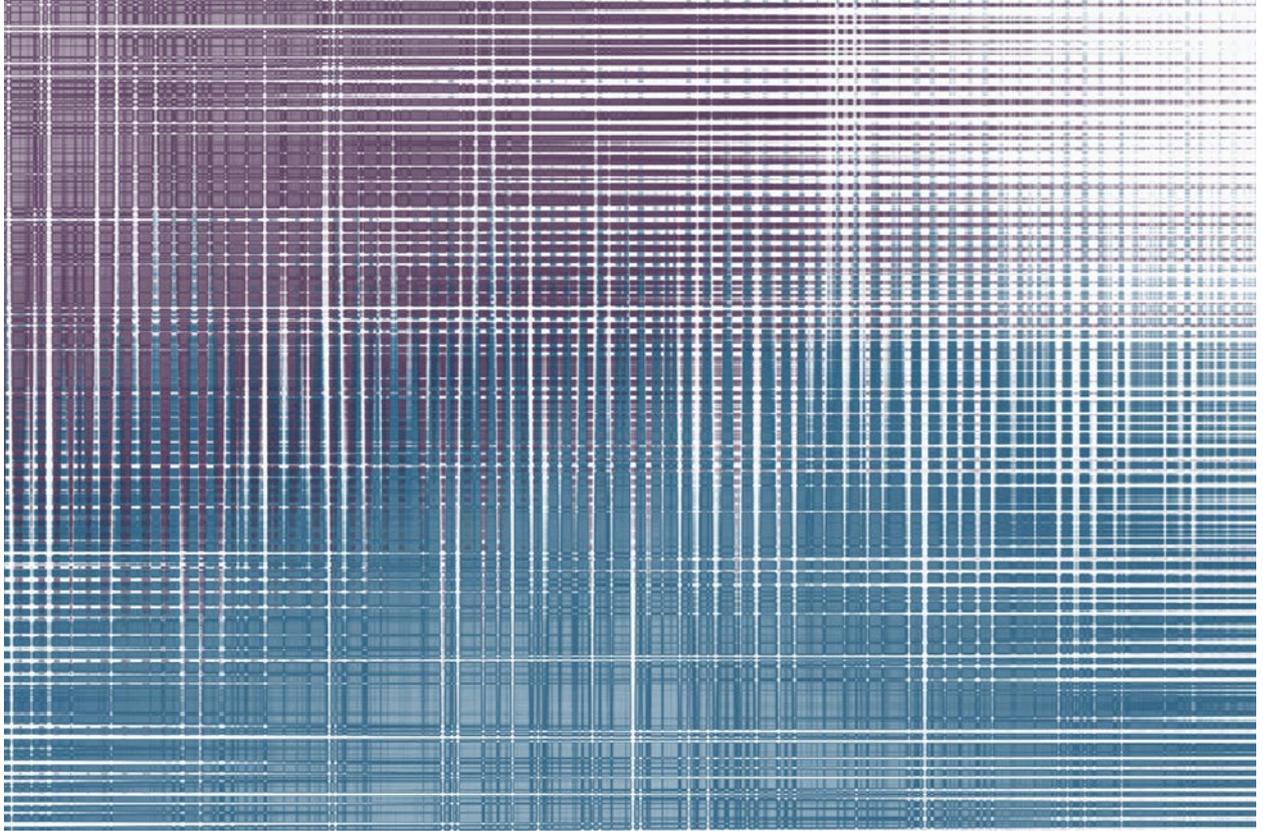




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Parental leave pay and paid maternity leave: should entitlement be tied?

M. Taylor

CSRM WORKING PAPER

NO. 7/2018

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Parental leave pay and paid maternity leave: should entitlement be tied?

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Abstract

This paper provides an insight into the earnings and household income of mothers who would be affected by recently proposed reforms to Parental Leave Pay (PLP) – formerly Paid Parental Leave – that would tie PLP entitlement to access to paid maternity leave (PML) workplace conditions. The Household, Income and Labour Dynamics in Australia Survey data used in this paper support previous research on access to PML that finds that mothers with higher earnings are those more likely to have PML entitlements. It contributes to this

literature by showing that these mothers also tend to be in higher-income households. As a consequence, low-income households make up a relatively small proportion of those likely to be affected by the PLP reforms that have been proposed. The paper concludes with discussion of some of the design elements of current and proposed PLP policy. It argues that, although there is scope to better target PLP expenditure, reforms that tie PLP entitlement to PML workplace conditions may not be the best way to go about this.

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This paper uses unit record data from the Household, Income and Labour Dynamics in

Australia (HILDA) Survey. The HILDA project was initiated and is funded by the Australian Government Department of Social Services (DSS), and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the author and should not be attributed to either DSS or the Melbourne Institute.

Acronyms

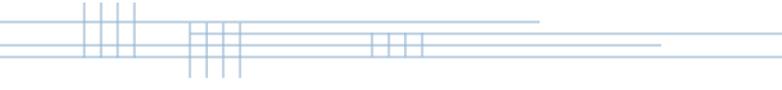
ATI	adjusted taxable income
DSS	Australian Government Department of Social Services
FTB-A	Family Tax Benefit Part A
FTB-B	Family Tax Benefit Part B
HILDA	Household, Income and Labour Dynamics in Australia
MYEFO	Mid-Year Economic and Fiscal Outlook
OECD	Organisation for Economic Co-operation and Development
PLP	Parental Leave Pay
PML	paid maternity leave

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Executive summary

Parental Leave Pay (PLP), formerly Paid Parental Leave, was introduced by the Rudd Government in 2011 to provide mothers of newborns with 18 weeks of leave paid at the full-time minimum wage, amounting to an annual payment of \$12 510.

In recent years, the Australian Government has made a number of proposals for the reform of PLP. Most recently, the Turnbull Government has proposed three changes to PLP:

- removing PLP entitlement during those weeks a mother is on paid maternity leave (PML)
- a week-for-week reduction in PML entitlement for every week of PLP the mother receives from her employer
- increasing the maximum number of weeks of PLP from 18 to 20 (for all recipients).

These reforms would represent a more targeted approach to PLP. Under current policy, all mothers with consistent labour force participation in the 10 months before the birth of a child are entitled to PLP, provided that their income in the financial year before the birth is less than \$150 000. A high family income and PML entitlements do not preclude eligibility.

This raises two important questions: who would be affected by PLP reform, and would these reforms lead to a significant drop in the length of parental leave taken and/or diminish female labour force participation?

This paper presents data collected from 1106 mothers who gave birth after the introduction of PLP, from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. These data indicate that mothers in high-income households are most likely to benefit from PLP. Whereas 4 in 5 mothers in the highest-income households reported receiving PLP, just 5.9% in the bottom 20% of household income reported receiving the payment.

Mothers in high-income households are also those most likely to have access to PML entitlements. Almost three-quarters of mothers in the top 20% of household income reported access to PML, compared with 37.5% of those in the bottom 20%.

As a consequence of the higher rate of receipt of PLP, and the higher rate of PML entitlement, among mothers in high-income households, the vast majority of mothers who would be affected by PLP reform are those in high-income households. Three-quarters of mothers with recent labour force experience who reported having a PML entitlement in the job that they had before birth were in the top 40% of household incomes. Just under 46% were in the top 20%.

Other Australian research has shown that the introduction of PLP led to significant increases in the length of parental leave taken by mothers without PML entitlements. This research suggests that the introduction of PLP caused an increase in the percentage of mothers who took 21 weeks of leave from approximately 72% to 79%, with a significant increase in the probability of a return to work after 21 weeks.

However, for those who had PML entitlements, the increase in parental leave was comparatively modest, and its impact on return to work probabilities less certain. If the introduction of PLP did little to increase the parental leave and rate of return to work of those with PML entitlements, it is unlikely that the proposed reform will greatly affect these.

Although few low-income households would have their PLP reduced by the reforms, the week-for-week reduction will inevitably affect some low-income households, who will struggle to self-finance parental leave once their PML finishes. Although there may well be merit in better targeting PLP, tying PLP entitlement to PML workplace conditions would not appear to be the best approach.



1 Introduction

Parental Leave Pay (PLP), formerly known as Paid Parental Leave, is an Australian Government payment that provides \$12 510 to just over 170 000 families every year. At an annual (gross) cost of \$2 billion, the payment provides \$695 a week for up to 18 weeks for the primary claimant, generally the birth mother of a child, to remain on parental leave after birth. Australia's current PLP policy was introduced by the Rudd Government on 1 January 2011 and largely reflects the recommendations made by the Productivity Commission in its 2009 inquiry report *Paid parental leave: support for parents with newborn children* (Productivity Commission 2009). The stated objectives of PLP include enhancing maternal and child health and development, facilitating workforce participation, and promoting gender equity and work–family balance.

PLP stands out from other Australian family payments in that, while taxable, it is means tested based on the mother's pre-birth earnings rather than family income, such that only those mothers with annual pre-birth earnings in excess of \$150 000 are ineligible. This individual income test, in addition to an eligibility requirement that mothers have consistent labour force participation before the birth, ensures that mothers who are eligible for PLP receive more assistance from other taxpayers than those who are ineligible, even when they have the same level of family income.

A partial explanation for these policy settings is that, before the introduction of PLP, parental leave was exclusively provided by some employers through paid maternity leave (PML) workplace conditions. Although the duration of these leave conditions varies considerably, they often have a similar structure to other forms of leave and are paid at full wages. It was for this reason that the Productivity Commission's inquiry report recommended that 'the administrative arrangements for paying statutory paid parental leave, and certain design features, be made similar to those applying to existing leave'

(Productivity Commission 2009:6.15). Not only has the notion that PLP is a workplace entitlement shaped the design of PLP, it has also had a bearing on recent PLP reform proposals that have sought to provide a more targeted approach to the payment.

The first of these was a Budget 2015–16 measure in which the Abbott Government proposed a dollar-for-dollar reduction in PLP for every dollar of PML that a PLP claimant could access via their workplace conditions. In the wake of widespread concern about the design of the *Removing Double-Dipping from Parental Leave Pay* budget measure,¹ this was abandoned by the Turnbull Government in November 2015 and replaced with a week-for-week reduction, in the Mid-Year Economic and Fiscal Outlook (MYEFO) 2015–16. The following year, the government offered to increase the maximum duration of PLP from 18 weeks to 20 weeks for all recipients, regardless of whether they have a PML entitlement, in an attempt to secure passage of the reform through the Senate.

Each iteration of proposed PLP reform proved controversial. Despite the prospective increase in PLP duration, even the most recent reform proposal was described by the Opposition spokesperson for families as 'unfair cuts' (Macklin 2017). Criticism of the reforms was not confined to the fact that some mothers would see their entitlement to PLP reduced. Others argued that Australia's parental leave policy settings were already modest by international standards (Baird et al. 2016). Indeed, *The Economist* magazine has previously described Australia's current PLP policy settings as 'stingy', citing data from the Organisation for Economic Co-operation and Development (OECD) indicating that the value of Australia's PLP payment relative to average earnings² is the second lowest in the OECD (*The Economist* 2016, OECD 2016).³

There can be no doubt that the more generous parental leave schemes that exist in other countries have greater similarity with private PML workplace

entitlements offered by some Australian employers. Much like PML entitlements, these schemes typically involve wage replacement (up to a cap) and are not merely symbolic of workplace entitlements – they are financed via employee and employer contributions with no, or partial, government funding. In contrast, PLP is financed from general government revenue – the same way that other family payments are financed. Of the 38 policies surveyed in Moss (2015), Australia was one of only five⁴ nations with parental leave⁵ schemes fully financed by taxpayers.

Although many of those involved in the Australian policy debate would like to think of PLP as a workplace entitlement, and one that should provide wage replacement (Abbott 2009, Cox 2013, Irvine 2013), this sits awkwardly with the fact that it is financed in exactly the same way as other Australian family payments that are subject to means testing. Those who assert that symbolism is sufficient justification for a family payment to be paid at pre-birth earnings, without regard to family income, should acknowledge that this is an ideological perspective, not a fact. Proponents of current policy, and those who would seek to reform it, should distinguish between those aspects of the design of PLP that are purely symbolic and those that are necessary for PLP to achieve its stated objectives.

For example, many in the community would find symbolism an insufficient justification for the provision of PLP at a wage replacement rate – at least not funded by taxpayers (Essential Media Communications 2015). However, one could argue that failure to provide PLP at wage replacement might reduce the potential beneficial impact of PLP on mothers' lifetime labour supply. Similarly, it could also be argued that proposals to reduce PLP payments, such as those put forward by the government, would have an adverse effect on mothers' labour force participation (Baird et al. 2016). While the former is an ideological assertion, the latter is ultimately an empirical question – one that will be explored later in this paper.

As Kalb (forthcoming) noted in her review of the labour supply impacts of parental leave policies across the world '... observing that in most European countries paid parental leave is funded

through social insurance ... rather than from general tax revenue ...', it seems that the funding source may be important in having paid parental leave recognised as a work entitlement rather than a welfare payment' (Kalb forthcoming:19). This view is supported by the fact that wage replacement and sole taxpayer financing are by no means a common combination in the OECD.

At the time of writing, the Turnbull Government had abandoned PLP reform but had not ruled out revisiting it at a later date, with the Minister for Social Services indicating that their proposal 'would have contributed to budget repair but also would have assured women in the system got more money and more weeks ... [the scheme] can be improved, it can be more equitable and fair but you need to find savings in the system to do that' (Norman 2017).

This paper provides insight into who would be affected by PLP reform that targets those with PML entitlements by providing a descriptive analysis of mothers with access to PML, with a focus on their pre-birth earnings and household incomes, using the Household, Income and Labour Dynamics in Australia (HILDA) Survey. It supports previous research on access to PML, which shows that mothers with higher earnings are more likely to have PML entitlements (Baird & Litwin 2004, 2005; Whitehouse 2005; Risse 2006; Productivity Commission 2009). As a consequence, low-income households make up a relatively small proportion of those likely to be affected by recent PLP reform proposals.

The paper concludes with discussion of some of the design elements of current, and proposed, PLP policy, and explores arguments for and against these specific aspects of PLP reform. It argues that, although there is scope to better target PLP expenditure, reforms that tie PLP entitlement to PML workplace conditions are not the best way to go about this.

