
OVERVIEW

Key points

- The Australian Government's statutory paid parental leave scheme should be taxpayer-funded, and should:
 - provide paid postnatal leave for a total of 18 weeks that can be shared by eligible parents, with an additional two weeks of paternity leave reserved for the father (or same sex partner) who shares in the daily primary care of the child
 - provide the adult federal minimum wage (currently \$543.78) for each week of leave for those eligible, with benefits subject to normal taxation.
- All those employed with a reasonable degree of attachment to the labour force should be eligible, including the self-employed, contractors and casual employees.
- A broad range of family types should be eligible, including conventional couples, lone parents, non-familial adoptive parents, same sex couples, and non-parental primary carers in exceptional cases, so long as they meet the employment test.
 - Those families not eligible for paid parental leave may still be eligible for paternity leave, the baby bonus (\$5000) and other financial support through the social transfer system.
- Employers should participate in the scheme by:
 - acting as paymasters where the employee had sufficient workplace tenure, with the government prepaying employers by instalment to avoid cash flow impacts
 - providing superannuation contributions for long-term eligible employees, though this measure should be deferred for at least three years and reviewed at that time.
- Such a scheme would meet a range of commonly agreed objectives. It would:
 - generate child and maternal health and welfare benefits by increasing the time parents take away from work. The Commission estimates that the average absence will increase by ten weeks. Many more families would have an increased capacity to provide exclusive parental care for children for six to nine months
 - promote some important, publicly supported social goals, and in particular, that having a child and taking time out for family reasons is viewed by the community as part of the usual course of work and life for parents in the paid workforce
 - counter some of the incentives against working posed by the tax and welfare system — potentially contributing around six months of net additional employment for the average woman over her lifetime
 - increase retention rates for business, with reduced training and recruitment costs.
- The Commission estimates that the government scheme will cost taxpayers around \$310 million annually in net terms (with an additional net cost to the economy of \$70 million if super contributions are introduced in the future).
- These costs take account of significant offsets from reduced social welfare payments (including removal of the baby bonus for parents using the scheme) and the tax revenue from paid leave. The costs would be much higher without these offsets.

Overview

Background to this inquiry

Around 280 000 mothers gave birth in Australia in 2007. Of these, around 175 000 were born to mothers who were in the workforce prior to giving birth, with at least 80 per cent of those mothers intending to return to work. Accordingly, there is a large number of employed mothers who need to take leave from work. There have been enduring calls for many years in Australia to introduce a statutory scheme that would provide broad paid parental — particularly maternity — leave to such parents. Only around half of employed mothers (and a somewhat smaller share of fathers) are currently eligible for paid parental leave as part of arrangements privately negotiated with their employers (box 1). Given the recent slowing pace of private provision, it is not clear that the proportion of the workforce covered by paid parental leave will change much over the next decade.

Coverage through voluntary private provision is particularly low for casual, less-skilled and lower-paid employees (and, by the nature of their employment, all of the self-employed). These employees often resign when they have a baby, or if they remain employed, take a shorter time off work to care for their babies than other employees.

The issue of paid parental leave has reached contemporary prominence because of the increasing role of women as simultaneously carers, workers and sources of family income, and changes, albeit limited, to male roles in caring for, and rearing, children. Women participate in work at rates higher than at any other time in Australia's history. For instance, in the key reproductive years of 25 to 34 years, (partnered) female participation rates increased from around 45 to 70 per cent from 1978 to 2008, while rates for men in the same age bracket *fell* by about four percentage points (figure 1).

Evolving community norms about the roles of women and men in reconciling their working and caring roles have been expressed politically and industrially, including through employer-provided leave and work arrangements, and government-mandated unpaid leave entitlements. A legislated unpaid maternity leave guarantee of 52 weeks that gives a mother the right to return to her job has been available since 1979, and in 1990-91, the government extended this right to a father taking

paternity leave. The Australian Government’s Fair Work Bill proposes the inclusion in the National Employment Standards of the right to request an additional 52 weeks of unpaid parental leave.

Against this background, the Australian Government asked the Commission to consider the design and impacts of a paid maternity, paternity and parental leave scheme in Australia.

Box 1 Babies and parental leave			
Around 281 000 mothers gave birth in 2007, with around 108 000 mothers not in paid employment at birth and 173 000 in paid work prior to birth.			
Using adjusted ABS figures, 54 per cent of female employees and 50 percent of male employees have access to employer-provided paid parental leave. Access is higher in full-time jobs (74 per cent for females) than part-time jobs (32 per cent for females).			
Only around 24 per cent of women on very low wages (less than \$500 per week) had access to paid maternity leave, compared with around 84 per cent for those on high wages (over \$1200 per week).			
While most mothers stayed at home for six months or more after the birth of their child, some went back much earlier:			
	<i>Mothers returning to paid work after childbirth^a</i>		
<i>As a proportion of</i>	<i>Before 3 months</i>	<i>Before 6 months</i>	<i>Before 12 months</i>
All mothers	7%	17%	39%
All mothers in paid work prior to childbirth	11%	26%	57%
^a Based on the Longitudinal Study of Australian Children. Figures were prior to introduction of the baby bonus, which will have allowed some women to finance a longer period of absence from work.			

Many participants in this inquiry have observed that, along with the United States, Australia is conspicuous among developed countries in not offering a statutory paid parental leave scheme. Australia’s near unique status is largely a semantic distinction. The non-hypothecated baby bonus, a \$5000 instalment payment commencing at the birth of a child provides the equivalent of 14 weeks parental leave at \$357 (untaxed) per week or around two-thirds of the minimum wage. The baby bonus is buttressed by other family payments, so that overall, family subsidies in Australia are relatively generous by OECD standards (figure 2). These subsidies are diverse in nature, recognising the needs of different families. Income support measures particularly benefit those families where a parent leaves paid work to care for their baby, while child care subsidies are focused on parents in paid employment.

