Performance. Service. Integrity.

07 - 0305

Assessing the Impact of the
New (2007) Minnesota Child Support Guideline
Using Case File Data

February 14, 2006

Submitted to:
State of Minnesota
Child Support Enforcement Division
Department of Human Services
444 Lafayette Road
St. Paul, MN 55155-3846

Submitted by:
Jane C. Venohr, Ph.D.
Policy Studies Inc.
1899 Wynkoop Street, Suite 300
Denver, Colorado 80202
303.863.0900

Table of Contents

Assessing the Impact of
the New Minnesota Child Support Guideline
Using Case File Data

PURPOSE AND BACKGROUND

The purposes of this report are two-fold.

1. Fulfill the federal requirement to analyze case file data as part of a review of the state's child support guideline; and
2. Simulate the impact of the new Minnesota child support guideline on existing child support orders using case file data.

Federal law requires states to review their child support guidelines at least once every four years [P.L. No. 100-485]. Since Minnesota conducted its last review in 2002, a review must be conducted in this year (2006) to comply with the federal requirement. At this time, however, Minnesota is in an unusual situation with respect to its child support guideline. Minnesota just legislated a new child support guideline [Minnesota Session Law 2005- Chapter 164- S.F. No. 630] that will become effective January 1, 2007. As a consequence, a traditional, in-depth review of the existing guideline (i.e., the one in effect until January 1, 2007) makes little sense because it will be in effect only for the remainder of 2006. It also does little to inform the impact of the new guideline on order amounts. Cognizant of this, Minnesota's 2006 review does not use a traditional approach. Rather, the approach meets the federal requirements, but it also provides analyses that inform the potential impact of the new guideline. It does this by:

- using recent economic data on the cost of raising children to assess the impact of the new guideline; and
- analyzing case data to simulate the impact of the new guideline on existing order amounts.

A review of recent economic data on the cost of raising children is another federal requirement of child support guidelines. Minnesota has reviewed the economic data and compared it to the amounts in the new guideline in another report.[1]

This particular report concerns the analysis of case data. The case data consists of 1,977 case files reviewed by a University of Minnesota research team. The old guideline was in effect when the order amounts were established in these cases, but the new guideline had not been legislated yet. Analysis of the case data finds that a deviation from the old guideline was stated in the case file in six percent of marital dissolution cases with children and eight percent of paternity and order establishment cases. In addition, there were several

[1] See *Evaluation of the New (2007) Minnesota Child Support Guidelines Basic Support Schedule,* submitted to the State of Minnesota Department of Human Services, Child Support Enforcement Division, December 30, 2005.

marital dissolution cases with children where no deviation was stated, but there was a discrepancy between the order amount and the old guideline amount.[2]

As a comparison, a national study, using a similar definition of a guideline deviation— that is, it is a deviation if it is clearly stated in the case file— found that a deviation was stated in 17 percent of the case files examined in the eleven states participating in the study.[3] The national study also found several additional cases where no deviation was stated in the file but there was a discrepancy between the guideline amount and the order amount.

The remainder of this report consists of the following three sections.

- *Summary of differences between existing and new guidelines.* The purpose of this section is to highlight the key differences of the existing and new guidelines that could affect final order amounts.
- *Limitations of data and simulation.* A caveat to the study findings is that there are numerous data limitations that could result in the simulated guideline amounts being biased upward or downward. The major data and simulation limitations are listed in this section.
- *Results from simulated impact of new guideline.* The results of the simulated impact of the new guideline are presented separately for marital dissolution cases and paternity and establishment cases because of differences in data collection. In addition, the results from the simulated impact of the new guideline on dissolution with children cases are presented separately for low, medium, and high-income groups.

Appendix A provides more detail about the case file data used for the simulation.