2 Current parental leave pay policy

Before 2011, paid parental leave was exclusively provided by some employers as part of workplace agreements.⁶ Although Australian Government-funded parental leave is a relatively recent advent in the Australian policy context, unpaid maternity leave – the right to return to the same job held before a period of parental leave of up to 12 months – had been available to female full-time and permanent part-time employees since 1979 (Baird 2005).

Australia's taxpayer-funded PLP policy was introduced by the Rudd Government on 1 January 2011. The design of current PLP policy largely reflects the recommendations made by the Productivity Commission in its 2009 inquiry report *Paid parental leave: support for parents with newborn children*.⁷ The stated objectives of PLP policy include:

- enhancing maternal and child health and development
- facilitating workforce participation
- promoting gender equity and work–family balance.

2.1 Payment rate

Current PLP policy provides the primary claimant with payments at the full-time minimum wage for up to 18 weeks (Australian Government 2017a). This amounts to a payment of \$695 a week⁸ or \$12 510 annually. Parents can make a PLP claim at any time between 97 days before the birth of the child and the child's first birthday; however, PLP payments can only be received during the first year of the child's life. According to the *Paid Parental Leave scheme review report*, 57.8% of parents begin their PLP period within a month of the child's birth (DSS 2014a).

2.2 Eligibility

To be eligible for PLP, the primary claimant must meet the income test and the work test. A primary claimant must have adjusted taxable income (ATI) under \$150 000 in the financial year preceding the child's birth.⁹ While the income test is straightforward, the work test is more complex.

The work test comprises the following requirements:

- to have worked for at least 10 of the 13 months before the birth of the child¹⁰
- to have worked 330 hours in that 10-month period (just over one day a week)
- to have no more than an 8-week gap between two consecutive work days.

For the purposes of the work test, 'work' includes paid work, work performed for nonfinancial remuneration, paid recreation leave, paid maternity leave, paid carer's or sick leave, and unpaid leave while receiving workers compensation or similar payments. Those who are self-employed meet the work test provided their work is in a business that they at least partly control and where the work is undertaken for profit. Those who work for nonfinancial benefit in a family business also qualify (Australian Government 2017a).

For children born on or after 1 March 2014, a parent can count the period that they received PLP in relation to an earlier birth as work for the purposes of the work test for a subsequent PLP claim.¹¹ If a child is born prematurely, or the mother had a pregnancy-related illness that prevented her from performing paid work, the mother may still meet the work test provided that Centrelink is satisfied that she would otherwise have been eligible (Australian Government 2017a).

Although PLP is paid for 18 weeks, there is no requirement that parents take the full 18 weeks to which they are entitled; nonetheless, 96.8% of primary claimants make full use of the entitlement (DSS 2016a). Once a parent returns to work, they are no longer eligible to receive PLP; however, there are certain exceptions.¹² The principal exception is a return to work that occurs when the child is required to remain in hospital.¹³ Keeping in Touch (KiT) days – days of work for the pre-parental leave employer to facilitate employee engagement after the period of leave – are similarly not considered to constitute a return to work; however, KiT days cannot exceed 10 days¹⁴ within a PLP period (Australian Government 2017a).

2.3 The employer role

In contrast to other family payments, 70.4% of recipients of PLP receive it via their employer's payroll rather than Centrelink (DSS 2016a). Under the *Paid Parental Leave Act 2010*, since 1 July 2011, employers have been required to provide PLP to employees who:

- have worked for the employer for at least 12 months before the expected date of birth of the child
- will continue to be an employee until at least the end of the PLP period
- are expected to receive at least 8 weeks of PLP.

These employees are referred to as Mandatory Employees under the Act (DSS 2014a). Although the money will be paid to the parent via their employer's payroll, Centrelink usually makes fortnightly payments to the employer in advance of the employer's pay cycle. The employer is then required to provide PLP in accordance with their usual payroll cycle, collect withholding tax from PLP under the usual PAYG withholding arrangements and include PLP in their employee's annual payment summary.

Employers are not required to make superannuation contributions in relation to PLP or to allow the accrual of leave entitlements during the PLP period (Australian Government 2017a). Employers are not involved in the claims process. It is up to the parent to claim PLP from Centrelink, which will make a determination as to the parent's eligibility and contact the employer to arrange payment. Employers also have the option of providing PLP via their payroll for non-Mandatory Employees if they so wish (Australian Government 2014b).

2.4 Transferability

The Centrelink *Guide to Australian Government payments* makes it clear that 'the birth mother or the initial primary carer of an adopted child must usually apply for Parental Leave Pay, unless there are exceptional circumstances' (Centrelink 2017). Eligibility for primary claimant status is important because PLP eligibility depends on whether the primary claimant meets the work and income tests. The 'exceptional circumstances' in which the birth mother's partner can elect to be the primary claimant are when the birth mother is incapable of caring for the child, when it is unreasonable for her to care for the child, or when it is in the best interests of the child for the partner to take on this role for at least 26 weeks (Australian Government 2017a).

The Centrelink guide does not advertise that there is scope for an eligible primary claimant to '... transfer the balance of their PLP to another eligible person who has become the primary carer of the child' (Australian Government 2017a). This 'secondary claimant' is generally the mother's partner and father of the child; however, secondary claimant transfers are rare. Of the 123 830 two-parent families who received PLP in 2012–13, just 540 involved a transfer of entitlement (DSS 2014a).

2.5 Interaction with the tax system and other family payments

Although PLP is (effectively) a non-means tested payment, it is taxable,¹⁵ although not included in assessable income for social security payments. PLP does, however, interact with family payments (Australian Government 2017b). Those eligible for Family Tax Benefit Part B (FTB-B) receive a nil rate during the PLP period and forgo both the Newborn Supplement component¹⁶ of the maximum rate of Family Tax Benefit Part A (FTB-A) and the Newborn Upfront Payment in relation to the PLP child¹⁷ (Australian Government 2017b). Moreover, the contribution that PLP makes to taxable income has the effect of reducing FTB-A and FTB-B indirectly via the means tests for these family payments.

Figure 1 presents the annual disposable income of mothers in the financial year in which they give birth under September 2016 policy settings by annual private income for mothers who were eligible for PLP (solid teal line) and those who were not (broken light blue line). The cameo modelling assumes that the mother is having her first child and, where eligible, receives PLP for the full 18 weeks, thereby forgoing FTB-B for this period. Figure 1a depicts disposable income for mothers whose partner has private income equal to the full-time minimum wage, whereas Figure 1b presents disposable income for mothers whose partner has taxable income equal to male total average weekly earnings for November 2016 (ABS 2017).¹⁸ Disposable income for mothers includes FTB-A and FTB-B, to illustrate the interaction of PLP with other payments.

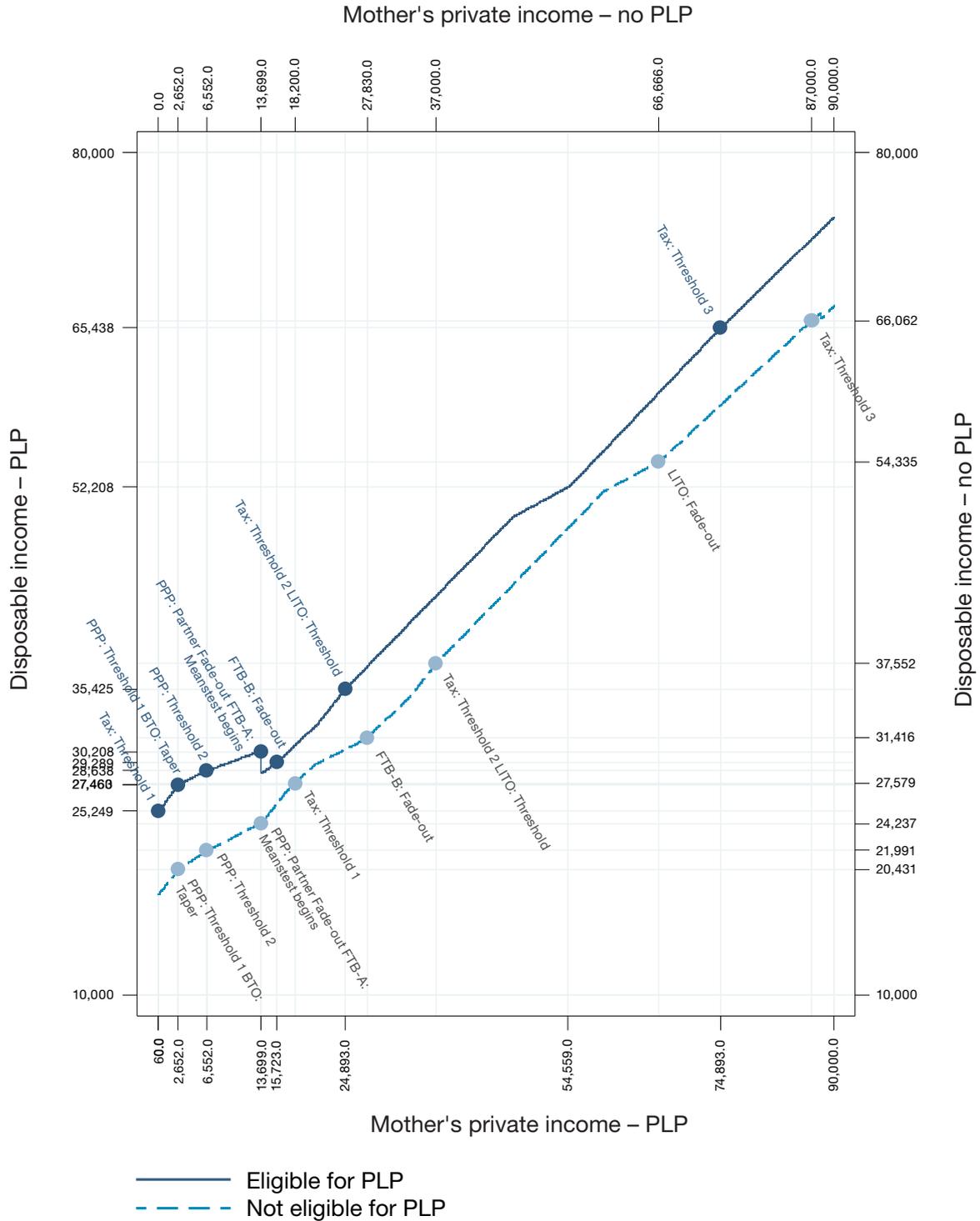
Figure 1a shows that the maximum benefit that families receive from PLP is not the full \$12 106.80, but rather \$7385 after tax is paid on PLP income, which is a little under two-thirds (61%) of the headline value of the payment. For mothers whose partners are lower-income earners, this occurs at \$88 234 of annual private income. The maximum benefit of PLP for this family coincides with the loss of eligibility for FTB-A, beyond which the benefit of PLP is reduced, solely by its providing a higher level of taxable income for a given level of private income.

In Figure 1b, the maximum gain in disposable income occurs at \$66 666 of annual private income, beyond which the Low Income Tax Offset no longer applies. Here, the maximum gain is slightly higher, at \$7930, on account of this family having already been means tested off FTB-A and FTB-B at this level of the mother's private income.

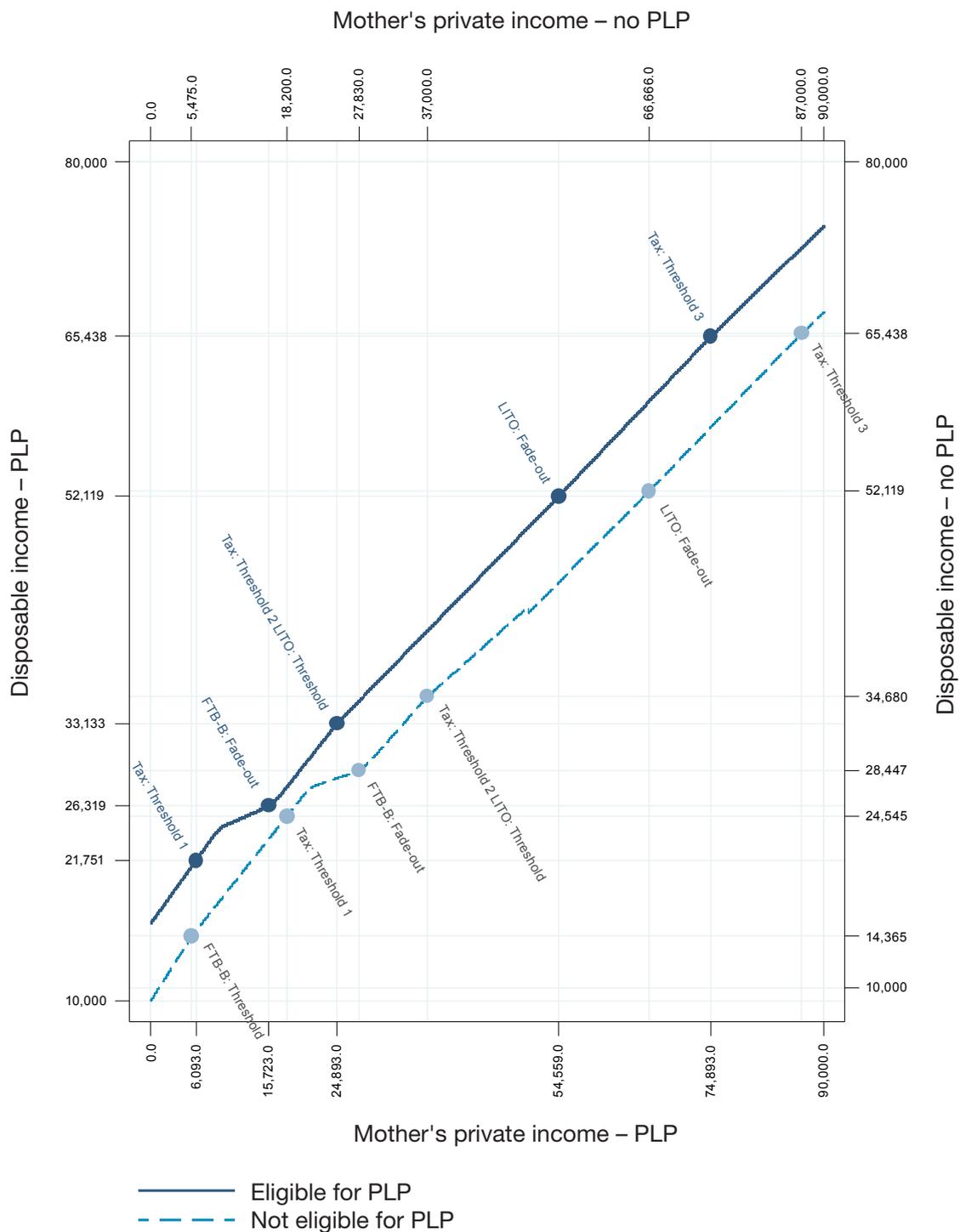
What is clear in both figures is that, for a given level of family income, mothers who meet the work test and receive PLP have higher disposable incomes as a result of greater transfers from other taxpayers than mothers who are ineligible. If one weights the welfare of families with newborns equally – without regard for the previous labour force participation of the mother – then this is arguably in contravention of the principle of horizontal equity.¹⁹ This underlines a trade-off inherent in the design of current PLP policy. Whatever the merits of PLP's objectives, achieving them comes at the cost of horizontal equity.

