



**Unions NSW Submission to the Productivity Inquiry into Paid
Maternity, Paternity and Parental Leave**

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Submission prepared by Unions NSW and Professor William Mitchell and Dr Beth Cook Centre of Full Employment and Equity at the University of Newcastle.

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Executive Summary

1. Introduction

Unions NSW congratulates the Rudd Labor Government for initiating a national discussion about maternity leave, paternity leave and parental leave.

These entitlements are critically important, as they sit at the nexus of health and work policies. As Australian families become more dependent on multiple incomes and breastfeeding rates decline, we need new innovative public policies that help citizens strive for a work/life balance.

A government mandated maternity leave, paternity leave and parental leave is a necessary first step. However, this leave is only a beginning in a series of work and family balance solutions that includes childcare, carer leave and family friendly work hours.

The NSW Union movement believes that Australia should fall into line with other OECD nations and embrace a policy of universal paid maternity/primary carer leave for all women and primary carers.

We believe that the government needs to endorse a scheme that,

1. Provides families with a minimum of six months of paid support. We are arguing for a six month minimum because the World Health Organisation suggests that if possible, babies should be breastfed for the first 6 months to maximise health outcomes
2. Is universal.
3. Offers full wage replacement and is portable, so women and men can access it even if they change jobs.
4. Makes accessible to father or partners the payments available to women if they are acting as the primary carer of the child.

2. About Unions NSW

Unions NSW is the peak body for unions in NSW. It has 64 affiliated unions, 10 affiliated trades and labour councils and represents approximately 600 000 union members, of which over 270 000 are women. It is governed by an elected executive who are assisted in the day-to-day operations of the organisation by a small team of officers and support staff.

Our union affiliates cover the spectrum of the workforce, stretching from workers in finance to footwear and construction to communications. Each affiliate sends delegates to a weekly council meeting where policy and positions are developed for a union movement wide response to particular issues. The position of six months universal paid maternity leave was endorsed by both the council and executive of Unions NSW in May 2008.

However, what makes this policy so exciting for Unions NSW is that it originated from a conference of 245 rank and file female union delegates, held to celebrate the centenary of International Women’s Day in March 2008. Women gathered over two days to identify, strategise and develop campaigns for the issues that have the most impact on their lives and those of their workmates. This is their campaign, but it is also the campaign of the whole movement, because this is not only a women’s right but a right of every family as they seek to cope with the work/life collision.

3. Demand for a Leave Scheme

The November 2007 referendum on industrial relations that brought in this new government presents an exciting opportunity for debating new policies like maternity leave. The various stakeholders participating in this process get to be a part of rebuilding an industrial relations system that is responsive to the changed working conditions in the 21st century.

Twenty-first century policies around work must recognise that work is no longer the domain of the 1904 “Harvester man”. Instead families are increasingly reliant on two incomes, generated by both male and female partners. Changes in the social structure of society since the Harvester Judgement means that for most males and females, caring and working are joint responsibilities. Work and care have become more closely integrated, requiring a twenty-first industrial relations system to support these dual needs.

4. International Standards

Australia is one of only two OECD countries without paid maternity leave.

Country	Length of Maternity Leave	Other Leave	Payment	Who Pays
Tanzania	12 - 14weeks.	5 days paternity leave.	Full wage replacement.	Tanzania, National Social Security Fund.

				The National Social Security Fund Act, 1997.
Republic of Congo	14- 15 weeks.	Not available on Government websites.	Two thirds of earnings.	Employer financed.
Chile	6 weeks before and 12 weeks after confinement. The 6 weeks is extended if the child arrives after the due date. The 12 week period is compulsory.	5 days.	Full wage replacement with wages calculated on the woman's earnings in the 3 months prior to confinement.	Social Security.
Estonia	20 months beginning 70 days before the birth. An extra 2 weeks can be added for complicated births.	2 Weeks	Not available on Government websites.	Ministry of Social Affairs is responsible for general management, supervision and planning. Benefits are paid by the Estonian Health Insurance Fund.
United Kingdom	52 weeks of maternity leave, 39 weeks of which is paid	2 weeks	The first six weeks paid at 90% of full pay and the remainder at a fixed rate.	Employer and Government funded.
Canada	15 weeks	35 weeks divided as desired between the 2 parents.	55 percent of wages up to \$413/week for 50 weeks (15 weeks maternity + 35 weeks parental leave shared with father)	Employment Insurance.

5. Aims of the Model

A paid maternity scheme sits at the intersection of work and health policies. The aim of any scheme must help families achieve a work life balance, respecting men and women's roles as carers and as workers.

The model should also aim to reflect child and maternal health best practice. The World Health Organisation and a number of other health practitioners state that optimal health benefits for babies are achieved when they are exclusively breastfed for the first six months of life (should the mother be able to)¹.

Even for mothers who are unable to breastfeed, many practitioners argue that a primary carer needs to be present as much as possible at this age². This is why the payments available to women should also be accessible to partners if they are acting as the primary carer of the child.

In order to achieve the work and health aims of the system, it is important that paid maternity leave payments be made for the full 28 weeks. There were examples given in oral evidence to the Productivity Commission of how some mothers are currently achieving 28 weeks with some type of pay. This included the minority of mothers who have access to some form of paid leave taking that leave at half pay or using other leave to be with their children until the important six month milestone. That these women are willing to utilise their often scarce leave for this purpose indicates the desire for six months paid maternity leave.

The status quo, where the parent, usually the mother, accesses her annual leave and long service leave to care for her child, is inadequate. It means that the parent is at a disadvantage later on in life. It means that when they need that long service leave or annual leave for school holidays or family illness, they have used up their entitlements, compounding the work and family collision.

Furthermore, many workplaces will never be a site suitable for a woman to breastfeed. Amongst our membership, rail guards, construction sites, truck drivers and many factories, are not suitable for young children. The only way to ensure that these women can breastfeed their children for 6 months is to ensure they have the paid leave and support to do so.

6. Eligibility

Unions NSW believe that in recognition of the community and health aims of the system, paid maternity leave should be universal. That is, a base salary provided by the government should be paid to all mothers or primary carers, irrespective of whether they are casual, full time, part time, contractors or stay at parents.

¹ <http://www.who.int/topics/breastfeeding/en/>- 13/05/2008.

² Ruhm C., *Parental Leave and Child Health*, Journal of Health Economics 19 2000 pp. 931–960.

A universal system recognizes the transitory nature of many mothers' participation in the workforce where particularly after giving birth to their first child, they may not return to the workforce or return in at reduced hours before the birth of their subsequent children³

It also recognises that as of 2006, 191 100 women worked in irregular forms of employment, such as contractors or self employed⁴. These women would not be entitled to paid maternity leave if it was only made available to 'employees'.

7. Compensation

The proposed payment system consists of two parts. The first is a universal base payment to all mothers, regardless of their employment status. The value of which is detailed at point 3 in the report.

The second is full wage replacement for mothers' in the paid workforce. This can be achieved through a system of collectively pooled contributions by employers, similar to the long service leave model that operates in the construction industry (see appendix one).

This would involve employers paying a levy into a central fund to then be distributed as needed, not unlike superannuation. This system would also provide for superannuation and leave accrual, thereby minimising gender inequities in retirement payments that currently exist⁵.

Studies have shown that in countries where paid maternity leave is offered, the greater the financial compensation and the longer leave time provided, the more likely women are to return to work⁶.

This is how employers also benefit from the system of paid maternity leave. The system of full wage replacement by the employer creates an attachment to the individual organisation. This is achieved because the quantum of wages received are directly related to the employment conditions in the women's place of work (as opposed to being at a fixed minimum rate of pay). Moreover, if women are more likely to sustain an attachment to the workforce, then retraining costs associated with replacing them or retraining women when they return to work are minimised.

It is important that whichever system is chosen, that we acknowledge the unique challenges that maternity leave poses for small business and women workers. Australian Bureau of Statistics figures suggest that 40 percent of small business employees are women⁷. In light

³Submission No: 4, *Workplace Relations Amendment (Paid Maternity Leave) Bill 2002*, Australia, 17 July 2002.

⁴ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6105.0Apr%202008-01/05/08>.

⁵ Clare R., Association of Superannuation Funds of Australia, Australia 2001, p.3.

⁶ Smeaton D. & Marsh A., *Maternity and Paternity Rights and Benefits: Survey of Parents 2005*, Department of Trade and Industry, Britain 2005.

⁷ <http://www.abs.gov.au/AUSSTATS/abs@.nsf/featurearticlesbyCatalogue/BAE8B3E562CBC102CA2570FF00773EC4?-28/05/2008>.

of this, Unions NSW suggests that businesses deemed too small to pay payroll tax are exempt from the levy. This is explained at point 3 of the report.

This leave is an entitlement for all parents, mothers in particular, which recognises the continual challenge of balancing work and family responsibilities. Similar to long service leave or military service leave, it is recognition of the transitory nature on many women's involvement in the **workforce** and therefore should not be subsume by the welfare system.

There will be an argument made by some that the government need not intervene in providing for paid maternity leave and wage replacement if the market is already moving in that direction. However, this does not take into account the major differentials in women's employment. Firstly, there are certain categories of workers who the market will never see it to be in their short term interest to provide for, particularly casuals and low paid workers. Indeed over 60% of women who are of childbearing age are casual or part time workers⁸.

A secondary result of the "market forces" argument may be that wages fall in industries where paid maternity leave offered, institutionalising further the disadvantage of workers in female dominated sectors.

Moreover, if paid maternity leave is not mandated to be paid by all employers, the opportunity for discrimination between firms, and their workers, opens up. Large employers may be more able to absorb the costs of maternity leave than small employers. This means that in a labor market with reduced labor supply, that large firms are in a greater position to attract women than smaller firms.

Similarly, if competition between small to medium sized businesses includes the costs of maternity leave for individual employees, then there may be an incentive to discriminate against hiring women. A universal scheme that takes maternity leave out of competition and creates a collective responsibility for funding it, eliminates this problem of discrimination.

8. Return to Work

One of the benefits of this system is that it allows for both workforce and workplace attachment, depending upon the individual circumstances

Studies have shown that in countries where paid maternity leave is offered the greater the financial compensation and the longer leave time offered, the more likely women are to return to work⁹.

Unions NSW argues that all women should have the right to return to work in their previous position for a period of two years after the birth of their child. This is in line with the

⁸ ABS 6291.0.55.001 Labour Force, Australia, Detailed.

⁹ Smeaton D. & Marsh A., *Maternity and Paternity Rights and Benefits: Survey of Parents 2005*, Department of Trade and Industry, Britain 2005.

decision of the Australian Industrial Relations Commission in its 2006 Work and Family Test Case. This is because, firstly it is extremely difficult and expensive to access childcare for this age group, meaning that many parents need an opportunity for alternative work arrangements up until this point. Secondly, from an employer's perspective, those who have been out of a particular role for more than two years often require significant retraining.

However, this should not preclude the negotiation of an extended right to return to work within a particular sector or organisation. The right to return to work in their previous position should be complemented by a right to flexible working hours in recognition of the employees continued need to balance work and family responsibilities¹⁰.

In returning to work, mothers also need to be supported with suitable access to breastfeeding facilities if appropriate. This is so the decision to cease breastfeeding is made only in consideration of what works for mother and child and, not because of inadequate or dangerous breastfeeding facilities.

Some commentators have raised the issue of employers who use their maternity leave schemes to define themselves as employers of choice for women. Contact during primary carer leave and access to flexible hours are some of the ways that employers can define themselves as good employers for women.

