Analysis of Oregon-Specific Economic Conditions and Implications for the State's Child Support Guidelines

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Introduction

PURPOSE OF THE REPORT

The Oregon Department of Justice is undertaking a quadrennial review of its child support guidelines, which is a process mandated by federal law. The state bases its guidelines on an income-shares approach, which is based on the concept that the child should receive the same proportion of parental income that he or she would have received if the parents had lived together. The child's portion of expenditures include spending for items specifically intended for the child, as well as, the child's share of basic family expenditures on housing, food, medical expenditures, and transportation.

The Department contracted with Policy Studies, Incorporated (PSI) to conduct a study of child-rearing costs based on an analysis of *national* data—drawn principally from the Consumer Expenditure Survey. The purpose of this project is to review the PSI study entitled *Economic Basis for Updated Child Support Schedule* and consider whether Oregon's economic conditions differ sufficiently from the national conditions to warrant an adjustment to the PSI-recommended guidelines. In reviewing economic conditions, the Department is particularly interested in differences in incomes and the cost of living that may exist between Oregon and the rest of the country. By reviewing these statistics, the Department seeks to learn whether the cost of raising a child in Oregon differs in any significant way from the national average. If it does, the consultant will recommend specific changes to the state's child support scale to take those differences into account.

ORGANIZATION OF THE REPORT

This report consists of this introduction and three additional chapters and an appendix:

Chapter 2: Methods for Adjustments outlines two means by which the Department could make adjustments to its guidelines to incorporate state-specific economic conditions.

Chapter 3: Oregon's Economic Conditions reviews a variety of income, cost of living, and expenditure data for Oregon and the United States.

Chapter 4: Recommendations outlines our recommendations to the Department with respect to state-specific adjustments.

Appendix A: Report Authors summarizes the qualifications of the authors.

Chapter 2

Methods for Adjustments

INTRODUCTION

States interested in adjusting the standard guideline estimates, which are based on national data, have two options. The first is simple and very inexpensive. The second requires a highly detailed and costly survey of thousands of Oregon households. In this chapter, we outline the methods and discuss their relative advantages and disadvantages. In the subsequent Chapter 3, we review Oregon and national economic data to determine whether employing either would be necessary or advisable.

METHOD UNDERLYING PSI'S NATIONAL GUIDELINES ESTIMATES

There are a number of methods that have been employed to estimate amounts that intact families spend to raise a child. In past work, PSI has typically relied on a model implemented by Dr. David Betson of the University of Notre Dame, which in turn, relies on a method first developed by Dr. Erwin Rothbarth[1]. PSI's 2002 work for Oregon also incorporates the Rothbarth method.

Underlying Dr. Betson's work is an analysis of spending behaviors by families with and without children who live across the United States. Specifically, he draws on national Consumer Expenditure Survey data from 1996-1998, which has been updated using statistics on the changes in the Consumer Price Index (CPI). To estimate spending on children, they isolate spending on the limited number of adult-only items that are captured in the Consumer Expenditure Survey, namely alcohol, tobacco, and adult clothing. Rothbarth's method considered these products luxuries and viewed a family's spending on the products as a measure of its well being.

To transform spending on the adult goods into estimates of child-rearing expenditures, the analysis proceeds as follows. They may find that, on average married couples *without children* have about $40,000 in expenditures and devote 5 percent of them, or $2,000, on the adult goods. This dollar threshold becomes the measure of the household's well being. They then analyze married couples with one child and estimate the income level at which such couples are again able to spend $2,000 of their expenditures on adult goods. For illustrative purposes, let us assume that the one-child families that they observe spending $2,000 on adult goods have average total expenditures of $55,000. The difference between the two estimates ($55,000 and $40,000) is the amount of spending associated with the first child, according to Rothbarth's method. Put differently, to achieve

[1] See, for example, Venohr, Jane, Robert Williams, and David Price. June 1999. *Review of the Arizona Child Support Schedule.* Submitted to the Supreme Court of the State of Arizona by Policy Studies, Inc. Denver, CO.

the same standard of living—defined as the ability to spend $2,000 on adult clothing, alcohol, and tobacco—the one child family needs $15,000 more than the childless family. Again the numbers used in the analysis are only illustrative. Betson repeats the Rothbarth exercise for larger families, comparing one-child families to two-child families and two-child families to three-child families.

