP with an annual income of \$20,000 and NCP with an annual income of \$ 60,000, standard visitation. Under Wisconsin's Percentage of Income Standard, the NCP would pay 25% of his/her income annually, or \$15,000. The relative household incomes would then be \$35,000 and \$45,000. Under an Income Shares Model, the appropriate percentage would be 18% of the combined incomes of CP and NCP or \$14,400. Assuming standard visitation 25%, CP would receive 75% of the child support "pot" or \$10,800, and NCP would receive 25% or \$3,600. The relative incomes under this scenario would now be \$30,000 and \$63,600. The new formula is likely to decrease income available to the custodial parent and increase reliance on public assistance.

The Department recently convened a public committee to review the current guidelines and make recommendations to the Department. That committee included representatives from the State Bar, the Courts, noncustodial parent, and advocacy groups. The committee met for a almost a year and after studying both the Income Shares and Percentage Standard Models, recommended nearly unanimously that Wisconsin retain use of the Percentage of Income Standard. Additionally, SB 250 provides that each parent contribute to the child's health care expenses in the same proportion as his or her gross monthly income bears to the total combined gross monthly incomes of the parties. If the language is interpreted to require each parent to pay a share of the child's health insurance premiums, a child may lose coverage if one parent fails to pay their share of the premium.

## Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
  Updated
  Corrected
  Supplemental

<b>LRB Number</b> 03-1107/3	<b>Introduction Number</b> AB-250	
<b>Subject</b> Calculating child support		
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>		
<b>II. Annualized Costs:</b>		
	<b>Annualized Fiscal Impact on funds from:</b>	
	Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringes	\$0	0
(FTE Position Changes)	(0.0 FTE)	(0.0 FTE)
State Operations - Other Costs	0	0
Local Assistance	0	0
Aids to Individuals or Organizations	0	0
<b>TOTAL State Costs by Category</b>	<b>\$0</b>	<b>\$0</b>
<b>B. State Costs by Source of Funds</b>		
GPR	0	0
FED	0	0
PRO/PRS (0)	0	0
SEG/SEG-S (0)	0	0
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$0	\$0
GPR Earned	0	0
FED	0	0
PRO/PRS (0)	0	0
SEG/SEG-S (0)	0	0
<b>TOTAL State Revenues</b>	<b>\$0</b>	<b>\$0</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$0	\$0
NET CHANGE IN REVENUE	\$0	\$0
<b>Agency/Prepared By</b>		
<b>Authorized Signature</b>		<b>Date</b>
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