PF2.4: Parental leave replacement rates

Definitions and methodology

This indicator provides information on the relative value of payments received across parental leave programmes and the impact of taking leave on family income. Data are presented in two main forms:

- Charts PF2.4.A-PF2.4.C show gross payment rates across paid maternity, paid parental and paid father-specific leave, respectively. ‘Payment rates’ are defined here as the proportion of previous *gross* earnings replaced by the associated benefit across the leave (or, in some countries where benefits are calculated based on net earnings, the proportion of previous *net* earnings replaced by the associated benefit across the leave). Where there is more than one associated benefit or the rate of payment varies across the duration of the leave, a weighted average is calculated based on the length of each payment period. To reflect variations in the relative value of leave payments across individuals with different levels of prior earnings, payment rates are shown for claimants who previously earned 50% (low wage), 100% (moderate wage), and 150% (high wage) of national average earnings.

- To illustrate the broader effects of childbirth and leave on actual standards of living, Charts PF2.4.D and PF2.4.E show estimated net equivalised household incomes for families with a new-born child, as a percentage of net equivalised household income before the birth, in the first month after the birth (when parents are on maternity/paternity leave; Chart PF2.4.D), and six, twelve and – in countries where leave extends as far – twenty-four months after childbirth (Chart PF2.4.E). Data are presented for families where parents previously earned 50% (low wage), 100% (moderate wage), and 150% (high wage) of average earnings (Chart PF2.4.D). In all cases net household incomes are equivalised – that is, adjusted to take account of the size of the household – using the square root scale, so as to reflect the economies of scale that larger families are able to enjoy.

The data on net household incomes in the period around childbirth are produced using a modified version of the OECD Tax and Benefit models, with the standard models extended to include information on maternity, paternity, and parental leave benefits, as well as other tax and cash transfer policies – such as birth grants – available to parents around the time of the birth.

It is necessary to make several assumptions in order to produce these measures. To reflect at the simplest level the proportion of gross earnings replaced by parental leave benefits, the data on gross payment rates are based on a situation where the relevant birth is the birth of the first child and the individual taking leave is part of a two-earner couple with a partner on average earnings. This avoids distortion from the additional dependent-child and means-tested supplements available to parents taking leave in some countries. The estimates of net household income, however, are based on a more ‘typical’ family situation – a two earner, two child family with the relevant birth assumed to be the birth of the second child, the older sibling assumed aged two at the time of the birth of the second child, and the partner assumed to earn the same wages as the focal individual. In all cases children are assumed to be born on the first day of the fiscal year to minimize the potential effects of variation in net income which could arise in a progressive system if parental leave payments are spread over different fiscal years. Parents are assumed to work full-time, so unemployment benefits and unemployment insurance are set to zero. Finally, all individuals are assumed to meet the various eligibility conditions needed to receive parental and child-related benefits.

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.