Furthermore, paid maternity leave is not the only way that employers can define themselves as an employer of choice. An employer who matches a collective maternity leave scheme with employment practices which meet the challenges that women face such as pay equity, harassment and promotion would still be viewed as an employer of choice.

9. Summary of Reasons for Six Months Universal Paid Maternity Leave.

- ❖ The health of the mother and child is optimised by enabling six months exclusive breastfeeding. Psychological benefits for children and parents from sufficient attachment development. An example is an Australian study looking at just five common childhood illnesses in the Australian Capital Territory. It found that the incidence of certain illnesses for children who were breastfed for the first six months was lower than for those who were weaned earlier.¹¹
- ❖ This leave will give both parents genuine options in balancing work and family responsibilities.
- ❖ The universal nature of the scheme will protect both employers and employees from discrimination.

¹⁰ Edwards, R., *Maternity Leave and the Evidence for Compensating Wage Differentials in Australia*, Economic Record, 82 (258), 2006, pp.281-297.

¹¹ Smith J, Thompson J, Ellwood D., *Hospital system costs of artificial infant feeding: Estimates for the Australian Capital Territory*, ANZ J Public Health; 26(6), 2002, pp 542-551.

- If this scheme was not universal, only large organisations would be able to offer this entitlement. This would allow them to monopolise female employees in a tight labour market.
 - Similarly, a scheme that only covers certain sectors, types of workers or income brackets would discourage employers from employing those who could access the leave (ie. women).
-
- ❖ Return to Work provisions recognise that balancing work and life responsibilities extends past the initial post-natal period.
 - ❖ Removes the “breadwinner” pressure from the partner.
 - ❖ Women are more likely to return to work, meaning that the labour force is expanded and diversified. This has been shown in Britain where the longer the leave time and compensation, the greater the rate of return to work¹².
 - ❖ The provision of paid leave increases staff retention producing lower costs for recruitment and training of staff.
 - ❖ The government would reap substantial additional revenue flows due to taxation of leave payments and contributions tax on superannuation contributions.
 - ❖ Government outlays for Newstart Allowance, Parenting Payment, Family Tax Benefit, Child Care Benefit and the Child Care Tax Rebate would be reduced.

¹² ACCIRT, *Work-family balance: international research on employee preferences Working Paper 79*, Sydney, 2002, p 31.

Report

1. This Report considers the costs and benefits of the introduction of a national paid maternity, paternity and parental leave scheme. The proposed models include 28 weeks paid maternity and parental leave paid at full wage replacement with provision for parental leave to be taken by either parent or shared. In addition, 4 weeks paternity leave would be available for men at full pay to support their partner and bond with the child.
2. The difference between the models relates to the proportion of funding provided by the Commonwealth government and employers. Under Model 1 the government funds maternity and parental leave for all women including those outside the workforce and paternity leave to the level of the FMW. Employer contributions then fund the difference between normal wages and the government contribution. The government contribution is reduced under Model 2 to an amount equivalent to half the FMW so that the employer share of funding increases significantly.
3. The total government contribution ranges from a minimum of \$2365 million for Model 2 to a maximum of \$4831 million for Model 1. The employer contribution which is financed by an additional payroll tax levy is between \$2454 million and \$2694 million for Model 1 which requires an additional 0.93 to 1.02 per cent of payroll tax. Employer costs are higher for Model 2, ranging from \$3540 million to \$3975 million which would require the payroll tax levy to be set at 1.34 to 1.47 per cent.
4. There are significant offsetting benefits for both the government and business. The provision of paid leave increases staff retention producing lower costs for recruitment and training of staff. The government would reap substantial additional revenue flows due to taxation of leave payments and contributions tax on superannuation contributions, while outlays for Newstart Allowance, Parenting Payment, Family Tax Benefit, Child Care Benefit and the Child Care Tax Rebate would be reduced.
5. A universal national maternity and paternity scheme would also address an important source of market failure. At present, employers that offer family-friendly measures face a problem arising from adverse selection. The people most likely to take advantage of provisions like parental leave will apply for jobs in firms that offer it. In these circumstances the cost of assisting workers to balance work and family life will be concentrated rather than shared, deterring some firms from offering provisions of the kind made in this claim.

1. Introduction and Terms of Reference

1.1 Overview

Australia and the United States are the only OECD countries that have not implemented a national paid maternity, paternity or parental leave scheme despite a well-accepted research literature that shows that paid parental leave provides a number of net economic and social benefits.

In a society where families rely on two incomes the provision of paid leave is essential to allow families to care for infants and maintain existing financial commitments. Economic capacity is enhanced due to benefits of paid parental leave and family-friendly provisions. These provisions encourage greater labour market participation by women, increase the return to work rate of women after the birth of a child, and provide greater returns on human capital investments in education and training by individuals, employers and the government.

Moreover, the ability to determine the length of absence from the workplace with reduced financial pressures enables women to bond with the baby and continue breastfeeding for a longer period which has significant health benefits for the infant. There is also evidence that cognitive development is enhanced due to individual care provided in the early months of life.

1.2 Terms of Reference

- The Centre of Full Employment and Equity (CofFEE) was asked by Unions NSW to model the costs of two proposed maternity, paternity leave schemes for Australia, which were provided to CofFEE by Unions NSW.
- Model 1 proposes:
 - 28 weeks paid maternity and parental leave on **full pay** capped at three times average weekly earnings (AWE);
 - 4 weeks paternity leave on **full pay** capped at three times AWE;
 - Government contribution for all components equivalent to the **Federal Minimum Wage (FMW)**;
 - Employer contributions cover the difference between the actual wage and the FMW;
 - Superannuation contribution for women not in the workforce funded by Federal government;
 - On-costs for workers (including superannuation) funded by employer.
- Model 2 proposes:
 - 28 weeks paid maternity and parental leave on **full pay** capped at three times AWE;
 - 4 weeks paternity leave on **full pay** capped at three times AWE;
 - Government contribution equal to **half** the FMW;

- Employer contribution to cover the difference between the actual wage and half the FMW;
- Superannuation contribution for women not in the workforce funded by Federal government;
- On-costs for workers (including superannuation) funded by employer.

1.3 Outline of Report

To fulfil these Terms of Reference, the Report is made up of the following sections:

- A brief background of the history of paid maternity and paternity leave in Australia.
- A full description of the models of paid maternity, paternity and parental leave to be costed.
- A discussion of the current female labour market participation in Australia.
- Detailed modelling of the costs of the various components that define the proposed models.
- A discussion of the other costs and savings for employers and the Commonwealth that would arise if the proposed models were introduced.
- A consideration of the wider economic and social benefits of paid maternity, paternity and parental leave.

2. An overview of paid maternity, paternity and parental leave in Australia

2.1 Overview

The *Workplace Relations Act (1996)* granted permanent employees with at least 12 months continuous service with their current employer an entitlement to 52 weeks unpaid parental leave for the birth or adoption of a child. In addition, casual employees may be eligible if they have been employed on a regular and systematic basis and with a reasonable expectation of ongoing employment (ABS, 2007). Women returning from parental leave are entitled to return to their previous position or an equivalent position.

Under the draft National Employment Standards, all employees with 12 months service with their current employer would retain eligibility for 12 months unpaid parental leave with a maximum of three weeks concurrent leave (DEEWR, 2008).

In addition to the entitlement to unpaid leave, some women are entitled to maternity leave paid by employers as part of an industrial award, enterprise agreement, Australian Workplace Agreement or company policy.

- Commonwealth public servants have been entitled to 12 weeks paid and up to 40 weeks unpaid maternity leave since the *Maternity Leave (Commonwealth Employees) Act 1973*. The Act also provided one week of paid paternity leave but this provision was removed in 1978. In 2004, 37 per cent of Commonwealth agencies reported that they provided maternity leave of 1 to 24 weeks in addition to the 12 week entitlement (Australian Government, 2005). Paternity leave of one to two weeks was also provided by 61 per cent of agencies in the Commonwealth sphere (Australian Government, 2005).

- State government employees are also eligible for paid maternity leave of varying lengths.
- Many private sector employers provide periods of paid maternity and/or paternity leave of varying lengths.

The availability of paid maternity and paternity leave varies significantly by sector, industry, size of firm and occupation. In 2002, 59 per cent of public sector workplaces had paid maternity leave compared to only 23 per cent of private sector workplaces (FaCS and DEWR, 2002).

Similarly paid paternity leave was available in 31 per cent of public sector workplaces but only 13 per cent of private sector workplaces. Eligibility for paid maternity leave was greater for employees working for large employers and in occupations such as managers and administrators (65 per cent) or professionals (54 per cent) (FaCS and DEWR, 2002). According to the ABS Forms of Employment Survey, in November 2007 45.4 per cent of female employees reported that they were eligible for paid maternity leave and 39 per cent of males were entitled to paid paternity leave (ABS, 2008b).

2.2 Market failure – the problem of asymmetric information

Economists are generally wary of mandated benefits such as parental or carer's leave, arguing that they interfere with the free operation of labour markets and reduce welfare. This argument assumes that in the absence of market failure, firms and workers will voluntarily agree to the provision of family-friendly leave arrangements in the presence of net benefits (Ruhm and Teague, 1995: 476).

In reality, market failure in the form of adverse selection under asymmetric information provides an economic justification for employer-provided mandated leave. Ruhm and Teague (1995) argue that we can reasonably assume that workers will have greater knowledge of their probability of having children, or of requiring leave for medical reasons or caring obligations, than do their employers. Thus individuals with high probabilities of using leave provisions will choose to work for companies providing them, and thereby increase the costs to these firms. As Krueger (1994) has noted, under competitive labour markets employers will defray higher costs by lowering wages. This will discourage workers with a low risk of taking leave from seeking employment with family-friendly firms in order to avoid the loss of earnings. The adverse selection problem can be avoided if there is a mandatory entitlement to parental or carer's leave. This will ensure that costs are shared across all firms and will increase the proportion of workers who would receive coverage.

Research on transitions between family formation and paid employment in the United Kingdom finds evidence of market failure in the implementation of family-friendly provisions at the enterprise level. Experienced staff at the minority of firms that make provisions available may be poached by 'free riding' competitors, and firms face economic pressure to reduce family-friendly provisions in economic downturns (Fagan and Rubery, 1997, cited in Buchanan and Thornthwaite, 2001). In these circumstances, statutory provisions will spread costs more evenly across employers and over time. This will stimulate a higher, and more stable, female labour supply.

In addition, prominent American economists Rebecca Blank and Richard Freeman (1994, cited in Ruhm and Teague, 1995) argue that if there are work requirements for receiving family-friendly benefits – such as the 12 months continuous employment – economic efficiency may be raised by encouraging employment. They also note that the inefficiency of privately negotiated labour market contracts, under asymmetric information, has been demonstrated in a variety of other contexts.

2.3 Thinking about the long-term

Increasing the labour force participation of mothers is especially important at a time when demographic trends are increasing dependency ratios in many OECD countries including Australia. Industry bodies have expressed concern about the ageing of the population and the implications of declining fertility rates. For Australian women, fertility rates have fallen from 3.5 babies per woman in 1961 to less than 1.76 babies per woman in 2007. This is significantly lower than the replacement level of 2.1. Demographer, Peter McDonald (1997, cited in Buchanan and Thornthwaite, 2001) argues that countries that make it difficult or unrewarding to combine work and family life, have lower and falling birth rates while countries that facilitate the participation of women in paid employment have relatively high fertility rates.

In thinking about the economic implications of the introduction of paid maternity, paternity and parental leave, regard must be given to international evidence of a strong nexus between women's participation in the labour force and work-family policies which facilitate participation (Fagan and Rubery, 1997). In this way the economic viability of paid leave can be appropriately linked to the sustainability of a society and population (Buchanan and Thornthwaite, 2001).

