

## PF2.4: Parental leave replacement rates

### *Definitions and methodology*

To analyse the tax and benefit treatment of families following the birth of a child, and estimate the family income replacement rate due to these taxes and benefits, the OECD Tax/Benefit models 2008 (OECD Benefits and Wages database – [www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)) were extended to include information on *publicly* paid maternity benefits, paternity benefits, parental leave benefits, birth grants and other child raising allowances; with the exception of Korea where none of these benefits are offered. There are employer-paid maternity leave benefits in Korea, but (partially) continued wage payments by employers during child-related leave are *not* considered here.

To calculate replacement rates during leave, various assumptions had to be made. The focal child is always the youngest one and, at the moment of his/her birth, siblings in a two-child family are two years old. Also, children are assumed to be born on the first day of the fiscal year to minimize the potential effects of variation of disposable income, which could arise in a progressive system if parental leave is spread over different fiscal years. Parents are assumed to fulfil all eligibility criteria to child-related leave benefits and work full-time (they do not receive unemployment compensation).

This indicator first presents the “replacement rates” (leave payment rates) during maternity, paternity and parental leave, estimated in percentage of the gross (before tax) monthly earnings that the mother/father receive, before taking leave, and accounting for other benefits (Charts 2.4.A, 2.4.B and 2.4.C).

Second, this indicator presents the estimated net household income at birth, in percentage of the net income received before birth, when one parent is on maternity/paternity leave (Chart 2.4.D), and additionally when on parental leave when the child is aged 6 months (Chart 2.4.E). Net income figures are equalised to take into account the size of the household: net income is divided by the square root of the number of household members.

Data are presented for two-child families where both parents earn 50% (low income), 100% (middle income) and 150% (high income) of the gross (before tax and transfers) average earnings of the country

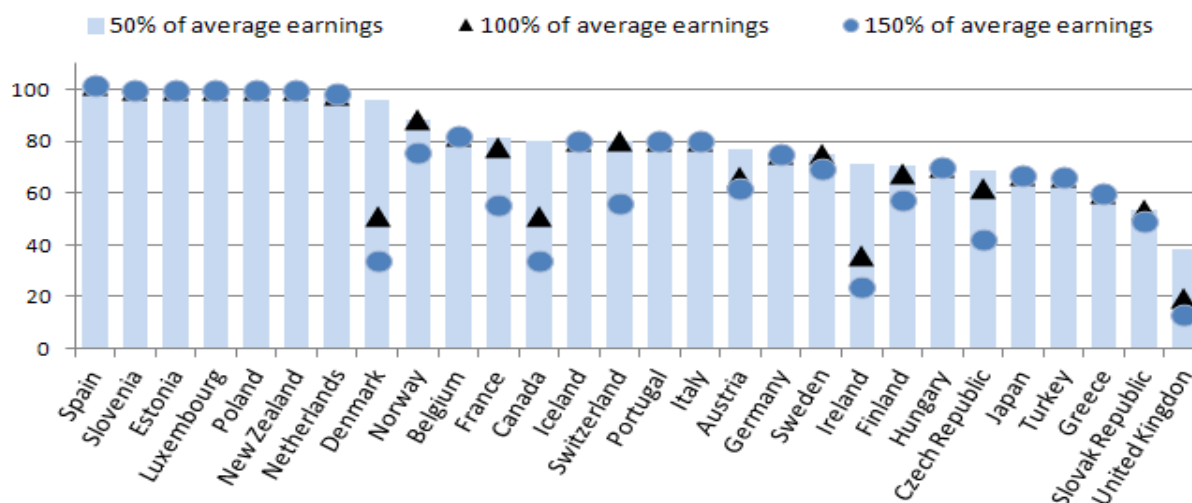
### *Key findings*

#### **Maternity, paternity and parental leave replacement rates**

Often maternity pay is a set proportion of previous earnings (e.g. 80%) up to a specified upper threshold. These factors vary across countries leading to different replacement rates. Replacement rates frequently decrease as previous earnings levels rise, as these are increasingly likely to exceed upper maternity payment thresholds. For mothers with low, middle and high earnings before maternity leave, maternity pay replaces 100% or more of previous earnings in Estonia, Luxembourg, New Zealand, Poland, Slovenia and Spain (Chart 2.4.A). Replacement rates for maternity leave are especially low in the United Kingdom where mothers with low earnings have less than 50% of their earnings replaced, and mothers with middle or high earnings have less than 20% of their earnings replaced: the upper level of Statutory Maternity Pay is relative low compared to average earnings.

*Other relevant indicators:* PF2.1 Key characteristics of parental leave systems; PF2.2 Use of childbirth-related leave benefits, by mothers and fathers; PF2.3 Additional leave entitlements of working parents.

