

# **The Family Assistance and Other Legislation Amendment Bill 2013**

## **The bill**

1.1 On 28 February 2012 the Senate, through the Selection of Bills Committee Report, referred the provisions of the Family Assistance and Other Legislation Amendment Bill 2013 for inquiry and report by 18 March 2013. On the 18 March the Senate agreed to an extension of time to report, to 19 March 2013. The committee is grateful to a number of organisations that provided submissions to the inquiry despite significant time constraints, and to the Parliamentary Library for assistance.

1.2 The Family Assistance and Other Legislation Amendment Bill 2013 contains several amendments to a range of legislation affecting families, however the most significant item concerns the Baby Bonus, a payment made to families on the birth or adoption of a child. The Bill would implement a government announcement made in late 2012, to reduce the amount of the Baby Bonus for second and subsequent children from \$5000 to \$3000, commencing 1 July 2013.<sup>1</sup>

## **Background to the proposed changes to the Baby Bonus**

1.3 In 2004, the government introduced the Baby Bonus, then known as the Maternity Payment. The payment was valued at \$3000 (later increased to \$4000 and then \$5000), was not means tested, was indexed, and was payable for both first and subsequent children. Indexation was frozen in 2011, by which time the payment's value had increased to \$5437;<sup>2</sup> the payment wound back to \$5000 in 2012. In 2009, the government introduced means testing of the Baby Bonus, limiting it to families whose taxable income was expected to be \$75000 or less in the six months following the birth.<sup>3</sup>

1.4 In 2011 the government introduced a paid parental leave scheme (PPL). The PPL scheme provides financial support for eligible working parents to help with the cost of a newborn baby or adopted child. Payments are made to the primary carer of a

---

1 Explanatory memorandum, p. 1.

2 FaHCSIA, Family Assistance Guide, 3.6.4 Maternity Payments - Historical Rates, [http://guidesacts.fahcsia.gov.au/guides\\_acts/fag/faguide-3/faguide-3.6/faguide-3.6.4.html](http://guidesacts.fahcsia.gov.au/guides_acts/fag/faguide-3/faguide-3.6/faguide-3.6.4.html) (accessed 18 March 2013).

3 Michael Klapdor, 'Family Assistance and Other Legislation Amendment Bill 2013 Bills Digest', *Bills Digest*, No. 88 2012-13, [http://parlinfo.aph.gov.au/parlInfo/download/legislation/billsdgs/2292466/upload\\_binary/2292466.pdf;fileType=application%2Fpdf#search=%22legislation/billsdgs/2292466%22](http://parlinfo.aph.gov.au/parlInfo/download/legislation/billsdgs/2292466/upload_binary/2292466.pdf;fileType=application%2Fpdf#search=%22legislation/billsdgs/2292466%22) (accessed 14 March 2013).

newborn or adopted child who has received an individual adjusted taxable income of \$150 000 or less in the financial year, and who is on leave or not working from when they become the child's primary carer until the end of the PPL period.<sup>4</sup>

1.5 A study by Melbourne Institute researchers published in 2010 concluded that the Baby Bonus may have contributed to a small increase in the birth rate, but that 'the marginal cost to the government for an additional birth is estimated to be at least A\$126,000'.<sup>5</sup> Another study using a different methodology concluded that 'the contribution to fertility change of the range of changes to family benefits which coincided with the Baby Bonus has most probably been minor' and that statistically the result was not significant.<sup>6</sup> Changes in Australia's birth rate over the period in question are the same as those in other similar countries, regardless of policy settings.<sup>7</sup>

## Issues

### *Targeting of welfare payments*

1.6 The Australian Council of Social Services considered that the Baby Bonus had been poorly targeted, and hoped that savings from its reform would be directed toward people on low incomes:

ACOSS accepts the need to reduce the cost of the poorly designed Baby Bonus but would prefer to see the savings invested in better family payments for parents struggling on low incomes. Given the Baby Bonus reforms will be introduced in 1 July 2013, we are looking to see what will be done for families on low incomes through the family payment system in the May Budget, to ensure they won't be worse off.<sup>8</sup>

1.7 NATSEM researcher Bob Phillips was reported as considering that 'Baby Bonus was significantly higher than the up-front costs of having a baby, and was

---

4 Department of Human Services, Eligibility for Parental Leave Pay, <http://www.humanservices.gov.au/customer/enablers/centrelink/parental-leave-pay/eligibility-for-parental-leave-pay> (accessed 18 March 2013).

5 Drago, R., Sawyer, K., Sheffler, K.M., Warren, D., and Wooden, M., 'Did Australia's baby bonus increase fertility intentions and births?', *Population Research and Policy Review*, Vol. 30, No. 3, 2010, pp. 381–397.

6 Parr, N. and Guest, R., 'The contribution of increases in family benefits to Australia's early 21st-century fertility increase: An empirical analysis', *Demographic Research*, Vol. 25, No. 6, 2011, pp. 215–244.