Figure 1 Mother's annual disposable income, including total family payments, by mother's annual private income for those who meet the work test compared with those who receive Parental Leave Pay and those who do not, September 2016

(a) Partner's private income = minimum wage



(b) Partner's private income = male total average weekly earnings



Note: Includes Parenting Payment Partnered, Family Tax Benefit Part A, Newborn Supplement, Newborn Upfront Payment, Family Tax Benefit Part B, tax, Medicare Levy, Beneficiary Tax Offset and Low Income Tax Offset.

Source: Model of the Australian Tax and Transfer System (MATTS)

3 Parental leave pay reform

The Social Services Legislation Amendment (Omnibus Savings and Child Care Reform) Bill 2017 was introduced to the Senate on 20 March 2017 and discharged 3 days later after the government secured the passage of the childcare reform measures of the Bill. Had the PLP reforms in the Bill been implemented from the beginning of 2017, they would be projected to save \$491.2 million between 2017 and 2020. Although these are no longer before parliament and, at least for the time being not government policy, it is more than likely that PLP reform will continue to be a topic of debate.

The government's most recent PLP reform proposal was made up of three components:

- removal of concurrent PLP and PML entitlement
- a week-for-week reduction in PLP entitlement for every week of PML an employee receives as part of their workplace entitlements
- an increase in the maximum number of weeks of PLP from 18 to 20 weeks (for all PLP recipients, regardless of whether they can access PML).

According to modelling conducted by the Australian Government Department of Social Services (DSS), cited in Martin (2017), these reforms would result in 4000 mothers who would otherwise be eligible losing access to PLP – 2% of the PLP caseload. Overall, 42.9% of those currently eligible would be affected.

On its own, this would disadvantage those whose PML entitlements are less generous than 20 weeks of the full-time minimum wage. To address this, the Bill defined Parental Leave Pay Supplements. Where a parent receives PML at a rate below the minimum wage, they would receive the difference between the rate of PML and the minimum wage for those weeks of PML. The PLP supplement would have had the effect of topping up PML entitlements where they are less generous than PLP, for up to 20 weeks.

The introduction of PLP supplements would result in PLP policy that is more generous to those who receive lower rates of PML for longer periods than to those who receive higher rates for shorter periods. For instance, a mother who receives \$100 per day for 15 weeks receives the same overall amount of PML as a mother who receives \$50 a day for 30 weeks (\$15 000). The mother with a 15-week PML entitlement would receive the full amount of PLP for 5 weeks (\$3350) in addition to a PLP supplement of \$3400 = $20 \times (\$134 - \$100)$. Together, this amounts to \$6750, which is less generous than the PLP supplement of \$8400 = $20 \times (\$134 - \$50)$ that would be paid to the mother with the 30-week PML entitlement.

4 Data

HILDA is a longitudinal household survey (panel study), which began in 2001. It collects information about economic and subjective wellbeing in addition to labour market and family dynamics. The initial wave of data collection consisted of 7682 households and 19 914 individuals – termed responding persons. In wave 11 (conducted in 2011), the sample was topped up with an additional 2153 households comprising 5477 responding persons.

Interviews are conducted annually, generally in the second half of the year, with all household members aged 15 years and over. Responding persons report on their employment income and receipt of government payments for the previous financial year. Contrary to HILDA's general description as a household survey, its longitudinal composition involves following individuals, some of whom will leave their original household to form a new one.

Responding persons sampled in the initial wave – termed continuing sample members (CSMs) – are followed over time and include those sampled in the wave 11 top-up sample. Children subsequently born to, or adopted by, CSMs are also classified as CSMs and become responding persons in their own right once they reach the age of 15. Further, all new entrants to a household who have a child with a CSM become CSMs themselves (Summerfield et al. 2016).²⁰ As a consequence of these 'following rules', some of the women in the sample are original sample members, whereas others will have become CSMs as a result of having a child with an original sample member.

As with many longitudinal household surveys, HILDA contains a set of core questions that are asked in every wave, in addition to modules that are used every few waves. One of these modules is the Desire and Preferences for Children module, which was used in waves 5, 8, 11 and 15. This module asks questions about future fertility plans and retrospective questions about parental leave taken around the time of the most recent pregnancy. The

module is only used when the responding person is aged 18 years or over, or under 18 years and living independently. Female responding persons are only asked to respond to this module if they are under 50 years of age, and male responding persons are only asked if their partner is under 50 years of age.²¹ Questions about parental leave are only asked when the mother was not pregnant with their first child at the date of interview.

The sample includes all female responding persons who answered the Desire and Preferences for Children module in waves 5, 8, 11 and 15. Where mothers reported on the same pregnancy in multiple waves, only the data provided in the most recent wave are included, such that wave 15 contributes 60% of the sample.²² The sample therefore contains data on parental leave for 4617 pregnancies nested in 3627 women. After excluding pregnancies for which the mother had not worked in the 12 months before the birth, those who had never worked and those who were uncertain as to their last period of work, there are data on 2393 completed periods of parental leave and a further 638 that were in progress at the date of interview. Since the mothers sampled are asked to provide retrospective data on past pregnancies, some report on pregnancies that occurred before the beginning of the HILDA study, while other pregnancies will have occurred during the HILDA sample period but before the introduction of PLP in 2011. Most of the analysis contained in this paper focuses on the 1106 mothers who gave birth to a child after the introduction of PLP in 2011 (1207 pregnancies). Appendix A contains more detail on the construction of the research dataset.

The measure of PML entitlement used in the analysis that follows comes from that reported in the self-completion questionnaire (SCQ) that is filled out by responding persons during the interview or returned by post. The PML entitlement question in the SCQ asks responding persons whether 'you, or other employees working at a similar level to you at your workplace, would be able to use ... employer-

funded paid maternity leave'. The SCQ questions on 'conditions and entitlements' are only asked of responding persons who are 'currently in paid work ... [which] ... includes anyone on paid leave'. One would not therefore expect that mothers who were on parental leave but without access to PML, or who had completed their PML, would have responded in the wave of the child's birth. For this reason, this paper uses PML entitlement reported in the wave preceding the child's birth.²³

Uncertainty about PML entitlement is a well-known problem in survey data (Whitehouse 2005, Edwards 2006, Risse 2006). The 2013 Australian Bureau of Statistics (ABS) publication *Employee earnings, benefits and trade union membership* (ABS 2013) indicates that 19% of employed women sampled did not know if they had a PML entitlement. Risse (2006) found that 43% of employed women in the third wave of HILDA reported a PML entitlement, although 23% of her sample indicated they did not know whether they had one. Edwards (2006), also using HILDA, found that older women tended to respond to the SCQ question with 'Not applicable'.

In contrast to previous studies, there is very little evidence of any such uncertainty in the sample used in this paper. Of the 1868 mothers who gave birth to a child since wave 1, and who were employed at some point in the 12 months before the birth, just 6.4% indicated that they did not know whether they had an entitlement in the previous wave. In fact, nonresponse in the previous wave (7.6%) and nonresponse to the SCQ section of HILDA (9.5%) do more to deplete the sample than uncertainty about entitlement among those who do respond. There are no 'Not applicable' responses in this paper's sample – while at first glance this is contrary to Edwards (2006), it is nonetheless consistent with her conjecture that this response is largely given by 'older women ... indicating that they are not planning on having any more children' (Edwards 2006:283).

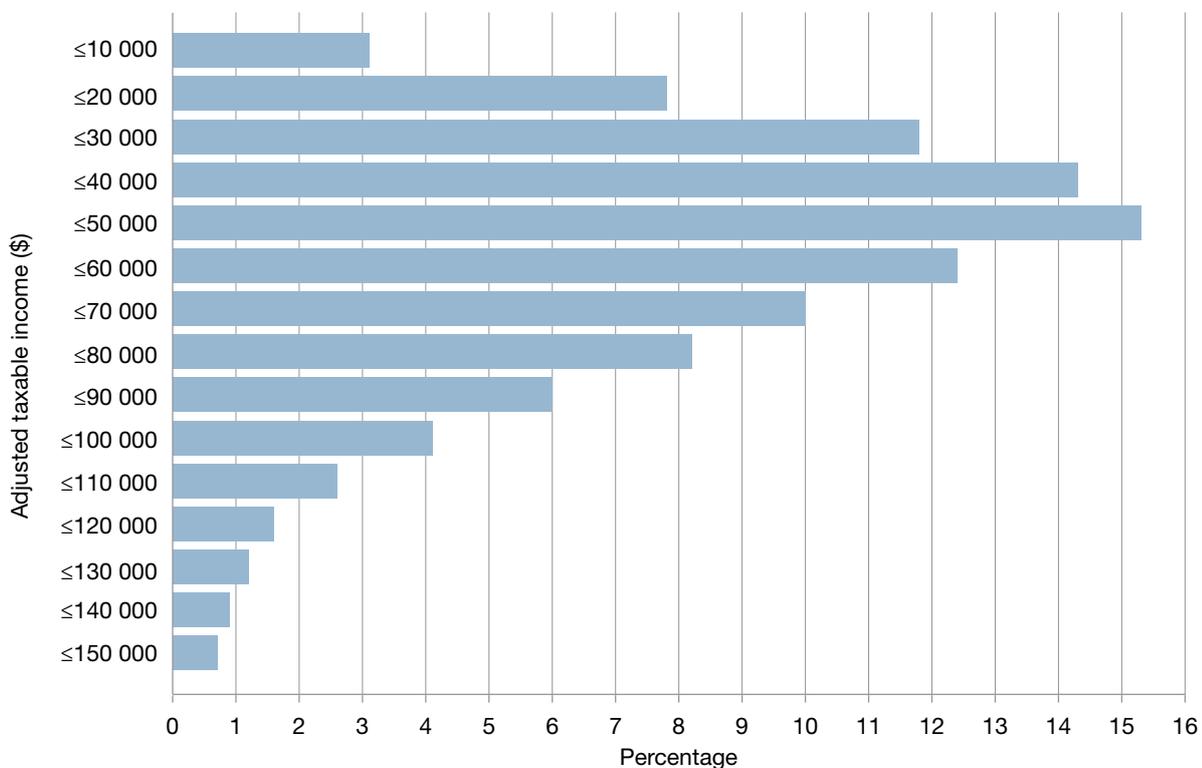
The certainty about PML entitlement in the sample is hardly surprising since it includes mothers who report on PML entitlement while they are pregnant, or shortly before, and who would be expected to be well informed about their PML entitlements if they had one.

5 Who receives parental leave pay?

With eligibility for PLP only limited for claimants with annual pre-birth ATI above \$150 000, eligibility is extremely broad among mothers who meet the work test. However, there is a wide distribution of pre-birth ATI among mothers who receive PLP. Figure 2 gives an approximate indication of this by presenting the distribution of ATIs of PLP claimants (almost entirely mothers), in the financial year before the birth of the child, who received PLP in the 2015–16 financial year. Although some of these PLP claimants may already have had children at the time of their claim, and consequently have taken some parental leave or worked part-time in the previous financial year, pre-birth ATI will offer a more accurate indication of their earnings than would the financial year within which parental leave was taken.

Figure 2 suggests that more than 22.7% of families who receive PLP have mothers with earnings below the full-time minimum wage (\$34 167), while approximately 40% have earnings between the minimum wage and average female full-time earnings for May 2015 (\$69 025). However, a substantial proportion of the families of high-income earners benefit from PLP. About a quarter of mothers who received PLP in 2015–16 had a pre-birth ATI higher than average female earnings, and 7.1% had an ATI above \$100 000. Figure 2 shows the wide distribution of pre-birth incomes among (mostly) mothers who receive PLP; it does not necessarily indicate that those who receive PLP have higher earnings than other working women at a similar point in the lifecycle.

