



**FRANCE STRATÉGIE**

ÉVALUER. ANTICIPER. DÉBATTRE. PROPOSER.

# Sharing the costs of raising children after a divorce or a separation

# Background

- Around 170 000 couples with children separate every year in France.
- Child support orders: more than 150 000 judicial decisions in 2008.
- Since 2010: official guidelines (reference table) drawn up by the Ministry of Justice to help judges set the amount of child support owed by non-resident parents, according to non-resident parent income and custody arrangements.
- Our question: How is the cost of raising children shared between parents after taking into account child support payments (set according to the reference table) and public transfers?



# Results

- In most cases, the standard of living of both parents drops after separation.
- The difference in standard of living between parents after separation is not determined by who is the resident parent but rather by the existence of a difference in income between parents before separation.
- The net cost of raising children (i.e. after child support payment and child-related benefits and tax deductions) is higher for the non-resident parent.

This the controversial result of our study!



# Methodology

A study based on a micro-simulation tool developed by France Stratégie and Etalab: OpenFisca (Open source software). Used to calculate child-related benefits and tax deductions for each household.

Step 1: Creation of hundreds of different households that vary according to the income of each parent and number of children.

Step 2: The gross cost of raising children is estimated for each household, using an equivalence scale (OECD-modified scale). The net cost of raising children is also estimated.  
Net cost = gross cost – child-related benefits and tax deductions.

Step 3: Simulation of separation

- Child support owed by the non-resident parent is set according to official guidelines.
- Gross cost of raising children is estimated for each parent, using a modified equivalence scale.
- Net cost = gross cost – child-related benefits and tax deductions + or – child support, calculated according to reference table.



# Estimating the gross cost of raising children before separation

- Before separation: OECD-modified scale

- First adult = 1 Consumption Unit (CU)
- Second adult or child over 14 = 0.5 CU
- Child under 14 = 0.3 CU

- For a couple

- Gross cost of 1 child (under 14) =  $\frac{0.3}{1+0.5+0.3} = 16\%$  of household income.

- Gross cost of 2 children (under 14):  $\frac{2*0.3}{1+0.5+2*0.3} = 28\%$  of household income

- Gross cost of 3 children (under 14):  $\frac{3*0.3}{1+0.5+3*0.3} = 37.5\%$  of household income

- And so on



# Estimating the gross cost of raising children after separation

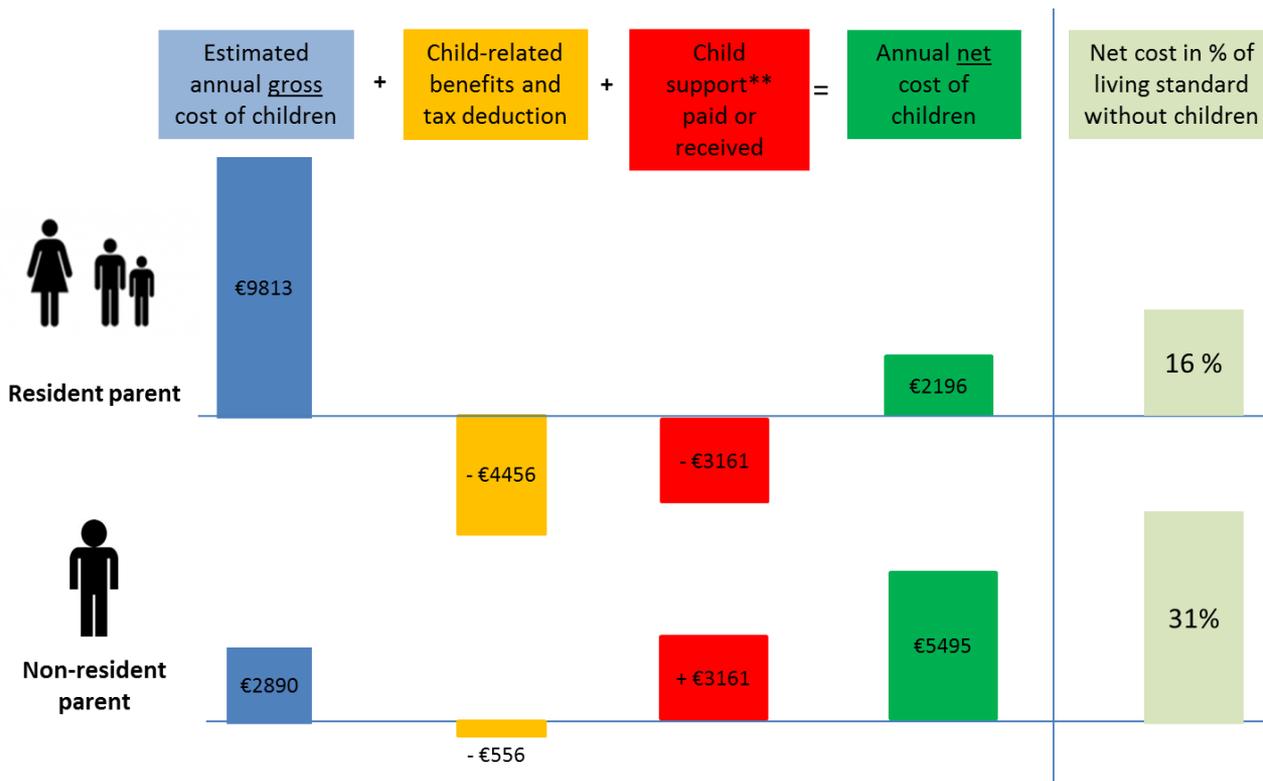
- For the resident parent: consumption units of children = 140 % of consumption units of children in OECD scale
  - Example: child under 14 = 0.42 CU (not 0.3) → cost of 1 child = 30% of parent income
  - Why ? Sole parents have higher specific expenditures, such as childcare.
- For the non-resident parent: consumption unit = 40% of consumption units of children in OECD scale
  - Example: child under 14 = 0.12 CU (not 0) → Cost of 1 child = 10% of parent income
  - Why ? Non zero “costs of contact”: bedroom, transportation, leisure, etc.
- Inspiration: Australian study (P. Henman, 2005) using budget standards methodology (normative approach, costs not dependent on parent income)

