



families commission
kōmihana ā **whānau**

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AUGUST 2007



it's about time

TOWARDS A PARENTAL LEAVE POLICY THAT GIVES
NEW ZEALAND FAMILIES REAL CHOICE

A FAMILIES COMMISSION REPORT

The Families Commission was established under the Families Commission Act 2003 and commenced operations on 1 July 2004. Under the Crown Entities Act 2004, the Commission is designated as an autonomous Crown entity.

Our main role is to act as an advocate for the interests of families generally (rather than individual families).

Our specific functions under the Families Commission Act 2003 are to:

- > encourage and facilitate informed debate about families
- > increase public awareness and promote better understanding of matters affecting families
- > encourage and facilitate the development and provision of government policies that promote and serve the interests of families
- > consider any matter relating to the interests of families referred to us by any Minister of the Crown
- > stimulate and promote research into families, for example by funding and undertaking research
- > consult with, or refer matters to, other official bodies or statutory agencies.

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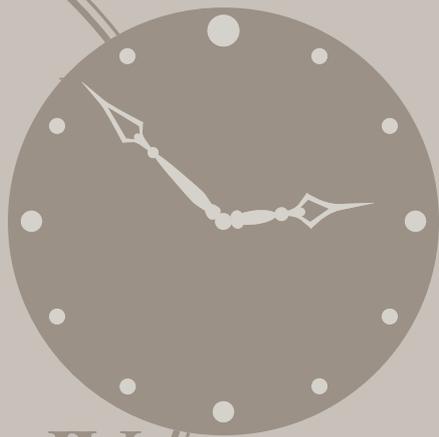


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CONTENTS

PREFACE 5

EXECUTIVE SUMMARY 7

- Objectives and effects of parental leave 7
- International policy developments 8
- Recommendations for the future of New Zealand parental leave policy 9

CHAPTER ONE Introduction 11

- Structure of this report 12
- Purpose of this report 12
- Social and demographic context 14
- The Families Commission's interest in parental leave 16
- History of New Zealand parental leave policy 18
- Current New Zealand parental leave entitlements 18
- The interface of parental leave, tax and social assistance policy 20
- Managing transitions: Parental leave, flexible work and childcare 24
- Parental leave and employers 25

CHAPTER TWO Objectives and Effects of Parental Leave 27

- Maternal health, child health and development 28
- Family income security 33
- Gender equity in the home and labour market 36

CHAPTER THREE International Policy Context 43

- Structure of parental leave 44
- Duration of paid and unpaid leave 46
- Level of payment for parental leave 48
- Employment criteria for accessing parental leave 51
- Flexibility in the take-up of parental leave 52
- Funding parental leave 54
- Conclusions 54

CHAPTER FOUR Families Commission Recommendations 55

- How should parental leave be funded? 57
- How many weeks or months should parental leave be available? 57
- How should parental leave entitlements be structured? 59
- What should the payment level be? 61
- Employment requirements 65
- Flexibility 67
- Proposed timeline for reform 68
- Total estimated costs to government 71
- Conclusions 72

REFERENCES 74

APPENDIX ONE Current parental leave provisions 78

APPENDIX TWO Adoption and eligibility 79

APPENDIX THREE Summary of international paid parental leave entitlements 80

APPENDIX FOUR Transferability of family leave between parents 84

APPENDIX FIVE Additional parental leave entitlements for families in special circumstances 85

APPENDIX SIX 2006-07 estimated costs of paid parental leave 86

APPENDIX SEVEN Description of the cost model used 89

PREFACE

Families live in an interdependent world in which policies affect their interests and wellbeing and they in turn seek to influence the direction of ‘family friendly’ policies. Recent decades have seen major changes in labour-market participation combined with a growing diversity of family structures, needs and preferences. Many of these changes create challenges for individuals as they seek to find time for themselves, their families and communities.

In the period following the birth of a child, parental leave policies play a critical role in enabling parents to take time out of paid work to care for and bond with their baby. Such policies can assist families to establish strong nurturing relationships and to ensure that babies get off to the best possible start in life. Paid parental leave policies can also reduce the economic disadvantage that parents, usually mothers, face due to their role in bearing and caring for babies and infants.

Decisions regarding the design and generosity of parental leave policy depend, in part, on the extent to which childbearing and rearing is considered to be a private responsibility or a ‘public good’. We believe that a comprehensive parental leave policy is one of a number of family-friendly reforms that will provide better recognition and support to those who choose to have children. New Zealand first introduced paid parental leave in 2002. This policy enjoys widespread support from mothers, fathers/partners and employers. Government has already signalled its intention to further develop paid parental leave policy and provision and this report is designed to inform that process with the Families Commission’s point of view on the directions and architecture of its future scheme.

This report examines the benefits to the family (ie the parents and the infant) and to society, of an extended period of parental leave. It also discusses the effect of income reduction on the family and the gender inequalities that are created when mothers and fathers are not adequately supported in their role in parenting an infant during the critical period after birth. After examining parental leave schemes in a number of countries, the Families Commission makes a series of specific recommendations for the enhancement of New Zealand’s parental leave scheme and suggests a time frame for its implementation. The report also details the estimated costs of various options considered and of the changes proposed.

We hope that these recommendations will impact on the reforms to parental leave policy in the years to come.



Rajen Prasad
Chief Commissioner

EXECUTIVE SUMMARY

All of society benefits when children get the best possible start in life. Parental leave is one of a number of family-friendly policies that assist families to reconcile paid work and caring responsibilities, promote positive outcomes for children and protect family living standards. Parental leave policy can also assist our workplaces by supporting employers to attract and retain skilled workers – with wider implications for productivity and economic growth. Government clearly has a role to play in setting statutory parental leave entitlements which give parents *real* choices.

The New Zealand Government introduced 12 weeks of paid parental leave in 2002, with a clear commitment to the continuous review and improvement of the scheme. Since then, there have been two evaluations and a number of amendments to enhance provision. Government has signalled an interest in further policy changes as part of the *Choices for Living, Caring and Working* 10-year action plan to improve caring and employment options for parents and other carers.

There is strong support for paid parental leave among mothers, fathers and employers. Mothers say that the existing scheme recognises the importance of time out of paid work in order to focus on caring for a new baby and lessens money worries. However, when considering further developments to New Zealand parental leave policy, a number of aspects of the current scheme need to be considered, including:

- > the current period of paid leave (14 weeks)
- > the maximum payment level
- > leave entitlements for fathers/partners
- > employment requirements which affect workers' access to parental leave
- > flexibility in the way that leave may be taken.

The Department of Labour is currently leading work to consider enhancements to parental leave provision, including the duration of leave, entitlements and payment levels.

This paper comments on these aspects to stimulate public debate and inform future policy developments. The paper presents a case for major reform to New Zealand parental leave provision and makes specific recommendations based on the interests of families, children, workplaces and wider society.

OBJECTIVES AND EFFECTS OF PARENTAL LEAVE

Parental leave policy must balance differing objectives. The weighting given to various objectives will affect the design of any particular policy package. The Families Commission's view is that the *main* objectives of New Zealand parental leave policy should be:

- > *to promote maternal health and child health and development* by providing job-protected leave and financial assistance to enable mothers to take time out of paid work following childbirth and encourage parental care for the first year of a child's life

- > *to provide a period of income stability and security* which compensates parents for loss of income following the birth of a child, supports parents to provide care for their children in the first year of life, and helps to protect future income by allowing them to remain involved in the labour force
- > *to promote gender equity in the home and labour market* by ensuring mothers are able to return to paid work without disadvantage to position or pay, as well as encouraging fathers to take up job-protected leave and share caring responsibilities.

The paper examines national and international evidence on how parental leave helps to meet these objectives and the positive outcomes for mothers, children and their families that occur as a result. Table 1 summarises the implications for New Zealand parental leave policy.

OBJECTIVES OF PARENTAL LEAVE AND IMPLICATIONS FOR POLICY	
OBJECTIVE	POLICY IMPLICATIONS
Maternal health, child health and development	<p>Pregnant women to be able to take some parental leave prior to childbirth.</p> <p>Maternity provisions to allow mother and baby to recover from birth and establish breastfeeding in the early months.</p> <p>Job-protected leave to allow for parental care for at least the first year. Payment level to provide sufficient family income to allow parental care during this period.</p> <p>All employees to be eligible for parental leave.</p>
Income stability	<p>Payment at an increased level of income replacement, available for the entire period of job-protected leave.</p> <p>Capacity to take (at least some) parental leave on a part-time basis, in combination with paid work.</p>
Gender equity	<p>Relatively short period of maternity leave, paid at an increased level of income replacement to compensate mothers for their role in bearing and caring for children.</p> <p>Additional period of transferable leave available to either parent, and specific paternity/partner leave for fathers/partners, both paid at an increased level of income replacement to enable and encourage the involvement of fathers/partners in the care of children.</p> <p>Avoidance of very lengthy periods of parental leave which may discourage labour-force re-attachment with negative consequences for skill loss, career progression and long-term economic security.</p> <p>Care taken to minimise the direct and indirect costs of parental leave to employers to reduce risks of discrimination against women, mothers and/or fathers/partners.</p>

INTERNATIONAL POLICY DEVELOPMENTS

There has been increasing international interest in the development of parental leave policy in recent years. There have been moves to raise the payment level and duration of payment. A number of countries have sought to extend the rights of fathers/partners by introducing or extending paid paternity/partner leave and there has been a shift towards increasing flexibility around how parental leave may be taken.

Policy comparisons with other developed nations allow us to place New Zealand parental leave entitlements in an international context. New Zealand was one of the last countries in the Organisation for Economic Co-operation and Development (OECD) to introduce paid parental leave and it remains one of the least generous in terms of the level and duration of payment available to families. New Zealand is also one of the most restrictive

countries in terms of the employment criteria for accessing parental leave and lack of flexibility in the way that leave may be used.

Without substantial reform, New Zealand risks slipping further behind other developed countries in parental leave provision.

RECOMMENDATIONS FOR THE FUTURE OF NEW ZEALAND PARENTAL LEAVE POLICY

It is obvious that New Zealand's parental leave scheme has a substantial way to go if it is to match the schemes in operation in other OECD countries. Our comprehensive recommendations relate to the structure of parental leave entitlements, eligibility requirements and flexibility in how parental leave may be used. To ensure that taking up parental leave is a realistic option, we recommend extensions to the period of paid leave and significant increases in the maximum payment cap. When fully implemented, the parental leave reforms we recommend will provide much greater recognition and support to many families with young children in the period following the birth of a child. We believe the policy developments we recommend are in the interests of New Zealand families, children, workplaces and wider society.

The gap between existing parental leave policy and the recommendations outlined in this paper is considerable. It is clear that policy changes in this area will need to be phased in over time and that full implementation will require a commitment to major investment by government over a number of years. We have suggested a phased approach for reform. Improving access to parental leave by amending employment-related eligibility criteria is a major priority. Increasing the maximum payment cap and gradually extending the duration of paid leave (from 14 weeks to seven months, 10 months and 13 months) should ensure families are much better able to take up their entitlement to job-protected leave and to maintain income stability in the period following the birth of a child.

The Families Commission would like to see all three phases implemented by 2015, in line with the Government's 10-year action plan to improve the caring and employment choices available to parents and carers, *Choices for Living, Caring and Working* (New Zealand Government, 2006).

FAMILIES COMMISSION RECOMMENDATIONS

Funding model for parental leave

Parental leave payments should continue to be funded by government via general taxation and administered by the Inland Revenue Department (IRD).

Duration of paid and unpaid leave

The total duration of **job-protected leave** available to families should become **56 weeks** (14 weeks maternity, four weeks paternity/partner, 38 weeks family leave). Any individual employee would access a maximum of **52 weeks** job-protection, except in exceptional circumstances.

We propose a progressive increase in the total proportion of this leave that is paid. This would mean moving from the status quo of 14 weeks of paid parental leave in three phases:

Phase 1: *Six months paid parental leave* (or seven months if paternity/partner leave is taken consecutively)

Phase 2: *Nine months paid parental leave* (or 10 months if paternity/partner leave is taken consecutively)

Phase 3: *12 months paid parental leave* (or 13 months if paternity/partner leave is taken consecutively).

Note: Refer appendix one for information on current parental leave settings, for comparison with the Families Commission recommendations.

FAMILIES COMMISSION RECOMMENDATIONS

Structure of parental leave entitlements

The expansion of paid family leave should be complemented by the introduction of an individual entitlement to paid parental leave for both mothers and fathers/partners. This should include:

- > **14 weeks paid maternity leave** intended for eligible mothers
- > **four weeks paid paternity/partner leave** for eligible fathers
- > progressive increases in the proportion of **family leave** that is paid from **12 weeks to 25 weeks to 38 weeks**. (This is additional to the paid maternity and paternity leave above).

Consideration should be given to allowing some or all of family leave to be transferred to another eligible family member who is engaged in a parenting role.

Level of parental leave payments

Earnings replacement: Maternity, paternity/partner and paid family leave should be paid at 100 percent earnings replacement up to a maximum payment cap.

Income assessment: For those with a continuous work history of 26 weeks, income assessment should be based on average weekly earnings over those 26 weeks. For those with an irregular work history, which includes at least 26 weeks of paid work over the 52 weeks prior to the birth or adoption, income assessment should be based on average weekly earnings over a 26-week period.

Maximum payment cap: The payment cap should increase to:

80 percent of average weekly full-time earnings for 14 weeks maternity and four weeks paternity/partner leave

66 percent of average weekly full-time earnings for paid family leave (of 12, 25 or 38 weeks).

Employment requirements

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).

Job protection after six months continuous employment with the same employer.

Removal of the minimum hours test to broaden access for payment and job protection and ensure that eligibility is no longer affected by average weekly or monthly hours.

Flexibility

Family leave: Consideration given to allow family leave to be taken before the child is three years old, in designated blocks of time, or in combination with part-time paid work (to supplement the income of a parent who works part-time).

Maternity leave: To be a fixed entitlement available for the period immediately prior to and following birth.

Paternity/partner leave: To be used at the same time as maternity leave, consecutively after maternity leave is completed, in designated blocks of time; or part-time, in combination with part-time paid work at any time within the child's first year of life.

Estimated annual cost to government

Phase 1: \$306.0 million for six months paid parental leave (or seven months if paternity/partner leave is taken consecutively)

Phase 2: \$378.5 million for nine months paid parental leave (or 10 months if paternity/partner leave is taken consecutively)

Phase 3: \$450.9 million for 12 months paid parental leave (or 13 months if paternity/partner leave is taken consecutively).

CHAPTER ONE

introduction



STRUCTURE OF THIS REPORT

The first chapter provides an introduction to the report and explains the Families Commission's interest in parental leave policy. It also describes the parental leave entitlements available to New Zealand families and the wider policy context.

The second chapter explores objectives of parental leave in relation to maternal and child health, family income stability and gender equity. It draws on evidence of the effect of parental leave against each of these objectives.

The third chapter focuses on international policy developments, key system design issues and solutions in different jurisdictions. It shows how New Zealand parental leave policy compares with provision in other developed nations.

The fourth chapter sets out in full our recommendations for the further development of parental leave provision in New Zealand. It describes the rationale for these recommendations and the implications for families and provides estimates of the costs to government.

PURPOSE OF THIS REPORT

The birth of a child is an important time for families and whānau. It can be a time of great joy and is a cause for celebration. At the same time, the new family member brings extra responsibilities as parents adjust their lives to provide the hands-on, round-the-clock care that a new baby requires. Access to paid parental leave enables parents to take a break from paid work in order to provide full-time care for a baby or infant. Paid parental leave also recognises and provides some compensation to parents (and in particular mothers) for their loss of income from paid work due to maternity and early caring responsibilities.

Family-friendly social policies can be an important contribution to the wellbeing of parents and children. They can influence parents' choices about when to have children, how many to have and when to return to paid work. The nature and design of parental leave policy directly affect family income, the health and welfare of mother and baby, and gender equity in the home and labour market. A nation's parental leave policy is one indicator of the value that its government – and society – places on parenting.

In August 2006, the Government publicly launched *Choices for Living, Caring and Working*, a 10-year action plan to improve the caring and employment choices available to parents and carers. Parental leave is identified as one of six priority areas for action. Over the next decade, the action plan intends to “work towards parental leave provisions that support parents who wish to care for their children in their first year of life while taking a break from their paid work” (New Zealand Government, 2006, p 14).

This Families Commission paper aims to inform public debate and to contribute to the continued development of parental leave policy and provision. The paper argues for enhancements to current policy, discusses policy options and recommends the changes we believe are in the best interests of New Zealand families, workplaces, communities and wider society.

What is parental leave?

'Parental leave' is a generic term that encompasses various forms of leave that can be taken during late pregnancy, the time around childbirth and for a longer period after the birth. Whether it is long or short, the key feature of parental leave is that it is *temporary leave from paid employment*. Parental leave often takes one of three forms: maternity leave, paternity/partner leave or a period of extended leave that can be taken by either parent, which we refer to as family leave.¹

Maternity leave – leave taken by the mother, which is associated with childbirth and the period immediately before or after the birth of a child.

Paternity/partner leave – leave taken by the father of the child or the mother's partner, which is usually taken around the time of birth.

Family leave – usually a longer period of leave, often available to either parent for the purpose of caring for an infant.

Parental leave may be paid or unpaid. All parental leave entitles eligible parents to take time out of employment without losing their job, or experiencing less favourable employment conditions such as lower pay or reduced seniority on their return to work.

Paid parental leave combines job protection with compensation for lost earnings. Payments over the leave period are designed to replace (in part or in full) the income that new parents forgo due to maternity or early caring responsibilities. By providing income stability, paid parental leave helps to ensure the financial security of families for a set period of time where one or more parents has taken a break from employment to care for a new baby or adoptive child.

Policy design considerations which affect parental leave policies include:

- > *The level of paid parental leave payments.* Where parental leave is unpaid or the payment level is low, families lack income stability and parents may return to paid work earlier than they would prefer. A low payment level also discourages take-up by fathers because of continuing gender pay differentials in the labour market.
- > *The duration of paid and unpaid parental leave.* The number of weeks or months for which parental leave is paid affects parents' ability to exercise choice about how much time they take out of paid work and who cares for their child in the early part of its life. The total duration of job-protected leave may affect whether or not parents – usually mothers – return to paid employment at all.
- > *Structure of parental leave entitlements.* Access to job protection and payment for parental leave may be based on an entitlement for mothers, separate individual entitlements for mothers and fathers/partners and/or a family entitlement. These policy design issues affect who is most likely to take up parental leave.
- > *Employment requirements.* The length of time an employee has to have been employed, the minimum working hours required and whether or not this employment has to be with the same employer affect the management burden on employers

¹ Terminology often varies across countries. In this report we use the term 'parental leave' as a generic term, covering all aspects of maternity, paternity or family leave. We use the term 'family leave' to refer to extended or shared periods of leave that may be taken by either parent.

and the extent to which casual, temporary or seasonal workers are able to access parental leave.²

- > *Flexibility.* Design issues such as whether parental leave must be taken in one consecutive block, whether payments may be spread over a set period of time and/or whether payments can be combined with part-time work, will affect the take-up of parental leave and the extent to which parents are able to choose how best to use leave to meet the needs of their family.
- > *Funding model.* Statutory parental leave may be funded via general taxation, through employer levies, employee-contribution social insurance or some combination of all three. The approach to funding parental leave determines the relative costs of provision for the state, employers and employees.

Throughout the report we discuss policy options and their implications for families and wider New Zealand society in the context of these design considerations.

The next section of this chapter examines the social and demographic context influencing debates about parental leave in New Zealand and in other developed nations. The chapter moves on to outline the Families Commission's interest in parental leave policy and describe existing New Zealand parental leave entitlements. The chapter ends by identifying enhanced parental leave as one of many family-friendly policies required to protect family living standards, promote positive child outcomes and assist parents to reconcile paid work and family responsibilities.

SOCIAL AND DEMOGRAPHIC CONTEXT

A number of social and demographic circumstances have combined to create growing demand for enhanced parental leave policies in New Zealand and elsewhere.

An ageing population

Low birth rates and longer life expectancy are resulting in an ageing population and a shrinking number of people of working age in most OECD nations, including New Zealand (OECD, 2004). Women are having children later in life and also having fewer children. Australian research indicates that, increasingly, people are delaying having children until a number of 'pre-conditions' are met, including being financially secure (Weston, Qu, Parker and Alexander, 2004). There is also evidence that couples are having fewer children than they originally intended (Franklin and Tuono, 2004).

Sustaining economic growth in the context of an ageing population poses significant challenges for governments of OECD countries. Maintaining productivity requires greater effort to accommodate those with family responsibilities. For New Zealand, being a 'good place to raise children' will become more important for attracting and retaining skilled people of working age in the face of increasing international competition. For those who wish to have children, parental leave policy is one factor among many likely to affect decision-making about when or if to live in New Zealand.

Growing participation of women in the labour market

Patterns of labour-market participation have undergone major changes over the past 30 years. The majority of New Zealand mothers are now engaged in full- or part-time

² There is no standard definition of casual, temporary or seasonal workers. In this paper we use these terms to refer to workers with a non-standard employment history who currently fail to meet tenure or minimum hours requirements for accessing parental leave.

paid work. In the last two decades, employment growth has been particularly high for mothers with young children. Employment rates for mothers with a child under the age of one rose from 21 percent in 1986 to 34 percent in 2001 (Johnston, 2005). In part, these changes reflect shifting gender expectations regarding paid work and parenting, but economic circumstances also play an important role. As in many other OECD nations, New Zealand families are increasingly reliant on women's participation in paid work to maintain living standards (Callister, 2005). The earnings of partnered women make up an increasing proportion of household income in two-parent families.

Diversity of family forms

Compared with previous generations, New Zealanders tend to partner and re-partner more often. This means that people are more likely to experience a range of different family forms and circumstances at different points in their lives (Robertson, Rogers and Pryor, 2006). New Zealand has a high proportion of single-parent families by international standards and families headed by a single parent – usually a mother – are more likely than other family types to experience low living standards (Ministry of Social Development, 2006a). In this context, policies that assist women to protect current and future earnings capacity are particularly important.

Demand for greater involvement of fathers in family life

The growth of women's participation in the labour market has not been accompanied by a reduction in men's hours of paid work. Fathers are more likely to be employed and to work longer hours than men without dependent children (O'Brien and Shemilt, 2003). New Zealand has one of the highest average working hours of countries in the OECD and fathers with dependent children now work an average of *48 hours a week* – a level second only to the United Kingdom (Callister, 2005). Equally, fathers' involvement in caregiving and unpaid work at home has increased in recent years, but has not kept pace with the increased participation of mothers in paid work (Smith and Ellwood, 2006).

Demand from fathers for better balance between home and paid work is growing. An online survey conducted by the Equal Employment Opportunities (EEO) Trust (2003) found that 80 percent of fathers wished they could spend more time with their children. Recent research by the Ministry of Social Development (2006b) also found that the vast majority (92 percent) of parents contacted agreed that fathers should be as heavily involved with children as the mothers. The same study found that just five percent of parents who wanted both partners to have jobs and to equally share housework and childcare responsibilities had their preferences fully met. Fathers cite concern about family income, career progression and employer resistance as barriers to more family-friendly working patterns (Department of Labour, 2003). The design of parental leave policy could help to legitimate leave-taking by fathers and to enable fathers to play a more active role in family life.

Growing international interest in family-friendly policies

In its *Babies and Bosses* series of reports (OECD, 2002, 2003, 2004, 2005a), the OECD examines the role that family-friendly policies such as parental leave, childcare and flexible work arrangements play in assisting families to reconcile paid work and caring responsibilities. By helping to ensure that women are not forced to choose between paid work and having children, the OECD argues that such policies can contribute to addressing falling fertility rates; help to ensure that children get the best possible start in life; and tackle barriers to labour-market participation. Family-friendly policy is now firmly on the Government's agenda in New Zealand and in other OECD nations.