Figure 2 Distribution of adjusted taxable income in the financial year before birth for Parental Leave Pay primary claimants who received Parental Leave Pay in 2015–16



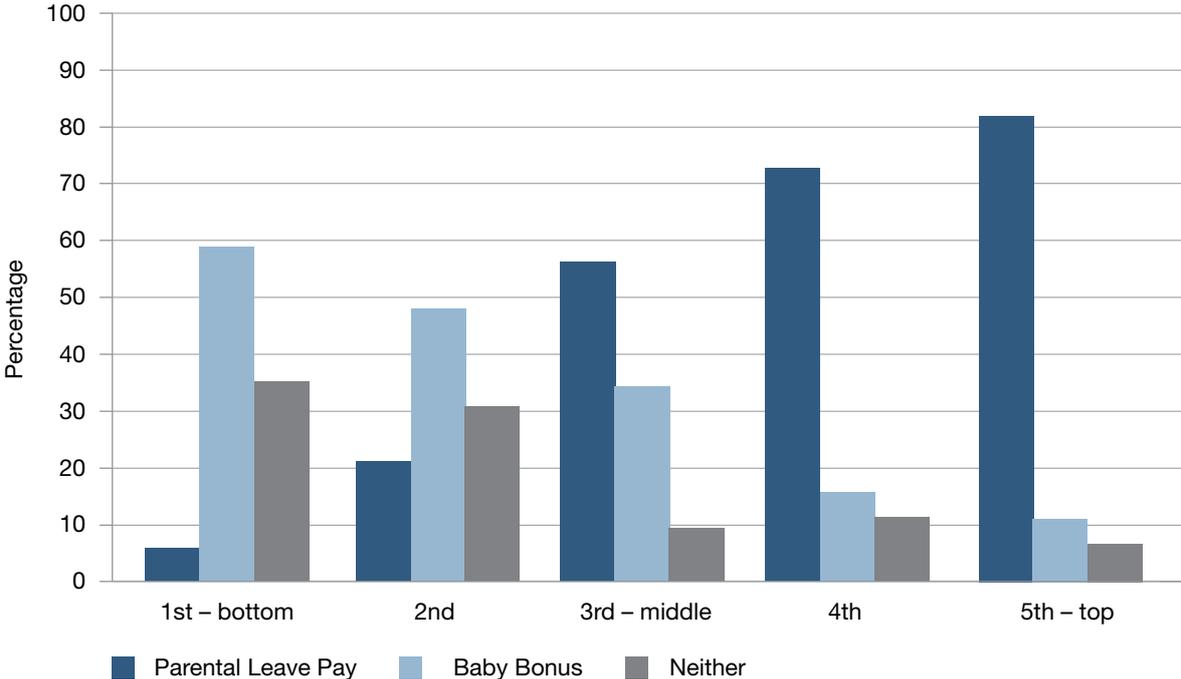
Source: Australian Government Department of Social Services

Although PLP benefits many low-income mothers, Figure 3 suggests that mothers in low-income households are far less likely to receive PLP than those in higher-income households. The figure shows the percentage of mothers who reported receiving government benefits who received PLP, the Baby Bonus or neither payment in each quintile of gross equivalised household income in the financial year before birth for the HILDA sample described in the previous section. In assessing how the receipt of PLP varies across household income, when using data collected between January 2011 and June 2015, it is important to keep in mind the interaction of PLP with the Baby Bonus.

Before 1 January 2009, the Baby Bonus provided \$5000 per eligible child and was not means tested. From then until its abolition towards the end of the 2013–14 financial year, eligibility was restricted to

parents whose estimate of their combined income for the 6 months following the birth of the child was less than \$75 000. With the introduction of PLP on 1 January 2011, there would have been families in which the mother may not have met the work test for PLP but, depending on the combined income of the family, may still have been eligible for the Baby Bonus. Only those households with relatively high combined incomes would have been ineligible for the Baby Bonus, and, among mothers who were attached to the labour force before birth, only those with very high earnings would have been ineligible for PLP.²⁴ With this in mind, it would appear that the higher percentage of mothers in lower-income households who report receiving neither the Baby Bonus nor PLP is more likely to reflect underreporting of the Baby Bonus than it is to reflect underreporting of PLP.²⁵

Figure 3 Percentage of mothers who reported receiving Parental Leave Pay, the Baby Bonus or neither payment in the financial year of the child’s birth, by quintile of gross equivalised household income in the financial year before birth, HILDA January 2011 to June 2014



Notes: Includes mothers who worked 12 months before the birth of their child who reported receiving government benefits.

Source: Household Income and Labour Dynamics in Australia (release 15)

Even if all of those mothers who indicated that they received neither payment did in fact receive the Baby Bonus, it is clear from Figure 3 that mothers in the top quintile of household income are those who are most likely to benefit from PLP, with 82% reporting PLP receipt compared with just 5.9% in the bottom quintile. The opposite is true for the Baby Bonus: just 11.2% of mothers in the top quintile reported receipt of this payment compared with 58.8% in the bottom quintile (94.1% if one assumes that 'Neither' is in fact Baby Bonus receipt). Figure 3 suggests that the abolition of the Baby Bonus would have been more likely to be felt by low-income households than would reform to PLP.²⁶

As indicated in Figure 1, for a given level of family income, PLP provides a greater level of payment to mothers who are eligible than to those who are not. Even before means testing, the FTB-A supplements and FTB-B provided to mothers who do not meet the work test provide a smaller increase in disposable income than PLP. What Figure 3 emphasises is that, among mothers with recent labour force experience, it is those in high-income households who are most likely to receive this higher payment than those in low-income households, thereby diminishing the vertical equity of Australia's system of family payments.²⁷

6 Who has paid maternity leave entitlements?

Previous Australian research has found that women with higher earnings are those most likely to have access to PML entitlements (Whitehouse 2005, Productivity Commission 2009). Although some studies that control for individual and workplace characteristics have found no statistically significant relationship (Baird & Litwin 2005, Risse 2006), others have found a more nuanced relationship (Baird & Litwin 2004). Edwards (2006) examined the relationship between wage rates and PML entitlements, and found that mothers with PML entitlements earn higher wages.²⁸

Whatever individual and workplace characteristics might simultaneously determine earnings and PML entitlement, the evidence suggests that mothers with higher earnings are more likely to be affected by the sort of PML reforms that have been proposed by the government than those with lower earnings. Although it could be argued that targeting PLP at mothers who do not have access to PML would improve the vertical equity of Australia's family payments system, this is only true insofar as mothers with high earnings are found in high-income households. This section adds to this literature by providing more recent data on the PML entitlements of mothers across pre-birth earnings quintiles, while also providing insight into their household incomes.

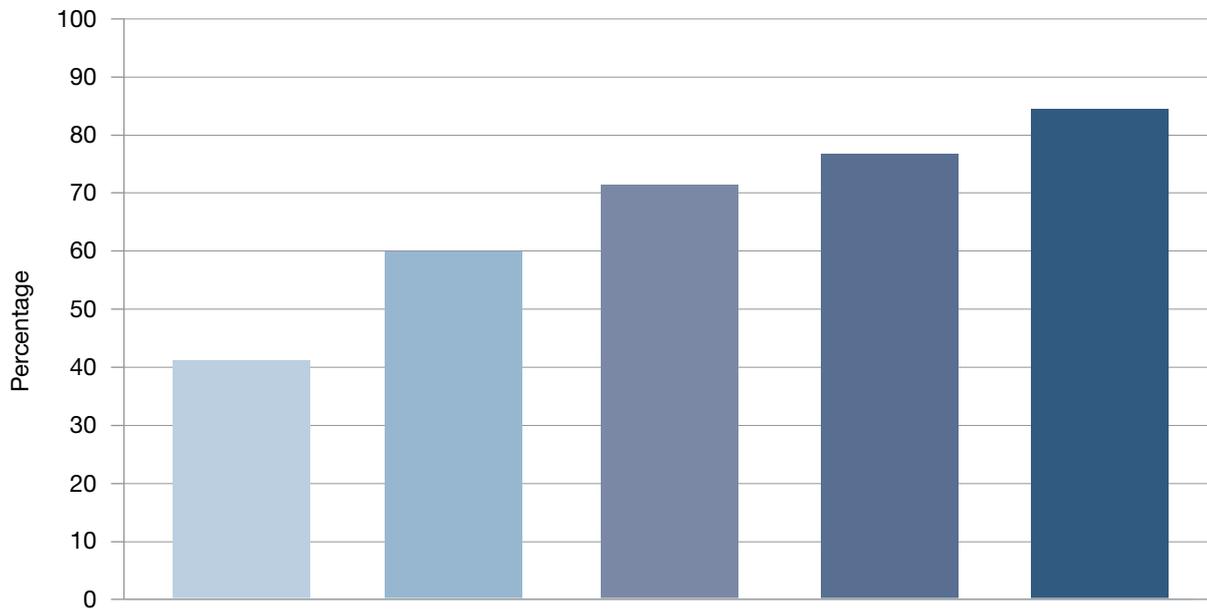
Figure 4a presents the percentage of mothers who reported that they had a PML entitlement in HILDA in the wave preceding that in which they began parental leave for births that occurred between 1 January 2011 and 30 June 2015. These percentages are provided by the quintile of the mother's earnings in the financial year before the financial year of the child's birth. The figure supports previous research that indicates that women with higher earnings are those most likely to have PML entitlements, underlining the disparity in entitlement across the earnings distribution. Just 41.2% of mothers in the bottom earnings quintile reported having a PML entitlement, compared with 60% of those in the second quintile. While three-quarters

of mothers in the second-top quintile reported PML entitlement, the rate of entitlement among mothers in the top earnings quintile is 84.5%.

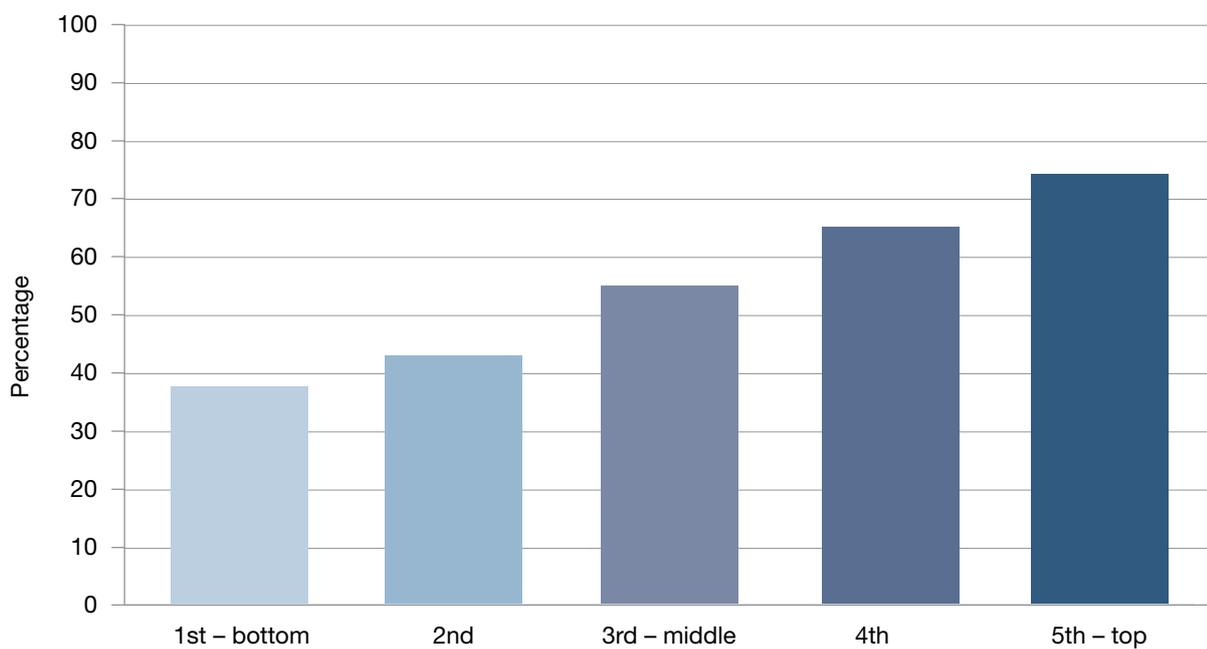
Figure 4b similarly suggests considerable inequality in access to PML across the distribution of household income, with lower PML entitlement among low-income households than among high-income households. At 74.3%, mothers in the top quintile are almost twice as likely to report PML entitlement than those in the bottom quintile (37.5%). These results are consistent with the DSS submission to the Senate inquiry into the MYEFO 2015–16 proposal, which suggested that those with PML entitlements who would be affected by the proposal had higher household incomes than those without (DSS 2016b). This modelling suggests that the median (unequalised) household income of those without PML entitlements was \$116 000, compared with \$139 000 for those partially affected and \$149 000 for those moved off PLP altogether.

Figure 4 Percentage of mothers who were entitled to Paid Maternity Leave by quintile of pre-birth earnings and pre-birth gross equivalised household income

(a) Mother's pre-birth earnings



(b) Pre-birth equivalised gross household income



Notes: Includes mothers who worked in the 12 months before the birth of their child.

Source: Household, Income and Labour Dynamics in Australia (release 15)



7 Who would be affected by parental leave pay reform tied to paid maternity leave entitlement?

The PLP reforms that have been proposed in recent years have all involved reductions in PLP entitlement according to the value of workplace PML conditions, be it the dollar-for-dollar clawback put forward in Budget 2015–16 or the week-for-week clawback first proposed in MYEFO 2015–16. This section aims to shed some light on the composition of mothers and families who would be affected by PLP reforms targeted at mothers with PML entitlements, focusing on the incidence of the impact of the reforms on mothers across quintiles of pre-birth earnings and gross equivalised household income.²⁹

One way to proceed in determining the composition of households that would be affected would be to form a sample of only those mothers who reported receipt of PLP. As discussed earlier, Figure 3 suggests that, of those mothers who reported receipt of government benefits between January 2011 and June 2014, those in lower-income households were far less likely to report receipt of PLP than they were to report receipt of the Baby Bonus or neither payment. To proceed in this way would produce a sample with a very small proportion of low-income households. Although it is likely that such a sample would reflect the composition of households in the population of those who receive PLP, it should be borne in mind that the policy environment during the period in which the data were collected was considerably different from that in which any proposed reform would be implemented.

With the abolition of the Baby Bonus in March 2014 and its replacement with a means-tested FTB-A supplement, the opportunity cost of not receiving PLP is now higher than it would have been for mothers who gave birth between 1 January 2011 and 1 March 2014. It is not unreasonable

to speculate that some mothers who are only marginally attached to the labour force may have responded to the abolition of the Baby Bonus by increasing their labour supply just enough to meet the work test for PLP. Were this the case, it could be argued that to include only those households where the mother reported receipt of PLP would be to exclude some mothers in lower-income households who may now be employed before birth and may have a PML entitlement. This would then lead to an underestimation of the percentage of low-income households that would be affected by PLP reform.

