

Child Support Payment Scenarios

Question on Notice (19 May 2021)

CHAIR: Could you, on notice, give us a couple of scenarios so we can actually see the figures and how it works out? I'm trying to understand it as we are discussing it, but I think it would be useful if I had a couple of case studies that show what would happen if it was, say, a 60-40 situation versus an 80-20 situation and how the figures would work out. I think that would help us in terms of doing that.

Response by Child Support Australia

Let's walk through three scenarios with an example separated family to explain how the two formulas – the **proposed 'pay for extra care'** and the **current 'income shares'** formulas – compare with one another.

We'll start with high-income parents by Australian standards but also move on to lower income scenarios as we go. In all scenarios, the assessments are for two children aged 14 and 10. For ease of discussion, let's call the parents 'Jules' and 'Arden'. Jules is the main carer.

Note that all figures are annual unless otherwise stated.

Scenario A – 60/40 Care, Parents Work Full-Time

	Jules	Arden
Scenario	57% care, \$80k income	43% care, \$120k income
Proposed formula	Receives \$1,591	Pays \$1,591
Current formula	Receives \$10,266	Pays \$10,266

To start with, the parents share care of the kids and both work full time.

Jules has the kids 8 nights per fortnight and Arden has them the other 6 nights.

Proposed formula

Under the proposed formula, the amount of child support Arden pays to Jules is \$1,591 per year.

- Jules provides one night per fortnight of extra care above a 50/50 level, or 26 extra nights per year.
- Jules receives \$61 per extra night. This is based on an annual cost of \$22,275.
- The annual cost of a child is 15% of Arden's income for income up to \$75k plus 5% of income from \$75k to \$180k. A second child adds a 50% to costs while one being a teenager adds 15%.

Current formula

Under the current formula, Jules would receive \$10,266.

- The combined income of the parents is \$200,000, which gives an annual cost of children of \$31,108 or \$85 per night.
- Arden is required to cover 74% of the total costs of children due to a higher income.
- Using cost tables, Arden gets credit for contributing 41% of the costs of children through direct care.
- That leaves 33% of the costs of children that Arden must contribute in the form of child support payments.

Scenario B – 60/40 Care, Arden Lowers Income

	Jules	Arden
Scenario	57% care, \$80k income	43% care, \$30k income
Proposed formula	Receives \$530	Pays \$530
Current formula	Pays \$5,258	Receives \$5,258

Now let's suppose everything stays the same except that Arden now has a taxable income of \$30k. This could, for example, happen if Arden became involuntarily unemployed and subsequently failed to find a job or declare new income.

Proposed formula

Under the proposed formula, the amount of child support drops from \$1,591 to \$530. Arden continues to pay Jules for the extra 26 nights of care above 50/50 but at a reduced rate of \$20 per night due to a lower income.

Current formula

Under the current formula, Jules would go from receiving \$10,266 to paying \$5,258.

- The combined income of the parents is \$110,000, which gives an annual cost of children of \$15,022 or \$41 per night.
- Jules is required to cover 94% of the total costs of children due to a higher income and Arden's income being close to the self-support amount of \$26,319.
- Jules gets credit for contributing 59% of the costs of children through direct care.
- That leaves 35% of the costs of children that Jules must contribute in the form of child support payments.

Scenario C – 80/20 Care, Jules Lowers Income

	Jules	Arden
Scenario	79% care, \$30k income	21% care, \$120k income
Proposed formula	Receives \$6,364	Pays \$6,364
Current formula	Receives \$18,120	Pays \$18,120

Let's say Arden returns to working at the former income of \$120k. But now Jules and a new partner have a baby and Jules stops working. Jules also increases the number of overnights from 8 to 11 per fortnight.

Proposed formula

Under the proposed formula, Arden pays \$6,364 in child support. Arden pays Jules for the extra 104 nights of care provided above a 50/50 level at a rate of \$61 per night.

Current formula

Under the current formula, Jules would now receive \$18,120 in cash payments annually.

- The combined income of the parents is \$150,000 before adjustments, which gives an annual cost of children of \$23,842 or \$65 per night.
- Arden is required to cover 100% of the total costs of children due to a higher income and Jules having a low income and extra dependent.
- Arden gets credit for contributing 24% of the costs of children through direct care.
- That leaves 76% of the costs of children that Arden must contribute in the form of child support payments.

