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POVERTY AND THE COST OF LIVING:

Income Issues Associated with South Carolina's Self Support Reserve for Noncustodial Parents

An STI Policy Brief

By

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POVERTY AND THE COST OF LIVING: INCOME ISSUES ASSOCIATED WITH SOUTH CAROLINA'S SELF SUPPORT RESERVE FOR NONCUSTODIAL PARENTS

PROBLEM STATEMENT

South Carolina's self support reserve is designed to ensure that a low income non-custodial parent

> "...retains a minimal amount of income before being assessed a full percentage of child support. This insures that the noncustodial parent has sufficient income available to maintain a minimum standard of living which does not negatively affect his or her earning capacity, incentive to continue working, and ability to provide for him or herself."

By any measure, it does not appear to do so.

The level of the self support reserve has the largest impact on noncustodial parents with incomes near or below the self support reserve. When the self support reserve does not keep pace with changes in the costs of food, shelter, and basic transportation needs, noncustodial parents fall farther into below-subsistence living level and find it more and more difficult to meet even the most basic needs. This situation also seriously restricts their ability to meet their child support obligations at any payment level.

South Carolina's self support reserve was first set at $467 per month in the South Carolina Department of Social Service's (DSS) May 1994 handbook, *South Carolina Child Support Guidelines*. This amount was 72.9 percent of the U.S. Department of Health and Human Services poverty guidelines for the annual income of a one-person household in 1994, which was $7,360 per year or $613 per month.[1] The state's self support reserve was then increased to its current level of $500 per month in the 1999 DSS handbook. This increase moved the self support reserve back to its original level of nearly 73 percent of the federal poverty guidelines. It has not been changed since that time.

[1] United States Department of Health & Human Services, "Prior HHS Poverty Guidelines and Federal Register References." http://aspe.hhs.gov/poverty/figures-fed-reg.shtml [2005, October 15].

In 2005 the South Carolina self support reserve was only 62.7 percent of the federal poverty guidelines for a one-person household. If the self support reserve had kept pace with the federal poverty guidelines at 72.9 percent of their annual level, it would be $81 a month higher today (Table 1).

Table 1. South Carolina Self Support Reserve Comparisons, 1994, 1999, and 2005

	1994	1999	2005	% Difference or Change 1994-1999	% Difference or Change 1999-2005
Federal Poverty Guidelines (FPG) (one person household)	$7,360/yr or $613/mo	$8,240/yr or $687/mo	$9,570/yr or $798/mo	12.0%	16.1%
SC Self Support Reserve	$447/mo	$500/mo	$500/mo	11.9%	0.0%
SC SSR as % of FPG	72.9%	72.8%	62.7%	--	--
Value of the 1994 SC SSR if it had remained at 72.9% of FPG	$447	$500	$581	12.0%	16.1%
Consumer Price Index, All Urban Consumers (1982-84=100)	152.4	166.0	193.2 (1st half year)	12.0%	16.4%
Consumer Price Index, South Urban Consumers (1982-84=100)	149.0	162.0	186.0 (1st half year)	11.9%	14.8%

MEASURES OF POVERTY

Measures of poverty are essential components of many social service programs offered by federal, state, and local governments as well as private nonprofit agencies. Annual or monthly income limits for households of different size establish eligibility for different programs. The federal government calculates two measures—poverty thresholds and poverty guidelines—that have been used extensively for about 40 years.

POVERTY THRESHOLDS

The federal government has calculated poverty measures since 1964. The first measure, the poverty threshold, was calculated using the U.S. Department of Agriculture's economy food plan, which was designed for families under financial stress. It was found that for families of three or more, average expenditures on food took about one-third of after-tax money income. The federal poverty thresholds are used by the Census Bureau to determine the poverty status of individuals.[2]

[2] See discussion about the development of the poverty thresholds at http://aspe.hhs.gov/poverty/faq.shtml#programs. Money income includes income used to pay income taxes, social security, and Medicare deductions, among others. It does not include the value of noncash benefits received by individuals such as food stamps, health and retirement benefits, and subsidized housing.

