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# I What payment level?

## Key points

- The structure and magnitudes of payments in a statutory paid parental scheme need to reflect the objectives of the scheme. Payments:
  - need to be seen as a wage to meet the social policy objectives of a scheme
  - have to be high enough to encourage women to maintain labour market connection and to finance an adequate period of leave to achieve child and maternal welfare benefits.
- While many countries' paid parental schemes are based on replacement wages, these are parts of wider social insurance schemes. Against the background of the Australian social welfare system, payment at replacement wages would:
  - not be sufficient to achieve the above objectives for the lower paid
  - represent a significant impost on taxpayers for highly paid parents.
- In that context, a flat rate payment is appropriate in an Australian context and has the virtue of simplicity and affordability. Use of a flat rate payment has significant precedents in overseas models for at least some categories of employee. Additionally, a flat rate payment does not preclude additional voluntary or collectively bargained 'top ups' by employers.

## I.1 What determines the 'right' payment level and type?

The payment rate for a statutory paid parental leave scheme aims, like other design elements, to achieve the objectives of the scheme. Accordingly, as much as possible, the payment should:

- (a) be high enough to allow women to take sufficient time off after birth to care for their infants and to recover from birth (chapter 4)
- (b) facilitate labour supply and to reduce resignation from work (chapter 5)
- (c) achieve the social policy goals of the scheme, consistent with current and strengthening community norms around this area. In particular, while there are clearly some different perspectives about such norms (chapter 6), a key

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element of this social policy goal is to provide a strong signal that having a child and taking time out for family reasons is viewed by the community as part of the normal course of work (and life) for parents in the paid workforce. This implies that a payment should be structured so that it is not perceived as a welfare payment, but as an employment-related payment or wage.

To achieve objectives (a) and (b), paid parental leave payments must be higher than the value of alternative welfare payments that would be obtained were women to resign from their jobs or take unpaid leave.

As emphasised through this report, there can be tradeoffs in achieving these benefits. Setting a payment to achieve the above objectives has to take account of:

- the equity and efficiency consequences of financing a statutory paid parental leave scheme on Australians generally, taxpayers and employers. For instance, increased income taxes typically reduce efficiency by distorting labour supply and investment decisions. Similarly, since not all families receive the same entitlements, a statutory paid parental leave scheme has distributional consequences, whose appropriateness needs to be judged by the community
- its administrative ease
- its clarity for employees and employers, noting the problems identified with otherwise conceptually elegant tiered payments (appendix E)
- the risks of unintended consequences.

## **I.2 Models for paying leave**

### **Complex models are not practical**

While paid parental leave increases the average duration of leave taken, promotes labour force participation and alleviates the financial stresses of having a baby, the strength of these effects varies for different groups of parents — as shown in appendix G. For example, every additional \$1000 of paid parental leave per parent is likely to have greater impacts for lower income employees than for those on the highest incomes. Responsiveness varies by factors such as educational attainment, number of existing children, income and self-employment status.

While in principle, a statutory paid parental leave scheme could be designed to maximise its cost effectiveness by varying payments according to the responsiveness of parents, in practice, such an approach would involve major drawbacks. It:

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- would be complex, creating additional administrative costs for government and business, and making it hard for people to know the value of their entitlement in advance
  - could encourage some people to game the system to try to obtain a high payment
  - would still ignore the heterogeneity within any group (for instance, some high-income women would be highly responsive, and some low income women would not be responsive)
  - may be seen as unfair (for example, mothers having a second or third child may be less responsive, but the community might assess their need as higher)
  - would not be consistent with the goal expressed by many in the community that a statutory paid parental leave scheme be an employment-based *entitlement*.

That said, while complex rules and payment levels appear impractical, decisions about the features of payment systems, such as whether they have caps or floors on payments, or use earnings-related or flat-rate payments, partly depend on whether these features effectively target those parents whose leave duration and workforce participation is most responsive. For example, a flat rate payment would probably stimulate average duration more cost-effectively than earnings-related payments because flat payments represent a bigger share of the pre-birth earnings of low income women.

### **Earnings-related payment systems**

In earnings-related payment systems, maternity pay is equal to the weekly wages of the woman over some period prior to birth (so-called ‘full replacement’ earnings) or a sizeable fraction of such wages. A full-replacement wage model means that a woman earning \$2500 a week in a full-time job would continue to receive that income while on maternity leave, while similarly a woman earnings \$150 a week in a part-time job would continue to receive that income for the maternity leave period. This model of payments is like most other leave entitlements — like recreation, sick and long service leave — where full replacement wages are paid for employees temporarily away from work.