**Chart 2.4.A: Maternity payment rates, 2008**  
 Percentage of the earnings<sup>1</sup> before birth replaced by maternity payment



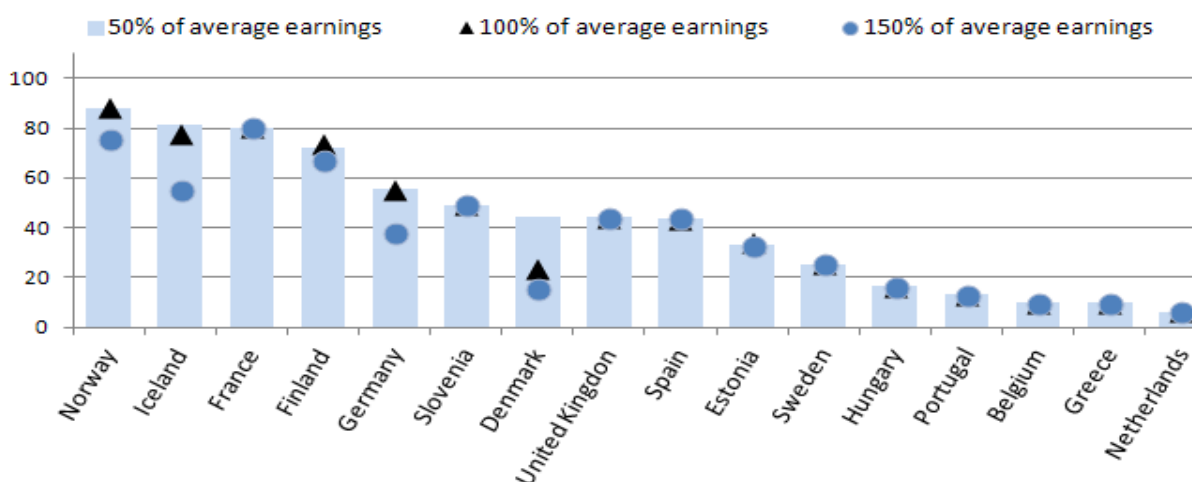
In Austria, Belgium and Greece, maternity pay decreases over time and/or with partnership status and number of children. However, these variations are very small and are, therefore, not illustrated here. This chart illustrates the situation for a family with two children and two earners, each of them earning the referred percentage of average earnings, e.g. it is assumed that a mother with an initial earnings level of 50% average earnings has a partner with the same earnings level. Australia, Korea and the United States are not included because there was no public maternity pay in 2008.

1 Earnings before payment of income tax and social contributions.

Source: OECD Tax/Benefit models, 2010

In many countries, employers pay fathers a few days (up to two weeks) of paternity leave. However, public income support for fathers on leave (either paternity leave or parental leave entitlements reserved for fathers) is limited in most countries. In fact, a large number of OECD countries do not offer any public income support during paternity leave (Chart 2.4.B). Paternity leave replacement rates are relatively high in Finland, France, Iceland and Norway where income support for fathers on low, middle and high earnings amount to at least 50% of their previous earnings.

**Chart 2.4.B: Paternity payment rates, 2008**  
 Percentage of the monthly earnings<sup>1</sup> before birth replaced by paternity payment



This chart illustrates the situation for a family with two children and two earners, each of them earning the referred percentage of average earnings.

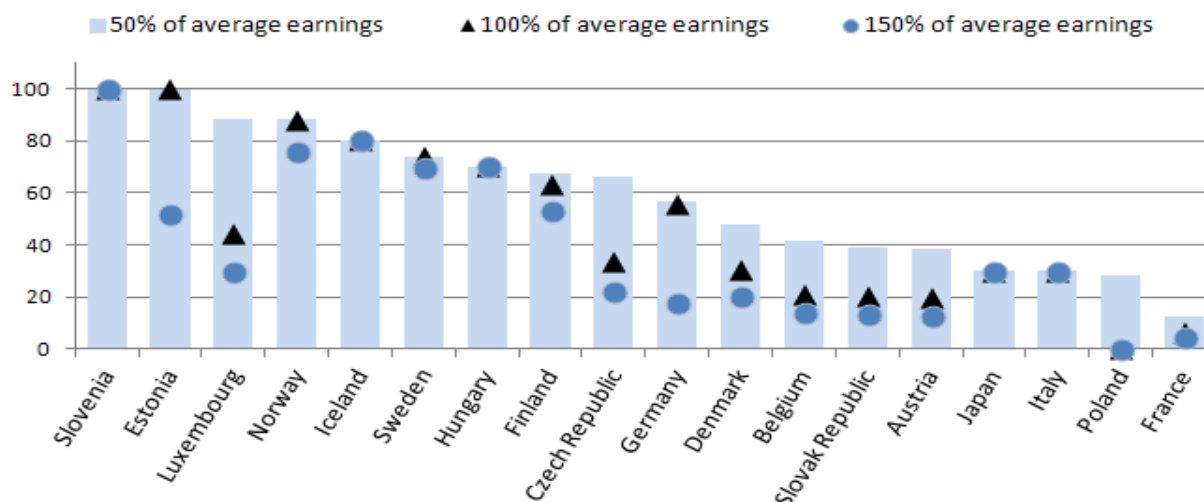
1 Earnings before payment of income tax and social contributions.