Figure 1 Workforce participation by partnered women has risen
1978-79 to 2007-08

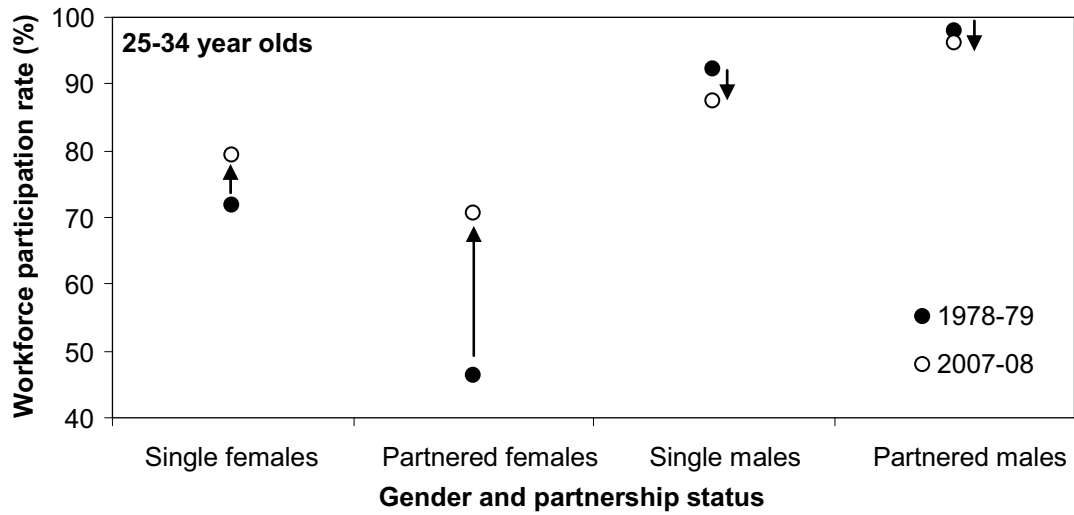
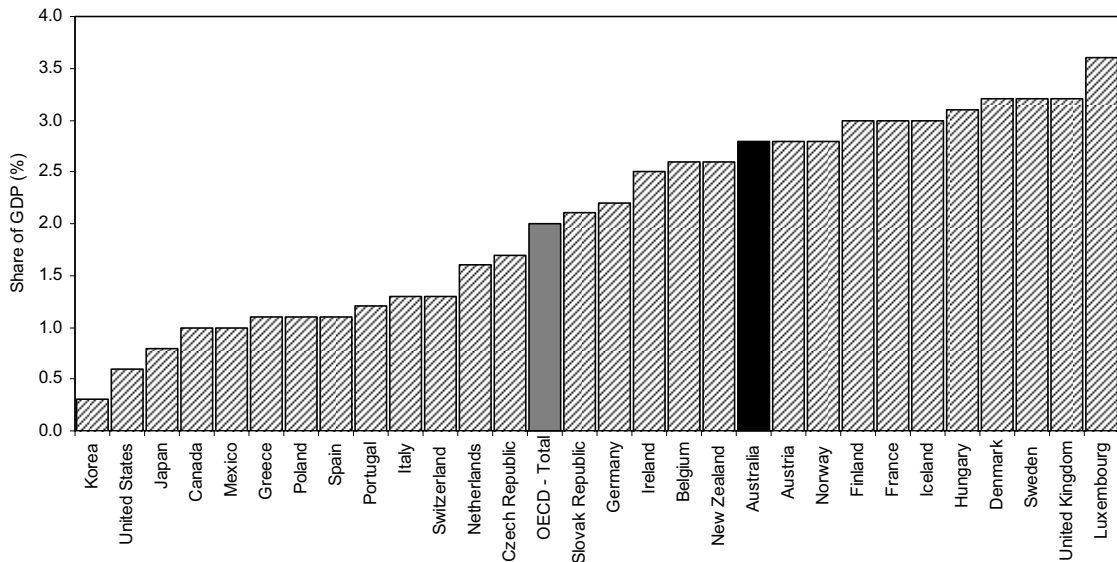


Figure 2 Australia is relatively generous to families
Government spending on family policies as a share of GDP, 2005



As discussed below, existing family support measures lack some of the desirable incentive effects of a paid parental leave scheme. Moreover, an explicitly-named parental leave scheme clearly has strong symbolic resonance for many Australians — so much so that many suggested schemes to this inquiry involved relabelling of some existing family payments.

What reasons are there for a paid parental leave scheme?

The Commission identified three broad grounds for a paid parental leave scheme:

- the improved wellbeing of families, and in particular child and maternal health, associated with an extended period of absence from work around the birth of the baby and secure financial support during this period (see below). For a variety of reasons — such as financial constraints — parents cannot always take sufficient time off from work
- in the face of the incentives *against* work provided by the social welfare and tax system, encouragement of women of reproductive ages to maintain their lifetime attachment to the workforce
- the expression of community norms. This includes the view that having a child and taking time out for family reasons is part of the usual course of work and life for many people in the paid workforce, including fathers. It also encompasses the importance of valuing children. These rationales for paid leave are more contentious than others, because while survey evidence suggests most Australians would like to see the introduction of statutory paid parental leave, many also oppose it, especially when it is made clear that someone must pay for the scheme. Nevertheless, social policy provides an important rationale for a government-mandated scheme.

The design of any paid leave scheme needs to reflect these rationales.

The health and wellbeing of children and parents

The impact of paid parental leave on maternal and child health and wellbeing is relevant to the issue of the appropriate duration of leave and to a level of payment needed to encourage parents to take such leave. There is compelling evidence of health and welfare benefits for mothers and babies from a period of postnatal absence from work for the primary caregiver of around six months. There are also reasonable grounds to expect benefits from longer periods of exclusive parental care up to nine to 12 months.

The gains do not only accrue to parents, as society often has to pay for health costs and other consequences of poorer outcomes for children and parents. Moreover, there may also be long run productivity benefits — in the same vein that the Commission anticipated gains from early childhood education and health initiatives in its modelling of the National Reform Agenda.

How do these benefits arise?

The child welfare effects of parental care

Most of the evidence supports the view that non-parental care in the first six to 12 months of a child's life can lead to behavioural problems and delayed cognitive development for some children. Evidence of problems is strongest where non-parental care is initiated very early (three to four months or less), where maternal employment is full-time and care is of low quality. The extent of gains from exclusive parental care appears to diminish beyond 12 months.

There is some evidence that paternity leave has emotional benefits for fathers, positively affects children's emotional and educational achievement and provides support for the mother. The evidence suggests longer-term benefits from early involvement of fathers.

Breastfeeding benefits babies and mothers

The capacity for breastfeeding is often identified as a major benefit from early maternal care of babies. There is an extensive literature on the health benefits of breastfeeding, though many are based on observational studies where causality can be hard to substantiate. Nevertheless, overall the evidence suggests significant benefits from exclusive breastfeeding up to six months:

- The existence of benefits for children is supported by meta-analysis of higher quality studies undertaken as part of the Cochrane Collaboration (an international evidence-based review process). Benefits identified include reductions in a wide range of infant conditions (for example, respiratory tract infection and eczema), cognitive gains, and potential adult impacts (for instance, in reducing obesity, diabetes and high blood pressure).
- Mothers gain psychological benefits, faster recovery from birth, reduced risks of breast cancer and ovarian cancer and possible reduced risk of post-menopausal hip fractures and osteoporosis.