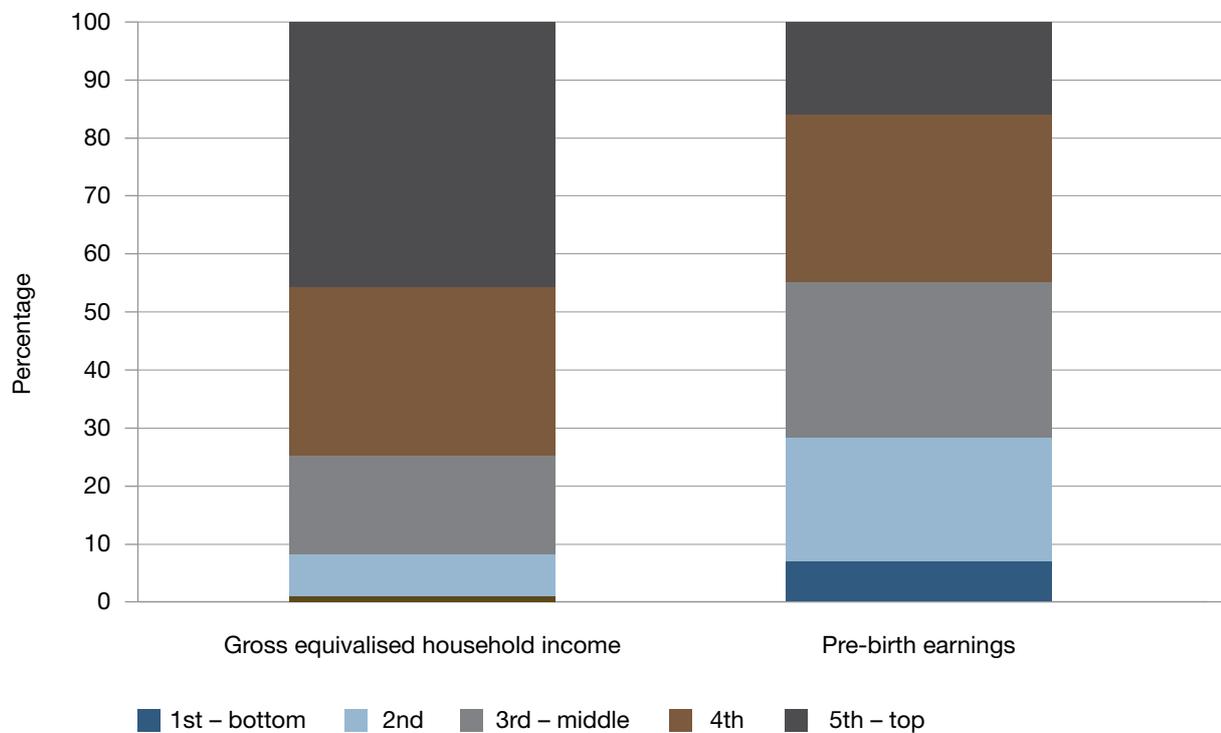
With this in mind, rather than include only those mothers who report receipt of PLP, this section presents data on the income distribution of all mothers who worked at some point in the 12 months before the birth of their child. These results include mothers who reported that they had a PML entitlement, regardless of whether they reported receiving any government benefits. This is tantamount to taking any employment in the 12-month period before birth as meeting the work test for PLP and therefore includes mothers with lower earnings, and those from low-income households, who reported receipt of the Baby Bonus. While one would assume that these mothers claimed the Baby Bonus because they did not meet the PLP work test, the assumption made in this section is that they would now be in scope for PLP and may be affected by PLP reform, provided that they reported having a PML entitlement. It is worth noting that, as reported by DSS, the percentage of mothers receiving PLP increased by 3.7% between 2013–14 and 2014–15, and again by 2.9% between 2014–15 and 2015–16, with the abolition of the Baby Bonus early in 2013–14. Appendix B details the reporting of family payments in the HILDA sample.

Figure 5 presents the percentage of mothers who reported that they had a PML entitlement and gave birth between 1 January 2011 and 30 June 2015 for each quintile of pre-birth earnings and equivalised gross household income. The figure shows that the vast majority of mothers affected would be those in the top three quintiles of pre-birth earnings. Together, the top three quintiles make up 71.8% of mothers who reported a PML entitlement. Within the bottom two quintiles, those in the lowest earnings quintile are underrepresented among those who reported PML entitlements, at 6.8%. Those in the top quintile of earnings would be more than twice

as likely to be affected, making up 15.9% of those reporting entitlements.

The relationship between eligibility for PML and incomes is far more marked when viewed in terms of household income rather than pre-birth earnings. The top two quintiles of gross equivalised household income make up 74.7% of mothers who report PML entitlements. In fact, the top quintile makes the biggest contribution of any quintile, at 45.7% of PML entitlement. In contrast, the bottom two quintiles make up less than 10% of mothers who report an entitlement.

Figure 5 Income quintile composition for mother's pre-birth earnings and gross equivalised household income of mothers who had a paid maternity leave entitlement



Notes: Includes mothers who worked in the 12 months before the birth of their child.

Source: Household, Income and Labour Dynamics in Australia (release 15)

8 Should parental leave pay be tied to paid maternity leave entitlement?

Separate from the distributional impacts of PLP reform that would tie PLP to PML entitlement is the question of whether specific aspects of these reforms would undermine some of the stated objectives of PLP policy.

8.1 Concurrence

Beginning with the government's proposal to remove concurrent PLP and PML entitlement, it is worthwhile considering the Productivity Commission's original reasoning for this aspect of the policy's design. Much of the discussion surrounding this aspect of PLP related to the incentives for parents to extend parental leave beyond the leave that they would have taken in the absence of the payment, the incentives for employers and employees to change their PML arrangements in light of the payment's design, and how PLP would interact with the tax and transfer policy environment of the day.

The Productivity Commission's report examined whether allowing concurrence would promote additional parental leave to be taken over and above PML – 'additionality' in the words of the Commission. It argued that allowing concurrence would provide stronger incentives for parents to remain on parental leave until their PML entitlements had expired, but that:

the effect on additionality during this period must be small since it is a time when most women are strongly inclined to stay at home. (Productivity Commission 2009:2.40)

The Productivity Commission also noted that a 'no concurrence model' of the type that has been proposed by the Australian Government would provide a stronger incentive to take PLP after the PML entitlement expired, but would likely have little impact on the leave decisions of parents who had

always intended to take more than 18 weeks in addition to their PML. Since 96.8% of those who took PLP in 2015–16 used the full 18 weeks (DSS 2015), the imposition of additionality (in the absence of a clawback) would be expected to increase the duration of parental leave taken, unless some mothers are willing to forgo some of their PLP entitlement. This suggests that removing concurrent entitlement is likely to support the maternal and child health and development objectives of PLP.

Removing concurrent entitlement is arguably a less controversial aspect of the reform. Among families who use PLP payments on top of, rather than in addition to, PML entitlements, PLP no longer meets its objective of increasing parental leave and becomes something more akin to a redistributive policy. Some may hold the view that PLP should continue to be paid in the absence of any increase in parental leave, since any increase in the incomes of households with newborns is a worthwhile use of taxpayers' money. However, the Productivity Commission roundly rejected this view:

Were increased financial assistance by itself to be a key objective, it could be addressed effectively by increasing one or more family payments ... the design of a paid parental leave scheme needs to include an element of financial assistance that encourages or facilitates a period of absence from the workforce ... Financial assistance is better seen as a design feature that creates an incentive to take parental leave, rather than an objective in itself. (Productivity Commission 2009:1.13)

Furthermore, in light of the higher rate of payment that PLP represents compared with FTB-B and the FTB-A Newborn Supplement presented in Figure 1, the provision of more generous family payments to some households with the same level of income as

others, in the absence of additional parental leave, is arguably inconsistent with the principle of horizontal equity – at least in the absence of a persuasive argument as to why those families where the mother meets the work test are more deserving than those where the mother does not.

8.2 Clawback

In contrast to concurrence, the consequences of the week-for-week PML clawback are more complex and have implications for labour force participation after the birth of a child. One of the reasons the Productivity Commission recommended PLP paid up to 18 weeks at the full-time minimum wage was that:

the minimum wage typically exceeds the replacement wages of lower income parents (since many work less than full-time hours) ... It would create good incentives to work for lower income females, since the payment is significantly more than the value of income support for women working in the unpaid sector. (Productivity Commission 2009:5.18)

Insofar as the clawback reduces the overall generosity of PLP payments, it might be expected to reduce the labour force participation incentives embedded in the policy's original design. However, there is likely to be substantial variation in how the labour supply of those eligible for PLP would respond to a clawback. As the Productivity Commission argued:

The beneficial employment effects of a leave scheme are most likely to be experienced by less well-educated and lower skilled females. Empirical evidence shows that higher effective wages do more to encourage these women to work than more educated, higher paid women. (Productivity Commission 2009:5.17)

Research using data that were collected as part of an evaluation of PLP supports the Productivity Commission's view that allowing concurrence increased the percentage of mothers with PML entitlements who take up to 18 weeks of parental

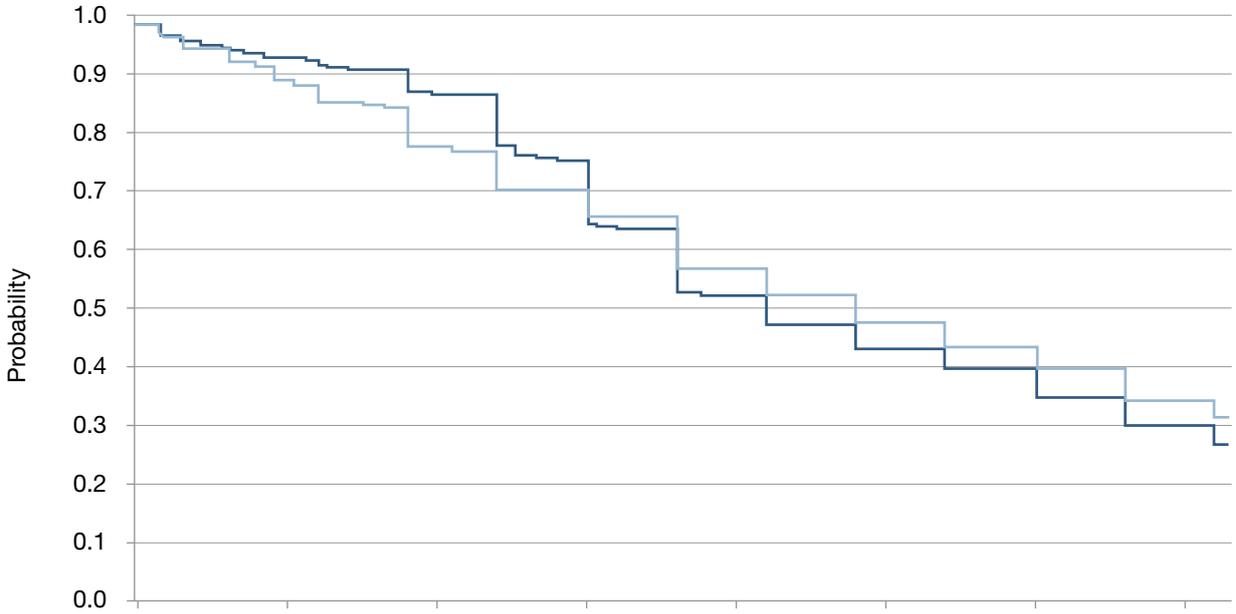
leave. Figure 6 provides estimates of the probability of remaining on parental leave after the birth of a child, as presented in Broadway et al. (2016). These authors compared data on parental leave length collected from 2587 mothers who gave birth in late 2009, who would have been eligible for PLP had it been available, with 4201 mothers who gave birth in late 2011 who met the eligibility criteria for PLP. Their methodology provides plausible estimates of the causal effect of the introduction of PLP on the length of parental leave, provided that there were no factors other than the introduction of PLP that would have affected parental leave length between 2009 and 2011.

Figure 6b presents estimates for mothers who did not have access to PML that suggest that these mothers were highly responsive to the introduction of PLP. Mothers who gave birth after 1 January 2011 were more likely to remain on parental leave for up to 21 weeks (150 days). Figure 6a shows estimates for mothers who had access to PML – those who would be affected by the reform proposals considered by the government. This panel shows comparatively modest impacts for mothers who did have access to PML and were coming off a higher base of parental leave length. Approximately 90% of mothers with PML entitlements took at least 18 weeks of leave before the introduction of PLP, compared with approximately 72% of those without.

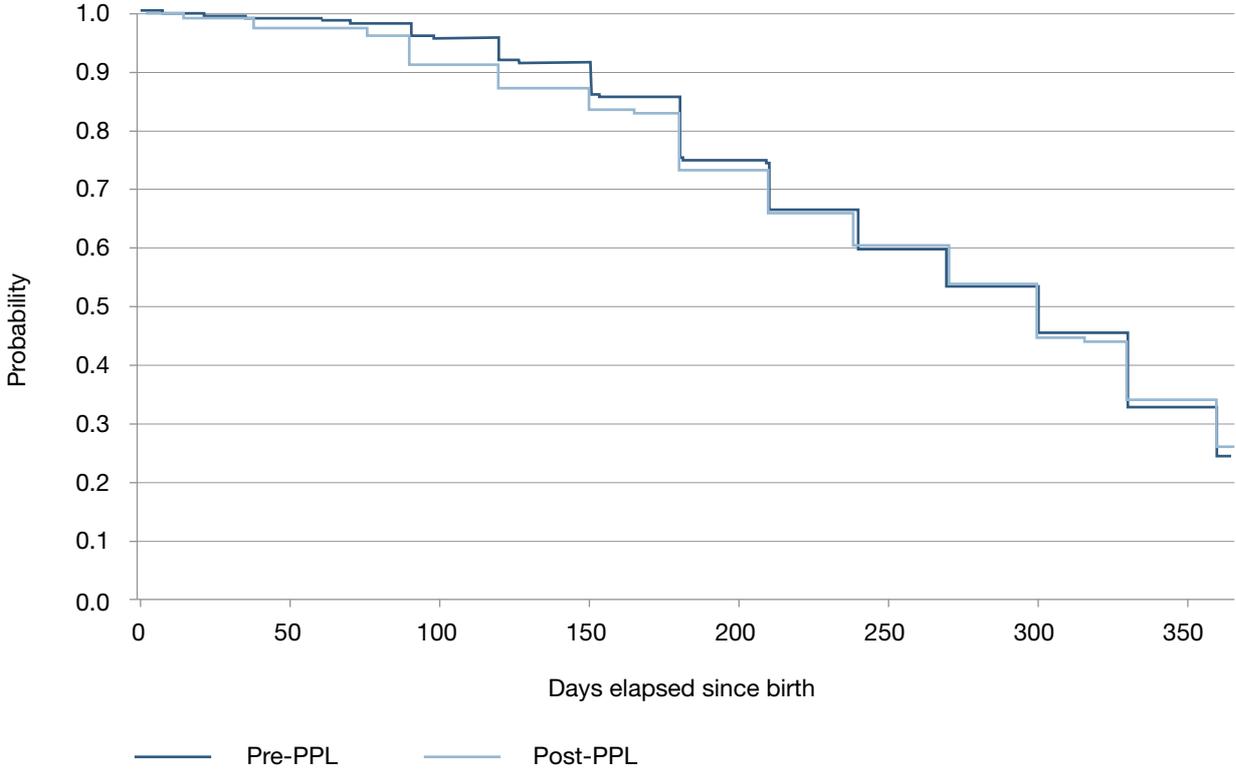
Figure 6, and other analysis in Broadway et al. (2016), suggests that there is heterogeneity in the impact of the introduction of PLP on parental leave durations and, conversely, the probability of a return to work 12 months after birth. This is by no means an argument in favour of a clawback based on the length, or value, of a PML entitlement, but this heterogeneity leaves open the possibility that the leave duration and labour force attachment objectives could be achieved via a more targeted approach to PLP. Indeed, the leave duration objective could be achieved by any policy that alleviates household liquidity constraints. Alternatives to cash transfers for parental leave include income-contingent loans, first proposed by Chapman et al. (2008), which could be used to deliver wage replacement PLP for those without PML entitlements (Taylor 2014).