POVERTY GUIDELINES

The federal government developed poverty guidelines for use in determining income eligibility for various federal programs. The poverty guidelines are based on the poverty thresholds and are updated annually using the Consumer Price Index (CPI). They are published annually in the *Federal Register* by the U.S. Department of Health and Human Services (HHS)

State and local governments and other agencies commonly use the federal poverty guidelines as the base for various program's income eligibility limits (Table 2). For example, the U.S. Department of Agriculture's school lunch program provides free lunches to families with incomes at 185 percent of the poverty threshold or below. To participate in the food stamp program, the gross family income of most households must be 130 percent or less of the HHS poverty guidelines. Florida, Kentucky, and West Virginia provide first-time subsidized child care to families at 150 percent of the HHS poverty guidelines, with ongoing care provided by these states at 165 to 200 percent of that level. All the federal programs listed in Table 2 have minimum income eligibility guidelines no less than 135 percent of the poverty guidelines.

Table 2. Federal Poverty Measures

Measure	Agency	Use	Published	Benefits
Poverty thresholds	U.S. Census Bureau	To determine the number of U.S. citizens in poverty	Annual	Calculated for age and size of household. Updated using CPI.
Poverty guidelines	U.S. Dept. of Health & Human Services	To determine financial eligibility for certain programs	Annual	Calculated for household size. Based on poverty thresholds. **Used as a base for eligibility by many health and human service programs.**

Federal poverty guidelines are used by the following federal agencies, among others:
<u>Department of Health and Human Services</u>: Community Services Block Grant, Head Start, Low-Income Home Energy Assistance Program, Community Food and Nutrition Program, parts of Medicaid, AIDs Drug Assistance Program, State Children's Health Insurance Program, Medicare—Prescription Drug Coverage (subsidized portion only), Community Health Centers, Migrant Health Centers Grants, Family Planning Services, Health Professions Student Loans, among others.
<u>Department of Agriculture</u>: Food Stamp Program Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), National School Lunch Program, School Breakfast Program, Child and Adult Care Food Program, Expanded Food and Nutrition Education Program.
<u>Department of Energy</u>: Weatherization Assistance for Low-Income Persons.
<u>Department of Labor</u>: Job Corps, Migrant and Seasonal Farmworkers Program, Senior Community Service Employment Program, Youth Activities under the Workforce Investment Act.
<u>Legal Services Corporation</u>: Legal Services for the Poor.

The federal poverty guidelines for a one person household in 2005 are nearly 160 percent of South Carolina's self support reserve for noncustodial parents. Or equivalently, the self support reserve is 62.7 percent of the federal poverty guidelines (Table 3).

Table 3. Federal Poverty Measures in 1990 and 2005

Measure	Value for One Person Household		SC Self Support Reserve as % of Federal Poverty Measure, 2005
	1990	2005	
Poverty threshold	$6,652	$9,393 (2003)	63.9%
Poverty guidelines	$6,280	$9,570	62.7%

DEPTH OF POVERTY MEASURES

The U.S. Census Bureau measures depth of poverty relative to the federal poverty thresholds. Data from the 2004 American Community Survey[3] show that people move in and out of poverty over time. Individuals and households with income between 100 percent and 124 percent of the appropriate poverty threshold for their age and household size are most likely to move into poverty over time; that is, to see their income drop below the poverty threshold. People with income below 50 percent of their poverty level are more likely to remain in poverty for an extended time.[4]

ACS data for 2004 also shows that African Americans and Native Americans are the two single-race groups with the highest percentage of individuals below 50 percent of their poverty thresholds. Persons who worked part time or not at all, had less than a high school education, or were disabled are also more likely to have incomes below 50 percent of their poverty thresholds.[5] Participants in the Sisters of Charity Foundation's Fatherhood Initiative-supported programs are mostly African-American.

SHORTCOMINGS OF THE FEDERAL POVERTY MEASURES

Because the poverty thresholds (and thus the poverty guidelines) are based on household consumer expenditure patterns from the 1960s, they do not reflect consumption patterns today. In addition, the current federal measures exclude some sources of noncash income such as food stamps, healthcare, and tax credits. Finally, the federal poverty thresholds and guidelines are calculated for all states (with the exception of Alaska and Hawaii) so they do not reflect regional differences in prevailing wage rates and the cost of living.

