

# The Economics of Leave Policies: researching the cost of parental leave

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Margaret O'Brien  
Centre for Research on the Child and Family,  
University of East Anglia, UK



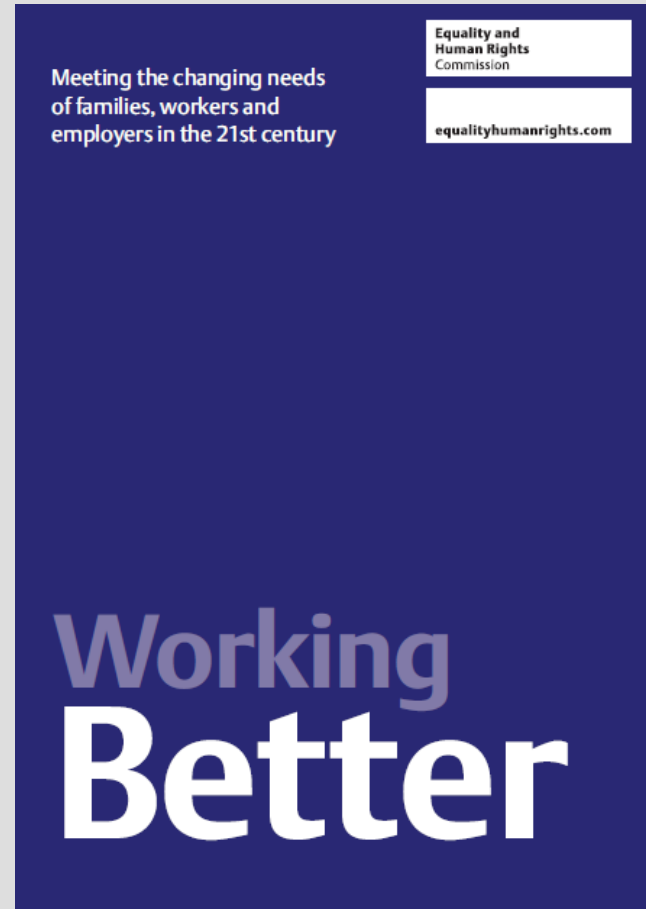
# Outline

- **Case study of costing leave options:  
UK's Equality and Human Rights  
Commission “Working Better” 2008/9  
Project (KMPG+PM, MO'B)**
- **EHRC – motivation**
- **UK current leave provision**
- **Estimates of direct costs 2009-2020**

# Equality and Human Rights Commission Initiative UK 2009

In April 2009 a national debate about maternity, paternity & parental leave options was stimulated by proposals from the Equality and Human Rights Commission to **radically overhaul leave provision.**

<http://www.equalityhumanrights.com>



# Challenging questions for UK

- Is the progressive extension of maternity leave, from six months to nine and now 12 months, entrenching the assumption that women do the caring and pay the career penalty?
- Are men prevented from being more active fathers by the economic cost of taking leave?
- Are children paying the price as their parents struggle to meet the competing demands of work and family life?

# Current UK basic leave provision and design issues

- **Maternity Leave**

52wks: 6 wks @ 90% earnings, 33 wks @ flat rate (half min. wage), 13 wks unpaid

- **Paternity Leave**

2 wks @ 33 wks @ flat rate (half min. wage)

- **Parental Leave**

13 wks per parent unpaid, until child 6 yrs

- **Eligibility restrictions & inflexible**

## Stalled government plans

- Extend ML payment to 52 wks
- Introduce additional 'paternity' leave (APL) when child reaches 6 months contingent on mother returning to work (for up to 26 weeks duration).

