

Quick Reference - Child Support Guidelines Basics

SECTION 1

A. FEDERAL REQUIREMENTS

Federal law requires every state to have and use numeric child support guidelines as the presumptive correct amount of child support. Federal law also requires each state to establish deviation criteria that allows for the rebuttal of the state's presumptive guidelines and the state's criteria must take into consideration the best interests of the child.

Arizona complies with the federal mandate to review our child support guidelines at least once every four years. (45 CFR §302.56). As part of that review, Arizona must consider economic data on the costs of raising children and examine case file data to analyze the application and deviation from the guideline.

B. ARIZONA STATE REQUIREMENTS

Arizona Revised Statutes §25-320 requires the Supreme Court to establish guidelines for determining the amount of child support. The amount resulting from the application of the guidelines is the amount of child support ordered unless a written finding is made, based on criteria approved by the Supreme Court, that application of the guidelines would be inappropriate or unjust in a particular case. At least every four years the Supreme Court shall review the guidelines to ensure that their application results in the determination of appropriate child support amounts.

C. GUIDELINES MODELS

The federal government does not dictate which guidelines model the states must use, nor do they fund the quadrennial reviews. So while the states have some discretion as to the guidelines models they use, they are required to:

- Base guidelines on specific descriptive and numeric criteria;
- Take all earnings and income of the noncustodial parent into consideration; and
- Provide for the child(ren)'s health care needs.

Arizona has based their guidelines on the **Income Shares Model** since the late 1980's. The Income Shares Model is based on the *premise that the child should be entitled to the same level of expenditures that the child would have received had the parents lived together and combined financial resources*. The Income Shares Model embodies principles developed and identified by the 1987-1987 Child Support Guidelines Project Advisory Panel and also incorporates economic data on actual child-rearing expenditures.

Other state guidelines models include the Melson Formula and the Percentage-of-Obligor Model (POOI). Additional guidelines models have been introduced; however, they have not been adopted by any states. Currently, 38 states rely on the Income Shares Model.

D. ESTIMATES OF CHILD-REARING EXPENDITURES

States that base their guidelines on economic data rely on studies on the costs of raising children. These studies rely on various methodologies to estimate the costs of raising children and data from different years.

Most of the studies measure the average child-rearing expenditures, mostly from looking at expenditure data from families that participate in the Consumer Expenditures Survey (CES). Economists do not agree on which estimate best reflects actual child-rearing expenditures. There is no perfect methodology for separating the children's share of family expenditures from the parents' share. For example, a child's share of the electricity is not obviously separable from the parents' share by examining the electricity bill. Arizona updated its schedule using the second set of Betson-Rothbarth estimates in 2004 which form the basis of the existing Arizona schedule.

E. CONSUMER EXPENDITURES SURVEY

Economists estimate child-rearing expenditures from the Consumer Expenditures Survey (CES) which is administered by the Bureau of Labor Statistics (BLS). Economists use the CES data because it is the most comprehensive and detailed survey conducted on household expenditures and consists of a large sample. The CES surveys about 6,000 households per quarter on expenditures, income, and household characteristic, such as family size. Households remain in the survey for five consecutive quarters, with households rotating in and out each quarter. Most economists use at least three quarters or a year of expenditures data for a surveyed family. This means that family expenditures are averaged for about a year rather than over a quarter, which may not be as reflective of typical family expenditures.

F. MARGINAL (EXPENDITURE) COST APPROACH

The most common methodology for separating child and adult expenditures is a marginal cost approach, which compares expenditures between two equally well-off families: (a) married couples with children, and (b) married couples of child-rearing age without children. The difference in expenditures between these two families is deemed to be child-rearing expenditures. The Rothbarth methodology is a form of the marginal cost approach and relies on expenditures for adult goods (specifically, adult clothes) to determine equally well-off families. Most economists believe that the Rothbarth estimator understates actual child-rearing expenditures.

G. ANATOMY OF ARIZONA'S CURRENT CHILD SUPPORT REVIEW

The core economic data used to develop an updated schedule consist of the following:

- The Betson-Rothbarth estimates of child-rearing expenditures derived from expenditures data collected from the 1998-2004 CES. These estimates are updates to the estimates that form the basis of the current Arizona schedule.
- The 2008 Consumer Price index published by the BLS.
- Spending and income patterns of families participating in the 1998-2004 DES.
- Federal and state tax rates prevailing in 2008.

The estimates of child-rearing expenditures are just a starting point to developing the schedule. There are several technical steps used to derive the updated schedule, from the numbers Betson provided.

