

# **Paid Parental Leave in Australia**

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## **Objectives**

This paper examines the case for paid parental leave in Australia and proposes a social insurance scheme for funding full earnings replacement for 28 weeks paid maternity leave, 4 weeks paid paternity leave and 4 weeks equivalent pay to employers to replace the mother during the leave.

It is based on the following values:

- both women's labour force participation and child bearing are essential to the economic and social sustainability of Australia
- the community as a whole should therefore provide conditions that accommodate this dual role and ensure that women are not financially and socially disadvantaged.
- the health and well being of mothers, babies and families as a whole are very substantially advantaged by enabling access for all families to a period of parental leave to care for babies, in particular for breast feeding and maternal care.

## **Background**

The Australian Government has referred the issue of paid maternity, paternity and parental leave to the Productivity Commission. This paper focusses primarily on women taking paid parental leave, because it is expected that, particularly in the pre-natal and early post-natal period, women would be the main users of leave. However it recognises that families need the flexibility to allocate their entitlements between parents, and also that a partner of the woman should also be able to take some leave during this period.

Australia is one of two developed countries that does not currently have universal entitlement to paid parental leave. This issue has been examined a number of times but because of Australia's unique social security system, no workable solution has to date been found.

Australia does mandate access to 52 weeks unpaid parental leave, which can be taken by either parent, with a right to return to one's former position or another position at the same level and has enacted laws against discrimination.

However women's ability to take the full period of unpaid leave is constrained by financial circumstances. Families with tight budgets, such as those with older children and high mortgages, and those where the woman's earnings are a significant part of family income are likely to suffer severe hardship from the loss of one partner's earnings for 6 to 12 months. The early childhood literature finds that experiences in the early months of life is a very significant determinant of life chances in the areas of health, educational attainment, career, relationship formation and so on. A mother who has no option other than to return to work soon after child birth has to accept whatever child care is available, and is unable to provide breast feeding to the extent recommended by the World Health Organisation.

The current situation is that the Commonwealth pays Family Tax Benefits (FTB) A and B (both means tested) and the Baby Bonus, a non-means tested lump sum of \$4187 (rising to \$5000 from July 2008). Parenting payment is available to a parent with a new born child, subject to means tests more stringent than those for FTB.

Around 30 per cent of women are eligible for paid maternity leave directly payable by employers, including in particular public sector employees and those in more privileged white collar employment.

ILO Convention C183, to which Australia is not a signatory, has a principle that women on maternity leave be paid an amount not less than two-thirds of former earnings or two thirds of average women's earnings, through compulsory social insurance or public funds. It recommends against individual employers being required to pay directly, 'In order to protect the situation of women in the labour market'.

There are thus three models for funding paid maternity leave:

- Individual employer paid
- Payment from general revenue
- Social insurance funding.

### **Individual employer funding**

Australian employers pay directly for sick leave, family leave, recreation leave and long service leave.

While direct payment of parental leave exists on an ad hoc basis in Australia it is an inequitable impost on employers, strongly favours women in more privileged employment and increases the cost of employing women of child bearing age in relation to other employees.

As the ILO caveat indicates, the increased marginal cost of employing young women is very likely to cause employers to favour other groups when recruiting. The sex discrimination legislation and processes are not strong enough to be able to protect against this as it is usually very difficult to prove in individual cases that that was a consideration in recruitment or promotion.

While the ACTU favours a collective bargaining approach, this is most unlikely to achieve universal coverage, or be supported by governments or employers. It is also unlikely to be placed as a high priority by unions because relatively few employees benefit in a given year.

## **Payment from general revenue**

General revenue funding in Australia through social security is a social assistance model, that is flat rate, needs based payments, not payments based on their level of previous earnings. These are almost all means tested on family income rather than being individual entitlements. This principle is widely accepted in the community.

Apart from age pension, these payments are designed to compensate those affected by unusual hardship and are accompanied by government efforts to minimise the incidence of such hardship, for example unemployment and disability.