THE FAMILIES COMMISSION'S INTEREST IN PARENTAL LEAVE

The Families Commission's mission is to advocate for the best outcomes for New Zealand families. One of our objectives will be that families have the income and other material resources they need and have access to high-quality, family-friendly employment.

Work to ensure that paid and unpaid parental leave reflects the demands on families following the birth of a child is one of the objectives guiding the Families Commission's activities in the area of work-life balance.

The Families Commission believes that the *main* objectives of parental leave should be to:

- > *promote maternal health and child health and development* by providing job-protected leave and financial assistance to enable mothers to take time out of paid work following childbirth and encourage parental care for the first year of a child's life
- > *provide a period of income stability and security* in which parents are compensated for loss of income following the birth of a child, supported to provide care for their children in the first year of life and helped to protect future income by remaining attached to the labour force
- > *promote gender equity in the home and labour market* by ensuring mothers are able to return to employment without disadvantage to position or pay and by encouraging fathers to share leave and caring responsibilities.

If families are well supported from the very beginning, children are more likely to have the best possible start in life. The growth of women's participation in the labour market is only slowly being followed by the development of better policies and practices to enable parents to combine paid work and parenting, or to 'take time out' to spend time with their families at important points in their lives. Parents tell us that balancing time, income and paid work is a significant challenge for New Zealand families (Seth-Purdie, Stevens, Dickson and Poland with Prasad, 2005; Cameron and Luketina, 2006).

Access to adequate parental leave is important to families. In the Families Commission's *What Makes Your Family Tick?* consultation, a number of written submissions mentioned the financial difficulties faced by families in the period after a baby is born. In some cases respondents reported that a lack of sufficient paid leave affected their decision-making around when – or if – to have children:

*We feel like we do not have the choice to have another child at the moment. We wish we could see ourselves being able to afford this. Extending paid parental leave to at least six months would help considerably. I believe in the importance of breastfeeding ... for at least the first six months, meaning I could not work for this time. (Submission to *What Makes Your Family Tick?*)*

Families reported that the short length and low payment level of New Zealand parental leave meant that some mothers returned to paid work before they felt they or their baby was ready:

*Longer paid maternity leave would have been really helpful and allowed me to spend longer with my kids when they were young. (Submission to *What Makes Your Family Tick?*)*

Lack of access to paid parental leave was a particular problem for mothers-to-be who had changed jobs and failed to meet the employment criteria.

The time around the birth of a child can be challenging for families. Babies need intensive attention and care; mothers, particularly in the first few months, need time to recover from the birth and establish breastfeeding. Parental care in the first year is known to reap benefits both for infant health and for longer-term child cognitive and social development. A comprehensive parental leave policy can help families by allowing them to choose whether to take time out of paid work to care for their child in its first year of life.

If taking up parental leave over the first year is to be a realistic option for families, it must be paid at a high enough level to allow parents to cope with their loss of earnings over that period. Parents must also be confident that they can return to paid work at the end of the leave period without penalty to position or pay.

When both men and women are better able to reconcile paid work and caring, parents can make real choices about how to care for their child in the early part of its life. Entitlement to paid parental leave can help to break down some of the barriers parents face when they want to take a break from paid work at this important time. It helps to recognise the caring responsibilities that parents face in the period following the birth of a child and sends a strong signal to both employees and employers about the length of time that new parents need to focus on their families.

Our recommendations for policy change are based on evidence of the effect of parental leave on these objectives, an understanding of international policy developments and our analysis of existing New Zealand parental leave entitlements.

HISTORY OF NEW ZEALAND PARENTAL LEAVE POLICY

When New Zealand introduced paid parental leave in 2002, it was one of the last OECD countries to do so. Since 2002, there have been a number of amendments to the legislation to further enhance provision. These amendments have increased the payment period for parental leave, broadened the eligibility criteria and granted access to paid parental leave for self-employed people.

TABLE 1: NEW ZEALAND PARENTAL LEAVE LEGISLATION

DATE	LEGISLATION	NEW ZEALAND PARENTAL LEAVE ENTITLEMENTS
1980	Maternity Leave and Employment Protection Act	New Zealand introduced 26 weeks unpaid maternity leave for women with 18 months (and 15 or more hours a week) service with the same employer. Prohibited dismissal due to pregnancy, pregnancy-related sickness or maternity leave. Included women who adopted infants.
1987	Parental Leave and Employment Protection Act	This Act granted unpaid job protection to fathers. Duration extended from six to 12 months. Eligibility criteria broadened to 12 months service (10 or more hours a week). Included parents of adopted children.
2002	Parental Leave and Employment Protection (Paid Parental Leave) Act	Introduction of 12 weeks paid parental leave for eligible employees. Transferable to partner if both parents meet eligibility criteria. Families of adopted children able to choose which parent should have primary right to leave.
2004	Parental Leave and Employment Protection (Paid Parental Leave) Amendment Act	Duration of paid parental leave extended to 13, then to 14 weeks. Extension of eligibility to employees with six months service.
2006	Parental Leave and Employment Protection (Paid Parental Leave) Amendment Act	Paid parental leave made available to self-employed mothers who meet eligibility criteria.

The extension of the *length* of paid parental leave to 14 weeks in December 2005 brought New Zealand in line with the minimum duration recommended by the relevant international human rights convention, United Nations International Labour Organisation (ILO) Maternity Protection Convention 183 (2000). However, analysis undertaken by the New Zealand Human Rights Commission (2006) indicates that to fully comply with ILO Convention 183, New Zealand needs to continue to extend *eligibility* for parental leave to a wider group of employed women and to increase the *payment level* for parental leave.

The New Zealand Government has committed to further work to consider how the provision of parental leave can be improved, including the duration of leave, entitlement and payment levels (New Zealand Government, 2006).

CURRENT NEW ZEALAND PARENTAL LEAVE ENTITLEMENTS

Eligible New Zealand families are currently able to access up to 54 weeks of job-protected parental leave. Payment is available for 14 weeks of this period. It is funded via general taxation and administered by the Inland Revenue Department (IRD).

An employee has to have worked continuously with the same employer for at least six months to receive paid parental leave. Eligibility is also subject to a minimum hours test. For the six months immediately before the expected date of birth, the employee must have worked for the same employer for an average of at least 10 hours per week for no less than one hour each week or 40 hours in every month. Self-employed people are

eligible for parental leave if they have worked an average of at least 10 hours a week over the six or 12 months immediately prior to the expected date of delivery or adoption of a child.

For biological parents, 14 weeks of paid parental leave is based on the mother's employment history, although she may transfer some or all of this leave entitlement to her partner³ if the partner also meets eligibility criteria. Fathers/partners have no entitlement to paid leave in their own right. Adoptive parents of a child under the age of six years can choose to nominate either parent to take the leave to which they are entitled. All paid leave must be taken full-time over one consecutive block of time.

Payment levels are at 100 percent of an eligible parent's average weekly earnings up to a maximum payment cap. This payment cap is adjusted in July of each year, in relation to changes to average weekly earnings. In 2006-07 it was set at \$372.12 a week (before tax)⁴. This represents around 83 percent of the adult weekly minimum wage⁵ for full-time work and 46 percent of average adult weekly full-time earnings. Payments stop during the paid parental leave period if the recipient resigns from their job, returns to work or if the fixed-term agreement on which they are employed expires. Payments already received do not have to be returned if the parent does not return to work at the end of the period.

For those who have worked for the same employer for at least 12 months, job protection for a longer period of unpaid leave is available. This extended leave may be shared between eligible parents, taken at the same time or consecutively. The total period of extended leave taken must not exceed a maximum of 52 weeks (including 14 weeks of paid leave). Eligible fathers/partners are entitled to an additional one or two weeks unpaid leave if they meet the employment requirements of six or 12 months tenure with the same employer. Paternity or partners' leave may be taken consecutively or concurrently with paid parental leave.

³ A spouse or partner is a person in a married, civil union or de facto relationship (including same sex partners) with the mother, or primary carer who assumes the care of the child they intend to jointly adopt. They do not need to be the natural parent of the child.

⁴ The maximum payment cap increased from \$372.12 per week to \$391.28 per week on 1 July 2007.

⁵ The adult minimum wage rose to \$11.25 per hour on 1 April 2007. This is equivalent to \$450 for a 40-hour week.

Summary of New Zealand parental leave entitlements

Where the eligibility criteria are met, parents are entitled to:

Special leave: Pregnant women are entitled to up to 10 days unpaid special leave for reasons connected with their pregnancy (for example, to attend medical appointments).

Paid parental leave: A government payment (administered through the IRD) of up to 14 weeks payment for parents. Paid parental leave is available to female employees who give birth to a child, or to either parent where a couple has assumed the care of a child under six they intend to jointly adopt. All or part of paid parental leave may be transferred to a spouse/partner as long as they are also eligible. Paid leave must be taken at the same time as any unpaid maternity leave.

Maternity leave: Pregnant women are entitled to 14 weeks unpaid maternity leave. Eligibility for maternity leave is the same as for paid parental leave, which has to be taken at the same time as any unpaid leave. This means that, in practice, maternity leave and paid parental leave are usually the same. Maternity leave may be started six weeks before the expected due date, with the remainder of the 14-week period taken after the birth.⁶

Partner/paternity leave: The partner or spouse of someone who has recently had a child is entitled to one or two weeks unpaid partner/paternity leave.

Extended leave: After the birth or adoption of a child, parents have a right to take up to 52 weeks extended leave. Each parent has an entitlement to extended leave based on their own eligibility. Where both partners have at least 12 months eligible employment, the mother can decide to share the extended leave with her partner (up to a total of 52 weeks, including the period of paid parental leave). Where only one parent is eligible, the extended leave can only be taken by the eligible parent (mother or partner).

THE INTERFACE OF PARENTAL LEAVE, TAX AND SOCIAL ASSISTANCE POLICY

A comprehensive parental leave policy is one of a number of family-friendly reforms required to provide recognition and support to families with dependent children. Parental leave plays an important role in enabling new parents to take a break from paid work to spend more time with their new baby at a critical phase in its development. The financial wellbeing of families at this time is also greatly influenced by other government policies and practices.

Social assistance and tax policy are particularly important to prevent child poverty and protect family living standards for those engaged in low-paid work as well as those who are not in paid work (or who do not have an employment history). Beyond provision of an adequate welfare 'safety net' to protect our most vulnerable families, government recognition of the importance of parenting and the financial costs associated with raising children is reflected in wider forms of social assistance or tax relief to families with dependants.

⁶ If the woman is directed by a doctor or employer to take maternity leave earlier, the employee has a right to take eight weeks leave *after* the birth and unpaid maternity leave is extended to allow for that.

As well as – or in some cases instead of – statutory parental leave payments, some New Zealand families with dependent children are currently able to receive other forms of financial assistance. A drop in income at the time of the birth of a child may mean that some of these families become newly eligible for such support. This assistance is means-tested on family income and, with the exception of the parental tax credit, available to families with dependent children across the age range.

Set out below are some of the major forms of social assistance available to New Zealand families with dependent children.

Working for Families Tax Credits

Low- and middle-income families who have dependent children are assisted by Working for Families Tax Credits. These tax credits are made up of four types of payments:

- > parental tax credit
- > family tax credit
- > in-work tax credit
- > minimum family tax credit.

Parental tax credit

Parental tax credit is a payment for a newborn baby for the first eight weeks or 56 days after the baby is born. How much a family gets depends on total family income before tax, number of dependent children and the age of these children. The credit is also dependent on the number of children born, so parents receive multiple payments in the event of a multiple birth. Families can get up to \$150 a week for the first eight weeks or 56 days after the baby is born.

It cannot be claimed in addition to paid parental leave. In most cases parents are better off claiming paid parental leave if they are eligible to do so, but there are some families with very low incomes or who have worked few or no hours prior to the birth who are better off claiming a parental tax credit.

Family tax credit

Family tax credit is a payment for each dependent child aged 18 or younger. How much a family gets depends on total annual family income before tax, number of dependent children and age of these children. Families can get a family tax credit if their main family income is from salaries or wages, self-employed earnings, a student allowance or NZ Superannuation. If the main family income is from income-related benefits, families can get a family tax credit from Work and Income. From 1 April 2007, this tax credit increased significantly, making more families eligible for assistance and increasing the amounts payable by \$10 per child per week. This tax credit has been designed to avoid situations where parents are employed but still suffering financial hardship.

In-work tax credit

In-work tax credit is a payment for families who work a minimum number of hours each week for a salary or wage. How much a family gets depends on the total annual family income before tax, number of dependent children and age of these children. The in-work tax credit pays up to \$60 a week for families with three children and up to an extra \$15 a week for each additional child. To get in-work tax credit couples must normally work 30 hours a week between them, and sole parents must normally work 20 hours a week. Self-employed parents can get the in-work tax credit but it is not available to families receiving an income-tested benefit or student allowance. As long as the minimum hour requirement is met, a parent is still eligible if their income includes parental tax credit or paid parental leave if he/she worked the required hours before taking parental leave.

Minimum family tax credit

Minimum family tax credit is a payment for families earning up to \$22,119 a year before tax. It ensures that these families have a minimum income of \$347 a week after tax. How much a family gets depends on total family income before tax. Total annual family income must be less than \$22,119 before tax, or \$18,044 after tax. This tax credit assists sole parents who are employed for at least 20 hours per week and couples who between them work at least 30 hours per week and who receive the family tax credit.

Domestic Purposes Benefit (DPB)

Single parents providing care for dependent children may claim the DPB. They may also be earning or claiming other income (including claiming paid parental leave if they are eligible). However, income from any source that is over \$80 per week will result in reductions in their DPB payments.

Accommodation Supplement

This provides assistance towards housing costs for low-income families, whether they are beneficiaries or not. Families whose incomes drop as a result of parental leave may become newly eligible for the Accommodation Supplement. Those who already qualify for the accommodation supplement may receive an increase in assistance following the birth of a child.

Paid parental leave is a *work-related entitlement*. It assists families to maintain income stability, while one or more parents take a break from paid work. Parents who do not have a prior employment history do not receive parental leave, as these families do not require job protection and will not face a drop in income in the period following the birth of a child. All families do, however, face increased costs with the addition of a new member.

The birth of a child is a particularly expensive time for families. Costs range from baby clothing and equipment to needing a larger house, a bigger vehicle, larger power bills and greater health-care expenses. There are also the costs of day-to-day care for the child (whether in foregone earnings or alternative care). The addition of one child to a couple-family is estimated to require an increase in expenditure in the order of 20 to 30 percent (Poland and Seth-Purdie, 2005). In the period immediately following childbirth, families with assets may be able to use these to cushion this 'shock' to their resources by falling back on savings. The effect of the birth of a child is much greater for families who are not able to fall back on assets.

In the United States, it is estimated that a quarter of all poverty spells begin with the birth of a new child (Waldfogel, 2001). A New Zealand study on child poverty⁷ found that labour-market changes, such as the loss of a worker in the child's household, had a greater effect on the movement of children into poverty than the addition of a newborn to the family itself. Of 'non-poor' children in couple households who moved into poverty over the reference period of the study, 36 percent experienced the loss of one or more worker in their family (Ballantyne, Chapple, Mare and Timmins, 2003).

Families with dependent children have lower living standards than the overall population. Compared with families without dependent children, they are more than twice as likely to have living standards categorised as 'severe hardship' and only half as likely to have living standards categorised as 'very good' (Jensen, Krishnan, Hodgson, Sathiyandra, Templeton, Jones, Goldstein-Hawes and Beynon, 2006). Despite the additional costs these families face, the highly targeted nature of New Zealand's social assistance system meant that in 2004, most families with dependent children did not qualify for financial support. This was unusual by international standards as most OECD countries provided some type of tax relief (in the form of social assistance or cash benefits) to families with dependent children relative to families without children at higher income levels (OECD, 2004).

The introduction of the Working for Families package in 2005 reduced the relative tax burden faced by many low- and middle-income families with dependent children and brought New Zealand more in line with international practice. We do, however, need to go further in recognising the contribution all parents make to the future of New Zealand. While a comprehensive parental leave policy is necessary to assist families to maintain *income stability* in the period following childbirth, additional support is required to assist all families with the costs of raising children. Approaches for delivering this type of assistance vary across countries – from 'one-off' grants available to families in the period immediately following the birth of a child through to universal child support payments or tax breaks for dependent children. Further consideration of family-friendly social assistance and tax policy is, however, outside the remit of this paper.

⁷ Poverty was defined as having a household income below 60 percent of median disposable incomes.

MANAGING TRANSITIONS: PARENTAL LEAVE, FLEXIBLE WORK AND CHILDCARE

Parents' preferences in relation to paid work and caring are diverse. Families' needs also vary according to life-stage and circumstances. This means that an integrated package of policies is required to promote positive child development and assist families to reconcile paid work and caring responsibilities. Access to quality flexible work, affordable early childhood education and out of school services, and adequate sick leave can all help to support families through periods of transition to paid work and beyond.

For parents who choose to return from parental leave to paid employment, access to quality flexible work is important. There is New Zealand evidence that parents want to have a say in the timing and total hours of their participation in paid work. There is also evidence that parents experience difficulties in reconciling inflexible working arrangements with caring responsibilities (Department of Labour, 2003, 2006a; McPherson, 2005). An online survey by the EEO Trust found that the main reason people changed employer or job status when they returned from parental leave was that they wanted to be able to work flexible or part-time hours (McPherson, 2005).

In the immediate period following parental leave, breastfeeding breaks and facilities in the workplace may enable mothers who wish to continue breastfeeding to return to work. Coping with everyday emergencies such as sick children can be a problem where parents either cannot make up hours or access sufficient paid sick leave. Too often, access to flexible working arrangements involves compromising job quality, pay and security (Sex Discrimination Unit, 2005). An entitlement to flexible work would help equalise access to quality paid work amongst family members with caring responsibilities.⁸

The 'fit' between parental leave and early childhood education is also critical. Low-quality care is known to have negative repercussions for child wellbeing (see for example Kamerman, Neuman, Waldfogel and Brooks-Gunn, 2003). Lack of access to high-quality, affordable childcare is recognised as being a major barrier for parents who want to take on or sustain employment (OECD, 2004). The 1998 New Zealand Childcare Survey found that costs were a particular barrier to early childhood education for single parents and parents on low incomes (Department of Labour, 1999). International comparisons based on pre-2004 data have found that New Zealand families face significantly higher childcare costs than in many other OECD countries (Bradshaw and Finch, 2002; Immervoll and Barber, 2005).

These studies do, however, pre-date some significant increases in government investment. For low- and middle-income families, this includes the Childcare Subsidy and other changes introduced under the 2004 Working for Families package. These changes have raised the payment level to reduce costs to families and increased access to the subsidy by increasing the income threshold. The introduction of 20 free hours of early childhood education for three- and four-year-olds in July 2007 is intended to further improve the affordability of early childhood education services.

For families with older children, access to quality out of school services is also important. The New Zealand out of school services sector is relatively underdeveloped. A recent Families Commission consultation found that access to affordable, quality services for school-aged children was a problem for many families (Bellett and Dickson, 2007).

⁸ Note that a Select Committee is currently examining the Employment Relations (Flexible Working) Amendment Bill, a members' bill introduced by Green MP Sue Kedgley. The purpose of the Bill is to amend the Employment Relations Act 2000 to provide employees with a statutory right to request part-time and flexible hours.

Improving access to quality and affordable out of school services is a key objective of the Government's forthcoming *Five-Year Action Plan for Out of School Services*.

Without an integrated package of family-friendly policies, families may experience a 'time squeeze' as members struggle to combine paid work with time for themselves, their families and their communities. In other cases, parents – usually mothers – are forced to withdraw from the labour market entirely or to accept paid work that does not fully recognise their skills and experience. It is important, then, that the parental leave provisions outlined in this paper are considered alongside the need for other family-friendly policy reforms.

PARENTAL LEAVE AND EMPLOYERS

Parental leave is one of a number of policies that can help employers to attract and retain skilled workers – with positive benefits for workplace productivity and wider economic growth. The impact of parental leave on employers is likely to vary according to a range of policy design features. Schemes that require direct employer contributions to fund leave – and those that are particularly onerous to implement – may serve to discourage employers from hiring women of child-bearing age. There is also a risk that some parental leave schemes may encourage discrimination in terms of pay or promotion opportunities towards women in general, mothers and/or fathers.

Improving staff retention and providing employers with greater predictability of staffing are often mentioned as key benefits of parental leave. In the evaluation of the New Zealand parental leave scheme, two-thirds of employers said that paid parental leave allowed them to plan and manage workloads with greater confidence and 70 percent said that paid parental leave helped them to retain experienced staff (Department of Labour, 2006b). Most employers thought the scheme had either no impact or a positive impact on their business.

New Zealand employers have identified the cost of keeping employee positions open, recruiting and training temporary staff, and uncertainty about whether employees will return at the end of their leave as the primary drawbacks to the existing paid parental leave scheme (Gravitas, 2003). A European study has also found that, for the majority of employers, the main challenges associated with paid parental leave include the difficulty of finding replacement staff, continuity of cover and uncertainty over when or if parents will return at the end of the leave period (EFILWC, 2007). There may also be indirect costs for employers associated with lower productivity when an experienced member of staff is replaced by a new and temporary member of staff.

The challenges of implementing paid parental leave are often greatest for smaller employers, a finding of relevance to the New Zealand context. Around 64 percent of New Zealand employers are small (less than five employees); 26 percent medium (six to 19 employees); 10 percent (20 or more employees). It is important to recognise that 70 percent of *employees* are employed by large firms; 19 percent in medium-sized firms and just 11 percent in small firms (Statistics New Zealand, 2006). The Department of Labour (2006b) evaluation of New Zealand's parental leave scheme found that small- and medium-sized employers were more likely than larger employers to agree that covering parental leave is difficult – but they were also more likely to mention the positive benefits of parental leave in terms of retaining skilled staff. The *absence* of parental leave provisions may, therefore, be far more costly than the alternative, if this results in the loss of trained, skilled and experienced employees.

Rates of return to paid work vary hugely in different countries. The New Zealand parental leave evaluation found that around half of mothers who were employed before the birth returned to the same employer. In contrast, in the Nordic countries and The Netherlands the majority of women returned to their jobs after parental leave. Uncertainty for employers is reported to be greatest in those countries which provide long periods of either unpaid or low-paid leave – including Germany, France, the United Kingdom and the Czech Republic (EFILWC, 2007). Beyond cultural explanations, these differences in return to paid work rates may in part reflect wider policy settings, such as access to affordable, quality childcare. Employers can also influence re-entry rates by providing other family-friendly employment conditions, such as access to flexible working hours (Alewell and Pull, 2001; OECD, 2001, 2005b).

Overall, while there is much discussion in the literature of potential costs or benefits to employers of parental leave schemes, there is very limited empirical evidence of actual impacts (Alewell and Pull, 2001). There is also a lack of systematic cost-benefit analysis (O'Brien and Shemilt, 2003). Nonetheless, New Zealand evidence does indicate that the majority of employers are relatively happy with the existing scheme and have not found that the introduction of paid parental leave has had a negative impact on their businesses. Employers also recognise the role that paid parental leave plays in supporting family wellbeing. The Department of Labour (2006b) evaluation found that over 90 percent of employers agreed that paid parental leave provided an essential income source for mothers and helped to prevent mothers from returning to work too early.

CHAPTER TWO

objectives and effects of parental leave



In the design of parental leave policy, varying weights are given to the different and potentially competing objectives. Providing parents with greater choices is important to ensure they are able to make the paid work and caring decisions that best reflect their families' needs and circumstances.