Through these analyses, Betson estimates that the share of consumption expenditures allocated to children tends to rise with the number of children but fall with the family's income. For example, for a family with one child, spending on the child is about 26 percent for low-income family, declining to 16 percent for high-income families. For families with three children, spending on the children totals 45 percent for low-income families, falling to 28 percent for high-income families.

Betson's analysis could yield different results if it was based exclusively on the spending behavior of Oregonians. For example, one might speculate that housing costs are higher in Oregon, which in turn may squeeze out spending on adult items. If Oregonians spend significantly more on housing than other US families, that might suggest that Oregonians are spending a little more to raise their children because children benefit, and in some part, determine the housing expense. But *if* Oregonian's spend more on housing, they must be cutting back on other items. Where they cut back will determine whether Oregonians spend a higher or lower shares of their after tax incomes on children. If the higher housing expense translates into less spending on alcohol, then Oregonians are spending a little more on children. If, however, the higher housing expense translates into less spending on food then spending on children could stay the same.

A number of states have raised concerns about the appropriateness of using national data to generate state-specific child support guidelines, and in fact, PSI has adjusted guidelines in eight states to take into account state-specific economic factors[2]. In the following two sections, we detail two methods that the Department could employ if they deemed that guidelines based on national data are inappropriate given Oregon's unique economic circumstances. The first method, a simple adjustment based on family income distributions, is cursory and inexpensive. The second method relies on an in-depth survey of Oregon households and, in essence, recreates the Betson analysis specifically for Oregon.

SIMPLE ADJUSTMENTS BASED ON DIFFERENCES IN INCOMES

As just mentioned, several states have adjusted their child support guidelines to account for differences between incomes in their states and the national average. The method for the adjustment works as follows. First, the state reviews the national estimates of child-rearing expenditures along

[2] See, Venohr to Angel letter dated January 10, 2002. PSI has adjusted two states up: Connecticut and New Jersey and six states down: Alabama, New Mexico, Oklahoma, South Carolina, and West Virginia.

the income distribution. For example, we will assume the estimates show show that, at the 25th percentile of household incomes, the children's share of expenditures are 25 percent of expenditures if there is one child; 37 percent of expenditures if there are two children; and 45 percent of expenditures if there are three children. Moving up to the 50th percentile of incomes, the families devote a lower share of expenditures to the children: 22 percent for one; 33 percent if there are two; and 39 percent if there are three. The percentages reported are illustrative only but are in line with the actual findings that higher income families devote a lower share of their expenditures to children.

The simple, income-based adjustment proceeds as follows. The state assumes that families at the 25th percentile of incomes *in its state* devote the same share of their expenditures to children as families at the 25th percentile *nationally*. So, let us assume that in a low-income state the 25th percentile of family incomes stands at $20,000 per year compared with $25,000 nationally. In this case, the state would assume the family devotes 25 percent of its expenditures to child rearing if there is one child, 37 percent if there are two, and 45 percent if there are three. Table 1 illustrates these assumptions.

Table 1: Illustration of Simple Guideline Adjustment for a Low-Income State

			% of net income spend on children		
HH Income Percentiles	Low-Income State	US	1 child	2 children	3 children
25th	$20,000	$25,000	25	37	45
50th	$37,000	$42,000	22	33	39
75th	$50,000	$65,000	20	28	34

Source: ECONorthwest illustrative examples

This method is most appropriate if, in addition to having sub-par incomes, the cost of living in the low-income state is lower as well. In the example just provided, the family at the 25th percentile in the low-income state has 80 percent of the net income of a family at the 25th percentile nationally (that is, $20,000 is 80 percent of $25,000). If the cost of goods and services in the low-income state were also 80 percent of the national average, the family would be just about as well off as their counterparts across the nation at the 25th percentile. Moreover, if that were the case, the assumption that the two families (low-income state family and national family) are spending about the same shares of their incomes on children is reasonable.

However, income and cost-of-living do not always line up perfectly. Consider, for example, a state with sub-par incomes but a cost of living that is roughly at the national average, due to extraordinary housing costs. The simple income adjustment would lower child support award levels, focusing only on the fact that incomes are lower. However, families in a low-income state that face an average cost of living are likely spending *higher* shares of their incomes on necessities—and therefore on children--than their national counterparts.