Making an exception to this principle by paying an earnings related payment would lead to very significant problems of equity. People unable to work because of, for example, serious illness, disability or caring responsibilities receive pension payments, inversely related to family income, not earnings related payments. These payments are at a near subsistence level. The current parenting payment is aligned with other benefits to enable primary carers to subsist outside the workforce until their child reaches school age.

If Government paid women on maternity leave a payment related to their previous earnings and not means tested on their and their partners' incomes and assets, it would create an indefensible inequity between them and social security recipients without other means of income and without prospects of an imminent return to work.

Significant criticism could also be expected from women who are full-time parents and who are not in work before bearing children. Lower income families would be highly critical of the higher level of support going to higher income earners, who are obviously in less financial need than lower earners. Families where the mother is not in employment are likely to argue that their financial needs are greater than those whose usual incomes are higher because both parents normally work.

The cost to public revenue of paying full earnings replacement for six months would be in the order of \$3.5 billion a year. In the present budgetary situation it would be very difficult to argue for this.

## **Insurance based payments**

Social Security payments in most other developed countries are based on the principle of earnings protection, funded through levies on employers, often with a corresponding employee levy and may be subsidised by Government. These cover age, disability, sickness, survivor, time-limited unemployment and maternity or parental leave. Because entitlement is based on, and funded through, employment, it is individually based and earnings related.

With the notable exception of the United States, social insurance is usually backed up by a means tested social assistance safety net. Governments might also provide a minimum floor benefit and/or a ceiling on benefits, enabling some redistribution within the funds.

In Australia, occupational superannuation follows a similar principle in relation to retirement income, except that resources are not usually pooled. Workers compensation is the other main example of social insurance, drawn from pooled levies

on employers. A third example is in the building industry, where employers contribute to a pool of funds to provide long service leave for employees.

## Insurance based maternity leave

This submission proposes a new mechanism for providing paid parental leave in Australia, funded through the remuneration system.

It would provide 28 weeks full earnings replacement maternity leave for mothers, 4 weeks full earnings replacement paternity leave for fathers, whether or not their partner was in the workforce, and 4 weeks equivalent to employers to assist with the cost of recruitment of a temporary employee to replace the mother during the leave. The leave could be taken pro rata over a longer period of time, eg twelve months.

Alternatively the leave could be taken by either parent at the decision of the family. The leave could also be available to same sex partners, adoptive parents or other carers such as grandparents in certain circumstances.

It would be funded through a levy on employers of around 0.5 per cent of the total wage bill and on all employees of around 0.5 per cent of wages. The Government's contribution would be the baby bonus (re-named maternity allowance) which is provided to all women giving birth regardless of previous workforce attachment and, at \$5000, is equivalent to \$192.30 a week over 26 weeks.

These figures are based on very rough, back of the envelope figures – using ABS labour force, births and earnings data and a figure from the Commonwealth public service on the number of employees taking parental leave in a year. Other sources suggests that this is significantly high. In any case it can be taken as illustrative.

Total employees (Dec 07)	10,588,500
AWE Persons total (Aug 07)	875.8
AWE Males total (Aug 07)	1053.2
AWE females total (Aug 07)	689
Total national annual payroll - \$ million	\$482,217.23
Births Australia (2006)	265,900
Women taking mat leave in a year (2% of total workforce)	211,770
28 weeks PML <sup>a</sup> - \$ million	\$4,085.47
4 weeks paternal leave <sup>b</sup> - \$ million	\$1,120.18
4 weeks employer payment - \$ million	\$583.64
Baby bonus \$ million (for women taking PML)	\$1,058.85
Total cost less baby bonus \$ million	\$4,730.44
Total scheme as % of total payroll	0.98%
Employers contribution	0.49%
Employees contribution	0.49%
(a) – maternity leave calculated as 211,770 x AWE female x 28	
(b) - paternity leave calculated as 265,900 x AWE male x 4	
(c) - employer payment counted as 211,770 x AWE female x 4	

An employee earning \$100,000 would pay about \$10 a week, and one on \$50,000 would pay about \$5 a week.

