

Paid Parental Leave for 26 Weeks great – but what about the rate at which we pay?

Abstract

This article examines the paid parental leave policy in New Zealand. It considers the various design elements of the policy and, in particular, the payment rate. Although the policy ostensibly provides wage replacement, paid parental leave is subject to a cap of approximately the minimum wage. This creates financial pressure for those previously earning a higher amount and may restrict its use by the higher earner in a two-parent family. The article highlights how the rate of payment compares poorly both internationally and against a local example of support for another temporary absence from employment (ACC).

Keywords paid parental leave, parental leave, maternity leave, paternity leave

The Labour–New Zealand First coalition’s decision to extend paid parental leave (PPL) to 26 weeks from 1 July 2020 is a welcome move. It continues the trend of regular increases in the duration of PPL since its introduction on 1 July 2002 at 12 weeks. Duration is only

one design element of the policy, yet it is the one that has received the most attention. Some changes to expand eligibility have also been made over time. However, there are many other design elements, and this article considers one in particular: the rate of payment. The article considers why the

payment rate of PPL is ‘silent’ within the policy debate. To examine the issue, I first identify the design elements of PPL, then discuss the discourse associated with the payment rate.

PPL does not have a standard definition. It is a policy that is constructed differently in different countries, based on a number of design elements. Table 1 outlines eight design elements and up to five options for each element. The bold and shaded boxes indicate the elements and options that have been chosen in New Zealand’s PPL policy.

Leave type

New Zealand has no dedicated paid maternity or paid paternity leave, only transferable paid parental leave, 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.¹ New Zealand also has two weeks’ unpaid partner’s leave and 26 or 52 weeks’ unpaid extended leave.² Partner’s leave, shareable parental leave and extended leave reflect options three, four and five in the taxonomy. The lack

Suzy Morrissey is a PhD student at Victoria University of Wellington and this article draws on her PhD thesis.

of dedicated paid paternity leave means New Zealand currently compares poorly on an international basis. This is reflected in a description of New Zealand's policies as being among the least comprehensive in the industrialised world (Forbes, 2009, p.15). However, there have been regular calls, over a number of years, for paternity leave to be introduced (Families Commission, 2007; NACEW, 2008; Human Rights Commission, 2010, p.20; Reilly and Morrissey, 2016). Recent research has called for dedicated, non-transferable leave in order to increase the sharing of family responsibilities, with a view to closing the gender pay gap (NZIER, 2016, p.26).

Duration

The duration of parental leave in New Zealand is currently 22 weeks (since 1 July 2018), and this will increase to 26 weeks from 1 July 2020. This reflects option one in the taxonomy table, being short leave, of less than 12 months. The period of parental leave available has increased regularly since its introduction. When New Zealand introduced PPL in 2002 it was 12 weeks. All leave was initially allocated to the mother, but she could transfer any or all of it to a partner. As late as 2001 calls were being made for PPL to be introduced in New Zealand at the ILO Maternity Protection Convention duration of 14 weeks (Ministerial Advisory Group on Equal Employment Opportunities, 2001, p.35). A domestic study conducted after PPL was introduced recognised the range of relevant considerations regarding duration, and suggested that while labour market and gender equity considerations would suggest a short leave period, once biomedical research is included the recommendation becomes at least six months' postnatal leave (Galtry and Callister, 2005, p.239). After conducting its own research in 2007, the Families Commission called for a staggered increase in the duration of PPL, with a view to reaching 13 months' paid leave by 2015 (Families Commission, 2007). This was not achieved. The following year the National Advisory Council on the Employment of Women was also recommending PPL of one year, and suggesting that a first increase to six months should be implemented as an urgent priority (NACEW, 2008, p.10).