Full (or at least, near complete) wage replacement is the dominant model for maternity payments around the world (table I.1). There are sometimes floors to payment rates to ensure a basic level of payment to lower income parents and ceilings to payment rates to limit costs. The full replacement wage model is typically just one element of a broader set of social insurance arrangements. Under these arrangements, employers, employees and, more rarely, government, make mandatory contributions to a pooled fund that meets a range of employees’ lifetime

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social needs, such as income support for maternity leave, incapacity, sickness, unemployment; and retirement. The self-employed, contractors (and indeed, the unemployed and students) are often also eligible for maternity payments. Where social insurance arrangements are used as the financing method, payments are not usually subject to periodic indexation adjustments, since employees' earnings rise automatically with productivity and wage pressures.

The desirability of payment based on full (or near full) replacement wages in an Australian context depends on funding arrangements and on the social transfer system generally:

- Full wage replacement would have large fiscal impacts were the Australian Government (taxpayers) to bear the full cost. It could also entail significant efficiency costs if the revenue was financed through increases in general taxes.
- These fiscal costs could be managed in a hybrid system — as proposed by the ACTU — in which the Australian Government funded a minimum standard of pay, with employers statutorily required to top up incomes to their full pre-birth levels. However, these arrangements do not pool the varying risks of parental leave liabilities faced by employers, raising the potential issue of discrimination against women. They would also impose significant financial stresses for some employers, especially small enterprises with largely female workforces (such as hairdressers).
- Payment of full replacement wages might be more justified under social insurance arrangements. This is because mandatory social insurance contributions falling on employers and employees are akin to payroll taxes — a relatively efficient tax if designed well. Moreover, since the effective incidence of social insurance contributions is mainly on labour, the beneficiaries (as a group) are also the ones paying.

However, it is not practical for Australia to establish a social insurance model — with all the fixed costs that would entail — as the vehicle for financing paid parental leave alone. In addition, in Australia, a significant proportion of mothers have pre-birth earnings that are well below the welfare benefits they could receive post-birth if they decided to resign. Consequently, in an Australian context, full replacement earnings would not be sufficient to maintain workforce attachment for many low income women, a situation that may be less severe in the many OECD countries that provide less generous cash family benefits.

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## Flat rate payments

Maternity payments for employed mothers — or a subset of that group — are sometimes paid at a flat rate regardless of pre-birth earnings. Where this occurs, the minimum wage, or some multiple of it, is used as the floor or ceiling to payments. This is the case in Estonia, Hungary, Luxembourg, Morocco, the Netherlands, Romania, Serbia, Slovenia, Spain and Tunisia (table I.1). For instance, in the Netherlands, the Social Security Agency pays a self-employed mother a pregnancy and maternity benefit equal to the gross minimum wage, provided that she worked at least 1225 hours as a self-employed person in the year before the benefit begins. For women working less than these hours, entitlements are based on annual profits, but with the minimum wage as a ceiling.

Similarly, flat rate payments — not linked to the minimum wage — also feature in schemes for some employees or for some part of the leave period (such as in New Zealand; Iceland; Sweden; United Kingdom and Jersey). Though a rare model, in some instances these flat rate payments are indexed to average earnings, so that effectively the maternity payment is a fixed share of average weekly earnings (Jersey, New Zealand).

The Commission's proposal of a flat rate payment is consistent with the distinctive Australian social welfare system and commonly emulated in other countries. It should achieve most of the goals set out in section I.1. As observed above, the use of the minimum wage as a benchmark for payment is common in overseas schemes. The reasoning behind its recommended adoption in an Australian scheme is explored in more detail in chapter 2.

The Commission recognises that employers may provide additional top ups or supplementary benefits on a voluntary basis or as part of collectively bargained industrial agreements, which would further enhance the benefits to mothers attached to the workforce.