The current clinical orthodoxy (Australia's National Health and Medical Research Council, the American Academy of Pediatrics, the WHO and others) recognise these benefits, with recommendations for six months of exclusive breastfeeding.

These are average effects

It is important to emphasise that the beneficial effects of close parental care of babies and of breastfeeding are *average* effects. What holds on average does not always hold at the individual level. Parents who make use of non-parental care within six months of the birth of their child or do not breastfeed will often encounter

no child development or health problems. But, from a policy perspective, it is the average effect that matters, since it is not possible to know in advance when a particular child would benefit from breastfeeding or exclusive parental care.

Not all parents are able to take the ideal time away from work for their babies

Many parents return to work earlier than six months (box 1) — often against their own preferences — though longer periods of parental care can be beneficial. Around 11 per cent of mothers who were in paid work prior to childbirth return to work before three months, around 26 per cent before six months and around 57 per cent before the baby has reached one year old. (These figures predate the introduction of the baby bonus, and are likely to have fallen somewhat since.) Fathers take only very short periods of leave. And in Australia, most women exclusively breastfeed for much shorter periods than the recommended six months (and breastfeed much less than in many other countries), despite high initiation rates. This suggests the scope for paid leave to prolong beneficially the parental care of babies.

Moreover, even for those parents who can take sufficient time away from work to care for their children, the period after the birth of a baby, and the interruption to family income that this often entails, can involve financial hardship. The Commission regards relieving financial hardship as primarily a *means* of encouraging greater parental time at home and stimulating lifetime employment, but not an *end* in itself (given the backdrop of a comprehensive welfare system). Nevertheless, relieving hardship means that families suffer reduced financial and other associated stresses during the postnatal period — with beneficial impacts on child and family welfare. (The evidence suggests that income is, by itself, a strong predictor of child welfare.) Accordingly, a paid parental leave scheme may still generate improved health and welfare outcomes for those families whose length of absence from paid work is not affected by the scheme.

How long should paid leave be?

Taking into account the above evidence, the average desirable duration of postnatal absence from work would be around six to nine months. However, the duration of any *paid* statutory scheme does not have to be equal to the period of absence that most helps parents and their children.

Parents already use many options — particularly access to privately negotiated paid maternity schemes and past accumulated leave — to fund a period of leave from work to care for their children.

While many women would like or need some prenatal leave, the Commission is not recommending it as part of the scheme. Women are sometimes able to use sick leave where there is a medical need, and the prenatal period is also covered by several statutory provisions. These provisions include a legal obligation for employers to provide a safe job to a pregnant woman if medically indicated, and if one is not available, to pay ‘no safe job’ leave. Unlike the postnatal period, there is no systemic evidence that women are taking prenatal leave periods that are too short from a maternal or child welfare perspective. Accordingly, a statutory paid parental leave scheme will have its greatest beneficial effects in the postnatal period and this should be reflected in the design of the scheme.

The appropriate length of postnatal leave needs to balance several factors. It should:

- when supplemented by people’s private efforts, achieve a length of absence from work for most families that provides significant maternal and child welfare benefits
- when combined with a sufficient payment rate, provide an overall package that provides greater benefits for most working families than opting out to welfare benefits
- not require too great a co-contribution by parents, as poorer families in particular would require the main carer to go back to work earlier than desirable. It would also mean that parents (particularly mothers) might have to exhaust their reserves of recreation and carer’s leave, reducing the scope for parents to care for their child at later ages — such as when the child was sick — amplifying family stresses
- not require disproportionate funding from taxpayers or employers. The benefits to children and parents from incrementally longer periods of leave have to be weighed against their (appreciable) budgetary costs. Each additional week of leave would cost taxpayers a net \$50 million. At some point, other areas of government spending (such as quality childcare services, improved children’s health services and early childhood education) or private consumption are more valuable to people. The point to emphasise is that someone has to pay for a parental leave scheme. The forgone benefits of that spending (and the costs of raising taxation) have also to be taken into account.

While there is no exact science about choosing the precise duration, the Commission considers that a leave period of 18 weeks of postnatal leave (as proposed in the draft report), combined with adequate payment levels appropriately balances the above considerations. Such a duration would provide the overwhelming majority of parents — more than 90 per cent according to preliminary estimates — the *option* of taking at least 26 weeks of leave without undue financial stress.

While not all will actually use this option, the Commission's statistical analysis, supported by a significant body of international evidence, suggests that the proposed scheme would significantly increase mothers' current time away from work around the birth of the baby. Our estimate is that, on average, eligible employed mothers would increase their absence from work by about an additional 9.8 weeks or around 55 per cent of the proposed length of statutory paid leave. Consequently, more women will be able to have longer, beneficial interactions in the early phase of their babies' lives and to breastfeed for longer.

- The effects on duration are greater for lower income, more financially constrained families. They are a particular target of this policy since they often have low representation in privately negotiated paid parental leave schemes.
- For those women currently taking leave of less than 26 weeks, the average additional leave is around 6.2 weeks, but the gain is greatest for those women in this group taking very short leaves. We estimate that the small group of women taking less than eight weeks of postnatal leave prior to the scheme would increase their average leave duration by more than 12.3 weeks. Accordingly, even if a scheme does not always enable exclusive parental care for six months, it will often make a considerable difference to the time available to parents to care for their child.
- Most women already take more than 26 weeks of leave, but the scheme enables a significantly greater number to reach this duration and will also allow many of those taking six months to increase their leave duration to nine months. (And, regardless of the length of paid leave, some parents will return to work earlier than six months, so that from a practical perspective, a goal of achieving a six month leave period for all primary carers is unrealistic.)
- Even where the scheme does not significantly increase leave durations, it would nevertheless increase family incomes, with benefits for child welfare.
- Given the difficulties in forecasting parents' behaviour after the introduction of a statutory paid parental leave scheme (appendix G), the above estimates are of uncertain accuracy. That reflects data limitations and the exclusion from the modelling of some factors that may change parents' behaviour. For instance, the estimates ignore the impacts on leave duration arising from responses by employers, the availability of paternity leave, the capacity of the mother to transfer parental leave, and changing community norms about desirable leave lengths that may arise from a statutory scheme. The actual effect of the proposed scheme may be better (in our view, the more likely outcome), but also possibly worse than suggested by the above analysis. The future mooted review of the scheme (recommendation 2.14) should assess the actual leave behaviour of parents to see if any modest changes in the duration of the scheme are required.