7 Nick Parr, 'Time to put baby bonus myths to bed', *The Conversation*, 26 October 2012, <http://theconversation.edu.au/time-to-put-baby-bonus-myths-to-bed-10320> (accessed 14 March 2013).

8 ACOSS, 'Budget cuts needed to clear the decks for NDIS, dental care and other priorities', Media Release, 22 October 2012.

therefore not well targeted'.<sup>9</sup> The review of Australia's Future Tax System (the Henry Tax Review) reached a similar conclusion.<sup>10</sup>

1.8 Similarly the National Welfare Rights Network argued that the Baby Bonus was not well-targeted, and supported its reduction as part of a broader process of better directing welfare funding:

NWRN agrees that there must be careful means testing of all social security and family assistance payments.

Our preference for changes to the baby bonus, particularly in light of the number of single parents now reliant on the Newstart Allowance, would have been means testing aligning the bonus to the income tests for Family Tax Benefit A. However, the NWRN is generally supportive of the reduction for the second child and subsequent given the many other important and grave calls on the welfare budget...

The changes to the baby bonus will result in savings over the forward estimates of \$505 million. NWRN supports better targeting of public tax resources, including better targeting of the baby bonus.

Given the need to ensure the sustainability of Government programs, \$505 million is a significant amount of savings and the baby bonus was poorly designed at inception. The savings made from redesigning the bonus need to be directed to other areas of social spending which are priorities.<sup>11</sup>

1.9 The Australian Family Association and Family Voice Australia also agreed that parenting support payments were being poorly targeted, but in a very different way, and they opposed the reduction of the Baby Bonus. Both organisations argued that the existing funding regime created inequalities between the support received by parents staying at home to care for children, and those placing their children in out-of-home care. Australian Families Association described this as 'birth funding discrimination'.<sup>12</sup>

1.10 While opposing the reduction of the Baby Bonus, the Australian Families Association went further, and argued for a portable entitlement for all families having children. They recommended:

The government should redistribute all federal government birth funding, including the Baby Bonus and Paid Parental Leave, in the form of a voucher that gives equal funding for maternal care of every newborn.<sup>13</sup>

---

9 Patricia Karvelas, 'Family tax ripe for budget axe', *The Australian*, 28 February 2013, p. 1.

10 *Australia's future tax system — Report to the Treasurer, Part 2 — Detailed Analysis*, 2010, Vol. 2, p. 578.

11 *Submission 3*, pp. 2–3.

12 Australian Families Association, *Submission 4*, p. 3.

13 Australian Families Association, *Submission 4*, p. 7.

---

*Is a reduction for second and subsequent children justified?*

1.11 The Parliamentary Joint Committee on Human Rights examined the bill. It was mostly supportive of its provisions, but had concerns about the Baby Bonus changes. It noted that the supporting documentation for the bill 'does not provide any empirical data to support the claim that the expenses incurred with the arrival of a second or later child will be significantly less than the costs of a first child'.<sup>14</sup>

1.12 The committee is aware of research commissioned by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and published in 2007, which reported:

There are no fixed or absolute costs of a child. The estimated costs of raising a child increase with household income, and generally decline with income level. Higher income households have greater living standards, which children share...

The costs of the first child are often greater than the costs for each subsequent child. This is due to economies of scale resulting from hand-me-downs and shared infrastructure (such as bedrooms and furniture).<sup>15</sup>

1.13 Similarly, Percival and Harding concluded that the additional costs of each child were less than those for the first child, and this appeared to hold true across different family income levels.<sup>16</sup>

1.14 The Henry Tax Review also identified relevant evidence prepared by the government. That analysis occurred prior to the introduction of Paid Parental Leave. The Henry Tax Review, drawing on analysis by FaHCSIA, considered the amount to be too high:

The Baby Bonus in effect covers more than the additional direct costs around the birth or adoption of a child and can be considered to assist with forgone income as well. The latter objective will in effect become redundant from January 2011 with the introduction of PPL.

At its current rate of \$5,185 per eligible child (paid in 13 fortnightly instalments), the Baby Bonus provides a higher rate of assistance than is necessary to cover the direct costs associated with a new child. Budget standards work and qualitative research undertaken by FaHCSIA indicate that actual direct costs at birth for low-income families are around \$2,000 for a first child and \$1,000 for a second child. The direct costs of the second

---

14 Parliamentary Joint Committee on Human Rights, Examination of legislation in accordance with the Human Rights (Parliamentary Scrutiny) Act 2011, *Third Report of 2013*, p. 19.

15 Henman, P., 'Updated costs of children using Australian budget standards', Costs of children: research commissioned by the Ministerial Taskforce on Child Support, FaHCSIA, 2007, *Occasional Paper No. 18*, p. 7.