**Table I.1 Payment systems around the world**

<i>Country</i>	<i>Maternity leave payments</i>
Austria	100% of pre-birth earnings for employees; flat rate for self-employed, freelance workers & temporaries
Belgium	in the first month after birth women receive 82% of pre-birth earnings plus 75% for the remaining weeks with a ceiling of €86.34 per day; statutory civil servants receive full salary
Canada	55% of average insured earnings for the national scheme (70% of average weekly earnings in Quebec) up to an absolute cap in payments
Czech Republic	69% of pre-birth earnings; the same rate is paid for self-employed women
Denmark	100% of pre-birth earnings up to a ceiling
Estonia	100% of pre-birth earnings (calculated on employment in the previous calendar year); there is no ceiling on the benefit; the minimum wage (€280 per month in 2008) is paid to mothers who did not work during the previous calendar year but have worked prior to the birth of a child
Finland	70 to 90% of pre-birth earnings (depending on duration) with an absolute cap.
France	100% of pre-birth earnings, with a floor and a ceiling
Germany	100% of pre-birth earnings, with no ceiling
Greece	100% of pre-birth earnings, with no ceiling
Hong Kong	80% of an employee's pre-birth normal earnings
Hungary	70% of average pre-birth daily earnings, with no ceiling on payments; in cases when there has been previous employment (i.e. the pregnant woman is eligible) but no actual income can be determined on the first day of eligibility (e.g. the pregnant woman is on sick leave for several months, or is self-employed and does not have an actual income), the payment is twice the amount of the official daily minimum wage; in this case, payment is made by the Treasury, not the National Health Insurance Fund
Iceland	80% of pre-birth earnings up to a ceiling for those who have been in the workforce during the preceding 24 months; the payment to a mother working shorter part-time hours, i.e. between 25–49% of full-time hours, is at least €630 per month, and for a mother working longer hours, at least €830; others (including students) receive a flat-rate payment
Ireland	70% of pre-birth earnings (calculated by dividing gross earnings in the relevant tax year by the number of weeks worked), subject to a minimum of €151.60 per week and up to a ceiling of €232.40 a week
Israel	the benefit is equal to 100% of the insured's average daily net income in the 3 months preceding the day on which the insured woman ceased work because of the pregnancy
Italy	80% of pre-birth earnings with no ceiling for salaried workers; for home helps, self-employed workers and temporary agricultural labourers, earning is 80% of 'conventional earnings' determined each year by the law

**Table I.1 (continued)**

<i>Country</i>	<i>Maternity leave payments</i>
Japan	60% of the average basic wage in the relevant wage class; payment is reduced if the mother receives a private benefit
Luxembourg	100% of an employee's pre-birth earnings with a minimum payment equal to the social minimum wage
Mexico	100% of pre-birth earnings
Morocco	100% of insured earnings up to a maximum and with a floor equal to 2/3 of the legal minimum wage
Netherlands	for employees, 100% of pre-birth earnings up to a ceiling equivalent to the maximum daily payment for sickness benefit (€177); from 1 July 2008 onwards, the self-employed get an entitlement to a 16-week payment up to a maximum of 100% of the statutory minimum wage (€1,335 a month before taxes)
New Zealand	NZ\$407.38 in 2008-09, indexed to average ordinary time weekly employee earnings
Norway	100% of pre-birth earnings (or 80% over a longer leave period)
Poland	100% of pre-birth earnings
Portugal	100% of pre-birth earnings
Romania	maternity benefit at 85% of pre-birth earnings and maternity risk benefit at 75% of pre-birth earnings; the maximum earnings are a multiple of the gross monthly minimum wage
Russia	100% of pre-birth earnings
Serbia	100% of an employee's pre-birth earnings with a minimum payment equal to the social minimum wage. Indexed (monthly) to changes in the national average wage
Singapore	100% of pre-birth earnings
Slovenia	100% of pre-birth earnings for women working for the full 12 months prior to birth. Women employed prior to birth, but without all of the necessary qualifications for the above payment, receive payments that are based on the minimum wage
South Africa	31% to 59% of pre-birth earnings for those insured
Spain	100% of an employee's pre-birth earnings for insured mothers and the minimum wage for non-contributory mothers
Sweden	390 days at 80% of pre-birth earnings up to a ceiling with a subsequent 90 days at a flat-rate payment. Payments indexed to CPI.
Switzerland	100% of pre-birth earnings, but with some variations by canton
Tunisia	2/3 of the average daily wage up to a ceiling of twice the legal minimum wage
Turkey	2/3 of pre-birth earnings
United Kingdom	90% of woman's pre-birth earnings for 6 weeks with no ceiling, plus a flat-rate payment for 33 weeks

*Source:* Moss 2008 for most countries, and from Social Security Administration, *Social Security Programs Throughout the World*, for Africa (for 2007), Asia (for 2006) and Europe (for 2008) for the remainder.