The Commission has also proposed that the government's statutory scheme include two weeks of paternity leave (which cannot be transferred to the mother). Such quarantined leave recognises the child welfare and other benefits of involvement by fathers in the early months of a baby's life. It acknowledges the lesson from overseas experiences that men rarely take paid parental leave if it is at the expense of women's use of that leave, and more generally take low levels of leave around the birth of the child.

Increasing the lifetime workforce participation by women

As implied above, paid parental leave will reduce women's labour force engagement while their baby is young. This is not an adverse finding — it is a major goal of such leave arrangements.

However, a scheme may also increase lifetime workforce participation, both over the long run following the early infant years of their children, but also prior to the birth. While such participation is not an appropriate goal in itself, a statutory leave scheme would counter some of the current distortionary incentives against paid work posed by the tax and welfare system.

Paid parental leave is an in-work benefit, acting like a de facto wage increase for employees, and yet, given its predominant tax funding, does not increase the costs of hiring parents much for firms. These features of the scheme mean that women formerly outside the labour force have incentives to become employed. Paid parental leave would be one of the few areas of government social expenditure that actually encourages women to work.

Moreover, decisions by women around the time of birth of their baby are important for their future employment (chapter 5). In the absence of paid leave, many women resign from their jobs and lose contact with their former employers. It is harder to re-enter employment from outside the labour force compared with the expected return to work implied by taking a period of paid leave.

Businesses have emphasised the substantial value to them from increased retention rates of women arising from *privately* negotiated maternity leave arrangements. Although the effects are not likely to be as large, business can also expect increases in workplace retention rates from a statutory paid parental leave scheme. Higher retention stems from the fact that, in the main, an increased return rate to employment involves return to the original employer. This would be reinforced by including a 'keeping in touch' provision in the government's statutory scheme, as in the United Kingdom, which allows parents on leave to return to work for short periods to participate in events like training days.

It is difficult to measure the lifetime employment impacts of the proposed scheme. Nevertheless, back-of-the-envelope calculations based on overseas empirical evidence suggested a net increase in average female lifetime employment of around half a year — though this estimate is not precise. Accordingly, even though a paid parental leave scheme reduces women’s labour supply around the time of birth, its overall impact on labour force engagement is likely to be positive. However, such long-run increases in female labour supply would also be likely to reduce future female wage growth by a small margin.

Social change

The social impacts of a statutory paid parental leave scheme are more elusive than its family welfare and labour supply effects, principally because they are qualitative in nature and, as would be expected, involve value-laden judgments.

A scheme would be likely to:

- reduce the pressures of caring and working on parents, particularly mothers, when their children are young
- increase somewhat the involvement of fathers in the early months of a child’s life. However, that effect will probably only arise from the short period of paternity leave. Given overseas evidence, it will not have appreciable impacts on fathers’ willingness to participate in child-related domestic tasks for older infants over the short run. Accordingly, while a paid parental leave scheme may reflect (and reinforce) the prevalent community view that fathers have an important role to play in child rearing and in domestic tasks, its actual effects on fathers’ behaviour are likely to be modest
- give women greater labour market experience than otherwise, building up their skills by more than otherwise and making them less vulnerable economically over their lifetimes, especially where relationships break down. Achieving this impact depends on avoiding excessive imposts that encourage employers to discriminate against women. The proposed scheme recognises this imperative. Delaying implementation of any employer superannuation contributions to the scheme acknowledges the need to contain labour costs for business in the current climate
- provide a strong signal that taking time out of the paid workforce to care for a child is viewed by the wider community as part of the usual course of life and work for parents, rather than a nuisance. A scheme that intends to signal this should be structured like other leave arrangements, such as those for recreation, illness and long service leave, rather than being structured as a social welfare measure.

Some participants also considered that providing for paid parental leave would signal the importance and value of children — not just for parents but for society as a whole.

While many participants in this inquiry say they would value these kinds of social impacts, not all agreed. Some see having children as a private choice with parenting to be organised as individual parents feel is appropriate.

Nevertheless, it is a legitimate role of the government of the day to act on its view of the kind of society we would like to live in, with political accountability if that view is out of kilter with public sentiment. The evidence from a variety of social surveys suggests that a significant majority of people do favour a statutory scheme and seek more supportive arrangements at work to improve their work-family balance.

Outline of the proposed scheme

The design of a coherent scheme must support its key objectives, be practically implementable, minimise burdens for taxpayers and business, and avoid perverse behaviour. The key aspects of the scheme are set out in table 1 below, but it is worth highlighting some of the design elements, their rationale and implications. It is also worth emphasising that there is no ‘perfect’ scheme and that the Commission had to consider complex evidence, tradeoffs between objectives and above all, uncertainty, in determining the appropriate features of its model. That is why the Commission is recommending a review be conducted three years after the scheme’s implementation to assess how it has performed against its objectives. The review should be supported by appropriate data collection.

The Commission has changed some aspects of the model proposed in the draft report following feedback from participants and after further analysis (box 2).

Duration and payment rate

As discussed earlier, the Commission is proposing paid parental leave of 18 weeks. To make that leave period viable, the payment rate has to be sufficiently high that going on leave is preferable to taking welfare payments (the baby bonus and higher family tax benefits).

