Fairer Paid Parental Leave

TARGET30
REDUCING THE BURDEN FOR FUTURE GENERATIONS

Matthew Taylor

SNAPSHOT

In 2012–13, the Australian government spent just under $1.4 billion on statutory Paid Parental Leave (PPL) to provide more than 130,000 parents with up to 18 weeks of leave. Under the scheme the primary carer received the full-time minimum wage ($641 per week) for each week of parental leave, regardless of pre-leave income providing a maximum payment of $11,538.

The government will spend $1.9 billion in 2014–15 on PPL, if current policy continues.

If, however, the Abbott government's proposed PPL reforms are enacted, government outlays on statutory PPL will dramatically increase by approximately $3 billion bringing total expenditure to over $5 billion.

The additional expenditure under the Abbott government's scheme is to be funded, in part, by the imposition of a 1.5% levy on the profits of large businesses.

The objectives of PPL would be better met by a loans scheme similar to the Higher Education Contributions Scheme (HECS) at a much lower cost to the taxpayer.

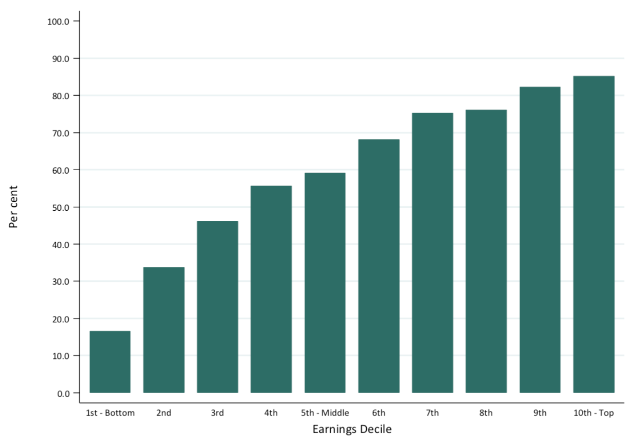
Problems with the Coalition's scheme

There are two problems with the Coalition's PPL reforms.

1. Poorly Targeted

- The first is inherited from the current statutory PPL scheme. Much of the government's expenditure on statutory PPL does nothing to improve the welfare of society through enhancing maternal health and child health and development.
  - Rather than targeting expenditure at parents who would not otherwise be able to take parental leave, current PPL policy makes payments to employed parents on annual incomes of up to $150,000.

Figure 4: Percentage of employed women who report access to Paid Parental Leave by female earnings decile, 2012Source: Household,



Source: Household, Income and Labour Dynamics in Australia.

  - High-income parents are most likely to have access to PPL through workplace entitlements. Data from the 2012 Household, Income and Labour Dynamics in Australia (HILDA) study indicates that 85% of employed women in the top 10% of female earnings had access to PPL as part of a workplace entitlement in 2012. The most common parental leave entitlement for women on collective employment agreements in 2013 was 14 weeks.

2. Inequitable

- The second problem is the inequity of the Coalition's policy. Not only does the Abbott government propose to increase spending on a poorly targeted policy, it intends to do so in a way that is highly inequitable.
- Under the Coalition's policy, parents earning more than $100,000 would receive a maximum payment of $50,000 – considerably more than the maximum $16,667 payment to be received by those earning less than the full-time minimum wage. This policy effectively removes any means testing for statutory PPL payments.

The Solution: A Parental Leave Contribution Scheme (PLCS)

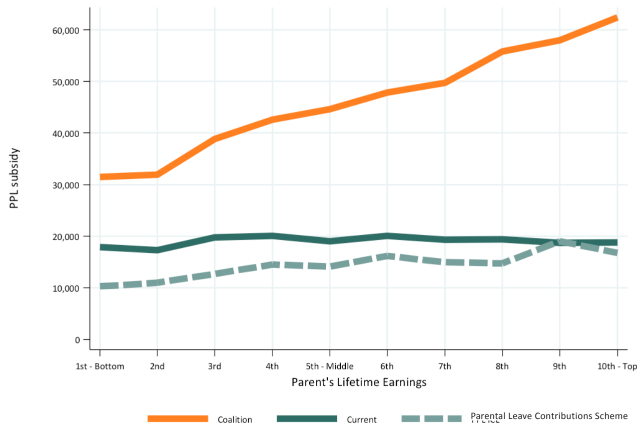
Instead of Abbott's proposal, we need an alternative model of PPL that meets the equity objectives of a statutory PPL. This could be achieved through an Income Contingent Loan scheme similar to the Higher Education Contributions-Higher Education Loans Program (HECS-HELP) used to fund tertiary education.

