
B How much will it cost?

Key points

- The Commission's proposed scheme involves a gross cost to the community of around \$1.3 billion.
- However, the net cost is smaller at \$310 million:
 - paid parental and paternity leave payments would be taxable, would often reduce access to the various tax offsets and slightly increase medicare levies
 - parents eligible for paid parental leave would not generally be eligible for the baby bonus
 - families using paid parental leave may lose some family welfare payments, particularly family tax benefit A and B, but not income support payments, such as parenting payments and the disability support pension.
- The Commission's cost estimates do not take account of behavioural changes, such as increased lifetime employment, but the overall impacts of these changes are not likely to materially alter the estimates.
- The total net cost to government from each additional week of paid parental leave rises with the duration of the scheme.

The Commission has provided cost estimates of its proposal. The starting point of the estimates are the number of expected births (285 000)¹ and then, given multiple births, the associated number of mothers (around 281 000), as measured by confinements. Of these confinements, around 145 000 mothers would have sufficient employment tenure and hours of work to qualify for statutory paid parental leave. Given the greater employment rate of fathers, around 225 000 fathers would be eligible for paid paternity leave.

The Commission has used survey data² to estimate these eligibility estimates, so they should provide a reasonably accurate estimate of the initial size of the beneficiary groups.

¹ The estimated number of live births in 2007. The Commission's estimates do not incorporate the costs associated with payments to parents of stillborn children. These costs will be small since the fetal death rate is low. The Commission's estimates also do not cover adoptions — which are again small in number.

² Particularly the LSAC survey and the ABS survey of Pregnancy and Employment Transitions.

However, given the behavioural modelling undertaken by the Commission, not all parents can be expected to take up such leave (appendix G). We estimate that around 125 000 women would actually take up parental leave (a lower share than in the draft report, reflecting more sophisticated analysis). We expect a lower take-up of paid paternity leave, consistent with experiences with overseas schemes. The model is based on the assumption that, on a weighted basis, around 55 000 fathers will use their entitlement.³

Gross government budget costs are then relatively straightforward to calculate, as the multiple of the size of the relevant eligible group times the number of weeks used times the payment rate (figure B.1).

While the Commission's proposal does not initially include a superannuation contribution by employers, we have proposed that this feature be considered as part of a three year review of the scheme. Accordingly, we have also assessed the costs of implementing this feature. Gross business costs involve some additional complexities since the super contributions:

- are only made to the subset of employees with (a) sufficient workplace tenure (as distinct from employment tenure) and (b) who are also covered by the job return guarantee of the National Employment Standards⁴
- depend on whether an employee's weekly wages are above or below the adult minimum wage. We used data from the ABS survey of Pregnancy and Employment Transitions (2005d) to estimate the proportions of eligible fathers and mothers above and below the minimum wage and, for the latter group, the actual weekly wage earned. (Where a person earns above the minimum, we used the minimum weekly rate to calculate super entitlements.)

We estimated net costs by taking account of:

- business tax deductions for super contributions (which are then transferred to the government as a budget *cost*)
- the offsetting impact on budget costs of lost claims to the baby bonus, and to family tax benefits A and B. The aggregate effects of the scheme on child care

³ The *full-time equivalent* usage of the paid paternity leave is assumed to be 25 per cent, noting that in addition to men choosing either none, or the full two weeks, of leave, some men may use only one week. Accordingly, the 25 per cent estimate is consistent with some use of paternity leave by a greater proportion of fathers.

⁴ In fact, the most important criteria for qualifying for the job return guarantee is tenure anyway. The element to (b) that is not in (a) is sufficient employment continuity. Since no data are available to measure this precisely, (b) has been ignored in making the calculations. (Analysis of various ABS data on labour force experiences suggest that this assumption is likely to make little difference to the estimates.)

benefits and the child care tax rebate are not included, mainly because of data limitations in the LSAC database. Other analysis undertaken by the Commission suggests that the effects would be modest. The impacts of the scheme on parenting payments and other income support measures is, by design, zero, since the Commission has proposed that income from the statutory paid parental leave scheme does not count as income for means tests on these payments. The Commission has taken account of family traits (number of children and income distribution) in estimating these offsets.