Table 1 A snapshot of the proposed model

Duration	18 weeks of paid <i>parental</i> leave to be used up within one year of birth as one block of a continuous period of parental care, with the parental care, but not necessarily the statutory paid leave, commencing no later than birth. An additional two weeks would be available as <i>paternity</i> leave. It would be reserved for the father (or other eligible partner) who shares in the daily care of the child and would also need to be used within one year of birth. Payments would only be made if parents took leave ('use it or lose it').
How much?	<p>The going adult minimum wage (currently \$543.78) for each week of parental or paternity leave, paid regardless of pre-birth incomes, subject to taxation, and included as income for assessment of welfare benefits, with the exception of income support payments (principally parenting payments, Newstart and the disability support pension).</p> <p>Parents taking any statutory paid parental leave would lose the baby bonus (except for multiple births) and there would be no access to family tax benefit B while on statutory paid parental leave. These conditions would not apply to paternity leave.</p> <p>Depending on a review to be held three years after program inception, payment of superannuation contributions while on leave, with benefits to only apply to the actual salary of the employee or the adult minimum wage, whichever is lower. Mandated contribution rates limited to the statutory 9 per cent rate, but no bar to negotiation for higher amounts.</p>
Who pays?	<p>Cash payments for paid parental and paternity leave would be fully taxpayer-financed, but with changes to the baby bonus and family tax benefit B.</p> <p>Where employees were entitled to unpaid parental leave under the National Employment Standards, the Government would prepay statutory paid parental and paternity leave entitlements by instalment to employers, who would then make payments to their employees.</p> <ul style="list-style-type: none"> The Australian Government would pay all other eligible employees directly <p>Employers would fund any future implementation of superannuation contributions, but only to long-term employees (12 months) eligible for super on their wages prior to the scheme.</p>
Eligibility and requirements for use	<p>Statutory paid parental leave would be available for a primary carer, typically the parent, but with scope for non-parental eligibility in special circumstances.</p> <p>Eligibility for parental or paternity leave would require 'continuous' employment (with one or more employers) for at least 10 of the 13 months prior to expected birth, and paid work of at least 330 hours in the 10 months.</p> <p>The scheme would cover all employees who met the employment test above, including the self-employed (including contractors) and casual workers.</p> <p>To get any future superannuation entitlements, employees must also be eligible for unpaid parental leave under the National Employment Standards and be entitled to these benefits before taking paid parental or paternity leave.</p> <p>Eligible mothers could transfer paid parental leave rights to fathers and other eligible partners, if they also meet the required employment tests above. In special cases (eg death of the mother), eligible partners could access paid parental leave if the mother was ineligible.</p> <p>'Paternity' leave would be available to eligible fathers, or, in same sex couples, to the other eligible partner, even if the mother was not eligible for statutory paid parental leave.</p> <p>No use of statutory parental leave by both parents at the same time, but statutory paternity leave could overlap with a mother's parental leave.</p> <p>Parents could take statutory paid parental leave at the same time as other private paid leave, but fathers would not be allowed to take paternity leave while on other paid leave.</p> <p>Eligible adoptive parents could get access to leave for children under 16 at time of placement.</p> <p>Primary carer could adjust leave to 'keep in touch' with employer if there is mutual consent.</p> <p>Parents giving birth to twins or more would get one leave entitlement but, subject to the income test, receive the baby bonus for each additional child.</p>
Other policies	Regulatory and information measures to assist business to cope with disruption burdens and to advise employees of their entitlements
Non-eligible parents?	Those families not eligible for paid parental leave may be entitled to paternity leave, the baby bonus (\$5000) and other financial support through the social transfer system.

Box 2 What are the main changes since the draft report?

To promote access to the scheme by parents having second or subsequent babies, amendment of the average ten hours a week working requirement to effectively an average one day a week requirement

To make re-qualification for statutory leave easier for existing mothers and to allow scope for interrupted work and unpaid prenatal leave, amendment of at least a continuous 12 month prior period of work to a requirement for working for at least 10 of the 13 months prior to the expected birth of the child.

To fit in better with existing paid parental leave schemes and recognising the benefits of longer parental care, removal of the requirement that parents initiate statutory leave within six months of the birth of the child. In its place, there would be a requirement that parents complete statutory paid parental and paternity leave within 12 months of birth or adoption. Statutory parental leave would have to be taken as one block in a continuous period of parental care, with the parental care, but not necessarily the paid parental leave, commencing no later than birth.

For administrative simplicity and flexibility for parents, removal of the requirement that statutory paid parental leave payments to the primary carer follow or precede other private leave payments, so that statutory paid parental leave could be taken concurrently with other paid leave. The 'non-concurrence' requirement would still apply to paternity leave.

Reflecting a desire to reduce costs for business during the scheme's establishment phase and given current economic uncertainties, delayed and contingent implementation of superannuation contributions by employers, with this issue being part of a review of the scheme three years after its introduction.

To avert any cash flow problems for employers, introduction of the requirement that the Government pay by instalment those employers acting as paymaster for government before the businesses make parental and paternity leave payments to employees.

Given its better risk management processes and likely cost advantages, payment by Centrelink to employers undertaking the paymaster function, not through changes to pay-as-you-go withholding taxes.

Given consistency with other welfare payments, preserving the current means-testing of the baby bonus rather than eliminating income testing as proposed in the draft.

To allow broader access to the scheme by lower-income families and to encourage their longer-term workforce participation, provision that the income from statutory paid parental and paternity leave not count as income for the purposes of calculating parenting payments (single and partnered) and other income support payments.

Given the existing effects of the welfare system, removal of a lower rate of payment for juniors and others getting below minimum wage rates.

Given its administrative complexities, removal of the proposal to reimburse the remaining portion of the baby bonus for a parent on statutory parental leave who returns to work prior to 18 weeks.

Recognising the diversity of families and children's needs, a capacity for non-family members to get statutory paid parental leave in some limited cases.

The Commission proposes payment at the minimum adult weekly wage¹ for eligible parents in statutory paid parental (and paternity) leave, as has been recommended in past reviews. Most inquiry participants supported such a payment rate — it has the advantage that it is recognised as a wage, has a strong precedent in many overseas schemes and would probably be less open to pressures to increase its value than an alternative based on a share of average weekly earnings.

One concern — raised by the Australian Fair Pay Commission — is that using the federal minimum wage as the benchmark payment rate might result in pressures to raise the minimum wage to better meet parent’s needs. However, the Australian Fair Pay Commission is statutorily bound to ignore matters not connected with the goals of the wage setting process — and these would include those pressures. That said, if a substantive case were made that the wage determination process would be undermined, the payment rate could be commenced at the federal minimum wage, but subsequently be indexed to average weekly earnings.

The statutory leave payment would be like any other income gained while on leave. It would:

- be taxable
- be taken into account in calculating income-tested welfare payments, with the exception of income support payments (such as parenting payments and disability support pensions). The latter exclusion ensures that statutory paid parental leave would remain attractive for most low-income women.

Under the Commission’s proposal, recipients of paid parental leave (but not the short period of paternity leave) would lose eligibility for family tax benefit B for the duration of the statutory leave and, with the exception of those having multiple births, would not be eligible for the baby bonus. Parents on paid parental leave would still usually get substantially more in net terms than they would on welfare payments and would be able to take longer leave.