1. Adjust estimates of child-rearing expenditures to current price levels.
2. Subtract child care expenses; health insurance premiums; and extraordinary, uninsured health care expenses from estimates of child-rearing expenditures.
3. Extend the estimates of child-rearing expenditures to cover four and more children.
4. Relate the estimates of child-rearing expenditures to net incomes.
5. Calculate marginal percentages.
6. Back out the estimates of child-rearing expenditures to gross incomes.
7. Update the income thresholds for federal childcare tax credit.

SECTION 3 – REPORT OF THE INTERIM COMMITTEE ON CHILD SUPPORT GUIDELINES

A. HISTORY

After the last Arizona guidelines review in 2003, an interim committee was established to review the methods currently employed by the guideline consultant to generate its recommendations, and to consider whether consultants to future guideline workgroups should be asked to use different methods to generate their recommendations. The committee studied the matter over a two-year period, and finalized recommendations for changes to implement for the next quadrennial review of Arizona’s support guidelines.

The committee believed that child support serves three major purposes:

1. **Child Well-Being:** To ensure the well-being of children, to the extent their well-being depends upon their financial support, and to the extent their parents are capable of providing for their financial needs.
2. **Dual-Obligation:** To recognize that both parents have a support obligation, and to allocate that obligation fairly between them.
3. **Gross Disparity:** To protect the child from suffering an unduly disproportionate decline in living standard, as compared to the living standard of either parent.

Additionally, the committee cited the **Earners’ Priority Principle** as a concept that requires a tradeoff between satisfying the three major purposes of child support, on

one hand, and respecting the obligor’s claim to priority in deciding how to spend his or her own earnings, on the other.

B. INTERIM COMMITTEE’S RECOMMENDATIONS

The Interim Committee recommended *“a fundamental shift in the method used to develop child support guidelines, from the current backward-looking method that ignores two of the three purposes of child support, to a forward-looking method that allows the relevant policymakers to assess the support amounts that constitute the fairest tradeoff.”*

The methodology recommended by the Committee was to ask the consultant to provide the next workgroup with an answer for Arizona-specific questions regarding reasonable estimates and the basis for the consultant’s answer. These answers would provide benchmarks for the next workgroup to construct support guidelines.

SECTION 4 – TERMINOLOGY

A. PHASE I

- **Income Shares model:** Arizona’s current child support model. This model is based on the premise that the child should be entitled to the same level of expenditures that the child would have received had the parents lived together and combined financial resources. Under this model, a percentage of the two parents’ combined income is used to calculate a “primary support obligation.” The percentage is based on an estimate of the percentage of family income that is spent on children in the two-parent household and varies according to family income level. The resulting total child support obligation is pro-rated between the parents based on their incomes.
- **POOI:** Percent of income guideline model wherein only the non-custodial parent’s income is considered.
- **Income equivalence measures:** Measures were developed by economists over 100 years ago to answer a specific question: how much income is needed for different family types – varying by number of adults and number of children – to have the same standard of living? In other words, how much income a two-parent family with one child needs to have the same standard of living as a two-adult household without children.
- **“Engle method”** – The adaption of income equivalence measures to child support guidelines relies on one of two methods, the “Engle method” and the “Rothbarth methodology.” The Engle method makes family spending on food a measure of the family’s standard of living. Then it compared how much additional income would be necessary, after the addition of a child, to restore the family to its earlier share of spending on food, thereby restoring the family’s standard of living to its pre-child level.
- **“Rothbarth method”:** This method compares changes in levels of household spending on purely adult goods to determine child costs.

- **“Betson-Rothbarth estimator”:** Variation of the Rothbarth method uses a particular bundle of adult goods to measure household standard of living.
- **Marginal Cost Approach:** The most common methodology for separating child and adult expenditures is a marginal cost approach, which compares expenditures between two equally well-off families: (a) married couples with children, and (b) married couples of child-rearing age without children. The difference in expenditures between these two families is deemed to be child-rearing expenditures.

B. PHASE II

Dual obligation component: The custodial parent has a strong claim that the non-custodial parent will pay a share of the custodial parent’s marginal costs of the children’s presence in the custodial parent’s home.

Earners’ priority component: Earners have a strong claim to keep their own income, especially in the case of low-income earners.

Child’s well-being component: Children have a strong claim to as good a level of well-being as their parents can reasonably provide, at least up to the point where their standard of living is so high that they would derive little benefit from additional household income. This claim is especially strong for children with a low standard of living.

Gross disparity of income component: Children of a high income noncustodial parent have a claim to a standard of living that is not grossly disproportional to that of their noncustodial parent.