

INFANT CARE PAYMENT

PERSONAL SUBMISSION TO

**PRODUCTIVITY COMMISSION
INQUIRY INTO PAID MATERNITY, PATERNITY AND
PARENTAL LEAVE**

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Introduction

I am making this submission in a private capacity. In doing so, I draw on 25 years of experience as a social policy analyst, with particular expertise in the areas of income support and the labour market.

My primary concern in making this submission is to address the situation of mothers who do not at present have access to any form of income replacement during their absence from the workforce immediately before and after giving birth (or adopting a young child).

- As shown in the Commission's issues paper, paid maternity leave is available primarily to employees earning higher incomes and working in public services and other white-collar occupations.
- At the other end of the spectrum, low-income women (single parents and those whose partners are either income support recipients or in very low-paid work) already have access to a safety net income through Parenting Payment in the social security system.
- This leaves a group of women that currently 'misses out' on income replacement - primarily partnered women with working partners, who do not themselves work in jobs that provide access to paid maternity leave.
 - While it is true that this group currently qualifies for the Baby Bonus, which they may choose to use to replace any income foregone by leaving work, I do not consider that the Baby Bonus is well-designed for this purpose. In any case, it is also available to mothers in both of the other groups described.

In this submission, I outline one model for a paid parental leave safety net that would provide limited income replacement to the group of women currently missing out and would also address some of the other objectives proposed in the Commission's issues paper.

I do this on the implicit assumption that it would be desirable to have some such scheme in place. My submission is not, therefore, concerned with making the case for a system of paid maternity leave, nor does it attempt to canvass all possible approaches, since I presume that other submissions to the Inquiry will do that.

I believe that my proposal would fit well into existing Australian institutional arrangements and would therefore be relatively easy to implement. It would also be consistent with the approach that Australia has traditionally taken towards providing a safety net for people ineligible for paid leave by way of the social security system.

Infant Care Payment

Description

The proposal would make a Infant Care Payment (ICP), equivalent to the Parenting Payment (PP) currently paid through the social security system, to a child's biological or adoptive parent (or any other person who would qualify to receive PP as the principal carer of the child) during the child's first twelve months of life.

All of the normal terms and conditions of PP would apply, except that the partner income test would be suspended. That is, entitlement would be subject to a test on the recipient's income only.

Women with access to paid maternity leave would generally be eligible either for no payment or for a reduced payment during their paid leave, but would be able to qualify for the ICP during any further period of unpaid leave, or during a period of graduated return to work.

While access to the ICP could be restricted in various ways to mothers with a recent workforce history, in its simplest form it would be made available to all mothers. This would recognise that, in a society where workforce participation is the norm for mothers, the birth or adoption of any child is likely to involve an opportunity cost in terms of future income foregone.

Objectives

The primary objectives of this proposal are to enhance the wellbeing of parents and their infant children. The ICP prioritises these objectives above others (for example, maintaining workforce attachment, influencing timing of births, assisting fertility of low-income couples).

First, the ICP would ensure that all mothers were eligible for some financial assistance during a necessary period of recuperation after the birth of a new baby. This would limit the possibility that some mothers return to paid work before they are medically fit to do so.

Second, it would enable mothers (or fathers) to choose to take a further period of leave to provide parental care for a new baby, on the assumption that this is likely to have positive outcomes for the parent/child relationship and for the child's development.

The proposal is not strongly focused on encouraging or maintaining workforce attachment. It could be argued that providing a level of income replacement might encourage parents to return to dual participation once eligibility for payment expires, as they are less likely to have become habituated to a lower level of income. On the other hand, the availability of additional income even at the level of income support would enable some parents to extend their absence from the workforce.

To the extent that providing this level of income replacement enables some couples to have children at a younger age, this may have further health benefits (both for the

mother and for the health system as a whole) and/or lead to some marginal increase in total fertility.

Who should be eligible?

In its simplest form, the ICP would be available to eligible recipients, regardless of the level of their prior workforce attachment. This would be administratively simple, as there would be no need to assess and verify previous employment and earnings details. It would also mean that the ICP could simply replace PP for principal carers of children under one year of age, rather than having to maintain two separate payments for people in that situation.