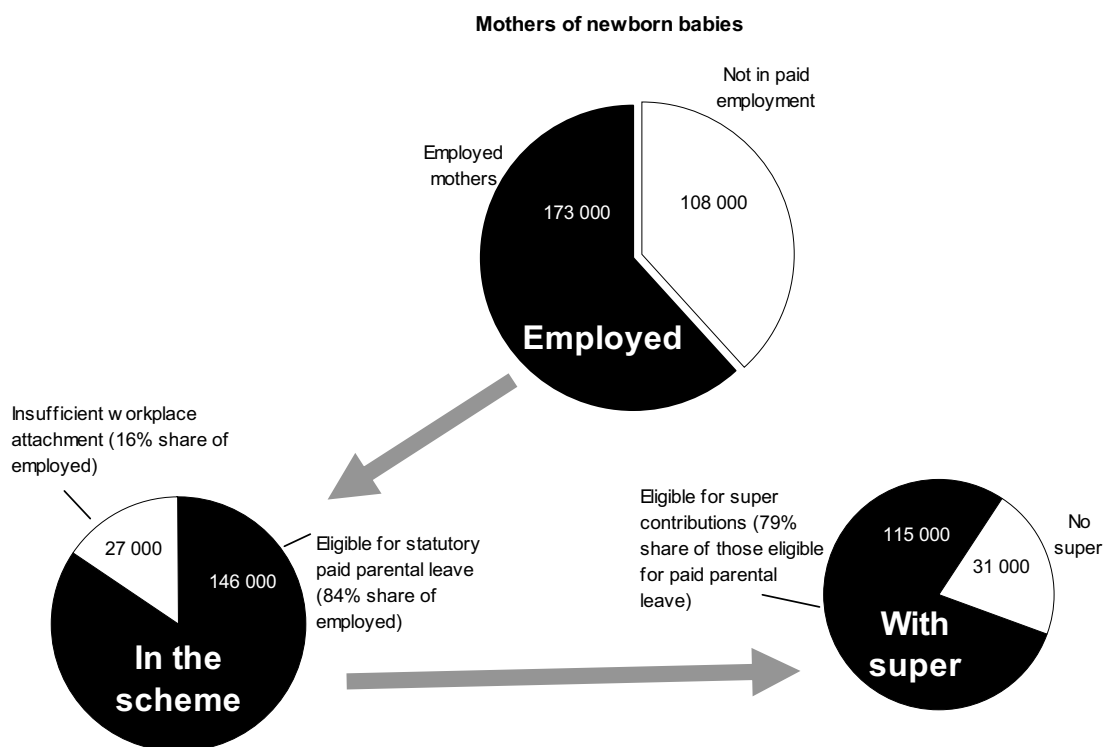
Payment at a flat rate would mean that the labour supply effects would be greatest for lower income, less skilled women — precisely those who are most responsive to wage subsidies and who are least likely to have privately negotiated paid parental leave. Full replacement wages for highly educated, well paid women would be very costly for taxpayers and, given their high level of attachment to the labour force and a high level of private provision of paid parental leave, would have few incremental labour supply benefits.

¹ The standard federal minimum wage is currently \$14.31 an hour, with a weekly rate of \$543.78.

Eligibility

To be eligible for paid parental leave, a person would have to be the full-time primary carer of the child, meet a work test, and other than in exceptional circumstances, be the parent of the child. These criteria reflect the goal of the scheme to encourage exclusive parental care of children, not time away from work per se. Not all employees would be eligible (figure 3) and not all of those who are eligible would actually choose to use their entitlement. (The latter is reflected in the Commission’s estimate of the costs of the scheme — see later.)

Figure 3 **Who will be eligible?**



The work test would require an employee to have been employed:

- ‘continuously’ for at least 10 months (the ‘qualifying’ period) of the 13 months prior to the expected date of the birth or adoption, though not necessarily with the same employer (the ‘10-13’ rule). A requirement for continuity would not preclude reasonable breaks in employment (chapter 2).
- for at least 330 hours in the qualifying period (with work including paid leave provided by the employer). The 330 hour requirement allows the eligibility of a parent who has worked an average of one conventional day a week for the relevant ten months.

The 10-13 rule has the advantage that it will cater for many instances where a woman has a premature birth, is retrenched prior to birth (and can't get another job) or where the business folds prior to birth and it provides considerably more latitude for eligibility for statutory paid parental leave for employees with more interrupted patterns of work.

The 330 hour rule stems from recognition that one of the goals of a paid parental leave scheme is to encourage existing mothers outside the labour force to re-enter work on at least a part-time basis to qualify for paid parental leave for a subsequent child. However, if the eligibility threshold for hours/tenure were set too high, it could discourage this transition. Empirical evidence suggests that a requirement for 10 hours a week — as set out in the draft report's proposal — would disqualify from eligibility a significant minority of mothers with at least one child, adversely affecting the workforce participation goals of the scheme. A one day a week requirement — though only a little less stringent — allows significantly broader involvement.

The Commission considered whether higher hours and tenure eligibility thresholds might be appropriate for first-time mothers. However, the incentive effects of such higher thresholds are not likely to be that great since women without children already have high workforce attachment. A second rule for first-time mothers would add complexity without much gain.

Coverage would extend to all people meeting the employment test, including part-time, full-time and casual employees, the self-employed and contractors — recognising that employment takes many forms.

Families also assume many forms. Families include conventional couples, single parents, adoptive parents, and same-sex partnerships, and in some instances, non-parental care arrangements. As is now customary in family policy, the Commission recognises all of them have legitimate, if sometimes constrained, claims for access to a scheme. In particular, the Commission has proposed stringent requirements for access to the scheme by non-parents, recognising that the scheme's purpose is not provision of child care.

Differing needs

Parents giving birth to twins or other multiple babies would be entitled to paid parental leave entitlements for one child, and the baby bonus for each additional child (subject to the existing income test for that payment).

People outside the labour force and employees not meeting the employment test outlined above would be ineligible for statutory paid parental leave. Some in this

inquiry have argued that it is inappropriate to provide additional benefits for employed parents without making these also available for families where one parent cares for their children full time. However, those concerns have to be placed in context.

First, Australia's tax and transfer system recognises that different families have different needs. In particular, on average, a family with one parent caring full time for their children obtains family tax benefits and other payments that — over a lifetime — exceed those of other families (chapter 9). This is appropriate given their income circumstances and it recognises that caring for children is a valued activity. Moreover, it should be recognised that even in the immediate post-birth period, such families would generally:

- qualify for the baby bonus and family tax benefit B (welfare payments that by design would not be available for recipients of statutory paid parental leave)
- get higher levels of other welfare payments, such as family tax benefit A and low income tax offsets, than recipients of statutory paid parental leave (because the latter lose some access to such benefits due to the income tests that apply to them)
- face lower tax obligations than parents who are working enough to be eligible for statutory paid parental leave
- still be able to access paid *paternity* leave.