As set out in chapter one, a range of government policies affects the ability of families to reconcile paid work and caring responsibilities, protect family living standards and promote positive child outcomes. The main objectives of New Zealand *parental leave policy* from a family perspective should be to:

- > *promote maternal health and child health and development* by providing job-protected leave and financial assistance to enable mothers to take time out of paid work following childbirth and to encourage parental care for the first year of a child's life
- > *provide a period of income stability and security* which compensates parents for loss of income following the birth of a child; supports parents to provide care for their children in the first year of life; and helps to protect future income by enabling ongoing labour-force attachment
- > *promote gender equity in the labour market and in the home* by ensuring mothers are able to return to employment without disadvantage to position or pay and encouraging fathers to share leave and caring responsibilities.

This chapter examines national and international evidence on how parental leave helps to meet these objectives and the positive outcomes for mothers, children and their families that occur as a result. Where possible, the chapter includes information about parental preferences regarding parental leave.

The chapter is divided into three sections. The first looks at the effects of parental leave on maternal health, child health and development. The second section examines the effects of parental leave on families' income stability and financial security. The final section looks at ways in which parental leave helps to promote gender equity within families, the labour market and wider society. Conclusions about how best to reconcile these different policy objectives are outlined in chapter four.

MATERNAL HEALTH, CHILD HEALTH AND DEVELOPMENT

It is important that there is financial, social and emotional support for families with young children at the time of birth, when establishing breastfeeding and while caring for babies. A period of parental leave can allow parents to form a close personal relationship – or bond – with their newborn. By enabling parents to take time off paid work, comprehensive parental leave policies help to promote maternal health and wellbeing, infant-parent bonding and good outcomes for children.

Leave during pregnancy

For many families, access to parental leave is important even before the birth of a child. Around half of all pregnant women experience nausea and vomiting during pregnancy, most often in the first 14 weeks. In a much smaller number of cases symptoms persist past 18 weeks. It is estimated that around 0.5 percent of pregnant women suffer from persistent vomiting that leads to dehydration and weight loss (Eliakim, Abulafia and Sherer, 2000).

Fatigue can also be a problem for some women, especially in the later months. There is a higher prevalence of musculoskeletal complaints such as lower-back pain among pregnant workers, from the second trimester onwards, especially those with a heavy physical workload (Paul and Frings-Dresen, 1994). There are also medical conditions, such as toxæmia (also known as pre-eclampsia), that require women to rest during various stages of pregnancy.

International evidence gathered for the World Health Organisation (WHO) shows that a period of time out of the workplace or a transfer to lighter work appears to reduce the risk of having a premature or low-birthweight baby – a finding which has implications for infant health and later life (Treffers, 2000).⁹ There is, however, no consensus as to what ‘optimal’ lengths of pre-birth parental leave might be as this is largely determined by the nature of the pregnancy, as well as the woman’s job and working conditions.

Maternal health and recovery from childbirth

The United Nations ILO Convention 183 recommends a *minimum* period of 14 weeks paid maternity leave in order to protect women’s health during pregnancy, allow for physical recovery following childbirth and support the establishment of breastfeeding (ILO, 2000). Promoting good health for new mothers is, however, not simply about the period immediately prior to and following childbirth. The first three months of a baby’s life require very intensive work, at a time when new parents are often experiencing a loss of sleep. Caring for new babies is very time consuming (Smith and Ellwood, 2006). These physical demands can delay recovery from the birth, even for mothers who have had a healthy pregnancy and an uncomplicated delivery.

A period of leave following childbirth substantially assists mothers’ physical and mental wellbeing. The 1997 study by McGovern, Dowd, Gjerdingen, Moscovice, Kochevar and Lohman found that women taking leave of 12, 15 and 20 weeks or more after childbirth reported greater vitality (>12 weeks), better mental health (>15 weeks) and fewer limitations to their daily role (>20 weeks). A number of longitudinal studies have found that returning to full-time work after a brief period of maternity leave is a risk factor for depression and anxiety. This is especially the case when returning to work coincides with maternal fatigue, poor general health, marital concerns and/or poor social support (Gjerdingen, Froberg and Kochevar, 1991; Hyde, Klein, Essex and Clark, 1995; Klein, Hyde, Essex and Clark, 1998).

Research in the United States and Australia suggests that full physical recovery from childbirth can take up to six months, depending on circumstances such as whether the birth was straightforward and how much family and social support a mother has. Mothers require this time to regain their strength and energy levels and to adapt to caring for an infant (Brown and Lumley, 1998; Thompson, Roberts, Currie and Ellwood, 2002; Tulman and Fawcett, 1991).

In the longer term, maternal mental health and wellbeing are influenced by the fit between mothers’ preferences and actual practices. A number of studies have found that levels of depression are *greatest* among mothers who wish to return to work but remain at home longer than they would like. On the other hand, mothers who return to paid work and who feel overloaded or unsupported also show signs of distress and anxiety (Hock and DeMeis, 1990; Hyde et al, 1995; Klein et al, 1998; McKim, Cramer, Stuart and O’Conner, 1999).

⁹ Research shows an association between an individual’s birthweight and their subsequent risk of ischaemic heart disease (IHD), hypertension and diabetes mellitus (Barker, 1994). In the United States, low birthweight is also the primary cause of neonatal morbidity and mortality (Stevens-Simon and Orleans, 1999).

Establishing and maintaining breastfeeding

A large number of studies show a positive association, although not necessarily causality, between the duration of time off work and the duration of breastfeeding (Berger, Hill and Waldfogel, 2005; Bick, MacArthur and Lancashire, 1998; Lindberg, 1996; Roe, Whittington, Fein and Teisl, 1999; Visness and Kennedy, 1997). Indeed, most mothers cease breastfeeding within a month of returning to full-time employment and are also likely to begin weaning their babies while preparing for their return to paid work (Lindberg, 1996). Access to workplace nursing breaks and facilities plays a key role in supporting mothers who wish to continue breastfeeding following a return to paid work (Human Rights Commission, 2005).

The WHO recommends exclusive breastfeeding for all infants up to six months old, except when there are compelling reasons why this should not occur. The Ministry of Health (2002) has set the breastfeeding targets for New Zealand to increase the exclusive and full breastfeeding prevalence rate at six months to 21 percent by 2005 and 27 percent by 2010. Exclusive breastfeeding is a time-intensive practice, leading some experts to argue for the provision of at least six months maternity leave on breastfeeding grounds alone (Lindberg, 1996). Other research has shown that fathers are an important source of support in the decision to establish and maintain breastfeeding (Bar-Yam and Darby, 1997; Pisacane, Continisio, Aldinucci, D'Amora and Continisio, 2005).

So why is the relationship between parental leave and breastfeeding important?

There is considerable evidence that both mothers and children obtain health benefits from breastfeeding. Benefits to mothers include:

- > decreased postpartum bleeding and more rapid uterine involution
- > lower risk of breast and ovarian cancer
- > earlier return to pre-pregnancy weight
- > possible reduced risk of post-menopausal hip fracture and osteoporosis (American Academy of Pediatrics, 2005).

In relation to a return to paid employment, both mothers and fathers/partners may benefit from a breastfed child as there is some indication that breastfed babies are less likely to become ill and thus be excluded from childcare (Jones and Matheny, 1993). This indicates some 'knock on' benefits for employers, if parents of breastfed children are less likely to need to use sick or dependant leave.

There is large research literature which demonstrates the benefits of breastfeeding for child health. Human milk meets the full nutritional requirements for infants for up to the first six months of life, supplying nutrients in a hygienic, cost-effective, balanced and easily absorbed way (American Academy of Pediatrics, 2005). There is strong evidence that breastfeeding reduces the incidence and/or severity of infectious diseases amongst babies. These include bacterial meningitis, necrotising enterocolitis, middle-ear infections, diarrhoea, respiratory tract and inner-ear infection and urinary tract infection. A recent review conducted by the American Academy of Pediatrics (2005) found that other specific benefits to babies included:

- > improved cognitive development and visual acuity
- > reduced risk of types 1 and 2 diabetes, childhood obesity and coeliac disease
- > reduced mortality during the first year of life
- > long-term benefits for cardiovascular health.

During the first six months of life, positive infant health outcomes are associated with more and longer breastfeeding. The risks of certain conditions increase as the period of exclusive breastfeeding decreases. The highest risks of conditions such as diarrhoea or ear infection occur among babies who receive no human milk (Scariati, Grummer-Strawn and Fein, 1997). Some research also indicates a small association between breastfeeding and infants' cognitive development (Horwood and Fergusson, 1998; Morley, Cole, Powell and Lucas, 1988), although this may be the result of the higher level of interaction between mother and baby during breastfeeding (Burgard, 2003).

Parental care and infant health

Based on national data for 16 European countries gathered between 1969 and 1994, Ruhm (2000a) has suggested that paid parental leave of more than 20 weeks is associated with improved infant health and reduced rates of infant mortality. A later study which examined data for 18 OECD countries between 1969 and 2000 also found that longer periods of paid leave were associated with reductions in infant mortality (Tanaka, 2005). Tanaka estimates that in the United States (where there is currently no federal entitlement to paid leave) the introduction of 12 months paid parental leave would reduce infant mortality rates by 13.6 percent. Both of these studies suggest that child benefits are maximised when the leave is paid and provided in a job-secure context.

The mechanisms through which parental leave may reduce child mortality and improve child health are not entirely clear. It is likely that much of the effect of parental leave on child mortality is due to the role that such policies play in supporting new mothers to establish and maintain breastfeeding. Take-up of preventative health care may also play some role. Using United States longitudinal data, Berger et al (2005) found that children whose mothers stay out of paid work for more than 12 weeks were more likely to have had regular medical check ups and to have received all of their immunisations at age 18 months.¹⁰ Ruhm (1998, p 23) concludes that "parental leave has favourable and possibly cost-effective impacts on paediatric health".

Infectious diseases and group-based childcare

Parental leave policies which enable parents to provide full-time care for their baby or infants may help to reduce exposure to infectious diseases. Research from the United States indicates that children in childcare centres and childcare homes are more likely than children cared for in their own homes to get ear infections and upper respiratory infections, particularly at ages one and two (NICHD, 2006; see also Schwartz, Giebink, Henderson, Reichler, Jereb and Collet, 1994; Warren, Levy, Kirchner, Nowak and Bergus, 2001). Infants can be very susceptible to infectious diseases and centres catering to large numbers of children create a higher risk of transmission (Galtry, 2002; Osterholm, 1994).

The increased risk of repeated infection is of particular concern. For example, middle-ear infection, if recurrent, can lead to hearing loss in early childhood. This may, in turn, result in some forms of learning impairment such as poor reading and language development skills and, consequently, reduced levels of educational attainment (Chalmers, Stewart, Silva and Mulvena, 1989; Collet, Ducruet, Floret, Cogan-Collet, Honnegar and Boissel, 1991; Teele, Klein, Chase, Menyuk and Rosner, 1990). There is some evidence that the age at which children experience their first infectious event results in a higher risk of repeated events. This has led some researchers to conclude

¹⁰ This finding does not establish that parental leave *causes* better take-up of preventative health services. It may be that the types of mothers who take longer periods of time out of paid work also tend to be more likely or better able to access United States health services.

that the use of daycare for children under 12 months of age should be questioned (Schwartz et al, 1994). On the other hand, while infants in childcare centres may be more likely to contract some infectious diseases, few of these have any long-term effects (Berg, Shapiro and Capobianco, 1991; Jarman and Kohlenberg, 1991).

Parental employment and child development

There is an extensive literature on the effect of maternal employment on infants (see for example Brewerton, 2004). Income from maternal employment, especially the move from low to moderate income, has been shown to reduce the negative effect that poverty has on child wellbeing (Brooks-Gunn and Duncan, 1997; Mayer, 2002). An early return to employment can, however, increase mothers' stress and reduce their time for child-rearing, both of which can adversely affect child outcomes.

There is good evidence from the international literature that, from the age of two onwards, participation in *quality* early childhood education (ECE) reaps benefits for child cognitive development and school readiness (Kamerman et al, 2003). In the New Zealand context, findings from the Competent Children study indicate that the *length* of ECE experience is important, and that participation from the age of one is associated with a range of positive social and cognitive outcomes at age 14 years (Wylie, Hodgen, Ferral and Thompson, 2006). For children below the age of one, the benefits of early ECE are less clear – and there is growing evidence that consistent parental care is beneficial for infant health and development (Kamerman et al, 2003).

International research indicates maternal employment in the first year can result in poorer cognitive development and more behavioural problems in some children. Any potential negative effects are stronger when employment is started full-time, soon after birth (Brooks-Gunn, Han and Waldfogel, 2002; Currie, 2003; Gregg and Washbrook, 2003; Joshi and Verropoulou, 2000; Ruhm, 2000b). The quality of non-parental childcare appears to be a significant mediating factor. It is important to recognise that the nature of the *family environment* and in particular the *quality of parent-child interactions* has a much larger effect on child outcomes than the experience of non-parental childcare or early childhood education (Wylie et al, 2006).¹¹

There is surprisingly little research on the effect of fathers' employment on children (Brewerton, 2004). However, Gregg and Washbrook (2003) have found that, in households where mothers return to work early, greater involvement of fathers in child rearing has strong beneficial effects for later child outcomes, particularly in the areas of cognitive development and educational achievement. Parental leave policies which encourage take-up by fathers may help to encourage more active fatherhood in the longer term. There is evidence that fathers' involvement with children at an early age is associated with continuing involvement throughout childhood and adolescence, and this in turn is associated with better educational outcomes for children and youth (O'Brien and Shemilt, 2003).

Conclusions: Health effects of parental leave

So that babies can receive the best possible start in life, it is important that parents are able to take a break from paid work of at least a year and that they are able to make real choices about taking that break. Research shows that the 'fit' between childcare preferences and practices is important for maternal wellbeing. A period of at least 14 weeks leave is helpful for mothers to use in the late stages of pregnancy and also

¹¹ See Kalil (2003) for a review of research evidence regarding the impact of family environment on child development.

allows mothers to recover from childbirth, with access to up to six months leave in order to establish and maintain breastfeeding. Where parents are able to care for their baby for the first year there are benefits for child health and development. An adequate level of payment over the leave period is critical to ensure that parents can avoid financial pressure to return to work early.

In New Zealand, parental leave payments cover only 14 weeks and so there is a considerable gap between when this payment ends and the end of the WHO recommended six-month period of exclusive breastfeeding. The gap is even wider between the end of parental leave payments and the baby's first birthday, the point at which early childhood education may start to be of benefit.

TABLE 2: SUMMARY OF HEALTH LITERATURE

OBJECTIVE	POLICY IMPLICATIONS
Maternal health, child health and development	<p>Pregnant women to be able to take some parental leave prior to childbirth.</p> <p>Maternity provisions to allow mother and baby to recover from birth and establish breastfeeding in the early months.</p> <p>Job-protected leave to allow for parental care for at least the first year. Payment level to provide sufficient family income to facilitate parental care over this period.</p> <p>All employees to be eligible for parental leave.</p>

FAMILY INCOME SECURITY

Parental leave policies affect family living standards in two ways: by providing job protection and by providing income security. *Paid* parental leave helps to provide income stability by compensating parents for loss of income from paid work necessitated by the birth of a child. Depending on the generosity of payment, parental leave also enables parents – usually mothers – to avoid an early return to paid work due to financial pressure. *Job protection* protects parents from having to make a complete break from paid work following the birth of a child if this is not their preference. It also provides a degree of future financial security by ensuring that mothers and fathers/partners who take a break from employment do not experience disadvantage to position or pay after they return to paid work.

Employment-related eligibility

Employment-related eligibility criteria determine who has access to payment and job protection. In New Zealand, eligibility criteria work in favour of people in continuous employment of 10 or more hours a week over a six- or 12-month period (see chapter one). We estimate that around eight percent of employed women who give birth are ineligible for paid parental leave because they do not meet the minimum hours test of 10 hours of paid work a week. A further 17 percent of employed women are ineligible because they fail to meet the job tenure requirements of six months continuous employment with the same employer.

The Department of Labour's (2006b) evaluation of parental leave indicates that the existing scheme does reduce some pressure on mothers to return to paid work in the period immediately following childbirth. The disjunction between *actual* return to work and *ideal* return to work is greatest for mothers who are *ineligible* for parental leave. The study found that, overall, eight percent of employed mothers returned to paid work

within a month. Among mothers who took paid parental leave, this figure was only one percent, while a third of mothers who were *not* eligible for paid parental leave returned to work within a month. Almost half of ineligible mothers returned to work within three months, compared with 15 percent for mothers who took up paid parental leave.¹²

Unpaid leave

The main benefit of unpaid parental leave for family living standards is job protection. Unpaid leave allows parents – in practice usually mothers – to take time out for childbirth and for the early stages of their infant’s life without having to withdraw completely from the labour force. According to the Department of Labour’s (2006b) parental leave evaluation, over half of mothers who take paid parental leave also take some form of unpaid extended leave. Job protection is helpful. Where the parent has job-protected leave, the family has financial certainty that they can return to their job at the end of the period of leave.¹³ In the absence of job protection, if parents do return to paid work they face the costs of searching for a job, perhaps a period of unintended unemployment and the possibility of having to take a position with lower pay or worse conditions than before they had a child. We return to this issue later in this chapter in the section on gender equity.

The ability to take unpaid leave does, however, depend on whether parents can afford to do so. Where leave is unpaid, or payment levels are low, the families of those who take it will be financially worse off while they are on leave. Where parents are unable to afford to take the leave they are entitled to they may return to work earlier than they would like to.

Paid leave

The majority of New Zealand families now rely on women’s paid work to maintain family living standards. Participation rates vary with mothers having lower participation rates than either men or women with no children. Single mothers and mothers with low qualifications are less likely to be employed than partnered women and women with higher qualifications. The *number* of children has little impact on participation rates, but the *age* of the youngest child makes a significant difference. Around a third of mothers with a child aged less than one year are in either part-time or full-time employment (Johnston, 2005, p 16).

In two-income two-parent families, or one-income single-parent families, the birth of a child results in an immediate fall in family income as one parent – usually the mother – takes a period of leave or drops out of part-time or full-time employment.¹⁴ In the absence of adequate paid parental leave this causes a ‘shock’ to family resources at a time of growing expenses.

Paid leave can help to maintain family living standards and provide income security by compensating for lost income over the leave period. The duration of payment is important, to provide an adequate period of time with financial support. Flexibility in relation to how leave may be taken can help smooth fluctuations in income, by allowing parents to take leave part-time over a longer period in combination with part-time paid work. Such flexibility may also assist transitions from parental leave to paid

¹² Only nine percent of ineligible mothers and three percent of mothers who took paid parental leave described their ideal point to return to paid work as being within the first three months.

¹³ Depending on the individual employment conditions, job-protected leave may also avoid the loss of work-related benefits such as subsidised health care, retirement income and benefits related to length of service.

¹⁴ There may be increases to income for benefit recipients at the time of birth because levels of support available from the Family Assistance package and the DPB depend in part on the number of children in the family. Other families may become newly eligible for assistance following the birth of a child.

work and enable parents who may otherwise have fallen out of the labour market to maintain an ongoing attachment to the workforce. New Zealand research shows that many New Zealand families want at least one carer to be able to work reduced hours, particularly when children are small (Ministry of Social Development, 2006b).

International research shows that many parents cannot afford to take up the leave they are entitled to if it is unpaid (Waldfogel, 2001). For example, a United Kingdom Government study found that unpaid parental leave had been taken by only three percent of parents (EIRO, 2004). A recent Australian survey found that mothers took around 40 weeks parental leave on average, but that almost half of parents said they had returned to work earlier than they would have liked because their family needed the money. Just seven percent of parents said they would have taken more time out of paid work if they had access to more unpaid leave¹⁵ (Whitehouse, Baird, Diamond and Hosking, 2006).

The *level* and *duration* of payment are crucial. If payment is too low, take-up of entitlements may be limited because, as with unpaid leave, families cannot afford the reduced income. Taking a *short* period of leave may remain possible in these circumstances, especially if parents are able to use savings to supplement paid leave. However, over a longer period, many parents – usually mothers – are likely to face financial pressures to return to work earlier than they would prefer due to the gap between previous and current family income.

In New Zealand's case, parental leave payments are currently set at 100 percent of earnings replacement, but because the cap is set at a rate below the adult minimum wage it is only possible to receive full income replacement if an employee was previously working part-time and earning less than half the adult average full-time weekly earnings. For full-time workers, there is a substantial gap between paid parental leave and previous earnings even for those on low incomes. A parent who takes up parental leave who has previously been working full-time and earning the adult minimum wage would receive a drop in income of almost \$80 a week.¹⁶ This fall in personal income may be offset to some degree by access to other forms of social assistance or tax relief, depending on overall household income.

The Department of Labour's (2006b) evaluation of the existing New Zealand parental leave scheme found that 67 percent of mothers who took paid parental leave said the need to maintain their current income as much as possible was an important or very important factor influencing their decisions regarding leave. Only a quarter of mothers said that the current duration of paid parental leave was long enough. The evaluation also indicated that the existing scheme helped mothers to extend their leave-taking beyond the period at which payment ended. In total, 51 percent of mothers who took paid parental leave returned within six months, compared with 69 percent of mothers who were ineligible. Over 80 percent of mothers who took paid parental leave agreed that it contributed to financial security and lessened money worries.

There remains, however, a gap between actual leave taken and mothers' ideal leave. The Department of Labour (2006b) evaluation found that, on average, mothers returned to work from parental leave when their child was around six months old. However, returning mothers thought a more appropriate time was 12 months or more. The biggest pressure on all mothers regardless of their leave arrangements was financial. For mothers who took up paid parental leave but returned to work prior to 12 months,

¹⁵ Australian parents who meet employment eligibility criteria have access to 52 weeks statutory unpaid parental leave.

¹⁶ Until the minimum wage was increased to \$11.25 per hour on 1 April 2007, the gap would have been around \$40 a week. The cap on parental leave payments is usually increased on 1 July each year.

61 percent said that financial pressure was the main reason they chose not to take up their full entitlement to 52 weeks leave. The evaluation also found that nine out of 10 new fathers expressed concern over financial security. This was a barrier to fathers taking paid parental leave – or any unpaid leave in the New Zealand setting (Department of Labour, 2006b).

International comparisons show that take-up of parental leave is highest in the countries that provide higher levels of income replacement – and much lower in countries such as the United Kingdom and Ireland, which provide long periods of unpaid leave (EFILWC, 2007). The level of payment also affects fathers’ take-up of leave. If maximum payment caps or earnings replacement levels are low, the difference in men’s and women’s average earnings acts as a strong incentive for mothers to use all leave. Fathers’ take-up of leave is discussed further in the gender equity section of this chapter.

Conclusions: Effect of parental leave on family income security

If taking time off work to care for a baby or infant is meant to be a realistic option for parents, then providing a period of income stability via paid parental leave is essential. Job-protection provisions are also important to protect future family income.

The introduction of 14 weeks of paid parental leave has made a difference to eligible New Zealand families and helped to lessen money worries in the period immediately following childbirth. However, the short duration of paid parental leave, combined with a low maximum payment cap, means that many mothers return to paid work much earlier than they would prefer. Concerns over financial security mean that very few fathers take up any of the parental leave to which they are entitled.