Table 1: PPL design elements and options in New Zealand

Design elements	Options				
	Option one	Option two	Option three	Option four	Option five
Leave type	Maternity leave (mothers only)	Paternity leave (fathers only)	Partners' leave (fathers or same-sex partners)	Parental leave (shareable)	Extended leave
Duration	Short (generally accepted as less than 12 months)	Long (generally accepted as 12 months or longer)			
Transferability	Dedicated (cannot be shared or transferred)	Can be shared or transferred between parents	Can be shared or transferred to another primary carer		
Payment rate	Fixed amount	Full wage replacement	Wage replacement subject to a cap (or maximum amount)	Proportion of wage replacement	Unpaid
Funding	Social security or social insurance	General taxation	Employer and/or employee levy	Employer funded (direct to employee)	
Eligibility	Universal (no criteria apply)	Targeted (means-tested by assets or income)	Targeted (using some other criteria)		
Obligations	None	An action or behavioural requirement			
Taxable income	Yes – forms part of assessable income	No – exempt income	No – excluded income		

Transferability

As noted above, PPL is initially allocated to the mother, but may be transferred to another person if they are to be the primary carer of the child, and this ability to transfer leave to a non-parental carer reflects option three in the taxonomy table. While initial allocation to the mother is a policy design feature that could be challenged as maternalistic, it could also be seen as gender positive, as it recognises the need of a birth mother to have paid leave to provide time to recover. The taxonomy table also indicates extended leave and partner's leave as other types of parental

leave available in New Zealand. Extended leave may be transferred but partner's leave cannot. These design features reflect options three and one respectively in the taxonomy. While the non-transferable nature of partner's leave may appear to protect the father's right to care for their child, both the short duration of two weeks and the unpaid nature of the leave mean that this leave offers limited practical support to fathers to care. The amount of PPL transferred to partners has historically been less than 1% (Inland Revenue, 2016), but this could be because of the previously short duration of PPL.³

Funding mechanisms

PPL in New Zealand is funded by general taxation, which is option two in the taxonomy table. When PPL was originally recommended in New Zealand by the Alliance party, it was proposed that it be funded by an employer levy (option three in the taxonomy), payable by all businesses irrespective of the number of women they employed. This met with opposition from business groups and was not adopted by the Labour–Alliance coalition government.

Funding PPL through general taxation is rare. Of the 42 countries studied by the International Network on Leave Policies and

expenditure is in line with the OECD average (Rea, 2009, p.64), over half of all social assistance is represented by the universal aged pension (Treasury, 2015, p.50) and PPL represents a very small portion of public spending. In 2016/17, expenditure on PPL was \$287m (Treasury, 2017, p.188), compared to the total expenditure of \$80.5bn (New Zealand Government, 2017, p.6).

Eligibility

Eligibility refers to the criteria applied to determine who is able to receive a transfer, and in the case of family policy it is important to consider whether it is the

required in return for receiving PPL. The only specific obligation on the part of the person receiving PPL is that they do not return to their employment during that time, other than for a maximum of 52 ‘keeping in touch’ hours, which cannot be taken within the first 28 days after the child is born (Ministry of Business, Innovation and Employment, 2018).

It is now common in many countries for state support more broadly to include an obligation rather than the transfer being provided without any element of reciprocity. As welfare payments are received predominantly by women, any obligations placed on their receipt will produce a gendered effect, and have been suggested to reflect a new meaning of active citizenship (Newman, 2013). A work-related requirement is the most common form, but other behaviour-based obligations also exist.

There are no obligations attached to receiving PPL in New Zealand. This reflects option one in the taxonomy. There are, however, a number of examples of obligations in respect to other forms of state support in the New Zealand policy environment, but these are outside the scope of this article.

Taxable income

The final design element of PPL policy design to consider is whether the payments are subject to taxation. In tax law, amounts that are designed to replace something that is taxable are also generally treated as taxable. PPL payments are taxable income in New Zealand under section CF1(1)(f) of the Income Tax Act 2007. This reflects option one in the taxonomy.