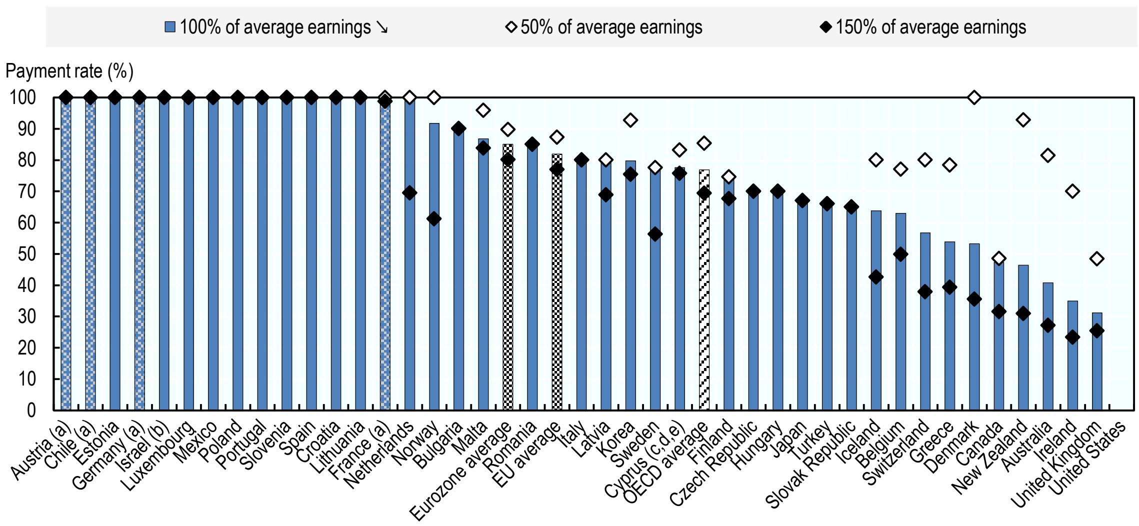
Key findings

Maternity leave payment rates are generally high in OECD countries (Chart PF2.4.A). On average across OECD countries, maternity leave benefits replace around 77% of previous earnings for a mother on average wages, with 13 OECD countries providing maternity benefits that fully replace earnings for an average earner. Payment rates tend to be lowest in the English-speaking OECD countries, with maternity benefits in Australia, Canada, Ireland, New Zealand, and the United Kingdom replacing less than 50% of the previous gross earnings of a mother on average wages. That said, with the exceptions of Canada and to some extent the United Kingdom, these countries do provide fairly generous payment rates for a mother previously on 50% of average gross earnings. In large part, this is due to the use of flat-rate maternity benefits that are set at a level far short of average wages but are comparable to 50% of average earnings.

Maternity leave payment rates tend to be slightly lower for mothers who were previously on high wages, in most cases due to caps or ceilings on the benefits offered. In the Netherlands and Norway, for example, relatively low payment ceilings mean that rates for a mother on 150% of average earnings are around 30 percentage points lower than those for a mother on average earnings. However, 11 OECD countries offer maternity benefits that replace 100% of the previous gross earnings of a mother on 150% of average earnings, and the average payment rate across OECD countries for a mother on 150% of average earnings remains fairly high at 69.4%.

Chart PF2.4.A. **Maternity leave payment rates, 2014**

Proportion of gross earnings replaced by maternity benefits across paid maternity leave[a], by level of earnings



Note: Cross-hatching indicates payment rates based on net rather than gross earnings [see note a)]

a) The "payment rate" refers the proportion of previous earnings replaced by the benefit over the length of the paid leave entitlement for a person earning the given percentage of average national (2014) earnings. If this covers more than one period of leave at two different payment rates then a weighted average is calculated based on the length of each period. In most countries benefits are calculated on the basis of gross earnings, with the "payment rates" shown reflecting the proportion of gross earnings replaced by the benefit. In Austria, Chile, and Germany benefits are calculated based on previous net (post income tax and social security contribution) earnings, while in France benefits are calculated based on post-social-security-contribution earnings. Payment rates for these countries reflect the proportion of the appropriate net earnings replaced by the benefit. The recipient is assumed to live in a two earner family with a partner on 100% of average wages and with no other dependents (i.e. birth of the first child).

b) The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

c) Footnote by Turkey: The information in this document with reference to « Cyprus » relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the "Cyprus issue";

d) Footnote by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of

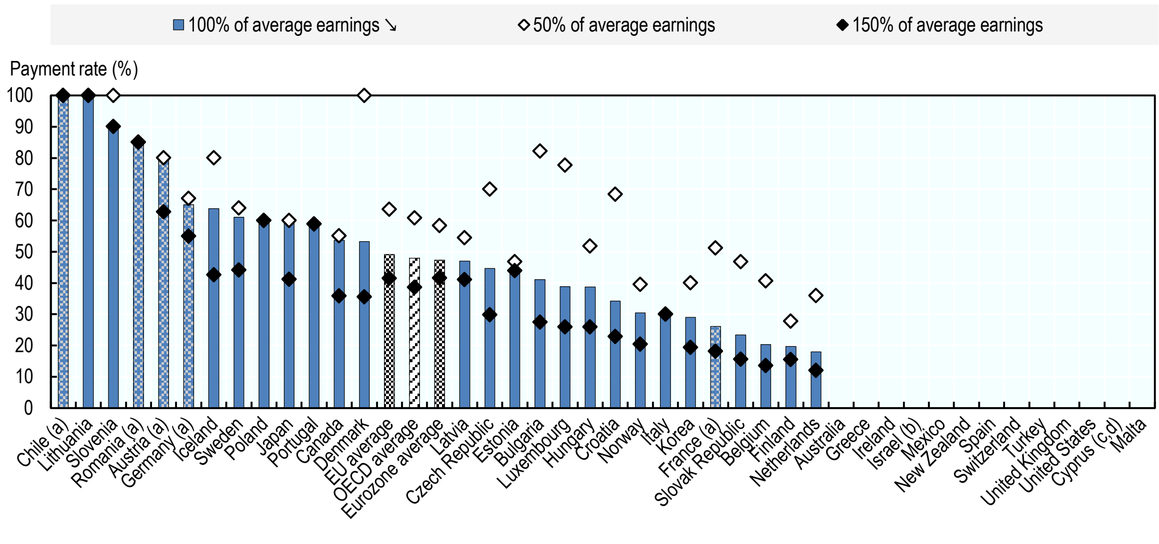
Cyprus.
e) Payment rates in Cyprus based on average wages from 2007
Source: OECD calculations

