Submission to the Productivity Commission Inquiry into paid maternity, paternity and parental leave

June 2008

This submission

Catalyst Australia welcomes the opportunity to make this submission. We believe the Inquiry is tapping into the need for a long overdue conversation about work, family and community life.

Our submission supports a minimum of 26 weeks paid leave. This would be funded through a mix of employment related and government transfer payments to families. The government transfers would be available to working and non-working families while employment related entitlements would apply to working women and men.

Our key emphasis is on the employment related policy. We suggest a system of portable leave accounts for working women and men that are funded by employers and that provide a minimum of 12 weeks leave available to individual workers. A leave account would be used to provide paid breaks for parenting.

The leave account proposal is a good fit with contemporary Australian working life. Leave accounts would operate like a bank account and move with people from job to job throughout their working life.

They recognise that transitions in and out of the labour market can be necessary for parents throughout a child's life. Equally people without children can require periods away from work, either for personal care or to care for partners, friends or elderly parents.

The leave account proposal would not replace government transfers that are available to non-working and working families. We suggest a universal parenting payment which will roll up the baby bonus into an immediate 14 week payment at the rate of the federal minimum wage. This could be increased to a more generous 26 week government payment over time as part of a broader review that will simplify and update family welfare transfers and better align government transfers with employment policy.

Taken together the leave account and universal family payment model will provide a minimum of 26 weeks leave for working women to draw upon.

Potentially it could provide more as men also draw on their leave account to take paid time off to care for children.

Such a proposal will put Australia within the ballpark of what other OECD countries provide, and bring our national work and family policy into the 21st century.

About Catalyst

Catalyst Australia Incorporated is a network of unions, academics, individuals and organizations that has been created to encourage progressive policy direction in Australia.

Catalyst is founded on a simple principle that the value of economic growth is to provide opportunities for all Australians to live good lives through good work in good communities.

We recognise that work is central to our lives. It contributes to our livelihoods, our esteem as well as to our economic future. Good work is work that is safe and secure that supports human achievement and participation and is built on equality of relationships and respect.
**Good work** is work that allows people to reconcile their lives as parents and carers outside the workplace with their jobs at work.

Many businesses have argued that government (taxpayers) should fully fund a scheme. This overlooks that children are the next generation of workers, consumers and carers.

The whole community (including the business community) gets the benefit of children and caring and should fund a share of any parental leave scheme for workers.

Our model recognizes this. It shares the costs of funding a scheme among employers, government and it gives individuals the option to also contribute, without mandating extra costs on parents.

We ask the Commission to think carefully about imposing individual contributions on people. Families already bear significant costs that come with having children and shift spending patterns accordingly.

Ultimately supporting families by a paid parental leave scheme in the early years of child rearing benefits society and there is a huge social dividend to be gained by getting the policy mix right.

There is great community interest in policy that better fits with how we live and work today. Thus this Inquiry is an important first step in what we hope is a bigger conversation about our future working lives.
Executive Summary

This submission calls for new policy to support people in balancing their working lives.

Section 1 sets the policy context by briefly outlining how today’s labour markets operate. This shows that the existing system of parental leave entitlements are poorly aligned with how most people work because they only apply to workers that are in secure, permanent employment. This is no longer the experience of work for most individuals. Women especially are more likely to be casuals and to have poor job security, or to work part time. Consequently many women never build up enough time in a job or enough employer goodwill to access even the most basic right to unpaid leave. Most private sector employers do not provide any paid maternity leave entitlement and those that do tend to be big businesses.

At the same time full time male workers are working longer hours with little scope to participate in life outside the workplace. This choice is often based on the higher earnings of men, and the income needs of families. It also reflects workplace culture which does not encourage men in their public lives to increase their share of the parenting load. This needs to change.

Section 2 details our main recommendation to the commission which is to establish portable leave accounts for all workers. A leave account is a simple leave bank account for worker’s that moves with them from job to job over the course of their working life.

The account would be drawn upon to pay for a minimum of 12 weeks time off for parenting. Employers would contribute to the leave account in the same way that they contribute to superannuation accounts, ie by a small percentage quarterly payment.