Payment rate

With all the other potential design elements and options outlined, we can now consider payment, first with respect to the options that exist and then in terms of the discourse associated with it.

There are two broad methods for paying PPL. It can be paid either as a fixed amount or as wage replacement. The latter may be subject to a ‘cap’ or maximum amount beyond which wages are not replaced or paid as a proportion of previous earnings. Payment of PPL as a fixed amount suggests a view of PPL as

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Research, it was observed that statutory parental leave payments are generally funded by some form of contributory insurance fund, sometimes with contributions from general taxation, but that taxation is generally only used to fund benefits paid to all parents with young children, rather than those taking leave (Blum, Koslowski and Moss, 2017, p.32).

New Zealand does not have a social insurance scheme in the internationally understood sense (option one in the taxonomy). However, it does have ACC (accident compensation), a financially generous scheme that provides financial compensation for anyone in New Zealand for any accident that occurs, if they are required to be absent from their paid employment. 100% of wages are covered for four weeks and 80% of wages may be paid until the person can return to work or reaches retirement age. These numbers contrast starkly with the payment rate of PPL in New Zealand, as will be seen shortly.

In the absence of a traditional social insurance scheme, most forms of state support are funded by general taxation. Although New Zealand’s total benefit

mother who is eligible for benefits relating to children, or the head of the household, or the highest earner (generally the father).

In New Zealand, eligibility is based initially on the mother, as the father has no independent entitlement to PPL, and, in the case of adoption, it is the primary carer who is initially eligible. Eligibility criteria for PPL are work related and require an average of 10 hours a week for any 26 of the 52 weeks prior to birth. This represents option three in the taxonomy: targeted rather than universal, and using a criterion other than means-testing.

Calls to broaden the eligibility criteria for PPL in New Zealand have been made (Families Commission, 2007; NACEW, 2008) and actioned. The Families Commission had called for a reduction in employment restrictions so that casual and seasonal workers would also be eligible (2007), as did the NACEW (2008, p.9), and changes to this effect were introduced from 2016.

Obligations

The next design element is obligations: whether any actions or behaviours are

state support for a newborn, given the lack of reference to the labour market that the parent (or carer) is absent from during that time. However, payment of PPL as a fixed amount is uncommon. Recent OECD reporting on its member countries indicates that only Luxembourg pays PPL at a flat rate; in all other countries either some form of wage replacement is used or parental leave is unpaid.

Various international organisations provide guidance on an appropriate rate of payment for PPL. The ILO states that the cash benefit for parental leave should be no less than two-thirds of previous earnings or a comparable amount (ILO, 2017). This is the level at which the European Commission describes leave as well paid (Koslowski, Blum and Moss, 2016, p.40). Within the OECD, most countries replace over 50% for maternity leave, and between 40% and 60% for parental leave, although there is considerable variation between countries (OECD, 2016a, pp.2,5). 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 (Eurofound, 2015). A reluctance to pay PPL at full wage replacement suggests resistance to viewing PPL as an employment-related policy. It also suggests that care work is viewed as less important than paid employment. Monetising the time spent in paid employment and in a caring role, and paying different amounts for those two activities is an explicit statement that one is considered to be worth more than the other.

The rate of payment of PPL is important for all families, but especially for those on low incomes. If leave is not well paid, the most vulnerable workers may not be able to afford to use such policies (McGovern et al., 2000, p.561). However, payment rate is a PPL design feature that is particularly relevant to paternity leave. Research from the OECD (2016b) indicates that in order 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 father-only leave indicated that fathers do take such leave where it exists (Moss, 2014, p.31) and this has been the experience of the Nordic welfare states (Leira, 2002). Therefore, those who want fathers to take parental leave argue that dedicated paternity leave should be available, and that it should be paid at a decent rate (Lawton and Thompson, 2013, p.7).

