

Alternative Approaches to Income Imputation in Setting Child Support Orders
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Policy/Research Question

When the court does not have any evidence of the level of the noncustodial parent's income, or when recorded income is believed to be less than the noncustodial parent's earnings capacity, income is typically imputed—often at full-time minimum wage. However, the Flexibility, Efficiency, and Modernization in Child Support Programs final rule of December 2016 requires that if a state's guidelines allow for income imputation, the order must take into consideration “the specific circumstances of the noncustodial parent.” As Wisconsin prepares to review its guidelines in 2020, this report explores alternative approaches to imputing noncustodial parent income that could be considered consistent with the 2016 ruling.

Data/Methods

Three alternative approaches to income imputation are considered: (1) keeping the federal minimum wage as the hourly wage rate, but using estimates of hours worked by occupation, level of education, and locality; (2) using estimates of workers' annual earnings by occupation, level of education, and county; (3) using estimates based on the actual earnings of noncustodial parents with imputed income orders in the year after order establishment. We obtain the estimates for the first two approaches from the 2017 American Community Survey (ACS). We obtain the estimates for the third approach from Wisconsin Court Records Data (CRD) matched to Unemployment Insurance (UI) wage records. For each approach, we report average monthly imputed-income amounts at three different points in the distribution, the 25th percentile, the median, and the mean. We use current Wisconsin guidelines to calculate the percentage of monthly income due for current support and the resulting monthly order amount. We report results for several model cases varying the characteristics of the noncustodial parent by occupation, level of education, and locality. We also consider differences in income amounts by gender and race.

Results/Potential Policy Implications

We find that Approach 3 results in the lowest imputed-income amounts. Parents with imputed-income orders have remarkably low income from formal employment: median income is \$4 a month overall. Approach 2 results in the highest imputed-income amounts, while Approach 1 results in amounts that generally fall between Approaches 2 and 3. When we consider results by sex and race, we find that imputed-income amounts are generally lower for women and African American workers across each approach (one exception is median earnings from Approach 3, which are higher for women than men).

Each of these approaches have strengths and weakness in terms of “right-sizing” orders as well as accounting for the specific circumstances of the noncustodial parent in accordance with the language of the December 2016 rule. In terms of the number of factors in the final ruling used in determining the imputed-income amount, the first two approaches take into account multiple factors (locality, occupation, education, sex, and race), whereas it is not possible to obtain earnings estimates at the same level of detail from the third approach. However, the first two approaches often result in incomes above the current standard (full-time minimum wage), and incomes that are well above what we observe for noncustodial parents with imputed-income orders and similar characteristics in our court records data. This creates a challenge for child support policymakers who must consider the implications of higher versus lower orders, especially for the well-being of the children on the case.

Additional Research Questions/Data Limitations

In this report, we prioritized locality, level of education, occupation, sex, and race as factors that are likely to be important determinants of a noncustodial parents' economic circumstances *and* available to courts. It is possible that prioritizing other factors would produce different estimates of imputed income and result in different child support order amounts.