Costs of Raising Children and Expenditures on Children

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Views expressed here are those of the author and not necessarily those of the sponsoring institution.
Overview

- Child support guidelines recent adjustments
- Estimates for the costs of raising children
- Challenges in the estimation process
- Advancements in estimation techniques
- WI guidelines relative to national estimates
Wisconsin Child Support Calculations

- Income-Shares Approach is now the baseline assumption for the state
  - Both parents’ income is considered
  - Percent of income standards can still be applied in sole-placement circumstances

- Continuity of Expenditure – A child’s standard of living should not change as a result of their parents no longer living together
Estimating Costs

• Historically, many studies have relied on **marginal cost** approaches

• This can be intuitively appealing, as we compare the differences in expenditures between a house with children to one without children, or in the case of multiple children, a two-child household to a three-child household.

• The differences observed represent the **marginal cost of adding a child** to a household
Estimating Costs

• Two common approaches:
  – **Engel** - Expenditures on food (%)
  – **Rothbarth** - Expenditures on luxury goods and savings levels (%)

• Concern: True *marginal cost* approaches?

• Failings of these approaches: *Economies of Scale* and *Substitutability of Goods*

• Significant empirical red flag: Inconsistency
Estimating Costs

• Alternative:
  – USDA and the Consumer Expenditure Survey
    • 2017 = most recent data (in 2015 dollars)
  – Both *direct* and *indirect* measures

• Important Factors:
  – Geographic region/Level of urbanization
  – Age and number of children
Expenditure Categories

• **Household-Level** measures for:
  – Housing
  – Food
  – Transportation
  – Health Care

• **Child-Specific** measures for:
  – Clothing
  – Childcare
  – Education
Households in the Midwest compared to WI Guidelines

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<th>Three</th>
<th>Four</th>
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<td><strong>Consumer expenditure data</strong></td>
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<tr>
<td>All children</td>
<td>17.1%</td>
<td>26.9%</td>
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<tr>
<td>Per child</td>
<td>17.1</td>
<td>13.5</td>
<td>10.2</td>
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<tr>
<td><strong>Wisconsin Guidelines</strong></td>
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<td>All children</td>
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<tr>
<td>Per child</td>
<td>17.0</td>
<td>12.5</td>
<td>9.7</td>
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*Note:* These percentage estimates can be determined via multiple methods. An alternative approach is provided in Appendix A Table 3. Additionally, an explanation of the calculations for Tables 1 and 3 of Appendix A is provided in Appendix B.
Important Takeaways

• Estimating costs of raising a child is challenging

• WI Guidelines appear pretty accurate, though *may be too low* in certain circumstances.

• Expenditure amounts for larger households (e.g., 4 or more children) are likely insufficient under current guidelines
Questions?

Thank you!

Please contact me with questions:
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