In short, should Oregon decide to employ a simple adjustment, the Department should consider not only the differences in income but also differences in the cost of living between Oregon and the nation.

CREATING AN OREGON-SPECIFIC BETSON ESTIMATE

To derive the national estimates, Dr. Betson draws on the sizeable Consumer Expenditure Survey, which is conducted quarterly by the U.S. Department of Labor's Bureau of Labor Statistics (BLS). Each quarter, the BLS generates roughly 2,300 new observations for the families relevant to Dr. Betson's work (two parents, with and without children), and he assembles several quarters of national survey data to develop his estimates. While Oregon households are part of the BLS survey, there are too few of them upon which to base an estimate. For example, in 1999 about 113 Oregon families participated in the BLS survey. Even if an analyst aggregated the Oregon data over a large number of year, sample sizes would not be sufficient to support Betson's analysis.

A costly alternative is to assemble detailed family-level expenditure data for two-parent families with and without children in Oregon. The surveys are complex and require a family to complete an expenditure diary over a period of time. To develop a sufficient number of observations in Oregon, a project to generate an Oregon-specific estimate would cost hundreds of thousands of dollars and require more than a year to complete. To date, no state in the country has undertaken such an analysis. Consequently, when departing from the national data, states have relied on the simple adjustment approach outlined above.

OVERVIEW

In this chapter, we review income, cost of living, and expenditure data for Oregon and the United States to determine whether Oregon's economic conditions are so unique as to justify an adjustment to the child support guidelines.

INCOME

MEDIAN HOUSEHOLD INCOME

Table 2 reports the most useful of these indicators, median households incomes in Oregon and United States. The median statistic indicates for the year given, one-half of Oregon or US households earned more, and one-half earned less than the reported amount. Household incomes in Oregon have been similar to the national median throughout the past 31 years. The

Table 2: Median Household Incomes 1969-2000, Oregon and US, 2000 Dollars

Year	United States	Oregon	OR as a % of U.S.
1969	$37,088	$36,258	97.8%
1979	$39,189	$39,048	99.6%
1990	$39,451	$38,579	97.8%
1995	$38,503	$41,100	106.7%
1997	$39,702	$39,963	100.7%
1998	$41,080	$41,272	100.5%
1999	$42,188	$42,082	99.7%
2000	$42,168	$42,260	100.2%

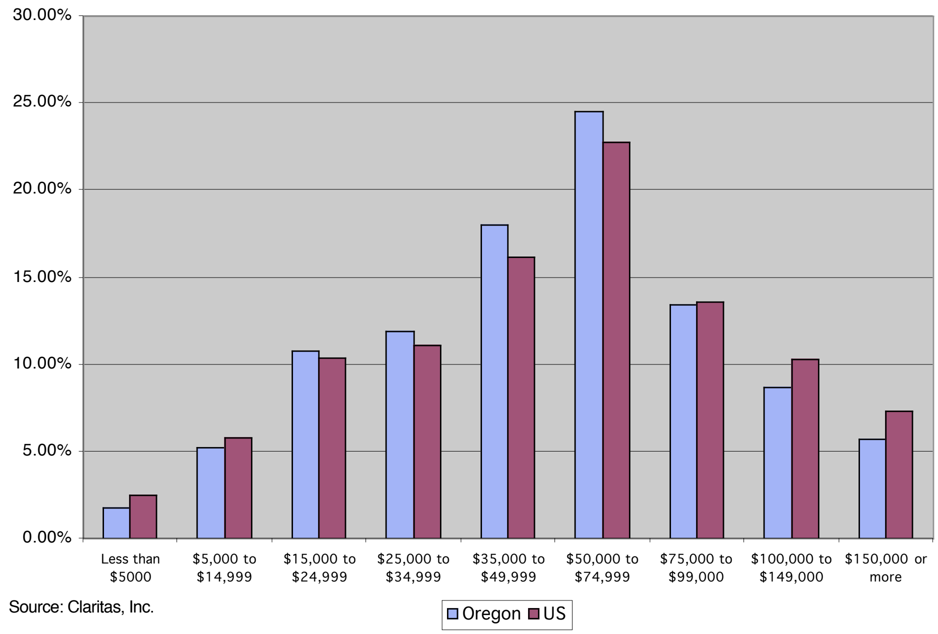
Sources:
For 1969-1979, U.S. Census Bureau, Income Statistics Branch, HHES Division (www.census.gov/hhes/income/histinc/state/state1.html).
For 1990-1999, U.S. Census Bureau, *Current Population Reports,* P60-209 as cited in U.S. Census Bureau, *Statistical Abstract of the United States, 2001,* Table no. 667.
For 2000, U.S. Census Bureau, *Money Income in the United States: 2000.* Current Population Reports, P60-213. Table E.
Nominal dollars converted to 2000 dollars with the CPI for all urban consumers (www.bls.gov).