DIFFERENCE BETWEEN EXISTING AND NEW GUIDELINES

It is impossible to arrive at an across-the-board conclusion that order amounts based on the new guideline are higher or lower than order amounts based on the old guideline because the new guideline takes into consideration more circumstances of the case than the old guideline. For example, the new guideline considers the obligee's income and the parenting expenses, whereas the old guideline does not. The end result is that the difference in the two guidelines actually varies significantly depending on the circumstances of the case. Another factor limiting the comparisons is that they are so structurally different that it is like comparing apples and oranges. One of the major structural differences is a switch from a percentage-of-obligor guideline model to the Income Shares guideline model. The switch and the differences between the two models are described in detail in another report.[4]

At the core of the old guideline is a schedule (also called a chart) of **percentages** that are to be applied to the **obligor's net income.** In contrast, at the core of the new guideline is a schedule of **dollar amounts** to be applied to the **combined gross parental income**. This structural change precludes a direct comparison of the two guidelines without knowledge of obligee income when converting old guideline amounts to new

[2] Several other states, when conducting their case file reviews, have found that there is a significant percent of cases where no deviation is noted but there is a discrepancy between the guideline amount and the order amount. For example, see *Washington State Child Support Schedule: Selected Issues Affecting Predictability and Adequacy,* report to the Washington State Department of Social and Health Services by Policy Studies Inc., Denver, Colorado (January 2005).
[3] CSR, Incorporated and the American Bar Association, *Evaluation of Child Support Guidelines: Volumes I and II,* Report to Federal Office of Child Support Enforcement, Contract No. 105-94-8373 (March 1996).
[4] *Evaluation of the New (2007) Minnesota Child Support Guidelines Basic Support Schedule, supra* note 1.

guideline amounts. Further, since the income basis of the old guideline is net income with additional adjustments and the income basis of the new guideline is gross income with a different set of additional adjustments, any comparisons must convert net income amounts to gross income amounts or vice versa. As also discussed later, this limits the comparisons to those cases that have information about gross and net incomes or sufficient information to calculate the tax impact.

In addition to these structural changes, the old and new guidelines differ in how they treat specific case circumstances. The differences that are most salient to the comparisons are bulleted below.

- *Obligor's parenting expenses.* The old guideline does not have a formulaic adjustment for the obligor's parenting expenses. In contrast, the new guideline allows a 12 percent deduction from the obligor's basic child support obligation if the percentage of child's time granted to the obligor is 10 to 45 percent. If the parenting time is above 45 percent, another formula applies.
- *Low-income obligors.* The new guideline also expands and changes the adjustment for low-income obligors. The new guideline provides for a self-support adjustment for low-income obligors. If the difference between the obligor's income available for support and the guideline calculation is less than 120 percent of the federal poverty guideline for one person, the obligor is eligible for the self-support adjustment. In other words, the adjustment is intended to leave the obligor with a self-support reserve equivalent to 120 percent of the federal poverty guideline for one person. This effectively decreases the guideline amount for low-income obligors. For example, consider a case where the obligor's income is from full-time employment at the State minimum wage ($5.25 per hour among small employers),[5] the obligee has no income, there is one child, and there are no child care or medical expenses. Under the old guideline, the order amount would be about $160 per month. Under the new guideline, the order amount would be $50 per month.
- *Minimum order amounts.* The old guideline does not provide for minimum order amounts. The new guideline provides for minimum order amounts of $50 per month if there are one or two children; $75 per month if there are three or four children; and $100 per month if there are five or more children.
- *Non-joint children.* Joint children are the children in the support proceedings. In contrast, the term, "non-joint children," refers to the children for whom only one parent in the support proceeding is legally responsible and the children resides in that parent's household. The new guideline provides a formula to adjust for non-joint children. The old guideline does not provide a presumptive formula, but it did consider subsequent non-joint children to be a deviation factor in certain circumstances.

LIMITATIONS OF THE DATA AND SIMULATION

When examining the simulation results and developing policy recommendations based on the simulation results, if any recommendations are developed, it is important to keep in mind the limitations of the data and the simulation.

