

CHiLD POVERTY ACTION GROUP

Paid Parental Leave in New Zealand: catching up with Australia?*

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This is part of Child Poverty Action Group's series of background papers.

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Introduction

The introduction of a Paid Parental Leave scheme in Australia on the 1st of January 2011 offers a timely opportunity to compare Australia and New Zealand government-funded financial support for new parents. It also allows for reflection on the different discourses that underlie policy choices in the area of family financial assistance.

Australia and New Zealand have both been at the lower end of international comparisons of paid parental leave provisions, falling well short of international best practice in terms of time offered, generosity of payment and gender equity provisions. However, since the 1st of January 2011, financial support for Australian parents of newborns now far more generous than that offered in New Zealand. The Paid Parental Leave in Australia's takes better account of the realities of a flexible labour market, and is paid at a higher level over a longer time, with broader coverage than is the case in New Zealand. Those who do not qualify for Paid Parental Leave are not left out: for them a generous Baby Bonus payment is available.

New Zealand's Paid Parental Leave (PPL) and the Parental Tax Credit (PTC), both have narrow work requirements. The resulting inequities reflect the different nature of the discourse in New Zealand surrounding financial support for children. While Australia recognises the importance of a mother's links to the labour market, the emphasis is more focused on the beneficial role that parental leave has on the full development of children and the investment in the future workforce. New Zealand policy on the other hand lacks a child focus; it is based not on the needs of all young children but on whether parents are 'deserving' through their paid work contributions. Disturbingly, in New Zealand, newborns cared for by beneficiaries (and superannuitants) are specifically excluded from entitlement to any additional assistance from either the PPL or the PTC.

CPAG urges the government to take advantage of the opportunity afforded by Australia's introduction of its PPL to improve the level and coverage of the financial support for new parents, and to reframe the discourse underpinning it to better focus on the needs of all parents and their newborn.

Paid Parental Leave in Australia

Announced on 14 July 2010, Australia's Paid Parental Leave scheme is a new entitlement program for eligible parents or carers of children born or adopted from the 1st of January 2011. The scheme recognises that "taking time away from work for a new baby is a common part of working life",² and aims to facilitate parents spending time with their new born babies and "promote early childhood development".³ Evidence suggests that the first year of a baby's development is strongly influenced by parental care, particularly during the first six

²Government of Australia. (2010a). *Family Assistance: Paid Parental Leave Scheme*. Retrieved from <http://www.familyassist.gov.au/payments/family-assistance-payments/paid-parental-leave-scheme/>.

³Government of Australia. (2009). *Australia's Paid Parental Leave Scheme: Supporting Working Australian Families*. Canberra. Retrieved from http://www.facs.gov.au/sa/families/progserv/paid_parental/parental_leave/Pages/AustraliasPaidParentalLeaveScheme.aspx.

months of its life.⁴ The Australian government has also argued that PPL will bring long term benefits to business by improving the quality of the next generation of workers.⁵ This recognition of the role that paid parental leave can play in improving the child's development clearly underpins Australia's parental assistance policies and programs.

The Productivity Commission inquiry into Paid Parental Leave: Support for Parents with Newborn Children concluded that:

- there is compelling evidence of child and maternal health and development benefits from a period of absence from work for the primary caregiver of around six months;
- there are sound rationales for stimulating women's labour force participation rates to overcome the disincentives imposed by the existing welfare and tax systems on women's labour force participation; and
- PPL could advance broad social objectives, such as achieving greater gender equity and balance between paid work and family life.⁶

The Productivity Commission has also argued that unpaid activity is work,⁷ and parental leave thus has an inherent value in itself. It changes the mix of jobs in the economy but does not destroy jobs. The New Zealand discourse neither recognises the value of caring for children, nor recognises this unpaid activity as work.

To be eligible for PPL, a recipient must be an Australian resident and primary carer for the child, with an adjusted taxable individual income of less than \$150,000 for the previous financial year. Recipients must also satisfy a PPL work test by having worked at least 1 day a week for 10 of the 13 months prior to the birth or adoption of the child (in other words 330 hours). Under these criteria, a new parent doesn't have to be a full-time worker to be eligible: part-timers, casual workers and workers with multiple employers are all eligible if they satisfy the work test. Since full-time workers are more likely to receive employer-funded paid leave, making it easier for non-standard workers to fulfil the work requirement broadens access to PPL across different types of work.

The 2011 payment rate for PPL is \$570 a week for 18 weeks, and is taxable.⁸ This is paid fortnightly at \$1,140, or \$10,260 in total.⁹ Parents can share the paid parental leave, for example, a mother may claim 13 weeks and then transfer the remaining 5 weeks of paid

⁴ OECD. (2007). *Babies and Bosses: Reconciling Work and Family Life - A synthesis of findings for OECD countries*. Paris: OECD.