One of the arguments against having a previous employment criterion is that this would inevitably be complex to define and to verify and would lead to inequities between people who fall just on either side of an arbitrary dividing line. Requiring recent employment for eligibility would also tend to disadvantage people who choose to have their children close together rather than spacing them further apart, with periods of employment in between.

If a previous employment criterion was considered desirable, this could either be of a loose form (say, qualifying employment during the previous five years) or tighter (say, employment of at least a certain number of hours during the previous twelve months). It would be preferable to define any employment threshold in terms of hours, rather than days, months or weeks, in order to provide maximum flexibility to recognise differing employment patterns.

Duration and generosity of benefits

PP is currently paid at the rates of \$546.80 a fortnight for single recipients and \$394.40 a fortnight for partnered recipients.

Parenting Payment (single) (PPS) is a social security pension, with a relatively generous income test. Eligibility for a part-payment is not lost until the single parent has income of more than \$1,538 a fortnight (around \$40,000 a year).

Parenting Payment (partnered) (PPP), on the other hand, is payable under less generous allowance conditions. The maximum payment is available only to people whose partner earns less than \$751 a fortnight (around \$19,500 a year) and entitlement is lost at an combined income of between \$1,408 a fortnight (for a single earner couple) and \$1,501 a fortnight (if both partners are earning at least \$250 a fortnight).

My proposal is for the ICP to be paid at the same rates as PP, and under the same conditions except for the income test on partner income, for up to twelve months. For a partnered parent not currently eligible for any paid maternity leave or PPP, this would amount to a maximum of around \$10,300 at the current rate of payment, about double the rate of Baby Bonus that will be payable from July 2008. (The net financial benefit relative to current arrangements would be somewhat smaller than this, because of likely offsetting reductions in Family Tax Benefits.)

The rationale for paying benefits at the same rate as other income support payments is that this is appropriate for a scheme that is funded from general revenue. Payments through the Australian social security system have always been flat-rate, without regard to previous earnings. It would also be difficult to justify why infant care should be worthy of higher levels of support than other income support contingencies, such as unemployment, sickness or disability.

If higher levels of income replacement are desired, a scheme that is funded at least in part by employers may be preferable.

Financing and interactions with paid maternity leave and other social security programs

The ICP would be financed from general revenue, as with other social security payments.

Interaction with employer-provided paid maternity leave would occur only to the extent that such income would reduce ICP entitlements under the personal income test. Where the value of paid maternity leave was less than the income cut-out for ICP, a part-rate of ICP would be payable.

While this may reduce the incentive for employers who do not already provide paid maternity leave to do so, it would still be in the interest of employees to bargain for such an entitlement since it would provide a higher level of income replacement.

The net cost of the ICP would vary depending on the exact parameters adopted (for example, decisions on maximum duration and the extent of targeting to previous employment) and on whether any changes were made to the Baby Bonus (BB). Arguably one of the purposes of the BB is to compensate for income foregone around the birth of a child. Since the ICP would subsume that purpose, the Baby Bonus could either be abolished or reduced to an amount consistent with helping to meet medical and other costs typically associated with giving birth.

As well as potential savings from abolishing or reducing the BB, there would be some offsetting savings in other government programs – most notably Family Tax Benefit (both Part A and Part B) and, to the extent that mothers delay their return to work, child care subsidies.

Conclusion

In its purest form, the proposed ICP is not exclusively targeted to assist working mothers who do not have access to paid maternity leave as a condition of their employment. However, this group of mothers would be the primary beneficiaries of the payment, with lower-income parents benefiting the most in terms of the proportion of income replaced.

The net cost would be relatively modest, especially if financed in part by changes to the Baby Bonus.

The ICP would be available to either parent in a couple, making it possible for couples to share the care of their child in its first year of life.

And to the extent that Australian parents have a strong preference for babies to receive parental care for at least their first year, the availability of ICP would make it easier for lower-income couples to manage the financial stresses associated with taking time off work to care for their new babies.