Leave accounts are analogous to existing long service leave entitlements but would begin to accrue from day one in the workforce and would be portable.

They have the added benefit of spreading the cost of funding parental leave across firms. Each employer contributes a small share that accrues into a bigger entitlement. In this way, a leave account is a savings focused scheme. It would be available to both women and men.

The leave account proposal is relevant and practical to today’s labour market and to the Australian employment context which has experience in administering similar arrangements for superannuation.

Section 3 outlines our support for a universal parenting payment to households which rolls up the baby bonus into a minimum government payment. This is welfare and not a work related benefit, but it is nevertheless an important part of the policy mix.

We estimate that the cost of replacing the baby bonus with a 14 week government funded fortnightly parenting payment is $2,310 per birth in 2008-09. This suggests the immediate introduction of a 14 week entitlement is achievable, which will bring Australia up to the International Labour Organisation Standard. There should be further improvements over time to achieve a 26 week family payment but this should be dependent on a broader review to update family welfare transfers.

Section 4 discusses the lack of clarity in current policy about work and family. This has resulted in a fairly piecemeal policy approach resulting in a confusing and value driven policy framework that is not meeting the practical needs of most women or families.

In concluding we note the diversity of stakeholders with an interest in this issue. These are children, mothers, fathers and family networks, employers, government and communities. It is difficult for one policy prescription to meet the diverse social, economic and parenting needs of all citizens. We put forward our leave account proposal as a practical, low cost and flexible solution that will suit evolving parenting needs and support choice for families.
1. Real lives, real labour markets

In this section we argue briefly that changes in the labour market and in the way we work supports our new framework of leave accounts for workers.

Over the past two decades there has been a dramatic shift towards a more deregulated labour market. As a result Australia leads the table of OECD countries in our levels of casual and temporary employment.

This has been accompanied by a massive growth in the knowledge economy and the creation of new jobs built around a 24/7 service delivery model.

For women, this has seen a surge in casual, part time and flexible jobs. While employment flexibility can help women to balance family responsibilities outside work, it masks the persistently high levels of under-employment among women with children, and our generally low levels of labour force participation of women with family responsibilities.

According to Sara Charlesworth and Iain Campbell from RMIT, it is the size of the absolute decline in women’s full time employment particularly following the birth of their second child which distinguishes Australia from all other OECD countries. The OECD has also referred to Australia’s large under-utilised labour reserve among women.

How labour markets are failing families

The overwhelming conclusion to be drawn from the contemporary discussion about work and family is that our current system of entitlements is failing families.

The starting point of this discussion is to acknowledge that today’s labour market presents a weak foundation upon which to build an enduring policy framework for women.

Existing policies that aim to help women take paid and unpaid leave following the birth of a child do not apply to the majority of women.

These policies fail most spectacularly for women who are low paid, who work in the private sector and who are not in full time or permanent employment. This, of course, means they are failing most women.

The University of Queensland 2006 Parental Leave Survey illustrates these points.

The UQ survey found

- Around 30% of women did not meet the eligibility criteria for unpaid leave and an additional 10% of mothers were casuals for more than 12 months were eligible, but their entitlement was difficult to implement. That is, 1 in 4 women did not qualify to access unpaid leave.

- In all around one third of mothers accessed paid maternity leave and these mothers were more likely to be working in the public sector, in large workplaces and earning a high salary.

- Conversely women working part time, or on casual or fixed term were less likely to utilise this form of leave.

The UQ survey also found that men lacked enthusiasm for unpaid parental leave, but when they did take leave it was from a pool of paid entitlements (such as annual leave). This suggests that if paid leave were extended to men, they would access it.

However there remains huge cultural barriers to changing men’s behavior, not least of which is workplace culture that assumes children’s care should not interfere with productive work. A paid entitlement for men will send an important signal that these cultural barriers are under challenge.

2 OECD (2005) Ageing and Employment Policies in Australia
New policy must not miss the mark

Contemporary labour market analysis shows that a scheme that prescribes a qualifying period that is linked to time in a single job or employer will miss the mark for most women. Job security should not underpin the criteria of any future paid parental leave scheme for working women (or men).