It seems inconsistent for industry to support policy shifts designed to shore up the future labour force - such as increasing the level of skilled immigration and encouraging workers to delay retirement - while they oppose entitlements which will promote female labour supply and the continuity of female labour force attachment. Economic efficiency, both now and in the future, requires that more women participate in the paid labour force and that the human capital skills of women are utilised to their capacity.

It must be acknowledged that there are positive externalities associated with broadening access to family-friendly working arrangements with respect to advancing economic and child development and supporting the labour force participation of parents. While difficult to quantify, a share of these benefits will be appropriated by firms. For example, multiplier effects will flow from the higher incomes of parents who have been able to maintain an attachment to the paid workforce. In Section 7, we set out the range of benefits that will accrue to firms in the form of reduced staff turnover, lower recruitment costs, higher productivity and greater returns from investment in training and staff development.

3. The models

Table 1 outlines the two proposed models of maternity, paternity and parental leave. Both models propose 28 weeks of maternity and parental leave and 4 weeks paternity leave.

Women outside the paid workforce and self-employed women would be eligible for a basic payment from the Commonwealth government that is equivalent to the Federal Minimum Wage (FMW) under Model 1 and equal to half the FMW under Model 2. Working women would receive the maternity and parental leave at the rate of their normal earnings averaged over the past 12 months which would be financed from employer and government contributions. Similarly, paternity leave would be paid at normal earnings averaged over the past twelve months.

Table 1 Two models of paid maternity, paternity and parental leave

Condition	Model 1	Model 2
28 weeks paid maternity and parental leave	Full pay	Full pay
4 weeks paternity leave	Full pay	Full pay
Government payment for all components	Federal Minimum Wage (FMW)	50% of Federal Minimum Wage (FMW)
Employer contribution for all components	Difference between actual wage and FMW	Difference between actual wage and 50% of FMW
Superannuation contribution for women not in the workforce	Paid by Government	Paid by Government
On-costs for workers (including superannuation)	Paid by employers	Paid by employers

Unlike many OECD Australia does not have a social insurance system that could be used to finance paid maternity, paternity and parental leave. Both models specify that funding would be shared between the Commonwealth government and employers but the share of funding differs.

Model 1 proposes a Commonwealth contribution equivalent to the Federal Minimum Wage (FMW) for the maternity and parental leave component for a total period of 28 weeks and for paternity leave for 4 weeks.

Under Model 2 the Commonwealth contributes the equivalent of half the FMW for a period of 28 weeks and employers assume a larger proportion of the funding burden by making up the difference between the Commonwealth contribution and average earnings for the past year. Women who are not in the paid workforce receive the government payment specified in each model.

For working women the difference between the Commonwealth contribution and normal earnings up to three times AWE would be funded by pooled funds from employers generated by an additional payroll tax levy collected by the state and territory governments in conjunction with ongoing payroll tax collections. The levy would apply to all employers liable for payroll tax in the jurisdiction. Payroll tax criteria vary between jurisdictions.

Currently the rate of payroll tax varies within the range of 4.75 per cent and 6.85 per cent while the threshold at which employers become liable for payroll tax ranges from \$550,000 to \$1.25 million (Carling, 2008). Small businesses that are under the payroll threshold would be exempt from contributions but would be able to access funds when employees took maternity or paternity leave.

Currently, paid maternity and paternity leave schemes involve direct payment by employers. If a national statutory maternity leave scheme was to be funded by individual employers the cost burden would be distributed unevenly across employers and industries.

Table 2 shows that women of child-bearing age (20-44) constitute around 26 per cent of the employed population but account for more than 30 per cent of the workforce in a number of industries including retail, financial and insurance services, professional, scientific and technical services, administrative and support services, education and training and health care and social assistance.

If employers were individually responsible for the provision of paid maternity leave the cost burden would fall disproportionately on employers in these industries. For small employers, particularly those with a high concentration of female employees, this could impose a significant financial burden or even jeopardise business survival. The use of pooled funding has the advantage of sharing the funding burden more evenly among all employers and negating the possibility of discrimination against women of child-bearing age. Payments to staff on maternity, paternity or parental leave would simply be financed from the funding pool.

Only a small proportion of female employees are likely to access maternity leave in any one year. The HREOC report *Valuing Parenthood* reported that around 1.3 per cent of Commonwealth government employees and around 1.9 per cent of the New South Wales public sector workforce took maternity leave each year (HREOC, 2002). It is therefore expected that, for individual employers, the proportion of employees taking paid maternity leave in any year will be small and many employers may not have any experience with maternity leave over a period of several years.

4. Female labour market participation and earnings

Differences in national policies on parental leave have been cited as a cause of different labour market behaviour (OECD, 2007). In 2006 the employment rate of Australian women aged 25 to 54 was 71.4 per cent which was significantly lower than Iceland (83.8 per cent), Denmark (81.7 per cent), Sweden (81.5 per cent) and Norway (81.0 per cent) (OECD, 2007).

Table 3 details labour force participation by women in Australia. Around three quarters of women aged 20 to 44 were participating in the labour force in March 2008. The participation rate was highest for the 20 to 24 age group where 75.5 per cent were employed compared to 71 per cent for women aged 25 to 44. Full time employment was also higher in the younger age groups at 47 per cent compared to 37 per cent for women aged 35 to 44 who had a higher concentration in part-time employment at almost 35 per cent.

In March, 2008 usual weekly hours worked by female employees averaged 19 for part-time workers and 42 for full-time workers (Table 4). The majority of part-time workers worked between 16 and 29 hours per week (45 per cent) or 1 to 15 hours (36 per cent) with less than one in five working 30 hours or more.

The 2005 Pregnancy and Employment Transitions Survey of women with children under 2 found that 37 per cent worked less than 15 hours and the same proportion worked between 16 and 24 hours while only 25 per cent worked more than 25 hours.

The ABS Employee Earnings, Benefits and Trade Union Membership survey provides information on the distribution of female earnings (ABS, 2008a). While AWE for female full-time employees was \$971 per week and part-time AWE reached \$412 per week in August 2007, earnings varied considerably as displayed in Table 5. Almost one-third of female employees earn less than the FMW (currently \$522.12 per week) in their main job and earnings are concentrated in the \$500 to \$800 per week range.

Table 2 Female employment by industry

	Females 20-44 (‘000)	Total employment (‘000)	Proportion of employment (%)
Agriculture, forestry & fishing	32,282	280,923	11.49
Mining	11,740	106,896	10.98
Manufacturing	138,463	952,014	14.54
Electricity, gas, water & waste services	13,412	89,450	14.99
Construction	56,419	709,843	7.95
Wholesale trade	84,054	396,361	21.21
Retail trade	312,363	1,033,192	30.23
Accommodation & food services	169,762	575,113	29.52
Transport, postal & warehousing	58,706	427,793	13.72
Information media & telecommunications	50,299	176,820	28.45
Financial & insurance services	133,638	348,587	38.34
Rental, hiring & real estate services	44,476	153,906	28.90
Professional, scientific & technical services	183,656	602,018	30.51
Administrative & support services	90,605	286,623	31.61
Public administration & safety	163,711	608,600	26.90
Education & training	243,581	697,807	34.91
Health care & social assistance	387,402	956,148	40.52
Arts & recreation services	37,100	127,394	29.12
Other services	87,069	338,211	25.74
Inadequately described/Not stated	49,670	236,488	21.00

Total	2,348,408	9,104,187	25.79
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Source: ABS, Census 2006.

Table 3 Female labour market statistics, March 2008

Labour force status	15-19	20-24	25-34	35-44	45-54	55-59	60-64	65+	Total
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Participation rate	60.8	79.4	74.5	74.8	77.7	59.6	36.6	5.7	58.4
Employed full-time	12.3	47.6	47.2	36.7	43.9	31.5	15.9	1.8	30.6
Employed part-time	40.0	27.9	24.1	34.8	31.3	26.9	19.6	3.9	25.1
Employed total	52.4	75.5	71.3	71.6	75.2	58.4	35.5	5.7	55.7
Unemployment rate	13.8	5.0	4.2	4.3	3.1	2.0	2.2	0.7	4.6

Source: ABS, 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery

Table 4 Usual hours worked by females, March 2008

Hours	Employed '000s	Usual hours worked '000s	Average weekly hours '000s	% of part-time Percent	% of employed Percent
0	14.5	0.0	0.0	0.6	0.3
1-15	818.8	7723.4	9.4	36.1	17.0
16-29	1006.9	22083.9	21.9	44.4	20.9
30-34	425.9	13198.0	31.0	18.8	8.8
Total part-time	2266.0	43005.3	19.0	100.0	47.0
35-39	1063.0	39483.9	37.1		22.1
40	782.9	31316.9	40.0		16.3
41-44	112.7	4781.3	42.4		2.3
45-49	231.4	10576.9	45.7		4.8
50-59	225.7	11634.5	51.5		4.7
60 or more	135.9	9328.5	68.6		2.8
Total full-time	2551.7	107122.1	42.0		53.0
Total female employment	4817.8	150127.4	31.2		100.0

Source: ABS 6291.0.55.001 Labour Force, Australia, Detailed - Electronic Delivery

Table 5 Weekly earnings of females in main job, August 2007

Weekly earnings in main job	Full-time ('000)	Part-time ('000)	Total ('000)	Proportion of female employees %
Under \$200	8.1	270.9	279.0	7.4
\$200 and under \$300	16.4	215.7	232.1	6.2
\$300 and under \$400	38.0	258.2	296.2	7.9
\$400 and under \$500	83.5	246.5	330.0	8.8
\$500 and under \$600	181.7	205.6	387.3	10.3
\$600 and under \$700	302.6	151.5	454.1	12.1
\$700 and under \$800	300.5	75.8	376.3	10.0
\$800 and under \$900	250.7	47.4	298.1	7.9
\$900 and under \$1000	196.8	28.6	225.4	6.0
\$1000 and under \$1200	323.6	52.1	375.7	10.0
\$1200 and under \$1400	201.0	17.2	218.2	5.8
\$1400 and under \$1600	110.1	6.4	116.5	3.1
\$1600 and under \$1800	54.8	5.7	60.5	1.6
\$1800 and over	100.9	6.9	107.8	2.9
Did not draw a wage	12.4	12.9	25.3	

Total	2181.1	1601.4	3782.5	100.0
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Source: ABS (2008a) Earnings, benefits and trade union membership, Cat no. 6310.0, August 2007

5. Assessing the cost of the proposal

5.1 Overview

Estimating the cost of the models of maternity, paternity and parental leave models outlined in Section 3 presents a number of challenges due to a lack of comprehensive information on the target group and the likely behavioural responses to changed policy settings.

This analysis relies to a large extent on two recent Australian surveys that investigated previous labour market participation, the take up and duration of various types of leave around the time of the birth of a child and subsequent employment decisions.

- The Parental Leave in Australian Survey (PLAS) was conducted as part of the Longitudinal Survey of Australian Children (LSAC) survey collected information from over 3,500 families with children born between March 2003 and February 2004.
- Mothers with children aged under two years were interviewed for the ABS Pregnancy and Employment Transitions Survey (PaETS) which was conducted in November 2005 as a supplement to the ABS Monthly Population Survey (ABS, 2006b).

