

# The Economic Impact of Teenage Childbearing in New Mexico

## EXECUTIVE SUMMARY

This study estimates the economic impact of teenage family formation in New Mexico. A previous study estimated the value of public program expenditures on households formed by teenagers at \$88 million in 1990. An update of this estimate is both timely and responds to the needs of the New Mexico Department of Health's Action Plan outlined in New Mexico's Teen Pregnancy Coalition publication "Bridging Our Past, Present and Future" published in 2002.

The current study uses the solid theoretical foundation provided by the discipline of economics to identify the nature of the impacts caused by early family formation, the methods needed to measure those impacts and a means to allocate these impacts among the various elements in society. In particular, the study measures the impact of teenage childbearing on three groups: the teenage parents and their children, taxpayers who support many public assistance programs providing benefits to these families, and society as a whole.

Teenage pregnancy and childbirth has many consequences both positive, such as the joy of bringing new life into the world and becoming a parent, and negative such as a higher risk of low birth weight babies and delayed completion of high school. Unfortunately, as is well documented elsewhere, most of these consequences are negative and the plight of teenage mothers, their spouses and their children is certainly dismal. While recognizing the importance of all the impacts of teenage parenting, this study concentrates on the measurable economic consequences of families formed by teenagers.

### Methods and Data

The economic impact of early childbearing on families formed by teenage mothers is compared to that of women who delay childbirth until after their teens; in this case, first time mothers aged 20 and 21 make up the reference group. Lack of data limits the method to measuring a gross difference in economic outcomes for women who gave birth as teenagers and women who delayed until age 20 or 21, rather than being able to control for those factors that differ between these cohorts of women separate from, but related to, their natality. Reference to a national study of young teenage childbearing conducted in 1996 provides adjustments for these limitations when possible.

The study groups the measurable economic impacts of teenage into three broad categories:

- Income-related effects, measuring the impact on teenage parent earnings and the taxes they pay on those earnings due to early parenting rather than delaying having children.
- Public assistance impacts, including the major programs that provide benefits to teenage families: Medicaid, TANF, WIC, food stamps and housing subsidies. The majority of these expenditures represents transfers from taxpayers to program beneficiaries and is of great importance to policy makers and those responsive to tax-paying constituents; and
- Consequences for the children born to teenage mothers, including outcomes such as a greater chance of foster care placement, higher incarceration rates, and being less educated and less productive throughout their working lives.

The availability of data determines what values can be estimated and the accuracy of those estimates. Sufficient information to calculate many of the economic impacts came from a number of sources both inside and outside New Mexico. Unfortunately, much of the relevant data remains unavailable or uncollected. This study uses available data from New Mexico, and only when no alternative exists does the study employ data from outside the state. The final estimates match well with those produced by other studies, thereby increasing confidence in the methods used and the calculations made.

The study uses 2000 as the reference year for calculations since it represents the most recent year for which nearly all data are available. This increases the study's internal compatibility and external comparability. The study also uses the Consumer Price Index to express all dollar values in year 2000 terms. Since many cohorts of teenage parents co-exist in any one year, the accounting method creates multiple separate cohorts, all based on the 2000 cohort, but each one year further into parenting. This design captures the total effect of teenage family formation in one year to make calculating annual impacts simpler.

### Estimating Economic Costs

Forming a family as a teenager has a large negative impact on one's own earnings and those of the spouses, if married, compared to women who delay childbirth. However, these families receive considerably more public assistance compared to older parents. Published research reveals that nearly all this negative impact is due to factors other than childbirth, that describe the socio-economic conditions that lead teenage women to get pregnant and form families. The gross difference between the economic outcome for households headed by teenage parents and those headed by women who delay childbirth until age 20 or 21 is estimated at \$12,305 annually in 2000.

Public assistance to families formed by teenagers in New Mexico creates a gross burden to taxpayers of nearly \$300 million dollars annually over the burden created by families formed by women who delay childbirth. This represents a tax cost of \$6,176 per year per teenage mother. Taxpayers could avoid about one-third of this burden if teenage women delayed childbirth, but the influence of all the underlying socio-economic factors must be offset to realize the full tax savings measured. The majority of tax savings would go to New Mexico taxpayers.

While the teenage parents and taxpayers are important constituents to identify separately in the analysis, the overall impact of families formed by teenagers falls on society as a whole. The gross gain in economic well-being if teenagers were to delay parenting until at least age 20 or 21 is over \$500 million annually measured in 2000 dollars. This represents an economic loss of \$11,350 per teenage mother per year. Reducing teenage childbirth in New Mexico to zero, but not addressing the underlying socio-economic factors related to teenage pregnancy and childbirth would realize an annual gain to society of \$216 million. The majority of these gains would accrue to New Mexico residents.

If successful, the New Mexico Department of Health's Challenge 2005, to reduce teen pregnancy by 20 percent by 2005 would save New Mexicans about \$43 million annually if such a reduction in pregnancy were to translate into 20 percent fewer teenage-formed families.