[5] Minnesota minimum wage is $5.25 per hour if the business enterprise has annual receipts less than $625,000 and $6.15 per hour if the business enterprise has annual receipts of $625,000 or more. (Data source: U.S. Department of Labor: http://www.dol.gov/esa/minwage/america.htm#Minnesota, downloaded January 20, 2006).

1. Case circumstances may have changed since the data were collected.

The case file data details the circumstances of the case in 1999. Many changes may have occurred since then. For example, at least one parent's income may have changed or one or more children may have emancipated. The bias resulting from this limitation is ambiguous. It could result in the differences being more or less than the simulated amounts and is likely to vary among cases.

2. Paternity and order establishment cases are sampled from only one county.

Although the sampling procedure allowed for a statewide representative sample of dissolution with children cases in Minnesota, the same sampling procedure could not be employed to paternity and order establishment cases. Instead, a representative sample of paternity and establishment cases was pulled from Hennepin County. As Minnesota's largest county, Hennepin County has the greatest number of filings for paternity and support orders in the state. Nonetheless, the paternity and establishment cases in Hennepin County may not be representative of paternity and establishment cases in other parts of the State.

3. Not all sampled cases have sufficient data for a guideline simulation.

The total sample consisted of 1,977 cases: 1,708 dissolution with children cases; and, 269 paternity and establishment cases. Only 590 cases had sufficient data for the guideline simulation. This included 486 dissolution with children cases and 104 paternity and establishment cases. Most of the cases with insufficient data lacked gross income information for one or both parents. In addition, several of the paternity and establishment cases lacked sufficient information because the order was set at zero or was reserved. Due to a smaller number of sampled paternity and establishment cases (269 total), extra steps were taken to enlarge the number of total cases available for the simulation. One extra step consisted of converting net to gross income in cases where the parent's gross income was missing but information about the parent's net income was available. Another step assumed that the custodial parent's net income was zero if the custodial parent was receiving MFIP. (These steps are discussed more in Appendix A). However, even with these extra steps, less than a half (39%) of the paternity and establishment cases had sufficient information for conducting the guideline simulation.

4. Simulations consider basic support and provisions adjusting for parenting expenses, self-support reserve and minimum support obligation only.

As discussed earlier, the new guideline considers and adjusts for many more specific case circumstances than the old guideline does. The simulation captures many of these adjustments. For example, it considers the combined parental income, the adjustment for parenting expenses, the self-support adjustment and minimum support obligations. Child care and medical expenses were not included. They are a wash since they are generally treated the same under the old and new guidelines; that is, both guidelines prorate these expenses between the parents. One exception to this is the calculation of support for child care expenses when there is a child care subsidy. However, there were few cases with child care subsidies and information was insufficient to calculate the child care support order in these cases.

5. Simulations do not consider non-joint children.

There were few cases in the data set that had information noted on non-joint children. For example, non-joint children were noted in only 15 percent of the paternity and establishment cases with sufficient information for conducting the simulation of basic support. The information, however, was insufficient to calculate the amount of the credit. It was insufficient because it did not include the number of non-joint children, which is a factor in the credit amount.

6. Precise amount of parenting time is not available.

The percent of the child's time spent with each parent was not always specified in the case file data. We assumed that the case was eligible for the 12-percent parenting expense adjustment if parenting-time arrangement was described as reasonable, liberal, or scheduled. Nonetheless, information about the parenting-time arrangement was frequently missing. We did not impose the parenting expense adjustment if the parenting-time arrangement was missing.

7. Simulations do not adjust for changes in income.

The case file data were collected on orders established in 1999; hence, income information is also from 1999. On average, wages have increased since 1999. According to the U.S. Bureau of Labor Statistics, median male and female incomes have increased by 6 and 15 percent, respectively, between 1999 and 2004. In 2004, median male income is $31,132 per year and median female income is $17,853 per year.