Table 6 Labour market activity of women during the year prior to birth of child, 2005

	PLAS		PaETS	
	% of all women	% of employed	% of all women	% of employed
Employed	69		63	
Employed with the same employer for 12 months	49	72	52	83
Employed 12 months but not with the same employer	3	4		
Employed but not for 12 months	9	13	11	17
Self employed	7	11	5	8
Not in paid employment	31		37	
Home duties	27			
Not in the paid workforce	4			

Source: (Whitehouse, Baird and Diamond, 2005; ABS, 2006b)

There are some differences between the Parental Leave in Australia Survey and the Pregnancy and Employment Transitions Survey. The most notable discrepancy relates to the proportion of women who were working and the duration of employment.

- The Parental Leave survey revealed that 69 per cent of women who had a baby between March 2003 and February 2004 were working during pregnancy. Of these 72 per cent had been employed for more than 12 months with the same employer.
- In contrast, the employment rate was lower for the Pregnancy and Employment Transitions Survey at 63 per cent but a larger proportion of women had been employed for more than 12 months (83 per cent compared to 72 per cent).
- There was a higher proportion of self employed women in the Parental Leave in Australia Survey at 11 per cent of working women compared to only 8 per cent in the Pregnancy and Employment Transitions Survey.

Data from these surveys is used where possible in order to increase the accuracy of the costings by modelling the employment and leave-taking behaviour of women who have had children. The labour market behaviour of these women is likely to differ from the general female cohort of child-bearing age which includes women who do not and may not have children.

According to the Pregnancy and Employment Transitions survey approximately 49 per cent of women who worked prior to the birth of their child worked full-time and 51 per cent worked part-time. Of the part-time employees 37 per cent worked less than 15 hours, 37 per cent worked 16 to 24 hours and 25 per cent worked between 25 and 34 hours per week. The majority of mothers were aged 25 to 39; 35.8 per cent were aged 30 to 34, 24.4 per cent were aged 25 to 29 and 22.5 per cent were aged 35-39 (ABS, 2006b). Employees comprised 92 per cent of working women and self-employed or employers made up the remaining 8 per cent. Professionals accounted for 31 per cent of women who worked during pregnancy while another 24 per cent were intermediate clerical, sales and service workers.

The industries with the greatest concentration were health and community services (17 per cent), retail trade and property and business services which both accounted for 13.6 per cent. 17.3 per cent of workers had been with their current employer for less than one year. The majority worked in the private sector (81 per cent). In total, only 37 per cent of employees used paid maternity leave.

5.2 Determining the eligible population.

In Australia in 2006 there were 264,300 births and there were 568 adoptions in the year to June 2007 (ABS, 2007; AIHW, 2008). The population projections in Table 7 are based on different assumptions of future fertility rates; 1.9 for Series A, 1.7 for Series B, and 1.5 for Series C (ABS, 2006a). According to these projections between 245,000 and 266,000 births were expected in 2007.

However, there has recently been an increase in the birth rate above the ABS projections. In 2006-07 the Baby Bonus was paid to 286,770 families for the birth or adoption of 291,876 children (FaCSIA, 2007). In the 2008 Budget it was estimated that the Baby Bonus would be paid in respect of 285,000 births and adoptions in the 2008-09 financial year (FaCSIA, 2008). The means testing of the Baby Bonus from 1 January 2009 will reduce the number of recipients for the second half of 2008-09 to below the number of births. Since it is possible that families who do not qualify for the Baby Bonus will be eligible for maternity and

paternity leave this analysis will be based on the actual number of children for whom the Baby Bonus was paid in 2006-07 which was 291,876.

Table 7 Population projections for persons aged 0 years, 2006 to 2020

	Births			Adoptions			Births + Adoptions		
	Series A	Series B	Series C	Series A	Series B	Series C	Series A	Series B	Series C
Jun-2006	262924	253865	246849	568	568	568	263492	254433	247417
Jun-2007	265389	254001	244504	568	568	568	265957	254569	245072
Jun-2008	268008	254201	242101	568	568	568	268576	254769	242669
Jun-2009	270717	254469	239751	568	568	568	271285	255037	240319
Jun-2010	273504	254796	237459	568	568	568	274072	255364	238027
Jun-2011	276361	255175	235213	568	568	568	276929	255743	235781
Jun-2012	279306	255617	233030	568	568	568	279874	256185	233598
Jun-2013	282362	256155	230939	568	568	568	282930	256723	231507
Jun-2014	285540	256798	228949	568	568	568	286108	257366	229517
Jun-2015	288842	257549	227060	568	568	568	289410	258117	227628
Jun-2016	292246	258389	225260	568	568	568	292814	258957	225828
Jun-2017	295700	259269	223502	568	568	568	296268	259837	224070
Jun-2018	299305	259763	221892	568	568	568	299873	260331	222460
Jun-2019	302269	260512	221523	568	568	568	302837	261080	222091

Jun-2020	304364	261847	222214	568	304932	262415	222782
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Source: (ABS, 2006a; AIHW, 2008).

5.3 The cost of Paternity leave

Decisions over whether to take paternity leave are subject to financial considerations and can also be influenced by concerns over work pressures or perceived detrimental career impacts. Take-up rates vary significantly between countries and are critically influenced by whether leave is paid and the level of payment.

Take-up rates are higher in countries where policies have been designed to enhance gender equity. Paternity leave take-up is 58 per cent in Denmark and 64 per cent in Finland and Sweden, 80 per cent in Norway, almost 100 per cent in France and 100 per cent in the public sector in Denmark where payment rates equal normal earnings (OECD, 2007).

Research in the UK found that the low rate of payment was a significant barrier to take-up. 80 per cent of men surveyed indicated that they would take paternity leave if it was paid at 90 per cent of normal wages while 87 per cent indicated that they would take leave provided at full pay (Chartered Institute of Personnel and Development and Hammonds, 2004).

In view of wide variation in usage of paid paternity leave two estimates will be provided. The first assumes a lower take-up rate of 70 per cent and the second a higher take-up rate of 90 per cent.

The parameters used to estimate the cost of 4 weeks of paternity leave are derived as flows. Table 8 shows the labour market experience of men in April 2008. In total the participation rate was 72.5 per cent.

However, limiting our focus to 20 to 44 year olds, the age group most likely to be having children, we find that there is a 90.5 per cent participation rate. In this age group 86.9 per cent of all men are employed and 88.6 per cent of employed men are employed full-time.

Of all working men 77.3 per cent were employees and 22.7 per cent were self employed (ABS, 2008b). These parameters are used to estimate the cost of paternity leave for 4 weeks for all employees.

Data on the employment status of partners of women in the pregnancy and Employment Transitions Survey is used to estimate the proportion of men employed on a full-time and part-time basis.

We use average weekly earnings of full-time and part-time males and the proportion of partners employed part-time and part-time to calculate the total cost of the paternity leave component.

The government contribution is equivalent to the FMW for Model 1 and half the FMW for Model 2. The employer contribution is simply the difference between the total cost and the government contribution.

It should be noted that this methodology is likely to overestimate the cost of the scheme since there is no allowance for situations where the woman does not have a partner.

In such instances it is possible that the father may wish to provide support after the birth of the child but there will be many instances where this does not happen.

Table 8 Male labour market activity, April 2008

	15-19	20-24	25-34	35-44	45-54	55-59	60-64	65+	Total
Employed f/t males ('000s)	172.4	448.9	1179.7	1250.3	1159.2	409.0	241.9	106.0	4967.4
Employed p/t ('000s)	219.7	150.0	114.9	106.3	98.5	67.0	67.9	80.7	905.0
Employed total ('000s)	392.2	598.9	1294.6	1356.6	1257.8	476.0	309.7	186.6	5872.4
Unemployed ('000s)	51.5	42.3	55.4	35.7	33.5	15.9	10.0	2.0	246.1
Labour force ('000s)	443.7	641.2	1350.0	1392.2	1291.3	491.9	319.7	188.6	6118.6
Unemployment rate (%)	11.6	6.6	4.1	2.6	2.6	3.2	3.1	1.1	4.0
Not in Labour Force ('000s)	294.8	114.2	111.6	129.1	162.0	148.3	241.1	1114.9	2316.0
Civilian population ('000s)	738.5	755.4	1461.6	1521.3	1453.3	640.2	560.8	1303.6	8434.6
Participation rate (%)	60.1	84.9	92.4	91.5	88.9	76.8	57.0	14.5	72.5

Source: ABS 6291.055.001.

Table 9 Cost of paternity leave for four weeks

	Model 1	Model 2
	\$ (m)	\$ (m)
70 per cent take-up		
Full-time employees	640.02	640.02
Part-time employees	14.38	14.38
Wage costs	654.40	654.40
On-costs	109.97	109.97
Total costs	764.37	764.37
Government contribution	286.75	143.37
Employer contribution	477.62	620.99
90 per cent take-up		
full-time employees	822.88	822.88
Part-time employees	18.49	18.49
Wage costs	841.37	841.37
On-costs	141.39	141.39
Total costs	982.76	982.76
Government contribution	368.68	184.34
Employer contribution	614.08	798.42

The cost of the paid paternity leave component varies considerably according to the underlying assumptions. Table 9 shows that with a take-up rate of 70 per cent the total cost would be \$764 million. Under Model 1 where the Commonwealth contributes the FMW this would amount to \$287 million and the employer contribution would be \$478 million. If Model 2 (half the FMW) was adopted the Commonwealth contribution would decline to \$143 million and the employer contribution would increase to \$621 million.

With a higher take-up rate of 90 per cent the cost of paternity leave would increase to \$983 million. For Model 1 the respective contributions from the Commonwealth and employers would be \$369 million and \$614 million. For Model 2 the government contribution would be \$184 million and the employer contribution would increase to \$798 million.

5.4 Costs of the maternity and parental leave component

The proposed scheme includes a 28 week maternity and parental leave component where the parental leave can be taken by either parent or shared to suit family arrangements. International evidence suggests that the take-up rate of paid maternity and parental leave will depend on the characteristics of the scheme, particularly the rate of remuneration, right to return to work and perceived impact on career prospects. Even highly skilled women with a right to paid maternity leave may be discouraged from exercising their right if they feel that it may have a detrimental impact on career prospects. A survey of Australian professional women found that 59.9 per cent believed that taking maternity leave would have a negative impact on their future employment relationship (APESMA, 2007).

Where parental leave is shared by agreement between parents the take-up rate of parental leave by men is small. Dermott (2001) noted that even in countries where parental leave was well established it was generally taken exclusively by mothers. Only 1 per cent of men used parental leave in Austria, 2 per cent in Germany and 4 per cent in Denmark (Dermott, 2001).

Evidence from Europe suggests several reasons for the low take-up rates by men. Payments are generally lower than normal earnings so that families incur a financial cost. Apart from the financial cost of taking leave men indicated that they had concerns about the effect of taking leave on their career since employers may interpret leave taking as a signal of insufficient job commitment (OECD, 2007).

A survey of men in EU 15 countries in 2003 found that 84 per cent had not taken parental leave and did not intend to do so (European Commission, 2004). The countries with the highest positive response rates to the question of whether they had taken or were considering taking parental leave were Sweden (18 per cent), Denmark (11 per cent) and Finland (8 per cent) (European Commission, 2004).

Elsewhere potential take-up rates have been reported to range from 1 per cent or less in Luxembourg, Germany, Spain, Ireland, Austria, Portugal and New Zealand to 9 per cent in Finland and 10 per cent in Denmark (OECD, 2007). Major factors identified as necessary to encourage more fathers to use parental leave were more financial compensation during the period of leave (38 per cent), job and career guarantees (30 per cent) and better information about parental leave (27 per cent) (European Commission, 2004).

