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## **Family Policies for the Way We Live Now**

**F**amily life in Canada isn't the same today as it was 30 years ago, and public policy is struggling to catch up.

The era of the male-breadwinner family is over. Thirty years ago, less than half of women between the ages of 25-54 years worked full time. Today, two-thirds of those women are putting in 35 hours a week or more. Men have seen their full-time incomes increase by less than 5% in thirty years, making the employment incomes of women living in families a matter of necessity as much as choice.

The impact of women's increased participation in work has not meant the 'end of men.' Women entering the workforce are not replacing men — as is evident from the relatively stable levels of male employment during the same period that women's employment rose. The increase in women's participation in paid work has been a net gain to the economy. It has also been a gain to the economic security of women and their families.

The death of the Canadian family has also been greatly exaggerated. While men and women in Canada are likely to wait a couple of extra years before they get married, the share of Canadians who live as couples has not changed significantly over the past two decades. Canadians are having children a couple years later too. But birth rates have not declined in correlation with the rise in women's participation

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in paid work. Rather, birth rates have risen and fallen and risen again over the past 30 years — leaving the birth rate today (at 1.61) just below where it stood 30 years ago (at 1.65).

Another thing that hasn't changed much is who takes care of children and the household. While increased participation in paid work has made a positive contribution to the economic security of women and their families, it has created a time deficit for many working mothers. Women's hours of unpaid work have not declined in proportion to the increase in their hours of paid work. Twenty years ago, women in Canada performed 64% of unpaid housework and 75% of unpaid child care work (for an average of 4.2 hours per day). Today they perform 60% of unpaid housework and 68% of unpaid childcare work (for a total of 3.9 hours per day). Stack that four hours a day on top of eight hours in the office and another hour in traffic, and you get one tired, burnt out parent.

This isn't inevitable and it isn't simply the consequence of a free and open choice. Governments have a range of policy options available to them — policies that can support or undermine parents in the choices that they've made; policies that can address the distinct pressures that men and women face in work and family life or increase them; policies that make choices more equally available to families in Canada or policies that widen the gap between families.

### **Child care**

The cost and availability of child care has a demonstrable impact on the choices families are able to make. These choices include when and how many children to have, the distribution of unpaid and paid work between parents (in two-parent households), and the financial security of families (particularly in single-parent households).

A review of the experiences of other industrialized, high-income countries finds that when child care is both affordable and readily available more women work and they are more likely to have children.<sup>1</sup> Child care subsidies that are conditional upon employment also contribute to increased female labour force participation.<sup>2</sup>

The province of Quebec has been a leader in developing family policies that respond to the changing nature of family life. Quebec has followed a number of OECD countries in providing significant

subsidies to childcare, in order to meet the needs of families with two working parents and single parent families.

Women's labour force participation in Quebec has increased at a faster rate than in the rest of Canada (since 1997). Women's employment rates also held steady during and after the 2008 recession in Quebec, in contrast to women's employment in Ontario, for example. This suggests that consistent access to affordable child care played an important role in lessening the impact of the economic downturn on families in Quebec.

The Quebec child care program has also had a demonstrable impact on employment levels for the families most likely to live in low income — single parent households. Single mothers of young children in Quebec have seen their employment rates increase from 38% in 1996 — the year prior to the introduction of the program — to 68% in 2014.<sup>3</sup> Single female parent households have also seen their poverty rates decline from 52% in 1996 to 31% by 2011 — moving 104,000 single mothers and their children out of poverty.<sup>4</sup>

It is worth noting that child care is also important for parents who *don't work* or who work part-time. Under Quebec's program, parents who do not work can and do access child care.<sup>5</sup> Many parents, whether they are in paid work or not, see child care as an important social and educational benefit for their children — a perception that is supported by the evidence on childhood development and educational outcomes.<sup>6</sup> Further, access to child care can help stay-at-home parents who are ready to transition back into paid work — providing important time for training and job seeking.<sup>7</sup>

Child care is perhaps the most significant lever available to governments seeking to help parents balance work and family life. However, the impact of affordable and accessible child care can be amplified or suppressed depending on how governments treat other policy levers — including parental leave and family tax policies.