Our proposal, outlined in the next section, takes account of this fact.
2. A system of leave accounts for workers

Catalyst Australia is proposing that a system of ‘leave accounts’ be established for all workers which would complement but not replace paid maternity and paternity leave entitlements.

A leave account is a simple leave bank account for workers which is portable and moves with them from job to job over the course a person’s working life. A leave account is funded by a small percentage contribution from employers that accrues into a larger entitlement over a period of several years.

The account would be drawn upon to pay for time off for parenting. Leave accounts apply to women and men.

How leave accounts would operate

Features of the leave account scheme (the scheme) include:

> A leave account would be opened when a worker first starts work and would continue to accrue throughout a person’s working life - in a similar way that long service leave accrues now.
> The leave account would replace (or modernize) existing long service entitlements. Unlike long service leave, the leave account accrual is banked immediately.
> The employer costs of funding long service leave would be offset by funding the leave accounts. Essentially the leave account scheme will modernize long service leave by rolling it into a new entitlement.
> The scheme would be established by legislation.
> As with superannuation guarantee contributions, the employer pays a percentage of earnings which reflects hours worked and salary level at a particular time.
> There would be a qualifying period of a number of years. This will allow the scheme to build up enough funds to meet entitlements. Further consultation and actuarial work is necessary to establish the qualifying period that will fund entitlements under the scheme.
> Once the qualifying period is reached a person could draw on funds in the account to pay for parenting leave.
> The account should provide for a minimum period of 12 weeks leave. It would pay at existing salary during the leave period, thereby ensuring income replacement.
> Casual and temporary employees are eligible to hold leave accounts. Contributions by the employer would be based on hours worked and funded at ordinary hourly rates.
> Independent contractors and self employed people are also be eligible, but would meet their own costs as they currently do with superannuation guarantee payments.
> Individuals can contribute to their accounts if they chose.
> Employees who did not have children or did not need to use their accounts for parenting could access them for other purposes such as elder care.

Parameters and costs of a scheme need to be established

Once the full parameters of a scheme are established, actuarial work will determine the amount that should be contributed to provide for a 12 week entitlement.

As a guide, new portable long service leave schemes in the ACT and Queensland contract cleaning industries are funded by a 2% contribution of payroll. This amount was modeled on making retrospective payments to cover an older workforce and we would expect the costs of funding a leave account scheme to be far more modest.
Costs to employers are further offset by the benefit of retaining skills and the increase in job satisfaction and well-being that comes from taking career breaks.

**Administration**

Administering a system of portable leave accounts is not onerous on employers. In existing portable long service leave schemes, individual accounts are credited for periods worked and payments are made by employers consistent with underpinning legislation.

The Commission should investigate an appropriate model for centralised administration of a leave account scheme. We suggest either a superannuation style trustee model or alternative administration by a central government fund (similar to the future fund).

Centralised management and administration is especially effective for small business. As well as being simple to administer, a centrally managed scheme will usually become self funding over time through interest earned on investment. Thus entitlements can be subsidized.

**A cost effective and equitable solution**

The leave account proposal is strongly supported by the social dividend of giving families time to care for children. There is also strong community support for new policy that provides income support to families with children, and this suggests that families would use their leave accounts to provide care.

They will have the added effect of equalizing caring responsibilities. Because men are more likely to work unbroken patterns of full time work, their leave accounts will prosper. This will provide paid leave for men and hopefully increase choice and equality in child-rearing within households. It also helps the household to maintain a higher male wage for a period following childbirth as men access their accounts.

According to the OECD getting more fathers to take parental leave is vital so that women can achieve their labour market potential. They note, however that paternal attitudes will need to change, as will women’s tendency to exclusively provide care in families.4

In this way, leave accounts could be a vital piece of the policy puzzle. They give people greater autonomy and control about the best mix of their work and family responsibilities. They impose minimal costs on all employers and are a cost effective solution for government. They support new ways of taking leave to care for children, and are available to both men and women.

In appendix A to this submission we have provided a list of ‘troubleshooting’ questions or issues that need to be considered in the full evaluation of such a scheme.

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Section 3: A universal parenting payment

Catalyst’s proposal for leave accounts should be part of a more cohesive policy platform that supports families, including non working mothers.