In order to encourage greater participation in parental leave some countries have introduced periods of parental leave that can only be taken by fathers on a 'use it or lose it' basis. Where specific periods of parental leave have been quarantined for use by fathers the take-up of at least part of the leave entitlement has increased, reaching 80 per cent in Norway and 36 per cent in Sweden (Stancanelli, 2003; OECD, 2007).

All women having babies will be entitled to a government funded payment equivalent to the FMW (Model 1) or half the FMW (Model 2) for a period of 28 weeks. In addition, the proposal specifies that employed women are eligible for the employer funded component that pays the difference between average earnings over the previous 12 months and the government contribution. The parental leave can be taken by either parent or shared.

Since the proposed scheme offers full wage replacement up to a salary three times AWE we assume that the overall take up rate will be 100 per cent and that almost all the leave will be taken by women in line with the international evidence. The cost will vary according to what proportion of the leave is taken by men who have, on average, higher earnings and are more likely to be employed on a full-time basis. We cost the maternity and parental leave component using female AWE. To the extent that some men will take parental leave this method is likely to slightly underestimate costs. However, this will be counterbalanced by the small number of women who do not take the entire 26 week leave period due to strong workforce attachment.

Due to the differences in the employment rates revealed in the Pregnancy and Employment Transitions Survey (63 per cent) and the Parental Leave in Australia Survey (69 per cent) we calculate costs using the data from both surveys to provide an upper and lower estimate of total costs for the model.

- Method 1 uses data from the Pregnancy and Employment Transitions Survey (ABS, 2006b) to determine the number of employed women. The survey found that 63 per cent of women were working and 58.7 per cent were employees
- Method 2 is identical to the first method except we use data from the Parental Leave in Australia Survey to establish the proportions of working women (69 per cent) and the proportion who were employees (61 per cent).

Using these two methods yields different estimates of the employed and non-employed workforce. Method 1 provides an estimate of 168,751 employees and 123,125 women outside the labour force or self employed. Method 2 estimates that there are 178,044 employees and 113,832 non-working women or self employed.

Model 1 - Government contribution equivalent to the FMW

The government contribution for Model 1 is the equivalent of the full-time rate of the FMW for a period of 28 weeks and is paid to all women. In addition the government will pay 9 per cent superannuation for women outside the workforce. On-costs including superannuation for employed women is paid by the employer.

- The cost of maternity and parental leave for women outside the paid workforce is \$1814 million using the PLAS parameters and \$1962 million using the PaETS (Table 11).
- The government contribution for employed women is \$2603 million (PLAS) and \$2467 million (PaETS) (Table 11).

For Model 2 the government contribution is equivalent to half the FMW plus 9 per cent superannuation for non-working women.

- For women outside the workforce this amounts to \$907 million (PLAS) or \$981 million (PaETS) (Table 12).
- For working women the government contribution is \$1170 million (PaETS) or \$1234 million (PLAS) (Table 12).

The employer contribution makes up the difference between the government contribution and full pay up to a salary three times total average weekly earnings and also includes payment of all on-costs.

The employer component is determined by use of the distribution of earnings from the ABS Employee Earnings, Benefits and Trade Union Membership (ABS, 2008a). Since the government payment is equivalent to the FMW, currently \$522.12 per week we distribute those persons earning between \$500 and \$600 per week proportionally between two new categories; \$500 to \$525 and \$525 to \$600 per week.

We use the mid point of each earnings band to calculate wages. For women who earn less than the government contribution there will be no additional payment from the pooled employer funds. For women earning more than the government contribution we calculate the difference between full wage replacement and the government contribution and this becomes part of the employer contribution that will be raised through the payroll tax.

The employer component is also required to fund on-costs including the superannuation component for women on maternity and parental leave. This ensures that leave is treated in the same manner as other paid leave and that employees taking maternity and parental leave are not disadvantaged in terms of future retirement incomes.

The ABS Labour Costs Survey 2002-03 reported non-wage labour costs including superannuation, workers compensation, payroll tax and fringe benefits tax (ABS, 2004). These costs varied by industry and added an average of 15.5 per cent to the wages bill of Australian employers. In addition, the ABS Employer Training Expenditure and Practices Survey estimated that structured training costs add 1.3 per cent to the wage bill. Therefore total on-costs used in these estimates are 16.8 per cent of wage costs. In addition, employers incur costs associated with employee absence from the workplace while on maternity leave (ABS, 2003). This issue is examined in Section 6.1.

Table 10 Payroll tax receipts in 2006-07

	Total	Contribution rate	1 %
	\$ (m)	%	\$ (m)
NSW	5653	6	942.17
Vic	3479	5.05	688.91
Qld	2216	4.75	466.53
SA	845	5.5	153.64
WA	1607	5.5	292.18

Tas	212	6.1	34.75
NT	128	6.2	20.65
ACT	225	6.85	32.85
Australia	14366		2631.67

Source: ABS (2008c) Taxation Revenue, Australia, 2006-07.

The final task is to determine the quantum of the payroll tax levy. Table 10 shows the payroll tax receipts for each state for 2006-07 and the percentage charged. In 2006-07 payroll tax receipts totalled \$14,366 million. Since states have different payroll tax rates we calculate the amount of payroll tax for a rate of 1 per cent.

The amount of the levy required for the employer contribution is then calculated by dividing the total employer contribution by the amount of the 1 per cent of payroll tax.

Table 11 displays the full cost of Model 1 including the cost of maternity and parental leave for all working women and those outside the workforce. The cost of paternity leave provides two different estimates that allow for different take-up rates. The total cost of Model 1 is \$7196 million to \$7294 million under the scenario of a 70 per cent take-up rate for paternity leave. If the paternity leave take-up increased to 90 per cent the total cost would be between \$7414 million and \$7512 million.

- The government contribution would be between \$4729 million and 4742 million if the paternity leave take-up rate is 70 per cent. With the 90 per cent take-up rate for paternity leave the government contribution increases to between \$4819 million and 4831 million.
- These costs would be offset by savings from the Baby Bonus which is expected to cost \$1425 million in 2008-09 (FaCSIA, 2008). Therefore, the net cost for the Commonwealth resulting from the implementation of this model would be between \$3304 million and \$3406 million. In addition, there would be substantial savings in income support and family benefit payments and additional taxation revenue as a result of the scheme (see Section 6).
- The employer contribution would be between \$2454 million and \$2565 million if the take-up rate for paternity leave is 70 per cent. For the higher take-up rate of 90 per cent the employer contribution increases to between \$2584 million and \$2694 million. The quantum of the payroll tax levy required to fund the paid maternity, paternity and parental leave scheme for Method 1 would be 0.93 per cent (70 per cent paternity leave take-up) or 0.98 per cent (90 per cent paternity leave take-up). Similarly the levy for Method 2 would be between 0.97 and 1.02 per cent (Table 11).

Table 11 Total costs and funding sources for Model 1

	Method 1 (PaETS)		Method 2 (PLAS)	
	Total cost \$ (m)	Payroll tax levy %	Total cost \$ (m)	Payroll tax levy %
Maternity and parental leave for working women	4469.64		4715.80	
Maternity and parental payment for non-working women	1962.02		1813.92	
Paternity leave-70% take-up	764.37		764.37	
Paternity leave-90% take-up	982.76		982.76	
Total cost				
Maternity and parental leave / paternity leave (70% take-up)	7196.02		7294.09	
Maternity and parental leave / paternity leave (90% take-up)	7414.41		7512.48	
Government contribution				
Employed women	2467.03		2602.89	
Non-working women	1962.02		1813.92	
Paternity leave (70% take-up)	312.56		312.56	
Paternity leave (90% take-up)	401.86		401.86	
Total Government contribution (70% paternity leave take-up)	4741.60		4729.37	
Total Government contribution (70% paternity leave take-up)	4830.90		4818.67	
Employer contributions				
Maternity and parental leave / paternity leave (70% take-up)	2454.43	0.93	2564.72	0.97

Maternity and parental leave / paternity leave (90% take-up)	2583.51	0.98	2693.81	1.02
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Model 2 - Government contribution equal to half the FMW for 28 weeks

The government contribution consists of a payment to all mothers equivalent to half the FMW for a period of 28 weeks plus a 9 per cent superannuation contribution for women outside the workforce. The total cost of the government contribution is \$2364 million to \$2371 using Method 1 and \$2409 million to \$2415 million using Method 2 (Table 12). Again the higher cost for Method 1 reflects the larger number of women who are not employed and therefore the larger government payment in the form of superannuation contributions.

As with Model 1 the employer component is determined by use of the distribution of earnings from the ABS Employee Earnings, Benefits and Trade Union Membership (ABS, 2008a). Since the government payments is half the FMW or \$261.06 we distribute those persons earning between \$200 and \$300 per week proportionally between two new categories; \$200 to \$260 and \$260 to \$300 per week. The employer contribution is the difference between full wage replacement and the government contribution.

Table 12 displays the total cost and funding contributions of the proposed maternity, paternity and parental leave for Model 2. Although maternity leave payments to employed women earning above the FMW and paternity leave payments are identical to Model 1 the total cost for Model 2 is significantly lower due to reduced payments to women outside the labour force and those earning less than the FMW. The total cost of the leave components ranges from a minimum of \$5910 million for Method 1 if the take-up rate for paternity leave is 70 per cent to a maximum of \$6284 million for Method 2 assuming a take-up rate of 90 per cent for paternity leave.

The government contribution is \$2365 to \$2415 million. Allowing for savings of \$1425 million from the Baby Bonus the net cost for the Commonwealth resulting from the implementation of this model would be between \$940 million and \$990 million. However, increased revenues from income tax and contributions tax on superannuation payments would arise as a consequence of women substituting paid leave for periods of leave that would otherwise have been unpaid and the inclusion of women who are not employed. In addition, there would be significant reductions in outlays for various income support and family benefit payments that would reduce the net cost of the scheme. These issues are explored in Section 6.

Funds to be generated by the employer payroll tax levy would range from \$3540 million for Method 1 with 70 per cent take-up of paternity leave to \$3975 million for Method 2 with 90 per cent take-up of paternity leave. The employer levy necessary to generate sufficient funding for the scheme would range from 1.34 to 1.47 per cent of total wages.

Table 12 Employer contribution to paid maternity and parental leave for Model 2

	Method 1 (PaETS)		Method 2 (PLAS)	
	Total cost \$ (m)	Payroll tax levy %	Total cost \$ (m)	Payroll tax levy %
Maternity and parental leave for working women	4165.01		4394.39	
Maternity and parental payment for non-working women	981.01		906.96	
Paternity leave-70% take-up	764.37		764.37	
Paternity leave-90% take-up	982.76		982.76	
Total cost				
Maternity and parental leave / paternity leave (70% take-up)	5910.38		6065.72	
Maternity and parental leave / paternity leave (90% take-up)	6128.77		6284.11	
Government contribution				
Employed women	1233.51		1301.45	
Other women	981.01		906.96	
Paternity leave – 70% take-up	156.28		156.28	
Paternity leave – 90% take-up	200.93		200.93	
Total Government contribution (70% paternity leave take-up)	2370.80		2364.68	
Total Government contribution (90% paternity leave take-up)	2415.45		2409.34	
Employer contributions				
Maternity and parental leave / paternity leave (70% take-up)	3539.58	1.34	3701.03	1.41

Maternity and parental leave / paternity leave (90% take-up)	3713.32	1.41	3974.77	1.47
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6. Other impacts of paid maternity and paternity leave

The introduction of paid maternity leave would have immediate and long-term impacts. This section examines the likely impact of paid maternity leave on employers and government revenues and expenditure. The increase in paid leave will increase income tax receipts and reduce government outlays on a variety of income support payments including Newstart Allowance, Parenting Payment and the Family Tax Benefit. In addition, to the extent that parents delay their return to work, there will be savings on Child Care Benefit and the Child Care Tax Rebate. For employers there will be additional costs associated with the expected increase in the leave period as families are able to determine the length of leave with less financial pressure to return to work.