TABLE 3: SUMMARY OF LITERATURE ON FAMILY INCOME SECURITY

OBJECTIVE	POLICY IMPLICATIONS
Income stability	<p>Payment at an increased level of income replacement, available for the entire period of job-protected leave.</p> <p>Capacity to take (at least some) parental leave on a part-time basis, in combination with paid work.</p>

GENDER EQUITY IN THE HOME AND LABOUR MARKET

Parental leave policies affect gender equity in two ways. First, parental leave is one of a number of policies that may assist women who have children to maintain their economic situation relative to men in the labour market. Parental leave enables women to preserve work-force attachment following maternity and assists mothers to increase their lifetime earnings from paid work. *Paid* parental leave also compensates women for maternity-related time out of paid work.

Second, depending on the design of the policy, parental leave can encourage fathers to become more actively involved in parenting and family life. If fathers take more responsibility for unpaid work in the home, the balance of paid and unpaid work may be more evenly shared within parenting couples. In turn this affects the ability of mothers to participate in paid work and subsequent opportunities for career progression. Increasing the provision and take-up of paternity/partner leave can help promote this form of gender equity.

The 'motherhood penalty'

When a baby is born, a mother needs time to recover from the birth and establish the breastfeeding and care regime for the baby. As it is mothers who take the vast majority of time out of work to care for babies and young children, it is mostly women who bear the financial consequences. For mothers, more interrupted working lives and a more marginal connection with the labour force can result in a loss of earnings in the short term and lower lifetime earnings in the longer term.

New Zealand research has found that mothers earn less than women without children. Dixon (2000) estimated that mothers' average hourly earnings are between seven and 10 percent less than those of women without children. Dixon's results suggest that reduced work experience is a major driver of the wage penalty. Dixon also found that single mothers appear to face a more substantial wage penalty of motherhood than partnered mothers.¹⁷ International research shows that the size of the wage penalty increases with the number of children. It also varies across countries. Anglo-American countries have particularly high gaps compared with the Nordic countries (Harkness and Waldfogel, 1999). United States research typically finds that mothers face a wage penalty of between 10 to 15 percent compared with women without children (Waldfogel, 1998).

Not all mothers are equally affected. Important factors seem to be the amount of work experience a woman has accumulated before she has her first child and her level of work-related skills. This means that becoming a mother at a young age, particularly before a woman has done a few years of paid work, leads to greater loss of lifetime earnings than for other women (Rake, 2000). Single mothers may miss out altogether on shared earnings, which for partnered women help to buffer their own loss of earnings associated with motherhood.

¹⁷ This may in part be due to unmeasured skill differences between single mothers and partnered mothers, resulting from lower levels of work experience prior to motherhood.

In the United Kingdom, Rake (2000) has explored the consequences of motherhood for mothers with low, medium and high skills. Rake found that the difference in lifetime earnings between mothers and fathers was substantial in all three groups. However, she concluded that high-skilled mothers tend to keep their place in the labour market and as a result forgo much less income than low- or mid-skilled mothers. In contrast, United States research indicates that high-skilled women experience the largest wage penalty associated with motherhood (Ellwood, Wilde and Batchelder, 2004). Ellwood et al (2004) found that wage trajectories for high-skilled women diverged sharply *after* (but not before) they had children, but that there was little change for low-skilled women. Remaining in the same job or keeping interruptions to paid employment short was found to reduce, but not eliminate, the earnings gap between women with and without children.

These conflicting findings may be explained by differing patterns of labour-market participation after a child is born. The OECD (2001) has noted that mothers' employment is polarising into two groups. The employment rates of mothers with medium and high education are slowly catching up with those of men, but for lower-educated mothers they are not. This means that lower-educated mothers are more likely to become detached from the labour market and unable to make a successful re-entry later on.

Enabling mothers to maintain labour-force attachment

Job-protected parental leave gives mothers the opportunity to take leave to care for their babies and then return to their previous jobs and employers. This means mothers are not forced to resign from paid work and ensures they do not face reduced job status or pay when returning to the workforce. The duration of paid leave is important. If it is too short some mothers will return to work earlier than they would prefer. Other mothers will end up outside the labour force due to the difficulty of reconciling paid work and motherhood when a baby is very young.

It is likely that the group of mothers who have previously been more likely to resign from the time of the birth would include a high proportion of mothers who are younger, have fewer skills and shorter paid work experience. This group may face serious negative consequences for lifetime earnings if they stay out of the workforce for a long time. In the case of single parents an adequate period of paid, job-protected leave is particularly important for improving family living standards now and in the future. Payment at a high level of income replacement is likely to be effective in enabling at least some of these women to retain connections with paid work.

Research shows that access to paid parental leave increases the likelihood that mothers will return to the same employer. This protects mothers from having to accept a lower-paid job on their return to paid work and significantly reduces the size of the 'wage penalty' experienced by these women (Baum, 2003; Phipps, Burton and Lethbridge, 2001). There is also good evidence that the right to paid leave with job security reduces the average period of time that mothers remain outside the labour market. 'Moderate' periods of parental leave have been found to strengthen women's labour market attachment and reduce the size of the wage penalty associated with motherhood (Berger and Waldfogel, 2004; Ronsen and Sundstrom, 2002; Ruhm, 1996; Waldfogel, Higuchi and Abe, 1998). In the United Kingdom for example, Joshi, Paci and Waldfogel (1999) conclude that access to paid maternity leave makes up for half of the wage penalty associated with having one child and more than half for those with two or more children.

There is, however, some evidence that prolonging the period of parental leave may have the opposite effect by increasing the period of time that mothers remain outside the labour market and reducing job tenure and work experience. The OECD (2001) has

argued that 'very long' periods of leave may lead to skill loss and damage to future career paths and earnings. Where this may result in low family living standards, there are flow-on risks for child wellbeing.

Very few studies have attempted to determine the point at which the duration of leave may have a negative impact on women's labour-market opportunities. Using data from 22 OECD countries, Jaumotte (2003) found that beyond 20 weeks, the marginal effect of additional parental leave on female labour-force participation becomes negative, ie taking more leave becomes associated with lower rates of women's employment, not higher.

Ruhm and Teague (1995) examined data for 17 nations over the period 1968 to 1988 and found that leave periods of up to a year were positively related to labour-market outcomes, while lengthier entitlements had less beneficial or negative effects. More recent reviews have concluded that negative effects of parental leave on gender equity and future economic wellbeing are most likely to occur with significantly longer periods of leave (eg three years) and, in particular, repeated periods of leave (Gornick and Meyers, 2003; Kamerman, 2000).

The nature and degree of any effect of leave duration on family outcomes appears to differ by country and policy setting. The OECD (2001) has noted that relatively long parental leave entitlements paid at high levels of income replacement do not seem to have had a significant negative impact on the labour-market opportunities of mothers in the Nordic countries compared with other OECD countries where leave is often less generous and shorter in duration. On the other hand, Datta Gupta, Smith and Verner (2006) have shown that while motherhood does not appear to have a permanent effect on women's wages in Nordic countries, there is evidence that *all* women tend to have flatter wage profiles during childbearing years. It appears that employers may have responded to the relatively generous parental leave provisions in these countries by treating all women of childbearing age as 'potential' mothers.

It remains the case, however, that the Nordic countries combine generous parental leave policies with relatively low gender wage gaps, significant involvement of fathers in family caregiving and high rates of labour-force participation of women in childbearing age groups. It follows that specific policy design features, such as whether payments are funded by state or private employers, may matter more than the duration of leave (OECD, 2001).

Enabling the involvement of fathers/partners in family life

Another aspect of gender equity is increasing men's opportunities for involvement in family caring responsibilities and unpaid household work. At present, fathers are occupied in their paid work for longer hours on average than non-fathers (O'Brien and Shemilt, 2003), and much longer than mothers (Callister, 2005). This limits the time fathers can devote to their children. It also has implications for mothers' availability for paid work and subsequent career opportunities.

A period of time off paid work is important to give fathers the opportunity to bond with a new baby and support the mother. For couples with more than one child, paternity/partner leave also allows fathers/partners to provide care for any other children while the mother is recovering from childbirth. Swedish research shows that fathers who take up paid parental leave are more likely to sustain a higher level of family involvement, spending fewer hours in paid work and being more involved in childcare tasks and household work (Haas and Hwang, 1999).

An ILO review of parental leave entitlements shows that take-up of leave by fathers is very low in the majority of OECD countries (ILO, 1999). The ILO suggests that as well as traditional social expectations of women and men relating to childrearing, the underlying reason for the uneven take-up lies with gender inequalities within the labour market. Because men on average earn more than women, if leave is unpaid or the maximum payment level is low, it makes more financial sense for mothers to use any entitlement to paid leave. The loss of at least some of the mother's income after the birth is almost inevitable, while the loss of the father's income as well is often beyond the reach of many families, even for a few weeks. This limits the ability of parents to spend time at home together around the time of the birth, restricts the opportunity for mothers to receive their partners' support and reduces men's ability to spend time with a new baby. New Zealand research shows that many fathers feel under considerable pressure as the main 'breadwinner' in the period following the birth of a child (Department of Labour, 2006b).

International experience indicates that to encourage men to take up parental leave it is important to provide a high level of compensation for lost earnings. The introduction of a specific paid leave entitlement for fathers/partners only is also known to encourage higher take-up by fathers (EFILWC, 2007; EIRO, 2004; Moss and O'Brien, 2006; O'Brien and Shemilt, 2003). Take-up of paid paternity/partner leave entitlements is generally high. However, if parental leave is an optional 'gender neutral' family entitlement, then the default option is for mothers to use the entitlement. In the majority of European countries, less than 10 percent of fathers take up any portion of family leave (Plantenga and Remery, 2005).

Designated *paternity/partner* leave appears to legitimate the needs of fathers/partners for time off paid work in the period following the birth of a baby. On the other hand, it appears that fathers who take up *family* leave risk being seen as unusual or less committed to their careers. In Norway, the addition of specific 'daddy days' has increased men's take-up of parental leave from below 10 percent to over 80 percent

(Brandth and Kvande, 2001). Some flexibility for fathers in how they take up the leave has also been identified as desirable as a key condition to encourage fathers to take up the leave available to them (EFILWC, 2007).

At present, only a tiny proportion of eligible New Zealand fathers/partners use their entitlement to one or two weeks unpaid leave. New Zealand fathers also make up less than one percent of paid parental leave recipients, a situation that is likely to reflect both the short duration and low payment level of New Zealand entitlements. Rather than taking up parental leave, the most common arrangement following the birth of a child is for men to save up other paid leave entitlements such as annual leave or time in lieu. The ideal expressed by fathers in the New Zealand parental leave evaluation was to be able to take up to four weeks off work, concurrently with mothers, but it is clear that very few fathers were able to do this (Department of Labour, 2006b).

A final gender equity issue concerns single-parent households. Where there is no father or partner, generous paternity/partner leave policies could be seen to disadvantage the children born to those families (Bradshaw and Finch, 2002). It is important, therefore, that parental leave provisions provide some recognition of the double parenting role of single parents. This may involve allowing single parents to use the paternity/partner leave themselves, or to transfer it to another person such as a grandmother, if they are involved in the day-to-day care of the child.

Conclusions: Gender equity in the home and labour market

The duration of parental leave affects gender equity in the home and labour market. If it is too short mothers may leave the labour market entirely because of the difficulty of reconciling paid work and care of a small baby. If it is too long there are risks in terms of skill loss, career progression and lifetime earnings. The level of earnings replacement available and maximum payment caps (if any) affect the ability of mothers and fathers/partners to take up the leave to which they are entitled without facing financial pressure to return to work early. Allocating a specific leave entitlement to fathers/partners is also important to enable fathers/partners to take time off paid work to support the mother and to share in early caring responsibilities.

Enhancing New Zealand's parental leave scheme by increasing the maximum payment cap and duration of paid leave would make taking up parental leave a more realistic option for both mothers and fathers/partners. The introduction of a specific paid leave entitlement for fathers/partners would further support men's ability to take time out of paid work in order to care for a new baby and to provide practical and emotional support to mothers.

TABLE 4: SUMMARY OF LITERATURE ON GENDER EQUITY

OBJECTIVE	POLICY IMPLICATIONS
Gender equity	<p>Relatively short period of maternity leave, paid at an increased level of income replacement to compensate mothers for their role in bearing and caring for children.</p> <p>Additional period of transferable leave available to either parent and specific paternity/partner leave for fathers/partners, both paid at an increased level of income replacement to enable and encourage the involvement of fathers/partners in the care of children.</p> <p>Avoidance of very lengthy periods of parental leave which may discourage labour-force re-attachment with negative consequences for skill loss, career progression and long-term economic security.</p> <p>Care taken to minimise the direct and indirect costs of parental leave to employers to reduce risks of discrimination against women, mothers and/or fathers/partners.</p>



CHAPTER THREE

international policy context



So how do New Zealand parental leave entitlements compare with those of other countries? International comparisons allow us to consider the adequacy of existing policy in an international context.

Several international trends are evident. In recent years a number of countries have moved to increase the scope of parental leave including raising the payment level and length of payment. This is particularly the case in countries that have been relatively ungenerous in the past. In the United Kingdom for example, paid maternity leave increased from 26 to 39 weeks in April 2007. Many countries have sought to extend fathers' rights by introducing or extending paid paternity/partner leave. There has also been a shift towards increasing flexibility around how parental leave may be taken, for example allowing parents to take leave in separate blocks of time or to combine leave with part-time paid work.

This chapter compares parental leave provisions in a variety of developed nations. Two major research reports published in the last two years provide the basic information regarding the leave provisions discussed in this paper:

- > a large cross-national study of leave arrangements in 19 countries¹⁸ undertaken as part of the former European Commission Childcare Network (Deven and Moss, 2005)
- > a similar study covering 22 countries¹⁹ undertaken by members of the International Network on Leave Policy and Research (Moss and O'Brien, 2006).

Where information given was unclear, attempts were made to check additional sources, including reports published by EIRO (2004), Bradshaw and Finch (2002) and the OECD (2007).²⁰

The chapter begins by discussing the structure of parental leave entitlements and the balance of paid and unpaid leave in different countries. It moves on to compare the level of compensation available to families, employment criteria for accessing leave and the flexibility with which leave may be taken. The chapter ends with a discussion of how different countries fund parental leave provision.

STRUCTURE OF PARENTAL LEAVE

In most countries, parental leave is made up of different types of leave: maternity, paternity/partner and/or family leave. Each of these types of leave has a specific focus (see chapter one). Maternity leave is designed primarily to protect the health and wellbeing of mother and baby immediately following the birth. Paternity/partner leave gives fathers/partners time off work at the time of birth to provide support for new mothers and to encourage bonding with a new baby. Family leave is usually an extended period of job-protected leave intended to support families to meet the care needs of an infant or young child. In a number of countries, parental leave is also available to adoptive parents (see appendix two).

As table 5 shows, maternity leave is more likely to be paid than either paternity/partner or family leave. Of the countries reviewed here, New Zealand and Australia are the only

¹⁸ Countries included: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Norway, Portugal, Spain, Sweden, The Netherlands, United Kingdom, United States.

¹⁹ Countries included: Australia, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Norway, Portugal, Slovenia, Spain, Sweden, The Netherlands, United Kingdom, United States.

²⁰ The countries referred to in each individual table or figure vary according to the availability of information in source materials.

countries that do not provide any specific ring-fenced entitlement for mothers only. The New Zealand system – in which *all* paid parental leave is allocated on the basis of the mother’s employment history, but she may choose to transfer some or all of the leave to a partner – is unusual by international standards.

All but three of the countries reviewed provide *paid* maternity leave. The majority of countries also provide paid paternity/partner leave. There is rather more variation regarding family leave – although about twice as many countries provide paid family leave compared with the number providing only unpaid leave. Note that in some countries, including New Zealand, an initial period of paid parental leave is supplemented by an additional period of extended unpaid leave.

TABLE 5: AVAILABILITY OF DIFFERENT TYPES OF PARENTAL LEAVE²¹

	MATERNITY	PATERNITY/PARTNER	FAMILY
Australia	No	No	Unpaid
Austria	Paid	No	Unpaid
Belgium	Paid	Paid	Paid
Canada	Paid	Unpaid	Paid
Czech Republic	Paid	No	Paid
Denmark	Paid	Paid	Paid
Estonia	Paid	Paid	Paid
Finland	Paid	Paid	Paid
France	Paid	Paid	Paid
Germany	Paid	No	Paid
Greece	Paid	Paid	Unpaid
Hungary	Paid	Paid	Paid
Iceland	Paid	Paid	Paid
Ireland	Paid	No	Unpaid
Italy	Paid	Paid (sole care)	Paid
<i>New Zealand</i>	<i>(with family leave)</i>	<i>Unpaid</i>	<i>Paid</i>
Norway	Paid	Paid	Paid
Portugal	Paid	Paid	Unpaid
Slovenia	Paid	Paid	Paid
Spain	Paid	Paid	Unpaid
Sweden	Paid	Paid	Paid
The Netherlands	Paid	Paid	Unpaid
United Kingdom	Paid	Paid	Unpaid
United States	Unpaid only	No	No

The structure of parental leave entitlements determines who is able to access parental leave and over what period of time. All of the countries considered here stipulate that the applicant must have, or expect to have, day-to-day parental responsibility. This rule

²¹ New Zealand’s paid parental leave (which is allocated on the basis of the mother’s employment history, but may be used by either parent) is treated here as family leave. In the case of Sweden, the ‘mummy’ and ‘daddy’ quotas of paid parental leave are treated as paid maternity and paternity leave.

means that leave can be accessed by a mother's partner who is not the child's biological father. It also means that parents (mothers or fathers) who will not have day-to-day responsibility for the child are not eligible for leave (Kell, 2007).

Eligibility for maternity and paternity leave, whether paid or unpaid, is normally aligned with late pregnancy, childbirth and the immediate post-partum period. The point in late pregnancy at which women are eligible to access maternity leave, or the maternity component of parental leave, varies slightly between one country and another. Generally, only mothers can take up maternity leave and only fathers/partners can take paternity/partner leave. There is usually very little flexibility to transfer the leave. For instance, in Hungary fathers can access maternity leave if the mother of a new baby has died or is severely incapacitated.

There is usually a higher level of discretion available for family leave. However, in recent years, a number of countries have provided a specific allocation to each parent. This means that, rather than accessing parental leave based on the mother's eligibility, fathers are increasingly likely to be able to access job-protection or payment in their own right. In 10 of the 23 countries which provide family leave it is a shared family entitlement which parents may divide up as they choose.²² In another 10 countries, parental leave consists of an individual entitlement for each parent (which may or may not be transferable). In three cases, Iceland, Norway and Sweden, family leave consists of an individual entitlement for each parent and a shared entitlement (see appendix four).

Whether or not leave is allocated to each individual parent or to the family unit has implications for equity across different family types. Single-parent families will lack access to the same amount or duration of leave as two-parent families unless they can access both parents' entitlements. Of countries offering individual entitlements, only Norway, Greece, Sweden and Germany entitle single parents to the same amount of leave as couple families (Bradshaw and Finch, 2002). Equity across family types is a particularly important consideration in the New Zealand context, given relatively high numbers of single parents and greater likelihood of low living standards in one-parent families (Ministry of Social Development, 2006a).

DURATION OF PAID AND UNPAID LEAVE

The duration of job-protected leave varies enormously between countries. The proportion of the leave that is *paid* also varies, from 100 percent to nil. Here, we consider duration and the balance of paid and unpaid leave. Figure 1 sets out the total length of parental leave in different countries if leave is taken in one consecutive block. In the following section we consider the level of payment, as this clearly also makes a difference to families' financial security and to whether they can afford to take job-protected leave.

As Figure 1 shows, in the majority of countries continuous leave is available for between nine and 18 months. In a small number of countries, an extended period of leave is available for up to three years. New Zealand is one of a minority of countries to have a short period of paid parental leave followed by a much longer period of unpaid leave. Austria,²³ Greece, Spain, United Kingdom and Ireland are also in this group. Finally there

²² With shared entitlements, it is often unclear whether either parent may access leave regardless of whether the other parent is also eligible. For example, in New Zealand a primary entitlement to paid leave rests with the mother, and any transfer to an eligible father/partner is at her discretion.

²³ Note that Austria has a 'child-rearing benefit' available to all families with young children and payable for 30 months. This is not considered part of their parental leave scheme.

are two nations – Australia²⁴ and United States – that provide no paid parental leave at all but only a period of job-protected leave.

FIGURE 1
Duration of paid and unpaid leave

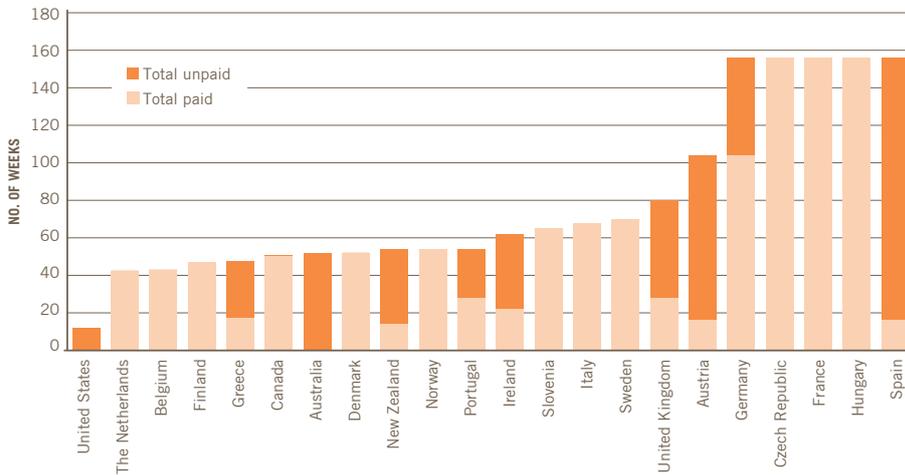
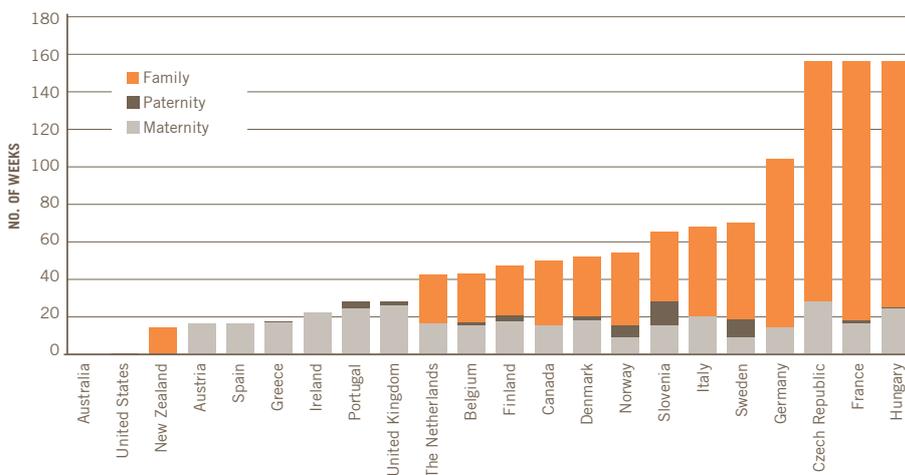


Figure 2 shows the length of different types of paid leave in available countries. It indicates that a period of paid maternity leave of between three to six months is common. Paid paternity/partner leave is usually available for a much shorter period – ranging from a few days (Greece, The Netherlands, Spain) to around three months (Slovenia). International practice regarding paid family leave also varies significantly – from nothing to well over two years. Countries such as the Czech Republic, France and Germany that provide very long periods of family leave combine job protection with very limited levels of financial assistance.

FIGURE 2
Duration of paid parental leave



New Zealand ranks near the bottom of these developed countries in terms of the total duration of paid leave available (14 weeks).

²⁴ Australia has introduced a payment of \$4,000 per birth to all parents regardless of their employment or other circumstances. This payment will increase to \$5,000 in July 2007. This is not considered part of their parental leave scheme.

