



# **ANALYSIS OF THE IMPACT OF THE GOVERNMENT'S PROPOSED CUTS TO PAID PARENTAL LEAVE**

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## Paid Parental Leave

Paid parental leave (PPL) is an employee benefit available in most countries<sup>i</sup>. PPL is usually a government provision which aims to give people the option of starting a family while also working. It is based on the principle that the government has a responsibility to ensure all people have the right to seek employment on an equal basis with others. In Australia 99% of those who access Paid Parental Leave are women.

In international studies, paid parental leave has been shown to have several positive social and economic outcomes<sup>ii</sup>. It:

- relieves some of the income and time pressure placed on women and families;
- makes it possible for an average family to maintain employment continuity while providing quality care for a new infant;
- enhances child and maternal health and development;
- improves women's workforce participation and economic growth increases gender equity through improving work/family balance.

PPL has the potential to enable mothers to remain part of the workforce after having children. This is important because other than being parents, they are also workers. Women play valuable roles in the community and make a positive contribution to the economy. Recent research argues for more women to enter Australia's workforce in order to improve our GDP<sup>iii</sup>. Taking parental leave allows for a continuity of human capital and allows women to sustain their relationship with their employer and increase their chances of return to work.

## Importance of 26 weeks + paid parental leave

In making the recommendations that led to the current PPL scheme, the Productivity Commission highlighted the importance of new parents attaining 26 weeks or more post-natal paid leave.

Achieving this period of post-natal leave is important for health and welfare reasons of the primary carer and newborn. It is also important in supporting new mothers to breastfeed and bond with their infant. The Australian National Health and Medical Research Council<sup>iv</sup> recommends that infants be exclusively breastfed to around 6 months of age. Breastfeeding has positive effects on the nutritional, physical and psychological wellbeing of the infant. The NHMRC also warns parents that sub-optimal infant feeding is responsible for 45% of neonatal infectious deaths, 30% of diarrhoeal deaths and 18% of acute respiratory deaths in children under five years.

**The current scheme provides 18 weeks government pay at \$657 per week<sup>v</sup>. The scheme was specifically designed to enable women to reach 26 weeks or more of paid parental leave by adding their employer paid leave to the government pay for 18 weeks.**

## Proposed Cuts to the PPL Scheme

The Government has proposed changing Australia's current Paid Parental Leave Scheme. The Government proposes that for children born or adopted on or after 1 July 2016, PPL entitlements paid under the Commonwealth Paid Parental Leave scheme will be reduced where a parent is also entitled to employer provided paid leave, which they call Primary Carer Pay (PCP).

**If the new scheme is passed, the Government will only pay the difference between the employer provided pay (PCP) and PPL, if the PCP is less than the individual's PPL entitlement.**

## The Impact of the Proposed Change

This analysis shows that, among others, we expect nurses, teachers, ambulance service workers and retail workers will be negatively impacted by the proposed changes. The changes will reduce the benefits mothers receive during their parental leave, leaving them and their families with several weeks less living costs covered. The changes will result in families being well short of the leave payments reasonably expected to support a primary carer to stay home with a new baby for the first 26 weeks.

## Methodology

The below scenarios are based on a series of estimates derived from the official statistics for<sup>vi</sup>:

- Average weekly earnings - calculated as the average hourly pay rate for each type of occupation multiplied by the number of hours worked;
- Average weekly expenditures – estimates for each Australian state are provided by the Australian Bureau of Statistics, calculated for different household types depending on the family / household composition; These estimates include goods and services average weekly expenditures;
- Total average weekly costs - calculated as the total average weekly expenditures plus average weekly cost of child 0-4 year old;
- Government PPL total values – calculated as the Government weekly Parental Leave Pay multiplied by the Government PPL weeks;
- Employer PPL value – calculated as the Employer PPL weeks multiplied by the average weekly earnings for each occupation;
- Total current PPL (Government pay plus Employer) – calculated as the Government PPL total value plus the Employer PPL total value;
- Government contribution under the new scheme – calculated as the difference between the maximum amount a mother would receive under the new proposed scheme (\$11,826) and the amount paid by the employer;
- Net Loss for the employee – calculated as the difference between what the Government pays now and what the Government would pay under the new scheme;

- Weeks of average costs lost as result of government's PPL cuts – calculated as the net loss for the employee divided by the average weekly expenditures for each case.
- Note that the estimates do not include changes to PAYE taxation, superannuation or Family Tax Benefits that may occur as a result of the reduction in government PLP.