16 Percival, R. and Harding, A., 'The estimated costs of children in Australian families in 2005–06', Costs of children: research commissioned by the Ministerial Taskforce on Child Support, FaHCSIA, 2007, *Occasional Paper No. 18*, p. 77.

child are lower as some items acquired for the first child can be reused for the second child (although this would not always be the case depending on gender and the age gap between children).<sup>17</sup>

1.15 An earlier study by Harding and Percival also reported economies of scale in having second and subsequent children,<sup>18</sup> as did another study by Valenzuela.<sup>19</sup>

1.16 Not all studies reach the same view. Gray and Stanton in 2010 performed a meta-analysis of studies of the costs of having children. They showed that there were mixed results from the studies, depending on study methodology, but that:

for the post-1985 studies, there are no economies of scale evident between the first and second child, and for the third child there are diseconomies of scale. There are, however, strong economies of scale for the fourth child.

1.17 Nevertheless they also noted:

While on average there are no economies of scale shown, it is probable that the marginal expenditure on children does decrease as the number of children increase because of the budget constraint.<sup>20</sup>

1.18 The committee notes that these studies were generally in relation to the costs of having children generally, not only around birth, and as such should be interpreted with caution.

1.19 One submitter indicated a concern that the changes will discourage people from taking the decision to have more children.<sup>21</sup> However, in a submission to this inquiry,<sup>22</sup> the Australian Institute of Family Studies drew attention to its 2004 study, which suggests this to be unlikely:

Most parents who were against the idea of having another child indicated that they were "definite" in their views. It thus seems likely that any policies that could be introduced in the future to make it easier for parents to have larger family sizes would have little impact on those who are already against such an idea.<sup>23</sup>

---

17 *Australia's future tax system — Report to the Treasurer, Part 2 — Detailed Analysis*, 2010, Vol. 2, p. 570.

18 Harding, A. and Richard Percival, R., 'The private costs of children in 1993-94', *Family Matters*, No. 54, 1999.

19 Valenzuela, R., 'Costs of children in Australian households', *Family Matters*, No. 53, 1999.

20 Gray, M. and Stanton, D., 'Costs of children and equivalence scales: a review of methodological issues and Australian estimates', *Australian Journal of Labour Economics*, Vol. 13, No. 1, 2010, p. 110.

21 Family Voice Australia, *Submission 2*, p. 2.

22 Australian Institute of Family Studies, *Submission 1*.

23 Weston, R., Qu, L., Parker, R. and Alexander, M., 'It's not for lack of wanting kids...': A report on the Fertility Decision Making Project', Australian Institute of Family Studies, *Research Report* No. 11, 2004, section 8.1.

1.20 Submitters to the inquiry had different views on the issue of the costs of having second and subsequent children. The National Welfare Rights Network commented:

NWRN also accepts the argument that in many cases the financial demands are often less following the birth of additional children, as items like prams, car seats and change tables have already been purchased.<sup>24</sup>

1.21 Family Voice Australia, in contrast, considered this rationale to be 'dubious':

Where is the first born child supposed to sleep when the new born child gets the cot? Many families who have a second child soon after a first will need a second pram or to swap a single pram for a double pram to accommodate the needs of a newborn and a toddler. The toddler will need a child booster seat while the newborn gets the baby safety capsule. In other cases where two or more years intervene between children, a family may well have passed on the cot, baby safety capsule and pram to the Salvos or to a friend or relative.<sup>25</sup>

1.22 In general, the evidence suggests that the Baby Bonus more than covers the direct costs incurred around the time of having a baby, and that those costs decline for the second and subsequent child, consistent with the government's proposed reform.

### **Committee view**

1.23 Most people would like to have more children than they end up raising, and when planning children, the most important consideration, for both men and women, is being able to afford to raise the child.<sup>26</sup> The committee recognises that government has a role in appropriately addressing the social and economic policy issues for families wanting to have children. The government has done so through Family Tax Benefits and Child Care Rebates and, since 2011, through Paid Parental Leave. The government also supports a payment—the Baby Bonus—intended to offset the direct costs of a newborn joining the family unit.

1.24 Of all those payments, the Baby Bonus has raised the most questions amongst analysts and policymakers, around ensuring that it is economically efficient, equitable, and reflective of the costs that it is designed to meet. The government has previously responded to these concerns through a (relatively generous) means test, freezing increases in the size of the payment and, most importantly, by introducing paid parental leave.

---

24 *Submission 3*, p. 3.

25 Family Voice Australia, *Submission 2*, p. 1.

26 Gray, M., Qu, L. and Weston, R., 'Fertility and family policy in Australia', Australian Institute of Family Studies, *Research Paper* No. 41, 2008, p. 23.

1.25 With paid parental leave in place, the Baby Bonus no longer needs to be treated as a surrogate parental leave payment, which was one of the criticisms laid against it. It now needs only to reflect direct costs of having a child.

1.26 The committee is satisfied that those costs are more than adequately met by the amount of money included in the Baby Bonus under the current bill.

**Recommendation 1**

**1.27 The committee recommends that the bill be passed.**

**Senator Claire Moore**

**Chair**