Source: OECD Tax and Benefit model, 2010

Six months after childbirth, parental leave payment rates are highest in Estonia and Slovenia where all parents have 100% of their earnings replaced with parental leave payments.

**Chart 2.4.C: Parental leave payment rates six months after childbirth, 2008**

Percentage of the monthly earnings<sup>1</sup> before birth replaced by parental leave payment, by previous earnings level



This chart illustrates the situation for a family with two children and two earners, each of them earning the mentioned percentage of the average earnings.

1 Earnings before payment of income tax and social contributions..

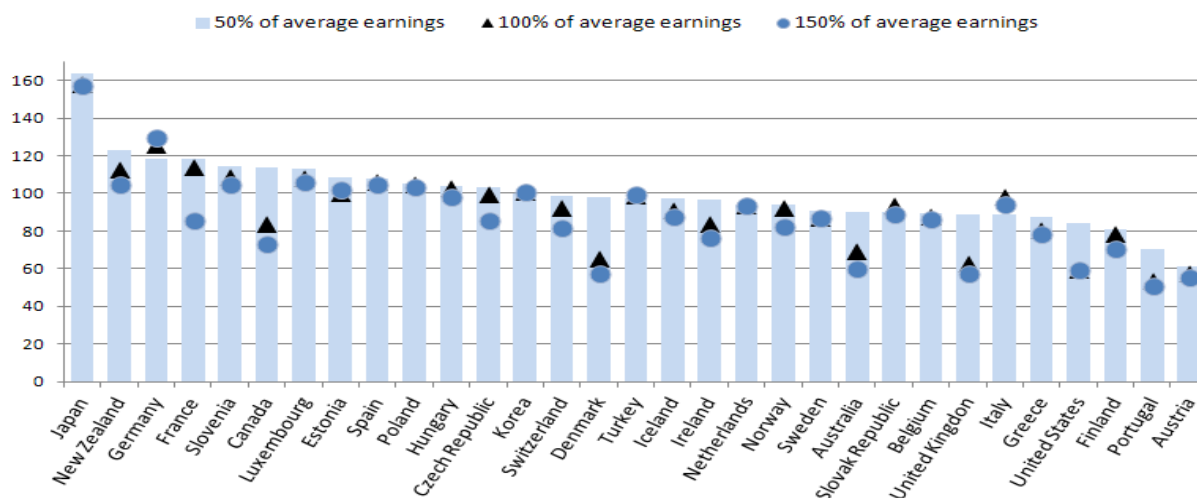
Source: OECD Tax/Benefit models, 2010

### Net income over leave periods

Net income of families with one parent on leave is not just determined by maternity or paternity payments but also by other child-related transfers, credits and allowances. Taken together this facilitates considering the net income situation of families before and after childbirth, and to do so properly family income has to be adjusted for the additional household member. This "net equivalised income" is higher during maternity/paternity leave than before childbirth for families on low income (parents earning 50% of the average wage) in Canada, the Czech Republic, Estonia, France, Germany, Hungary, Japan, Luxembourg, New Zealand, Poland, Slovenia and Spain (Chart 2.4.D). By contrast, low income families in Austria and Portugal have net equivalised incomes during paternity/maternity leave of less than 80% of the net income before childbirth.

Among middle income families the largest gains are in Germany and Japan where families have equivalised income during paternity/maternity leave of more than 120% compared with before childbirth; the biggest losses for such families are recorded in Austria, Portugal and the United States where families have an equivalised income of less than 60% compared to the income before childbirth. Among high income families the largest beneficiaries are also families in Germany and Japan who have a net equivalised income during paternity/maternity leave at above 150% of the income before childbirth; the biggest losses for such families are in Austria, Australia, Denmark, Portugal, the United Kingdom and the United States where families have an equivalised income of less than 60% compared to the income before childbirth.