The acknowledged shortfalls of the federal poverty thresholds and guidelines strongly suggest that they should be set at a higher level than they currently are. A large amount of research has explored ways to improve the current federal poverty

[3] Between Census years, the U.S. Census Bureau calculates annual estimates of the number of people in poverty for states and local areas using data collected from the American Community Survey (ACS). The ACS collects detailed annual demographic, socioeconomic, and housing information from a sample of about 3 million households across the United States. The money income of households of different age and size is compared to the federal poverty thresholds to determine the number of individuals and households in poverty.
[4] United States Census Bureau, Income, Earnings, and Poverty From the 2004 American Community Survey, ACS-01. Washington, DC: US Department of Commerce, August 2005. http://www.census.gov/prod/2005pubs/acs-01.pdf [2005, October 12].
[5] Ibid.

measures, but no consensus has yet been reached.[6] An editorial by a researcher at the Economic Policy Institute notes that the National Academy of Sciences estimated that the federal poverty threshold could be as much as 45 percent higher today if it were adjusted for current consumption patterns.[7]

LOWER LIVING STANDARD INCOME LEVEL (LLSIL)

The U.S. Department of Labor's Employment & Training Administration has established family income guidelines that are used by state and local workforce investment areas (WIA) to determine income eligibility for WIA youth programs. The LLSIL is the minimum figure that states must set for determining whether employment leads to self-sufficiency under WIA programs. These income guidelines are slightly higher than the HHS poverty guidelines for a one person household (Table 4).

Table 4. U.S. Department of Labor's Lower Living Standard Income Level, 2005

Measure	Value for One Person Household	% of SC Self Support Reserve
South Metro	$10,440	57.5%
South Non-metro	$9,930	60.4%

CONSUMER EXPENDITURES AND SUBSISTENCE LIVING

Other methods attempt to measure the cost of living or understand consumer spending by looking at the relative spending patterns of consumers at different income levels. Whether or not a cost-of-living index can be an appropriate measure of poverty or subsistence living depends on whether it is designed using data from low-income households and/or focuses exclusively on basic (nondiscretionary) needs for food, shelter, and transportation.

CONSUMER EXPENDITURE SURVEY

The U.S. Department of Labor's Bureau of Labor Statistics (BLS) conducts the CES on a quarterly basis to collect information on the buying habits of American consumers. Because the CES collects data on income, it can be used to examine the spending behavior of households at different income levels.

[6] See the discussions at the U.S. Department of Health & Human Services (http://aspe.hhs.gov/poverty/index.shtml), the U.S. Census (http://www.census.gov/hhes/www/povmeas/povmeas.html), and the University of Wisconsin-Madison's Institute for Research on Poverty (http://www.irp.wisc.edu/research/method.htm).
[7] Jared Bernstein, "Who's Poor? Don't Ask the Census Bureau," Washington, DC: Economic Policy Institute, September 30, 2003 http://www.epinet.org/content.cfm/webfeatures_viewpoints_census_poor_data [2005, October 16]. This comment probably refers to a 1995 NSF study.

A 2005 BLS research report using CES data from 2001-02 analyzed spending patterns of welfare recipients compared to non-welfare recipients.[8] Table 5 shows how spending patterns have changed since 1988-89. CES data is reported by consumer units, which are households or families.

Table 5. CES Spending Shares Based on Consumer Welfare Status

Item	1988-89		2001-02	
	Welfare (%)	Non-welfare (%)	Welfare (%)	Non-welfare (%)
Food	27.4	16.3	22.1	14.1
Housing	36.7	31.4	48.8	33.0
Shelter only	21.9	18.6	22.3	20.7
Utilities, fuels, and public services	10.4	7.1	10.5	7.3
Household operations	1.2	1.7	1.5	1.9
Transportation	13.3	20.5	18.1	20.4
Health care	2.3	5.1	2.7	5.7
Entertainment	3.9	5.2	4.4	5.1
Personal care products and services	.9	.9	.6	.7
Reading	.4	.6	.2	.4
Education	.4	1.3	.9	1.7
Tobacco	2.6	1.0	2.0	.8
Miscellaneous	.8	1.2	1.1	1.5
Personal insurance and pensions	3.3	9.5	4.6	10.2

Source: U.S. Bureau of Labor Statistics, 2005. Data issues, mainly in the housing category, mean that the columns do not add to 100%.

The 2003 CES, the most recent available, provides information on consumer spending by income quintile (Table 6). Spending categories are combined slightly differently than those reported in Table 5. Lower-income consumers spent a much higher percentage of their income on food and housing than did the average consumer. Note, however, the difference between income and expenditures by consumers in the lowest quintile of the income distribution. These consumers spent over twice their income. This difference may be the result of their participation in government subsidy programs, such as food stamps, where spending reflects the value of those programs.

[8] Laura Paszkiewicz, "From AFDC to TANF: Have the New Public Assistance Laws Affected Consumer Spending of Recipients?" in Consumer Expenditure Survey Anthology 2005. Washington, DC: Bureau of Labor Statistics, http://www.bls.gov/cex/anthology05/csxanth5.pdf [2005, October 16].