median income for households was nearly identical to the national median in 1979 (measured in the 1980 Census) and then dipped slightly below the national median at the next measurement 1990, likely due to the prolonged effect of the severe recessions of the early 1980s which affected Oregon disproportionately. However since 1990, Census estimates indicate Oregon's median household income has roughly equaled the national median throughout the past decade. In the most recent estimate, issued last

September, the Census Bureau estimates that the Oregon and US medians are virtually identical (Oregon, $42,260; US, $42,168).

Figure 1 reports the distribution of family incomes in Oregon and the US as estimated by Claritas, Inc. for 2001[3]. While median incomes are similar for Oregon and the nation, some differences exist along the income distribution. For example, Oregon shows a smaller percentage of households in the low-income ranges (e.g., less than $15,000). A higher percentage of Oregon families are clustered in the middle income ranges ($35,000 to

Figure 1: Income Distribution for Households, Oregon and US, 2001



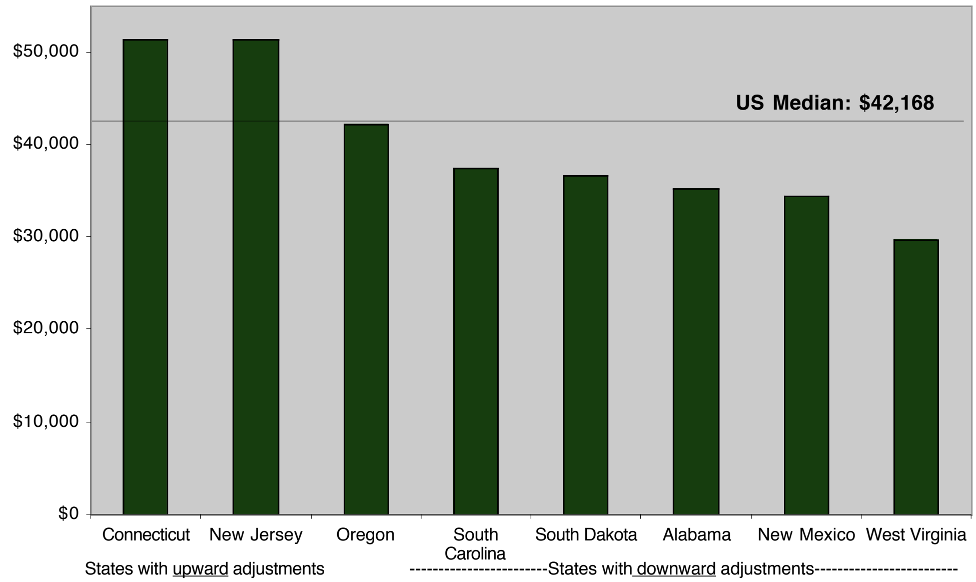
Source: Claritas, Inc.

$74,999). Finally, the US shows a higher percentage of families with high incomes ($100,000 or more).

Reviewing median household incomes in six other states for which PSI has made state-specific adjustments, we find larger differences between the state and national medians. Figure 2 shows that in the two states (Connecticut and New Jersey) for which PSI has made state-specific upward adjustments, household median incomes are 18 percent higher than the national median. For the four states for which PSI has made downward adjustments, median incomes are 13 percent (South Carolina) to 42 percent (West Virginia) below the national median.

[3] The US Census Bureau will release year 2000 family income distribution data for Oregon in Summer 2002.

Figure 2: Median Household Income, US and Selected States, Year 2000



Source: US Census Bureau, *Money Income in the United States 2000*

OTHER INCOME MEASURES

In addition to reviewing the median household income, we assemble other current and historic income measures for a variety to inform our decision on a possible guideline adjustment.

