

Will having a baby leave you broke?

August 16 2023, by Esther Mirjam Girsberger



Credit: AI-generated image ([disclaimer](#))

Increasing the rate of paid maternity leave, so it is tied to prior earnings, rather than just increasing the time off work, could lead to better and fairer outcomes for Australian families.

It could also help the country by supporting women's workforce participation and boosting [fertility rates](#).

Australia currently has the [lowest rate of paid maternity leave](#) of all OECD countries except the United States, which is the only OECD country without any government-mandated paid [maternity leave](#).

From July 1, 2023, the Australian government increased the duration of paid maternity leave to 20 weeks, with an extra two weeks to be added to the scheme every year until it reaches 26 weeks. However, the rate of pay, which is equivalent to the national minimum wage—\$882.80 a week—remains the same.

This is around 42% of average previous earnings, or currently eight weeks' average pay.

Many Australian families see their incomes drop, sometimes massively, if they take maternity leave. And if they're paying off a mortgage, or have high expenses, it may be difficult to survive on that income without significant prior savings.

[About 6 out of 10 employers](#) offer paid maternity leave in addition to the government scheme, yet the length and rate of pay vary across firms. Government organizations, universities and large consulting firms are quite generous, but other industries not so much.

In retail and construction, only two out of ten employers offer extra maternity leave, according to a [report by the Australian Workplace and Gender Equality Agency](#). Smaller companies are also less likely to offer additional leave.

In Switzerland and many other OECD countries, maternity leave benefits are tied to earnings—often 80-100% of prior pay. This system is fairer and avoids the potential plunge in income.

Weighing up the value of the Swiss model

[Our research](#) examined the impact of the government-mandated paid maternity leave in Switzerland, on employment, earnings, job continuity and fertility. The Swiss benefit was set at 80% of previous earnings for most women, a fairly generous provision.

The maternity leave benefits were funded through mandatory social security contributions by employers and employees, which only increased marginally as a result of the mandate.

We were also able to compare firms that had prior paid maternity leave provisions in place to those that did not offer this benefit, and examine the impact.

Before the mandate was introduced, around 40% of employers already offered their female workforce paid maternity leave, but leave provisions differed enormously.

The maternity leave mandate therefore introduced a minimum level of paid maternity leave to all eligible women and reduced inequalities in coverage. Employers were free to offer more generous schemes at their own expense.

How the scheme affected a mother's work-life balance

The Swiss mandate started on July 1, 2005 and provided 14 weeks of maternity leave benefits, and job protection during pregnancy and the 16-week period following birth.

Not all women benefited from the mandate in the same way. Mothers who gained access to paid maternity leave for the first time had slightly higher employment rates and saw their earnings increase by around 8% in the five years after giving birth.

The maternity leave mandate therefore successfully kept these women in the workforce and allowed them to work more hours or in better-paid jobs upon returning from leave. It improved the "work" side of their work-life balance.

In contrast, mothers who worked in firms that offered paid maternity leave prior to the mandate became more likely to have a second child. Among them, the share with two children (or more) jumped from 73% to 77% after the mandate.

Their employment rate and earnings remained stable even though they had more children on average. The mandate therefore enhanced the "life" side of the work-life balance for these mothers.

What about their employers?

Did the employers benefit from the mandate or did it increase their administrative burden and costs? Our research suggests firms benefited, too.

The mandate induced mothers to return to the same employer after maternity leave. Given worker turnover is costly, this helped firms cut recruitment and training costs.

Most importantly, however, the costs arising from maternity leave payments dropped for many businesses, as the mandated maternity leave benefits were covered by the social security fund.

Lessons for Australia

The Swiss maternity leave mandate—in combination with better access to affordable early childcare—helped [stop the declining fertility rate in](#)

[Switzerland](#) and improved the work-life balance for thousands of families.

The government-funded maternity leave introduced in Australia in 2011 slightly increased the desire to have more children, [according to 2020 research](#). However, the recently implemented two-week increase is probably too short to have any detectable impact.

Moreover, the level of maternity leave benefits, and not just the duration of leave, matter greatly for families in deciding whether to have another child.

A [recent study from Germany](#) found earnings-dependent maternity leave benefits (in contrast to a low flat rate) can successfully increase fertility rates for women with higher education (and earnings) who otherwise tend to have few or no children.

Women working in smaller companies and in industries less likely to offer additional maternity leave would particularly benefit from a Swiss-style system.

A decade ago, Australia's Coalition government proposed a maternity leave scheme tied to 100% of prior earnings. The recent increase in the length of the paid [maternity](#) leave scheme in Australia will help many families. But Australian policymakers might also want to start—or revisit—conversations about the benefit level.

More information: Esther Mirjam Girsberger et al, Mothers at work: How mandating a short maternity leave affects work and fertility, *Labour Economics* (2023). [DOI: 10.1016/j.labeco.2023.102364](https://doi.org/10.1016/j.labeco.2023.102364)

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