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March 30, 2006

State of Alabama
Advisory Committee on Child Support Guidelines and Enforcement
300 Dexter Avenue
Montgomery, Alabama 36104

**RE: RESPONSE TO MARK ROGERS' COMPARISON STUDY TO UPDATE CHILD SUPPORT SCHEDULE USING ALABAMA SPECIFIC DATA**

Dear Committee Members:

We appreciate the opportunity to respond to Mark Roger's comparison study. As you know, Policy Studies Inc. (PSI) was contracted in 2004 to update the Alabama child support schedule. We used national data because Alabama-specific data do not exist; however, in updating the Alabama schedule, PSI realigned the estimates downward to account for Alabama's low income relative to the national average. In 2005, the Committee voted to conduct a comparison study using Alabama-specific data and information to update the Alabama Child Support Schedule. A Request for Proposal was issued in August 2005 and R. Mark Rogers Economic Consulting was awarded the contract. Mark Rogers' final report includes an economic critique of the 2004 PSI report. The purpose of this letter is to respond to his critique.

**ENCLOSED TABLE COMPARING PSI'S & MARK ROGERS' RECOMMENDATIONS**

Most of our responses are addressed in the enclosed table comparing PSI's recommendations to Mark Rogers' recommendations to issues suggested for consideration by the Committee in the March 31, 2006 agenda. The remainder of this letter addresses issues that are not addressed in the comparison table.

**ALABAMA-SPECIFIC DATA**

The first issue of concern is the use of Alabama-specific data. PSI used Census data comparing family income distribution between Alabama and the national average to realign the national estimates of child-rearing expenditures such that they would be Alabama specific. Rogers did not comment on this method in his report. However, during the March 2004 Alabama Guidelines Committee meeting, he said that the method was not economically sound, but it would be economically sound to make the second household adjustment (see pages 206-207 of meeting transcript). This suggests that Rogers perceives these two approaches as alternatives, but his recommended second-family adjusted Income Shares schedule applies these two adjustments on top of each other. The end result is a much lower schedule than would exist if only one adjustment were applied.

Rogers discusses Alabama-specific data only once in his report. On page 13 in his report, he uses IRS housing allowances for Alabama to adjust the PSI Income Shares schedule for the second household expense. He did not explore Alabama-specific data recommended by the 1993 University of Alabama report evaluating PSI's approach (see Dr. John Formby, et al., *Revising the Alabama Child Support Schedule*, Report to the Alabama Administrative Office of the Courts, Center for Business and Economic Research, University of Alabama, December 1993). Albeit, it appears that many of the data sources recommended in this report are now dated.

An additional concern pertaining to PSI's realignment using Alabama income distribution data is raised by Dr. Formby's report. Professor Formby concluded that the PSI approach to adjust for Alabama's low income resulted in too much of a downward adjustment to the schedule. Dr. Formby's report was also critical of PSI's use of the Rothbarth estimator because it is considered the lower-bound of the credible estimates of child-rearing expenditures. They recommended consideration of a schedule that averages the lower- and upper-bounds of estimate of child-rearing expenditures (i.e., an average of the Rothbarth and Engel estimates). As an aside, this is what the Georgia Guidelines Commission has recommended as the basis of its new Income Shares guidelines.

**OTHER ISSUES**

- *Rogers' Recommendation to Use Single-Parent Child Costs* (Page 4 of Rogers report). No state bases its guidelines on single-parent child costs. In large part, this is because many single-parent families live in poverty and most states believe their guidelines should provide more than a poverty level of income for children. The U.S. Census American Community Survey (2004) finds that 46 percent of female-headed families with children in Alabama have poverty income. (This is based on 156,374 female-headed families in Alabama. There are another 27,719 male-headed single parent families and 19 percent of them have poverty income.) Another issue of concern is that information about single-parent families does not inform guidelines amounts for high incomes. The U.S. Census Community Survey (2004) finds that the median annual income among Alabama female-headed families with minor children is $16,451. Even the USDA, whose estimates of child-rearing expenditures in single-parent families form the basis of Rogers' Cost Share Model, limit the estimates to low and medium single-parent families because there are few single-parent families with high incomes. In fact, the USDA (page 8 of the 2005 USDA report) found that 83 percent of single-parent families compared to 33 percent of husband-wife families were in the lower income group.