**Chart 2.4.D: Net equivalised income over the period of maternity and paternity leaves, 2008**  
*Net equivalised household income as a percentage of the equivalised income before childbirth*



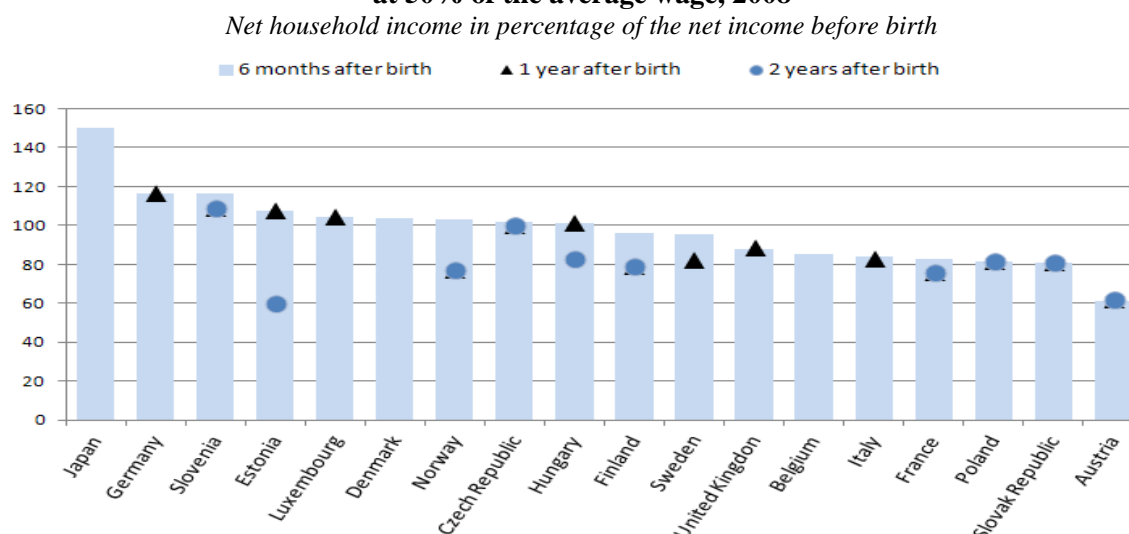
This chart illustrates the situation for a family with two children and two earners, each of them earning the referred percentage of average earnings.

Source: OECD Tax/Benefit models, 2010

For low income families, net equivalised income on parental leave 6 months after childbirth is highest in Germany, Japan and Slovenia (Chart 2.4.E). The biggest loss is recorded for Austria where such families have an equivalised income of just 61% compared to income before childbirth.

In countries where parental leave is still available after one year the level of income is similar to that after 6 months, except in Finland, Norway and Sweden where net family income drops to 79%, 77% and 82% of previous income respectively (Chart 2.4.E). In Estonia, Germany, Luxembourg and Slovenia low-income families on parental leave one year after childbirth have a net equivalised income that is higher than before childbirth. In Slovenia, net equivalised income on parental leave two years after childbirth is still above net family income before childbirth (Chart 2.4.E).

**Chart 2.4.E: Net equivalised income over the period of parental leave for families with two earners at 50% of the average wage, 2008**  
*Net household income in percentage of the net income before birth*



This chart illustrates the situation for a family with two children with two earners at 50% of the average wage.

Source: OECD Tax/Benefit models, 2010

### *Comparability and data issues*

Most of the countries specifically reserve a period of maternity leave before confinement (birth of the child), which ranges from 11 weeks before confinement in the United Kingdom to 2 weeks before confinement in Ireland and Poland. The pre-confinement period may be divided into compulsory and optional parts. It is assumed here, that mothers go on leave as soon as they can, even if this means that the post-confinement period is reduced. The only countries where maternity leaves only starts after childbirth are Switzerland, Australia and United States. In 2008 the latter two countries were also the only two countries without publicly paid maternity/parental leave. Since then, Australia has introduced paid parental leave (PF2.1), while in some States of the United States income support is available during parental leave (e.g. California).

When paternity leave is available (in 14 countries) it is assumed to be taken directly after childbirth.

Parental leave is assumed to start as maternity leave finishes. Switzerland is the only country not prescribing any form of parental leave (at least at the federal level). It is also assumed that parents do not work during this period, although in some countries such leave can be taken on a part-time basis. Further, parents are assumed to take the longest continuous period of leave available even when leave can be taken on a flexible basis (e.g. in different blocks of time over 3 to 8 year period).

Some countries provide two distinct, usually non-transferable, periods of parental leave for each parent. In such cases it is assumed that leave is taken first by the mother and then by the father also when leave can be taken simultaneously. Some countries offer a unique period for one parent only, and in such cases it is assumed that the mother takes up leave. In case leave can be shared, as in Denmark, Finland, Germany, New Zealand, Poland and Sweden, it is assumed that leave is taken up only by the mother.

*Sources and further reading:* OECD Benefits and Wages database, 2010 ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)); OECD (2002), *Taxing Wages 2001-2002*, Special feature taxing Families, OECD, Paris; OECD (2010)