8. Simulations do not adjust for likely increases to the federal poverty guidelines.

The federal poverty guidelines published by the U.S. Department of Health and Human Services (DHHS) form the basis of the self-support adjustment in the new guideline. DHHS updates the federal poverty guidelines in February or March of each year. Typically, the increase is nominal and corresponds to inflation. The current (2005) poverty guidelines for one person is $798 per month.

9. Simulation of modification eligibility does not consider all modification criteria.

In simulating whether a case would be eligible for a modification, we only considered the criteria that the basic support amount under the new guideline must result in differences of at least 20 percent and $75 per month. The difference could be negative or positive amount (i.e., the new guideline amount could be more or less than the existing order amount). Other criteria were not simulated.

10. Comparisons of simulated new guideline and current order amounts do not adjust for the standard Cost-of-Living Adjustment (COLA) in current orders.

Many current orders include a COLA. Since the data are based on orders established in 1999, the application of the COLA could widen or narrow the gap between the current order amount and the simulated guideline amount. The exact amount of the COLA depends on what price index was used. Many orders use the price index for the Minneapolis-St. Paul area developed by the BLS. Prices increased by about 19 percent from 1999 through 2004 for the Minneapolis-St. Paul area.

SIMULATED IMPACT OF NEW GUIDELINE

The results from the simulation of the new guideline are presented separately for paternity and establishment cases and dissolution with children cases.

Simulation Results: Paternity and Establishment Case File Data

There were 104 paternity and establishment cases with sufficient information for conducting a simulation of the new guideline amount. The key findings from the simulation are highlighted below.

1. *There will be no significant change in median basic support amounts if the parents' incomes remain at their 1999 levels and there are no other changes in case circumstances.* Under the existing guideline, the median basic support amount is $289 per month among paternity and establishment cases. Applying the new guideline on these paternity and establishment cases would result in a median basic support amount of $298 per month. These amounts do not consider child care and the child's medical expenses. These expenses, however, are part of few existing paternity and establishment orders. Furthermore, these factors will likely result in a wash because they are treated almost identically under the existing new guidelines.
2. *The median dollar difference is $78 per month.* The median difference between the current order amount among paternity and establishment cases and the new guideline simulated amount is $78 per month. This is the absolute dollar difference, so it may be negative and positive. The difference is negative (i.e., the new guideline amount will be less) for 66 percent of the paternity and establishment cases. However, the difference may not always sufficiently meet modification criteria.
3. *The self-support adjustment applies in almost a quarter of the paternity and establishment cases.* As discussed earlier, the adjustment for low-income obligors (which is based on a self-support reserve) is effectively increased under the new guideline. Based on the simulations, about a quarter (24%) of obligors in paternity and support cases would be eligible for the self-support adjustment. There is a caveat to this finding, however. It does not consider obligors who may be incarcerated. The new adjustment does not apply to incarcerated obligors. The data set did not indicate whether an obligor was incarcerated.
4. *The minimum order provision would apply in 12 percent of the paternity and establishment cases.* The minimum order would apply in 12 percent of the paternity and establishment cases. All of these orders covered one or two children, so the minimum order would be $50 per month. However, there were a few simulated order amounts (i.e., 4% of the paternity and establishment cases) that resulted in less than minimum order amounts because these obligors had inordinately low income (below $750 per month gross) and were eligible for the parenting expense adjustment.
5. *Almost a third of paternity and establishment cases may be eligible for downward modifications.* According to the simulation results, almost a third (31%) of the paternity and establishment cases may be eligible for a downward modification because the difference between the simulated guideline amount is at least 20 percent and $75 per month less than the existing order amount. In many (56%) of these cases, the obligor is eligible for the self-support adjustment or the minimum order amount.
6. *Some paternity and establishment cases may be eligible for upward modifications.* Based on the simulation results, 18 percent of the paternity and establishment cases may be eligible for an upward modification because the simulated guideline amount is at least 20 percent and $75 per month more than the existing order amount. These cases tend to have higher incomes and more children than other paternity and establishment cases. The median amount under the new guideline would be $440 per month in these cases. In contrast, the median current order is $214 per month in these cases. Many of these current orders appeared to be set below the existing guideline amount, even though a deviation was not recorded.