6.1 Additional costs for employers

When women currently take either paid or unpaid maternity leave employers incur additional costs associated with recruiting, training, reorganising workload and productivity losses. At present most women take some time off work around the time of the birth or adoption of a child. This section considers the additional costs due to the proposed introduction of 28 weeks of paid maternity leave. Employers may cover the absence of staff on leave in a variety of ways. Employees currently on maternity, paternity or parental leave may be replaced for the duration of the absence, duties may be distributed to existing employees during normal working hours or through the use of overtime, or production may be lost.

This proposal is likely to involve additional costs for employers because the granting of paid leave will provide women with more choice over the duration of leave. The Parental Leave in Australia Survey found that the 14 per cent of women employed with their current employer for more than 12 months who only accessed paid leave used an average of 22 weeks (Whitehouse, Baird and Diamond, 2005). 28 per cent used only unpaid leave for an average of 38 weeks while 58 per cent of women used a combination of paid and unpaid leave for an average of 46 weeks.

In addition, the survey asked about satisfaction with the period of leave taken. Of women who returned to work within 15 months 65 per cent agreed that they would have liked to have taken more leave. The most common response was that they would have taken longer off work if they could access some or additional paid leave (46 per cent) and returned earlier than they would have liked because they needed the money. Among women who returned after 3 to 6 months 73 per cent indicated the latter as did 72 per cent who returned to work between 6 and 9 months. Due to the strong desire for additional time off if financial constraints were removed we assume that the availability of additional paid leave would result in increased period of absence of 12 weeks on average.

To calculate the additional cost to employers of covering the extended period of absence we assume that the behaviour of small and large employers is different. Following the assumptions of the Department of Trade and Industry (DTI, 2005) analysis of the effect of the extension of Statutory Maternity Pay (SMP) and Maternity Allowance (MA) in the UK we

assume that large employers use replacement staff for 70 per cent of absent staff compared to 40 per cent for small employers.

According to the Pregnancy and Employment Transitions Survey approximately 36 per cent of employees worked for firms with less than 20 employees and 64 per cent for larger businesses. The DTI estimated that the costs of extending the employment of replacement staff ranged from 3 to 5 per cent of labour costs. The costs of reallocation of work within the firm ranged from 9 to 15 per cent of labour costs.

Table 13 The cost to employers of extending the period of maternity leave

	Lower costs (0.03/0.09) \$ (m)	Higher costs (0.05/0.15) \$ (m)
PaETS		
Small firm f/t	23.46	39.09
Small firm p/t	10.37	17.28
Total - small firms	33.82	56.37
Large firm f/t	30.33	50.55
Large firm p/t	13.40	22.34
Total - large firms	43.73	72.89
Total – all firms	77.56	129.26
Parental Leave in Australia		
Small firm f/t	24.75	41.25
Small firm p/t	10.94	18.23
Total - small firms	35.69	59.48
Large firm f/t	32.00	53.33
Large firm p/t	14.14	23.57
Total - large firms	46.14	76.90
Total – all firms	81.83	136.38

Table 13 shows the costs using data from both the Pregnancy and Employment Transitions Survey and the Parental Leave in Australia Survey. In addition costs using the lower and higher cost estimated derived by DTI (2005) are shown separately. The additional costs for

employers of replacement staff due to the extension of leave ranges from \$78 to \$129 million using data from the Pregnancy and Employment Transitions Survey and \$82 million to \$136 million for the Parental Leave in Australia Survey. Counterbalancing these additional costs are the benefits that are likely to accrue in terms of increased workforce participation such as reduced staff turnover costs and greater returns to training (see Section 7).

6.2 Tax on maternity leave payments and superannuation contributions

As a consequence of the introduction of paid maternity and parental leave there will be offsetting savings for the government in the form of additional tax revenues. We assume that paternity leave will result in few additional revenue flows since few men currently take unpaid leave. The PLAS found that 83 per cent of men took some leave around the time of the birth of a child but only 7 per cent took unpaid paternity leave for an average duration of 14 days and a further 6 per cent took other unpaid leave for around 18 days on average. Therefore, in most instances men who take paid paternity leave under a national scheme would otherwise have taken other paid leave or taken no leave and there are no additional tax revenues.

The introduction of paid maternity leave will result in additional income taxation for the government to the extent that women substitute paid leave for the current periods of unpaid leave. The amount of taxation collected in relation to paid maternity, paternity and parental leave will vary according to the proportion of the financial year worked prior to commencing leave. To estimate the total amount of income tax for 28 weeks of paid leave we assume that an equal number of women will commence maternity leave every week of the year and calculate the tax payable for 28 weeks leave using the distribution of earnings of female employees (ABS, 2007).

However, some women currently receive paid leave so it is necessary to restrict the estimate of additional taxation revenue to the additional portion of paid leave resulting from the introduction of the new scheme. All women earning less than the FMW will have higher earnings while on maternity leave than their normal wage. Therefore there will be additional tax revenue for those who currently take paid leave.

According to the Parental Leave in Australia Survey 76 per cent of women who were employees took some type of leave. Table 14 details the type of leave and the average duration of leave taken.

Table 14 Type of leave taken and average duration for children born March 2003-February 2004

	Per cent	Duration (weeks)
Paid maternity leave	37	11
Unpaid maternity leave	57	35
Total mat leave	68	35
Other paid leave	38	7

Other unpaid leave	11	31
Any leave	76	40
No leave	24	

Source: The Parental Leave in Australia Survey (Whitehouse, Baird and Diamond, 2005).

As a consequence of our earlier assumption that all women who are eligible for paid maternity leave will take the full 28 weeks leave we can estimate the approximate increase in the number of weeks of paid leave. Table 14 shows that 37 per cent of women used paid leave including an average of 11 weeks of paid maternity leave and 38 per cent used 7 weeks of other paid leave. We assume that with the introduction of paid maternity and parental leave for 28 weeks these women will use an extra 8 weeks leave. The remaining 63 per cent of women are currently either taking unpaid leave or not taking any leave. We assume that these women will take the full 28 weeks of paid leave.

Table 15 Total and additional income and superannuation contributions

	Method 1 (PaETS)		Method 2 (PLAS)	
	Total tax	Extra tax	Total Tax	Extra Tax
Model 1				
Income tax	648.50	494.25	684.22	521.47
Superannuation contributions tax:				
Working women	51.66	39.37	54.50	41.54
Non-employed women	26.49	26.49	24.49	24.49
Model 2				
Income tax	614.58	468.40	648.42	494.19
Superannuation contributions tax:				
Working women	48.14	36.69	50.79	38.71
Non-employed women	13.24	13.24	12.24	12.24

Applying these proportions to the total number of women who are employees we estimate the additional component of income tax. For Model 1 we estimate that the additional income tax revenue is \$494 million using Method 1 and \$521 million using Method 2. Additional income tax for Model 2 is \$468 million to \$494 million.

For women who were not previously working we assume that their taxable income is zero prior to receipt of the maternity leave payment. We calculate that their taxable income for Model 1 will be \$14,619 and for Model 2 it will be \$7,310. Since income for Model 1 is around the effective tax free threshold after the low income tax offset is factored in and

income for Model 2 is significantly lower we assume there will be no additional tax revenues collected from women outside the paid workforce.¹³

A similar calculation yields the additional amount of superannuation contributions tax. In Model 1 additional superannuation contributions tax collected is between \$39 and \$42 million for working women and \$24 million to \$26 million for non-employed women. Additional tax from superannuation contributions amounts to \$37 million to \$39 million for working women and \$12 million to \$13 million for non-employed women using Model 2.

6.3 Reductions in Newstart Allowance expenditure

A proportion of workers who take paid leave are replaced by temporary staff. Since the duration of leave is identical for Model 1 and Model 2 the number of replacement staff does not vary according to the model chosen. We assume that small firms replace 40 per cent of those on leave and large firms replace 70 per cent. Replacement staff may be currently outside the labour force or unemployed, some of whom will be in receipt of Newstart Allowance or other income support payments. For those who are currently in receipt of Newstart Allowance the government will save through reductions in Newstart Allowance payments.

If we assume that 50 per cent of the replacement staff were previously in receipt of Newstart Allowance the full-time replacements will no longer be eligible for Newstart and part-time replacements will receive reduced payments.

Using the distribution of earnings ABS (2008a) and our assumptions regarding the proportion of staff that will be replaced (70 per cent for large firms and 40 per cent for small firms) and that half the replacement staff will be people previously in receipt of Newstart Allowance we calculate the reduction in Newstart Allowance payments would be \$264 million for Method 1 and \$279 million for Method 2. Replacement staff will also pay income tax which will increase government revenues flows.

6.4 Family Tax Benefit B (FTB B)

FTB B is paid to families where the primary carer is a low income earner. The maximum rate is currently \$3584.30 per annum. Full payment is received until the primary carer's income reaches \$4380 and then payments are reduced by 20 cents in the dollar until the payment ceases (for families with a child under 5) when the primary care giver has an income of \$22,302 or more.¹

In order to calculate the total savings from payment of maternity and parental leave for a period of 28 weeks we adopt a similar method to that used to calculate the tax savings. We assume that an equal number of women left work each week of the year and calculate their earnings based on the earnings distribution from the Employee Earnings, Benefits and Trade Union Membership (ABS, 2008a).

¹³ In the 2008 Budget the low income tax offset was increased from \$750 to \$1200 effective from 1 July 2008 lifting the tax free threshold to \$14,000 for 2008-09 and this will be increased to \$15,000 in 2009-10.

The earnings distribution is adjusted to reflect the fact that those earning less than the FMW will have higher earnings while on leave under Model 1 and a small proportion will have payments that are higher than normal earnings for Model 2 which has a minimum payment equal to half the FMW.

We calculate the average savings per week and then apply these to the number of women in each income bracket. A final adjustment is the calculation of the savings that would have been made due to the fact that 37 per cent of employed women accessed paid leave of an average duration of 18 weeks. We then subtract this amount from the original calculation to ascertain the net savings due to the introduction of the scheme. The estimated savings from reductions in FTB B payments is \$262 million for Model 1 using the PaETS parameters (Method 1) and \$276 million using the PLAS parameters (Method 2). For Model 2 the savings are substantially less since the payments to women at the bottom of the income distribution are lower. Net FTB B savings for Model 2 are between \$221 and \$233 million.

6.5 Savings in other government expenditure

In addition to revenue from income tax on maternity and parental leave payments and the 15 per cent contributions tax on superannuation the government would reap considerable savings from the introduction of paid maternity leave through reduced eligibility for other payments such as Family Tax Benefits and Parenting Payment. Moreover to the extent that paid maternity leave facilitates the choice of longer periods of leave there will be substantial savings in Child Care Benefit and the Child care Tax Rebate.

These savings are difficult to quantify because they depend on the extent of behavioural change resulting from the exact configuration of the paid maternity leave scheme introduced and family incomes which are difficult to ascertain. In order to establish the impact on typical families this section examines the financial impact of these changes on families in relation to a range of payments as shown in Table 16.