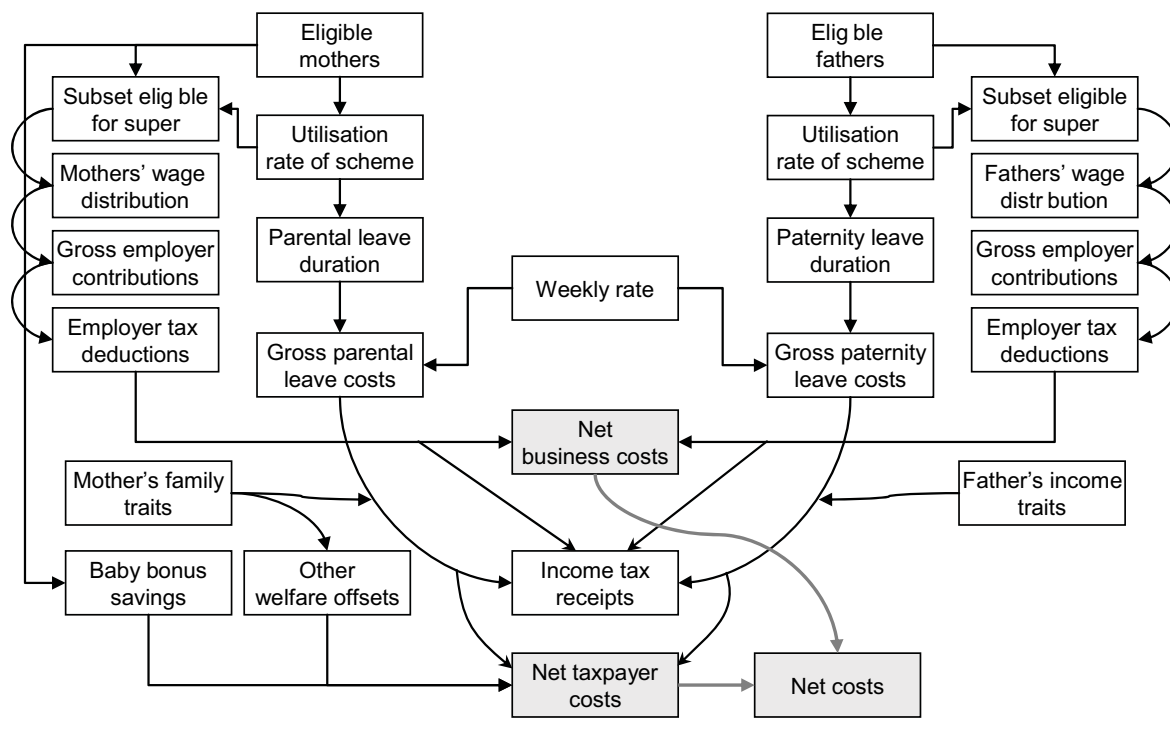
- the offsetting impact on budget costs of income taxes collected by government on paternity and parental leave payments (and on superannuation earnings). Low income, pensioner and beneficiary tax offsets are considered in making these calculations. While the medicare levy is also considered, we ignore the fact that statutory paid parental leave may sometimes push families into the income brackets where the medicare levy surcharge is applied. While ostensibly this might lead to further potential savings for government, our analysis suggests the savings are unlikely to be large. First, the family circumstances where this could occur are relatively infrequent. Second, analysis of the HILDA survey showed that the families in the income ranges most likely to be affected often already had private health insurance and would therefore not have to pay the surcharge. Finally, where people did not have insurance beforehand, many would actually take out private health insurance, so limiting budgetary savings for government.

It should be emphasised that, as well as involving several assumptions, the cost estimates only partly consider parents' behavioural responses:

- Women will take more leave, reducing their working hours around the birth of their child, decreasing their income (and income taxes) and increasing welfare transfers. On the other hand, we expect that over a longer period, women will increase their net employment rates, with the opposite effects.
- As some women will change their employment behaviour to meet the eligibility criteria, there will be more eligible women than those on which the cost estimates are based.
- Child and maternal welfare benefits may translate to savings in health costs and subsequent productivity improvements, again with impacts on taxes and welfare transfers.

Overall, it is not feasible to estimate these various behavioural effects with any precision, but the Commission's view is that these are not likely to materially change the net costs of the scheme.

Figure B.1 The cost model



The Commission used its model to calculate the total costs of the scheme associated with different leave durations and whether various scheme elements were included or not (tables B.1 to B.3). While the Commission has rejected the option of including a business contribution through accrued leave entitlements, the model also costs this proposal since this issue will be revisited as part of the three year review. (That costing involved additional calculations of eligibility, since casual employees would not be eligible for such entitlements.)

The tables illustrate the various tradeoffs between leave duration and model options. For example, a scheme of 20 weeks parental leave duration, superannuation benefits and accrued leave entitlements and two weeks of paternity leave would cost \$550 million net to the community as a whole (table B.2). The equivalent funding would nearly be able to buy 24 weeks of parental leave by itself (table B.1). The appropriate tradeoff needs to take account of the key objectives of the scheme.