LEVEL OF PAYMENT FOR PARENTAL LEAVE

The purpose of *paid* parental leave is to provide parents with some compensation for the loss of earnings they incur when taking time out of paid work to care for baby or infant. The closer the payment is to replacing the parent's normal earnings, the more likely it is that parents and their children will be able to afford to use job-protected leave while maintaining family living standards.

Internationally, paid maternity and paternity/partner leave tend to be paid at a high level of earnings replacement – typically between 80 to 100 percent of an individual's previous earnings (see appendix three). The ways in which different countries assess previous earnings vary. In some cases, earnings are based on an average for the whole of the qualifying period (in Norway, for instance, over at least six months worked in the last 10 months). In others, earnings are averaged over a more limited period (in the United Kingdom, over a period of at least eight weeks, up to and including the last payday before the start of leave). Where the earnings-related payment is for a longer period, the assessment period tends to be longer.

In some countries that provide relatively short periods of paid leave, earnings replacement for some or all of the period of maternity or paternity/partner leave is not subject to a maximum payment cap. This is particularly the case in countries which fund parental leave via either social insurance or employer contributions.

More commonly, countries do impose a maximum payment cap. This places an upper limit on the payment that parents are able to receive. If, as in New Zealand, the maximum payment cap is set at a low level, this makes a major difference to the amount of payment that parents actually receive. A low cap effectively means a low earnings replacement level in practice, even if a country ostensibly pays 100 percent of normal earnings.

Table 6 shows the maximum payment caps for maternity and paternity/partner leave as a proportion of national average men's and women's full-time earnings in countries for which this information is available.

TABLE 6: MAXIMUM PAYMENT CAPS FOR MATERNITY AND PATERNITY/PARTNER LEAVE AS A PROPORTION OF NATIONAL MEN'S AND WOMEN'S AVERAGE FULL-TIME EARNINGS IN 19 COUNTRIES²⁵

	MATERNITY MAXIMUM – % OF WOMEN'S FULL-TIME WEEKLY AVERAGE EARNINGS	PATERNITY MAXIMUM – % OF MEN'S FULL-TIME WEEKLY AVERAGE EARNINGS
Austria	No maximum	No paid paternity leave
Belgium	No maximum	No maximum
Canada	54%	No paid paternity leave
Czech Republic	124%	80%
Denmark	63%	50%
Finland	No maximum	No maximum
France	123%	99%
Germany	No maximum	No paid paternity leave
Greece	No maximum	No maximum
Hungary	No maximum	No maximum
Iceland	292%	186%
Ireland	43%	No paid paternity leave
Italy	No maximum	No paid paternity leave
<i>New Zealand</i>	<i>52% (paid parental leave)</i>	<i>42% (paid parental leave)</i>
Norway	111%	96%
Portugal	No maximum	No maximum
Spain	201%	99%
Sweden	113%	No maximum for 10 days, then 94%
United Kingdom	No maximum for six weeks, then 29%	18%

Compensation for lost earnings tends to be highest during the first six months and then to progressively decline. This is because many nations pay relatively generous rates of compensatory maternity leave and paternity/partner leave, but extended family leave, which usually follows on from maternity leave, tends to be paid at a much lower rate of income replacement and/or to have a lower maximum payment cap. For women with national average full-time earnings, New Zealand has one of the lowest overall levels of compensatory payments, even in the first six months.

International practice regarding the payment of family leave is varied. Countries that provide an extended period of leave beyond the first year tend to drop the payment level significantly to either a low flat rate or a means-tested benefit. In some countries, the availability of *payment* for extended family leave is separate from job protection. For example, the Czech Republic, France and Germany all provide low flat rate 'child-rearing' benefits to parents taking job protected parental leave – but these payments are also available to parents who do not meet employment requirements for job protection. In other cases, such as the United Kingdom or Sweden, a minimum welfare payment is available to all families to assist with the costs incurred with the birth of a baby.

²⁵ In this table, New Zealand's paid parental leave (which may be used by either parent) is treated as either maternity or paternity/partner leave. In the case of Sweden, the payment caps refer to the 'mummy' and 'daddy' quotas of paid parental leave.

A number of countries also provide additional payment or leave for families in special circumstances, for example in the case of multiple births (see appendix five).

The different ways in which countries deal with income maintenance and the interface between tax relief, universal or targeted benefits to families with children and paid parental leave create challenges for comparative analysis. In this paper we have relied on source data definitions of ‘parental leave’ in each country to calculate the financial assistance associated with paid parental leave.

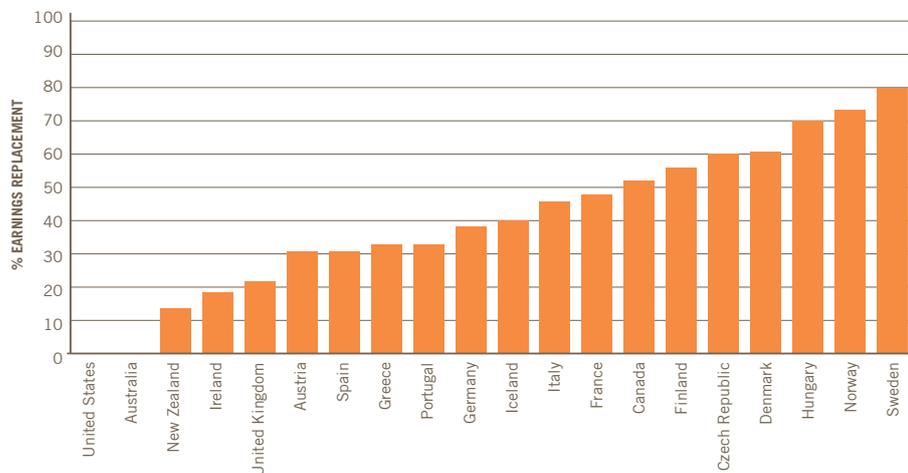
Judging the *overall* generosity of paid parental leave in different countries is complex.²⁶ Figure 3 estimates the level of earnings replacement received by an ‘average’ woman who takes 12 months parental leave in each country.²⁷ This analysis takes into account the level of earnings replacement offered in each country, maximum payment caps (if any) and the duration of paid leave. In each case we have calculated her previous earnings as being equivalent to national average full-time weekly women’s earnings. These calculations assume that the woman takes all of the maternity and family leave that is available to her in the first 12 months. They exclude paternity/partner leave and any non-transferable ‘daddy quota’ of family leave.

Of course, as indicated in figure 2, some countries do offer paid leave beyond the first year. It is useful, however, to focus our comparisons around the first 12 months. As we have seen in chapter two, enabling parents to take a break from paid work over the first year of a baby’s life appears to be particularly important for ensuring good outcomes for babies, mothers and families as a whole.

Sweden, Norway and Hungary provide among the highest levels of compensation for lost earnings. Because, at present, paid leave makes up only a small proportion of the total parental leave that is available, an eligible New Zealand woman with average women’s weekly full-time earnings would receive the equivalent of only around 14 percent of earnings replacement if she took 12 months parental leave (including all 14 weeks of paid parental leave). This shows that New Zealand’s parental leave provisions would have to be substantially enhanced to approximate those in other developed countries.

FIGURE 3

Paid parental leave over 12 months: % earnings replacement available to a woman with national average women’s full-time earnings



²⁶ In some cases, this is made more difficult by a lack of detail from available sources on the specific nature of parental entitlements.

²⁷ Analysis was undertaken by collecting average full-time weekly earnings in each country and converting parental leave entitlements into Euros.

Paid paternity/partner leave tends to be paid at a high level of earnings replacement, but over a fairly short duration compared with other forms of parental leave (see appendix three). In terms of the overall generosity of parental leave for fathers/partners, a similar country ranking prevails, with Hungary, Norway and Sweden offering the highest levels of income replacement to a man with national average men's full-time earnings and who takes 12 months leave from paid work.

It is notable that while New Zealand refers to its paid leave provisions as 'parental leave', the level of provision is similar to Ireland which restricts its suite of parental leave to maternity benefits. The New Zealand system is, however, more flexible, allowing mothers to transfer some or all of their paid leave entitlement to fathers/partners. Compared with Ireland, New Zealand has both a lower maximum for weekly payments and a shorter duration of payment (14 weeks). Ireland also increased its maternity payment from 22 to 26 weeks in March 2007.

New Zealand's total spending on parental leave payments per birth is also considerably lower than that in other OECD countries. The OECD reports that in 2003, the average level of spending on maternity and family leave payments per birth as a proportion of GDP per capita was around 30 percent across 27 OECD countries. In countries such as Hungary, Sweden, Norway and the Czech Republic, spending on parental leave payments per birth as a proportion of GDP per capita was significantly higher – between 60 and 90 percent. New Zealand spent around five percent – a level just above Australia²⁸ and Korea (OECD, 2007).

EMPLOYMENT CRITERIA FOR ACCESSING PARENTAL LEAVE

There are considerable cross-country variations in the employment conditions that make parents eligible for parental leave (see appendix three). Unfortunately, country reports and cross-country survey data do not always provide sufficient detail about how applicants' circumstances are assessed in relation to meeting eligibility criteria or setting entitlements. For maternity and paternity/partner leave, it can be assumed that these individual entitlements are assessed according to the characteristics of the mother or father/partner. It is less clear in situations where there is a family-based entitlement or where both mothers and fathers/partners can access leave.

The *main* employment criteria for paid parental leave are associated with:

- > status as an employee (or self-employed person)
- > contribution to insurance schemes or eligibility for welfare or social security payments
- > requirements for continuous employment
- > completion of a minimum amount of paid work over a set period
- > requirements for employment with a single employer.

Employment history is the main criterion for access to payment and job-protected leave in most developed countries. Additional conditions such as status as an employee or a self-employed person over a set period of time or with a single employer all affect access to parental leave for casual, temporary or seasonal workers. Such workers may change employers often or experience intermittent periods of employment followed by time out

²⁸ As mentioned earlier, Australia does not provide statutory paid parental leave, but does provide a lump sum payment to parents on the birth of a child. In the OECD analysis above, this payment was treated as a form of paid parental leave. Elsewhere in our report, the lump sum payment is excluded as it is not considered to be 'parental leave' in other source documents.

of the labour force. Regulations regarding employment requirements also affect the costs and benefits of parental leave for employers.

International practice regarding employment requirements varies significantly. In some countries, such as Iceland, Germany, France and Italy, parental leave is available to all employees. In other cases, eligibility is based around a set period of employment in the period preceding birth. This period ranges from six months in the last 10 months prior to delivery (Norway) to 120 hours in the last 13 weeks (Denmark). In contrast, the English-speaking nations, despite shorter periods of leave and lower levels of payments, have tighter eligibility requirements. The requirement for continuous employment with a single employer is found mainly in the Commonwealth countries – Canada, New Zealand and the United Kingdom.

FLEXIBILITY IN THE TAKE-UP OF PARENTAL LEAVE

There is a growing trend to provide greater flexibility in the way that parental leave entitlements may be used. The amount of flexibility affects parents' ability to use the leave in a way that suits the circumstances of their family. Flexibility may affect the timing of parental leave and/or the ability to combine parental leave with part-time employment. Internationally there is less flexibility for maternity and paternity/partner leave and more flexibility for extended periods of family leave. The longer the overall leave is the more flexibility there tends to be in the way it can be taken.

Timing of parental leave

Maternity and paternity/partner leave must normally be taken in one block of time around the time of the birth. A number of countries do, however, provide greater flexibility around timing of family leave. As table 7 shows, this can be provided in a variety of ways.

In some countries, take-up of family leave can be delayed for considerable periods rather than being restricted to a child's infancy or pre-school years. In The Netherlands, Slovenia, Sweden, Iceland and Italy the leave can be used at any time before the child reaches the age of eight. Belgium, the Czech Republic and Portugal allow the leave to be used by the child's sixth birthday. The United Kingdom allows blocks of family leave to be taken, albeit unpaid, up to the child's fifth birthday. The longer the total duration of leave, paid or unpaid, the more likely there is to be flexibility around the timing of use.

New Zealand and Australia both have inflexible requirements for the timing of family leave. There is an expectation that leave will be taken around late pregnancy (although neither country is prescriptive about the start date for take-up) and through the birth and immediate post-partum period. In New Zealand, each type of leave (paid parental, paternity and extended leave) must be taken in one continuous block. Parents can return to paid work after paid parental or paternity leave and take up a portion of extended leave at a different date. The right to extended leave ends, however, when a child is one year old. This means that parents cannot, for example, save the leave until their child is older to cover times of illness.

TABLE 7: FLEXIBILITY IN THE TIMING OF FAMILY LEAVE

Australia	No flexibility.
Austria	Opportunities to postpone three months up to child aged seven.
Belgium	Can be taken up to the child's sixth birthday.
Canada	Dependent on province.
Czech Republic	Can be taken up to the child's sixth birthday.
Denmark	Can be taken in blocks and delayed.
Estonia	Can be taken up to the child's third birthday and can be used in one or more blocks.
Finland	Each parent can take leave in two parts and/or part-time.
France	Can be taken up to the child's third birthday and can be taken part-time.
Germany	Can be taken up part-time and used in up to two blocks by each parent. The final year of leave may be taken up to a child's sixth birthday.
Greece	Can be taken up to the child's third birthday and can be used in one or more blocks.
Hungary	Can be taken up to the child's third birthday.
Iceland	Paid leave can be taken up to 18 months after birth and unpaid leave taken until a child is eight years old and can be used in one or more blocks.
Ireland	Can be taken up to the child's fifth birthday and can be used in one or more blocks.
Italy	Can be taken up to the child's eighth birthday and can be used in one or more blocks amounting to six months.
<i>New Zealand</i>	<i>Leave is lost if not taken before a child is one year old.</i>
Norway	Can be used in blocks with length of period adjusted according to proportion of earnings payment and can be taken part-time.
Portugal	Can be taken up to the child's eighth birthday and used part-time.
Slovenia	Can be taken up to the child's eighth birthday and used part-time.
Spain	No limit to the periods of leave that can be taken until the child is three years old.
Sweden	Can be taken up to the child's eighth birthday and can be used in one or more blocks, or part-time.
The Netherlands	Can be taken up to the child's eighth birthday and can be used in one or more blocks and can be taken part-time.
United Kingdom	Unpaid parental leave may be taken up to the child's fifth birthday in blocks of one to four weeks per year.

Combining parental leave with paid work

Several countries, notably Germany, Italy, Hungary, Slovenia and The Netherlands, insist that women take up maternity leave and make it illegal for them to be in paid work during a specified period. In general, compulsory leave is designed to ensure that the mother takes time to recover from the birth. Beyond this initial period, most countries allow mothers (or fathers) to return to paid employment part-time and receive their paid parental leave, also on a part-time basis. This extends the period of paid leave and also helps compensate parents for the loss of income they incur if returning to employment part-time. It also means that parents – usually mothers – are not forced to choose

between full-time caring or full-time paid work, a situation which may encourage some to withdraw from the labour market entirely. Of the 23 countries listed in table 7, only Australia, Ireland, Italy and New Zealand do not allow any type of parental leave to be combined with part-time work.

Flexibility in family leave is associated with the different function that family leave plays relative to maternity and paternity/partner leave in many countries. Notably, while New Zealand refers to its paid leave as 'parental leave', this provision shows little of the flexibility evident in family leave in comparable countries.

FUNDING PARENTAL LEAVE

Statutory entitlements to paid parental leave can be funded by a variety of different mechanisms, but can be broadly divided into two categories: tax-based government appropriations and insurance- or levy-based schemes. Insurance-based schemes can similarly be divided into schemes that require employer contributions and schemes that require employee contributions.

The funding approach taken in different countries depends largely on how access to wider welfare benefits is determined. For example, in many European countries employee-based social insurance contributions determine an individual's access to, or the level of, unemployment benefit. The vast majority of countries provide at least some tax-based funding of paid parental leave. Employer contributions are, however, common in many countries including the United Kingdom, Germany, France, Denmark, The Netherlands, Switzerland and Sweden.

CONCLUSIONS

So how does New Zealand compare? As we have seen, many nations provide only paid parental leave. Other countries, including New Zealand, provide a relatively short period of paid parental leave followed by a much longer unpaid leave entitlement. Only two OECD nations, Australia and the United States, provide no paid parental leave.

To judge the overall generosity of a paid parental leave scheme it is important to consider the level of earnings replacement offered, any maximum payment caps and the duration of payment. Both the level and duration of parental leave payment available to families would need to be substantially enhanced for New Zealand's provisions to be comparable with those in most other developed countries. New Zealand is also among the most restrictive countries in terms of the employment criteria for accessing parental leave and lack of flexibility in the way that leave may be used.

In chapter four we draw on evidence of the effects of parental leave on family outcomes and international policy developments to develop policy recommendations for New Zealand.

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CHAPTER FOUR

families commission recommendations



Decisions regarding the design and generosity of parental leave policy depend, in part, on the extent to which childbearing and rearing is considered to be a private responsibility or a 'public good'. We believe that a comprehensive parental leave policy is one of a number of family-friendly reforms required to provide better recognition and support to those who choose to have children. Government clearly has a role to play in setting equitable standards for employees facing a temporary and necessary absence from paid work due to maternity and early childcare responsibilities.

As previous chapters have demonstrated, there is clearly room to improve in giving parents a real choice and helping children to get off to the best possible start in life. Many New Zealand employees lack access to paid parental leave. The payment period is relatively short and the maximum payment level is low compared with average earnings. Together this means many parents are under financial pressure to return to work before they or their babies are ready. New Zealand's parental leave policy provides a much lower level of support than that of many other OECD countries.

In this paper we have taken a long-term view of the changes to parental leave policy that are required in order to better serve the interests of New Zealand families, children, workplaces and wider society.

There is strong support for paid parental leave among mothers, fathers and employers. Mothers say that the existing scheme recognises the importance of time out of paid work to focus on caring for a new baby and lessens money worries. However, when considering further developments to New Zealand parental leave policy, a number of aspects of the current scheme need to be considered, including:

- > the current period of paid leave (14 weeks)
- > the maximum payment level
- > leave entitlement for fathers/partners
- > employment requirements which affect workers' access to parental leave
- > flexibility in the way that leave may be taken.

Since the introduction of paid parental leave in 2002 a number of amendments have been made to enhance provision. Government has committed to consider further improvements to the duration of leave, entitlements and payment levels as part of the *Choices for Living, Caring and Working* 10-year action plan to improve caring and employment options for parents and other carers (New Zealand Government, 2006).

Parental leave policy needs to balance different objectives to deliver reforms that promote the health and wellbeing of mothers and babies, family income stability and gender equity. Our recommendations are informed by evidence of the effects of parental leave on these objectives, our understanding of international policy developments and the preferences of New Zealand families.

In the remainder of this chapter we set out our recommendations for policy change, the implications for families and estimates of the costs to government.

HOW SHOULD PARENTAL LEAVE BE FUNDED?

There are various ways of funding and administering parental leave policies. New Zealand currently funds paid parental leave via general taxation. This is an efficient system which shares the costs of providing parental leave and avoids the transaction costs associated with setting up an alternative administrative system. This approach recognises that parenting can be seen as a 'public good' and that there are wider social benefits associated with supporting parents to take time out of paid work in the period prior to and following the birth of a child.

Funding parental leave via general taxation also avoids some of the drawbacks of alternative approaches such as employer levies or employee-based social insurance. For example, social insurance-based systems raise equity concerns regarding access to adequate levels of paid parental leave for employees with short or broken employment histories.

Introduction of an employer levy would risk a backlash from employers who may be unwilling or unable to bear the costs of parental leave provision. A requirement for employers to 'top up' parental leave entitlements may encourage discrimination by creating financial disincentives for employers to employ women of child-bearing age. Industries and organisations that employ large numbers of women would also be penalised by any move to introduce compulsory employer top-up payments. This would result in an uneven distribution of the costs of providing parental leave across employment sectors.

We do not believe there would be any significant advantage in moving to an alternative way of funding parental leave.

Families Commission recommendation regarding funding of parental leave

Parental leave payments should continue to be funded by government via general taxation and administered by the Inland Revenue Department.

HOW MANY WEEKS OR MONTHS SHOULD PARENTAL LEAVE BE AVAILABLE?

The length of job-protected parental leave has a direct impact on the number of weeks or months parents are able to take out of paid work to care for a new baby. In the absence of adequate job protection, mothers or fathers/partners who wish to stay at home to care for a baby are forced to resign from paid work. The level and duration of *paid* parental leave are both critical factors affecting the ability of parents to take up their full entitlements.

There is growing evidence that consistent one-to-one parental care in the first year has benefits for immediate infant health and longer-term child development. There is also evidence that the 'fit' between mothers' paid work and caring preferences is important for maternal health and wellbeing. There is, however, little clear guidance regarding the 'optimal' length of leave in terms of balancing child health and development, gender equity in the home and labour market and long-term family living standards.

Parental leave policies can play an important role in allowing mothers to maintain their attachment to the labour force following the birth of a child. Job-protection provisions

also help to protect future family income by ensuring that mothers and fathers/partners are able to take time out to care for a new baby without disadvantage to position or pay. There is, however, some indication that a 'very long' period of leave may discourage labour-force re-attachment with negative consequences for an employee's skill loss, career progression and long-term economic security. Where this may result in low family living standards, there are flow-on risks for child wellbeing. It is important, then, that parental leave policies are designed in such a way as to minimise any potential negative impacts on gender equity in the home and labour market. Enabling or encouraging parents to share parental leave is one possible policy response. This is discussed further in the following section.

Very few studies have attempted to determine the point at which the duration of leave may have a negative impact on labour-market opportunities. At the lower end, one study has indicated that the positive effects of parental leave on labour-market attachment may begin to decrease after individual leave periods of more than 20 weeks (Jaumotte, 2003), while another study indicates that there are positive labour-market effects with leave periods of up to a year (Ruhm and Teague, 1995). There is general agreement that any negative effects on gender equity and future economic wellbeing are more likely to occur with significantly longer periods of leave (eg three years) and, in particular, repeated periods of leave.

When determining the 'ideal' length of parental leave it is also important to have an understanding of parental preferences. According to the Department of Labour's (2006b) parental leave evaluation, New Zealand parents would prefer to take longer parental leave than they currently do. This evaluation found that most mothers currently take around six months leave, but would like to take 12 months leave or more. Fathers indicated that their preferred leave period is up to four weeks, taken concurrently with the mother.

We recommend that the overall period of job protection provided via parental leave should increase from a maximum of 54 weeks to 56 weeks. Any individual employee would access a maximum of 52 weeks, except in exceptional circumstances.²⁹ This change would increase the period of designated leave for fathers/partners *only* from two to four weeks, without reducing the total period of up to 52 weeks job protection available to mothers (see the following section for further details on the proposed structure of entitlements).

To ensure that parents are better able to maintain income stability and take their full entitlement to parental leave, increases to the payment period are required. As pointed out in chapter one, the majority of families with children now rely on the mother's paid work to maintain their standard of living. Unless parental leave is paid – and at a reasonable level – many parents will be unable to take advantage of the job-protected leave to which they are entitled and which they would like to take.

We recommend a phased approach to increase the total period of *paid* parental leave available to families from 14 weeks, to 30 weeks, 43 weeks and finally 56 weeks. To support early child health and breastfeeding objectives, the first phase changes would ensure that families have access to six months paid leave (or seven months if paternity/partner leave is taken consecutively). We propose that in the second and third phases, the new entitlements to paid maternity and paternity/partner leave would remain, and the length of paid family leave would be increased from 12 weeks to 25 weeks and finally 38 weeks. In phase two, this would give families access to a total

²⁹ For example, it is proposed that single-parent mothers should have access to paternity/partner leave and that fathers/partners should have access to maternity leave in the case of maternal death or illness.

of nine months paid parental leave (or ten months if paternity/partner leave is taken consecutively). Phase three would provide a total of 12 months paid parental leave (or 13 months if paternity/partner leave is taken consecutively).