Table 6. Percentage of Total Consumer Spending by Income Distribution, 2003 CES

Item	All Consumer Units (CU)	Lowest 20% of Income Distribution
Income before taxes	$51,128	$8,201
Income after taxes	$48,596	$8,260
Average annual expenditures	$40,817	$18,492
Avg. number of persons in CU	2.5	1.8
Renter (% vs. owner)	34%	59%
Food	13.1%	17.2%
Alcoholic beverages	1.0%	1.1%
Housing including utilities, household operations, supplies, and furnishings	31.9%	37.1%
Shelter	18.5%	22.0%
Apparel and services	4.1%	4.9%
Transportation	18.8%	15.5%
Health care	5.8%	7.8%
Entertainment	5.0%	3.8%
Personal care products and services	1.3%	1.6%
Reading	0.3%	0.3%
Education	1.9%	3.1%
Tobacco	0.7%	1.3%
Miscellaneous	1.5%	1.6%
Cash contributions	3.4%	2.4%
Personal insurance and pensions	11.0%	2.3%

Source: U.S. Bureau of Labor Statistics, 2005. 2003 CES, Table 45.

FAMILY BUDGETS AND LIVING WAGES

The working poor is a neglected segment of the population because of the simple assumption that people with jobs are earning a livable wage, that is, "an employment-based income that allows them to meet the basic needs of their families without suffering critical hardship and without dependence on government assistance."[9] But as described above, the federal poverty measures are seriously outdated and do not take into consideration such costs as child care, health care, housing, transportation, and other basic necessities that are determining factors in an individual's ability to work.[10]

Recent research on family budgets and regional cost differences has addressed the question 'what is a basic needs budget, how much does it cost, and what is the wage level required to support a basic needs budget in a given area?' Wages that will support a current basic needs budget are often called *living wages*.

Basic needs budget and living wages in Beaufort County, South Carolina. The Pennsylvania State University's Living Wage Project focuses on the working poor. A recent research report supported by this project investigated living wages and job gaps in Beaufort County, South Carolina.[11] This report defines a basic needs budget

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[9] Tracey L. Farrigan and Amy K. Glasmeier, "Living Wage and Job Gap Study of Beaufort County, South Carolina," Living Wage Project, Penn State University, 2002(?), p. 1, http://www.povertyinamerica.psu.edu/products/publications/beaufort_living_wage/beaufort_living_wage.pdf [2005, October 16].
[10] Farrigan and Glasmeier, p. 3.
[11] Farrigan and Glasmeier.

as the amount of *after tax income* that is required to pay for the following expenses (the federal poverty guidelines are based on income before taxes):

- Food (based on the USDA's low-cost food plan)
- Child care
- Health insurance (assumes employer-provided health insurance)
- Housing (based on HUD fair market rents + utility costs)
- Transportation
- Other necessities

The report estimated a basic needs budget and living wage for Beaufort County for 2001 (Table 7). The living wage for Beaufort County for a single person—a reasonable representation of many low income noncustodial parents—needed to be at least 143 percent of the federal poverty threshold for 2001.[12] Calculations based on an estimate of Beaufort County's living wage for 2005 indicate that the monthly livable income for a single person would need to be over twice (222 percent) the current level of South Carolina's self support reserve of $500. Indeed, based on this budget housing expenditures alone would take 90 percent of the state's self support reserve.

Table 7. Basic Needs Budget & Living Wage, Beaufort County, SC, 2001

Budget Category	One Adult 2001	One Adult 2005*	% of SC Self Support Reserve
Food	$139.40	$151.62	30.3%
Child care	0	0.00	0.0%
Medical	68.48	74.48	14.9%
Housing	414.63	450.98	90.2%
Transportation	143.44	156.02	31.2%
Other necessities	174.31	189.59	37.9%
Monthly after tax income	940.27	1,022.70	204.5%
Payroll tax	863.17	938.84	187.8%
State income tax	260.50	283.34	56.7%
Federal income tax	1,564.00	1,701.11	340.2%
Monthly livable income	1,020.38	1,109.84	222.0%
Living wage required (per hr.)	5.89	6.41	n.a.

Source: Farrigan and Glasmeier, n.d. *Calculations by authors using part-year CPI for 2005.