Productivity Commission. (2009). *Paid Parental Leave: Support for Parents with Newborn Children*. Canberra: Productivity Commission. Retrieved from http://www.pc.gov.au/_data/assets/pdf_file/0003/86232/parental-support.pdf.

⁵ Government of Australia. (2010b). *A. Paid Parental Leave at a glance*. Retrieved from <http://www.familyassist.gov.au/publications/paid-parental-leave---information-for-employers-and-consultation-outcomes/a.-paid-parental-leave-at-a-glance.php>.

⁶ Government of Australia. (2009). *Australia's Paid Parental Leave Scheme: Supporting Working Australian Families*. Canberra. Retrieved from http://www.facs.gov.au/sa/families/progserv/paid_parental/parental_leave/Pages/AustraliasPaidParentalLeaveScheme.aspx.

⁷ Ibid.

⁸ All amounts in this section are in Australian dollars.

⁹ Under Australia's income tax schedule, the first \$16,000 of a person's income is effectively tax-free.

leave to the father if he is to be the primary carer for that 5 week period. These payments are government-funded but will be administered by employers when the employee has been in that job for longer than 12 months at the date of birth or adoption. The rationale for making employers administer the payments is to encourage firms to remain in contact with those employees on leave, thus maintaining new parents' links to the labour market.¹⁰

For those who do not qualify for PPL, there is a Baby Bonus (BB) payment for newly born or adopted children. To be eligible, one must be an Australian resident, the primary carer of the child and have a taxable income of under \$75,000 in the 6 months following the birth or adoption of the baby.¹¹ The BB is \$5,249, paid as 13 equal fortnightly payments of \$407.23. Claiming one of the PPL or BB entitlements precludes claiming the other.¹²

PPL is taxable and interacts with other benefits in the Australian social assistance system. During the 18 week period, a parent receiving PPL cannot receive the Family Tax Benefit B (FTC B). Most families are better off with PPL but if their circumstances are such that they are better off with FTC B and the BB they are entitled to that as an alternative.¹³

Paid Parental Leave in New Zealand

Since 1987, New Zealand has provided 52 weeks of employment protected unpaid leave under the Parental Leave and Employment Protection Act 1987. A Paid Parental Leave scheme was introduced in 2002. This scheme 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.¹⁴ Amendments since 2002 have lengthened Paid Parental Leave from 12 weeks to 14 weeks and widened eligibility, for example self-employed parents have been able to qualify since July 2006.

The worktest for Paid Parental Leave in New Zealand 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), in the 6 or 12 months prior to the expected due date of the baby. There are two different periods: complying with the 12 month criteria simply entitles the parents to the 52 weeks employment protected unpaid leave. The 14 weeks PPL is available after 6 months.

The New Zealand system is administered through the Inland Revenue Department (IRD). Payments are equivalent to a mother's gross weekly pay up to a maximum of NZ\$441.62 (as at July 2010). The minimum payment (for example in the case of a self-employed person

¹⁰Government of Australia. (2009). *Australia's Paid Parental Leave Scheme: Supporting working Australian families*. Canberra. Retrieved from http://www.facs.gov.au/sa/families/proserv/paid_parental/parental_leave/Pages/AustraliasPaidParentalLeaveScheme.aspx.

¹¹ This income limit is equivalent to an annual adjusted taxable income of \$150,000.

¹² At \$5,249, the Baby Bonus totals slightly more than half of the total paid parental leave (\$10,260).

¹³ The maximum Family Tax Benefit B payment is AUD\$3,909.15 annually for parents with a child under 5 years and \$2,832.40 if the child is 5-15 years (or 16-18 if a full-time student). These figures include the annual supplement of \$354.05.

¹⁴Callister, P. (2007). *Parental Leave in New Zealand*. Wellington: Department of Labour. Retrieved from <http://www.dol.govt.nz/PDFs/research-parental-leave-evaluation2005-06.pdf>.

who makes a loss but satisfies the hours of work) is \$127.50,¹⁵ equivalent to 10 hours of minimum wage work.¹⁶ These payments are for up to 14 weeks and are made fortnightly.

As in Australia, there are other forms of financial assistance to new parents in New Zealand for those who do not meet the criteria for PPL. As part of the Working for Families (WFF) package, the Parental Tax Credit (PTC) provides up to \$150 weekly for the first 8 weeks following the birth of a child, totalling \$1200. The PTC abates as family income increases, but after other WFF tax credits are abated. For a family with only a single newborn, total WFF tax credits cut out at an annual income of \$114,424. If the family already has other children then payments cut out at higher levels of income.¹⁷ In addition however, to be eligible for the PTC, the family must effectively be a 'working' family.¹⁸ The IRD website states: no parental tax credit is paid if the family income for the full eight weeks includes:

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

Eligibility for the PTC is thus strongly linked to the recipient or partner's attachment to the labour market, and many parents do not satisfy the criteria.