Families Commission recommendation on duration of parental leave

The total duration of job-protected leave available to families should become 56 weeks (14 weeks maternity, four weeks paternity/partner, 38 weeks family leave).

Any individual employee would access a maximum of 52 weeks job protection, except in exceptional circumstances.

We propose a progressive increase in the total proportion of this leave that is *paid*. This would mean moving from the status quo of 14 weeks of *paid* parental leave to:

- > *Phase one: Six months paid parental leave* (or seven months if paternity/partner leave is taken consecutively)
- > *Phase two: Nine months paid parental leave* (or 10 months if paternity/partner leave is taken consecutively)
- > *Phase three: 12 months paid parental leave* (or 13 months if paternity/partner leave is taken consecutively).³⁰

HOW SHOULD PARENTAL LEAVE ENTITLEMENTS BE STRUCTURED?

The structure of parental leave entitlements affects who will – or is most likely to – take up parental leave. Access to job protection and financial assistance may be based on an entitlement for mothers, separate individual entitlements for mothers and fathers/partners and/or a family entitlement.

Health and welfare arguments favour reserving an early part of parental leave for mothers for use in the late stages of pregnancy, to support recovery from the birth and give her the opportunity to establish breastfeeding with her infant. The ILO identifies 14 weeks as the minimum period necessary for this purpose. We recommend the introduction of 14 weeks *paid maternity leave* for new mothers. In recognition of maternal health objectives, it is common international practice for maternity leave to be a non-transferable entitlement for mothers only (with exceptions in the instance of maternal death or illness). Whether or not this entitlement should be transferable to fathers at the mothers' discretion in New Zealand could be the subject for further consideration and debate.

The introduction of a specific paid leave entitlement for fathers/partners would legitimate their needs for time off paid work in order to bond with a new baby and support the mother. Paternity/partner leave also enables fathers/partners to care for any other children while the mother is recovering from childbirth. *Paid* paternity/partner leave encourages fathers/partners to play an active role in children's lives from the very beginning. In the longer term there is also evidence that father/partner engagement in childrearing reaps benefits for children, particularly in the area of cognitive development and educational outcomes.

³⁰ The Families Commission would like to see all three phases implemented by 2015, in line with the Government's 10-year *Choices for Living, Caring and Working* action plan.

Lack of a specific entitlement to paid leave may make it difficult for fathers/partners to negotiate with their employers to take time off following the birth of a child. This is particularly the case if family caring responsibilities are seen by employers to rest primarily or exclusively with mothers. Reserving part of the total leave period of paid leave for fathers/partners would provide a clear signal that the Government recognises and supports the involvement of fathers/partners within families with young children. International evidence shows that men are most likely to take parental leave if it is a 'use-it-or-lose-it' entitlement paid at a high level of income replacement. The Department of Labour's (2006b) parental leave evaluation indicates that around half of New Zealand fathers would be likely to take up an entitlement to paid paternity/partner leave if it was offered. We recommend the introduction of four weeks *paid paternity/partner leave*. This would bring New Zealand in line with growing international practice and better reflect parental preferences. In single-parent families, we propose that paternity/partner leave should revert to the mother/primary carer, so that these families have equal access to the same total amount of paid parental leave as two-parent families.³¹

An extension of *family leave* (available to either eligible parent) would allow parents to make their own decisions about how best to use any further period of job-protected leave.³² Beyond the initial 14-week period, which parent takes parental leave is less important from a child development perspective. The WHO's recommendations regarding exclusive breastfeeding in the first six months indicate that mothers should have access to an extended period of leave over this period to enable those who wish to continue to breastfeed to do so. The introduction of designated paid paternity/partner leave combined with equal access to paid family leave would also benefit fathers/partners. Current provisions mean that fathers/partners can access up to 14 weeks paid parental leave if the mother is eligible and chooses to transfer her entitlement. In the first phase, fathers/partners would gain access to 18 weeks paid leave (four weeks paternity/partner plus 12 weeks family leave).

In the case of adoptive children under the age of six, we propose that all leave is designated as family leave and available to either eligible parent/carer.³³ In recognition of the wider parenting responsibilities of extended family members, consideration could also be given to allowing some or all family leave to be transferred to another eligible family member who is engaged in a parenting role (for example grandparents, other relatives and those looking after children under whāngai arrangements).

Structured parental leave entitlements recognise that parental leave policy serves multiple objectives. The introduction of such entitlements would support mothers' recovery from childbirth and early infant health outcomes, promote gender equity and encourage fathers/partners to be involved in the care of children. A combination of individual and shared-leave entitlements between mothers and fathers/partners would also continue to allow parents a high level of choice over the care arrangements they make for their baby or infant.

³¹ Consideration could also be given to allowing single parents to transfer the four weeks paternity leave to another, live-in family member such as a grandparent.

³² In two-parent families where only one parent meets the employment criteria, we propose that this parent must have primary caring responsibilities over the leave period in order to access paid family leave.

³³ This paper focuses on the needs of families caring for a child under the age of one. The Commission recommends that parents of an adoptive child under the age of six should continue to access the same entitlements to paid parental leave as biological parents. As with existing entitlements for adoptive parents, parents would be able to nominate either eligible parent for access to maternity, paternity/partner or family leave.

Families Commission recommendation on the structure of parental leave

Increases to the duration of paid family leave available to either eligible parent should be phased in over time until the total duration of paid parental leave reaches 12 months (or 13 months if paternity/partner leave is taken consecutively). Consideration should be given to allowing some or all family leave to be transferred to another eligible family member who is engaged in a parenting role.

The expansion of family leave should be complemented by the introduction of an individual entitlement to paid parental leave for both mothers and fathers/partners.

Phase one

- > **12 weeks paid family leave** able to be shared between eligible parents
- > **14 weeks paid maternity leave** intended for eligible mothers
- > **four weeks paid paternity/partner leave** for eligible fathers/partners.

Phase two

- > **25 weeks paid family leave** able to be shared between eligible parents
- > **14 weeks paid maternity leave** intended for eligible mothers
- > **four weeks paid paternity/partner leave** for eligible fathers/partners.

Phase three

- > **38 weeks paid family leave** able to be shared between eligible parents
- > **14 weeks paid maternity leave** intended for eligible mothers
- > **four weeks paid paternity/partner leave** for eligible fathers/partners.³⁴

WHAT SHOULD THE PAYMENT LEVEL BE?

The level of parental leave payments has a major effect on family income stability at a time of transition. Together with the duration of paid leave, payment level is crucial to parents' ability to choose how much time they take out of paid work and who cares for their child in the early part of its life. The short duration and low maximum payment cap for parental leave currently mean that many families experience a significant drop in family income in the period following the birth of a child and that parents – usually mothers – are under financial pressure to return to paid work before they are ready.

A number of decisions regarding paid leave affect the costs faced by government and the level of assistance that parental leave offers families with young children.

Key questions include:

- > What level of earnings replacement should be provided?
- > How should past earnings be calculated?
- > Should payment levels be capped?

³⁴ The Families Commission would like to see all three phases implemented by 2015, in line with the Government's 10-year *Choices for Living, Caring and Working* action plan.

Earnings replacement

To meet health and development objectives there is a strong case for parental leave to be paid at a level that enables mothers – and fathers – to take time out of paid work without facing a significant drop in family income. This would support mothers to recover from the birth and establish breastfeeding and enable more children to receive more parental care in the first year of life. Income stability and gender equity objectives indicate that an increased level of wage replacement would be desirable to compensate for lost earnings and maintain family living standards. Mothers are less likely to be able to stay at home to care for their baby if wage replacement levels are low. A low level of wage replacement also means women face the majority of the costs associated with leaving the workforce to bear and rear children, with little financial support to recognise the costs that this entails. Fathers are much less likely to take up parental leave if it is paid at a low level of wage replacement.

So what is the ‘ideal’ level of earnings replacement? It is common international practice to pay maternity and paternity/partner leave at a high level of earnings replacement (see chapter three). New Zealand currently pays parental leave at 100 percent earnings replacement up to a maximum payment cap which, in 2006-07, was \$372.12 per week.³⁵ Countries that provide an extended period of family leave tend to drop the maximum payment cap, or reduce the level of earnings replacement provided for that period as a way of reducing the total cost of parental leave to government. These two options for reducing the costs of parental leave have different distributional impacts on families. Cost savings from reducing the earnings replacement level are from those who earn less than the payment cap (ie lower-income earners). In contrast, reducing the maximum payment cap affects those who earn the payment cap or more (ie middle- or higher-income earners). In view of these distributional impacts, we recommend keeping an earnings replacement level of 100 percent for the proposed new maternity, paternity/partner and family leave entitlements (refer also to the following section on the maximum payment cap).

Income assessment

So how should past earnings be calculated? It is important that earnings are averaged over a set assessment period to smooth out any fluctuations in income. In order to determine the level of parental leave payment, we recommend retaining the current practice of averaging earnings over the whole qualifying period for the assessment of earnings. Alternative approaches, such as basing assessment of income on earnings immediately prior to taking up parental leave, have a number of disadvantages. For example, this could create incentives for pregnant women to increase their hours of work in the period immediately prior to taking parental leave, or serve to disadvantage casual workers who are intermittently unemployed.

We recommend that, for those with a continuous work history of 26 weeks, income assessment is based on average weekly earnings over these 26 weeks. For those with an irregular employment history which includes at least 26 weeks of paid employment or self-employment over the last 52 weeks, it is recommended that income assessment is averaged over a 26-week period.³⁶

³⁵ The maximum payment cap increased from \$372.12 per week to \$391.28 per week on 1 July 2007.

³⁶ For those who have been employed or self-employed intermittently for more than 26 weeks in the last 52 weeks, the most generous option would be to allow them to select which 26 weeks from the last 52 weeks should be the basis for income assessment. Administrative and implementation issues require further consideration.

Payment cap

Providing a high level of income replacement *up to a maximum payment cap* has the effect of limiting the cost of the paid parental leave scheme to government and ensuring that the distribution of payment is not inordinately skewed towards those on very high incomes.

As discussed elsewhere in the paper, the 2006-07 New Zealand maximum payment cap of \$372.12 per week is low – equivalent to around 83 percent of the adult minimum weekly wage and just under half of adult average full-time weekly earnings.³⁷ We estimate that, of those who meet the eligibility criteria, up to 18 percent of eligible employed women and nine percent of eligible employed men are able to receive full income replacement under these policy settings. It follows that at least 82 percent of eligible employed women and at least 91 percent of eligible employed men face a drop in personal income if they take up paid parental leave. As indicated earlier in the paper, a drop in personal income may, however, be offset to some degree by new or higher payments received via tax credits or other forms of social assistance, depending on overall household income.

We considered four options for raising the maximum payment cap. In each option, entitlement to payment is at 100 percent of earnings replacement, but the maximum cap is increased to represent varying payment levels.³⁸

TABLE 8: OPTIONS FOR INCREASING THE MAXIMUM PAYMENT LEVEL FOR PARENTAL LEAVE

	PARENTAL LEAVE PAYMENT CAP <i>(payments to be at 100% of an individual's average weekly earnings up to the maximum cap)</i>	DESCRIPTION
Option 1 <i>(Least generous option)</i>	Full-time weekly minimum wage \$410 per week	This is the least generous option, with the <i>maximum</i> parental leave payment still only meeting the level considered a minimum living wage. It represents a modest increase to the current cap.
Option 2	66% of average weekly full-time earnings \$533.14 per week	The ILO recommends that maternity leave benefits should not be less than two-thirds of a woman's previous earnings. This option represents a moderate improvement on the status quo.
Option 3	80% of average weekly full-time earnings \$646.22 per week	Options 3 and 4 reflect a sliding scale of generosity in payment levels, moving towards 100% average full-time weekly earnings.
Option 4 <i>(Most generous option)</i>	100% of average weekly full-time earnings \$807.78 per week	

In *Options 2, 3 and 4*, the maximum cap for payments is related to average full-time weekly earnings for men and women. A cap based on average full-time earnings for women only would reinforce gender pay gaps and make it less likely that men would take up parental leave entitlements. A cap based on earnings for full-time and part-time workers would lower the cap for all workers.

³⁷ As indicated earlier in this report, in June 2006 average adult full-time weekly earnings were \$807.78. Following an increase in April 2007, the adult minimum weekly wage for 40 hours work is now \$450. The maximum payment cap increased from \$372.12 per week to \$391.28 per week on 1 July 2007.

³⁸ Average weekly full-time earnings are based on June 2006 Quarterly Employment Survey data.

Table 9 sets out an estimate of the proportion of women and men that would receive full wage replacement if the cap was raised to each of these four possible levels – from the minimum wage through to average weekly full-time earnings. Estimates of the costs of these different payment levels across 30, 43 and 56 weeks are provided in appendix six. These estimates take into account proposed changes to the employment criteria for accessing parental leave, as set out in the following section.

TABLE 9: ESTIMATE OF PROPORTION OF ELIGIBLE MEN AND WOMEN ABLE TO RECEIVE FULL EARNINGS REPLACEMENT AT DIFFERENT MAXIMUM PARENTAL LEAVE PAYMENT LEVELS³⁹

PARENTAL LEAVE PAYMENT CAP <i>(all parental leave payments paid at 100% of an individual's average weekly earnings up to the maximum cap set out below)</i>					
	\$372.12 (2006-07 cap) ⁴⁰	\$410 (full-time weekly minimum wage) ⁴¹	\$533.14 (66% of average weekly full-time earnings)	\$646.22 (80% of average weekly full-time earnings)	\$807.78 (100% of average weekly full-time earnings)
Women	20%	27%	40%	53%	74%
Men	9%	13%	23%	35%	56%

The 'ideal option', in terms of providing the highest level of support to families with young children is the most generous – introducing a maximum payment cap set at average weekly full-time earnings. This would clearly be very expensive, particularly with extensions to the payment period of up to 56 weeks. It is also common international practice to reduce the payment level for extended periods of parental leave.

The introduction of a maximum payment cap for maternity and paternity/partner leave set at 80 percent of the average weekly full-time earnings would be a less expensive option, but still make a major difference to families in the critical period immediately prior to and following childbirth. This would allow around half of eligible women and a third of eligible men to receive full wage replacement while on maternity or paternity/partner leave. It does not, however, attempt to replicate the most generous policy packages offered in countries such as Hungary, Norway and Sweden (see chapter three). Reducing the maximum payment cap from 80 percent to 66 percent for family leave would continue to provide a significant level of financial assistance to families who wish to continue to provide parental care over the first year. It would reduce the cost to government by between four percent and seven percent of total costs, depending on the duration of paid leave.⁴²

We recommend that the maximum payment cap for maternity and paternity/partner leave payments is increased to *80 percent of the average weekly full-time earnings* and

³⁹ See appendix six: These estimates are drawn from our costing model and are based on customised tables of Statistics New Zealand data from the June 2006 Income Survey and the Survey of Family Income and Employment (SoFIE).

⁴⁰ The maximum payment cap increased from \$372.12 per week to \$391.28 per week on 1 July 2007.

⁴¹ The minimum adult wage increased on 1 April 2007 to \$11.25 per hour (\$450 per week for a 40-hour week). Our cost estimates were produced before this increase and use the previous minimum wage of \$10.25 per hour (\$410 for a 40-hour week)

⁴² This is a difference of up to \$14.4 million per annum for seven months paid parental leave, \$23.7 million per annum for 10 months paid parental leave and 33.1 million per annum for 13 months paid parental leave.

66 percent of the average weekly full-time earnings for paid family leave. We would like further consideration to be given to increasing the maximum payment cap in future years.

Families Commission recommendation on parental leave payment level

Earnings replacement: Maternity, paternity/partner and paid family leave should be paid at 100 percent earnings replacement up to a maximum payment cap.

Income assessment: Income assessment for those with a continuous work history of 26 weeks should be based on the average weekly earnings over these 26 weeks.

Income assessment for those with an irregular work history which includes at least 26 weeks of paid work over the 52 weeks prior to the birth or adoption should be averaged over a 26-week period.

Maximum payment cap: The payment cap should increase substantially to:

- > 80 percent of average full-time weekly earnings for 14 weeks maternity and four weeks paternity/partner leave
- > 66 percent of average full-time weekly earnings for paid family leave (of 12, 25 or 38 weeks).

EMPLOYMENT REQUIREMENTS

As in New Zealand, a prior employment history is the main criterion for access to payment and job-protected parental leave in most OECD countries. Access to parental leave for temporary, casual or seasonal workers can be limited as such workers may change employers often or be intermittently employed and unemployed. Regulations regarding employment requirements also affect the costs and benefits of parental leave for employers.

We estimate that around a quarter of employed women are currently ineligible for paid parental leave in New Zealand because they fail to meet job tenure requirements of six or 12 months continuous employment or self-employment and/or the minimum hours test.⁴³ Child health and development, gender equity and income stability objectives all support extending access to parental leave for workers who have maintained some workforce attachment but have a limited employment history with any one employer. Many non-standard workers, particularly seasonal, temporary and casual workers are known to have low incomes, so maintaining a level of income stability through parental leave may be particularly important for these groups.

Existing New Zealand parental leave entitlements mean that women who have been with their employer for six months (but less than 12 months) may access 14 weeks paid parental leave, but not extended family leave. Requiring new mothers to either lose their labour-force attachment or return after a very brief period of leave does not serve the best interests of mothers or babies. In the absence of clear evidence that the extension of job protection from 14 weeks to 52 weeks⁴⁴ would place a *significant* burden on employers, retaining a lesser level of job protection for employees who have been employed for six months does not appear warranted.

⁴³ This estimate is based on Income Survey data and IRD operational data on actual take-up.

⁴⁴ Or 56 weeks in exceptional circumstances.

The removal of the minimum hours test would also help to increase access to paid parental leave. In terms of family income stability, this change would be of particular benefit to employees who currently miss out on paid leave due to multiple job holding. At present, eligibility for both payment and job protection is assessed for each job individually. This means that if employees work for less than 10 hours a week in each job (but the total adds up to more than 10 hours), they will miss out on both job protection *and* payment. The removal of the minimum hours test would also simplify the administration of the system for employers and employees alike.

Any policy changes to employment criteria will need to be balanced against the potential difficulty for employers of having to provide job protection for employees who have only worked for them for a short period. One possibility for addressing this issue would be to separate eligibility for parental leave payments from eligibility for job protection in some circumstances. In practice, the extension of paid parental leave to the self-employed (from July 2006) has already done this, since job protection cannot be offered to those who are self-employed.

We recommend that eligibility for payment should be relaxed to include those who have worked for *any* employer or been self-employed for 26 weeks out of the 52 weeks prior to the birth or adoption. This would extend coverage to employees who have a demonstrated employment history, but limited job tenure with any one particular employer. We also recommend the removal of the minimum hours test. We estimate that together these changes would increase the proportion of employed women eligible for parental leave from approximately 75 percent to around 82 percent. The changes are expected to increase costs to government by about eight percent: five percent for the inclusion of employees with a demonstrated employment history but limited job tenure with any particular employer and a further three percent for the inclusion of employed or self-employed parents who work for less than 10 hours a week.

We recommend providing access to payment *and* job protection to employees after six months continuous employment with the same employer. This would extend job protection to those parents who are currently eligible for paid parental leave but not extended unpaid leave. Combined, these reforms should provide greater access to paid parental leave among workers who have changed jobs or experienced gaps in employment *without* placing an inordinate burden on employers.

Families Commission recommendation regarding employment requirements

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).

Job protection after six months continuous employment with the same employer.

Removal of the minimum hours test to broaden access for payment and job protection and ensure that eligibility is no longer affected by average weekly or monthly hours.

FLEXIBILITY

Flexibility around the timing and circumstances of paid parental leave allows parents to take up entitlements in a way that suits the needs of their family. It follows that more flexible parental leave provisions may support employers to retain skilled employees with positive benefits for workplace productivity. Flexible entitlements do, however, add to the administrative complexity of the scheme for both government⁴⁵ and employers.

Currently in New Zealand, parents need to take paid parental leave full-time in one continuous block. Once they return to paid work, they lose any remaining leave that they have not taken. In the majority of developed countries, parental leave arrangements are more flexible, providing parents with greater choices and easing transitions between parental leave and the return to paid work (see chapter three). Options include allowing:

- > parents to take leave in discrete blocks over an extended period of time, rather than in one continuous period
- > paid leave to be taken part-time, where a part-time return to work is negotiated with the employer
- > both parents to be able to take paid leave at the same time.

Allowing parents to combine part-time work with any remaining entitlement to paid leave would help to smooth fluctuations in income and may enable parents who otherwise might have fallen out of the labour market to maintain an ongoing attachment to paid work. The provision of greater flexibility to take leave concurrently with the mother, in blocks of time or in combination with part-time work, may also make parental leave more attractive to fathers/partners (EFILWC, 2007). These provisions would provide better support for those families in which parents wish to share caring responsibilities and paid work.

The relationship between parental leave and access to flexible working conditions is particularly important for many mothers during transition periods between full-time care and return to paid work. A specific entitlement to part-time parental leave may also assist employees to negotiate a part-time return to work with their employer. An ability to spread out entitlements to paid family leave until the child reaches three years would also help by providing a degree of continuity between parental leave policy and early childhood education in New Zealand.⁴⁶ The Department of Labour's (2006b) evaluation of paid parental leave found that around 85 percent of mothers changed their hours on return to paid work.

Any move to provide greater flexibility for parents would need to be subject to the parent being able to negotiate a change or return to part-time work with their employer. Currently, employees are entitled to request changes to their employment status and employers are required to consider and respond to these requests in good faith. New Zealand employees do not currently have an *entitlement* to flexible working conditions, so access to quality flexible work is likely to vary across sectors and employers. If passed, the Employment Relations (Flexible Working Hours) Amendment Bill will give all employees a right to request flexible working hours – and a right to have such requests seriously considered. This Bill is currently being considered by a Select Committee, which is due to report back to Parliament in the middle of 2007.

⁴⁵ The introduction of greater flexibility in the take-up of paid leave would also interact with and affect entitlements to means-tested family tax credits and other forms of social assistance.

⁴⁶ There is a considerable gap between the end of parental leave (at age one) and the availability of free 20 hours of early childhood education at age three and four (to be introduced in July 2007).

There are potential unintended consequences of providing greater flexibility. For example, allowing parents to take up an entitlement to paid leave in combination with part-time work may actively *encourage* (rather than simply allow) parents to return to work part-time in the first year of a child's life. In terms of distributional impacts, the benefits also seem likely to accrue primarily to middle- and higher-income families who can more easily afford to return to work part-time rather than full-time. Any moves to provide greater flexibility would also have to be carefully managed to reduce administrative complexity and ensure that employers do not face inordinate uncertainty regarding parents' timing and availability for return to paid work.

In order to safeguard maternal and child health, we recommend that maternity leave should remain a fixed entitlement, available full-time for the period immediately prior to and following birth. In relation to paternity/partner and family leave, greater flexibility would, however, help to ease transitions back into paid work and may encourage fathers/partners to take up leave.

We recommend allowing four weeks of paid paternity/partner leave to be used at the same time as maternity leave, consecutively after maternity leave is completed, or pro-rata, in combination with part-time work at any time within the child's first year of life. The Commission also recommends that consideration is given to allowing paid family leave to be taken before the child is three years old, in designated blocks of time, or in combination with part-time paid work.

Families Commission recommendation on flexibility of paid parental leave

Family leave: Consideration given to allowing family leave to be taken before the child is three years old, in designated blocks of time, or in combination with part-time paid work (to supplement the income of a parent who works part-time).

