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Cost of Raising a Child Calculation Tool

Issues Involving Child Support

By Mark B. Baer

SINCE 1960, THE UNITED STATES DEPARTMENT OF Agriculture (USDA) has been assigned to provide estimates of expenditures on children from birth through the age of 17. Those expenditures consist of the following categories: housing, food, transportation, clothing, health care, child care, education and miscellaneous expenses. It is important to note that the report only covers through the age of 17 because parents do not stop supporting their children once they reach the age of 17. In other words, people should expect that children will actually cost them more than what is set forth by the USDA.

According to the USDA report entitled, "Expenditures on Children by Families, 2009," "In 2009, estimated annual average expenses on the younger child in two-child, husband-wife families increased as income level rose. Depending on age of the child, annual expenses ranged from \$8,330 to \$9,450 for families with a before-tax income less than \$56,670, from \$11,650 to \$13,530 for families with a before-tax income

between \$56,670 and \$98,120, and from \$19,380 to \$23,180 for families with a before-tax income more than \$98,120. On average, households in the lowest income group spent 25 percent of their before-tax income on a child; those in the middle-income group, 16 percent; and those in the highest group, 12 percent. The range regarding these percentages would be narrower if after-tax income were considered."

"Compared with expenditures on each child in a two-child, husband-wife family, expenditures by husband-wife households with one child average 25 percent more on the single child and expenditures by households with three or more children average 22 percent less on each child."

Taking inflation into account, it is estimated that to raise a child born in 2009 to age 17, it will cost the lowest income group \$205,960, the middle income group \$286,050 and the highest income group \$475,680.

"For husband-wife families with one child, USDA estimates 27 percent of total family expenditures are spent on the child; for two children, 41 percent; and for three children, 48 percent."

"In 1960, average expenditures on a child in a middle-income, husband-wife family amounted to \$25,229, or \$182,857 in 2009 dollars. By 2009, these estimated expenditures climbed 22 percent in real terms to \$222,360 (assuming a family had child care and education expenses on a child)."

Family Size and Income Correlation

As set forth by Jason M. Lindo in his September 24, 2008 study for the University of California, Davis, entitled, "Are Children Really Inferior Goods? Evidence from Displacement-Driven Income Shocks":

"Cross-sectional evidence suggests that family size and income are negatively correlated," in that lower income families tend to have more children than do higher income families.

Rather than getting caught up on this inverse correlation and the fact that those having most of the children can least afford it, it should be noted that those in the lowest income group are effectively keeping themselves in that group by having children they can ill afford to support. How does one expect to improve their economic station if they burden themselves with expenses that prevent them from saving money and actually cause them to live beyond their economic means?

Rather than taking responsibility for poor financial decisions (having children they cannot afford), people tend to blame others for their circumstances. As stated by Lindo in his study, research shows that "a household not only chooses how many children to have, but also when to have them."



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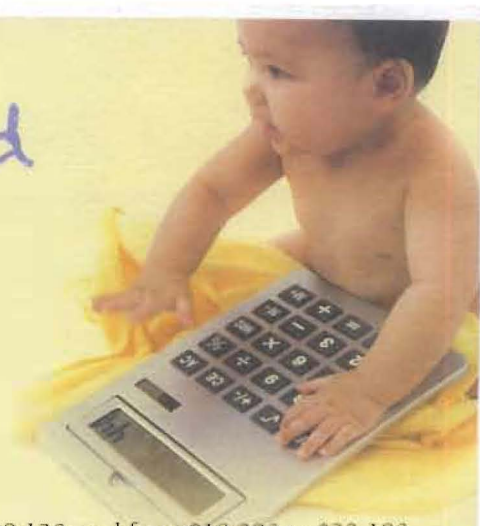
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Clearly, this does not apply to all income groups because otherwise there would not be an inverse correlation between family size and income. Nevertheless, for those who are interested in knowing how many children they can afford, if any, the United States Department of Agriculture has developed a "USDA Cost of Raising a Child Calculator."

Children Are Expensive

Parents typically say that their children mean more to them than anything else. Considering the cost of raising a child, one would certainly hope this statement to be true. However, what parents seem to forget when they are divorcing or their relationship is ending is that children are expensive.

Since most parents never used the USDA Calculator, they never really thought about the cost of their children. It is only when the relationship comes to an end that the parents have to deal with the issue of child support.

Child support is the payment by one parent to the other for the support of the child/children of their relationship. The law requires that the amount of child support be determined in accordance with a guideline. Child support calculations take into account the respective gross incomes of the parents, tax deductible expenses and the percentage of time that each parent has the children, among other things.

Let's consider the following factors to calculate child support for a divorcing family:

- Father's gross monthly income is \$4,500
- Mother's gross monthly income is \$3,500
- There are 3 minor children involved, ages 3, 5 and 7
- Father has the children 25 percent of the time
- Father files his taxes as single
- Mother files her taxes as head of household
- Mother spends \$600 a month on child care

For the above example, no other factors exist for purposes of calculating guideline child support. The father in this case would be ordered to pay the mother guideline child support in the sum of \$1,310 per month and he would be left with net spendable income of only \$2,019 per month. After taking into account the child support she receives, the mother would have monthly net spendable income of \$4,765.

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Invariably, father would complain that the laws are unfair and that he cannot afford to pay that amount of child support. He may also be troubled by the fact that the mother is not obligated to account for her use of that money. The father might refuse to purchase clothing and other basic necessities for the children because he is paying child support to the mother.

However, what the parents have not considered is that according to the USDA Calculator, the estimated annual cost of those three children is \$29,492 and he is paying the mother \$15,720 per year in child support, which is \$13,772 less than the estimated annual cost of raising those children. The child support that he pays to the mother basically equalizes the fact that she has the children 75 percent of the time and therefore incurs 75 percent of their cost. Father still has the children 25 percent of the time and has costs associated with his time with them. Both parents struggle to support the children, one thinking he is paying too much in support and the other that she is receiving too little in support. In reality, the only reason the couple was able to afford the three children while still together (assuming that they could afford the three children) is because they only had one household to support.

According to the USDA's report, "As a proportion of total child-rearing expenses, housing accounted for the largest share across income groups, comprising 31 to 35 percent of total expenses on a child in a two-child, husband-wife family. For families in the middle-income group, child care/education (for those with the expense) and food were the next largest average expenditures on a child, accounting for 17 and 16 percent of child-rearing expenses, respectively."

In determining housing expenses, the USDA takes into account the average cost of additional bedrooms needed to accommodate the children. Considering the number of marriages that end in divorce, it might be a good idea if more couples considered the financial costs associated with children before actually having them. ♀

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