Analysis

Let's examine the three scenarios in terms of incentives and behaviour.

Scenario A, which serves as the baseline, might be considered an ideal outcome. Both parents are earning good incomes and parenting is shared quite evenly. For the other scenarios, incomes are reduced and, in Scenario C, the distribution of care also becomes less balanced.

One can debate whether the small payments under the proposed formula in Scenario A are inadequate or the large payments under the current scheme too high. One thing we know for sure is that parents don't expect to pay or receive large amounts of child support when care is evenly shared. See this video: <https://www.youtube.com/watch?v=m5i7YUMdqxU>

To understand what amounts are fair or proper, it is instructive to consider what happens under Scenario B, when the payer drops their income, or Scenario C, when the receiver drops their income and increases their care level.

Incentive to lower income

When the paying parent with 43% care drops their income from \$120k to \$30k, look what happens.

Under the proposed formula, Arden goes from paying \$1,591 to \$530. Not much change. That means there is little incentive to reduce income when care is quite evenly shared.

Under the current formula, however, Arden goes from paying \$10,266 to receiving \$5,258. That's an almost \$15,524 cash gain! That's not insignificant, especially if you also factor in tax advantages, government benefits and the potential for Arden to do it while generating undeclared income.

Incentive to dominate care

Transitioning from Scenario A to Scenario C gives some insight into how the formulas work in terms of changed care levels.

In Scenario C, the parent with majority care increases their care level and reduces income after having a baby. Jules' care percentage rises from 57% to 79% while income drops from \$80k to \$30k.

Under the proposed formula, the amount Jules receives rises from \$1,591 to \$6,364. The effective payment rate is \$61 per night of extra care.

Under the current scheme, payments to Jules would rise from \$10,266 to \$18,120. That's a \$7,854 cash payment rise – at \$100 per night – on top of an existing base of more than \$10k. The incentives and ability for Jules to indefinitely move to stay-at-home parenting are considerable.

What the comparisons tell us

What we've done here is comparative statics. Comparative statistics is when you compare one outcome with another after a parameter or two have been changed.

The proposed formula stands up to the scrutiny of comparative static analysis. The formula is simple and mathematically sound. Payments only depend on the payer's income and how much care the other parent provides above a 50/50 level.

We know that, whatever the scenario, any payments will be moderate and reflect the payer's capacity to financially support any extra care provided by the other parent.

With the current scheme, however, weird stuff happens. The formula has many moving parts and produces some wild outcomes. For example, Jules goes from receiving large payments to becoming a payer after Arden's income drops.

The current scheme lacks a firm basis in reality. That's the underlying problem. Tellingly, the cost-of-children tables come from **statistics for couples only**. Economic studies estimated the typical cost of adding children to the reference family type, which was a childless couple.

Currently, parent incomes are combined even though the parents actually live in different households and may want nothing to do with one another. Real temptations emerge for parents to operate strategically against each other.

The primary effect of income sharing is to disincentivise parents against earning at their maximum potential. A parent can be asked to contribute anywhere from zero to 100% of the often-inflated "cost of children" depending on relative and absolute income levels.

Income sharing can also encourage one parent to dominate care. High payments and excessive rewards for reducing income can make stay-at-home parenting an attractive option.

A real-life example

We published some relevant feedback about the current formula from a mother just as we were preparing this response. This is what she wrote (with minor edits for grammar):

“ I am the mother and have three children. Two of them I have recently updated their care to 50/50 and the youngest I have 85% of the time. Since we separated over 8 years ago, I had my kids normally 80% of the time and worked extremely hard for us to have a better life. Now that the care has updated, their father has requested child support, which, as per their assessment, is over \$800 per month. This is because he has a lower income. He also receives Centrelink payments. I have never received either Centrelink or child support. I really feel this is unfair as it is deterring the other parent from working harder and making something of themselves in life as they have an easier option. This has severely affected my mental health as it's such a struggle as, like with many others, I'm sure to feel like you are working so hard but to pay someone else. I feel like child support is having me pay part of his Centrelink entitlements to save the government money and feel that the whole system needs looking into as it's just not right or fair. How can this get looked at further? Can one person's feedback make any difference? ”