Simulation Results: Case File Data from Dissolutions with Children

In all, there were 486 dissolutions with children with sufficient information for simulating the new guideline amount. The results varied widely and exhibited no consistent patterns. One reason that partially explains the inconsistent patterns is that there were many existing orders that appeared to be set below or above the existing guideline amount, however, a deviation was not always noted in these cases.

Simulation Results: Low-Income, Dissolution with Children Cases

We arbitrarily define low income as cases in which the obligor's gross income is less than $2,000 per month. This threshold approximates 250 percent of the federal poverty guideline for one person. There were 106 dissolutions with children where the obligor's gross monthly income was less than $2,000 per month that had sufficient information for simulating the new guideline amount. This represents about 25 percent of the dissolution with children cases with sufficient information for the simulation. As an aside, we did not consider the combined income of the parents in the definition of low income because the existing guideline only considers the obligor's income. Nonetheless, as background information we note that 60 percent of the obligees in these cases also had gross incomes less than $2,000 per month and the remaining 40 percent of the obligees had gross incomes of $2,000 per month or more.

1. *The median order amount could decrease slightly for low-income, dissolution with children cases.* Under the existing guideline, the median basic support amount is $320 per month among low-income, dissolution with children cases. Applying the new guideline to these cases would result in a median basic support amount of $299 per month. These amounts do not consider child care and the child's medical expenses. These amounts also assume that there are no changes to either parent's income or other case circumstances.
2. *The median dollar difference is $74 per month.* The median difference between the current order amount among low-income, dissolution with children cases and the new-guideline simulated amount is $74 per month. This is the absolute dollar difference, so it may be negative and positive. The difference is negative (i.e., the new guideline amount will be less) for 53 percent of the low-income, dissolution with children cases. However, not all of these cases would meet the criteria for a modification.
3. *About one out of five obligors in the low-income, dissolution with children cases would be eligible for the self-support adjustment.* Only 21 percent of the obligors with gross income below $2,000 per month were eligible for the self-support adjustment or minimum order amount. The minimum order amount would be applied in one third (33 percent) of the cases eligible for the self-support adjustment. There was one case in which the obligor's basic support adjusted for parenting expenses was less than the minimum order amount.
4. *About one out of five obligors in the low-income, dissolution with children cases would be eligible for a downward modification.* According to the simulation results, 21 percent of the low-income, dissolution with children cases would be eligible for a modification using the 20 percent and $75 per month minimum difference criteria. Obligee gross income was more than obligor gross income in most (77%) of the low-income cases eligible for a downward modification.
5. *A quarter of low-income, dissolution with children cases would be eligible for an upward modification.* According to the simulation results, 25 percent of the low-income, dissolution with children cases would be eligible for a modification using the 20 percent and $75 per month minimum difference criteria. The current median order was relatively low in these cases. It was $213 per month. In comparison, the median current order

was $320 per month among all low-income cases. This suggests that these orders may have been below the old guideline amount even though no deviation was noted.

Simulation Results: Middle-Income, Dissolution with Children Cases

There were 286 dissolutions with children in which the obligor's gross monthly income was between $2,000 and $5,000 per month that had sufficient information for the simulation. This represents about 59 percent of the dissolution with children cases with sufficient information for the simulation. About half (51%) of obligees in these cases also had gross incomes between $2,000 and $4,999 per month. Most of the remaining half (48%) of obligees in these cases had gross incomes below $2,000 per month. Few obliges (1%) in these cases had gross incomes of $5,000 per month or more.