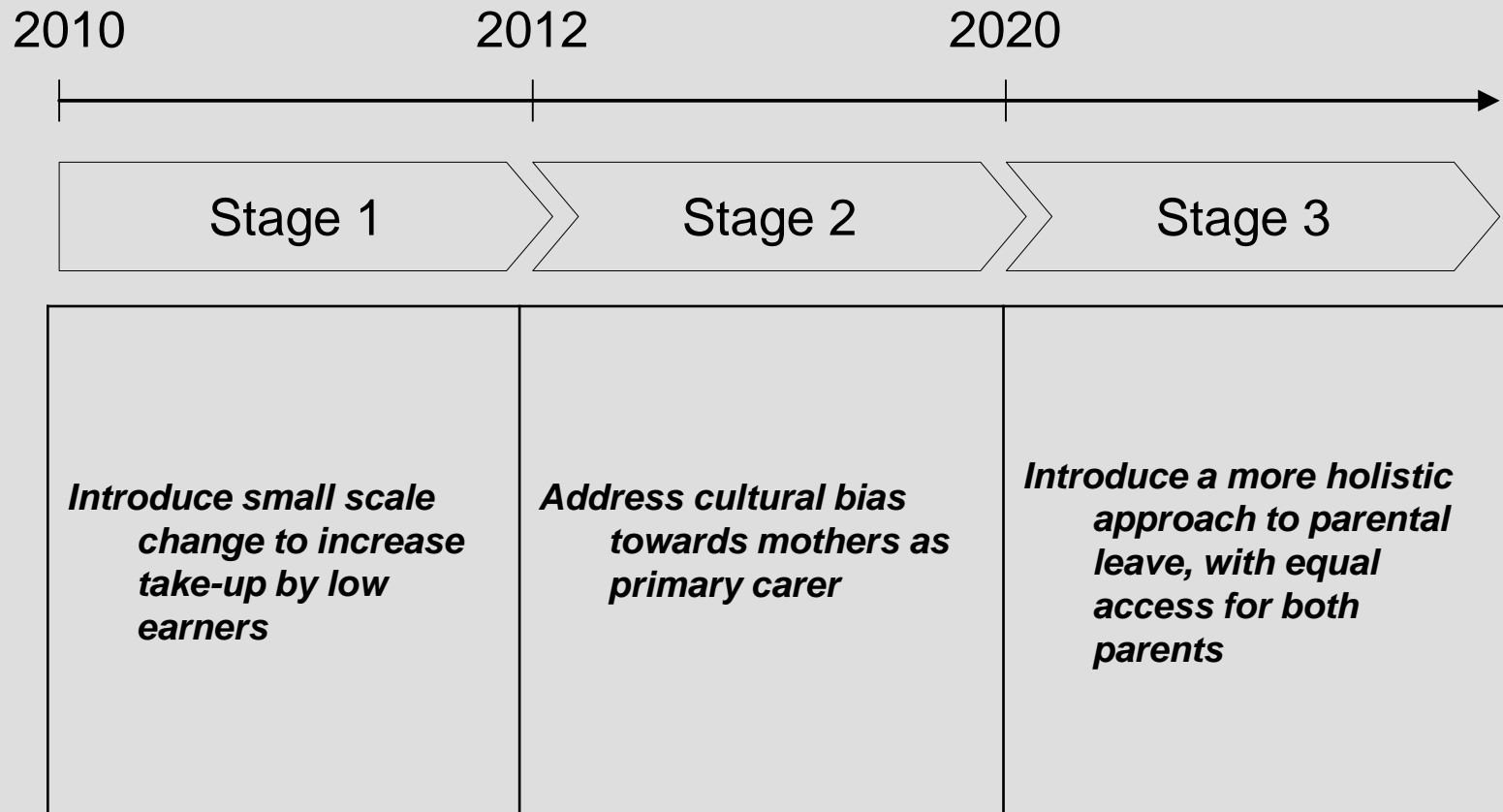
# **EHRC goal for Britain to have a “world-class” leave policy**

- of 80 weeks of well-paid leave up to age 5
- enabling families to exercise real choice in the first year of their child’s life;
- enabling mothers and fathers to share leave and childrearing more equitably;
- Introduced in stages over the next 10 years  
*(80 weeks = adding up current duration - 52 weeks maternity leave + 2 weeks paternity leave + 26 weeks parental leave (13 weeks mother, 13 weeks father))*

# Modelling options KMPG+PM, MO'B

- **Stage 1:** expand eligibility; improve maternity pay; improve paternity pay
- **Stage 2:** introduce dedicated, non-transferable periods of paid parental leave for mothers / fathers
- **Stage 3:** extend period of paid parental leave for mothers / fathers