Maternity leave: To be a fixed entitlement available for the period immediately prior to and following birth.

Paternity/partner leave: To be used at the same time as maternity leave, consecutively after maternity leave is completed, in designated blocks of time, or part-time, in combination with part-time paid work at any time within the child's first year of life.

PROPOSED TIMELINE FOR REFORM

The gaps between existing parental leave policy and the proposed changes outlined in this paper are significant. It is clear that major policy changes in this area will need to be phased in over time. Full implementation would require a commitment to very significant investment by government over a number of years.

There is a variety of possible approaches to phasing in policy changes. We consider that broadening the eligibility criteria to include a wider group of employed women (and men) is an urgent priority. We know from the Department of Labour (2006b) parental leave evaluation that mothers who are *not* eligible for paid parental leave return to work significantly earlier than other mothers, and that the discrepancy between ideal and actual leave is greatest for this group.

There are clearly trade-offs between payment level and duration. Extending the duration of paid leave would allow parents to take a longer period of time out from paid work. One option would be to retain a low payment cap with an immediate extension of payment duration to 56 weeks (and a proposal to increase the maximum payment cap over time). We do *not* recommend this as retaining a low payment cap would mean that a significant number of parents would be unlikely to take up their full entitlement to job-protected leave. If the maximum payment cap remained at \$372.12 per week (the 2006-07 cap), but employment requirements for eligibility were relaxed in line with our recommendations, we estimate that at least three-quarters of eligible employed women and around 90 percent of eligible employed men would face a drop in personal income while on paid parental leave. *This indicates that the vast majority of eligible New Zealand families would benefit from an increase in the maximum payment cap.*

While access to financial assistance available through the tax and social assistance systems does help to protect family living standards, the distributional effects of a low maximum payment cap are likely to grow in significance as the duration of paid leave increases. As the maximum payment cap is currently below the adult minimum wage for full-time work, families best served by current entitlements are those in which one parent works part-time with weekly earnings up to the maximum payment cap. It follows that couples that can afford to absorb a significant drop in income, or those in which the second earner contributes relatively little to household finances, are in a better position to take up extended periods of low-paid or unpaid parental leave than lower-income families, many single-parent families or couples in which both parents contribute more equally to household finances.

Table 10 sets out a proposed phased approach for reforms. The Families Commission would like to see all three phases implemented by 2015 in line with the Government's 10-year action plan to improve the caring and employment choices available to parents and carers, *Choices for Living, Caring and Working* (New Zealand Government, 2006).

TABLE 10: PROPOSED TIMELINE FOR REFORM

POLICY CHANGES	PHASE ONE	PHASE TWO	PHASE THREE
Structure of entitlements	<p>Introduction of new individual and family entitlements to parental leave:</p> <ul style="list-style-type: none"> > 12 weeks <i>paid</i> family leave > 14 weeks <i>paid</i> maternity leave > four weeks <i>paid</i> paternity/partner leave <p>Another 26 weeks of job-protected family leave to remain unpaid.</p>	<p>Maternity and paternity/partner leave to remain the same.</p> <p>Extension of <i>paid</i> family leave from 12 weeks to 25 weeks.</p> <p>Another 13 weeks job-protected family leave to remain unpaid.</p>	<p>Maternity and paternity/partner leave to remain the same.</p> <p>Extension of <i>paid</i> family leave from 25 weeks to 38 weeks.</p>
Duration of leave	<p>As above.</p> <p>Extension of <i>total</i> amount of paid parental leave from 14 weeks to 30 weeks.</p> <p>Remaining 26 weeks job-protected family leave to be unpaid.</p>	<p>As above.</p> <p>Extension of <i>total</i> amount of paid parental leave from 30 weeks to 43 weeks.</p> <p>Remaining 13 weeks job-protected family leave to be unpaid.</p>	<p>As above.</p> <p>Extension of <i>total</i> amount of paid parental leave to 56 weeks.</p>
Payment level	<p>100% of earnings replacement up to maximum payment cap of 80% of average weekly full-time earnings for <i>maternity and paternity/partner leave</i>.</p> <p>100% of earnings replacement up to agreed maximum payment cap of 66% of the average weekly full-time earnings for paid <i>family leave</i>.</p>	<p>No further change to maximum payment levels.</p>	<p>No further change to maximum payment levels.</p>
Employment requirements	<p>Eligibility for <i>payment</i> after employment or self-employment for six months in the last 12 months (with no limit on number of employers or number of positions).</p> <p><i>Job protection</i> after six months continuous employment with the same employer.</p>	<p>No additional change.</p>	<p>No additional change.</p>
Flexibility	<p><i>Maternity leave</i>: To remain a fixed entitlement available for the period immediately prior to and following birth.</p> <p><i>Paternity/partner leave</i>: Available for use at the same time as maternity leave, consecutively after paid maternity leave is completed, in designated blocks of time, or part-time in combination with part-time paid work at any time within the child's first year of life.</p> <p><i>Family leave</i>: Consideration given to allowing remaining leave entitlement to be taken before the child is three years old, in designated blocks of time, or in combination with part-time paid work (to supplement the income of a parent who works part-time).</p>	<p>No additional change.</p>	<p>No additional change.</p>
Estimated annual cost to government	\$306.0m	\$378.5m	\$450.9m

TOTAL ESTIMATED COSTS TO GOVERNMENT

Estimates of the **net costs** in 2006-07 of paid parental leave of 14 weeks with existing eligibility requirements and the 2006-07 payment cap of \$372.12 per week are **\$94.6 million**.⁴⁷

So how much would the recommended policy changes cost? Appendix six sets out the estimated cost of increasing the payment cap to one of four different levels over three different time periods (seven months, 10 months or 13 months).⁴⁸ All of these cost estimates are provided net of tax.

Increasing the maximum payment cap, relaxing employment requirements and allowing greater flexibility in the use of leave will allow more employed parents to take up at least some portion of paid parental leave. However, as the duration of paid leave increases, the proportion of parents taking their *full* entitlement to paid leave is likely to decrease. Our cost estimates assume that 83 percent of those eligible to take up *maternity leave* will do so. This draws on Inland Revenue Department (IRD) estimates of current take-up of the existing 14 weeks paid parental leave. Based on findings from the Department of Labour's (2006b) parental leave evaluation, the cost estimates assume that half of fathers/partners eligible to take up *paternity/partner leave* will do so.

Drawing on the same evaluation, we assume that take-up of all types of paid parental leave will be highest in the first six months. Therefore, the first 12 weeks of *family leave* assume take-up of 83 percent, while the remaining 26 weeks assume take-up of 50 percent. Cost estimates also take into account proposed changes in eligibility. Relaxing the employment criteria for accessing parental leave is expected to increase the overall cost of parental leave by about eight percent.

Annual cost to government of recommended parental leave policy

If the payment cap was set at *80 percent of the average weekly full-time earnings for maternity and paternity/partner leave and 66 percent of the average weekly full-time earnings for family leave*, this would involve an estimated annual cost to government (including current costs of \$94.6 million) of:

<i>Phase One:</i>	\$306.0 million for six months paid parental leave (or seven months if paternity/partner leave is taken consecutively)
<i>Phase Two:</i>	\$378.5 million for nine months paid parental leave (or 10 months if paternity/partner leave is taken consecutively)
<i>Phase Three:</i>	\$450.9 million for 12 months paid parental leave (or 13 months if paternity/partner leave is taken consecutively).

⁴⁷ Estimates of costs (after tax and contributions paid by recipients) from our costings model based on Income Survey data and incorporating IRD data on the current numbers of recipients of paid parental leave. They include the cost of parental leave payments to the self-employed, which were introduced on 1 July 2006. The maximum payment cap increased from \$372.12 per week to \$391.28 per week on 1 July 2007. Cost estimates, which were produced before this date, are based on the 2006-07 cap, consistent with 2006 income data and other assumptions used in modelling.

⁴⁸ Appendix seven provides a full outline of the Families Commission's approach to costing our recommended policy option.

Parental leave policies also interact with other government policies and practices. If more families take up their entitlement to parental leave, demand for high-cost infant care for babies under the age of one is likely to decrease. There is evidence that spending on infant health may also decrease, especially if a longer duration of paid parental leave helps mothers to establish and maintain breastfeeding. Higher payment levels for parental leave should also result in some decrease in the amount of money currently spent on social assistance. More families would be placed above the income threshold for means-tested benefits or tax relief, while others would require smaller 'top-up' payments due to their increased household income. Our cost estimates do not take into account any potential decreases to social assistance payments – either immediately or in the longer term.

If adopted, these recommendations would bring New Zealand spending on parental leave policy much closer to spending levels found elsewhere in the OECD countries. Over the course of 10 years, New Zealand would shift from a baseline position of spending on parental leave per birth of around 5 percent of GDP per capita (a position that ranks us 25th out of 27 OECD countries) towards spending per birth of around 26 percent of GDP per capita.⁴⁹ This would place New Zealand just below the 2003 OECD average of parental leave spending per birth of around 30 percent GDP per capita (OECD, 2007).

CONCLUSIONS

To give children the best possible start in life mothers and fathers/partners need to be well supported to give babies the care and attention they deserve. Parental leave policy is one of a number of family-friendly policies that help to ease pressure on families combining paid work and caring responsibilities. Social assistance and tax policy also play a crucial role in protecting living standards and promoting the financial wellbeing of families with dependent children.

An enhanced New Zealand parental leave policy is critical to enable parents to take time out of paid work to care for their child in its first year of life. In doing so, parental leave can promote maternal health, child health and development, family income security and gender equity in the home and labour market.

We have made a number of recommendations. These affect the structure of parental leave entitlements, eligibility requirements and flexibility in how parental leave may be used. To ensure that taking up parental leave is a realistic option, we recommend extensions to the period of paid leave and substantial increases in the maximum payment cap.

The Families Commission is recommending significant change. New Zealand's existing parental leave entitlements are among the least generous in the OECD countries. If implemented, these recommendations would bring spending on parental leave much closer to the OECD average. Together these reforms would better serve the interests of New Zealand families, children, workplaces and wider society.

⁴⁹ This figure is based on estimated costs of \$570.8 million on parental leave (the equivalent of \$450.9 million, before allowing for tax and contributions payable by recipients), and Statistics New Zealand figures for GDP, total population and births in the year ending March 2006.

FAMILIES COMMISSION RECOMMENDATIONS

<p><i>Funding model for parental leave</i></p>	<p>Parental leave payments should continue to be funded by government via general taxation and administered by the IRD.</p>
<p><i>Duration of paid and unpaid leave</i></p>	<p>The total duration of job-protected leave available to families should become 56 weeks (14 weeks maternity, four weeks paternity/partner, 38 weeks family leave). Any individual employee would access a maximum of 52 weeks job protection, except in exceptional circumstances.</p> <p>We propose a progressive increase in the total proportion of this leave that is <i>paid</i>. This would mean moving from the status quo of 14 weeks of <i>paid</i> parental leave in three phases:</p> <p>Phase 1: <i>Six months paid parental leave</i> (or seven months if paternity/partner leave is taken consecutively)</p> <p>Phase 2: <i>Nine months paid parental leave</i> (or 10 months if paternity/partner leave is taken consecutively)</p> <p>Phase 3: <i>12 months paid parental leave</i> (or 13 months if paternity/partner leave is taken consecutively).</p>
<p><i>Structure of parental leave entitlements</i></p>	<p>The expansion of paid family leave should be complemented by the introduction of an individual entitlement to paid parental leave for both mothers and fathers/partners. This should include:</p> <ul style="list-style-type: none"> > 14 weeks paid maternity leave intended for eligible mothers > four weeks paid paternity/partner leave for eligible fathers > progressive increases to the proportion of family leave that is paid from 12 weeks Phase 1, 25 weeks Phase 2, 38 weeks Phase 3. <p>Consideration should be given to allowing some or all of family leave to be transferred to another eligible family member who is engaged in a parenting role.</p>
<p><i>Level of parental leave payments</i></p>	<p>Earnings replacement: Maternity, paternity/partner and paid family leave should be paid at 100 percent earnings replacement up to a maximum payment cap.</p> <p>Income assessment: For those with a continuous work history of 26 weeks, income assessment should be based on the average weekly earnings over these 26 weeks. For those with an irregular work history which includes at least 26 weeks of paid work over the 52 weeks prior to the birth or adoption, income assessment should be based on average weekly earnings over a 26-week period.</p> <p>Maximum payment cap: The payment cap should increase substantially to:</p> <p><i>80 percent of average weekly full-time earnings</i> for 14 weeks maternity and four weeks paternity/partner leave</p> <p><i>66 percent of average weekly full-time earnings</i> for paid family leave (of 12, 25 or 38 weeks).</p>
<p><i>Employment requirements</i></p>	<p>Payment after employment or self-employment for six months in the last 12 months prior to birth or adoption (with no limit on number of employers or number of positions).</p> <p>Job protection after six months continuous employment with the same employer.</p> <p>Removal of the minimum hours test to broaden access for payment and job protection and ensure that eligibility is no longer affected by average weekly or monthly hours.</p>
<p><i>Flexibility</i></p>	<p>Family leave: Consideration given to allowing family leave to be taken before the child is three years old, in designated blocks of time, or in combination with part-time paid work (to supplement the income of a parent who works part-time).</p> <p>Maternity leave: To be a fixed entitlement available for the period immediately prior to and following birth.</p> <p>Paternity/partner leave: To be used at the same time as maternity leave, consecutively after maternity leave is completed, in designated blocks of time, or part-time, in combination with part-time paid work at any time within the child's first year of life.</p>
<p>Estimated annual cost to government (including current costs of \$94.6 million)</p>	<p>Phase 1: \$306.0 million for six months paid parental leave (or seven months if paternity/partner leave is taken consecutively)</p> <p>Phase 2: \$378.5 million for nine months paid parental leave (or 10 months if paternity/partner leave is taken consecutively)</p> <p>Phase 3: \$450.9 million for 12 months paid parental leave (or 13 months if paternity/partner leave is taken consecutively).⁵⁰</p>

⁵⁰ The Families Commission would like to see all three phases implemented by 2015, in line with the Government's 10-year *Choices for Living, Caring and Working* action plan.

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APPENDIX ONE

CURRENT PARENTAL LEAVE PROVISIONS	
<i>Funding model for parental leave</i>	Parental leave payments are funded by government via general taxation and administered by the Inland Revenue Department (IRD).
<i>Duration of paid and unpaid leave</i>	The total duration of job-protected leave available to families is 54 weeks (14 weeks paid parental leave, up to two weeks unpaid paternity/partners leave, 38 weeks unpaid extended leave).
<i>Structure of parental leave entitlements</i>	<p>Entitlement to 14 weeks paid parental leave is based on the mother's employment history. She can choose to transfer up to 14 weeks paid parental leave to the father/partner if they are also eligible.</p> <p>Entitlement to unpaid extended leave is based on each individual's eligibility. Where both partners are eligible, the mother can choose to share extended leave with her partner (up to a total of 52 weeks, including the 14 weeks paid parental leave).</p>
<i>Level of parental leave payments</i>	<p>Earnings replacement: Paid parental leave is paid at 100 percent earnings replacement up to a maximum payment cap.</p> <p>Income assessment: Income assessment is based on average weekly earnings over either 26 weeks or 52 weeks (depending on which eligibility period applies).</p> <p>Maximum payment cap: In 2006-07 the weekly payment cap was \$372.12, which was equivalent to:</p> <p><i>83% percent of weekly full-time minimum wage</i></p> <p><i>46% percent of average weekly full-time earnings (for males and females).⁵¹</i></p>
<i>Employment requirements⁵²</i>	<p>Payment after employment with the same employer for six months prior to birth or adoption or self-employment for either six or 12 months before the birth or adoption.</p> <p>Job protection, for 14 weeks paid parental leave and one week unpaid paternity/partners leave, after six months continuous employment with the same employer.</p> <p>Job protection, for up to 54 weeks (14 weeks paid parental leave, two weeks unpaid paternity/partners leave and 38 weeks unpaid extended leave), after 12 months continuous employment with the same employer.</p> <p>Minimum hours test which states that employees and the self-employed must have worked for an average of 10 hours a week (and, for employees, no less than one hour in every week or 40 hours in every month) over the eligibility period.</p>
<i>Flexibility</i>	Parental leave payments stop if the recipient resigns from their job, returns to work or if the fixed-term agreement on which they are employed expires during the period of payment. All paid leave must be taken full-time in one consecutive block.
Estimated annual cost to government	In 2006-07: \$94.6 million⁵³

⁵¹ The maximum payment cap increased from \$372.12 per week to \$391.28 per week on 1 July 2007. The 2007-08 cap is equivalent to 87% of the weekly full-time minimum wage (\$450 from 1 April 2007) and 46% of average weekly full-time earnings (\$843.71 from the March 2007 Quarterly Employment Survey).

⁵² Details of eligibility and employment/self-employment requirements can be found at <http://www.ers.govt.nz/parentalleave>

⁵³ Estimates of cost (after tax and contributions paid by recipients) from Families Commission model, based on Income Survey data and incorporating IRD data on the current numbers of recipients of paid parental leave.

APPENDIX TWO

ADOPTION AND ELIGIBILITY

Most countries recognise the needs of adoptive parents within their provision of parental leave. In many cases the conditions surrounding leave for adoptive parents are the same as for birth parents accessing maternity, paternity/partner and parental leave. Those countries include:

- > Czech Republic
- > France

- > Germany
- > Hungary
- > Italy
- > New Zealand.

Other countries vary in the range of eligibility requirements and entitlements for parents of adopted children. These are set out in the table below:

ACCESS TO PAID PARENTAL LEAVE FOR ADOPTED CHILDREN – WHERE ELIGIBILITY OR ENTITLEMENT DIFFERS FROM PROVISION FOR BIRTH PARENTS

CHANGES TO ELIGIBILITY OR ENTITLEMENTS FOR ADOPTIVE CHILDREN	
Australia	Same statutory rights to parental leave when a child under five years is adopted.
Belgium	Same regulations as for parents having their own children, except parental leave may be taken until a child's eighth birthday.
Canada	Same regulations as for parents having their own children, except in three jurisdictions where adoptive parents are eligible for additional parental leave.
Denmark	Same regulations as for parents having their own children, except two of the 48 weeks must be taken by both parents together.
Estonia	70 days per child under 10 years. Adoptive parents are eligible for parental leave for child under three years and qualify for parental benefit and childcare benefit.
Finland	Parental leave for 234 working days after birth of child or 180 working days if child is older than two months when adopted. Fathers are eligible for same parental leave as fathers having their own children.
Greece	Same regulations apply for parental leave as for parents having their own children.
Iceland	Same regulations as for parents having their own children if the child is younger than eight years when adopted.
Ireland	16 weeks leave for one parent, with payment and eligibility as for maternity leave.
Norway	Same regulations for paternity and parental leave as for parents having their own children.
Portugal	For a child under 15 years, the adopting parent has a right to 100 days consecutive leave. Leave may be divided between two parents.
Slovenia	Leave is 150 days for a child aged up to four years; 120 days for a child 4–10 years. Payment and eligibility as for parental leave.
Spain	Same regulations as for parents having their own children for the adoption of a child under six years with additional needs (eg disability, international adoption).
Sweden	Cohabiting parents get five days each at the time of adoption; a single parent gets 10 days. Temporary paid parental leave provisions apply – 60 days per child per year for children aged less than 12, and for children aged 12 to 15 with a doctor's certificate.
The Netherlands	Four weeks leave for each parent when a child is placed for adoption or long-term fostering, with payment equivalent to maternity leave.
United Kingdom	One adoptive parent is eligible for 26 weeks leave and a flat rate payment per week, plus a further 26 weeks unpaid leave. Adoptive fathers have a right to paternity leave.

APPENDIX THREE

SUMMARY OF INTERNATIONAL PAID PARENTAL LEAVE ENTITLEMENTS

	DURATION OF PAID PARENTAL LEAVE	% WAGE REPLACEMENT	MAXIMUM PAYMENT CAP	EMPLOYMENT CRITERIA
Australia				
Maternity	0	N/A	N/A	Unpaid leave available to employees in permanent and casual positions with 12 months continuous employment with the same employer.
Paternity	0	0		
Family	0	0		
Austria				
Maternity	16 weeks	100	No	All employees and self-employed women.
Paternity	0	0		
Family	0	0		
Belgium				
Maternity	15 weeks	Private avg. 77, public 100 Avg. 87	No	All employees and self-employed women.
Paternity	10 days	100 (3 days) 82 (7 days)	No	All male employees (self-employed not eligible).
Family	3 months	Flat rate		All employees employed 12 months in previous 15 months.
Canada				
Maternity	15 weeks	55	Yes	Women employees with continuous 12 months employment with same employer.
Paternity	0	0		
Family	35 weeks	55	Yes	As for maternity leave but some employees and employment excepted.
Czech Republic				
Maternity	28 weeks	69	Yes	Women employees – must have 270 days sickness insurance payments in past two years. Self-employed women – must have 180 days sickness insurance payments in past year.
Paternity	0	0		
Family	156 weeks	Flat rate		All employees (with approval from employer).
Denmark				
Maternity	18 weeks	100	Yes	All employees and self-employed who have worked 120 hours in the 13 weeks preceding leave.
Paternity	2 weeks	100	Yes	As above.
Family	32 weeks	100	Yes	As above.
Finland				
Maternity	18 weeks	66	No	Based on 180 days residence prior to due birth date.
Paternity	18 days	66	No	As for maternity leave, father must live with mother.
Family	26 weeks	66	No	As for maternity leave.

	DURATION OF PAID PARENTAL LEAVE	% WAGE REPLACEMENT	MAXIMUM PAYMENT CAP	EMPLOYMENT CRITERIA
France				
Maternity	16 weeks	100	Yes	All employees and self-employed women with 10 months insurance contributions.
Paternity	2 weeks	100	Yes	All employees and self-employed workers.
Family	156 weeks	Flat rate		Job protection – all employees with at least one year employment with current employer before birth, child-rearing benefit – paid to families whose income is below a certain level.
Germany				
Maternity	14 weeks	100	No	All women employees (self-employed not eligible).
Paternity	0	0		
Family	104 weeks	Flat rate		Job protection – all parents employed at birth of child, child-rearing benefit – all parents working 30 hours or less per week.
Greece				
Maternity	17 weeks	100	No	All women employed 200 days in past two years.
Paternity	2 days	100	No	All employees and self-employed workers.
Family	0	0		Additional unpaid leave available after one year continuous employment with current employer.
Hungary				
Maternity	24 weeks	70	No	All employees and self-employed women with at least 180 days previous employment.
Paternity	5 days	100	No	All employees and self-employed fathers.
Family	156 weeks	Flat rate		Insured mothers until child's first birthday, then either parent (one only) employed for at least 180 days within two years prior to child's birth.
Iceland				
Maternity	13 weeks	80	Yes	All employees and self-employed women with six months in workforce preceding birth.
Paternity	13 weeks	80	Yes	All employed fathers.
Family	13 weeks	80	Yes	All employees and self-employed with six months in workforce preceding birth.
Ireland				
Maternity	22 weeks	70	Yes	All employees and self-employed women who meet conditions relating to payment of Pay Related Social Insurance.
Paternity	0	0		
Family	0	0		Additional unpaid leave available to employees with one year continuous employment with current employer.
Italy				
Maternity	20 weeks	80	No	All employees and self-employed women with social security.
Paternity	0	0		
Family	11 months	30	No	All employees (excluding domestic workers and home help), self-employed eligible for shorter duration.