1. *The median order amount would increase slightly for middle-income, dissolution with children cases.* Under the existing guideline, the median basic support amount is $521 per month among middle-income, dissolution with children cases. Applying the new guideline on these cases would result in a median basic support amount of $583 per month. These amounts do not consider child care and the child's medical expenses. These amounts also assume that there are no changes to either parent's income or other case circumstances.
2. *The median dollar difference is $140 per month.* The median difference between the current order amount among middle-income, dissolution with children cases and the new-guideline simulated amount is $140 per month. This is the absolute dollar difference, so it may be negative and positive. The difference is negative (i.e., the new guideline amount will be less) for 42 percent of the middle-income, dissolution with children cases. However, not all of the cases meet modification criteria.
3. *About one out of five middle-income, dissolution with children cases would be eligible for a downward modification.* According to the simulation results, 22 percent of the medium-income, dissolution with children cases would be eligible for a modification using the 20 percent and $75 per month minimum difference criteria. The median current basic support amount in these cases is $645 per month. If the new guideline were applied, the median amount would be $447 per month. This assumes no changes to income or other case circumstances.
4. *Over a third of middle-income, dissolution with children cases would be eligible for an upward modification.* According to the simulation results, 37 percent of the middle-income, dissolution with children cases would be eligible for a modification using the 20 percent and $75 per month minimum difference criteria. The median, new order amount would be $666 per month. In contrast, the median current order is $308 per month. However, many of these current orders appeared to be below the old guideline amount.

Simulation Results: High-Income, Dissolution with Children Cases

We arbitrarily define high income to be cases with an obligor who has gross income of $5,000 per month or more. There were 94 dissolutions with children where the obligor's gross income was $5,000 per month or more that had sufficient information for simulating the new guideline amount. This represents about 19 percent of the dissolution with children cases with sufficient information for simulating the new guideline amount. Most (92%) of obligees in these cases had gross income less than $5,000 per month. Median obligee gross income was $2,622 per month in these cases.

1. *The median order amount would increase slightly for high-income, dissolution with children cases.* Under the existing guideline, the median basic support amount is $1,070 per month among high-income, dissolution with children cases. Applying the new guideline on these cases would result in a median basic support amount

of $1,107 per month. These amounts do not consider child care and the child's medical expenses. These amounts also assume no changes to either parent's income or other case circumstances.

2. *The median dollar difference is $272 per month.* The median difference between the current order amount among high-income, dissolution with children cases and the new-guideline simulated amount is $272 per month. This is the absolute dollar difference, so it may be negative and positive. The difference is negative (i.e., the new guideline amount will be less) for 38 percent of the high-income, dissolution with children cases. However, not all of the cases meet modification criteria.
3. *About one out of five high-income, dissolution with children cases would be eligible for a downward modification.* According to the simulation results, 21 percent of the high-income, dissolution with children cases would be eligible for a modification using the 20 percent and $75 per month minimum difference criteria. The median basic support amount in these cases is $1,225 per month. If the new guideline were applied, the median amount would be $831 per month. This assumes no changes to income or other case circumstances.
4. *Over a third of high-income, dissolution with children cases would be eligible for an upward modification.* According to the simulation results, 39 percent of the high-income, dissolution with children cases would be eligible for a modification using the 20 percent and $75 per month minimum difference criteria. The median, new order amount would be $1,214 per month. In contrast, the median existing order is $600 per month. However, many of these existing orders appeared to be below the old guideline amount.

SUMMARY AND CONCLUSION

This report uses case file data to simulate the impact of the new guideline. The simulations are severely limited by the case file data, which contains dated information. The data set captures the information about the case in 1999. Since then, one or both parent's income may have changed, one or more child may have emancipated, the order may have been modified, a COLA adjustment may have been applied, or another change of circumstance may have occurred. In addition, the simulated order amounts are limited by other factors: they only consider basic support, the self-support adjustment, minimum order amounts, and the adjustment parenting expense when information is available. The simulations do not consider non-joint children or child care and the child's medical expenses. Since the simulated new guideline amount, however, is compared to current basic support (i.e., support before child care and the child's medical expenses), whether child care and the child's medical expenses are included or excluded should not affect the difference.