In other words, the gap between the benefits of statutory paid parental leave and those benefits received by families where the primary carer does not qualify for statutory leave are much smaller than first apparent. (Indeed, for some family groups, achieving any gap has been a challenge in the design of the scheme.)

Box 3 Some examples of what parents would receive

1. Laura is a mother working in a part-time job earning \$400 a week. After the birth of her second child, she is entitled to, and takes, 18 weeks of paid parental leave at \$543.78 per week (about \$9788 gross in total). Her partner is also eligible for paternity benefits as he meets the work test and takes the two full weeks off to help care for the new baby. He gets \$1088 (gross) through the statutory paid parental leave scheme. So the total family gains are \$10 876 over the 18 weeks.

By participating in the scheme, the family forgoes the baby bonus, loses some family tax benefits and pays some tax. After these offsets, they receive around \$2600 more than they would have received without the scheme being in place.¹

If the super contributions were introduced in the future, these would give the family an additional (gross and net) \$979 of benefits to bring the total net value of benefits to around \$3500.

2. Six months before she has her child, Roberta chooses to leave her \$40 000 a year job. Her lack of tenure in employment means that she is not eligible for statutory paid parental leave. However, at the birth of the child, Roberta, a single mother, gets the baby bonus of \$5000, and an average of an additional \$21 200 of family tax benefits and parenting payments per year over 2008-09 and 2009-10, giving her an overall package over the two year period of \$47 200 after the birth of her child.² The paid parental leave scheme makes no change to the benefits she receives. This would be the same for a mother who has never been in the paid workforce.

Maximum gross payments under the Commission’s scheme

	Paid parental leave	Paid paternity leave	Total
	\$	\$	\$
Government payments	9 788	1 088	10 876

¹ The example assumes that the first child is two years old, that the new baby is born on 30 August 2008, that she returns to work one year later at her old wage, and that her partner earns \$65 000 annually. The calculations of benefits are the combined outcomes over the two fiscal years 2008-09 and 2009-10 since the net benefits must take account of the way the tax and benefit system works over fiscal years. The apparent monetary costs associated with any forgone wage income while on leave are not included as offsets because they are balanced by the non-pecuniary benefits of taking the leave. ² This assumes the same birthday as above, but no return to work until after 2009-10.

Second, the Commission’s proposed design for a government statutory scheme has distributional consequences, but that is not its purpose. Rather, the design reflects the goals of a statutory scheme — better maternal and child welfare; improved incentives to work given the existing tax and transfer system; and achievement of social policy objectives, especially in relation to work/life issues, that many Australians see as desirable. These impacts only relate to parents in employment. For example, a parent caring for children full time does not require incentives to prolong an absence from work. Widening the reach of a paid parental leave scheme

so that government provided it on equal terms to all parents would cost taxpayers a lot more, for little or no gain in its impacts. (And, it would actually undermine the scheme's employment incentive effects.)

Workplace norms and retention

The more that parental leave arrangements mimic those that exist as part of routine employment contracts, the more they will be seen by employers and employees as standard employment arrangements, with the dual effect of:

- promoting employment continuity and workplace retention (thus helping to preserve job and employer-specific skills that would be reduced if parents were to resign or move to another employer) and reducing training costs for employers
- signalling that a genuine capacity to take a reasonable period of leave from employment to look after children is just a normal part of working life.

The Commission has proposed several features of a scheme that would help achieve these outcomes:

- as in the United Kingdom scheme, employees would generally be paid their parental leave through their employer. The Commission proposes that the Government would prepay employers by instalment (using processes for payment that are commonly used for Centrelink clients). Prepayment would avoid the cash flow problems posed by the option proposed in the Commission's draft report
- as in some employer-provided paid parental leave arrangements there would be scope for brief interruptions to leave so that employees could keep in contact with the employer or so the self-employed could continue some administrative duties with their business (the 'keeping in touch' provisions discussed earlier)
- subject to the proposed three year review (see below), employers would make superannuation contributions to employees on statutory paid parental leave — as is common for some other forms of paid leave. Contributions would only be required if their employees were eligible for these entitlements before taking leave *and* were also eligible for unpaid parental leave under the National Employment Standards.

Who will pay?

The Commission considered a wide array of options for funding paid leave, including:

-
- direct employer financing, where individual employers would be obliged to pay for the parental leave taken by their employees (in effect, a tax on employers, the scale of which would depend on the age and gender composition of their workforces)
 - pooled funding by employers. Every employer would pay an amount proportional to their payroll into a common fund to finance leave. They would do so regardless of the numbers of likely users of paid parental leave in their individual enterprises. In effect, this would be akin to a special payroll tax levied on all employers
 - leave ‘banks’, in which firms would be obliged to contribute weeks to a leave fund as an employee’s tenure grew, with the leave being dedicated to parental care and portable between employers. (The baby bonus would finance an initial right to a minimum period of parental leave for all employees.) This is another form of direct employer funding
 - models that involved some element of user pays — such as income contingent loans by government and tax concessions to business to provide paid parental leave
 - funding from taxpayer-funded general revenue (often referred to as ‘government’ funding).

All of these models involve the obligation by some part of the community — whether it be funded by specific employers or employees, or through government from taxpayers — to contribute at least some amount to the costs of a paid parental leave scheme. A government-enforced obligation to pay something might not always be *called* a tax, but effectively it is one. Accordingly, the choice really is between competing forms of tax (and varying levels of co-contributions by parents).

The Commission proposes that the cash component of the leave scheme be raised through general revenue — that is, from taxpayers generally. Such an approach is easier to manage administratively than most of the other arrangements and is consistent with the point, recently made by the Australian Future Tax System Review Panel, that there are already too many special-purpose taxes. (There are, however, grounds that any future increase in the generosity of the scheme could be predominantly privately financed — such as through an income-contingent loan arrangement, as used for higher education funding.)

The Commission also considers that there is a *prima facie* case for employers to make superannuation contributions to longer-term employees for the paid parental and paternity leave period. However, the Australian Government should defer implementation to reduce the costs to business during the establishment phase of the scheme, to take account of the outcome of an Australian Tax Office ruling on the

applicability of the superannuation guarantee to paid parental leave, and given the current economic uncertainty. The Commission proposes that the benefits of implementation of superannuation contributions by employers should be examined as part of a review of the scheme three years after its inception, and would consider the outcome of the ATO ruling, and compliance and other costs at that time.