Figure 6 Probability of parental leave length duration before and after the introduction of Parental Leave Pay

(a) Mothers with paid maternity leave entitlements



(b) Mothers without paid maternity leave entitlements



Source: Broadway et al. (2016), Figure 3

While there is little literature on heterogeneity in the response to the introduction of paid parental leave policy, it would seem that this is not peculiar to Australia.³⁰ Rossin-Slater et al. (2013) studied the impact of the introduction of paid family leave (PFL) in California. The introduction of PFL in July 2004 provided the vast majority of private sector workers with 55% of their pre-birth wages up to a ceiling of the state's average wage for 6 weeks.³¹ These authors found that the introduction of PFL coincided with a statistically significant increase of around 3.4–6.3 percentage points in the probability that new mothers were on maternity leave in the reference week of the March Current Population Survey. Their estimates suggest that it was primarily mothers with a lower level of education than a college degree who responded to the introduction of PFL, with a statistically significant increase in the probability of maternity leave of 5–7.8 percentage points. This is consistent with the estimates of Broadway et al. (2016) for Australian mothers without tertiary qualifications.

Baum and Ruhm (2016) also studied the introduction of PFL in California using data that allowed them to separate the impact of PFL on the probability of employment around the time of a birth from the probability of being at work – that is, having returned from parental leave. Their analysis suggests that PFL increased the probability of employment 12 months after birth by 15–20 percentage points, largely as a result of promoting continuity of employment with the pre-birth employer.

If the primary mechanism through which the introduction of parental leave policies increases the labour supply of mothers is via job continuity, it is little surprise that the impact of PLP on return to work after birth in Figure 6b is muted compared with that for mothers without PML entitlements. Australian mothers who have access to PML have a job to return to, and most of those who would have met the work test for PLP would have been eligible for at least 12 months of job protection under the National Employment Standards. This is in stark contrast to the 12 weeks of job protection that parents in California could access at the time of introduction of PFL. This, possibly in conjunction with partial wage replacement, is the reason that

the labour supply impacts of PFL were more pronounced than those for PLP.

Some researchers have maintained the need for broad-based accessibility to ensure gender equality in employment: 'To fully support women's workforce participation ... the government funded [PLP] scheme needs to be as widely available as possible to employees ...' (Baird et al. 2016:4). However, the results of Broadway et al. (2016) suggest this is not entirely correct – at least not for mothers with PML entitlements. If the introduction of PLP did very little to increase the probability of return to work of those with PML entitlements, it is difficult to imagine that removing the payment altogether would greatly diminish the probability of return to work for this group. In any case, it has never been the government's intention to remove PLP eligibility for those with access to PML merely to claw back a week of PLP for each week of PML and only where replacement is higher than the minimum wage.

In light of the heterogeneity in response to the introduction of PLP, it can be argued that there is scope for the payment to be better targeted. However, the fact that mothers with PML entitlements had quite different responses to the introduction of PLP is not evidence that tying PLP entitlement to the generosity of PML conditions is the optimal approach to targeting. The fact that higher-income women are those most likely to have access to PML is likely to reflect the higher opportunity cost of withdrawing from the labour force.

As this paper and other research has shown, higher-paid women are those most likely to have PML entitlements, but Figure 4a also suggests that a significant number of low-income mothers would be affected by tying PLP to PML entitlement (Whitehouse 2005, Edwards 2006, Productivity Commission 2009). Since the labour force participation of these lower-income mothers will be more responsive to PLP reform, rather than tying PLP to PML conditions, the government should consider other characteristics that are more closely related to the responsiveness of labour supply.

8.3 Duration

The addition of 2 weeks to PLP entitlement most recently proposed complicates an analysis of PLP reform. Although previous PLP reform proposals³² would have unequivocally reduced the PLP of those with PML entitlements, there was no additional benefit for those without PML entitlements. However, not only does the most recent proposal increase the generosity of PLP for those without access to PML, it also increases payment for a small group with access who would gain more from the addition of 2 weeks than they would lose from the clawback.

The government's intention was to fund the addition to PLP duration via the week-for-week PML clawback; proponents of current PLP policy have been critical of this proposal. Baird and Constantin (2015) argued that, under a clawback:

Primary carers ... would all be left well short of the leave payments reasonably expected to support them to stay at home with a new baby for the minimum 26 weeks recommended by experts ... with their access to income reduced. (Baird & Constantin 2015:5)

If 26 weeks of parental leave is in fact the minimum requirement for all mothers and newborns, it is important to keep in mind that some of the mothers who would be 'left well short' of 26 weeks as a result of reform will be in households that have access to other means of financing parental leave. A 26-week minimum is not a persuasive argument against the targeting of PLP payments so much as an argument against reducing the PLP payments of mothers in households that lack the financial resources – but wish – to take 26 weeks of parental leave. Moreover, a 26-week parental leave minimum is not a persuasive argument against a clawback per se – it is only an argument against one imposed at less than 26 weeks.

What this paper shows is that those without PML entitlements who stand to gain from an additional 2 weeks of parental leave are largely those who most need it and who will thereby be brought closer to 26 weeks of leave. Not only do they have lower pre-birth earnings, but they are also more

likely to be in lower-income households and are therefore those most likely to take shorter parental leave as a result of household liquidity constraints. However, whatever one may think of the merits of such a reform, it cannot be said that no low-income earners, or that no people in low-income households, would be adversely affected. Those affected will inevitably include some recipients in households with PML entitlements who would be unable to self-finance 26 weeks of parental leave.

8.4 Other issues

Insofar as men tend to have less generous parental leave workplace entitlements, one way that some families might respond to the introduction of PLP reform that target mothers' PML entitlements would be to transfer the PLP entitlement to the father, to maximise the amount of PLP the family receives.³³ Although some families may respond in this way, it is only advantageous where PLP provides a significant replacement rate of the father's earnings. For the vast majority of families, household income would decline if PLP were transferred to the father, which would put a natural brake on families attempting to game the reforms in this way.

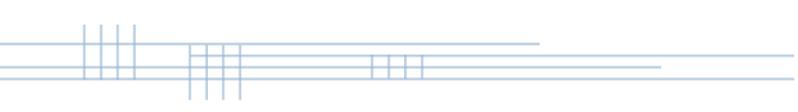
One of the criticisms of the government's earlier attempt at PLP reform, which involved a dollar-for-dollar clawback,³⁴ was that employers would convert their PML conditions into return-to-work bonuses (Taylor 2015). These bonus payments would be paid by employers on the parent's return to work. Although distinct from PML workplace conditions, these could be structured in such a way as to provide the same overall payment to mothers as a PML condition, while allowing employees to remain eligible for their current PLP entitlement. From the perspective of employers, this would have the additional advantage of increasing the probability that mothers with firm-specific human capital would return to them after childbirth.

The week-for-week clawback aspect of the most recent PLP reform proposal was to be accompanied by a specific provision that deals with primary carer payments provided as lump sums that do not depend on the length of leave taken.³⁵ PML conditions offered in this way would incur a dollar-

for-dollar clawback of PLP entitlement, which presumably encompasses return-to-work bonuses. One challenge that the government would face is the enforcement of these provisions, since the reform would place Centrelink in the position of having to collect information on workplace entitlements as part of the administration of an eligibility test for a family payment. However, in the context of a payment that 70.4% of recipients receive via their employer's payroll, this challenge may not be insurmountable – at least for most of the PLP caseload.³⁶

Even if the government could prevent employers gaming the reforms using return-to-work bonuses, the introduction of a week-for-week clawback is tantamount to an implicit tax on PML entitlements, albeit one levied on employees rather than on employers. As employment agreements expire, there is the possibility that employers and employees will negotiate to reduce PML durations in exchange for other family-friendly conditions, to allow parents to maximise their PLP entitlements. It is difficult to see how the government could prevent this from occurring in the absence of heavy-handed labour market regulation. The extent to which the provision of PLP affects the coverage, duration and replacement rates of PML or other family-friendly conditions is an empirical question that has not been well researched in the Australian context.

An additional administrative challenge associated with reform that targets PML entitlement would be ascertaining the length of PML entitlement of some mothers. For those whose employment conditions are governed by legislation, awards or workplace agreements, the length and replacement rate of the PML entitlement, where one exists, will be clearly documented. However, this will not necessarily be the case where PML entitlement is the result of company policy. As noted by Baird et al. (2016), the specifications of 'a payment under a company policy ... may not be obvious to an employee (nor even in some cases to their employer to whom they are likely to turn to for advice)' (Baird et al. 2016:6). For some small and medium enterprises, PML entitlement may well be the result of an informal understanding between employer and employee, and not necessarily written down.



9 Conclusion

This paper has sought to shed light on the incidence of the impact of PLP reform that would target mothers with PML entitlements. It finds that families affected would mostly be higher-income households in which mothers have higher earnings, because these mothers are likely to have access to PML. Mothers in households in the top two quintiles of household income constitute just under three-quarters of those who report PML entitlements, and mothers in the top quintile represent 45.7% of those with PML entitlements. Although it is primarily higher-income households that would be affected, it is important to note that slightly fewer than 1 in 10 mothers with PML entitlements reside in households in the bottom 40% of household income. While targeting PLP reform at mothers with PML entitlements will mostly affect high-income households, it cannot be said that this particular approach to targeting would have no adverse consequences for low-income households.

This paper also examines some of the design aspects of current PLP policy and suggests that reforms facilitating the use of PLP to increase parental leave, such as removing concurrent PLP and PML entitlement, are worth consideration. However, the issue of a week-for-week clawback is contentious. A clawback needs to be considered in the context of the evidence base for a specific minimum parental leave duration, the scope for employers and employees to negotiate changes to PML conditions, and overall administrative feasibility. This paper argues that alternative approaches to PLP targeting should be considered.



Appendix A

Constructing a sample of mothers who took parental leave, from HILDA

The construction of the sample begins with a dataset that contains the exact date of birth and cross-wave identifiers of all the biological children who have resided with a female responding person in at least one of the 15 waves of HILDA from the household file. This dataset is subsequently referred to as the child matrix.

For the responding person, files for data from waves 5, 8, 11 and 15 concerning leave from paid employment taken both before and after the birth of the child associated with the mother's most recent pregnancy are extracted from the Desire and Preferences for Children module. These data are provided in HILDA for women who are aged 18 years and over, or under 18 years and living independently, who have ever had a child and who were not pregnant with their first child at the date of interview. Before wave 15, these data were provided for women who were under 45 years of age at the date of interview. In wave 15, these data are provided for women aged under 50 years.

The parental leave data for waves 5, 8, 11 and 15 are then merged onto the child matrix using the mother's cross-wave identifier, retaining only the youngest child born before the date of interview in that wave. It is this child who is most likely to be associated with the most recent pregnancy reported in the Desire and Preferences for Children module.

Since the questions on parental leave enquire about the most recent pregnancy, it is possible that responding persons will report on the same child in more than one wave. After appending the datasets for waves 5, 8, 11 and 15, all but the most recently reported data for each child are excluded to ensure a longer observation window and reduce the likelihood of observing right-censored parental leave periods (i.e. periods of parental leave still in progress

at the time of the wave 15 data collection). The trade-off is that there may be increased recall error in the more recent data relative to the data taken closer to the time of the birth.

The child matrix contains data on 12 769 unique children born after 1 July 1980 who were resident with a biological mother at some point between waves 1 and 15. Appending the data on parental leave collected in waves 5, 8, 11 and 15 provides a dataset containing 7751 (non-unique) children. After deleting children reported in earlier waves, there are 4617 unique children born to 3627 mothers. Preferencing data on parental leave taken from the more recent waves ensures that wave 15 contributes 60% of the sample.

Appendix B

Reporting of family payments in HILDA

Underreporting of government benefits in survey data is a pervasive methodological issue in social policy research (Johnson & Scutella 2003, Siminski et al. 2003, Meyer et al. 2015). It is possible that family payments made around the time of a child's birth may be underreported in HILDA, so it is worth discussing the implications of this for assessing the distributional consequences of PLP reform.

The income section of the HILDA questionnaire asks responding persons whether 'they currently receive ... income from the government in the form of a benefit, pension or allowance' in addition to 'receipt of government pensions, benefits and allowances during the [previous] financial year'. The questions about current receipt make it clear to responding persons that this does not include FTB, and in both instances they are provided with show-cards that list 'Paid Parental Leave (include Dad and Partner Pay)' and the Baby Bonus in the waves in which these benefits were payable.