Data on per capita incomes—total personal incomes divided by the number of people in the state or nation—are available back to 1959 (see Table 3). The data indicate that Oregon's per capita income has been reasonably close to the national average over the past four decades. Oregon fell below the national per capita during the 1980s and 1990s, again due to likely the prolonged effect of the recessions of the early 1980s that disproportionately affected the Oregon.

We should note that the per capita income in Oregon is somewhat below the national average while median incomes for households in Oregon and the nation are nearly identical in 2000. We would expect that to be the case if Oregon households, on average, had more people than average US households, but they do not. The typical Oregon household has 2.51 members while the average US household has 2.59. The driver of the difference is the nature of statistics. The household figure is based on a median and the per capita figure is based on an average. Very high-income people (for example, Bill Gates or Paul Allen) can skew an average (per capita) figure but do not have a disproportionate effect on the calculation of a median. Therefore, the fact that Oregon fares well on the median calculation but appears slightly below average on the per capita, suggests that Oregon has fewer very high income people than other states. That conclusion is consistent with information provided Figure 1, which showed the US dominating in the percent of households with more than $100,000 in annual income.

Table 3: Per Capita Income, Oregon and US, 2000 Dollars

Year	United States	Oregon	OR as a % of U.S.
1959	$10,081	$10,621	105.4%
1969	13,632	13,758	100.9%
1980	21,280	21,308	100.1%
1990	25,802	24,049	93.2%
2000	29,676	28,350	95.5%

Sources:
For 1959-1969, U.S. Census Bureau, Income Statistics Branch, HHES Division (www.census.gov/hhes/income/histinc/state/state3.html).
For 1980-2000, U.S. Bureau of Economic Analysis, *Survey of Current Business,* May 2001, and unpublished data, as cited in U.S. Census Bureau, *Statistical Abstract of the United States, 2001,* Table no. 652.
Nominal dollars converted to 2000 dollars with the CPI for all urban consumers (www.bls.gov).

Finally, we review disposable per capita income. Disposable income is a measure of income after taxes. This statistic is particularly relevant because child support guidelines are based on a calculation of after-tax income. The relative amounts reported in Table 4 are similar to those reported in Table 3, but show that Oregon lags behind the US average by a little more. In 2000, Oregon's per capita disposable income stood at 94.9% of the national average. The fact that Oregon fares a little worse on this statistic is due in large part to the state's reliance on a state income tax as a primary source of revenue.

Table 4: Disposable Income, Oregon and US, 2000 Dollars

Year	United States	Oregon	OR as a % of U.S.
1980	$18,491	$18,365	99.3%
1990	22,590	21,084	93.3%
2000	25,090	23,822	94.9%

Sources:
U.S. Bureau of Economic Analysis, *Survey of Current Business,* May 2001, and unpublished data, as cited in U.S. Census Bureau, *Statistical Abstract of the United States, 2001,* Table no. 653.
Nominal dollars converted to 2000 dollars with the CPI for all urban consumers (www.bls.gov).

COST OF LIVING

The cost of living in a state also plays an important role in the relative cost of raising children across the United States and therefore should be considered in any state-specific analysis. For example, in areas like San Francisco or Boston, where housing prices are well above the national average, it is likely families are spending somewhat more on their children—as the housing expenditure squeezes out spending on adult luxuries. Conversely, areas with very affordable housing, may permit families to devote a little less of their expenditures to children.

An organization known as ACCRA[4] collects cost of living data for more than 300 municipalities across the United States and represents the best source of information for the relative cost of living across the US. Each quarter they compare the reported costs of specified goods and services in six major expenditure categories: grocery items, housing, utilities, transportation, health care, and miscellaneous goods and services. The average for all participating jurisdictions, both metropolitan and non-metropolitan areas, is set to 100 for each category. So, if for a certain category, an area's goods and services cost 7 percent more than the national average, the area would receive a score of 107.0 for that category. The index attempts to measure the cost of living facing households with *professional and managerial* workers rather than for all workers. Despite this focus, the data are the best available to make interregional comparisons.