## Scenario 1: Retail Worker in Tasmania

The first Scenario models the expected impact of the government's proposed changes on the situation of a single mother in Burnie, Tasmania. She works as a cashier for Woolworths and has recently given birth to her first child. She earns about \$19 per hour and is entitled to up to 6 weeks of employer PCP. This would provide her and her newborn about \$4,330. Under the present PPL scheme, an additional pay for 18 weeks of \$11,826 would help this mother with her living costs. The total pay she would be eligible for from her employer and the Government under the current scheme is \$16,155.70 and is equal to about 17 weeks of living costs.

In this scenario, the government's changes would mean that **this new mother would lose \$4330** of support during her parental leave. That is the equivalent of 4.5 weeks of average household living expenses in Burnie, Tasmania.

The proposed cuts to PPL would cap the paid parental leave income for this mother at **\$11,826, which would cover just 12 weeks of average living expenses in Burnie**, according to Australian Bureau of Statistics data<sup>vii</sup>. That is 14 weeks less than the 26 weeks experts recommend new parents spend at home with a newborn for health and welfare outcomes.

<b>Mother works at Woolworths in Burnie, Tasmania. The baby is her first child.</b>	<b>Full-time</b>
Average hourly pay rate <sup>viii</sup>	\$18.99
Worked hours/week	38
Average weekly earnings	\$721.62
Average weekly expenditures for a single parent household in Tasmania <sup>ix</sup>	\$812.11
Average weekly cost of child 0-4 yo <sup>x</sup>	\$144
Total average weekly costs (weekly expenditures plus child costs)	\$956.11
<b>Current PPL scheme</b>	
Government weekly Parental Leave Pay (up to 18 weeks) <sup>xi</sup>	\$657
Government PPL weeks	18
Government PPL total value	\$11,826
Employer PPL weeks <sup>xii</sup>	6
Employer PPL total value	\$4,329.72
Total current PPL (Government pay plus Employer pay)	\$16,155.72
<b>Government contribution under the proposed scheme</b>	<b>\$7,496.28</b>
<b>Net loss for the employee</b>	<b>\$4,329.72</b>
<b>Weeks of average costs of living lost as result of government's PPL cuts</b>	<b>4.5 weeks</b>

## **Scenario 2: Part-time teacher in South Australia**

The second Scenario models the impact of the government's changes on a mother in Adelaide, South Australia. She lives with her partner and their newborn baby, and works part-time as a teacher for 3 days a week. She earns about \$30 per hour and is entitled to up to 16 weeks of employer PCP. This provides her and her family with \$11,520 paid leave from her employer. Under the present PPL scheme this is supplemented by an additional \$11,826 from the Government. The total pay she would currently receive from her employer and the Government is \$23,346, covering a total of 14 weeks of their living costs.

With the PPL scheme amendments, **this family would lose \$11,520** of support during their parental leave. That is the equivalent of 7 weeks of average living expenses in Adelaide, for this type of household.

The proposed cap of the paid parental leave income at **\$11,826 would only cover 7 weeks of average living expenses for this couple<sup>xiii</sup>**, resulting in 19 weeks short of the 26 weeks experts recommend new parents spend at home with a newborn for health and welfare outcomes.