Payment rates across parental and home care leaves are usually lower than those for maternity leave (Chart PF2.4.B). On average across OECD countries, parental leave and, where relevant, home care leave benefits replace only 48% of previous earnings for an individual on average wages. Only one OECD country (Chile) provides a benefit that fully replaces average (net) earnings, while four OECD countries (Belgium, Finland, the Netherlands and the Slovak Republic) offer paid leaves that replace less than 25% of average earnings. Eleven provide no statutory national paid parental leave at all.

Similar to maternity leave, parental leave payment rates tend to be lower for individuals on higher wages. The average payment rate for an individual previously on 150% of average wages is just under 39%, with only five OECD countries (Chile, Italy, Poland, Portugal, and Slovenia) offering individuals previously on 150% of average earnings the same payment rate as an individual on 100% of average earnings. Conversely, in most OECD countries parental leave payment rates are relatively high for individuals on low wages. Most of the 24 OECD countries that offer paid parental leaves provide benefits with higher payment rates for individuals on 50% of average earnings than for individuals on 100% of average earnings. Denmark provides the most striking example – the Danish parental leave benefit replaces 100% of previous earnings for an individual previously on 50% of average gross earnings, compared to 53% for an individual previously on 100% of average earnings, and 36% for an individual previously on 150% of average earnings. Differences in payment rates are also considerable in the Czech Republic, France, Luxembourg and the Slovak Republic. Looking across countries, the relatively generosity of parental leave payments for individuals on below average earnings can be explained by a combination of flat-rate benefits that replace a greater proportion of earnings for an individual on low wages, and relatively low payment ceilings on earnings-related parental leave benefits.

Chart PF2.4.B. **Parental leave payment rates, 2014**

Proportion of gross earnings replaced by parental leave benefit(s) across weeks of paid parental and home care leave available to mothers[a], by level of earnings



Note: Cross-hatching indicates payment rates based on net rather than gross earnings [see note a)]

a) The "payment rate" refers the proportion of previous earnings replaced by the benefit over the length of the paid leave entitlement for a person earning the given percentage of average national (2014) earnings. If this covers more than one period of leave at two different payment rates then a weighted average is calculated based on the length of each period. In most countries benefits are calculated on the basis of gross earnings, with the "payment rates" shown reflecting the proportion of gross earnings replaced by the benefit. In Austria, Chile, Germany and Romania benefits are calculated based on previous net (post income tax and social security contribution) earnings, while in France benefits are calculated based on post-social-security-contribution earnings. Payment rates for these countries reflect the proportion of the appropriate net earnings replaced by the benefit. The recipient is assumed to live in a two earner family with a partner on 100% of average wages and with no other dependents (i.e. birth of the first child). See indicator PF2.1 for notes on the classification of 'paid parental and home care leave

