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New Zealand must invest in all new-borns

Child Poverty Action Group
Background Paper
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About Child Poverty Action Group

Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high rate of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in.

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Introduction

New Zealand's Paid Parental Leave (PPL) and the Parental Tax Credit (PTC), a part of Working for Families, are designed to give parents with newborns some extra financial assistance. Both have narrow, work-based eligibility requirements. If a family doesn't meet these narrow requirements, then there is no extra help.

The resulting inequities flow from the underlying judgment that only parents who are 'deserving' through their paid work should receive support from the state. Highlighting this, beneficiaries who are caring for newborns are specifically excluded from entitlement to any additional assistance from either the PPL or the PTC. This is not the case in Australia where there is a much more inclusive policy.

The exclusivity of PPL and the PTC are at the heart of CPAG's response to the proposed extension of PPL from 14 weeks to 6 months. This extension is contained in a private member's Bill (Labour) currently before the Government Administration select committee.

Finance Minister Bill English initially said the government would veto this bill, but now indicates that support may be forthcoming depending on cost and timeline for implementation. Labour has agreed to delay the reporting back of the bill until the end of February 2014. It expected that the revised bill will water down the extension and phase it in more slowly.

CPAG considers that the current paid parental leave is very restrictive in its coverage; that extending it will be costly; and that it will also have no impact on child poverty—which is the more significant issue at this time. Spending more on PPL may preclude other more vital spending for children, such as extending the full Working for Families package to all the low-income children as CPAG has recommended.

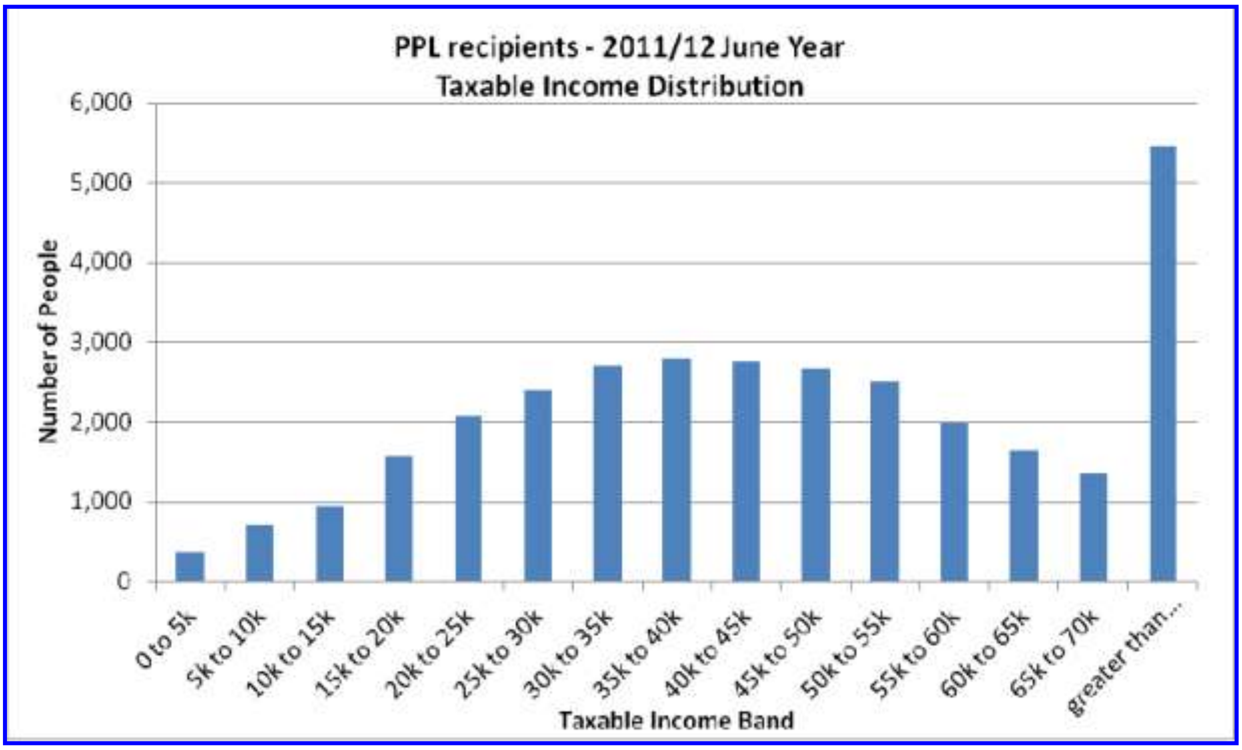
A Treasury report from June 2013 said that the current cost of PPL is $157m per annum and the proposed extension once phased in will be over double that at $327m. In Treasury's view:

> "If support for vulnerable families and children in poverty are key considerations, paid parental leave will unlikely be the most effective lever…The biggest return to investment in child outcomes and development comes from targeted interventions to low socio-economic families, and paid parental leave is likely not the most effective lever to achieve this."

CPAG believes that the alleviation of child poverty must be the key consideration, and has costed the more targeted, and desperately needed, measure of extending the IWTC to all children at around $400-450m per annum.

The Treasury report also notes that "only the group who currently access paid parental leave would be advantaged by any changes." Currently this group is predominantly middle-high income earners. The distribution of PPL is shown in the figure below. While it is unclear how to assess this data without knowing the distributions of births by parental income, 40% of all PPL payments are made to those with incomes over $50,000. The data in the figure is based on around 32,000 applications for PPL. The total number of newborns is around 61,000 per annum, so that clearly only a bare majority of newborns benefit from PPL.