<b>Teacher mum who works part-time (3 days a week) in Adelaide, South Australia.</b>	<b>Part-time</b>
Average hourly pay rate	\$30
Worked hours/week	24
Average weekly earnings	\$720
Average weekly expenditures for a couple with children in South Australia	\$1,561
Average weekly cost of child 0-4 yo	\$144
Total average weekly costs (weekly expenditures plus child costs)	\$1705
<b>Current PPL scheme</b>	
- Government weekly Parental Leave Pay (up to 18 weeks)	\$657
- Government PPL weeks	18
- Government PPL total value	\$11,826
- Employer PPL weeks <sup>xiv</sup>	16
- Employer PPL total value	\$11,520
Total current PPL (Government pay plus Employer)	\$23,346
<b>Government contribution under the proposed scheme</b>	<b>\$306</b>
<b>Net Loss for the employee</b>	<b>\$11,520</b>
<b>Weeks of average costs lost as result of government's PPL cuts</b>	<b>6.76</b>

### **Scenario 3 Ambulance Driver in Queensland**

The third Scenario models the impact of the government’s proposed changes on a mother working full-time as an ambulance service worker in Rocklea, Queensland. She lives with her partner, their 5 year old daughter and their newborn baby. This mother earns about \$24 per hour and is entitled to up to 14 weeks of employer PCP, which translates to \$12,768. Under the present PPL scheme, their income is supplemented by an additional \$11,826 from the Government scheme.

The total pay she currently receives from her employer and the Government is \$24,594 and is equal to about 13 weeks of living costs.

The proposed cuts to the PPL scheme would mean **this family would lose \$11,826** of support during their parental leave. That is the equivalent of 6 weeks of average living expenses<sup>xv</sup> in Rocklea, for this type of household.

<b>Mother working fulltime as an ambulance worker in Rocklea, Queensland</b>	<b>Full-Time</b>
Average hourly pay rate	\$24
Worked hours/week	38
Average weekly earnings	\$912
Average weekly expenditures for a couple with children household in Queensland	\$1,716
Average weekly cost of child 0-4 yo	\$144
Total average weekly costs (weekly expenditures plus child costs)	\$1860
<b>Current PPL scheme</b>	
- Government weekly Parental Leave Pay (up to 18 weeks)	\$657
- Government PPL weeks	18
- Government PPL total value	\$11,826
- Employer PPL weeks <sup>xvi</sup>	14
- Employer PPL total value	\$12,768
Total current PPL (Government pay plus Employer)	\$24,594
Government contribution under the proposed scheme	\$0
<b>Net loss for the employee</b>	<b>\$11,826</b>
<b>Weeks of average costs lost as result of government's PPL cuts</b>	<b>6.4 weeks</b>

## Scenario 4 Part-time Nurse in Victoria

The fourth Scenario models the impact of the government's proposed cuts on a mother who works part-time (3 eight-hour shifts a week) as a nurse. She lives with her partner and their newborn in Sale, Victoria. For her job, this mother earns about \$30 per hour and she is entitled to up to 10 weeks of employer PCP. This brings her and her family about \$7,200.

Under the present PPL scheme, \$11,826 is provided by the government to complement this employer payment. Therefore the total pay the woman as primary carer would currently receive from both her employer and the Government is \$19,026. This would cover about 11 weeks of the family's living costs.

Under the new PPL scheme, which would cap the paid parental leave income at \$11,826, **this family would lose \$7,200** of financial support. This translates to 4 weeks of average living expenses<sup>xvii</sup> in Sale, for this type of household.

As a result, **receiving only the \$11,826 would leave this family's parental leave 19 weeks short of the 26 weeks** experts recommend new parents spend at home with a newborn for health and welfare outcomes.

<b>Mother works part time (3 shifts a week) as a nurse in Sale, Victoria</b>	<b>Part-time</b>
Average hourly pay rate	\$30
Worked hours/week	24
Average weekly earnings	\$720
Average weekly expenditures for a couple with children household in Victoria	\$1,626
Average weekly cost of child 0-4 yo	\$144
Total average weekly costs (weekly expenditures plus child costs)	\$1770
<b>Current PPL scheme</b>	
- Government weekly Parental Leave Pay (up to 18 weeks)	\$657
- Government PPL weeks	18
- Government PPL total value	\$11,826
- Employer PPL weeks <sup>xviii</sup>	10
- Employer PPL total value	\$7,200
Total current PPL (Government pay plus Employer)	\$19,026
<b>Government contribution under the proposed scheme</b>	\$4,626
<b>Net loss for the employee</b>	<b>\$7,200</b>
<b>Weeks of average costs lost as result of government's PPL cuts</b>	<b>4.07 weeks</b>

## Conclusion

The Federal Government's proposed scheme is regressive and the analysis shows it will have a negative impact on lower paid women. Women who are in normal, but low paid jobs or part-time work with slight benefits from employers will be financially penalized.