The findings from the simulation are presented separately for four groups: paternity and establishment cases; low-income dissolution with children cases; middle-income dissolution with children cases; and high-income dissolution with children cases. The case types share some common findings.

- *The median basic support amount under the new guideline is about the same or somewhat more than the median basic support under the old guideline.* The dollar difference is negligible for low incomes, but widens for higher incomes.
- *About one out of five dissolution with children cases, regardless of income, and about one out of three paternity and establishment cases could be eligible for a downward modification.* This assumes that there were no changes to the parents' incomes, number of children, or other case circumstances since 1999. Further, it does not consider child care or the child's medical expenses. It also is based on the modification criteria that the difference between the current basic support order and the new guideline amount is at least 20 percent

and $75 per month. The reason that more paternity and establishment cases are eligible for a downward modification is because they tend to have lower income and are more likely to be eligible for the self-support adjustment or the minimum order amount.

- *The new guideline could result in orders below the minimum order amount.* For a few low-income obligors eligible for the parenting expense adjustment, the simulated new guideline amount was less than the minimum order amount, which is $50 per month for one or two children and $75 per month for three or four children. (These cases involved three or fewer children.)
- *The proportion of cases eligible for upward modification increases with income.* The simulations indicated that the higher the income, the higher the proportion of cases eligible for upward modification using the threshold of at least a 20 percent and $75 per month. For example, only 18 percent of paternity and establishment cases, which generally have the lowest income among the cases sampled, are eligible for an upward modification; whereas, 39 percent of high-income, dissolution cases with children cases are eligible for an upward modification. These percentages assume no other changes to case circumstances. Moreover, it appears that the current basic support in these cases tended to be below the old guideline amount even though a deviation was not noted. We did not investigate whether those below the old guideline amount were amounts agreed to by the parties or what other factors may have contributed to the current basic support being less than the old guideline amount. Nonetheless, the same factors that resulted in a below-guideline amount under the old guideline may also result in a below-guideline amount under the new guideline.

Appendix A:
Data Source and Methodology

SAMPLE OF DISSOLUTION WITH CHILDREN CASES

The primary data source is a database developed by the University of Minnesota for the *Impact of Family Court and Child Support Decisions on the Economic Well-Being of Minnesota Families Project* through a review of case files with dissolutions in 1999. The data set includes 1,708 dissolution with children cases collected through a randomly selected sample from 10 Minnesota representative counties (i.e., Beltrami, Goodhue, Hennepin, Kandiyohi, Lyon, Ottertail, Pine, Ramsey, St. Louis and Winona). The sample represented about 18 percent of the total dissolutions with children in the State in 1999. Dissolution with children cases were retained for the simulation if the case contained: the gross incomes of both parents; the number of children covered by the child support order; the amount of the current basic support; and information on which parent was the obligor. There were 486 dissolution with children cases that met these criteria. Most of the dissolution with children cases that were excluded from the simulation were missing gross income from one or both parents. It was not surprising that gross income was frequently missing since the old guideline is based on net income.

SAMPLE OF PATERNITY AND ESTABLISHMENT CASES

The data set also included 269 cases in which paternity and support or support only was established in 1999 in Hennepin County. Paternity and establishment cases were not sampled in any other county. Since the sample of paternity and establishment cases was much smaller than the sample of dissolution with children, extra steps were taken to ensure that a larger number of paternity and establishment cases could be retained for the simulation. The flow chart at the end of this document shows the process for including and excluding paternity and establishment cases for the simulation. It shows that 165 of the paternity and establishment cases were initially excluded from the simulation because the current support order was zero, reserved or suspended; the number of children was missing; or income was not available for both parents from the case file. Most paternity and establishment cases excluded from the simulation were excluded because the obligee's income was missing or the current support order was reserved. This left only 104 paternity and establishment cases with sufficient information for the simulation.