## **Eligibility**

Eligibility would be for women who had been employed, on a permanent or casual basis, say 40 weeks in the previous 52 weeks, with any employer. This is to avoid women becoming employed for very short periods while pregnant to avail themselves of the scheme. Consideration would need to be given to how to cover the self employed. Because of the danger of moral hazard, an optional system would be impractical.

Eligibility should commence up to six weeks before the birth if required. Families could choose whether to take the payment in full for 28 weeks or at a part-time rate for longer periods.

Partners of women having children would be eligible for the partner payment, whether or not the woman had been in employment before the birth. This could be taken around the time of the birth or at a later date, for example after the maternity leave is exhausted.

## **Administration**

The funds would be collected along with PAYE tax. The Scheme would be administered at the Commonwealth level and would require claimants to provide statements from employers verifying their employment history.

Payment would be made by employers who would be reimbursed from the scheme. Thus superannuation contributions would be continued. This is to maintain a link between the employer and employee to encourage return to work. It would also be simpler for the administering body because the payment account details etc would already be established at the site of employment.

## **Employers already providing paid leave**

Employers who already provide paid parental leave would either provide top ups such as a longer period of paid leave or would use the resources currently spent to partially offset the employer levy. This would apply to Commonwealth and State Governments, as well as publicly funded organisations such as universities.

## **Other family payments**

While eligibility for parenting payment, family tax benefit and the baby bonus would be unchanged (apart from nomenclature), there would be savings to Commonwealth outlays due to the means testing regimes.

## **Politics**

The Government has indicated that paid maternity leave would not increase costs for small business. This proposal however does have an important advantage for small business in that, although it would add 0.5% to wage costs it also provides assistance to small business by assisting to defray the costs of temporary recruitment, which they have already identified as a problem when employees take unpaid maternity leave. Tony Steven, Chief Executive Officer of the Council of Small Business, is providing a joint presentation with Sharan Burrow at the centre for Policy Development on 23 April addressing the question of paid maternity leave. There would appear to be scope

for the Commonwealth to negotiate with small business an appropriate package of measures in conjunction with the introduction of this scheme.

The National Foundation for Australian Women, the NSW Commissioner for children and young people and the author of this submission commissioned a Newspoll survey in June last year asking respondents their views on paid parental leave. The questions asked included

Now a question about paid maternity leave. It has been suggested that all working women in Australia who take time off from their job to have a baby should continue to be paid for at least part of the time they are away from work (PAUSE). In principle, are you personally in favour or against all working women in Australia having access to some type of paid maternity leave?

Those in favour or 'don't know' were then asked the following question:

A national paid maternity leave scheme of this type could be funded in a number of different ways. For each of the following, please tell me if you personally would be in favour or against this way of funding a paid maternity leave scheme.

- It being funded by all Australian employers
- It being funded by all Australian workers
- Funding being shared between Australian employers and workers
- Funding being shared between Australian employers, workers, and the Federal government.

76.4 per cent of respondents were in favour of paid maternity leave, including more men than women, and a majority (equal or greater than 66 per cent in every category) of respondents and across all other demographic categories. 6.2 per cent responded 'don't know'.

Of these, 78 per cent favoured funding being shared between employers, employees and government. This included 72 per cent or more in every demographic category.

Results are attached for the general question and for the funding shared between employers, employees and Government. While a clear majority supported each of the funding models in the questions, this model received the highest support.

Given that there had been little public discussion at that point and no indication was given of the level of contributions required, we were extremely surprised by the result, and were the Newspoll team.

## **Conclusion**

The objectives for paid maternity leave should be to 'normalise' child bearing and achieve income replacement for a suitable period, recognising that family incomes and costs are based on the earnings of both parents. *Poverty alleviation* is already addressed by parenting payment through the social security system in line with other contingencies. While there are arguments that the level of income support and the means testing regimes should be made more generous, this should be achieved by more general social security measures, in an equitable manner based on need.

Maternity leave paid directly by employers is likely to affect women's competitiveness in the labour market, and the compensation for employers included in this proposal recognises that some, particularly small employers, already face hardship when employees take unpaid leave.