A specific concern with HILDA is the way in which some mothers might interpret questions about the family payments that they receive, because many may not regard PLP or the Baby Bonus as 'a benefit, pension or allowance'. It is possible that higher-income mothers who received these family payments did not report their receipt in HILDA because they see them as qualitatively different from income support payments listed at the top of the show-card. This appendix presents data that provide some support for this hypothesis, and suggests that mothers with lower earnings and those from lower-income households are more likely to respond to questions on receipt of government payments but less likely to report receipt of PLP – probably legitimately so.

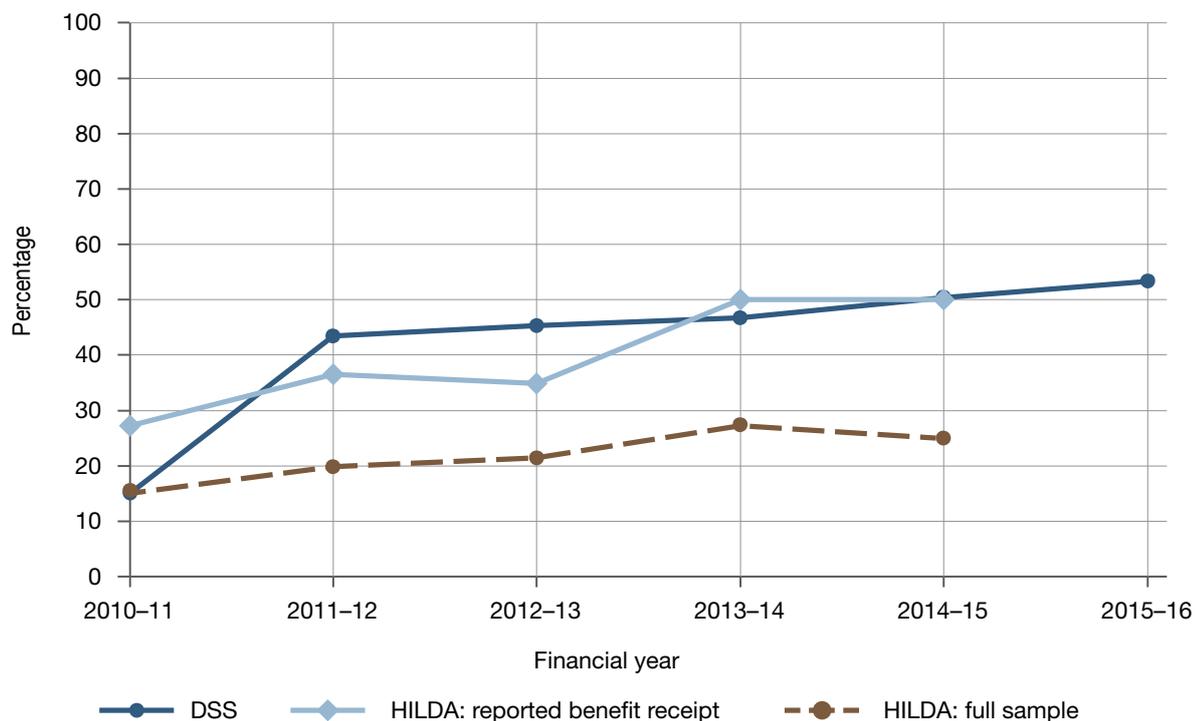
Figure B.1 compares the rate of receipt of PLP reported by DSS with an estimate of the rate of receipt among new mothers in the HILDA sample

who gave birth between 1 January 2011 and 30 June 2015. The DSS receipt rate is the ratio of the number of primary carers who received PLP in the financial year to the number of children aged zero in the June just before that financial year. The figure presents two estimates of the rate of PLP receipt constructed from the HILDA sample. The first, given by the solid light-blue line, is the rate of receipt among mothers who reported receiving a government benefit in the financial year. The second, given by the broken brown line, provides the same percentage for all the mothers in the sample.

It is clear from Figure B.1 that the reporting of PLP receipt in the full sample is, with the exception of 2010–11, consistently lower than that observed in the DSS annual reports. However, including only those mothers who report receiving a government benefit provides estimates of PLP receipt that are more comparable with those reported by DSS, with a variance from –12.3% in 2010–11 to 10.4% in 2012–13.

In assessing trends in PLP receipt before the 2015–16 financial year, a significant factor to consider is the interaction of PLP and the Baby Bonus. Before 1 January 2009, the Baby Bonus was not means tested. From then until its abolition late in the 2013–14 financial year, eligibility was restricted to parents whose prospective estimate of their combined income for the 6 months following the birth of the child was less than \$75 000. With the introduction of PLP on 1 January 2011, there would have been families in which the mother may not have met the work test for PLP but, depending on the combined income of the family, may still have been eligible for the Baby Bonus. There would also have been mothers who met the work and income tests for PLP, but might still have elected to take the Baby Bonus instead if they intended to take a short period of parental leave. In this instance, the Baby Bonus may have been more attractive than PLP,

Figure B.1 Percentage of mothers who received Parental Leave Pay for children born during financial years 2010–11 to 2015–16



DSS= Australian Government Department of Social Services; HILDA= Household, Income and Labour Dynamics in Australia
Sources: HILDA (release 15), DSS (2014b, 2015, 2016), FaHCSIA (2011, 2012, 2013)

because the latter is paid per week of parental leave whereas the Baby Bonus could be claimed in the absence of parental leave. Only those households with relatively high combined incomes would have been ineligible for the Baby Bonus. Among mothers who were attached to the labour force before birth, only those with very high earnings would have been ineligible for PLP.

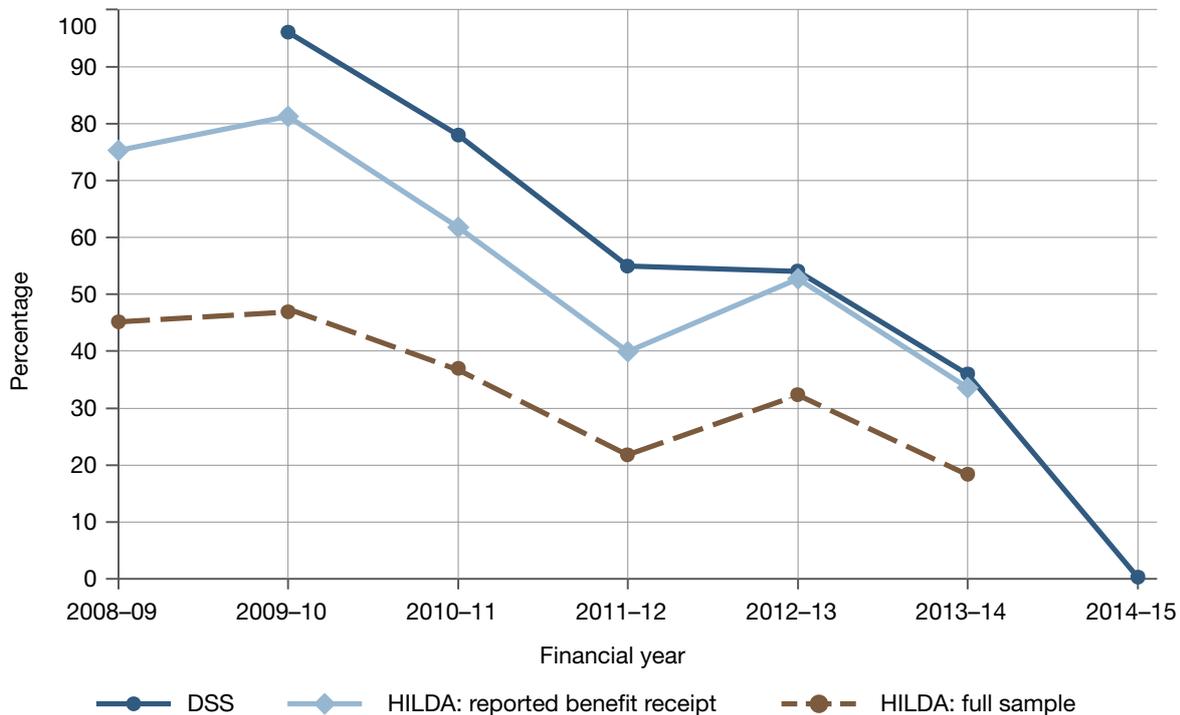
Figure B.2 presents DSS estimates of the rate of Baby Bonus receipt from 2008–09 up until its abolition late in the 2013–14 financial year (dark-blue line), along with those from the HILDA sample. As in Figure B.1, the rate of receipt for the full sample (broken brown line) is consistently, and significantly, smaller than the DSS estimates. Including only mothers who reported receipt of government benefits (light-blue line) provides underestimates of receipt that are much smaller in magnitude, ranging from 16.3% in 2010–11 to 1.3% in 2012–13.³⁷

The underreporting of the Baby Bonus in HILDA is widely known. Before the means testing of

the payment in wave 9, the HILDA team at the Melbourne Institute of Applied Economic and Social Research imputed the receipt and amount of Baby Bonus received rather than relying on the reports of responding persons. Between waves 9 and 14, the HILDA team inferred eligibility for the Baby Bonus based on 10% of the mother’s income and 50% of her partner’s income in the financial year (Summerfield et al. 2016). Although receipt of PLP was used to determine eligibility for the Baby Bonus, the HILDA team does not supply imputed variables for PLP receipt or amount (Wilkins 2014).

Taken together, Figures B.1 and B.2 suggest that both PLP and the Baby Bonus are consistently underreported in the HILDA sample used in the analysis above. While including only those mothers who responded to the section on receipt of government payments provides more comparable estimates of receipt, it would seem that some underreporting remains. Figures B.1 and B.2 also suggest that the differential rates of reporting of PLP by mothers who respond to the question on

Figure B.2 Percentage of mothers who received the Baby Bonus for children born in financial years 2008–09 to 2014–15



DSS= Australian Government Department of Social Services; HILDA= Household, Income and Labour Dynamics in Australia
Sources: HILDA (release 15), DSS (2014b, 2015, 2016), FaHCSIA (2011, 2012, 2013)

government benefits are not mirrored by those for the Baby Bonus. Underreporting of PLP is not therefore reflected in overreporting of the Baby Bonus.

This paper's primary research question concerns the distributional implications of PLP reform. Underreporting of PLP is not in itself a problem, provided that those who underreport are not concentrated at a particular point in an income distribution of interest. To investigate this, Figure B.3 presents the percentage of mothers in the HILDA sample who did not report receipt of government benefits in the financial year in which the child was born, in addition to mothers who reported receiving government benefits and either PLP, the Baby Bonus, or neither PLP nor the Baby Bonus. Figure B.3a presents these percentages by quintile of a mother's earnings, and Figure B.3b presents the percentages by quintile of the mother's equivalised gross household income. Both these income measures apply to the financial year before the birth of the child.³⁸ The figure includes only those births

that occurred between 1 January 2011 and 30 June 2014 to ensure that the sample includes children for whom either PLP or the Baby Bonus was payable (with the exception of births that occurred in the final quarter of the 2013–14 financial year, for whom the Baby Bonus would not have been paid).

As expected, Figure B.3a indicates higher rates of receipt of government benefits among mothers in the lower earnings percentiles. Insofar as some mothers with low earnings will be partnered to a spouse with higher earnings, there is no reason to expect all mothers in the bottom quintile to be in receipt of government benefits in the financial year of the child's birth.³⁹ It would also make sense that mothers in the lower earnings quintiles would have lower rates of PLP receipt, insofar as fewer hours worked is one explanation for lower earnings. The fact that some mothers in the lower quintiles report neither the Baby Bonus nor PLP is similarly unsurprising, since these mothers may not meet the work test but may be partnered to a spouse with a

level of income that precludes eligibility for the Baby Bonus in the financial year of birth.

The rates of receipt for mothers in the top earnings quintiles are more difficult to explain. Insofar as all mothers with pre-birth earnings under \$150 000 who meet the work test are eligible for PLP, one would assume that the PLP means test is only binding on a small group of mothers in the top earnings quintile, and that the rate of receipt in the top quintiles would be at least as high as the aggregate rate of receipt provided by DSS in Figure 7. It seems unlikely that the rate of PLP receipt would be just 35% in the top two earnings quintiles because it is highly unlikely that the work test would be binding on mothers with this level of earnings and, given the low rates of Baby Bonus receipt reported in these quintiles, it seems unlikely that this can be explained by mothers who wish to take short periods of parental leave, opting for the Baby Bonus instead.⁴⁰

Figure B.3b is similarly suggestive of underreporting of family payments. Although low rates of PLP receipt among mothers in households in the bottom quintile of equivalised income are to be expected, it is anomalous that 19% claim that they did not receive any payments and 28.6% claim that, while they received payments, they received neither PLP nor the Baby Bonus. Insofar as the parents in these households would be expected to have a combined (unequalised) income under \$75 000 6 months following the child's birth, one would expect that receipt of the Baby Bonus would be almost universal among mothers in the bottom (equivalised) household income quintile.