Table 5: Cost of Living Indices, Various Oregon Jurisdictions

Jurisdiction	Composite Index (100%)	Grocery Items (16%)	Housing (28%)	Utilities (8%)	Transportati on (10%)	Health Care (5%)	Misc. Goods and Services (33%)	Average Rent	Average Home Price
Portland	104.1	107.6	94.1	92.8	118.6	119.6	106.8	$738	$199,700
Salem	104.2	101.1	102.0	87.0	102.6	124.0	109.1	592	228,776
Corvallis	111.8	102.1	129.7	88.2	109.1	129.1	105.2	681	296,500
Klamath Falls	103.3	111.9	98.2	104.5	101.7	114.3	102.1	603	216,667
Lincoln County	101.5	113.3	102.3	79.0	106.9	122.5	95.7	510	232,967
Coos County	102.4	110.8	102.9	87.0	102.1	123.4	98.4	506	234,140

Source:
ACCRA Cost of Living Index, 2001 (www.accra.org).

Table 5 reports the cost of living indices the six Oregon jurisdictions that participated in the ACCRA survey in 2001. The composite index, which reports a weighted average measured across all categories of costs, indicates that the cost of living in all the Oregon jurisdictions are slightly above the national average. The jurisdiction with the lowest cost of living is Lincoln County (101.5), which implies that overall costs are 1.5 percent above the

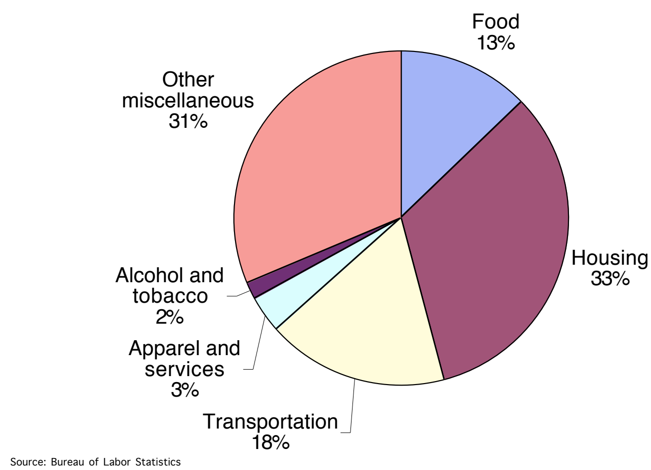
[4] There is no acronym associated with the name.

national average. Corvallis tops the Oregon list with a score of 111.8, which implies goods and services cost 11.8 percent more than the national average.

Reviewing the various categories, Oregonians spend a little more for groceries, transportation, and health care than their national counterparts. With the exception of Klamath Falls, Oregonians spend less on utilities, which is not surprising given the region's reliance on relatively inexpensive hydroelectric power. Interestingly, the report is mixed on housing and indicates that, despite the rapid inflation in home prices throughout 1990s, spending on housing is roughly in line with the national average. The exception is Corvallis where housing expenditures are 30 percent above the national average.

In general, like the income data reported above, Oregon's cost of living appears roughly in line with the national average.

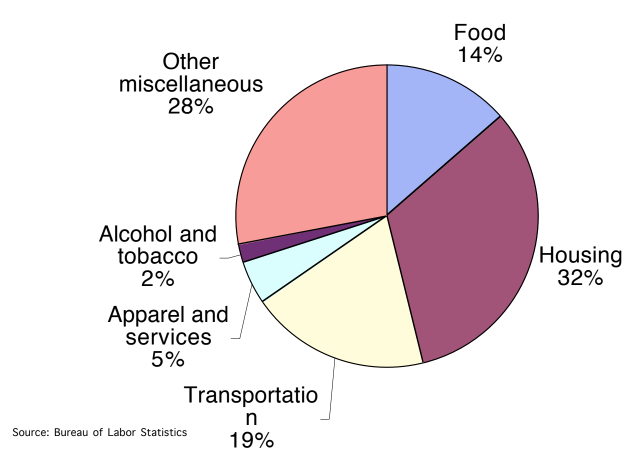
Figure 3: Distribution of Spending, Portland Consumer Units, 1999-2000



EXPENDITURES

In this section, we review the data from the same source that was used to develop the Betson estimates of child-rearing costs. By doing so, we hope to catch any important differences in the way Oregonians and their national counterparts spend their disposable incomes that could suggest different rates of spending on children. While BLS conducts expenditure surveys

Figure 4: Distribution of Spending, US Consumer Units, 1999-2000



throughout the State of Oregon, the number of people surveyed outside the Portland metropolitan area is very small. Consequently, the agency reveals data and findings for only the Portland area and does not share information on spending for the rest of Oregon in an effort to protect the privacy of interviewees.