There are existing government payments that fall into the parental payment policy mix. This includes the baby bonus which from July 2008 will provide a $5,000 payment to families following the birth of a child. This bonus has no relationship with workforce participation and until recently was not affected by household income. Additionally families on low incomes, or where one person (usually the mother) is not working may be able to access means tested family tax benefit payments.

It is important to distinguish these payments from work related entitlements. They provide important government welfare transfers to families.

Many submissions to this inquiry will address the need for improvements in government transfer system for both working and non-working women. We support the principle that Australia should update government transfers in line with more contemporary parental leave standards that apply across the OECD. It is also time to better align these payments with employment policy.

A universal 14 week parenting payment

The baby bonus should be immediately transferred into a fortnightly payment based on the federal minimum wage. A payment equal to the federal minimum wage for 14 weeks would cost $7,310. Once the baby bonus is offset against this amount, the increased cost associated with a 14 week universal parenting payment is $2,310. This should be indexed and increased annually.

The additional expenditure of rolling the baby bonus into a more transparent and indexed payment for a 14 week period is both achievable and cost effective. It is consistent with International Labor Organisation standards.

Catalyst considers that the universal parenting payment should be available to households, rather than exclusively to mothers. A minimum payment period of six weeks can apply exclusively to mothers and then families can chose how to provide care for the other eight weeks. This reflects contemporary society and gives families greater choice in how they use benefits.

This is sensible because families are best placed to take account of factors such as the health and well-being of the mother, the preferences of parents about who provides early care, and the economic and employment circumstances of the family.

The Commission should establish a timeframe to increase the universal parenting payment to a 26 week standard. This would put Australia in line with other OECD nations.

However this should be part of a more substantial review of welfare transfer payments, so as to simplify and streamline the payment system and to better align payments to working and non-working women. It should include means testing of some payments (as currently occurs) and it should also look at the system of child care subsidies for families. We make some comment on the interaction of these policies in the next section.

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5 Changes in the 2008-09 federal budget mean that this and other family tax payments will no longer apply to households earning over $150,000.
4. Rethinking work and family

Engaging women in the workforce is central to tackling the demographic pressures caused by longer life expectancy and declining birth rates.

This issue was highlighted by the federal Treasury in its Intergenerational Report accompanying the Commonwealth Budget Papers in 2002. Treasury drew attention to our falling birth rate and the low labour market attachment of women, along with other groups such as older workers. In this analysis increasing participation in the workforce is critical to tackling our shrinking labour supply rates so that we can meet the future demands of an ageing population.

Much of the research on these demographic changes accepts that increases in fertility rates, or immigration will not be sufficient to overcome the effects of population ageing. Thus, measures have been aimed at harnessing the participation of certain groups.

The first wave response has focused on a range of incentives to keep mature aged workers in work for longer.

The second wave response is focused on women. It is here that the Productivity Commission’s inquiry is critical because it must tackle women’s weakening attachment to work following the birth of a child. This is the point where Australia differs from most other OECD nations – particularly in the collapse of full time employment among mothers.

Developing a coherent framework for families

The European experience shows that work and family policies work best when they are part of a cohesive policy framework that includes government, employment and child care payments.

The Australian policy framework has evolved in a very ad hoc way. This has come about by new family payments or subsidies being layered on top of one another over many years. The result is a very confused and inconsistent set of small scale policies that are often poorly targeted and ineffective.

In part this reflects a tendency to use policy to prescribe an ‘appropriate’ role for women’s participation in economic life – to boost support for women as mothers, or alternatively as workers but rarely as both.

The reality of most women’s lives is that they fall somewhere in between the two states and policy needs to shift into a modern and coherent framework that recognises this fact.

A new framework must include several elements. Child care and other family payment policies can influence whether and when a woman returns to work after birth. Australia’s complex family payment system, the high cost of child care and the poor targeting of effective marginal tax rates can create disincentives to participation for women, especially when their wages are not high enough to compensate for these increased costs.