The net costs to business of the various scheme options are not explicitly identified in tables B.1 and B.2, but can be derived by taking the difference between the net cost to the economy and the corresponding net cost to government. For example, were a scheme to be 18 weeks long, the full net business costs of providing super and accrued leave entitlements would be $433 - 304 = \$129$ million or 30 per cent of the total net cost of the scheme (table B.2).

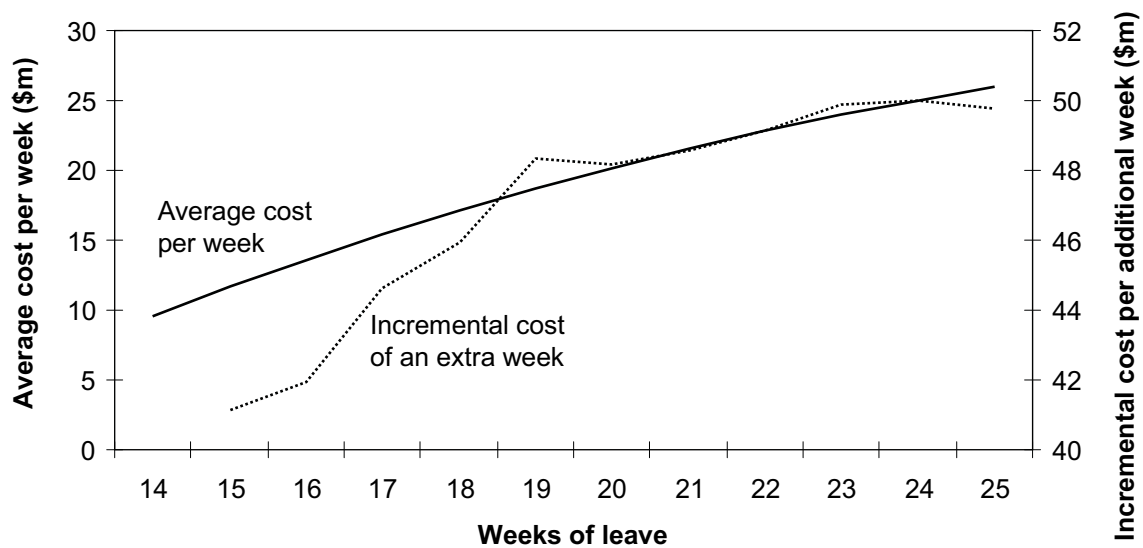
It is notable that for any option, an increase in a given number of weeks of duration of leave has varying impacts on the cost of the scheme depending on the base number of weeks (figure B.2). Accordingly, for a scheme with paid parental and paternity leave, but no super or leave entitlements,

- an increase in the duration of leave from 14 to 18 weeks leads to an increase in the net costs of the scheme of \$173 million
- while an increase in the duration of leave from 18 to 22 weeks leads to an increase in the net costs of the scheme of \$195 million (table B.1).

These variations in the costs per additional weeks reflect:

- the fact that the bulk of the baby bonus savings are common to all durations
- the extent to which people opt out of the scheme depends on its duration, with high opt out rates for low duration schemes and low opt out rates for high ones
- that the difference between the entitled duration of leave and the actual leave taken also varies with as the scheme duration increases.

Figure B.2 **Average and incremental costs of weeks of leave**



^a This is based on a scheme in which there are paternity and parental leave payments, but no accrued leave or super entitlements. The average cost per week is the total cost of a scheme of a given duration divided by the total duration, while the incremental cost is the increase in the total cost of the scheme as one additional week of leave is added. For example, the incremental costs of moving from 14 to 15 weeks would be around \$41 million, while the incremental costs of moving from 25 to 26 weeks would be around \$50 million (or about 20 per cent greater).

Data source: Productivity Commission calculations.

Why are these estimates different from the draft report?

The Commission's draft report estimated a net economy-wide cost of its design for statutory paid parental leave scheme of around \$530 million, compared to the \$307 million estimate for the current design. Part of the difference is that the scope of the initial scheme has been reduced to exclude super contributions by business. Were super included in the proposal, the current scheme's cost would be \$379 million. The main sources of the remaining differences are:

- the greater share of people estimated to opt out of a statutory paid parental leave scheme because their welfare and tax treatment is so attractive when they are outside the labour force (appendix G). The Commission has modelled the 'opt-out' decision in a more sophisticated way in the final report
- significantly higher estimates of the savings on family tax benefits and from greater offsets to the budget from taxes collected on higher family incomes
- a more comprehensive treatment of the effects of the scheme on use of the baby bonus, including better estimates of the impacts of income-testing. The extent to which the baby bonus acts as an offset to spending, while still large, is less than in the draft report because we estimate that a greater share of mothers will opt out of the scheme.⁵

⁵ In the draft report, the Commission proposed that the government remove income testing of the baby bonus. This would have had some budgetary implications for government, though we assessed these as very small at the time. More recent analysis suggests such a proposal would cost considerably more, which was a contributing factor in the Commission's decision to reverse our draft report proposal. The savings from the change in the recommendation does not contribute to the lower cost of the final versus draft proposal, since the original costing was for the paid parental scheme alone and not for incidental policy changes.