When PPL was first introduced in New Zealand it was at 100% wage replacement, subject to a cap of approximately minimum wage, and the cap remains at an equivalent level today. PPL was subject to a cap of \$325 per week in 2002, when the average hourly wage was \$19.06 (Statistics New Zealand information request) and the minimum wage was \$8.00 an hour (Employment New Zealand, 2018a). This made PPL equivalent to approximately 40 hours at minimum wage. In 2018, PPL is subject to a cap of \$564.38

level of financial compensation. In the United States, where there is no federal PPL, some states pay parental leave as part of their coverage of temporary disability. While this terminology may be challenging, the payment is based on earnings, rather than a lower, welfare-type payment amount or cap.

There were two main discourses at the time PPL was introduced in New Zealand. The first was an equity argument to treat women's temporary absence from employment in the same way as men's. This argument was used by the Alliance, which had campaigned on PPL at the 1999 election, and by the Labour Party, with whom it formed a coalition government. The second discourse related to PPL as a state transfer or welfare payment. It manifested itself as a concern that a high rate of payment might encourage pregnancies by those who couldn't

New Zealand was identified to be an outlier internationally on three counts: by not having any dedicated father's leave; by having a low maximum payment amount for parental leave; and by funding PPL through general taxation.

per week (Employment New Zealand, 2018b), but average full-time weekly earnings are \$1,174.64 per week (Statistics New Zealand, 2017), meaning many families are likely to face financial pressure after a birth. However, the rate at which parental leave is paid in New Zealand has attracted scant attention over the years (an exception is the Families Commission, 2007). This reflects a lack of value placed on the role of carers in New Zealand, and suggests that PPL is not considered to be an employment issue; otherwise, full wage replacement would be a feature of the discourse.

The payment rate contrasts strongly with the payment made under ACC to those who have incurred an injury. In both cases, a temporary absence from work is required, but only one case uses previous earnings as the basis for determining the

otherwise afford to have a child, and over the inappropriateness of having a welfare payment above the average male wage. This highlights a key complication within PPL policy in New Zealand. Without a social security system, all state transfers are funded by general taxation, which means it faces competition from all other spending initiatives for funding. However, PPL is inherently employment related, making anything other than full wage replacement a deliberate decision, and one that would benefit from scrutiny.

Conclusion

This article has shown PPL to be a term without a specific description, but provides a useful taxonomy of PPL, and outlines which design elements and options are used in New Zealand.

New Zealand was identified to be an outlier internationally on three counts: by not having any dedicated father's leave; by having a low maximum payment amount for parental leave; and by funding PPL through general taxation. The low payment rate raises the suggestion that the care role is devalued, but the funding mechanism may also be a factor, because funding through taxation means the PPL policy must compete for funding against other spending proposals. However, this constraint has been previously overcome, to enable changes to provide access to PPL for the self-employed, and for those in casual work.

Could the financial constraint be overcome again now? Options include reconsidering the funding model, such as introducing a dedicated employer levy, as originally proposed by Laila Harré, or by

expanding the existing ACC scheme. If PPL is a labour market policy, then consideration of labour market options for funding seems appropriate. Alternatively, the cost could be reconsidered as an investment, and funding reprioritised accordingly. If PPL is a state transfer, then consideration of whether the benefits outweigh the financial cost seems appropriate.

What benefits might be possible if, instead of being paid subject to a low maximum 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 that parents and whānau play in raising the next generation of New Zealanders. Wouldn't that be worth thinking about?

- 1 This can include a non-parental carer, such as an extended family member.
- 2 Extended leave provides for an absence from paid work with job protection (Parental Leave and Employment Act 1987, s23). Note that any period of PPL reduces the period of extended leave available (to a maximum of 26 or 52 weeks' total leave).
- 3 PPL was for a duration of 12 weeks from 2002 to 2004, 14 weeks from 2004 to 2015, 16 weeks in 2015–16, 18 weeks from 2016 to 2018, and is currently 22 weeks, to be increased to 26 weeks from 2020 (MBIE, 2017).

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