These scenarios show that the loss to women in these critical jobs ranges from \$4,329.72 to \$11,826.00. This represents a significant loss of income to the primary carer and their family during this key time when they will already be financially under-pressure.

A reduction in available paid parental leave can be expected to increase the costs and time pressures on women, and this in turn may be expected to force more women to return to work earlier than desired and to seek childcare for their babies in a system that is already failing to meet demand amongst infants.

As a result of the cuts to their income which will occur if these changes to the Paid Parental Leave scheme are passed, we can also anticipate negative flow on impacts for new families and the communities in which they live.

## References:

- <sup>i</sup> International Labor Organization. (2014). *Maternity and Paternity at Work: Law and Practice Across the World*
- <sup>ii</sup> Lanfranconi, L. M., & Valarino, I. (2014). Gender equality and parental leave policies in Switzerland: A discursive and feminist perspective. *Critical Social Policy*, 34(4), p. 551. doi:10.1177/0261018314536132
- Rønsen, M., & Kitterød, R. H. (2015). Gender-equalizing family policies and mothers' entry into paid work: recent evidence from Norway. *Feminist Economics*, 10(1):59-89. p. 59
- <sup>iii</sup> Daley J 2012 'Game-changers: Economic reform priorities for Australia', Grattan Institute
- <sup>iv</sup> National Health and Medical Research Council (2012) Infant Feeding Guidelines. Canberra: National Health and Medical Research Council.
- <sup>v</sup> <http://www.humanservices.gov.au/customer/services/centrelink/parental-leave-pay>
- <sup>vi</sup> Available on the Australian Bureau of Statistics and the Australian Government Fair Work OMBUDSMAN websites. All sources noted in endnotes.
- <sup>vii</sup> ABS Average weekly expenditures - source: ABS, Household Expenditure Survey, Australia, 2009-2010 (65300DO001 Database available at <http://www.abs.gov.au/>)
- <sup>viii</sup> Australian Government Fair Work OMBUDSMAN (<http://www.fairwork.gov.au/>)
- <sup>ix</sup> ABS Average weekly expenditures - source: ABS, Household Expenditure Survey, Australia, 2009-2010 (65300DO001 Database available at <http://www.abs.gov.au/>). Estimated weekly costs only refer to total goods and services expenditure. The estimates do not include superannuation and life insurance, mortgage repayments – principal (selected dwelling), income tax. Please refer to ABS database for a detailed list of expenditures included.
- <sup>x</sup> AMP.NATSEM, University of Canberra - *Income and Wealth Report Cost of Kids - The cost of raising children in Australia*, 2013
- <sup>xi</sup> <http://www.humanservices.gov.au/customer/services/centrelink/parental-leave-pay>
- <sup>xii</sup> Woolworths Agreement
- <sup>xiii</sup> ABS Average weekly expenditures - source: ABS, Household Expenditure Survey, Australia, 2009-2010 (65300DO001 Database available at <http://www.abs.gov.au/>)
- <sup>xiv</sup> Teachers award
- <sup>xv</sup> ABS Average weekly expenditures - source: ABS, Household Expenditure Survey, Australia, 2009-2010 (65300DO001 Database available at <http://www.abs.gov.au/>)
- <sup>xvi</sup> Ambulance Service Employees' Award - State 2012
- <sup>xvii</sup> ABS Average weekly expenditures - source: ABS, Household Expenditure Survey, Australia, 2009-2010 (65300DO001 Database available at <http://www.abs.gov.au/>)
- <sup>xviii</sup> Nurses Award