Net Income Converted Back to Gross Income

Among the 104 remaining paternity and establishment cases, there are 83 cases in which gross incomes are not available for both parents, but net incomes are. We converted the parents' net incomes back into gross income in these cases so we could use them in the simulation. To convert net to gross income, we assumed that the father's tax filing status was single and he claimed no dependents; whereas, the mother's tax filing status was head-of-household and she claimed the children as dependents. This appears to be a reasonable assumption because the father was the obligor in 82 out of the 83 cases. (As an aside, the data collection instrument did include data fields pertaining to tax filing status, but the data fields were not typically populated so could not be used to back net income into gross income.)

Federal and state personal income tax rates and FICA that prevailed in 1999 were used to back net to gross income. As shown in Exhibit 1, net income was backed into gross income for each of 10 income percentiles.[6] Then, the effective tax rate was calculated for each of the 10 incomes. In turn, the effective tax rate of the income closest to the obligor's net income was used to back out net income into gross income. Among obligees, application of the advanced Earned Income Tax Credit resulted in little difference between obligee net and gross income, so it was assumed that the obligee's net and gross incomes were equivalent.

Exhibit 1
Obligor Net Income from the Case File Review Converted to Gross income

	Minimum Net income	__% of Obligors with net incomes per month below....									Maximum net income
		10%	20%	30%	40%	50%	60%	60%	80%	90%	
Obligor net income	$500	$746	$894	$1,025	$1,126	$1,226	$1,330	$1,487	$1,713	$1,985	$2,852
Gross income equivalent	$530	$842	$1,048	$1,230	$1,370	$1,510	$1,654	$1,873	$2,187	$2,567	$4,059
Effective tax rate	6%	11%	15%	17%	18%	19%	20%	21%	22%	23%	30%

We considered applying the same technique to dissolution with children cases that had the parents' net incomes, but not the parents' gross incomes. We abandoned that idea for two reasons. First, the number of dissolution with children cases that had both parents' gross income was relatively large. Secondly, there was a much wider range of net incomes among dissolution with children cases. This makes the conversion more prone to error. In contrast, obligor net income in paternity and establishment cases covered a small range (the minimum and maximum net incomes of obligors were $500 and $2,852 per month, respectively), so the net to gross conversion was less prone to error.

ADJUSTMENT FOR PARENTING EXPENSES

The new Minnesota Guideline provides for a parenting expense adjustment when the amount of parenting time granted to an obligor is ten percent or greater. Some information about parenting time was available in 59 of the 104 paternity and establishment cases that had sufficient information to conduct the simulation. We assumed that if the visitation arrangement was described as reasonable or liberal or scheduled that the parenting time threshold of 10 percent would be met. There were 41 paternity and support cases in which the visitation arrangement was described in this way. In 90 percent of the dissolution with children cases with sufficient information to conduct the simulation, the visitation arrangement was also described as reasonable, liberal or scheduled. Other descriptions of visitation arrangements consisted of supervised, reserved, and other arrangements. In addition, equally divided time was noted in less than 2 percent of the dissolution with children cases. The survey instrument for the dissolution with children cases contained data fields to note the percentage of time that each child spent with each parent, but that information was frequently missing in the case file. Had that information been available, we would have been able to discern between parenting time of 10 to 45 percent and 45.1 to 50 percent, which are treated differently under the new guideline.

[6] In viewing Exhibit 1, it should be noted that the effective tax rate is lower today, in large part, due to federal tax reform.

Flowchart of Paternity and Support Cases Selected for Simulation and Other Adjustments Made for Simulation

Initial Sample = 269 Paternity and Support Cases