Figure: PPL recipients (Treasury, 2013)



Background

Since 1987, New Zealand has provided 52 weeks of employment-protected unpaid leave under the Parental Leave and Employment Protection Act 1987. A PPL scheme introduced in 2002 aimed to achieve: gender equity within both the labour market and within families; improved health outcomes for mother and child; and income stability for families (Callister and Galtry 2009). Amendments have since lengthened PPL from 12 weeks to 14 weeks and widened eligibility; for example, self-employed parents have been able to qualify since July 2006.

New Zealand's work-test for PPL requires a mother to have worked for the same employer for at least 10 hours a week (at least one hour in every week or 40 hours a month), for either 6 or 12 months prior to the due date of the baby. Complying with the 6 month criterion entitles the parent to 14 weeks' PPL. Complying with the 12 month criterion also entitles the parents to the 52 weeks' employment-protected unpaid leave.

The Inland Revenue Department (IRD) administers the New Zealand PPL system. Fortnightly payments for up to 14 weeks are based on the mother's gross weekly earnings up to a maximum of $488.17 per week (as at July 2013).

Families who are not on benefits and who do not meet the criteria for PPL may qualify for the Parental Tax Credit (PTC) as part of the Working for Families (WFF) package. To be eligible for the PTC, the family must effectively be a ‘working’ family. No PTC is paid if the family income for the full eight weeks includes:

- an income-tested benefit, even if it is suspended;
- New Zealand Superannuation;
- a veteran's pension;
- a student allowance; or
- accident compensation from ACC, unless it is for less than three months.

The maximum PTC is $150 weekly for the first eight weeks following the birth of a child, a total of $1200. The PTC abates after other WFF tax credits. So for example, some PTC is paid up an annual income of $108,500 to a family with a newborn and no other children. If the family already has other children then payments cut out at higher levels of income.[1]

Eligibility for the PTC is thus strongly linked to the recipient’s or partner’s attachment to the labour market, and many parents either do not satisfy the criteria, or qualify for a part payment only. If families are eligible for both the PPL and the PTC they cannot have both. A mother with low annual income from the job she is taking leave from may be better off taking the PTC rather than PPL (The Inland Revenue Department 2010).

Who misses out?

PPL in New Zealand is tied to participation in the labour market and the arbitrary requirements of the work test have some unfair consequences (Callister and Galtry 2009). Firstly, a new mother could have a long history of productive work but not in the 6 months immediately preceding the expected arrival of the baby. Also, New Zealand has a large number of citizens living abroad: there may be women with long working histories abroad who do not meet the eligibility requirement for having worked in New Zealand.

It is clear that Treasury were also concerned as they note:

> “The maximum payment level is set relatively low, at less than minimum wage for a person working a 40 hour week, and eligibility is based on existing employment. …the current access group is likely to be middle and high income women with stable employment. Disadvantaged women in non-standard working environments are more likely to miss out, for example seasonal or casual workers with more than one employment relationship.”

One of the policy motivations for PPL being tied to labour market participation is that it is believed to encourage women to have long-term experience in the labour market. Yet women play a much more active role in the contemporary labour market than even 20 years ago, and most mothers return to the labour force whether they are eligible for PPL or not. Therefore, the need for a PPL scheme to maintain mothers’ links to the labour marketis not as important now as it may have once been (Callister and Galtry 2009).

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[1] Refer to the IRD’s Working for Families Tax Credits worksheet 2010-2011, at http://www.ird.govt.nz.

Moreover, there is doubt that all eligible families in New Zealand are aware of the availability of financial support for parents of newborns, particularly first-time parents. The first report in the *Growing up in New Zealand* series stated that while 77% of mothers were aware of the WFF tax credits, the other 23% were not. Two thirds of this group were first-time mothers (Morton and al 2010).

Work-based child tax credits are questionable at the best of times, but their inadequacy and inequitable outcomes are highlighted when precarious and part-time work become more prevalent.

The Families Commission has argued that, consistent with international trends, PPL in New Zealand needs to adapt to current trends towards non-standard work patterns including multiple part-time jobs. The Commission suggests easier access to parental assistance, for example through the removal of the minimum hours test, and payment after employment or self-employment for six months in the last 12 months prior to birth or adoption, without a limit on the number of employers or positions (Families Commission 2010).

Overall, New Zealand is well behind Australia in its support for new parents, a reflection of the far more rigid thinking about the role of paid work in New Zealand. Australia has a more generous paid parental leave scheme with less strict work requirements; Australia also has a Newborn Upfront Payment and Newborn Supplement added to the Family Tax Benefit A. This gives a maximum of $2000 for the first child and $1000 for other newborns. As noted above in New Zealand, many newborns get no extra assistance at all. The children negatively affected by being left out of this extra government financial support are the very poorest children whose needs are greatest.

Recommendations and summary

CPAG does not support the extension of PPL at this time, especially not in the absence of much needed reforms for a high proportion of all newborns that currently get nothing extra to recognise their extra caring needs. CPAG would like to see a comprehensive and inclusive policy.

In the submission to the Office of the Children's Commissioner's Expert Advisory Group on child poverty, CPAG wrote:

> **"CPAG would support a universal payment for children up to the age of one. This could roll up the current Paid Parental Leave, the Parental Tax Credit and the In-Work Tax Credit, thereby simplifying the existing complex and inadequate system" (CPAG, 2012 p 41).**

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