The representative two income families considered are:

- **Family type 1:** Both partners working on a full-time basis and earning AWE
- **Family type 2:** Male working full-time and earning AWE combined with the female working full-time and earning the FMW
- **Family type 3:** Male working full-time and earning AWE and the female working part-time and earning AWE
- **Family type 4:** Male working full-time and earning the FMW and female working part-time and earning AWE
- **Family type 5:** Male working full-time and earning the FMW and female working part-time and earning the FMW

As mentioned previously, the Parental Leave in Australia Survey demonstrated that 37 per cent of women took paid maternity leave averaging 11 weeks and other paid leave averaging 7 weeks. The introduction of 28 weeks paid maternity and parental leave will result in these women having paid leave for an additional 10 weeks. The remaining 63 per cent of women either took unpaid leave or did not take leave.

We assume that these women would take the full 28 weeks leave. Table 16 shows the income tax revenue that would be collected from our typical families after the introduction of 28 weeks paid maternity leave assuming that these women had no other income during the financial year. The tax estimates will be understated since higher earnings during the year would increase annual income and put some women into higher tax brackets so that marginal tax rates would increase.

- Model 1: Tax payments for our typical families would be between \$1293 and \$3280 for the 28 week period of maternity and parental leave (Table 16).
- Model 2: Tax payments for 28 weeks would amount to between \$195 for Family type 5 to \$3280 for family type 1. The tax payments are lower for Model 2 because the minimum payment is half the FMW compared to the FMW for Model 1. The government would achieve additional tax payments of between \$567 for family type 5 and \$3280 for family type 1.

There are two components of Family Tax Benefit (FTB). FTB A is paid in respect of each dependent child and is subject to an income test of family income while FTB B is a payment to primary care givers with very low incomes and is income tested on their earnings alone. The maximum annual FTB A payment is \$4460.30 per child for children under 13 years which reduces after family income of \$41318 per annum and cuts out when family income reaches \$97,845 for families with one child or \$107,797 for families with two children.

Based on the Pregnancy and Employment Transitions Survey we assume that 52 per cent of families have one child and 48 per cent have two children and we assume that all children are under 13 years. To calculate the impact of paid maternity leave on eligibility for Centrelink payments we assume that women worked 13 weeks prior to commencing leave. Table 16 shows the reduction in payments for our typical families.

- For family type 1 where both parents were working full-time at AWE there are substantial reductions in FTB A (compared to unpaid maternity leave). These families would have qualified for the base rate if the woman was not receiving an income. However, the paid maternity leave means that they no longer qualify for FTB A.
- For families 2 and 3 FTB A is not affected since they are eligible for the base payment only.
- There are reductions in FTB A payments to families 4 and 5 since the maternity leave income increases the family income above the threshold where maximum payments start to reduce. Savings are greater for Model 1 than Model 2.

All our typical families would face reductions in FTB B as a consequence of the introduction of paid maternity leave of 28 weeks at normal weekly earnings. Our assumption that women had worked for around 13 weeks during pregnancy means that even in the absence of any paid leave our typical families would receive less than the maximum rate of FTB B. Family type 1, with two income earners on AWE would lose entitlement as a result of the paid leave and the other families would qualify for reduced payments.

Many women who take unpaid maternity leave or leave the labour force following the birth of a child currently qualify for Parenting Payment Partnered (PPP) or Parenting Payment

Single (PPS). Parenting Payment Partnered is payable to primary care givers of children under 6 years, subject to a family income test.

The maximum Parenting Payment Partnered rate of \$394.30 per fortnight is reduced when the customer's income exceeds \$62 per fortnight or their partner's income exceeds \$751 per fortnight.²

Family types 4 and 5 would have qualified for \$218 PPP per fortnight if the woman was not earning an income. After the addition of paid maternity leave no women would qualify for PPP so that government outlays would be reduced.

Sole parents with children under the age of eight qualify for PPS at a maximum rate of \$546.80 per fortnight. Payments are gradually reduced when income exceeds \$156.60 per fortnight and cease when income reaches \$1538.10 per fortnight. Paid maternity or parental leave for women earning AWE or higher would mean that these women no longer qualify for PPS. Women with lower earnings would continue to qualify for part payment of PPS.

- The savings on PPS payments are greater for Model 1 due to the higher earnings as a consequence of the policy of setting government contributions at the rate of the full-time FMW.
- Women who usually work part-time and earn either AWE or the FMW would have greater maternity leave payments. However, paid maternity leave means that PPS payments would be reduced by \$355 per fortnight.
- The savings are reduced for Model 2 which sets the minimum maternity leave payment at half the FMW. Since maternity leave payments are lower under this model entitlements to PPS are higher. Women working full-time at AWE do not qualify for PPS while other women receive reduced payments. Savings range from \$146 per fortnight for women earning half the FMW to \$255 for women working full-time and receiving the FMW.

Table 16 Savings from income support payments while on paid maternity leave

Family type	Additional tax	FTB A		FTB B		PPP	PPS ^a
		1 child \$ per fortnight	2 children \$ per fortnight	1 child \$ per fortnight	2 children \$ per fortnight		
Model 1							
1. Male AWE + female AWE	3280.43	46.90	93.80	59.36	59.36	0.00	546.80
2. Male AWE + female FMW	1292.90	0.00	0.00	106.54	106.54	0.00	354.96
3. Male AWE + female AWE p/t	1292.90	0.00	0.00	112.14	112.14	0.00	354.96
4. Male FMW + female AWE p/t	1292.90	45.64	45.64	112.14	112.14	218.36	354.96
5. Male FMW + female FMW p/t	1292.90	29.40	28.96	104.58	104.59	218.36	354.96
Model 2							
1. Male AWE + female AWE	3280.43	46.90	93.80	59.36	59.36	0.00	546.80
2. Male AWE + female FMW	1292.90	0.00	0.00	106.54	106.54	0.00	354.96
3. Male AWE + female AWE p/t	873.78	0.00	0.00	90.72	90.72	0.00	275.36
4. Male FMW + female AWE p/t	873.78	45.64	24.08	90.72	90.72	218.36	275.36
5. Male FMW + female FMW p/t	195.19	29.40	0.00	48.44	48.45	218.36	146.16

a. This column refers to saving on Parenting Payment Single for female sole parents who take paid maternity leave.

6.6 Child Care Benefit and Child Care Tax Rebate

Child Care Benefit (CCB) is payable for children in approved or registered child care for up to 24 hours per week for all families and up to 50 hours per week for parents undertaking work related activities for at least 15 hours per week. Approved child care includes long day care, family day care, before and after school care, vacation care, some in-home care and occasional care.

Registered child care includes services such as nannies registered with the Families Assistance Office. CCB for approved care is \$3.37 per hour or up to \$168.50 per week and registered care is subsidised at a rate of \$0.564 per hour or a maximum of \$28.20 per week. The maximum rate of CCB is payable when family income is less than \$35,478 and a minimum rate is available for families with one child with income in excess of \$108,434.ⁱⁱⁱ

The Child Care Tax Rebate reimburses families 30 per cent of out of pocket expenses to a maximum amount that is indexed annually. However, the Child Care Tax Rebate will increase to 50 per cent of out of pocket expenses from July 2008. The maximum payment was \$4211 for 2006-07 but will increase to \$7,500 per child in 2008-09.

Baxter et al. (2007) used data from the Longitudinal Survey of Australian Children (LSAC) to investigate the use of various types of child care by families with infant children. The main reason for using child care was due to parent's work or study commitments according to 92.9 per cent of single parents and 91.2 per cent of couple parents. They found that as employment increased so did all types of non-parental child care.

For single parents formal child care increased from 6.2 per cent to 22.7 per cent when the parent was employed and a combination of informal and formal care increased from 2 per cent to 20.5 per cent.

For couple families formal care increased from 4.4 per cent when one parent was employed to 21.5 per cent when both parents were employed. In addition, combined formal and informal care increased from 0.9 per cent to 8.4 per cent.

Thus if we assume that the introduction of paid maternity leave would delay the return to work of women there will be substantial savings from both the Child Care Benefit and the Child Care Tax Rebate.

7. Expected benefits (offsetting savings) flowing from paid parental leave

Advocates of paid parental leave cite positive impacts on the fertility rate, labour force attachment and return to work rates for women, improved maternal and child health outcomes, and increased gender equity in relation to child care and labour market outcomes.

While the focus of this report has been to estimate the cost impact of the proposed models of paid maternity, paternity and parental leave the provisions offer clear economic benefits to individual employers. While most of these benefits are not readily quantifiable, and may accrue in the longer term, measures to assist employees to balance their work and family life may offset short-term costs

by reducing staff turnover, improving the commitment, morale and productivity of employees, and increasing effective labour supply.

The provision of paid maternity enables mothers to maintain attachment to the labour market and will increase the rate of return to work thereby increasing the productive capacity of the economy. Enabling women to remain attached to the labour force serves to make investment in training more worthwhile for individuals and employers, and reinforces the positive labour supply effects of the provision of paid parental leave.

7.1 The business case for paid maternity, paternity and parental leave

In addition to the costs of the provision of paid parental leave there are significant offsetting benefits that accrue to employers. The Australian Industry Group (2002: 15) summarised these as: greater staff retention; lower recruitment, selection and induction costs; preservation of skills; lower training and development costs; greater staff loyalty; improved morale; and higher productivity.

Johnson (1995) argues that in addition to lowering absenteeism and improving retention and output, work-family initiatives have demonstrated effects on factors critical to client service such as discretionary effort and commitment. She cites a University of Chicago study which found that the more employees were able to access work-family benefits, the more they exhibited initiative, teamwork, flexibility and loyalty (1995: 56).

In the Regulatory Impact Statement prepared for the 1999 Employment Relations Bill in the United Kingdom, the Department of Trade and Industry calculated significant offsetting savings for employers associated with widening the entitlement of additional maternity leave (DTI, 1999). The DTI argued that increasing access to extended maternity leave would encourage more women to return to work and reduce the need to recruit and train permanent replacements. Offsetting savings associated with lower turnover and recruitment costs were estimated to halve the gross cost of the provision.

The extent of savings associated with lowering staff turnover is supported by research undertaken by the Council for Equal Opportunity in Employment (CEOE) in Australia. The Council estimated that labour turnover costs range from between 50 and 130 per cent of an incumbent's salary (EOWA, 2002). Any reduction in staff turnover can make a significant contribution to profitability at the firm level.

In 1996 Westpac estimated that the cost of replacing a female worker who resigned to have a child was between \$40,000 and \$60,000 which far outweighed the cost of its maternity leave scheme (Commonwealth of Australia, 2002). Similarly, Esprit/Red Earth estimated cost of encouraging workers to return to work by providing flexible hours was \$50,000 annually. However, this was only a fraction of the cost of replacing one middle manager which was estimated to be \$120,000.

7.2 Return to work and participation

There is evidence that paid parental leave has a positive relationship with female labour market participation. Ruhm (1998) found that 30 weeks of leave at full pay increased the employment to

population ratio of women by 3 to 4 per cent and accelerated return to work. The availability of paid leave increases the length of leave taken by some women but simultaneously reduces the likelihood of other women exiting the labour force with the net effect being a faster rate of return to work.

Similarly Rønsen (1999) found that women entitled to maternity leave were more likely to be employed than women who were not entitled to maternity leave. He notes the impact on behaviour of different policy parameters in various countries:

A generous parental leave program, such as the Swedish, will encourage more mothers to work up leave eligibility and to remain in the labour market throughout the childbearing years. With a shorter entitlement, such as that in Norway during the period studied, some women will resume employment sooner, but a larger number will end up outside the labour force, since it is more difficult to reconcile paid work and motherhood when the baby is very young (Rønsen, 1999).

