



REIA SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO PAID MATERNITY, PATERNITY AND PARENTAL LEAVE

PROPOSAL

1. The Real Estate Institute of Australia (REIA) recognises the potential benefits for employees, their families and the wider community likely to be associated with the introduction of a paid parental leave scheme. The REIA supports the introduction of a paid parental leave scheme in Australia ‘in principle’ and asserts that:
 - a. the scheme should be funded from Federal Government consolidated revenue. It is not appropriate for any such scheme to be funded by employers;
 - b. payments should extend for a period of 14 weeks in total and be linked to average weekly earnings as published by the ABS;
 - c. payments should be taxable, available to all parents (working or not) and should not be means tested;
 - d. other existing income support programs should be replaced by the parental payments during the 14 week period;
 - e. a HECS style supplementary income scheme should also be available to higher income parents; and
 - f. some consideration should be given to providing a small payment to employers to cover costs associated with staff replacement during periods of parental leave.

BACKGROUND

2. The REIA welcomes the opportunity to make a submission to the *Productivity Commission Inquiry into Paid Maternity, Paternity and Parental Leave*.
3. The REIA is the peak national professional association for the real estate industry in Australia. The REIA has eight members, comprised of the State and Territory Real Estate Institutes, through which about 80% of real estate agencies are collectively represented.

ISSUES

Real Estate Agency Demographic Profile

4. In December 2007, the REIA commissioned Insightrix Research to conduct an independent *Agency Demographic Profile Survey* to determine the general demographics and business profile of member agencies. The survey was conducted between 17 December 2007 and 31 January 2008, with over 1,000 responses received.

5. The survey indicated that:

- a. real estate agencies are predominantly small business, with 89.6% of agencies employing 20 persons or less, 69.1% of agencies employing 10 persons or less and 40.6 % of agencies employing 5 persons or less;
- b. approximately 50.6 % of employees are female;
- c. 82.6% of females are employed full time, 10.9% part time and 6.5% casual;
- d. females are between 3 and 4 times more likely to be employed on part time or casual basis as compared with male counterparts; and
- e. 23.5% of all employees are aged between 25 and 34 years (a significant majority of children are born to mothers in this age cohort).

6. On the basis of the demographic survey, it is evident that the implementation of a paid parental leave scheme has the potential for a significant impact in the real estate sector, both in terms of the potential benefits for employees and potential costs for employers.

Benefits of Parental Leave

7. The REIA recognises the importance of adequate parental care in the early stages in the life of a child. Younger children typically require a greater level of care than older dependents and the level of care provided can have a lasting impact on the quality of life of the young individual, which in turn can impact on the social cohesiveness of the community in which they live.

8. For many parents, it can be difficult to balance the need to care for a new born child with the need to earn sufficient income to support the family unit.

9. As stated in the Productivity Commission Issues Paper, unpaid parental leave is widely available in Australia and essentially confers a right of return to work after a period of absence related to the birth or adoption of a child. This right of return affords some level of improved gender equity for females who must necessarily be absent from work at this time. It is also generally accepted that a period of leave from paid employment will be required to allow for:

- a. recuperation of the mother;
- b. baby-parental bonding;
- c. the establishment of a routine; and
- d. extended breastfeeding.

10. There can be a significant cost for new parents in the provision of baby-related products and services, which can be exacerbated by lower incomes during periods of unpaid parental leave. This situation can lead to financial hardship for many parents and result in a reduced standard of care, or length of care, for the child as parents seek to re-enter the workforce as soon as possible. A paid parental leave scheme could help alleviate these pressures and may promote improved levels of care for the child, potentially resulting in longer term benefits for the community brought about through improved family stability.

11. Given the general benefits for parents and the community, the REIA would support the implementation of a paid parental leave scheme 'in principle' provided that:

- a. that the period of leave to which parents were entitled remained unchanged; and
- b. employers were not burdened with additional costs to fund such a scheme (see section to follow).