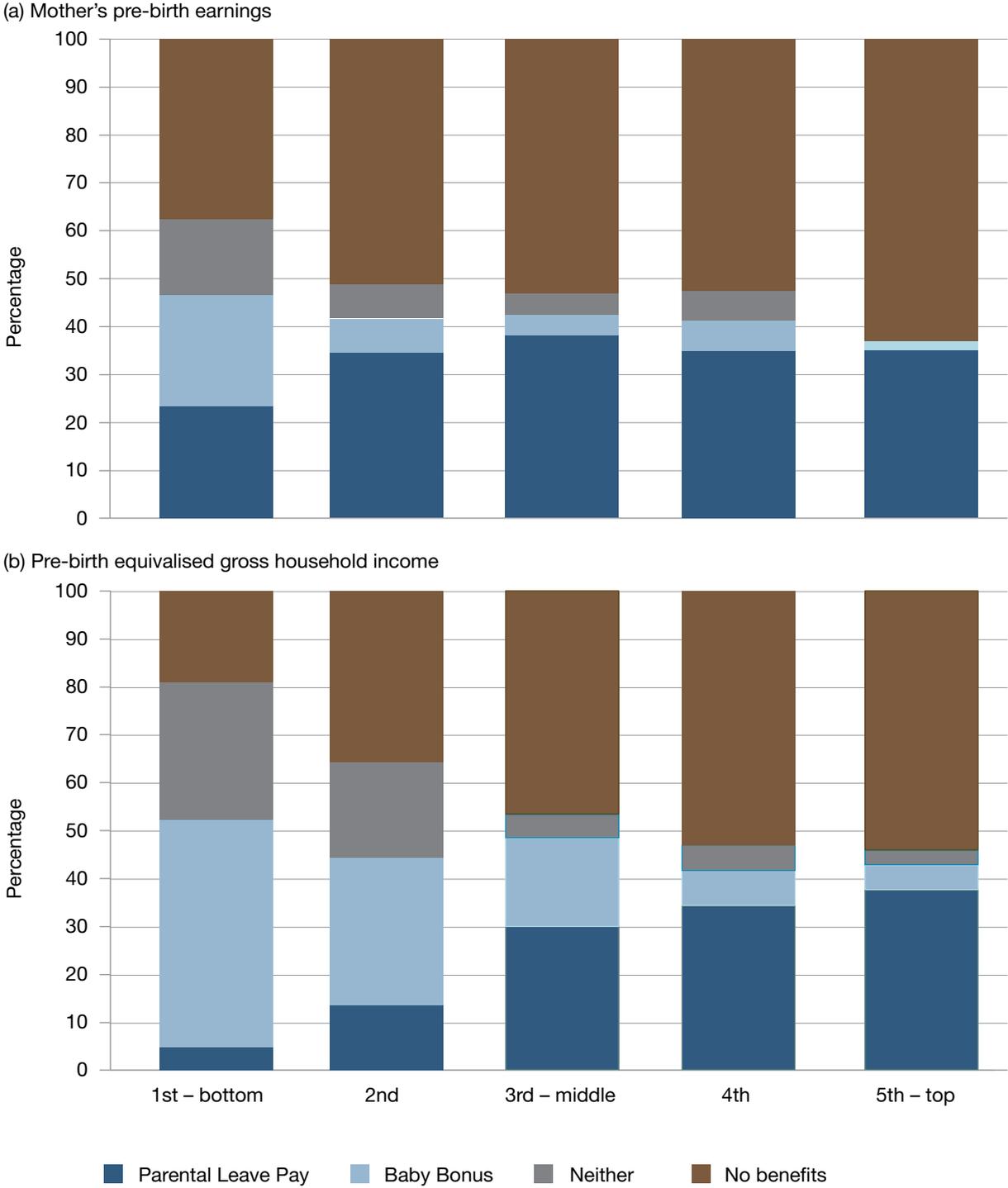
In summary, if the receipt rates of Figure B.3 are to be taken literally, the work test must be binding on a significant number of mothers with high pre-birth earnings, or there must be a proliferation of mothers who are means tested off the Baby Bonus as a result of high household income who find themselves in the bottom quintile of equivalised household income on account of large household size. It is more likely that the mothers in the sample underreport receipt of family payments, and that this is especially pronounced for PLP among mothers with high earnings and for the Baby Bonus among mothers in low-income households. The only other possibility is that household income increases in

the financial year in which the child is born, thereby removing Baby Bonus eligibility, which seems unlikely since this is the time when the mother is presumably taking parental leave.

The potential for underreporting of family payments, and specifically PLP, across earnings and equivalised household income quintiles would have implications for any distributional analysis of PLP reform. It is clear from Figure B.3 that including only those who reported receipt of PLP would provide a sample that contains few mothers from the bottom earnings quintile and very few from the bottom quintile of household income. If those who reported that they did not receive benefits, and those who reported receiving neither the Baby Bonus nor PLP, did not in fact receive PLP, this is entirely justifiable. However, if this merely reflects underreporting, conditional analysis of PLP receipt might lead one to conclude erroneously that mothers with low earnings and/or low household income are less likely to be affected by PLP reform than they would be.

An alternative is to assume that those who report receiving benefits are also representative of the population of mothers who do not, and include only those who do in fact report receipt of payment, whether or not they report receipt of PLP. Figure B.3 suggests that mothers with low pre-birth earnings, and those in the bottom quintile of household income, will be well represented, although this may exclude some mothers with higher pre-birth earnings who potentially underreport receipt of payments, and specifically PLP. The approach adopted in the analysis above is to include all mothers who indicated that they had worked at some point in the 12 months before the birth of their child, regardless of whether they reported receiving government payments. Although this will include mothers who would not meet the work test for eligibility for PLP, it should maximise the number of low-income mothers, and those in low-income households, who are included in the sample. As the preceding analysis has demonstrated, including all mothers with recent labour force experience still indicates that a relatively small percentage of mothers from low-income households have PML entitlements.

Figure B.3 Percentage of mothers who reported receiving family payments in the financial year of the child's birth, by quintile of pre-birth mother's earnings and gross equivalised household income, HILDA January 2011 to June 2014



Notes: Includes mothers who worked in the 12 months before the birth of their child.

Source: House Income and Labour Dynamics in Australia (release 15)

Notes

1. Adding to the controversy was the revelation that the partners of some government frontbenchers had made use – but not necessarily concurrent use – of both PLP and PML (Borello 2015).
2. More specifically, OECD (2016) calculates the full-rate equivalent of paid leave entitlements available to mothers by multiplying the length of the entitlement by the rate of payment as a proportion of average earnings.
3. International comparisons with Australia's policy settings are complicated by institutional differences between Australia and other OECD nations, and also by differences in nomenclature. Of the 41 nations surveyed in OECD (2016), 28 had parental leave policies in addition to maternity leave policies, but maternity leave means something quite different in other OECD nations. In these countries, paid maternity leave refers to parental leave policies reserved exclusively for mothers that are mostly financed out of social security contributions and paid at some multiple of pre-birth earnings. This is in stark contrast to the privately funded PML workplace entitlements that are the subject of this paper. Parental leave policies outside Australia usually refer to parental leave that is taken subsequent to paid maternity leave, is of longer duration, may be transferable, and provides payments at a flat-rate or a lower level of wage replacement.
4. These include Croatia, Denmark, New Zealand and Norway.
5. These 38 policies refer to those that other OECD nations would consider PML policies. For the purposes of this paper, PLP is conceptualised as a PML scheme rather than a parental leave scheme on the grounds that so few fathers receive PLP. When one conceptualises PLP in this way, the reason that Australia's total amount of payment relative to average earnings is small by international standards is more the result of the PLP replacement rate being set at the minimum wage, rather than at a fraction of pre-birth earnings. Australia's PLP length of 18 weeks would appear to be one of the higher durations in the OECD. Of course, if one is to conceptualise PLP in this way, Australia is left without a complementary parental leave policy, and so it is not incorrect to assert that, when PML and parental leave are combined, Australia lags behind the rest of the OECD.
6. Regulated unpaid maternity leave entitlements have existed since a Conciliation Arbitration test case that took place in 1979. A later test case in the Australian Industrial Relations Commission established the concept of parental leave that could be taken by mothers, fathers and adoptive parents for up to 12 months. This leave could be shared between parents, but could only be taken concurrently in the first week of the child's birth. For an overview of the history of unpaid parental leave, see Productivity Commission (2009) and Baird (2005).
7. One point of departure was the Rudd Government's insistence on a very light means test for PLP (DSS 2014). Baird and Murray (2014) provide a brief history of PLP in Australia. Appendix B in DSS (2014a) is a useful overview of policy developments since the inception of PLP.
8. Some parents receive PLP via their employer's payroll, in which case PLP is received in the 'regular period for which the person is usually paid in relation to their performance of work'. Parents who receive PLP via Centrelink receive payments on a fortnightly basis (Australian Government 2017a).
9. Definition 1.1.R.10 of the *Paid Parental Leave guide* states the financial year '... which ended before the earlier of the day the person made the claim, and the day the child was born' (Australian Government 2017a).
10. Definition 1.1.W.40 states 'a primary claimant's work test period is the 392 days ... immediately before a specified date that is either the expected or actual DOB of the child' (Australian Government 2017a).
11. This was introduced in the *Family Assistance and other Legislation Amendment Act 2013*.
12. These are outlined in Section 2.2.13 of the *Paid Parental Leave guide* (<http://guides.dss.gov.au/paid-parental-leave-guide/2/2/13>).

13. This has been in place since 18 October 2012 (DSS 2014).
14. A parent need only work one hour in a day for the day to count towards their allowable KiT days (Australian Government 2017a).
15. According to the HILDA data described below, just 2% of mothers who were likely to have met the work test had an annual income in excess of \$150 000 in the financial year before the birth of their child.
16. The same is true for Stillborn Baby Payment (Australian Government 2017a). Before 1 March 2014, parents could choose between the Baby Bonus and PLP. DSS (2014) provides an overview of Baby Bonus reform since the inception of PLP.
17. PLP can only be received in relation to one child, but a mother who has a multiple birth may receive NBS in relation to the other children. NBS and NBU may be payable to the PLP recipient's former partner in the case of separation: see Section 2.2.3 of Australian Government (2017c).
18. More specifically, a partner's annual private income is \$34 994 in Figure 1a and \$72 690 in Figure 1b.
19. A feminist analysis of parental leave policy might posit an alternative perspective of horizontal equity, whereby men and women with similar levels of pre-birth labour productivity should be considered similarly situated rather than mothers with the same level of family income. This perspective would justify differential treatment of mothers with the same family income insofar as the parental leave policy increased the labour force attachment of women who receive PLP relative to a man with the same level of pre-birth labour productivity. While this is a perfectly defensible perspective, it does not change the fact that one of these perspectives of horizontal equity has to be traded off against the other.
20. All other people who share a household with a CSM in wave 2 or later are Temporary Sample Members, who are only followed for as long as they share a household with a CSM.
21. This was 45 years of age in waves before wave 15.
22. This maximises the likelihood of observing a completed period of parental leave rather than one that is still in progress at the date of interview.
23. There will be some variation in how close the SCQ report is to the birth of the child. The SCQ used to determine the mother's PML entitlement will be that reported just before the child's birth for those children born just before their mother's date of interview. For those children born just after the mother's date of interview, the report of SCQ in the previous interview period will be approximately 12 months before the birth of the child.
24. There would also have been mothers who met the work and income tests for PLP, but might still have elected to take the Baby Bonus instead if they intended to take a short period of parental leave. In this instance, the Baby Bonus may have been more attractive than PLP, because the latter is paid per week of parental leave whereas the Baby Bonus could be claimed in the absence of parental leave.
25. Appendix B provides in-depth discussion of underreporting of these family payments in HILDA.
26. This would be no less true if all those who reported receiving neither payment were assumed to receive PLP.
27. Some might argue that vertical equity is less of a consideration for family payments than for other parts of Australia's tax and transfer system, and that universal family payments have advantages over those that are means tested. Whatever the merits of this argument, Figure 3 clearly shows that PLP as it stands is far from a universal family payment.
28. This refers to Edwards's unconditional estimates in Table 3, not her estimates of the wage differentials associated with PML entitlements presented later in her paper.
29. This paper does not attempt to estimate the extent to which PLP entitlements would be reduced by a specific approach to PLP reform, since this would require data on both the length of the PML entitlement and its associated replacement rate. While the longitudinal nature of HILDA ensures that pre-birth earnings are observed for most mothers, the Pregnancy and Employment Transitions Survey indicates that 48.7% of mothers with a child under 2 years of age in November 2011 took some of their PML at half pay. Unfortunately, HILDA does not provide the replacement rate associated with the PML entitlement. Although HILDA does not provide a direct measure of the length of PML, it does include a

measure of 'other paid leave' taken in the 12 months before the date of interview. For women who gave birth at some point in the 12 months before an interview, these data would indicate the length of PML taken, albeit with potentially significant measurement error and right censoring for those who gave birth shortly before the date of interview.

30. Two excellent reviews of the literature on the labour supply impacts of parental leave policies are Kalb (forthcoming) and Rossin-Slater (2017). The papers they surveyed consider parental leave reforms in Europe where the existing schemes were far more generous at the time of reform than they were in the United States and Australia. In these countries, the policy debate is not whether the introduction of a scheme would increase the probability of a return to work after birth but whether the length of leave provided has adverse consequences for mothers' lifetime labour supply and labour market outcomes.
31. Joseph et al. (2013) is another example; however, the policy reform examined in that paper is quite distinct from that in Rossin-Slater (2013) and Broadway et al. (2016).
32. See Parliament of the Commonwealth of Australia (2015, 2016).
33. Table 3 in Baird and Murray (2014) suggests that collective agreements made in industries where women constitute a small percentage of the workforce – mining, manufacturing, construction and transport, postal and warehousing – have lower rates of coverage of parental leave conditions.
34. See Parliament of the Commonwealth of Australia (2015).
35. See Parliament of the Commonwealth of Australia (2017:181).
36. The same legislation would remove the employer role, which would arguably make administration of the week-for-week clawback more difficult.
37. If receipt of the Baby Bonus were universal among all new parents in 2008–09, the underestimate for 2008–09 would be 24.8%. The relevant annual report provides the caseload for this financial year, but not the receipt rate.
38. It is income in the financial year before the child's birth that is relevant for the application of the PLP income test. Conversely, the income test for the Baby Bonus is prospective, based on income in the first 6 months after birth. Income in the financial year before birth

may not therefore be the best indicator of eligibility for the Baby Bonus because the mother's income in the financial year of birth will depend on the presence of a PML workplace entitlement and the length of her parental leave – paid or unpaid. This is unlikely to have a bearing on the results in Figure 10 since mothers with low earnings and/or low household income in the financial year before birth are most likely to have even lower incomes in the financial year of the birth. Although there may be some mothers who appear in the upper earnings and household income quintile who, upon taking parental leave, may become eligible for the Baby Bonus, Figure 10 indicates little evidence of this.

39. While most would be in receipt of FTB-A, this is not listed on the show-card of benefits in this part of the HILDA questionnaire.
40. Since the means test for the Baby Bonus was based on income in the 6 months following the birth, an early return to work could affect eligibility for payment, depending on the wage rate and hours worked.

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