Recent research proves that these disincentives significantly diminish the earnings of partnered mothers. Importantly the labour force participation rates of partnered mothers are increasing despite this. This has lead NATSEM to conclude that non-income factors are important in encouraging women to work, as is the need for families to increase their income beyond one breadwinner. The fact that this is happening even when much of the additional households earnings are clawed back in taxes, in child care costs or by loss of government assistance gives a clear indication of the financial stresses facing many families. Ultimately this means that partnered women end up working for very little reward.

Child care costs are also important. Increasing child care subsidies will not work because in all but the most ethical centres these increases will inevitably be absorbed into higher fees for operators – that is, they will flow to the market.

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7 See for example Alicia Payne, Ann Harding et al. (2007) *another day, another dollar? The effective tax rates and labour force participation of partnered mothers in Australia*. National Centre for Social and Economic Modeling, University of Canberra
Likewise, making child care tax deductible – which mostly benefits higher income earners anyway – can be absorbed into higher fees unless steps are taken to prevent this occurring.

In a survey published in *OECD Economic Studies* in 2003, Florence Jaumotte has highlighted that public childcare spending and paid parental leave are the largest stimuli on the full time participation of women in the Nordic countries and France. She has also referred to the favorable tax treatment of second earners and high education levels as contributors to women’s enduring participation.  

In the Australian context, a review of childcare subsidies and fee regulation is also central to any successful long term policy framework, as is appropriate employment legislation that supports the right of both women and men to combine their work and family lives.

**Conclusion and summary**

Paid parental leave is justified on the grounds of supporting the health and well-being of babies, their mothers and families. It increases attachment to a job, and improved paid leave improves job and labour market attachment. Both these facts are strongly affirmed by OECD and local evidence.

It is vital to align future parental leave policy with the realities of the labour market and to look at measures that do not simply rely upon employer goodwill to opt in or apply entitlements.

A scheme that is also available for men will further help women realise their labour market potential, and help to equalize family responsibilities. This must be a pre-requisite of any modern scheme.

A big issue that remains unresolved in public policy for parental leave is how a scheme is funded. Employers who argue for full government funding are side-stepping their responsibility as good corporate citizens to support some of the costs of children and caring.

Catalyst has proposed one way in which a parental leave scheme could be funded. This idea deserves fuller investigation and review by the Commission.

Our proposal has suggested three ideas for consideration in this complex debate. These are:

- A minimum 12 weeks paid leave for working parents funded by employer contribution into a portable leave scheme. Under this proposal banked leave is held in individual worker accounts available to both men and women. It would provide a new entitlement for all workers from their first day at work. This entitlement is analogous with existing long service benefits and would replace long service leave by rolling it into a new modern portable arrangement.

- A 14 week universal parenting payment that replaces the baby bonus. The universal parenting payment should be benchmarked against the federal minimum wage. There should be consideration about extending this payment to 26 weeks, in line with other OECD standards.

- A review of government transfer payments to families, including welfare, tax benefits and child care subsidies. The aim is to simplify and update them and better align government payments with employment policy and standards.

We wish the Commission well in their deliberations.

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Appendix A: Troubleshooting – Some policy issues to resolve in a model for a leave account scheme

Catalyst has proposed this model as an idea that could, subject to modeling and further investigation, provide a cost effective and gender neutral solution to funding paid parental leave.

There are a range of complex issues that will need to be resolved in such a scheme. We outline these below.

The success of select portable long service leave and superannuation as the cornerstone of our retirement incomes policies shows that policy makers can overcome complex contingencies in the design of any scheme.

Although we propose this model for both women and men, any assistance by government to get a model up and running should target women or primary carers. Over time, the entitlements and assets of a scheme will build to provide equitable outcomes for all workers.

Issues in the design of a leave account scheme.

1. If an account is used for a first birth, how will the scheme meet entitlements for second and subsequent births? We suggest the following options be considered, and acknowledge there may be other ways to address this:
   - Allow mothers to draw on prospective accruals (ie leave in advance). The scheme would need to be capable of funding advance accruals.
   - Allow fathers to transfer some of the leave in their accounts to their spouse/partners. There would need to be some clarity around circumstances in which this could occur, eg whether men should be required to use a minimum of six weeks, with the balance to be transferred; whether men transfer funds at their wage or at the mother’s wage.
   - Earnings from the scheme could be used to fund the minimum level of parental entitlement for all account holders. Refer to question 3.

