Cap doesn't fit for paid parental leave [1]

Maximum parental leave payments compare poorly both internationally and with ACC so let's consider other options, writes Suzy Morrissey.

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EXCERPTS

As part of the Government's families package and 100-day plan announced shortly after it was elected, from July 1 last year paid parental leave (PPL) was increased from 18 weeks to 22 weeks, with a further increase to 26 weeks from July 1, 2020. This continues a trend of regular increases since PPL was introduced at 12 weeks in 2002.

Welcome though these increases have been, duration is only one aspect of PPL. There is another about which there has been striking silence in the policy debate: the rate at which PPL is paid. This compares poorly both internationally and against a local example of support for another temporary absence from employment, ACC.

New Zealand has no dedicated paid maternity or paid paternity leave, only PPL, which is allocated initially to the primary carer (usually the mother) and can be transferred to another person if they are to be the primary carer. There are also two weeks' unpaid partner's leave and 26 or 52 weeks' unpaid extended leave.

The lack of dedicated paid paternity leave is another area where New Zealand compares poorly internationally, and the country's PPL policy has been described as among the least comprehensive in the industrialised world.

When PPL was introduced in New Zealand, it was at 100 percent wage replacement, subject to a cap of approximately minimum wage, and the cap remains today. In 2018, the cap was $564.38 a week, but average full-time weekly earnings were $1,174.64 a week, meaning many families were likely to face financial pressure after a birth

The payment rate contrasts strongly with ACC payments to those who have incurred an injury. In both cases, a temporary absence from work is required, but ACC covers 80 percent of wages until the person can return to work or retires.

Guidance on rate, reality varies

Various international organisations provide guidance on an appropriate payment rate for PPL. The International Labour Organization (ILO) says it should be no less than two-thirds of previous earnings or a comparable amount. This is the level at which the European Commission describes leave as well-paid.

Within the Organization for Economic Cooperation and Development (OECD), most countries replace over 50 percent for maternity leave and between 40 percent and 60 percent for parental leave, although there is considerable variation between countries. Full wage replacement was suggested by the European Commission in a draft maternity leave directive in 2008, but it was not ratified and was eventually withdrawn in 2015.

The PPL payment rate is important for all families, but especially those on low incomes. If leave is not well paid, the most vulnerable workers may not be able to afford to use such policies.

However, payment rate is particularly relevant to paternity leave. OECD research indicates that for fathers to be financially able to take paternity leave it must be equivalent to half or more of their previous earnings. This reflects the gender pay gap, which makes it likely that the father would be providing more financial resources to the family than the mother and suggests the ineffectiveness of unpaid or poorly paid leave.

Research in 35 mostly OECD countries on well-paid paternity leave indicated fathers do take such leave where it exists, and this has been the experience of the Nordic welfare states. Therefore, those who want fathers to take parental leave argue dedicated paternity leave should be available and should be paid at a decent rate.

International outlier

As well as having a low cap on PPL and no dedicated paternity leave, New Zealand is an outlier internationally by funding PPL through general taxation.

The low payment rate suggests the care role is devalued. But the funding mechanism may also be a factor, because funding through taxation means PPL must compete against other spending proposals. However, this constraint has been previously overcome, to provide access to PPL for the self-employed and those in casual work. Could it be overcome again now?

Options include reconsidering the funding model, such as introducing a dedicated employer levy or by expanding the existing ACC scheme. If PPL is a labour market policy, these options seem appropriate. Alternatively, the cost could be reconsidered as an investment and funding re-prioritised accordingly.

If PPL is a state transfer, considering whether the benefits outweigh the financial cost seems appropriate. What benefits might be possible if, instead of being paid subject to a low cap, PPL was paid to at least two-thirds wage replacement, as recommended by the ILO?

Well-paid leave would provide couples with more financial freedom to decide who will undertake care responsibilities. This has been shown to lead to an increase in male carers, although dedicated leave is another key factor in male uptake of parental leave: are we ready to talk about that yet in New Zealand?

Well-paid leave could also provide financial freedom of a different kind, by allowing parents greater choice over when to have another child, instead of having to work for long enough between children to save a sufficient amount to replace lost wages.

Finally, well-paid leave would signal that New Zealand values the role parents and whānau play in raising the next generation of New Zealanders. Wouldn't that be worth thinking about?
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