The model described in this submission is based on the social insurance model used in most other developed countries, but would not extend to the wide range of contingencies included in a full social insurance system. It could however be considered at a later date for long service leave.

The model described in this paper could be varied according to length of the paid leave and the distribution of paid leave between parents or other carers depending on family circumstances.

Further work would need to be done to address the issue of the self employed. International arrangements vary on this issue.

## Attachment

### Newspoll data

#### IN FAVOUR \ AGAINST PAID MATERNITY LEAVE

	SEX			AGE		
	TOTAL	Male	Female	18-34	35-49	50+
In favour	76.4%	78.0%	74.9%	89.2%	77.4%	66.5%
Against	17.4%	15.4%	19.3%	5.2%	16.8%	26.5%
Neither\ don't know	6.2%	6.6%	5.8%	5.6%	5.7%	6.9%
Respondents	1202	601	601	217	297	688

	With CHILDREN		MARITAL STATUS		WORK STATUS		
	Yes	No	Married	not married	Full-time	Part-time	Not working
Respondents	81.9%	73.0%	73.9%	79.8%	79.8%	78.1%	71.9%
In favour	10.8%	21.5%	19.40%	14.7%	14.3%	16.4%	21.2%
Against	7.3%	5.5%	6.7%	5.6%	5.9%	5.5%	6.9%
Neither\don't know	367	835	720	482	458	239	505

	TOTAL	NSW	VIC	QLD	SA	WA
Respondents	1202	350	301	200	150	151
In favour	76.4%	77.9%	83.0%	70.2%	74.4%	66.7%
Against	17.4%	18.0%	10.5%	22.5%	22.4%	21.3%
Neither\don't know	6.2%	4.1%	6.6%	7.2%	3.2%	11.9%

	White collar	Blue collar	Primary/Secondary School	College/Apprenticeship	University degree	Less than \$30000	\$30000 to \$69999	\$70000 or more
Respondents	652	550	441	417	344	288	336	363
In favour	80.6%	71.6%	73.5%	71.7%	88.3%	70.3%	77.5%	83.3%
Against	15.2%	19.9%	18.9%	22.2%	7.8%	24.4%	13.5%	14.2%
Neither\don't know	4.20%	8.50%	7.60%	6.10%	3.90%	5.30%	9.00%	2.50%



In favour of funding shared between employers workers and Commonwealth

		SEX		AGE		
	TOTAL	Male	Female	18-34	35-49	50+
In favour	78%	80%	76%	84%	77%	72%
Against	16%	15%	18%	10%	20%	18%
Neither\don't know	6%	6%	7%	6%	3%	10%
Respondents	969	491	478	205	248	516

	GROCERY BUYER		CHILDREN		MARITAL STATUS	WORK STATUS			
	Yes	No	Yes	No	Married	not married	Full-time	Part time	Not working
In favour	78%	76%	74%	81%	79%	76%	80%	72%	78%
Against	15%	18%	21%	13%	17%	15%	16%	18%	15%
Neither\don't know	6%	6%	6%	7%	5%	8%	3%	10%	7%
Respondents	674	295	322	647	576	393	386	199	384

	TOTAL	NSW	VIC	QLD	SA	WA	TAS
In favour	77.7%	76.0%	79.3%	78.3%	77.6%	78.8%	76.0%
Against	16.1%	17.5%	17.1%	13.6%	17.9%	10.1%	21.6%
Neither\don't know	6.2%	6.5%	3.7%	8.1%	4.5%	11.1%	2.4%
Respondents	969	274	264	158	116	111	46

	White collar	Blue collar	Primary/ Secondary School	College/ Apprenticeship	University degree	Less than \$30,000	\$30,000 to \$69,999	\$70,000 or more
In favour	77.8%	77.6%	78.5%	77.5%	76.7%	75.5%	80.1%	78.3%
Against	16.3%	15.8%	13.6%	18.4%	17.0%	19.0%	13.3%	19.3%
Neither\don't know	5.9%	6.6%	7.9%	4.2%	6.3%	5.5%	6.6%	2.4%
Respondents	546	423	345	315	309	210	279	308