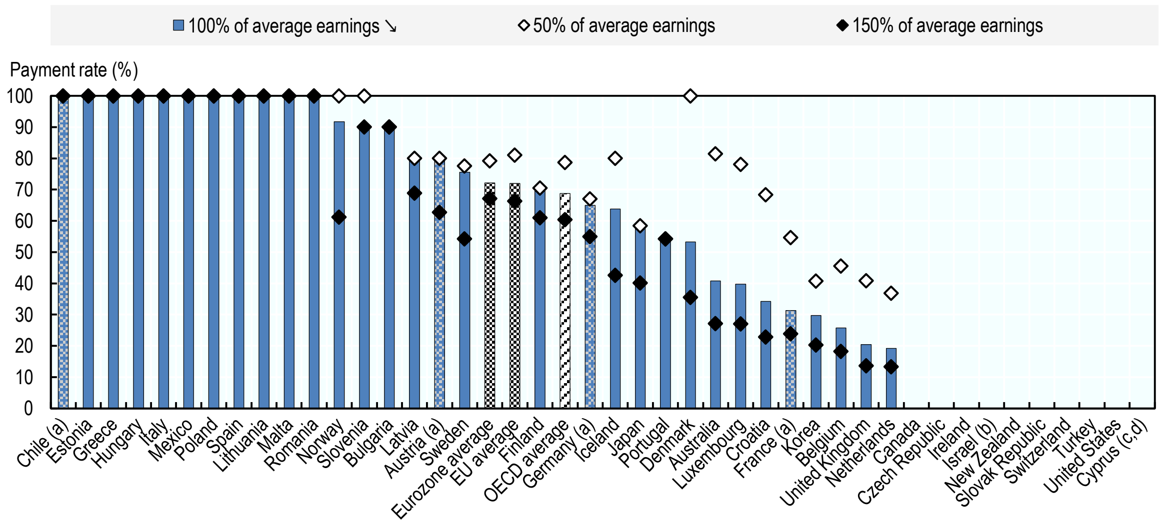
available to mothers'.
b) See note b) to Chart PF2.4.A
c) See note c) to Chart PF2.4.A
d) See note d) to Chart PF2.4.A
Source: OECD calculations

Where offered, father-specific leaves tend to be reasonably well paid (Chart PF2.4.C). On average across OECD countries, paid father-specific leave benefits replace 69% of earnings for an individual on average wages, with ten OECD countries providing father-specific leaves that replace at least 90% of average earnings and eight offering fully-paid leave. At the other end of the scale, seven OECD countries offer paid father-specific leaves that replace less than 50% of average gross earnings, and two have average payment rates of less than 25%.

Similar to maternity and parental leave, father-specific leave payment rates tend to be lower for fathers on high wages and higher for fathers on low wages. The OECD average payment rate for a father previously on 150% of average wages is 60.3%, while the average for fathers previously on 50% of average earnings is 78.7%. Differences in payment rates across levels of earnings are largest in Denmark, Australia, and Luxembourg where, in all three cases, payments rates are over 50 percentage points higher for a father previously on 50% of average earnings than for a father on 150% of average earnings.

Chart PF2.4.C. **Father-specific leave payment rates, 2014**

Proportion of previous gross earnings replaced by leave benefit(s) across weeks of paid leave reserved for fathers[a], by level of earnings



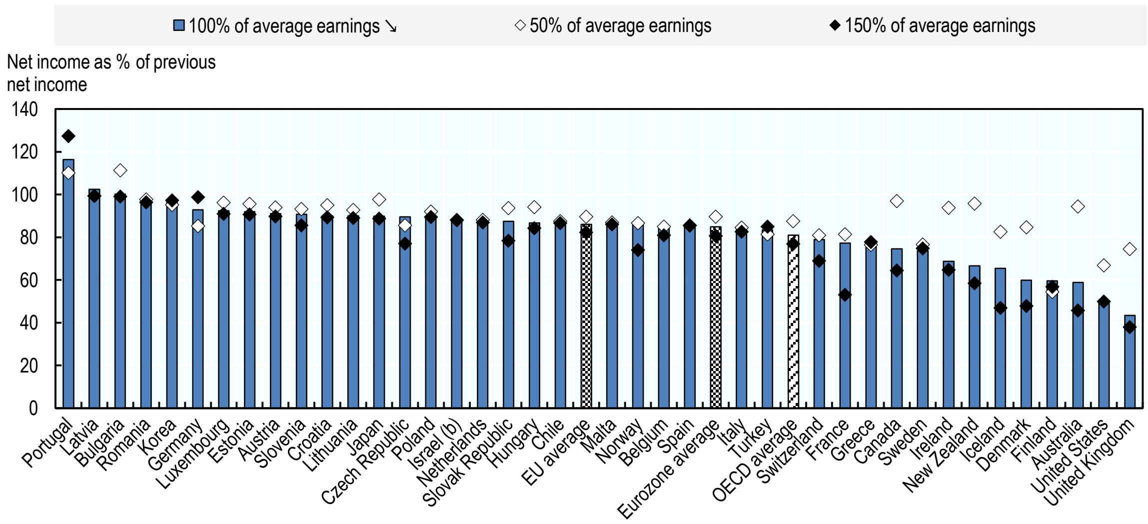
Note: Cross-hatching indicates payment rates based on net rather than gross earnings [see note a)]
a) The "payment rate" refers the proportion of previous earnings replaced by the benefit over the length of the paid leave entitlement for a person earning the given percentage of average national (2014) earnings. If this covers more than one period of leave at two different payment rates then a weighted average is calculated based on the length of each period. In most countries benefits are calculated on the basis of gross earnings, with the "payment rates" shown reflecting the proportion of gross earnings replaced by the benefit. In Austria, Chile, and Germany benefits are calculated based on previous net (post income tax and social security contribution) earnings, while in France benefits are calculated based on post-social-security-contribution earnings. Payment rates for these countries reflect the proportion of the appropriate net earnings replaced by the benefit. The recipient is assumed to live in a two earner family with a partner on 100% of average wages and with no other dependents (i.e. birth of the first child). See indicator PF2.1 for notes on the classification of 'leaves reserved for fathers'
b) See note b) to Chart PF2.4.A
c) See note c) to Chart PF2.4.A
d) See note d) to Chart PF2.4.A
Source: OECD calculations