- *Standard of Living Analysis* (Pages 5 & 52 of Rogers report). First, it is not clear what the purpose of this analysis is. Is it to argue for an equalization of income guidelines? Secondly, the results from a standard of living analysis are highly sensitive to the underlying assumptions. It is not clear what assumptions Rogers uses. For example, it appears that Rogers uses the 1040 IRS year-end tax formulas rather than the IRS Circular E employer withholding formula. The withholding formula more accurately reflects the monthly income available to parents, particularly those who live paycheck to paycheck. The use of the 1040 IRS year-end tax formulas would bias the standard of living analysis such that it appears that the custodial-parent family has a higher standard of living than actually realized if his/her employer abides by IRS rules. This is because the IRS does not advance the full Earned Income Tax Credit (EITC), the child tax credit or the child care tax credit and applies the same tax formula to single individual as it does to head-of-households.

- *Child-Related Tax Credit* (Pages 5 & 97-105 of Rogers report). On page 5, Rogers says that typically the custodial parent receives $200 to $400 per month in additional net income due to child-related tax credit benefits. This is impossible. The IRS employer withholding formula advances a maximum EITC of $137 per month, provides the same tax formulas for single filers and head-of-households, and does not advance the child tax credit or the child care tax credit. Other concerns are (i) whether the EITC should be counted as income available for child support when other means-tested incomes (e.g., AFDC, SSI) are specifically excluded in the Alabama guidelines; (ii) many custodial parents incomes do not have enough tax liability for the full tax credit to be applied.

- *Rogers' Critique of the Rothbarth Estimator* (Pages 5 & 78-80 of Rogers' report). As underscored on page 79, the Rothbarth is likely to underestimate expenditures on children. The PSI Schedule is based on the Rothbarth estimator. Angus Deaton and John Muellbaur provides an economic/mathematical proof that the Rothbarth estimator underestimates expenditures that still holds in mainstream economics (*The Journal of Political Economy,* vol. 94, no 4, 1986, "On Measuring Child Costs: With Application to Poor Counties"). The underlying assumption has to do with compensated income differentials, not that parents are selfish as purported by Rogers. The purpose of compensated income differentials is to separate "income" and "substitution" effects that occur when the price of one consumption good changes (e.g., the costs of children). For example, if the price of good A decreases, the consumer has more income to spend on good A or good B or a combination of both goods. This change is the income effect. The consumer may also substitute good A for good B due to the lower price. This change is the substitution effect. The methodology that mainstream economists use to separate the income and substitution effects requires an examination of pre-price change (or pre-child levels) of consumption of the other good (adult goods). This examination does not assume the consumer (parent) is acting selfishly; rather examination of pre-price change (or pre-child levels) is merely part of a standard economic methodology.

  As an aside, the USDA report (page 12 of USDA report that has been disseminated to Committee members), which Rogers uses as the basis of his Cost Shares schedule, also is critical of the Rothbarth estimates for producing "unrealistically low estimates."

- *Rogers' Assumption about Timesharing Arrangements.* Rogers assumes that the child's time is split 75%/25% between the parents. This means that the child is spending at least six overnights per month, on average, and an additional two weeks, perhaps over school breaks with the nonresidential parent. The amount of time children actually spend with each parent varies widely. For example, results from the 1999 National Survey of Families and Households found wide disparities (Sorensen and Oliver, 2002, Urban Institute report available at http://www.urban.org/publications/410477.html). Their findings are summarized in the table below.

| Visitation Characteristics of Nonresident Fathers From Sorensen and Oliver (2002) | | |
|---|---|---|
| | Poor | Not poor |
| At Least Once a Week | 36% | 38% |
| 1-3 Times a Month | 11% | 20% |
| At most once a Month | 24% | 18% |
| No visits | 27% | 23% |

Once again, we appreciate the opportunity to respond. We understand that child support guidelines are an emotionally charged issue and can challenge decision making when faced with how to best serve Alabama children, families and taxpayers. Please do not hesitate to contact me if you have questions or need clarification. My email is jvenohr@policy-studies.com. My telephone number is 303.863.0900.

Sincerely,

*Jane C. Venohr*

Jane C. Venohr, Ph.D.
Economist