Living wage estimator. The Pennsylvania State University's Living Wage Project also developed a living wage estimator for all states and counties in the United States. The estimates were originally constructed a few years ago, but values are currently updated to 2004.[13] Table 8 contains gross monthly income and the living wage that would be required for selected counties in South Carolina. The monthly

[12] Farrigan and Glasmeier, p. 9-10.
[13] Living Wage Project, Living Wage Estimator, Penn State University, http://www.povertyinamerica.psu.edu/projects/living_wage/ [2005, October 16].

before-tax income that would be required to generate a living wage for a single person was over twice the current level of the state's self support reserve.

Table 8. Living Wage Estimates for Selected South Carolina Counties, 2004

Category	SC	Charleston	Fairfield	Florence	Greenville
Monthly after-tax income required	$897	$1,016	$886	$852	$994
% of SC Self Support Reserve	179.4%	203.2%	177.2%	170.4%	198.8%
Monthly gross (before-tax) income required	$1,078	$1,221	$1,065	$1,024	$1,194
% of SC Self Support Reserve	215.6%	244.2%	212.9%	204.7%	238.8%
Living wage (per hour)	6.22	7.04	6.14	5.91	6.89

Source: Living Wage Project 2005.

Basic family budgets. The Economic Policy Institute (EPI), a nonprofit, nonpartisan Washington think tank, focuses on issues of low-income and middle-income workers. EPI researchers have developed a Basic Family Budget Calculator that calculates budgets for households of different size in different parts of the country. These basic family budgets are intended to reflect the income needed for a family of a given size to secure safe and decent-yet-modest living standards in the community in which it resides.[14]

For South Carolina, basic family budgets for 2004 are available for eight metro areas and an average for all rural areas.[15] Unfortunately, these budgets are not available for one-person households. However, they can be compared to values for equivalent household sizes (say, one adult, one child) from other methods (Table 9). Closer scrutiny of the methodology of these budget estimates for families of different size would allow an estimate to be developed for one-person households using the EPI data. The budgets from EPI are somewhat smaller than those developed by the Living Wage Project.

Table 9. Comparison of 2004 Basic Family Budgets for One Adult-One Child Families From Economic Policy Institute and the Living Wage Project

	Greenville		Charleston		Florence	
	LWP	EPI	LWP	EPI	LWP	EPI
Monthly gross (before-tax) income required	$2,238	$1,987	$2,250	$2,177	$2,073	$1,846

Source: Economic Policy Institute, Basic Family Budget Calculator, 2005.

[14] Sylvia Allegretto. "Basic Family Budgets: Working families' incomes often fail to meet living expenses around the U.S.," EPI Briefing Paper, Washington, DC: Economic Policy Institute, n.d. (post 2001), http://www.epi.org/content.cfm/bp165 [2005, October 16].
[15] "Basic Family Budget Calculator," Washington, DC: Economic Policy Institute, http://www.epi.org/content.cfm/datazone_fambud_budget [2005, October 16].

COST-OF-LIVING INDEXES

Common cost-of-living (COL) indexes are not generally useful for examining the cost-of-living for low-income households. COL indexes are more often targeted to middle or upper-income households. They also generally include costs of nonessential spending, such as movie or concert tickets and restaurant meals. Rents and housing prices may be set at the median or higher. These choices do not reflect purchases made by households at lower income levels.

The ACCRA Cost of Living Index is one of the most widely-used COL indexes in the United States. It measures relative price levels for consumer goods and services in participating areas. The ACCRA index reflects cost differentials between areas for the standard of living present in a *professional and/or managerial household*. The ACCRA index excludes state and local taxes. The ACCRA index is published quarterly and COL data for major metro areas can be purchased directly from the organization's Website.[16]

The ACCRA Cost of Living Index provides up-to-date information on cost differences between in-state metro areas (Table 10). It may be helpful to take these cost differences into consideration when setting self support reserves for noncustodial parents in different South Carolina counties.

Table 10. ACCRA Cost of Living Index Differentials From Greenville, SC, 2nd Quarter 2005

Location Compared to Greenville	COL Differential from Greenville (all purchases)	Income Comparable to $10,000 in Greenville
Charleston-N. Charleston	+4.7%	$10,470
Columbia	-0.6%	$9,940
Lancaster	-11.9%	$8,810
Anderson	-2.1%	$9,790
Sumter	-3.7%	$9,630
Camden	+0.9%	$10,090
Florence	+1.3%	$10,130
Hilton Head Island	+6.9%	$10,690
Myrtle Beach	-3.7%	$9,630

Source: ACCRA.