Household net income tends to fall slightly when parents take maternity and paternity leave following childbirth (Chart PF2.4.D). On average across OECD countries, for a two-earner two-child couple both on average earnings, equivalised net incomes are around 19% lower in the first month after the birth of the second child than they were prior to the birth, though this does vary considerably across countries. In some OECD countries, equivalised net incomes for middle-income families fall sharply in the first month after childbirth. In both the United Kingdom and the United States, for example, the equivalised net income for a two-earner two-child couple on average earnings during the first month after the birth of the second child is less than half of what is was prior to the birth. In a couple of others, especially Portugal, equivalised net household income is actually slightly higher in the first month following the birth than it was beforehand. This is due in large part to fact that the benefits are not taxed which, in combination with the full earnings-replacement offered during initial maternity and paternity leave, means in effect that parents receive more than when they were at work.

Families with low earning parents tend to see less of a decrease in equivalised net household income following childbirth than families with parents on high earnings. On average across OECD countries, the equivalised net income of a low income family – where both parents previously earned 50% of average earnings – falls by about 12% in the first month after the birth, while for high income families – where both parents previously earned 150% of average wages – it drops by almost 25%. Differences in changes in net income across levels of earnings income are large in Canada, Denmark, Iceland, New Zealand, the United Kingdom and especially Australia, where equivalised net income for a low income family remains relatively stable around childbirth but for a high income family drops by over 50%.

Chart PF2.4.D. **Net equivalised household income in the first month after birth, 2014**

Net equivalised household income in the first month after the birth as a percentage of net equivalised household income one year before childbirth[a], by level of earnings



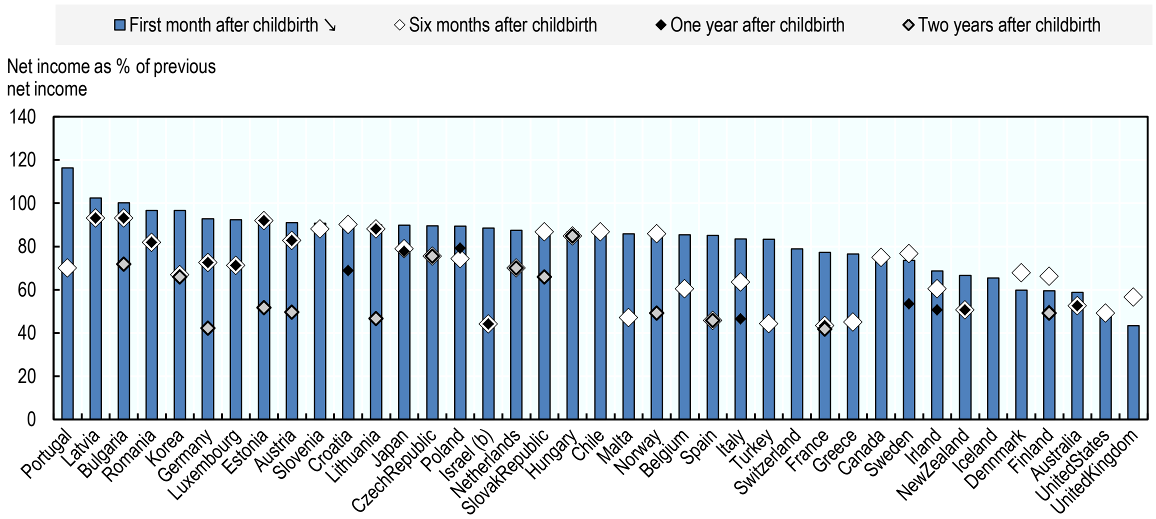
a) Situation for a two-child two-earner family with both parents on the mentioned percentage of average earnings. The elder child is assumed to be two years older than the child just born. Parents are assumed to be in full-time work except during the leave periods. Parents are assumed to take all available maternity and paternity leave (including unpaid maternity and paternity leave) in one spell and at the earliest possible opportunity, regardless of the payment level, and all available paid parental leave in one spell and at the earliest possible opportunity, except where there are individual mother- and father-specific paid parental leave entitlements, in which case parents take paid parental leave sequentially with the mother using her entitlement first and the father second. Parents do not take additional (secondary) unpaid parental leave if they have already taken paid parental leave, but do use any unpaid weeks of a partially-paid parental leave entitlement, and do take unpaid parental leave if no paid parental leave is available.