# Reshaping UK leave policy: Equality and Human Rights Commission UK Report 2009

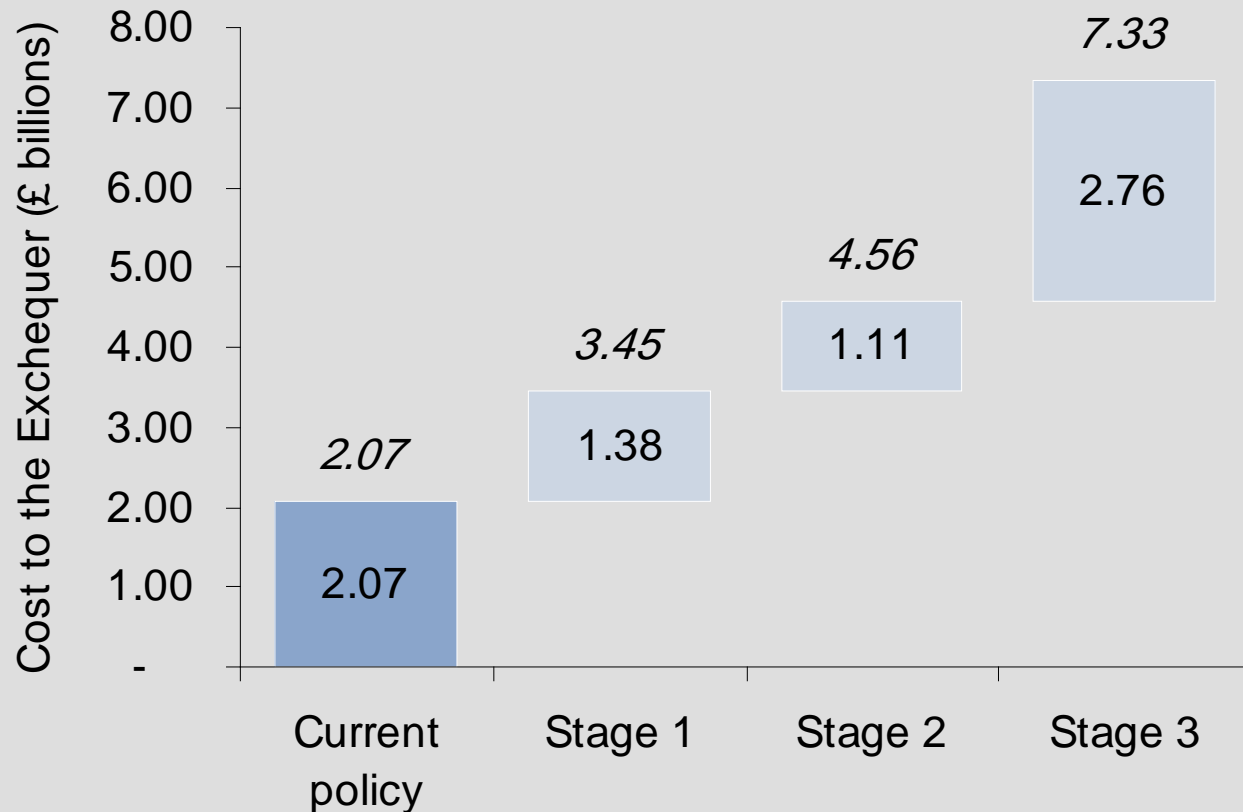




# Model specification: Complex assumptions

- The model estimates the total cost to the Exchequer of different policy options. It does this with reference to two main parameters: **number of claimants and level of payment.**
- Number of claimants for a given policy is driven by:
- Total number of **eligible claimants**, influenced by eligibility criteria: for instance the current need to have been employed continuously with the same employer for at least 26 weeks and to earn in excess of the Lower Earnings Limit for NI contributions in order to be eligible for SMP / SPP, and
- **Take-up:** the share of all eligible claimants who opt to take their leave entitlement, whether in full or part. This will be influenced by, among other things, the attractiveness of the policy in terms of rate of pay (compared with salary), its flexibility and any incentives attached (such as a 'use it or lose it' condition).
- **Pay bands:** based on 2009 RPI figures
- % spend of GDP based on 2009 data

# Incremental cost of enhanced family leave policies compared with current policy UK



# Comparison with spend on parental leave benefits in other European countries

<b>UK spend on parental leave policies</b>	<b>Cost as % of UK GDP</b>
Current policy	0.15%
Option 1	0.25%
Option 2	0.34%
Option 3	0.54%
<b>European spend on parental leave policies</b>	<b>Cost as % of country's GDP</b>
Norway	0.47%
Sweden	0.67%

<sup>[1]</sup> Norway spend on parental leave based on the national budget for 2008  
 Sweden spend on parental leave derived from 'Social Insurance in Figures 2008'  
 UK GDP based on forecasts for 2009 from the Economist Intelligence Unit  
 Norway and Sweden GDP based on 2008 figures from the Economist Intelligence Unit

**Parental leave expenditure, absolut and as % of GDP**

	2005	2006	2007
	in million Euro		
Childrearing benefit (Erziehungsgeld)*	2.873	2.801	1.997
Parental leave benefit (Elterngeld)*			1.710
Federal contribution to unemployment insurance scheme during parental leave	170	230	290
One time federal contribution for women who are not members of a public health insurance scheme	4	4	4
Maternity benefit (Mutterschaftsgeld)	523	493	502
Federal contribution to health insurance companies during parental leave	1.300	1.400	1.450
Paid leave when child is sick	103	104	115
Federal contribution to Long Term Care insurance scheme during parental leave	160	154	157
	<b>7.138</b>	<b>7.192</b>	<b>8.232</b>
GDP	2243200	2321500	2422900
Parental leave expenditure as % of GDP	0,32	0,31	0,34

Source: Federal Ministry for the Family (2008) Familienbezogene Leistungen und Maßnahmen des Staates im Jahr 2007; GDP figures from Eurostat (2009)

\* The childrearing benefit (Erziehungsgeld) was substituted by the income related parental leave benefit (Elterngeld) in 2007.

# Policy tensions

## *Mandelson halts flexitime reforms*

The Independent Oct 2008



## *Mandelson under fire over cost cutting plan to drop flexible working reforms*

Guardian Oct 2008

**April 2009**

Extension of flexitime to parents of children up to 16yrs went ahead. Reform on leave plans on hold.

**MEDIA RESPONSE** Lots of interest but too expensive