STATE CHILD SUPPORT MODELS AND INCOME

In 1988 the federal Family Support Act required states to pass legislation making the state child support guidelines a "rebuttable presumption" in any judicial or administrative proceeding and establishing the amount of the order which results from the

[16] http://www.coli.org/ [2005, October 15].

application of the state-established guidelines as the correct amount to be awarded. The act also required the states to develop income-based child support guidelines.

CURRENT STATE MODELS

Since 1988, the states have based child support awards on one of three models: The income shares model, the percentage of income model, and the Melson formula. In the Southeast, South Carolina, North Carolina, Virginia, Florida, Alabama, and Louisiana use the income shares model, preferred by 35 states. Georgia, Tennessee, and Mississippi are among 13 states following the percentage of income model. Only Delaware, Hawaii, and Montana apply the Melson Formula model.

The most used method, the income shares model, features a self support reserve for the noncustodial parent before child support payments are determined. Most states base the reserve on a percentage of the federal poverty guidelines. A SupportGuidelines.com publication on guidelines notes that the income shares method's greatest asset is the perception of fairness it evokes.[17]

The percentage of income model usually takes only the noncustodial parent's income into consideration when defining child support in a particular case. The custodial parent's income is usually not considered when the award is determined. A self support reserve for the noncustodial parent is not specified in this process. The Wisconsin variant of this method has many critics.

The cover story in the October 2000 *Georgia Bar Journal,* referencing a study from the *Family Law Quarterly,*[18] called Georgia's adoption of Wisconsin-style guidelines "one of the most onerous child support schemes in the country." Based on the study, the Georgia Bar article notes that as "a result of the erroneous economic assumptions upon which these Guidelines are based, low income NCPs [noncustodial parents] are often pushed below the poverty income level and higher income NCPs pay grossly excessive child support payments which are tantamount to hidden alimony."[19] Georgia has since changed to the income shares method.

Delaware, Hawaii, and Montana follow the "Melson" formula, which a Delaware Family Court judge set forth in *Dalton* v. *Clanton* in 1989. This variant of the income shares model uses a standard of living adjustment to make sure that as parents' incomes increase, children will benefit through an improved standard of living. It also accommodates adjustments for special considerations such as shared custody, split custody, and other extraordinary situations expenses. A Department of Health and

[17] http://www.supportguidelines.com/book/chap1b.html, Child Support Guidelines, Chap. 1, Part 2, downloaded on October 16, 2005. Footnote 57 points out that although the name "income shares" connotes a sharing of the support obligation between the father and mother, the term "shares" is intended to connote a child's rightful claim on parental income, as in shares of stock, or shares of ownership in an income-producing real estate unit.
[18] R. Mark Rogers, Wisconsin-Style and Income Shares Child Support Guidelines: Excessive Burdens and Flawed Economic Foundation, 33Fam. L.Q. 135, 139-41 (1999).
[19] William C. Akins, "Why Georgia's Child Support Guidelines Are Unconstitutional," Georgia Bar Journal, October 2000: vol. 6, no. 2.

Human Services writer labels this formula “the fairest,” although some may consider it complex.[20]

The U.S. House Ways and Means Committee’s Green Book *Child Support Enforcement Program* describes the three models:[21]

> The income shares approach is designed to ensure that the children of divorced parents suffer the lowest possible decline in standard of living. The approach is intended to ensure that the child receives the same proportion of parental income that he would have received if the parents lived together. The first step in the income shares approach is to determine the combined income of the two parents. A percentage of that combined income, which varies by income level, is used to calculate a ``primary support obligation.'' The percentages decline as income rises, although the absolute amount of the primary support obligation increases with income. Many States add child care costs and extraordinary medical expenses to the primary support obligation. The resulting total child support obligation is apportioned between the parents on the basis of their incomes. The noncustodial parent's share is the child support award [a self support reserve is set aside from the noncustodial parent’s income before the support award is determined] (Office of Child Support, 1987, pp. II 67-80).
>
> The percentage of income approach is based on the noncustodial parent's gross income and the number of children to be supported (the child support obligation is not adjusted for the income of the custodial parent). The percentages vary by State. In Wisconsin, child support is based on the following proportions of the noncustodial parent's gross income: one child--17 percent; two children--25 percent; three children--29 percent; four children--31 percent; and five or more children--34 percent. There is no self support reserve in this approach nor is there separate treatment for child care or extraordinary medical expenses . . . .
>
> The Melson-Delaware formula starts with net income.[22] After determining net income for each parent, a primary support allowance is subtracted from each parent's income. This reserve represents the minimum amount required for adults to meet their own subsistence requirements. The next step is to determine a primary support amount for each dependent child. Work-related child care expenses and extraordinary medical expenses are added to the child's primary support amount. The child's primary support needs are

