21 September 2006

Community Affairs Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

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Dear members of the Senate Community Affairs Committee,

Child Support Legislation Amendment (Reform of the Child Support Scheme – New Formula and Other Measures) Bill 2006

The "Parkinson formula" has failed to achieve what the Ministerial Taskforce was requested to do.

There are fundamental weaknesses in the logic and relationships used in the "Parkinson formula".

It is now proposed to incorporate these flaws into the proposed legislation.

We need a formula based on proper mathematics, being sound logic and factual data. We need to stop Child Support's Wacky Maths.

Please refer to the attached.

Yours faithfully,

David Hardidge

Introduction - Child Support's Wacky Maths

The current child support system is widely regarded, particularly by payers, as unfair.

Recently, a Ministerial Taskforce (The Parkinson Committee) was given the task of determining the costs of raising children in a dual household environment and to determine a way of sharing those costs based on capacity.

The Parkinson report, as the Taskforce report is known, makes some obvious recommendations for improvement, for example same self-support exemption for each parent, higher costs for children over 13 years. However, the report's recommendations will continue to create unfairness.

The Taskforce still uses surveys for intact households to determine the costs of raising a child, when it is a dual household that needs to be determined. The report does not recognise that it costs more for separated families, and living standards DO decline when parents separate. So failing to take this consequence into account is one of the most obvious failures of the Taskforce's report and the its recommended formula.

The Taskforce did not compare its results as a self-check against other government benchmarks, e.g. Youth Allowance. If the Taskforce had done so, it would have identified the flaws in its formula.

The Taskforce does not separate costs into fixed (which both parents have to cover) and variable (which varies depending on days spent with the parent). The Taskforce did not adjust notional or gross income to available income by adjusting for family tax benefits and the outcome of child support payment transfers. In fact, the report recommends the taking away of the family tax benefit from some fathers.

The Taskforce failed to achieve what it requested to do.

We need a formula based on proper mathematics being sound logic and factual data. Do we have to wait another 10, 20, 50 years to get it right? We need to stop Child Support's Wacky Maths.

Child Support's Wacky Maths

This submission includes a number of concepts from a book titled "Child Support's Wacky Math", written by Robert W. Ingalls. The book is subtitled "How Errors in Math and Logic Used in Determining Shared-Custody Child Support Creates Unfairness and Discord in the Commonwealth of Virginia",

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1   Obligations and requirements of child support

An important task in dealing with the aftermath of relationship breakdowns involving children is the care of those children.

It is well accepted that it is the responsibility of both parents to care for their children after the relationship breakdown.

Regardless of which parent earns the most money, their REQUIREMENTS to meet this responsibility and to support the children are what needs to be determined. This is different than OBLIGATIONS. These two terms should not get mixed up. REQUIREMENTS are the needs of the parents in supporting the children. The OBLIGATIONS are the amount one parent owes to another parent, depending on the ability of each parent to share in these financial requirements, and thus their expenses in supporting a child. Obligation is a completely different issue and requires a different formula to be used after the requirements of both parents have been determined. Mixing the two in determining shared custody child support requirements results in confusion, illogic, and invalid results.

I think we all want to achieve 'fairness for children' as the primary goal. But to achieve fairness for the children, 'economic fairness to both parents' must occur. Otherwise, there will be vast discrepancies between both households and in the end, it is the children that will either benefit or suffer.

We should remember that child support is for the support of the children. It should not be used as a supplement to support the Residential Parent (usually the mother).

I use the term Residential Parent to refer to the parent with the most number of contact nights, and Non-Residential parent to refer to the other parent.

2 Applying a practical method

To be able to determine child support payments on a practical basis, a formula is used in Australia. The "Parkinson formula", although slightly changed from the existing formula, albeit more complicated, is proposed to be used. Many countries overseas also use a formula approach.