	DURATION OF PAID PARENTAL LEAVE	% WAGE REPLACEMENT	MAXIMUM PAYMENT CAP	EMPLOYMENT CRITERIA
New Zealand				
Maternity	0	0		
Paternity	0	0		One or two weeks unpaid paternity leave based on employment of six or 12 months.
Family	14 weeks	100	Yes	Payment – six months continuous employment with same employer; self-employed included (minimum hours test). Job protection of 52 weeks after 12 months employment.
Norway				
Maternity	9 weeks	80	Yes	All women with six months prior employment within past 10 months and have earned half national insurance benefit payment in previous year.
Paternity	6 weeks	80	Yes	All employees and self-employed fathers.
Family	39 weeks	80	Yes	As for maternity – both mother and father must be eligible for father to access paid family leave, and mother must return to work or studies for father to receive family leave.
Portugal				
Maternity	120 days	100	No	All women employees and self-employed with six months insurance/ social security payments.
Paternity	20 days	100	No	
Family	0	0		As for maternity leave.
Spain				
Maternity	16 weeks	100	Yes	All employees and self-employed women who have made 180 days of insurance payments in previous five years.
Paternity	2 days	100	No	All employees (excluding self-employed).
Family	0	0		
Sweden				
Maternity	60 days	80	Yes	All employees and self-employed; the maximum entitlement of 80% of earnings (to a cap) is only available to those earning over SEK60 a day for 240 days prior to expected delivery.
Paternity	70 days	80	No (10 days) Yes (60 days)	As above.
Family	270 days 90 days	80 Flat rate	Yes	As above.
The Netherlands				
Maternity	16 weeks	100	Yes	All women employees (self-employed not eligible).
Paternity	2 days	100	No	Male or female employee who are the partner of a woman giving birth.
Family	26 weeks (13 per parent)	Dependent on social insurance status	Yes	All employees who have completed one year's continuous employment with their present employer. Additional unpaid leave for employees with one year continuous employment with current employer.

	DURATION OF PAID PARENTAL LEAVE	% WAGE REPLACEMENT	MAXIMUM PAYMENT CAP	EMPLOYMENT CRITERIA
United Kingdom				
Maternity	26 weeks	90	No (6 wks) Yes (20 wks)	For maximum payment level (six weeks, 90% of earnings – no cap; 20 weeks, 90% – with cap) – all women employees with 26 weeks continuous employment with same employer up to 15th week before due birth date. For 26 weeks (90% of earnings – with cap) self-employed women and women with 26 weeks employment in 66 weeks.
Paternity	2 weeks	90	Yes	As above.
Family	0	0		
United States				
Maternity	0	0	N/A	Unpaid maternity leave available to all employees working for a covered employer, and who have worked for that employer for at least one year (even if not for a continuous period) and for at least 1,250 hours over the preceding 12 months.
Paternity	0	0		
Parental	0	0		

Sources: EIRO (2004); Deven and Moss (2005); Moss and O'Brien (2006); OECD (2007).

* Sweden – if in employment considered injurious to the foetus, mothers are also entitled to separate pregnancy leave.

Note that in the Czech Republic, France and Germany, payments include flat-rate child-rearing benefits available to parents taking job-protected parental leave.

APPENDIX FOUR

TRANSFERABILITY OF FAMILY LEAVE BETWEEN PARENTS

FAMILY LEAVE: BASIS FOR ENTITLEMENT	
Australia	Full period can be accessed by one nominated primary care provider – father or mother. Both parents may take parental leave at the time of birth.
Austria	Both parents can take leave alternatively but no transfer between parents.
Belgium	Leave is an individual entitlement for each parent. No mechanism of transfer between parents.
Canada	Leave duration and payments can be shared or taken by one parent.
Czech Republic	Leave is an individual entitlement for each parent. Only one can take up the payment, but this can alternate between parents.
Denmark	Entitlement is family-based and is shared.
Estonia	Entitlement is family-based and is shared.
Finland	Entitlement is family-based and is shared. Family leave can be transferred to caregiver if mother dies and father does not care for child.
France	Entitlement is family-based and is shared.
Germany	Entitlement is family-based and is shared.
Greece	Leave is an individual entitlement for each parent. No indication that this can be transferred from one parent to another.
Hungary	Entitlement is family-based and is shared.
Ireland	Leave is an individual entitlement for each parent. No indication that this can be transferred from one parent to another.
Italy	Leave is an individual entitlement for each parent. No indication that this can be transferred from one parent to another.
<i>New Zealand</i>	<i>Fathers/partners can access paid parental leave transferred from mother's entitlement. Unpaid leave may be shared between parents, if both are eligible.</i>
Norway	Differential individual leave entitlements are provided for each parent. The remainder of leave is a family entitlement which may be taken by either or both parents. The father's quota may be transferred to the mother if the father is ineligible, ill, not cohabiting or is incapable of providing care.
Portugal	Leave is an individual entitlement for each parent. No indication that this can be transferred from one parent to another.
Slovenia	Leave is an individual entitlement for each parent. Individual right can be transferred. Grandparent may take leave if mother is a student below 18 years.
Spain	Entitlement is family-based and is shared.
Sweden	Part of leave is an individual entitlement for each parent and is non-transferable. The remainder of leave is a family entitlement, half of which is reserved for each parent respectively but may be transferred from one parent to the other with formal consent.
The Netherlands	Leave is an individual entitlement for each parent. No indication that this can be transferred from one parent to another.
United Kingdom	Parental leave is unpaid but both parents are recognised as primary caregivers but no mechanism for transfer from one parent to another.

APPENDIX FIVE

ADDITIONAL PARENTAL LEAVE ENTITLEMENTS FOR FAMILIES IN SPECIAL CIRCUMSTANCES

A number of countries provide access to additional entitlements under certain conditions. This is most common in situations where the mother or baby has a health complication, or where the mother has delivered more than one baby.

NATURE OF ADDITIONAL ENTITLEMENT	
Austria	Maternity: Leave extended to 12 weeks before and after birth (ie 24 weeks) for premature and multiple births and caesarean sections.
Belgium	Maternity: Leave increases by two weeks for multiple births. Can be extended if mother hospitalised post-birth.
Canada	Maternity: Leave can be extended up to six weeks in some jurisdictions if child or mother has health-related complications.
Czech Republic	Maternity: For lone parents or multiple births, length of leave increases by nine weeks. Family: Parents of disabled child can take leave until the child's seventh birthday.
Estonia	Maternity: For multiple births or births with complications, 154 days can be taken.
Finland	Family: For multiple births, length is extended by 60 days per child.
France	Maternity: For multiple or premature births, leave increases to 12 weeks after birth. Mothers having third or higher-order child receive 24 weeks leave. Family: For large families (three or more children) a monthly allowance of €750 for one year on condition one parent stops work completely. Where a child is severely ill or disabled, leave can be extended by a year.
Germany	Maternity: For multiple or premature births, length of leave extended to 12 weeks after birth. In case of death or chronic illness of parent, leave can be transferred to other relatives living with newborn child. Family: Benefit doubled or tripled for multiple births.
Iceland	Maternity: Leave can be extended by two months if mother suffers any complications during or after birth. Family: For multiple birth or if child suffers from serious illness, length of leave increases by three months (per child for multiples).
Ireland	Family: Leave period doubled/tripled with twins/triplets. Parents of disabled child eligible for carer's leave.
Italy	Maternity: For multiple or premature births, the length of leave increases by 12 weeks. Family: Each parent entitled to additional leave in the case of multiple births.
Norway	Family: Leave increased with multiple births. Father's quota may be transferred to mother if father is not eligible, ill and unable to care for child, or if parents do not live together.
Portugal	Maternity: Leave is extended by one month for each additional multiple birth. A working grandparent entitled to 30 days leave following birth of a grandchild to an adolescent still living at home.
Slovenia	Family: Premature birth: Leave is prolonged by as many days as pregnancy was shortened. For multiple births, leave is extended by 90 days per child. Leave is also extended by 90 days in case of child suffering from physical or mental disability. Leave is extended if parents have more than two children (by 30 days per additional child).
Spain	Maternity: Multiple births: Two extra weeks of leave per newborn child and family benefits from an additional lump sum benefit.
Sweden	Maternity: If in employment considered injurious to the foetus, mothers are also entitled to an additional 12 weeks leave prior to delivery. Paternity: Leave is doubled for twins. Family: Multiple births entitled to additional paid leave.

APPENDIX SIX

2006-07 ESTIMATED COSTS OF PAID PARENTAL LEAVE (\$ MILLION): ALL TYPES OF LEAVE PAID AT 100% OF EARNINGS UP TO FOUR MAXIMUM PAYMENT CAPS

ESTIMATED COST OF SIX MONTHS PAID PARENTAL LEAVE (INCLUDING 12 WEEKS FAMILY LEAVE)

\$ million	With cap on parental leave payments set at:				% of total cost
	Full-time weekly minimum wage \$410	66% of average full-time weekly earnings \$533.14	80% of average full-time weekly earnings \$646.22	100% of average full-time weekly earnings \$807.78	
Maternity leave	111.4	135.8	153.2	169.8	48
Paternity leave	28.5	35.9	41.7	48.1	13
Family leave	91.0	111.1	125.4	139.2	39
Parental leave	230.9	282.7	320.3	357.1	100

ESTIMATED COST OF NINE MONTHS PAID PARENTAL LEAVE (INCLUDING 25 WEEKS FAMILY LEAVE)

\$ million	With cap on parental leave payments set at:				% of total cost
	Full-time weekly minimum wage \$410	66% of average full-time weekly earnings \$533.14	80% of average full-time weekly earnings \$646.22	100% of average full-time weekly earnings \$807.78	
Maternity leave	111.4	135.8	153.2	169.8	38
Paternity leave	28.5	35.9	41.7	48.1	11
Family leave	150.5	183.5	207.3	230.1	51
Parental leave	290.4	355.2	402.2	448.0	100

ESTIMATED COST OF 12 MONTHS PAID PARENTAL LEAVE (INCLUDING 38 WEEKS FAMILY LEAVE)

\$ million	With cap on parental leave payments set at:				% of total cost
	Full-time weekly minimum wage \$410	66% of average full-time weekly earnings \$533.14	80% of average full-time weekly earnings \$646.22	100% of average full-time weekly earnings \$807.78	
Maternity leave	111.4	135.8	153.2	169.8	32
Paternity leave	28.5	35.9	41.7	48.1	9
Family leave	209.9	256.0	289.2	320.9	60
Parental leave	349.8	427.7	484.1	538.8	100

2006-07 ESTIMATED COSTS OF PAID PARENTAL LEAVE (\$ MILLION): ALL PARENTAL LEAVE PAID AT 100% OF EARNINGS; DIFFERING PAYMENT CAP DEPENDING ON LEAVE TYPE

ESTIMATED COST OF SIX MONTHS PAID PARENTAL LEAVE (INCLUDING 12 WEEKS FAMILY LEAVE)

\$ million	With cap on parental leave payments set at:	
	80% of average full-time weekly earnings \$646.22	66% of average full-time weekly earnings \$533.14
Maternity leave	153.2	
Paternity leave	41.7	
Family leave	111.1	
Parental leave	306.0	

ESTIMATED COST OF NINE MONTHS PAID PARENTAL LEAVE (INCLUDING 25 WEEKS FAMILY LEAVE)

\$ million	With cap on parental leave payments set at:	
	80% of average full-time weekly earnings \$646.22	66% of average full-time weekly earnings \$533.14
Maternity leave	153.2	
Paternity leave	41.7	
Family leave	183.5	
Parental leave	378.5	

ESTIMATED COST OF 12 MONTHS PAID PARENTAL LEAVE (INCLUDING 38 WEEKS FAMILY LEAVE)

\$ million	With cap on parental leave payments set at:	
	80% of average full-time weekly earnings \$646.22	66% of average full-time weekly earnings \$533.14
Maternity leave	153.2	
Paternity leave	41.7	
Family leave	256.0	
Parental leave	450.9	

Notes:

The payment caps represent:

- > \$410 – 40 hours at minimum wage
- > \$533.14 – two-thirds of average full-time weekly earnings for men and women
- > \$646.22 – 80 percent of average full-time weekly earnings for men and women
- > \$807.78 – average full-time weekly earnings for men and women.

These payment caps are based on the 2006-07 minimum wage and average full-time weekly earnings for men and women from the June 2006 Quarterly Employment Survey. The adult minimum wage increased from \$10.25 per hour (equivalent to \$410 for a 40-hour week) to \$11.25 per hour (equivalent to \$450 for a 40-hour week) on 1 April 2007, after cost estimates were produced.

Eligibility depends on being in employment or self-employment for six out of the last 12 months. Our cost estimates assume that 83 percent of those eligible to take up *maternity leave* will do so. This draws on IRD estimates of current take-up of the existing 14 weeks paid parental leave. Based on findings from the Department of Labour's (2006b) parental leave evaluation, the cost estimates also assume that half of fathers/partners eligible to take up *paternity/partner leave* will do so.

Drawing on the same evaluation, we assume that take-up of all types of paid parental leave will be highest in the first six months. The first 12 weeks of *family leave* assume take-up of 83 percent, with the remaining 26 weeks costed at a take-up rate of 50 percent. Cost estimates also take into account proposed changes in eligibility. Relaxing the employment criteria for accessing parental leave is expected to increase the overall cost of parental leave by about 8 percent.

Maternity leave is for 14 weeks and paternity/partner leave is for four weeks. Eligibility depends on the individual mother, father or partner meeting employment requirements. The costs of paternity/partner leave include the cost of single mothers taking this leave. If maternity and paternity/partner leave are taken concurrently, the addition of 12, 25 or 38 weeks family leave makes a total of six, nine or 12 months parental leave.

Eligibility for family leave requires that an individual meets employment requirements. In two-parent families where only one parent is eligible this parent must have primary caring responsibilities. Family leave has been costed assuming it is taken by the eligible mother. If, for partnered women, half of the leave was transferred to the father, the cost of family leave would increase by around 3 percent (with the cap at \$533.14).

APPENDIX SEVEN

DESCRIPTION OF THE COST MODEL USED

This paper provides a brief overview of the data and methodology used to model various policy options for paid parental leave (PPL). A full description of the model and data used is given in a separate methodology paper: *Data and Model for Estimating Costs for Families Commission's Preferred PPL Policy Options*. This paper is available from the Families Commission on request.

OVERVIEW OF MODEL

The model the Families Commission has used to estimate the cost of proposals for changes to PPL has three main stages:

- > estimate the **number of people** who could receive PPL in a year
- > calculate the **amount of PPL** these people would receive
- > estimate **how long they would receive PPL**.

In broad terms, multiplying together these three factors – number of people * amount of PPL * duration of PPL – gives the total estimated cost of PPL. The total estimated cost of PPL is then adjusted by Treasury assumptions about growth in employment and earnings.

Overall costs are presented as the net amount which PPL would cost the Government (after tax has been paid by recipients). The model is broadly based on the approach previously used by the Department of Labour to estimate the costs of PPL when first introduced and uses publicly available data to provide cost estimates for the various policy options.

We have used overall current scheme costs and numbers from the Department of Labour and IRD to check the validity of our assumptions and cost estimates. Estimated current costs are comparable with current (2006–07) scheme costs from IRD administrative data.

WHAT DATA WERE USED?

The data used to model the proposed changes to PPL arrangements can be described as:

- > 'base data', used for generating the number of potential new parents in employment or self-employment. This is the total potential population that could get PPL payments
- > 'data used to adjust base data to estimate PPL recipients' – the total potential population is adjusted to give an estimate of the number of those likely to receive PPL payments under the variety of policy options. Estimates of eligibility and take-up are needed. In some areas, there are only limited data available. In these cases, assumptions have been made depending on the quality of the data available. The methodology paper has a fuller description of the available data and assumptions made.

Base data

The Income Survey (IS), Statistics New Zealand's (SNZ) annual supplement to the Household Labour Force Survey (HLFS), is the most appropriate source of base data because it is representative of the New Zealand working age population. It has hours worked, income (from different sources) and sufficient numbers in the sample to get the age and income breakdowns we needed. It also has information on the self-employed. The 'base data' used were IS data for the June 2006 quarter. Tables for women and men by age and income bands were obtained both for wage and salary earners (from 10 or more hours a week and for all hours) and for those with income from self-employment (of 10 or more hours a week and for all hours).

Data used to adjust base data to estimate PPL recipients

To estimate those who will have a baby, we took the estimated number of births in each year for women aged 15 to 49, adjusting also for the proportion of these which are multiple births.

Eligibility: SNZ's Survey of Family, Income and Employment (SoFIE) data, and Department of Labour information from their PPL evaluation were used to estimate those who have worked for the same employer

for at least six months and also to estimate the proportion of new parents who had been in employment with any employer for at least six of the last 12 months.

Take-up: IRD estimate of current take-up of the existing 14 weeks paid parental leave is 83 percent. The Department of Labour's (2006b) parental leave evaluation estimates that 50 percent of fathers/partners eligible for leave would take it up. We have used this estimate for our take-up of paternity/partner leave. We have assumed take-up of all PPL would be greatest in the first six months, therefore the first 12 weeks of family leave has an assumed take-up of 83 percent, dropping to 50 percent for the remaining 26 weeks.

Return to work periods: Since there is little information on actual or desired return-to-work periods, it is assumed that all those who take up maternity leave or paternity leave at all will take it up for the full period available. For family leave, three different durations have been costed. These can be assumed to relate either to the likely phasing in of paid family leave, or to the likely average take-up of family leave in the longer term.

WHAT WAS THE METHOD?

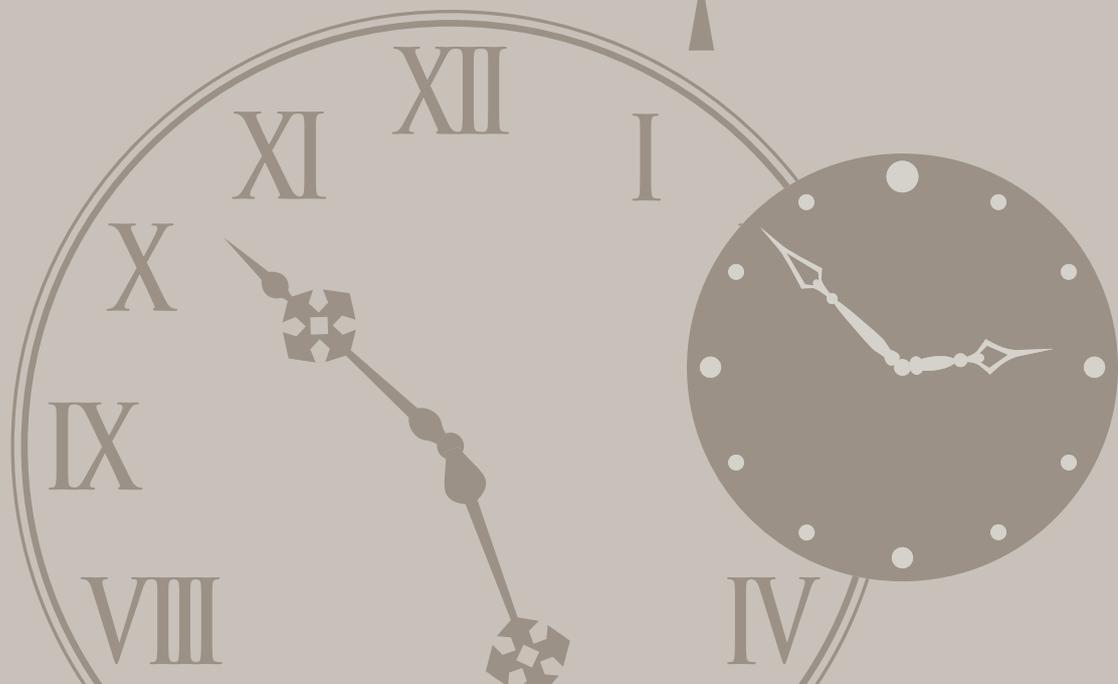
In outline, our method was to determine the number of parents (by age and income group) who would be eligible to receive PPL; to calculate how much PPL these parents would receive each week; to calculate how long they would receive weekly payments for; and, from this, to estimate the total cost of PPL payments. The steps were as follows:

1. We applied NZ population age-specific fertility rates (from June 2006) from SNZ to IS data on the number of men and women with weekly personal incomes from wages and salaries or from self-employment (including those working for fewer than 10 hours a week who could not currently receive PPL) in age groups and income bands.⁵⁴ Applying the fertility rates gave us the expected number of births (ie babies) for people within each age group of each income band. Because PPL payments relate to new *parents*, rather than to each new *baby*, an adjustment was made for the proportion of multiple births, to estimate **the annual number of new parents within each age group of each income band**.
2. We then adjusted the number of new parents within each age group of each income band by the proportion assumed to be *eligible* to receive payment under current employment conditions. We used 82 percent (based on IRD information about the current number of PPL recipients) as an assumption about the proportion of employed people with income from wages and salaries who have worked for the same employer for at least six months. This stage gave us an estimate of **the annual number of eligible new parents (under current criteria) within each age group of each income band**.
3. We applied proposed PPL rules to the expected number of eligible new parents within each age group of each income group. For example, we assumed that people in income bands below the cap amount received the average weekly earnings for that income band and that people in income bands at or above the cap received the maximum cap amount. This stage calculated an **average weekly payment rate for eligible new parents within each income band**.
4. We multiplied the average weekly PPL for eligible new parents within each income band by the number of weeks we expected parents to receive payments for each *type* of leave (maternity leave, paternity/partner leave and family leave). This stage calculated an **average annual total of payments for eligible new parents within each income band taking each type of leave**.
5. We summed the average annual total payments across income bands and adjusted the estimated cost of each type of parental leave by the proportion of parents we assumed would take up each type of paid parental leave (for any duration). Based on the Department of Labour's (2006b) evaluation, current take-up of paid parental leave is believed to be 83 percent, so this proportion was assumed for maternity leave. For paternity/partner leave an assumption of 50 percent take-up was made. On the assumption that take-up of all types of paid parental leave would be highest in the first six months, the first 12 weeks of *family leave* assumed take-up of 83 percent, with the remaining 26 weeks costed at a take-up rate of 50 percent.⁵⁵ This stage gave us an estimate of **the annual total of payments for eligible new parents who take up each type of paid parental leave**.

⁵⁴ The upper limits of the income bands represented the 2006-07 maximum payment cap of \$372.12 and the four maximum payment caps for which we wanted to estimate costs. These were based on a 40-hour week at the 2006-07 minimum wage (\$10.25 per hour) and 66%, 80% and 100% of average full-time weekly earnings for men and women (\$807.78, from the June 2006 Quarterly Employment Survey). After modelling was completed, the maximum payment cap increased from \$372.12 per week to \$391.28 per week on 1 July 2007 and the minimum wage increased from \$10.25 per hour (equivalent to \$410 for a 40-hour week) to \$11.25 per hour (equivalent to \$450 for a 40-hour week) on 1 April 2007.

⁵⁵ These take-up rates apply to eligible sole parents and eligible mothers whose partners are also eligible. In addition, there would be a small number of parents who would take up leave (as the primary carer) in two-parent families where only one partner is eligible. The costs of these parents have not been included in the model or accounted for in the take-up rate for family leave.

6. We increased the annual total of payments for new parents who are *currently* eligible and who take up each type of paid parental leave by 5 percent (based on information from SoFIE), to include the extra estimated costs of changes to job tenure. This gave an estimate of **the annual total of payments for new parents who would be eligible under proposed eligibility criteria and who would take up each type of paid parental leave.**
7. The total estimated cost of paid parental leave was then adjusted by Treasury assumptions about growth in employment and earnings. Overall costs are presented as the net amount which paid parental leave would cost the Government (after tax and contributions have been paid by recipients).



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