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April 26, 2006

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

RE: FOLLOW-UP TO MARCH 31, 2006 PRESENTATION

Dear Committee Members:

This letter provides follow-up information to my presentation at the Committee's March 31, 2006 meeting.

NEW ESTIMATES OF CHILD-REARING EXPENDITURES

At the meeting, I said that there are new estimates of child-rearing expenditures since PSI developed the proposed child support schedule for Alabama in 2004. The new estimates are based on more recent data. In general, the new estimates are more than those that were used to develop the PSI 2004 proposed schedule, particularly at higher incomes. The only exceptions are the one-child amounts. The new estimates were released in March 2006 in research conducted for the State of Oregon. The report is available at: http://dcs.state.or.us/oregon_admin_rules/psi_guidelines_review_2007.pdf

In comparing Oregon schedules based on the new and old estimates, on average, the amounts for two children are 3.5% more and the amounts for three and more children are 6.9% more. The percentage increases are as high as 6.7% for two children and 12.9% for three or more children. These differences are attributable to differences in the estimates only since all other factors were the same (e.g., 2006 price levels, 2006 tax rates).

DIFFERENCES IN SCHEDULES BASED ON ROTHBARTH AND ENGEL ESTIMATES

As discussed in the PSI report and during the March 31, 2006 meeting, the proposed PSI schedule is based on the "Rothbarth methodology," which mainstream economists believe understates actual child-rearing expenditures. In contrast, mainstream economists believe that the Engel methodology overstates actual child-rearing expenditures. Alabama's current schedule is based on very old Engel estimates. New Engel estimates are considerably higher than those used to develop the current Alabama schedule. Some economists believe that the new estimates are so high that they are implausible. All states that have updated their schedules using new estimates of child-rearing expenditures in the last 10 years rely on the Rothbarth estimates. No state relies on the new Engel estimates.

Last Fall, we developed proposed schedules for Georgia based on the Rothbarth and Engel estimators. The average percentage differences between the amounts in a new Engel- and Rothbarth-based schedule are: 22% for one child; 30% for two children; and 35% for three or more children. The percentage gap varies with income. It is larger at higher incomes and smaller at lower incomes. Like the Oregon schedules, these percentages are attributable to differences in the estimates only since all other factors were the same (e.g., 2005 price levels, 2005 tax rates).

SHARED-PARENTING TIME

I mentioned that there was a new study by University of Wisconsin on shared child placement. It is called, "Divorced Wisconsin Families with Shared Child Placements." It is available at: <http://www.irp.wisc.edu/research/childsup/cspolicy/pdfs/ps5report.pdf>. Unfortunately, it does not have data that answers the Committee's question, but it does have an excellent literature review on the fluidity in children's living arrangements over time in shared placement cases.

ADDITIONAL INFORMATION

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

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