The Financial Cost of a Basic Paid Parental Leave Scheme

12. While the implementation of a scheme entitling all employees to *paid* parental leave is likely to be of benefit to most working parents, such a scheme would represent a fundamental departure from current arrangements and would bring with it a significant financial cost.

13. The REIA estimates that a basic paid parental leave scheme could cost up to \$3 billion annually (or \$11,988 per birth event) assuming:

- a. all parents were eligible for payments (working or not);
- b. payments are based on average total weekly earnings (\$856.30 - as published by the ABS in May 2006) and not means tested;
- c. payments were made for a maximum of 14 weeks (shared between both parents, with both parents eligible for leave at the same time for a maximum of 2 weeks); and
- d. there are around 250,000 births annually (Productivity Commission Issues Paper).

14. While this estimate could be reduced though the imposition of eligibility or payment restrictions, the total cost is likely to remain in the order of billions of dollars.

Who Should Bear the Cost of a Paid Parental Leave Scheme?

15. One of the key considerations in scoping the possibility of implementing a paid parental leave scheme in Australia will be to determine who should bear the significant associated financial cost.

16. Traditionally, the majority of costs associated with child birth and child rearing in Australia have been borne by the parents or family of the child, notwithstanding social security support for low-income or otherwise disadvantaged parents and tax concessions reflecting the increased costs faced by taxpayers with dependents. It would be fair to say that one of the primary reasons people seek gainful employment is to give themselves the means to acquire an improved standard of living, and ultimately, accumulate sufficient resources to provide for a family of their own, including raising children and the purchase of a family home.

17. A paid parental leave scheme would essentially shift the onus of responsibility for some of the costs (or lost opportunities) associated with child birth to an entity other than the parents or family of the child. There appear to be three potential candidates to bear this cost, as explored below.

18. **Employees:** One possible solution would be to apply a specific use levy on the wages of all employees. This type of arrangement would be akin to a form of income tax and therefore would be better addressed through restructuring the general income taxation system rather than imposing specific use levies. It would be wholly inappropriate to apply a specific 'parental leave levy' to all employees given that some will not have children, there will be variations in the number of children born to any one employee and that many employees will already have had children upon inception of the levy. It is highly likely that many employees would resent paying an additional itemised tax for something which is of no direct benefit to themselves. Any mechanism that addresses these taxpayer concerns would be likely to lead to an overly complex and unworkable levy system.

19. **Employers:** Another potential solution may be to apply a specific use levy to employers depending upon the number of employees or total wages paid. There are several reasons why this is highly inappropriate. Firstly, for the same reasons employers generally should not have the power to dictate how employees should lead their lives outside the workplace, the employer should not be held responsible for costs arising from the decisions taken by employees as part of their personal lives (i.e. decisions relating to the timing and number of children). Forcing employers to bear the cost of child birth would create a wholly inappropriate nexus between the employee's work and family lives.

20. Secondly, any additional costs faced by employers in this regard could potentially result in marginal businesses failing, lead to lower wages being paid (or lower wages increases over time), or lead to higher levels of unemployment - ultimately undermining the relationship between the employer and the employee. Further, it is highly debatable whether or not a paid parental leave scheme is of direct benefit to an employer (i.e. while it may be argued that a paid parental leave scheme may encourage some persons into the workforce, it is equally arguable that this will lead to greater costs for employers and an incentive to employees to remain away from work for longer periods).

21. It is important to note that employers are already able to offer paid parental leave entitlements to their employees. These entitlements are offered as inducements to encourage staff acquisition and retention and would be undermined with the implementation of a mandatory scheme for all employers (i.e. an employer offering paid paternity leave would be no more attractive than any other employer on that basis).

22. **The Federal Government:** On the whole, it is fair to say that the benefits arising from the implementation of a paid parental leave scheme would be spread across the entire community and should therefore be funded by the entire community. The Federal Government collects approximately 82% (including the GST) of total taxation revenue yet is responsible for only around 54% (in terms of total tax collected across all Australian Governments) of own purpose spending, and is already responsible for administering a range of social welfare payments / programs supporting new parents and their children, some of which may be potentially offset by the introduction of parental leave payments.