b) See note b) to Chart PF2.4.A

Source: OECD calculations based on OECD Tax and Benefit Models

In many countries, equivalised net household incomes continue to fall the longer parents remain on parental and home care leave (Chart PF2.4.E). In Germany, for example, the equivalised net income of a middle income family six months after childbirth stands at 72.5% of pre-birth net income but – assuming one parent stays on leave as long – this falls to around 42% two years after childbirth. In a few countries, like Hungary, net household income remains is stable across the duration of parental and home care leave, though it is nevertheless lower than the pre-birth equivalised net income regardless.

Chart PF2.4.E. **Net equivalised income over the period of parental and home care leave, 2014**
Net equivalised household income in the first month after the birth, six months after the birth, one year after the birth, ant two years after the birth, as a percentage of net equivalised household income one year before the birth[a], by level of earnings



a) Situation for a two-child two-earner family with both parents on the mentioned percentage of average earnings. The elder child is assumed to be two years older than the child just born. Parents are assumed to be in full-time work except during the leave periods. Parents are assumed to take all available maternity and paternity leave (including unpaid maternity and paternity leave) in one spell and at the earliest possible opportunity, regardless of the payment level, and all available paid parental leave in one spell and at the earliest possible opportunity, except where there are individual mother- and father-specific paid parental leave entitlements, in which case parents take paid parental leave sequentially with the mother using her entitlement first and the father second. Parents do not take additional (secondary) unpaid parental leave if they have already taken paid parental leave, but do use any unpaid weeks of a partially-paid parental leave entitlement, and do take unpaid parental leave if no paid parental leave is available. Data shown only if at least one parent is on leave at the given point in time.
b) See note b) to Chart PF2.4.A
Source: OECD calculations based on OECD Tax and Benefit Models

Comparability and data issues

Most OECD countries expressly 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. In the model it is assumed that mothers go on leave as soon as they can, even if this means that the post-confinement period is reduced. This choice was made to highlight the extent to which the pre-confinement period is valued by countries.

When paternity leave is available, it is generally assumed to start right after birth; assuming that paternity leave overlaps with maternity leave is a valid assumption since most of these countries offer a very short window in which paternity leave can be taken. For example, in the Netherlands paternity leave must be taken within four weeks of the birth, while in Portugal it is obligatory for fathers to take five consecutive days immediately after the birth, and during this period mothers are also home under maternity leave.

Parental leave is assumed to start as maternity leave finishes. It is also assumed that parents stop work completely during such leave even if some countries take into account such cases where parents continue to work part-time. If leaves can have different extension periods, parents are assumed to take the shortest one available, even if it may be the one proposing the worst financial incentives.

Concerning the division of parental leave, some countries provide two distinct, usually non-transferable, periods for each parent. In such cases it is assumed that leave is taken first by the mother and then by the father even when overlapping is possible. Some countries offer a unique period for one parent only, and in such cases it is assumed that the mother takes up the leave. In case where leave can be shared or not, as for example in Denmark, New Zealand, Poland and Sweden, it is assumed that the sharable leave is taken up only by the mother. The last two assumptions do not introduce any bias in the analysis since it is assumed here that in a two-parent couple family both the mother and the father earn the same wage.

Sources and further reading: OECD Benefits and Wages database, 2014 (www.oecd.org/els/social/workincentives); OECD (2002), *Taxing Wages 2001-2002*, Special feature taxing Families, OECD, Paris