A resident parent with 80% contact incurs on average 99% of the costs faced by a resident parent with 100% contact. A non-resident parent with 20% contact faces 38% of the cost of the child in 100% care with a sole parent.



An example: resident parent earns 1 SMIC\* (French minimum wage), non-resident parent earns 1.5 SMICs.

2 children under 14 / Classical custody arrangement (non-resident parent = 25% contact)



\*: 1 SMIC = €1070 net per month in 2011.

\*\* : according to official guidelines



# Contrasting cases

	Before separation	Resident parent	Non-resident parent
<b>Case 1 : “median” case : 2 children, resident parent earns 1 SMIC (French minimum wage), non-resident parent earns 1.5 SMICs</b>			
Taxable salary	€32 160	€12 864	€19 296
Child support		€3161	- €3161
Disposable income after tax, benefits and child support	€33 276	€21 494	€14 932
Standard of living	15 845 €	€11 681	€12 042
Living standard change after separation (in % before separation)		- 26 %	- 24 %
Net cost of children (in % of living standard if there was no child)	22 %	16 %	31 %
Public cost of separation		<b>€3150</b>	
Of which extra public cost of children after separation		€2295	
<b>Case 2 : “poor parents” case : 2 children, resident parent earns 0.5 SMIC, non-resident parent earns 0.5 SMIC</b>			
Taxable salary	€12 864	€6 432	€6 432
Child support		€170	- €170
Disposable income after tax, benefits and child support	€22 289	€18 046	€11 311
Standard of living	€10 614	€9 807	€9 121
Living standard change after separation (in % before separation)		- 8 %	- 14 %
Net cost of children (in % of living standard if there was no child)	3 %	14 %	20 %
Public cost of separation		<b>€7 067</b>	
Of which extra public cost of children after separation		€615	
<b>Case 3 : “wealthy parents” case : 2 children, resident and non-resident parent each earns 3 SMICs</b>			
Taxable salary	€77 184	€38 592	€38 592
Child support		€7 647	- €7 647
Disposable income after tax, benefits and child support	€70 329	€43 942	€27 057
Standard of living	€33 490	€23 882	€21 821
Living standard change after separation (in % before separation)		- 29 %	- 35 %
Net cost of children (in % of living standard if there was no child)	23 %	26 %	33 %
Public cost of separation		<b>€670</b>	
Of which extra public cost of children after separation		€670	
<b>Case 4 : “asymmetry of income” case : 2 children, resident parent earns 1 SMIC, non-resident parent earns 3 SMICs</b>			
Taxable salary	€51 456	€12 864	€38 592
Child support		€7 647	- €7 647
Disposable income after tax, benefits and child support	€48 726	€24 665	€27 057
Standard of living	€23 203	€13 405	€21 821
Living standard change after separation (in % before separation)		- 42 %	- 6 %
Net cost of children (in % of living standard if there was no child)	24 %	- 3 %	33 %
Public cost of separation		<b>€2 997</b>	
Of which extra public cost of children after separation		€2 588	



# Study limitations

- Simulations rely on assumptions open to discussion
  - Child support orders follow official guidelines (reference table).
  - Assumptions on rents (1/3 of income).
  - Financial situation assessed just after separation: we don't take into account family reunion, new career paths after separation, etc.
- Estimate of gross cost of raising children open to question
  - Research is lacking regarding the cost of children for sole parent household and to an even greater extent for non-resident parent household.
  - Even for two-parent households, estimates of cost of raising children are open to debate (empirical approach versus normative approach).
- We only consider monetary costs.
  - Cost of lost career opportunities, cost of time caring not taken into account, etc.
  - As well as psychological cost of children's absence from non-resident parent's home



## Propositions: Three options

- Amending the reference table used to help judges set child support
- Amending tax and benefit legislation so that the situation of separated parents (particularly the non-resident parent) is taken into account better
- Providing judges with a tool to simulate the financial situation of both parents following separation, child support payment/collection and benefits and income tax deductions.