Formulas are part of mathematics. Mathematics is about logic and relationships. It requires accuracy. You cannot just haphazardly throw together various equations and numbers and expect that to be correct. Just because you can 'do the maths' does not necessarily mean that the solution or formula or algorithm or whatever you call it is correct, even if every time you work the numbers the value arrives at the same answer. It has to have meaning. It has to have a valid relationship between variables. Without that, it becomes meaningless. It just becomes an exercise in number crunching.

Mathematics is the application of relationships to one another. Having just partial valid relationships is not correct and will result in incorrect and invalid data.

The current formula, based on the formula introduced into the Child Support Act in 1988, was derived from overseas expenditure surveys based on intact single households, rather then a two-household environment. It is because of the relationship breakdown that there is the need to determine shared custody support. It is the failure to adequately address this issue that continues to plague the current arrangements.

The "Parkinson formula" still does not address this issue]

3 Results of the current approach

It is clear that because the current formula is based on a single household rather then a two-household environment, that the formula violates the rules of logic and relationships of mathematics. The formula is wrong.

The original 1988 formula gave the results that the [then Committee] was looking for. It was based on expenditure for overseas surveys (single households) of costs for raising children of between 16% and 20% of weekly wages. In the end 18% was chosen.

Furthermore, the survey was based on low income households, that would generate a higher percentage of costs on basic necessities.

Then the formula included adjustments for additional children. This was based on surveys showing that additional children cost half of the previous child. So a second child cost half of the first, so half of 18% was added. Therefore the formula required 27% (18% + 9%) to be the factor for two children.

The Parkinson formula still does not address the issue of single household versus two-households. The results are not based on actual expenses of a two-household environment, but appear to be based on the desire to appease the Residential Parent (typically the mother) by not taking away as much support money during the recalculation of shared child support and by letting the Non-Residential Parent (father)

believe their expenses were being acknowledged earlier. This is a form of gender-discrimination.

4 More errors in logic

Expenses required in a household can be divided into two categories: variable and fixed. Variable costs are those that fluctuate or change depending upon the days of visitation. Thus variable costs fluctuate depending on the variable of visitation days. Fixed costs, on the other hand, remain fairly stable regardless of the number of days of visitation. Percentage of visitation (used in the child support formula) should only be tied to variable costs (food, petrol, activities) and not to fixed costs (housing, beds).

Suppose that the visitation was 60% RP (mother), 40% NRP (father). The NRP would still require 100% of his fixed expenses but only 40% of the variable expenses, while at the same time the RP would require 100% of her fixed expenses and 60% of the variable expenses. In any situation other than the 50% level, it is the fixed portion of the requirements that are being calculated in error when applied to percentage of visitation.

When determining the costs of raising children, those costs for the proper needs of a child should represent the "marginal" or extra costs of a child in a household. There should not be an apportionment of costs that would be incurred by a parent with or without the child(ren).

5 More weaknesses in the current approach

The current formula violates the requirement for the formula to be based on logic and relationships. The current formula is based on expenditure surveys that focus on expenditure. These expenditures are based on the amount of income that the single household receives. That income includes government grants (for example family tax benefits) and pensions.

The application of the current formula excludes the consideration of the receipt of such payments when allocating the obligations of each parent. However, additional income usually means additional expenditure. Excluding income results in the overstatement of expenditure. Particularly as the current formula is based on expenditure surveys, as that expenditure can only be funded from the additional income.

The "Parkinson formula" largely continues this flaw by excluding the family tax benefit from calculations. In fact, the Parkinson formula introduces greater errors by only allowing the Non-Residential parent to receive the family tax benefit after visitation exceeds 35% of nights. This is in effect an increase in child support payments given the reduction in family tax benefits to many NRPs with visitation from 10% to 35% nights.

Another problem with the current application of the formula is the double payment of child support. This arises because on property settlement, it is common that many Non-Residential Parents (mainly fathers) have significant portions of their assets and

resources transferred to the Residential Parent on the reasoning that this is a splitting of the joint property, but also an allowance (often a substantial allowance) for the benefit of the child(ren).