23. The REIA asserts that only the Federal Government has the revenue raising capacity, social linkages and the expertise to support the establishment of a paid parental leave scheme. Funding should therefore be sourced from Federal Government consolidated revenue, rather than sourced via an itemised tax levied on either employers or employees.

Eligibility and Duration

24. The eligibility restrictions and payment duration of any proposed paid maternity leave scheme have implications both for social equity and overall program costs.

25. Generally speaking, all parents face the same minimum costs associated with child birth and subsequent parental care. While working parents face a greater opportunity cost, these parents have also had a greater opportunity to save in advance of child birth and will have greater income earning capacity when they return to work, as opposed to parents who are not workforce participants.

26. For this reason, it is necessary to consider whether or not a paid parental '*leave*' scheme should also be extended to parents who are not working at the time of child birth. There are many reasons why parents may not be working at the time of child birth including:

- a. long term unemployment;
- b. job loss shortly before child birth;
- c. medical problems associated with the pregnancy;
- d. other medical or disability issues; and/or
- e. being required to be the sole carer for other dependent children or elderly / disabled relatives;

27. From a social equity perspective, it is difficult to argue that these persons should not be afforded the same level of parental '*leave*' payments as would be attracted by working parents. However, in many cases, persons who are not working at the time of child birth will already be eligible to claim some form of social security support. It must also be considered that there is already a range of existing income support measures that are available to both working and non-working new parents as outlined in Box 2 of the Productivity Commission Issues Paper, including the:

- a. Baby Bonus;
- b. Family tax benefit A;
- c. Family tax benefit B;
- d. Child care benefit;
- e. Child care tax rebate; and
- f. Parenting payment.

28. For reasons of social equity, simplicity and securing funding for an overall paid parental '*leave*' scheme, the REIA suggests that all new parents, whether working or not, should be eligible to receive the same basic level of parental '*leave*' payment. In this context, parental '*leave*' payments should be sufficient to replace the other benefits which may otherwise have been attracted during the period in which it is paid. Once this period has expired, other existing payments may be reapplied.

29. From the perspective of the overall cost to the Federal Government, a review should be conducted into the interaction between the new parental '*leave*' payments and the other existing income support measures to reduce complexity and promote social equity. For instance, the REIA suggests that the current baby bonus should be subsumed by any new parental '*leave*' payment, greatly off-setting the cost of the new payment system.

30. To illustrate, the REIA's estimated parental 'leave' payment cost of \$11,998 per birth event, could be reduced by \$5,000 through the removal of the non means tested baby bonus, resulting in a much lower cost to the Federal Government of around \$6,998 per birth event. This alone would reduce total program costs by over 40% to approximately \$1.7 billion. Total costs could be reduced further via the REIA's proposal to replace all other entitlements during the parental 'leave' payment period.

Rate of Payment

31. The REIA suggests that the payment rate for a paid parental leave scheme should be tied to average weekly earnings, published annually by the ABS. The latest figure as published for May 2006 is \$856.30.

32. While the REIA believes that it would be simple and appropriate to apply this figure as the standard payment rate, there are some aspects that could be further explored by the Productivity Commission given the large determining relationship that applied weekly payments necessarily have for total program costs i.e. reducing in this figure by 10% would be expected to reduce total program costs by around 10%.

33. Firstly, it could be argued that no recipient should be made better-off through the receipt of the payment (as compared to income they would otherwise receive from employment or social security payments). Under this scenario, recipients could be limited to receiving the equivalent of their current wages or total social security payments, up to a maximum of average weekly earnings. This could be expected to reduce total program costs as there would be many applicants who fall under the "average" wage restriction. However, this approach would also lead to a more complex scheme wherein the income of each applicant would need to be assessed and may also be inequitable in that it would result in those with the highest incomes receiving the highest payments.