[20] R. Williams, “An Overview of Child Support Guidelines,’ Child Support Guidelines: The Next Generation, (U.S. Dep’t of Health and Human Services, Office of Child Support Enforcement, 1994).
[21] “The Child Support Enforcement Process” excerpted from the 2000 House Ways and Means Green Book, “Child Support Enforcement Program” in the Almanac of Policy Issues at http://www.policyalmanac.org/social_welfare/archive/child_support., [2005, October 14].
[22] Net income equals income from employment and other sources plus business expense accounts if they provide the parent with an automobile, lunches, etc., minus income taxes based on maximum allowable exemptions, other deductions required by law, deductions required by an employer or union, legitimate business expenses, and benefits such as medical insurance maintained for dependents.

then apportioned between the parents. To ensure that children share in any additional income the parents might have, a percentage of the parents' remaining income is allocated among the children (the percentage is based on the number of dependent children). . . . .

STATE SELF SUPPORT RESERVE COMPARISONS

Table 11 shows the self support reserve levels for noncustodial parents in selected states using the income share method for 2005. Most states surveyed set their self support reserve levels at 100 percent or higher of the *current* federal poverty guidelines (FPG). Maryland is the only state with a self support reserve lower than South Carolina's, but it is based on net income after taxes. The other states' self support reserves are based on gross income.

Table 11. 2005 Self Support Reserve Values for Selected States

State	SSR Per Month	SSR Per Year	Means of SSR Determination	% of 2005 Poverty Guidelines	Percent of SC SSR	Minimum Monthly CS Order (1 Child)
AL	None	None	NA	0.0%	0%	$50
AZ	$775	$9,300	Supreme Court decision	97.1%	155%	None
CT	None	None	NA	NA	NA	Not specified, but no order if income<$50/wk
Guam	$775	$9,300	FPG	97.1%	155%	$50
IL	NR	NR	NR	--	--	20% net income
LA	$522	$6,264	FPG 1999	65.4%	104%	$100
MD	$481*	$5,772	FPG 1988	60.3%	96%	$20-$150
MT	$1,037	$12,441	130% FPG	130.0%	207%	14% of income after deductions
NE	$798	$9,576	100% FPG	100.0%	160%	Greater of $50 or 10% net income
NM	None	None	NA	NA	NA	$100
OR	$884	$10,608	FPG 2001	110.8%	177%	Pending
PA	$749	$8,988	FPG	93.9%	150%	None, but can specify $5-$20 per week
SD	150% FPG ($1,196)	150% FPG ($14,352)	150% FPG	150.0%	239%	$100
TN	None	None	NA	NA	NA	$100
VA	$800**	$9,600+	FPG 1987	100.2%	160%	$65
WY	None	None	NA	NA	NA	$50

Source: SC Department of Social Services survey. *of net income. **Up to $1,450 for 5 children. NR=no response. NA=not applicable.

THE CALIFORNIA COLLECTIBILITY STUDY AND RESEARCH ON LOW-INCOME FATHERS

Turning to the issue of the collectibility of child support, state policies have been clearly shown to adversely affect compliance with child support orders. Many of these policies have to do with the noncustodial parent's income and computation of the child support order. The authors of a March 2003 Urban Institute study on child support arrears in California attributed approximately 75 percent of the state's escalating child support arrears to policies and practices that result in child support orders beyond the noncustodial parent's ability to pay.[23] For example, 25 percent of parents with child support arrears had no recent income and 71 percent of these parents had their child support order establish in their absence. For 47 percent of these debtors, their income was presumed at a level that far exceeded their ability to pay. At the lowest income levels, child support debtors with incomes less than $5,000 (in 2000) had $7.58 owed in child support arrears for every dollar earned and $2.11 owed on a current child support order.

Research on child support policies for low-income fathers by the Center for Law and Social Policy (CLASP) notes that it is important that child support orders are based more strictly on the ability of low-income fathers to pay them. Setting a realistic order improves the chances that fathers will continue to pay over time. Recommendations from a 2000 report addressing income and the ability to pay include:[24]

- Establishing minimum income threshold in state child support guidelines;
- Creating progressive income guideline percentages, so that poor fathers pay less of their income than better-off fathers;
- Setting self support reserves;
- Limiting the ability of courts to set child support orders based on assumed earnings capacity;
- Avoid charging low-income fathers with TANF and Medicaid costs that are unrelated to the father's ability to pay;[25] and
- Keeping child support orders up-to-date when the noncustodial parent's circumstances change.