2. What about casual and short-term employees?
   - Payments should be made for all employees as they now are with superannuation, without a minimum income threshold. This will prevent the creation of low hour’s jobs to avoid the leave account on cost. The amount of entitlements available for low paid women may be an issue, and this is covered in question 3 below.

3. What if the account does not fully fund income replacement for a minimum 12 week period?
   - The current employer should not be required to match income. Instead the account could be averaged over a 12 week period, the employer could optionally top up the account, or the government could guarantee a minimum amount and provide top up funds for low income working women. Families may also be eligible for other government support.
   - Earnings from the scheme could be used to fund the minimum level of parental entitlement.

4. How does the scheme improve attachment to job?
   - The portability of the scheme will not affect return to work behavior, because other factors such as job security and employer support are greater influences and these will continue to apply.
   - That the leave account entitlement itself is not tied to a particular employer or job is one of the strengths of the proposal because many women fail to qualify for current schemes including unpaid leave.
5. Isn’t this an overly complicated solution to funding maternity leave for women?
   - A more modest scheme may meet international standards of today, but there is little point in this Inquiry introducing a minimalist scheme which will quickly lag behind countries who are continuing to improve policy in this area.
   - Improvements in other countries are motivated by the success of their policies. That is, better policy and entitlements will lead to better outcomes.
   - The leave account model is a good fit for Australia. It draws on the success of our retirement incomes policy. Like retirement incomes policy it is savings focused and based on incremental contributions to create a larger benefit.

6. Won’t it take too long to build up an entitlement? What about income replacement for those planning children now?
   - There were around 265,000 births in 2006.\(^9\) Not all of those births were by working women.
   - The federal government could assist by putting funds into accounts while the scheme is building, or alternatively the government could make a low interest loan to the scheme.
   - The public policy benefits of an interim funding arrangement are justified, and such an approach is consistent with policy to fund the cost of tax cuts to superannuation of the over 60s. This has been estimated by the *Australian Financial Review* to cost around $100 billion in today’s dollars over the next 15 years.\(^10\)
   - Any transitional funding arrangements should be targeted to women or primary carers only.
   - Existing long service and other excess leave can be rolled in to the scheme so accounts build up quickly.
   - The Commission should a review of how existing portable long service leave schemes have managed to fund entitlements in the set up phase and draw on that experience.

7. How does the scheme interact with long service and paid maternity leave policies?
   - The scheme would replace long service leave with a portable leave account.
   - Existing long service leave entitlements could be rolled in to the scheme. If long service leave is rolled in to the scheme, it will quickly be able to fund entitlements.
   - The scheme must not absorb workplace funded maternity leave. Employers should continue to apply workplace policies especially where employers pay more than the 12 weeks available under a leave account scheme. In these instances, they should continue to top up employee entitlements, eg by funding directly an additional period of leave.
   - Arguably in the future, new employees will arrive at the firm with a leave account balance. It is sensible that all organizations align policy and that existing employer payments should transition into the minimum scheme. As noted, employers should continue to meet additional benefit by funding these direct to their employees.

8. Who should administer the scheme?
   - Leave accounts are an employment related entitlement and should be independently administered either through a trustee type model, or by a dedicated government agency or fund.
   - We prefer that worker entitlements are not absorbed into the general government bureaucracy of administering other family welfare payments.

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\(^9\) Australian Bureau of Statistics, Cat 3301.0 *Births in Australia, 2006*

\(^10\) Brian Toohey (2008) *Super deal for seniors to cost $100 billion: study Australian Financial Review*
• Many households may not have a relationship with welfare and family payment agencies, and it would impose additional (and potentially confused) administration and customer service demands of public service staff.

9. What happens if someone does not have children?

• An accrual based scheme needs to start with employment. If a leave account is not used for parenting then it can operate like any other long service leave arrangement.

• The rules of the scheme may need to prescribe circumstances when the entitlement appreciates. An example is following birth or in cases where the scheme is not to be used for parenting payments - at a particular age or after a particular length of time with a single employer.

• There may be circumstances where an entitlement can appreciate early, similar to ‘hardship’ rules applying to superannuation.