34. Secondly, payments could instead be limited to the estimated minimum payment required to support one parent and a child for the payment period. While the REIA does not have an estimate of this cost, it is anticipated that this figure would not exceed average wages, and if applied, could significantly reduce total program costs. This approach could however leave many recipients significantly worse off as compared to income they would otherwise receive from employment or social security payments.

35. On balance, the REIA remains of the view that payments should be the equivalent of average weekly earnings. All payment should be non-means tested but assessable for taxation purposes. In this fashion, all recipients would receive the same level of payment, however, persons on higher incomes will be taxed at higher rates, while those on lower incomes will essentially retain a larger component of the payment.

Supplementation of Income

36. There are existing Federal Government supplementary income schemes which are available to persons who are unable to be full-time workforce participants during periods of study, such as HECS and HELP. Under these programs, applicants may receive a tax-free loan from the Federal Government which is indexed annually and recovered via the taxation system once the recipient has reached a minimum taxable income, usually after having returned to, or gained entry to, the workforce.

37. There is potential for a similar scheme to be available during periods of parental leave. The availability of supplementary income would be expected to appeal to higher income earners who would experience more dramatic income reductions during parental leave periods and who have greater capacity to replay borrowed monies upon return to work. This would reduce the disincentive to take parental leave and would assist parents take longer periods of leave than may otherwise be the case.

38. Like the existing schemes, establishment would represent a total cost to the Federal Government of little more than ongoing administration costs and a one-off overhead associated with the period between establishing an equilibrium between outgoings (loans) and incomings (repayments). To limit the potential for abuse of the system (e.g. persons using supplementary income for other purposes such as a quasi car or holiday loan), a sensible limit would need to be placed on the total amount that could be borrowed for any one period of parental leave. Loan repayment triggers should also be based upon family income (rather than the income of any one parent) such that repayments could not be avoided by restructuring income distribution within the family unit.

Business Costs

39. In the event that a paid parental leave scheme is implemented which compensates employees for time spent away from work (or for the costs associated with child birth), it is fitting to also examine the potential for compensating businesses for the costs associated with vacancies arising from periods of child birth related absences.

40. In the event that an employee takes a period of either paid or unpaid parental leave from the workplace, the employer may face costs relating to:

- a. loss of productivity arising from the position vacancy;
- b. loss of productivity arising from loss of corporate knowledge or particular skills if the position is filled by a less experienced employee;
- c. recruiting, advertising and training costs; and
- d. casualisation of the position (if the position is filled on a short-term basis).

41. Little attention has been paid in the past to the costs faced by employers in this regard.

42. The REIA estimates that a small payment to affected businesses, in the order of around \$500 for each instance of staff absence where an employee must be replaced for a parental leave period, would greatly alleviate the costs faced by employers brought about by parental leave requirements. This will help ensure the continued viability of smaller businesses which are particularly vulnerable to the negative impacts of prolonged staff absence and could potentially act to prevent discrimination against hiring women thought to be in their prime child bearing years (approximately 25 -34 years of age).

SUMMARY

43. The implementation of a paid parental leave scheme in Australia would recognise the important contribution parents make to society and bring Australia in to line with most other OECD countries. The REIA recognises the potential benefits for employees, their families and the wider community that are likely to be associated with the introduction of a paid parental leave scheme and supports the introduction of such a scheme in Australia 'in principle'. To promote social equity, simplicity and limit the ongoing financial cost of a paid parental leave scheme, the REIA asserts that:

- a. the scheme should be funded from Federal Government consolidated revenue. It is not appropriate for any such scheme to be funded by employers;
- b. payments should extend for a period of 14 weeks in total and be linked to average weekly earnings as published by the ABS;
- c. payments should be taxable, available to all parents (working or not) and should not be means tested;
- d. other existing income support programs should be replaced by the parental payments during the 14 week period;
- e. a HECS style supplementary income scheme should also be available to higher income parents; and
- f. some consideration should be given to providing a small payment to employers to cover costs associated with staff replacement during periods of parental leave.