The CLASP study states that "[t]o the extent that fathers have the ability to pay, strengthened child support enforcement tools mean that more low-income families will be able to leave welfare and sustain low-wage employment." This should be an aim for all families, both those receiving and paying child support.

FINDINGS AND CONCLUSIONS

South Carolina's self support reserve is designed to ensure that a noncustodial parent providing child support has a net income after payment of child support to maintain at least a minimum standard of living which does not negatively affect his or her earning capacity, incentive to continue working, and ability to provide for him or herself. By any measure, it does not appear to do so.

[23] "Study Assessed Child Support Arrears in California," Center on Fathers, Families, and Public Policy, Madison, Wisconsin, September 2003 www.cffpp.org [2005, October 15]. The study referenced in this publication is "Examining Child Support Arrears in California: The Collectibility Study," available at http://www.childsup.cahwnet.gov [2005, October 14].
[24] Vicki Turetsky, "Realistic Child Support Policies for Low Income Fathers," Kellogg Devolution Initiative Paper, Washington, DC: Center for Law and Social Policy, March 2000 http://www.clasp.org/publications/realistic_child_support_policies.pdf [2005, October 14].
[25] See also Vicki Turetsky, "In Everybody's Best Interests: Why Reforming Child Support Distribution Makes Sense for Government and Families," CLASP Policy Brief, Washington, DC: Center for Law and Social Policy, September 2005 http://www.clasp.org/publications/cs_brief_1_final.pdf [2005, October 17].

An aim of the child support system should be to move families from welfare and to sustain low-wage employment, both for those paying and receiving child support. The information presented in this policy brief makes it clear that setting appropriate self support reserves is a fundamental step toward achieving this important goal.

The findings in this policy brief strongly suggest that state policy makers should increase South Carolina's self support reserve to a specific percentage of the annual federal poverty guidelines. In the authors' opinion, data on self support reserves in other states and research on poverty and living wages presented in this policy brief suggest that an appropriate level would be between 100 percent and 135 percent of the federal poverty guidelines. The state's self support reserve also should be allowed to adjust annually when the new federal poverty guidelines are published in order to maintain consistency over time and maintain equity for low income noncustodial parents.

Key findings in this policy brief include:

- South Carolina's self support reserve of $500 is now only 62.7 percent of the 2005 poverty guidelines (it was first set at a level that was 72.9 percent of the federal poverty guidelines in 1994).
- The federal poverty guidelines are commonly used by states as a base for calculating the self support reserve. Current state self support reserve formulas discussed in this report range from 60 percent (based on net income rather than gross) to 150 percent of the federal poverty guidelines. Some states adjust their limits annually with the federal poverty guidelines. Other states set their self support reserve relative to a particular year's federal poverty guidelines. Eligibility for many federal programs begins at 135 percent level of the federal poverty guidelines.
- According to research on family basic needs budgets, the South Carolina self support reserve is substantially below the level where it is likely to expect that people will not be able to lift themselves out of poverty: below 124 percent of the federal poverty guidelines. The ability to comply with child support orders is severely compromised below this income level as well.
- Research on basic needs budgets and living wages for Beaufort County, SC demonstrated that the minimum living wage for a single person needed to be 143 percent of federal poverty threshold in 2001. Housing expenditures alone consumed 90 percent of the current self support reserve amount. To meet the 143 percent standard in 2005, South Carolina's self support reserve would need to be $1,100, or 222 percent of its current $500 level.
- Estimates for South Carolina suggest that monthly gross (before-tax) income of $1,078 is required to support a one person household at a "living wage". This 2004 amount is 216 percent of the state's self support reserve.

- Low-income households have different consumption patterns than higher-income households. Food, housing, and transportation take an overall larger share of total income.
- Cost-of-living indexes are not helpful in determining what the self support reserve should be because they generally focus on the expenditures of higher-income households. They can, however, indicate regional differences in prices for major consumer spending areas.
- U.S. Census data for 2004 shows that African Americans and Native Americans are the two single-race groups with the highest percentage of individuals below 50 percent of their poverty thresholds. Participants in the Sisters of Charity Foundation's Fatherhood Initiative-supported programs are mostly African-American.
- South Carolina does not routinely update the self support reserve for non-custodial parents, unlike many other states. The federal poverty guidelines are published every February in the *Federal Register*, however.
- Research on other states shows that state policies may have an adverse effect on the ability of noncustodial parents to pay their child support orders.