An evaluation of the extension of paid maternity leave in the UK stressed the inter-relationship between family friendly policies in relation to increasing the participation rate of mothers (Smeaton and Marsh, 2005). Of women who returned to work and left within a short period 16 per cent felt that earnings were not sufficient to meet child care costs while another 14 per cent could not obtain working hours that facilitated caring responsibilities. Similarly, 17 per cent of women who did not return to work cited inability to find suitable hours. While 77 per cent of women who were employees returned to work only one-third of those ineligible for paid leave returned to work compared to two-thirds of those who were eligible for statutory maternity leave and 87 per cent of those eligible for an occupational maternity leave scheme.

Australian evidence on the effect of paid parental leave on return to work and longer-term retention of staff is limited. In the Australian public service only 11.7 per cent of women who commenced maternity leave in 2003-04 had resigned by June 2005 (Australian Government, 2005). In the financial sector where paid maternity leave is prevalent employers note an impressive return to work rate although this may not be entirely attributable to paid maternity leave since, in many instances, paid maternity leave is only one component of a range of family friendly conditions. In a submission to the Senate inquiry into the *Workplace Relations Amendment (Paid Maternity Leave) Bill 2002* the Finance Sector Union noted that following the introduction of paid maternity leave in the finance sector return to work rates had increased significantly to reach 87 per cent at ANZ Bank, 100 per cent at National Australia Bank, 94.5 per cent at Westpac, 85 per cent at the Commonwealth Bank, 90 per cent at AMP and 91 per cent at BankWest (Finance Sector Union, 2002).

Major factors contributing to return to work include paid maternity leave, flexible employment arrangements and the availability of affordable child care. A paid maternity leave scheme is therefore a necessary but not sufficient condition to encourage increased labour force participation by mothers. An evaluation of paid parental leave (PPL) in New Zealand surveyed women regarding the major motivation for returning to work after the birth of a child. Employer flexibility was the major factor that influenced the timing of return to work (80 per cent) while other reasons included financial necessity (78 per cent), and the availability of child care (62 per cent) (Department of Labour, 2007).

7.3 Fertility

The fertility rate may be increased by lowering of costs of having children through the provision of family friendly policies such as flexible work arrangements, child care subsidies and paid parental leave. However, there are tensions between the dual objectives of increasing fertility and the participation rate. The relationship between labour force participation and fertility is complex. On the one hand the existence of paid leave reduces the cost of having children thereby increasing the probability of having a child. On the other, increased workforce participation increases the cost of children by introducing additional costs associated with child care and career interruptions.

The international evidence on the effect of the introduction of paid parental leave on the fertility rate is mixed. Gauthier and Hatzius (1997) investigated the impact of various family policies in 22 industrialised countries over the period 1970 to 1990 on fertility and found that maternity leave did not seem to be significantly associated with higher fertility rates. Similarly, Ronsen (1999) found little evidence of an increase in fertility except in Sweden where there has been a policy induced trend to closer spacing of children in order to qualify for parental leave. He concluded that there has been a small positive impact in Norway and Finland. Averett and Whittington (2001) found that maternity leave results in an increase in the probability of birth. Tsuya (2003) investigated fertility changes and family policies from 1960 to 2000 in Sweden, Denmark, Norway and Finland and found that higher fertility from the mid 1980s was primarily due to catch up of women of childbearing age who had children later in life than previous generations. Decisions were influenced by policies such as parental leave with generous benefits and the provision of child care services. Despite the fact that increased fertility may be a policy objective it is unlikely that paid maternity leave will have a major impact on fertility rates.

7.4 Effect on Government revenue and expenditure

To the extent that the government finances paid maternity, paternity and parental leave government outlays are increased. However, there are offsetting savings in the form of increased revenue flows and reductions in other government expenditure. First, there are increased tax revenues since payments are taxable. Second, increased income in the form of paid leave results in reduced government outlays for income support and other payments. Third, replacement staff contribute to taxation and those previously in receipt of income support receive either no payments or reduced payments as a consequence of increased participation in paid work. Finally, there are other significant economic and social benefits. Improved maternal and infant health results in reduced outlays for the health system. The benefits of government contributions to the formation of human capital are maximised by the increase in female labour market participation which contributes to the reduction of skill shortages and raises the productive capacity of the labour force.

7.5 Child and maternal health

The literature suggests that paid parental leave constitutes societal recognition of the valuable role of caring for the child and provides significant benefits to maternal health. These include: the opportunity to recover physically from the pregnancy and birth; reduced financial stress; positive

benefits to mental health from societal recognition and not having to contend with the dual pressures of parenting and working.

There is a general consensus that women should exclusively breastfeed their babies for a period of six months to maximise child health outcomes (Galtry and Callister, 2005). A study of infants born between 1996 and 1999 by Talayero et al. (2006) found that 30 per cent of hospital admissions would have been avoided for each additional month of breastfeeding. An Australian study of the morbidity impact of artificial feeding in the ACT examined hospitalisation rates of infants.^{iv} The study estimated that “the attributable costs of early weaning on to formula within the first year of life are about \$1-2 million in a year for the five illnesses” (Smith, Thompson and Ellwood, 2002: 543).

In an examination of data from 16 countries covering the period 1969 to 1994 Ruhm (2000) found that parental leave exerted a negative impact on infant mortality. He estimated that a 10 week extension in parental leave reduced infant deaths by 2.5 to 3.4 per cent. Further, a 10 week increase in paid leave reduced the infant death rate by 3.7 to 4.5 per cent. Importantly, the research also pointed to long-term benefits since the right to one year of job protected paid leave resulted in a 20 per cent decline in post-neonatal deaths and a 15 per cent reduction in deaths between the age one and five. More recently Tanaka analysed data from 18 OECD countries from 1969 to 2000 and estimated that a 10 week extension in paid leave would result in a fall in post-neonatal mortality rates by 4.1 per cent (Tanaka, 2005).^v

The emotional wellbeing of babies depends on a close bond with the primary care giver in the early months of life. The absence of a responsive care giver can result in unhealthy attachment patterns such as ‘insecure ambivalent’ attachment or ‘anxious avoidant’ attachment (Wilkinson *et al.*, 1997).

Another benefit of parental leave in the early months of life is the creation of the conditions to maximise cognitive development of infants. In addition to the positive role of the primary care giver, usually the mother, there is evidence to suggest that active engagement of fathers from an early age enhances cognitive development (Wilkinson *et al.*, 1997). Potential negative consequence of employment for mothers of young babies have been well documented. Ruhm (2004: 184) states that:

Maternal employment in the first year of life is associated with lower verbal ability at ages three and four ... Early job-holding is estimated to have a more detrimental cumulative impact on the reading and mathematics performance of five- and six-year-olds, with negative effects persisting for market labor supplied in the second and possibly third year

8. Conclusion

This Report has considered the costs and benefits of the introduction of a national paid maternity, paternity and parental leave scheme. The proposed models include 28 weeks paid maternity and parental leave paid at full wage replacement with provision for parental leave to be taken by either parent or shared. In addition, 4 weeks paternity leave would be available for men at full pay to support their partner and bond with the child.

The difference between the models relates to the proportion of funding provided by the Commonwealth government and employers. Under Model 1 the government funds maternity and parental leave and paternity leave to the level of the FMW including for women outside the labour force. Employer contributions then fund the difference between normal wages and the government contribution. The government contribution is reduced under Model 2 to an amount equivalent to half the FMW so that the employer share of funding increases significantly.

The total government contribution ranges from a minimum of \$2365 million for Model 2 to a maximum of \$4831 million for Model 1. The employer contribution which is financed by an additional payroll tax levy is between \$2454 million and \$2694 million for Model 1 which requires an additional 0.93 to 1.02 per cent of payroll tax. Employer costs are higher for Model 2, ranging from \$3540 million to \$3975 million which would require the payroll tax levy to be set at 1.34 to 1.47 per cent.

There are significant offsetting benefits for both the government and business. The provision of paid leave increases staff retention producing lower costs for recruitment and training of staff. The government would reap substantial additional revenue flows due to taxation of leave payments and contributions tax on superannuation contributions, while outlays for Newstart Allowance, Parenting Payment, Family Tax Benefit, Child Care Benefit and the Child Care Tax Rebate would be reduced.

A universal national maternity and paternity scheme would also address an important source of market failure. At present, employers that offer family-friendly measures face a problem arising from adverse selection. The people most likely to take advantage of provisions like parental leave will apply for jobs in firms that offer it. In these circumstances the cost of assisting workers to balance work and family life will be concentrated rather than shared, deterring some firms from offering paid maternity, paternity and parental leave.

The adoption of a statutory national paid maternity, paternity and parental leave scheme will help to overcome this lack of coordination in the market.

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¹ The 2008 Budget introduced an additional income test for the main earner. FTB B will only be payable where the main income earner's annual income is less than \$150,000.

² For income between \$62 and \$250 per fortnight the payment is reduced by 50 cents in the dollar, while income exceeding \$250 per fortnight reduces the payment by 60 cents in the dollar. Partner's income over \$751 per fortnight reduces the payment by 60 cents in the dollar.

ⁱⁱⁱ The minimum rate is available for families with two children if income is below \$115,900

^{iv} The illnesses studied were gastrointestinal illness, respiratory illness and otitis media, eczema, and necrotizing enterocolitis.

^v Post-neonatal refers to the period from 28 days to one year after birth

Appendix One

The NSW Long Service Leave in the Building and Construction Industry Scheme

The NSW Long Service Leave in the Building and Construction Industry scheme is legislated for by the *Building and Construction Industry Long Service Payments Act 1986* and overseen by a statutory corporation.

1. Registration

- a. Eligible workers in the building and construction industry in NSW are required to be registered in the Scheme by their employers.
- b. Self-employed contractors may register in the Scheme of their own accord.
- c. Eligible workers may register themselves to ensure they obtain the benefits of the Scheme if they are not certain that their employer has registered them

2. Workers in the building and construction industry who can register

- a. Only persons doing building and construction work in the building and construction industry in NSW may register with the scheme.
- b. The Building and Construction Industry Long Service Payments Act 1986 defines both the industry and types of work.

3. Time worked in the NSW building and construction industry must be recorded by the scheme

- a. The time worked in the NSW building and construction industry is recorded from notifications supplied by employers at the end of each financial year or when workers leave their jobs. This includes part-time and casual workers.
- b. Self-employed contractors must supply details of their taxable earnings each financial year through a tax agent and this is used to calculate an equivalent time worked in the NSW building and construction industry.

4. Amount of the long service payment

- a. The Scheme pays the equivalent of 13 weeks pay where 15 years work in the building and construction industry is recorded, 8.66 weeks when 10 years is recorded and 4.3 weeks after 5 years under special conditions.
- b. The amount of payment is based on award rates of pay or the rate of pay under a registered enterprise bargaining agreement.
- c. Benefits are also payable upon retirement, permanent incapacity or death of a registered worker if there has been at least 55 days of work recorded in the scheme.

5. What is the Long Service Levy and how is it determined?

- a. The current levy rate is 0.35 % of the value of building and construction work where the cost of building is \$25,000 or more. For example, for a home costing \$200,000 to build the levy is \$700, but a one-room extension of a house costing \$24,000 does not have to pay a levy because the cost is less than \$25,000.
- b. The levy rate from 1 July 1997 to 31 December 2005 was 0.2%.
- c. Exemption for part of the levy is possible in certain situations.
- d. Payment of the levy in instalments is possible for large building and construction projects.

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- e. The levy rate is determined by actuarial evaluation of the Fund and is based on the numbers of building workers actually working in the building and construction industry and the amount of building and construction work in NSW.
 - f. The levy rate is set at a rate that balances long service payments to workers in the foreseeable future with the amount of building work which is to be undertaken in the foreseeable future and the earnings of the Fund.

6. **For More Information** <http://www.lspc.nsw.gov.au>