Table B.1 Annual net cost of various scheme options^a
Including the Commission's proposed scheme

<i>Period</i>	<i>No paternity, super, or accrued leave benefits</i>		<i>Paternity but no super or accrued leave benefits</i>		<i>Super but no paternity or accrued leave benefits</i>	
	Net cost govt	Net cost economy	Net cost govt	Net cost economy	Net cost govt	Net cost economy
Weeks	\$m	\$m	\$m	\$m	\$m	\$m
14	83	83	134	134	89	118
15	124	124	175	175	132	170
16	166	166	217	217	175	219
17	211	211	261	261	222	272
18	257	257	307	307	269	326
19	305	305	356	356	318	381
20	353	353	404	404	368	436
21	402	402	452	452	417	490
22	451	451	502	502	467	545
23	501	501	551	551	518	600
24	551	551	601	601	569	655
25	600	600	651	651	620	709
26	650	650	700	700	670	763

^a The net costs are measured as the direct costs to government and business, less budget offsets from reduced welfare benefits and increased tax receipts from families participating in the scheme. The base option includes basic parental leave at the adult minimum wage. Where paternity leave is shown, it is only for a two week period, though the Commission has costed longer periods and can provide such results to interested parties. The net cost to the economy is the addition of government (taxpayer) and business contributions to the scheme. The costs of the Commission's proposed scheme is shaded and marked in bold. The net economy and government costs are the same in this instance because the business sector is not making any monetary contribution.

Source: Productivity Commission estimates.

Table B.2 Annual net cost of various further scheme options^a

Period	<i>Super and paternity, but no accrued leave benefits</i>		<i>Super, paternity and accrued leave benefits</i>	
	Net cost govt	Net cost economy	Net cost govt	Net cost economy
Weeks	\$m	\$m	\$m	\$m
14	140	171	136	204
15	183	223	176	262
16	226	272	217	317
17	272	325	260	375
18	320	379	304	433
19	369	434	351	491
20	418	489	397	550
21	468	543	444	607
22	518	598	493	665
23	569	653	542	723
24	620	708	591	781
25	670	762	640	838
26	720	816	688	895

^a The base option includes basic parental leave at the adult minimum wage. Where paternity leave is shown, it is only for a two week period, though the Commission has costed longer periods and can provide such results to interested parties. The net cost to the economy is the addition of government (taxpayer) and business contributions to the scheme. The net cost estimate *for government* associated with an option that includes employer-funded accrued leave entitlements and superannuation (the last two columns above) is shown as lower than the Commission's preferred option of a fully taxpayer-funded scheme (the bold figures in table B.1). This reflects the fact that while government will contribute to the funding of accrued leave entitlements through business tax deductions, the employee beneficiaries will also pay tax on these additional entitlements and lose some welfare benefits. The net cost estimates for this option are less reliable than for the other options as they involve assumptions about the magnitude of the welfare and tax savings, rather than empirical estimates, as for other options.

Source: Productivity Commission estimates.

Table B.3 Annual gross costs of various scheme options^a
Including the Commission's proposed scheme

<i>Period</i>	<i>No paternity, super, or accrued leave benefits</i>	<i>Paternity but no super or accrued leave benefits</i>	<i>Super but no paternity or accrued leave benefits</i>	<i>Super and paternity, but no accrued leave benefits</i>	<i>Super, paternity and accrued leave benefits</i>
Weeks	\$m	\$m	\$m	\$m	\$m
14	615	675	657	720	772
15	798	858	852	915	981
16	933	993	996	1059	1136
17	1078	1138	1151	1214	1302
18	1218	1278	1300	1363	1462
19	1332	1392	1422	1485	1593
20	1446	1506	1544	1607	1724
21	1551	1611	1655	1718	1843
22	1640	1699	1750	1813	1945
23	1731	1791	1847	1910	2050
24	1818	1878	1941	2004	2150
25	1903	1963	2031	2094	2247
26	1983	2043	2117	2180	2339

^a The gross costs are measured as the direct costs to government and business. The base option includes basic parental leave at the adult minimum wage. Where paternity leave is shown, it is only for a two week period, though the Commission has costed longer periods and can provide such results to interested parties. The costs of the Commission's proposed scheme is shaded and marked in bold. The costs combine government (taxpayers) and business costs.

Source: Productivity Commission estimates.