Often, such resources will include the former matrimonial home.

But the child support formula includes an allowance for housing. So, the Non-Residential Parent has often paid for the housing of the children through the transfer of the matrimonial home, and also has to continue to pay the housing costs of the child, when the house is already paid for!

6 Clearly erroneous outcomes in current approach

The many, many complaints about the current system clearly indicate that there are problems with the current system.

But I do not need to tell those of you paying child support that!

A reference for the costs of a child is the Youth Allowance.

The Youth Allowance (under 18 at home) is $183.20 per fortnight (effective from 20 September 2006)
        http://www.centrelink.gov.au/internet/internet.nsf/payments/pay_how_yal.htm
        20 September 2005

This is $91.60 per week, or $396.93 per month (a month being 4 1/3 weeks).

The Youth Allowance would be expected to be higher than the proper needs of a child, as a youth receiving this allowance would be looking for work, and would have higher costs in looking for work, higher clothing costs, higher motor vehicle costs etc.

The Youth Allowance also represents the cost of a youth in a single household, being 100% of fixed costs and 100% of variable costs.

The costs for a child in a two-household environment will be higher than for a single household because of the need to cover fixed costs in two households instead of one. However, any formula that arrives at an amount to be paid from one parent to another parent that exceeds $397 per month is clearly incorrect, as anything above $397 per month (on the government's own figures) exceeds the cost of raising that child for the whole month in the Residential Parent's household.

7 Moving forward – Child support payments

If both parents are working (especially when the children are older than 6 – like the disability support proposals) and with the father having greater contact with their children (as promised under the new legislation), there should be less need for child support transfer payments.

But there will still of course still need to provide for arrangements to ensure both parents meet their responsibility to meet the living requirements of their children, by the making of child support obligation payments.

It has been widely reported that it was an open secret during the Parkinson Report deliberations that the family tax benefit covers costs – so even less need for monetary transfer.

Mathematics and formulas are based on logic and relationships. Whatever formula is arrived at, it must be based on sound logic and factual data.

The Parkinson Report has not provided this.

We need to analyse costs for a two household environment into split into fixed costs (e.g. housing – of course after taking the property settlement into account), variable costs (e.g. food and transportation), and controlled costs (clothing, personal care, entertainment, and miscellaneous expenses). This split allows a distinction between the 'must have' from the 'nice to have'. Of course, some controlled expenses are 'must haves' but not all.

We need to concentrate on marginal (i.e. extra costs), and not include things like depreciation of cars that would have been purchased anyway.

The outcome of the Parkinson inquiry was not an accurate assessment of the RP's and NRP's expenses in shared child support.

The report continued the flaws of previous studies of concentrating on single households. The report fails to address the issue that parents are less well off after separation, as the combined incomes must now pay for two series of fixed costs (e.g. beds). This means a reduction in discretionary spending. Yet the studies still require the NRP to pay for the discretionary spending that would not be made if the parents were together and had to pay for two households.

Once the Requirements for raising children have been determined, then a fair way needs to be determined to share the funding of those requirements by each parent. Such sharing is through the need to make transfer payments, being child support obligations.

Such a way of sharing requirements needs to take into account available income in the respective households, including the effect of the child support transfer payments, government pensions and family tax benefits.

The sharing also needs to take into account previous assets transferred, such as the matrimonial home through property settlements, if such transfers were not taken into account of when child raising costs were determined.

The government failed to get it right almost 20 years ago when it introduced the original formula. It failed to get it right 10 years ago.

We need to get this right this time.

This means going back and doing it again – this time correctly.

We cannot wait another 10 or 20 years to try and get it right.

We cannot have another 10 or 20 years of using a system that is not based on sound logic and factual data.

We must stop child support's wacky maths.

Thankyou