A new mother claiming PPL is not able to claim the PTC at the same time. According to IRD while PPL payments will be higher for most people, a mother with annual income under \$19,350 in a job she is taking leave from may be better off taking the PTC.¹⁹

Who loses out?

PPL in New Zealand is tied to participation in the labour market and there could be unfairness stemming from the arbitrary requirements of the work test.²⁰ Firstly, a new mother could in fact 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 that don't meet the eligibility requirement for having worked in New Zealand. One of the policy motivations for PPL being tied to labour market participation is that it encourages women to

¹⁵ All amounts in this section are in New Zealand dollars.

¹⁶ \$441.62 weekly is equivalent to \$22,964.24 per annum.

¹⁷ Refer to the IRD's Working for Families Tax Credits worksheet 2010-2011, at <http://www.ird.govt.nz/resources/9/f/9f5ff080417001a48536f741caddaf4b/ir271-2011.pdf>.

¹⁸ Before an amendment in 2007, the Parental Tax Credit was one of the three tax credits described as 'Family Plus' requiring a sole parent be in paid work for at least 20 hours each week if he or she is a sole parent, or at least 30 hours a week for a couple.

¹⁹ The Inland Revenue Department. (2010). *Working for Families: Parental Tax Credit*. Retrieved 25 November 2010, 2010, from <http://www.ird.govt.nz/wff-tax-credits/entitlement/what-is-wfftc/ptc/>.

²⁰ Callister, P., & Galtry, J. (2009). Baby Bonus or Paid Parental Leave - Which one is Better? *Social Policy Journal of New Zealand*(34).

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 market, though still a valid motivation, is not as important now as it may have once been.²¹

Moreover, there is doubt that all eligible families in New Zealand are aware of the availability of financial support, particularly for 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.²²

New Zealand's work-oriented parental support schemes are questionable during a significant recession and an increase in non-standard work patterns. In the period immediately prior to a new baby's birth, some families with long, productive working history may not fulfil the work test criteria either through redundancy or reductions in working hours. Under the current system they are, in effect, deemed undeserving of financial support. If this financial pressure does not allow parents to care for their children as they otherwise would, then the inadequacies of the New Zealand system potentially disadvantage the development of these children. The drawn out recession will likely increase the number of at-risk children.

The Families Commission has argued that, consistent with international trends, paid parental leave in New Zealand needs to adapt to current trends towards labour market flexibility. The Commission suggests more easily accessed 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 with no limit on the number of employers or number of positions.²³

Comparison

Australia's PPL certainly appears much more generous than that available to New Zealand parents. The maximum gross amount of PPL in New Zealand totals NZ\$6182.68, or roughly 485 hours of work at the minimum wage of NZ\$12.75. The actual amount can be as little as \$1785 for those with part-time work only. In Australia, the total gross PPL is equivalent to 684 hours of work at the adult minimum wage of AUS\$15. In other words, Australia's scheme provides the equivalent of nearly two and a half 40-hour weeks of minimum wage work more than the New Zealand scheme and is not dependent on previous earnings.

²¹ See Callister and Galtry, *ibid*.

²² Morton, S. M. B., Atatoa Carr, P. E., Bandara, D. K., Grant, C. C., Ivory, V. C., Kingi, T. R., et al. (2010). *Growing Up in New Zealand: A longitudinal study of New Zealand children and their families. Report 1: Before we are born*. Auckland: Growing Up in New Zealand. Retrieved from <http://growingup.co.nz/media/12254/growing%20up%20in%20new%20zealand%20before%20we%20are%20born%20nov%202010.pdf>.

²³ Families Commission. (2010). *Paid Parental Leave: Issues for Today's Economic Times*. Wellington: Families Commission. Retrieved from <http://www.familiescommission.govt.nz/sites/default/files/downloads/Paid-Parental-Leave.pdf>.

The level of payments is important because it strongly influences the length of leave that a parent will or can take. In New Zealand, many mothers would like to take longer leave than they currently do: according to a 2007 Department of Labour evaluation, the biggest barrier to taking the full 12 months of parental leave (paid and unpaid) is financial.²⁴ This suggests that PPL lessens but doesn't alleviate financial pressure to go back to work, and that increasing the level of payments may increase the average length of parental leave taken. New Zealand's relatively low level of payments may negatively affect child development, particularly in low-income families where the financial pressure to work will be strongest.

As an alternative to the paid parental leave scheme, Australia's Baby Bonus is also much more generous and universal than New Zealand's PTC (AUS\$5,249 as against NZ\$1,200). Where the PTC abates as income increases, the Baby Bonus does not; it simply has an upper income limit. The BB and Family Tax Credit make the support for the newborn only somewhat less than with the PPL. Clearly, Australia's system provides a much higher minimum payment for all low income families of newborns.