- A Parental Leave Contributions Scheme (PLCS) would provide parents with PPL payments equal to the pre-birth wages of the primary carer (or less) for up to 26 weeks – all but $5,000 would need to be repaid.
- A PLCS would help parents maintain their usual family income, thereby alleviating the financial constraints faced by parents who are unable to finance their own leave or do not have access to parental leave workplace entitlements.
- The PPL loan liability would be the responsibility of both parents (regardless of their relationship status).
- A minimum repayment threshold set at the full-time minimum wage would ensure that only parents with a capacity to make repayments would have to do so, and a progressive repayment schedule would ensure that repayments were not burdensome for low-income parents and families.
- As this scheme would be financed by parents, it does not provide permanent income transfers to parents who do not need them and does not transfer the tax dollars of low-income families to high-income families.

A fairer scheme

This report models the PPL subsidies provided to families with newborns under current PPL policy, the Coalition's proposed scheme, and a PLCS modelled using HILDA data.

Figure 7: Simulated total PPL subsidies by couple's life-time earnings decile under current policy, Coalition policy and the Parental Leave Contributions Scheme



This modelling indicates that the Coalition's scheme would provide families in the top 10% of combined lifetime parental earnings with subsidies that are $30,000 higher than those provided to the bottom 10%, on average. It is estimated that those in the top 10% will, on average, receive approximately double the PPL payments of those in the bottom 10%.

The PLCS modelled in this report provides a more uniform level of support for families with different levels of lifetime earnings assuming that all loans would be repaid. In reality, loan defaults are most likely to ensure higher permanent income transfers to low-income families.

The PPL loan repayments of a typical high-income family, where both parents are tertiary educated, would take four years for a one-child family and five years for a two-child family. Payments would never exceed 5% to 6% of the family's annual earnings.

Loan repayments would take a little longer for low-income families where both parents have less than a Year 12 education. A typical one-child family would take six years to pay off their loan, while a typical two-child family would take eight years. For these families, repayments would not exceed 4% of the family's annual earnings.

Improves gender equity

- **The PPL loan liability would be the responsibility of both parents regardless of their relationship status.** The progressive repayment schedule would ensure the parent with higher earnings would make most of the repayments. This is fair as parents benefit from the full-time care provided to their children by the primary carer over the parental leave period and their repayments constitute recognition of the value of that care.

  The modelling presented in this report estimates that the primary earner in a typical high-income family with one child would repay 95% of the PPL loan and all of the loan if they have two children under a PLCS.

  The primary earner in a typical low-income family with one child would make 89% of the PPL loan repayments and all of the repayments in a two-child family.
- **Taxpayer-funded PPL pushes the cost of PPL onto all taxpayers**, many of whom are women whose labour force participation and earnings have been interrupted by childbirth. Under the Coalition's scheme, taxpayer funding ensures that the tax dollars of low-income women finance the parental leave of high-income women. It is not obvious how this promotes gender equity.
- **A PLCS would provide women with an alternative to trading off their financial remuneration in exchange for parental leave workplace entitlements**, thereby fulfilling the gender equity objectives of a statutory PPL scheme. Employers would still have the option of contributing to the repayment of the PPL loan on behalf of their employees. They could also elect to pay the entire amount.

Reducing the burden for taxpayers

It is estimated that the direct subsidies to parents under a PPL loans scheme would cost $657 million, cutting 2014–15 government expenditure on PPL by approximately $1.3 billion provided loans were repaid in full.

The expenditure associated with a PPL loans scheme would be approximately 12% of likely 2016–17 expenditure on PPL that would result from the implementation of the Coalition's proposed PPL policy (assuming no PPL loan defaults).

Note: Table and figure numbers correspond to the same in the report.

AUTHOR

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