

## Executive Summary

This report addresses the question of whether high-income families allocate a smaller proportion of income to current consumption than do low-income families. The question bears on the fairness of Wisconsin's percentage-of-income standard for child support awards, since that standard requires larger payment amounts by high-income absent parents than by their low-income counterparts. Canadian data on families in similar economic circumstances to families in Wisconsin are used. A number of measurement issues are involved in a study of this nature, in particular use of gross versus net income and the choice of expenditure items to be included in defining consumption.

The results of this study can be summarized as follows:

1. The share of total expenditures allocated by Canadian families to current consumption is negatively related to both net and gross income--the larger the income, the smaller is the expenditure share allocated to current consumption.
2. The strength of the relationship between current consumption and income depends on the choice among specific current consumption measures. As more expenditures for durable goods are included in measures of consumption, the smaller is the measured difference between lower- and upper-income households in propensities to consume out of gross income.
3. Only small differences are noted in the relationship of current consumption share to net versus gross income.
4. The issue of whether implementation of a percentage-of-income standard will result in payment by high-income absent parents of an unfair share of child-rearing costs depends on the percentage

levels established. Using Williams' estimates of child-rearing costs as a benchmark, analysis indicates that application of the Wisconsin percentage-of-income standard to establish child support payments results in awards very close to actual child-rearing costs.

Several qualifications should be added:

1. Because Canadian families face a more progressive tax structure than American families, these results may overstate the negative relationship between consumption and income of U.S. families.
2. Methodological differences between this study and Espenshade's study, on which Williams bases his conclusions, will yield differences in results.

Implications of these results are as follows:

1. Further study using U.S. expenditure data is needed to determine whether the negative relationship between income and share of total expenditures allocated to current consumption can be replicated.
2. In Wisconsin the guiding principle in establishing child support awards is that parents should share a percentage of their income with their children whether or not they reside with them. This approach has both conceptual and practical appeal. Conceptually, it underscores the obligation of all parents, regardless of income, to share resources with their children. Practically, it provides flexible guidelines that are less costly to administer through avoidance of methodological debates surrounding the estimation and updating of child-rearing costs. However, a benchmark is needed to assess equity issues surrounding the percentages of

income absent parents share with their children. Estimates of child-rearing costs provide one comparative standard for evaluating questions of "reasonableness" and "fairness." In this report, child-rearing cost estimates are used to evaluate vertical equity issues surrounding implementation of Wisconsin's child support award guidelines; e.g., the issue of how the percentage-of-income standard affects higher- versus lower-income absent parents in regard to support awards compared to awards based directly on child-rearing cost estimates. The choice of child-rearing costs as such a benchmark for impact evaluation requires closer scrutiny of related measurement issues in future work.

3. From a policy perspective, consideration should be given to the extent to which expenditures on durables should be included in child-rearing costs. This will have implications for whether actual vertical inequities arise from application of Wisconsin's percentage-of-income standard, since high-income families allocate a larger share of total expenditures to durables.
4. The current levels of gross income percentages established by Wisconsin result in support awards that are comparable to the levels of net income percentage guidelines suggested by Espenshade/Williams. Thus, high-income absent parents under the current guidelines are paying support consistent with actual child-rearing costs. However, the finding that a negative relationship exists between consumption and income for Canadian families could imply that low-income absent parents are not paying their full share of child-rearing costs.