Figures 3 and 4 compare how Portlanders and their US counterparts spent their after-tax incomes. During 1999-2000, Portlanders spent 33 percent of their disposable incomes on housing and utilities or one-percentage point more than their counterparts across the nation. Portlanders devote a slightly lower share of their expenditures on food, transportation and apparel than other US consumers. The shares of spending devoted to two of the categories of adult goods (i.e, alcohol and tobacco) were identical (2 percent). While some differences are apparent, they are not large enough to suggest or inform an Oregon-specific adjustment to the child support guidelines.

Recommendations

A number of states across the country have based child support guidelines on estimates of the cost of raising children that are derived from national data. The Department of Justice recognizes that Oregon families, based on their economic circumstances, may devote a different share of their expenditures to children than their counterparts across the country. At least six other states have concluded that economic conditions in their states were sufficiently different from national conditions as to justify an adjustment to their guidelines. The purpose of this report was to determine whether Oregon should join those states in making such an adjustment. Our findings are as follows:

- **National estimates of the cost of raising children are reasonable proxies for Oregon**. Oregon's median household and per capita incomes are within 5 percentage points of the national average. Moreover, the cost of living in Oregon communities is roughly in line with the average across the country. These two factors suggest Oregonians likely devote similar shares of their expenditures on children as those measured by Betson with the national data. In short, we recommend the Department not make an adjustment to the guidelines to account for state-specific economic factors.

- **Existing simple methods for adjusting guidelines should account for differences in incomes and cost of living**. Should the Department decide to the amend the guidelines to incorporate state-specific conditions in the future, it should adopt a method that goes beyond the simple income-based approach and considers the relative cost of living in Oregon. At this juncture, the costs of developing such a method outweigh the benefits because both incomes and cost of living are in line with national averages.

- **Department should review Oregon and US statistics quadrennially.** Although we have found that incomes of Oregonians have been roughly on par with the national averages over the past three to four decades, an economic downturn that disproportionately affects Oregon could alter that finding in the future. We recommended that as part of the quadrennial review of child support guidelines, the Department assemble updated comparisons of incomes and cost of living in Oregon and the US.

Report Authors

JOHN TAPOGNA

Mr. Tapogna of Oregon-based ECONorthwest, has considerable experience in advising national and state governments on child support policy. During 1991-1995, Mr. Tapogna served as the child support analyst for the US Congressional Budget Office and estimated the impacts of key federal initiatives including the National Directory of New Hires, In-Hospital Paternity Establishment Programs, and State Central Registries. While at ECONorthwest, Tapogna has co-authored a number of child support studies for the federal Office of Child Support Enforcement in areas of incentive payments, financing, and administrative processes used to establish child support orders. While at CBO, Tapogna regularly conducted economic analyses that required comparisons of state and national statistics. Typically, federal initiatives are based on best practices at the state level. This was certainly the case with the national directory of new hires and in-hospital paternity measure. In developing estimates of potential collections that could result from nationwide adoption of state-level practices, Tapogna would routinely consider the unique economic and demographic conditions in which the pilot programs were operating.

DR. BURT BARNOW

Dr. Barnow is Associate Director for Research and Principal Research Scientist at the Institute for Policy Studies at the Johns Hopkins University. Dr. Barnow has over 25 years of experience as an economist conducing research and evaluation projects in the areas of child support and family programs, labor economics, employment programs, and program evaluation. Dr. Barnow joined the Institute for Policy Studies in 1992 after working for 8 years at the Lewin Group and 9 years in the U.S. Department of Labor. Dr. Barnow's research has included over a dozen studies for the U.S. Department of Health and Human Services and several state governments on child support and paternity establishment as well as evaluations of parenting programs and training programs. Dr. Barnow recently directed a project to develop a management information system for responsible fatherhood programs, an assessment of the adequacy of New York's child support guidelines, and a project to assess cost avoidance in child support programs. His child support work includes a congressionally mandated study of expenditures on children and the relationship to child support guidelines, an assessment of periodic review and adjustment of child support orders, development of Nebraska's child support guidelines, and an analysis of paternity establishment based on Current Population Survey data.