Despite being extended from 12 to 14 weeks, New Zealand's PPL scheme is still shorter than the 18 week Australian scheme.²⁵ There is evidence that for many parents, government-funded PPL schemes are claimed after all other private parental leave. That is, they extend the total PPL that a parent can access. In fact, the introduction of a PPL scheme in Australia was partially motivated by a desire to increase the length of leave taken by Australians who currently take only a relatively short period.²⁶ Mothers may desire to take longer leave but this may be restricted by the relatively short length of New Zealand's scheme, to the detriment of child development in New Zealand.

The Families Commission has recently reiterated its 2007 recommendation to extend the length of paid parental leave in New Zealand progressively from 14 weeks to 12 months.²⁷ In a 2007 radio interview following the initial Families Commission report, John Key indicated that National was open to the idea of extending the length of PPL, but not to the extent suggested by the Families Commission.²⁸ However, three years later the length remains 14 weeks, and this is unlikely to change any time soon.

Summary and conclusion

Australia's paid parental leave scheme is more generous in both the level of financial support and the length of payments. New Zealand citizens living in Australia are eligible for

²⁴ Callister, P. (2007). *Parental Leave in New Zealand*. Wellington: Department of Labour. Retrieved from <http://www.dol.govt.nz/PDFs/research-parental-leave-evaluation2005-06.pdf>.

²⁵ This of course, partially accounts for the difference in the total transfers (684 hours of work at adult minimum wage relative to 485 hours of work) to a given parent under the schemes.

²⁶ Productivity Commission. (2009). *Paid Parental Leave: Support for Parents with Newborn Children*. Canberra: Productivity Commission. Retrieved from http://www.pc.gov.au/_data/assets/pdf_file/0003/86232/parental-support.pdf

²⁷ Families Commission. (2010). *Paid Parental Leave: Issues for today's economic times*. Wellington: Families Commission. Retrieved from <http://www.familiescommission.govt.nz/sites/default/files/downloads/Paid-Parental-Leave.pdf>

²⁸ Key, J. (2007). [Interview: Wallace & John Key's Weekly Roundup]. Available on <http://www.scoop.co.nz/stories/HL0708/S00373.htm>

Paid Parental Leave or the Baby Bonus because they qualify as Australian residents. The Families Commission has argued that Australia's relative generosity could reduce the likelihood of these New Zealanders returning to live in New Zealand when they have children.²⁹ Given that the migration of skilled New Zealanders to Australia and the implications of this for economic growth are a prime concern of the government,³⁰ the significant gap in financial support offered to new parents that will exist between the two countries from the 1st of January is clearly an issue that merits attention.

While both the Australian and New Zealand schemes are linked to labour market participation, there are subtle differences in the justifications for this link. The Australian scheme helps mothers preserve attachment to the general labour market but it also attempts to link them specifically to their previous employers, such that they are more likely to continue to work with those employers when they return to work. The aim is to maintain "job and employer-specific skills" that would otherwise be reduced.³¹ By contrast, the emphasis on work in New Zealand's scheme lacks this focus on continuity of employment and skill-based motivations. The Australian Productivity Commission has also argued that unpaid activity is work.³² Parental leave is thus seen as having an inherent value in itself and changes the mix of jobs in the economy but does not destroy jobs. This recognition of the value of caring for children, and the recognition of this unpaid activity as work, is almost completely absent from the New Zealand discourse.

Overall, New Zealand is well behind Australia in its support for new parents. This reflects the far more rigid thinking about paid work. By contrast, Australia appears relaxed about a more generous paid parental leave scheme with less strict work requirements and a far more generous Baby Bonus entitlement for those parents who do not fulfil the requirements for paid parental leave. In Australia, the scheme for those who do not qualify for PPL does not have any work requirements. In New Zealand both PPL and the PTC for those that do not meet the PPL work test have work requirements that mean many newborns get no extra assistance at all.

The rigidity of thinking that underpins New Zealand's system leads to highly inequitable outcomes. The children negatively affected by being left out of this extra government financial support are the very poorest children whose needs are greatest. Their number will increase as the recession continues to drag on.

²⁹ Indeed the attraction of New Zealand for raising children is often cited as one of the principal incentives for expatriate New Zealanders to return home.

³⁰ Whitehead, J. (2010). [Speech: Lifting New Zealand's Economic Growth]. Retrieved from <http://www.treasury.govt.nz/publications/media-speeches/speeches/pdfs/sp-liftingecogrowth-24nov10.pdf>.

³¹ Productivity Commission. (2009). *Paid Parental Leave: Support for Parents with Newborn Children*. Canberra: Productivity Commission. Retrieved from http://www.pc.gov.au/_data/assets/pdf_file/0003/86232/parental-support.pdf.

³² Ibid.