Employers would otherwise have few obligations beyond those already applying under the National Employment Standards. Providing super contributions would act, at least to some extent, as a quid pro quo for the retention gains that business could expect, and from a practical perspective, payment of such entitlements by the government would entail many complexities. (As shown below, this employer contribution represents a relatively small share of the total package of costs.)

Importantly, businesses would only face additional compliance costs when they had an employee taking paid parental leave (box 4). The Commission estimates that the average small business with less than 20 staff would have a 4 per cent chance of having one or more employee pregnancies in a given year. As a result, many small businesses would not face increases in compliance or financial costs for the majority of the time. Were a super obligation to be implemented, even a small business that mainly employed young women would face small effects on its profitability (chapter 7).

Parents would contribute too as payment would not be provided for the full period of leave from work that parents take to care for their children. If parents chose to take at least six to nine months off work, they would have to use other paid leave or savings to finance up to half of the overall leave period.

How much will it cost?

The Commission estimates that a government scheme along the lines proposed would cost taxpayers around a net \$310 million annually. Taxpayer funding of the statutory paid parental leave scheme would represent about a 1.2 per cent increase in existing outlays by government on family assistance measures.

If business superannuation contributions were introduced in the future, the net business contribution would be around \$60 million and the total net cost to the economy as a whole around \$380 million.

(The overall cost estimates in the Commission's final report are lower than in the draft report. This is primarily because they rely on a more sophisticated model of the welfare and tax system and take better account of those families that do not use their entitlement to statutory paid parental leave.)

Box 4 **Impacts on business**

The Commission has proposed that the only immediately implemented obligation of employers relates to their function as ‘paymasters’ for government. Using their usual pay cycle, an employer would pay the minimum adult wage to an employee on paid parental leave, but only for those employees eligible for unpaid parental leave under the National Employment Standards. To ensure that there would be no adverse cash-flow consequences for employers, the government would prepay the leave instalments to employers.

The business would only face additional compliance costs when an employee was on paid parental leave — with no change otherwise. Compliance costs of managing parental leave generally would also be lowered by introducing longer leave notice arrangements than under the current National Employment Standards.

The overwhelming majority of employing small businesses (some 96 per cent) do not have an employee giving birth in any given year. So small business would mostly not face any costs from parental leave.

Business generally should benefit from the scheme through higher employee retention rates.

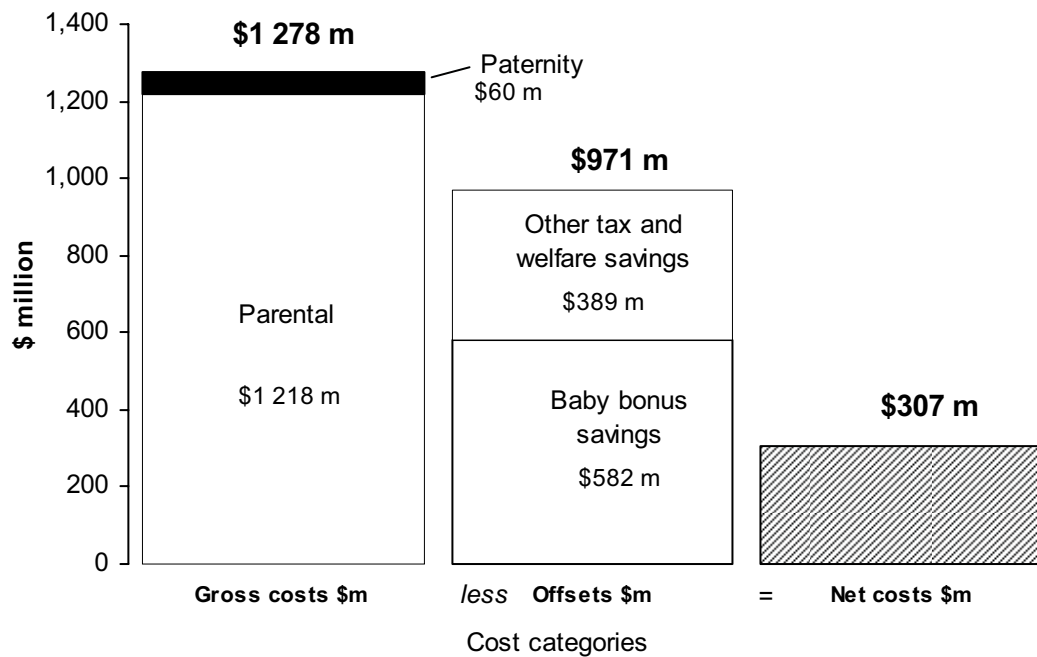
If an employer-funded superannuation contribution were introduced in the future, the financial impacts on business would be constrained by:

- applying the contribution rate to the employee’s actual pre-leave wages or the adult minimum weekly wage — whichever is lower
- limiting the *mandated* super contribution rate to the statutory 9 per cent, even if the business usually paid more than this (but with scope for parties to privately negotiate higher amounts)
- restricting these contributions to employees who
 - passed the eligibility requirements for statutory paid parental leave (in particular, the work test) *and*
 - received super entitlements before going on paid parental leave *and*
 - were eligible for unpaid parental leave under the National Employment Standards.

The maximum financial cost of super contributions for any employee would be 3.1 per cent and 0.3 per cent of annual wages for paid parental leave and paid paternity leave respectively (reducing for those on higher incomes).

The cost would have been significantly higher but for the (deliberately crafted) interaction of the statutory paid parental leave scheme with the tax and welfare system (figure 4).

Figure 4 **The net cost of statutory paid parental leave to government**



Savings arise from taxes on paid leave and forgone baby bonus payments and other welfare payments. There may be other tax and welfare savings over the longer run, reflecting the greater lifetime employment of women and better infant and maternal health, but the Commission has not included these, given their uncertain magnitude. The Commission has also taken into account the fact that some parents will not fully use the offered leave — in particular, paternity leave.

Another way of understanding the underlying *net* cost of the Commission’s proposal is to consider how each of the 18 weeks of leave is funded (figure 5). The first 8.5 weeks of the 18 is funded by removing eligibility for the baby bonus for those using statutory paid parental leave. The next six weeks are largely funded by taxes on parents’ earnings from statutory paid parental leave and reduced family tax benefits. Taxpayers fund around an additional four weeks of leave on a net basis. (The paternity element of the package is shown as a ‘top up’ on the standard weekly benefits in the chart.)

Figure 5 Financing of paid parental leave by government