## **Parental leave**

The impact of parental leave on the choices individuals and families make about how to balance work and family care is highly dependent on the nature of that leave. Many governments offer a mixture of leave available only to mothers (maternity leave), and leave that

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can be taken by either parent (parental leave). A growing number of European countries have begun to offer an additional period of leave available only to fathers (paternity leave). A very few countries offer leave that can be taken by both parents simultaneously.

**Where women are guaranteed job security and provided with some level of income for a period of up to six months, they are more likely to return to the workforce than if there is no parental leave present.**

Women still make up the vast majority of parents taking parental leave — in Canada and elsewhere. The impact of parental leave on the working lives of mothers depends on the length of the parental leave provided as well as the income and educational level of the parent. Economic analysis consistently finds that up to six months of parental leave

has a positive impact on female labour force participation for both part-time and full-time workers, across educational levels. Where women are guaranteed job security and provided with some level of income for a period of up to six months, they are more likely to return to the workforce than if there is no parental leave present.<sup>8</sup>

The impact of longer periods of leave is different for different groups of women. A study of 21 high-income countries found that for less educated mothers, longer periods of parental leave have either a neutral or positive impact on the longer-term employment and earnings of those mothers.<sup>9</sup> Highly educated mothers see a negative impact on their earnings and employment when they take periods of leave exceeding six months.

Women across the economic and educational spectrum experience a long-term lag in their earnings after having children. The so-called ‘motherhood penalty’ means that women in Canada will see an estimated 8% decrease in their earnings, even when differences in age, employment level (part-time or full-time) and education are accounted for.<sup>10</sup> In order to minimize the unintended negative consequences of having children, parental leave policies need to be accompanied by policies that directly address gendered wage gaps and the different needs of women with different levels of education.

Currently Canada provides 15 weeks of maternity leave and 35 weeks of parental leave benefits for those parents who qualify under Canada's Employment Insurance program. This means that only those parents who have worked at least 600 hours in the year prior to a child's birth are eligible. Those who do qualify receive 55% of their average insurable weekly earnings up to a maximum of \$514 per week.<sup>11</sup> For low-income families (those with total family earnings below \$25,921) their incomes can be replaced at a rate of up to 80%. Parental benefits are subject to taxation. The average benefit received is just under \$400 per week.<sup>12</sup>

Women make up 93% of the recipients of parental benefits provided through Canada's EI program.<sup>13</sup> However, the difference between the rates at which men and women access parental leave programs cannot be ascribed to choice alone. Men and women respond to parental leave policies differently: different policies produce different results.

Men are significantly more likely to take parental leave when it comes with a substantial level of income replacement and when there are additional, targeted, paternity leave benefits available to them. For example, in Sweden, Norway and Iceland — which all offer high wage replacement rates — the majority of fathers take parental leave. In countries with low wage replacement rates, including Belgium, Austria and France, less than 10% of fathers take parental leave.<sup>14</sup> When Germany shifted to a parental leave program that replaced earnings at a higher level (67%), the percentage of fathers participating tripled.<sup>15</sup> Sweden, Norway and Iceland also all have targeted paternity leave benefits. When Sweden introduced paternity leave, the percentage of fathers taking leave rose from 9% to 47%.<sup>16</sup>

Quebec is the only province in Canada that offers targeted paternity leave — providing five weeks available only to fathers, in addition to 32 weeks that can be shared between parents and 17 weeks of maternity leave.<sup>17</sup> The Quebec program replaces between 70-75% of the father's earnings (depending on the length of leave taken) up to a maximum of \$1007/week.<sup>18</sup> The Quebec Parental Insurance Plan also differs from the federal program in offering benefits to the self-employed and requiring fewer minimum hours of employment to qualify.

The impact of the Quebec Parental Insurance Plan on patterns of parental leave has been significant. The same pattern that can be seen in European countries with paternity leave programs is evident

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in Quebec. Five years after Quebec introduced paternity leave, 76% of fathers in Quebec were taking leave, compared to 26% of fathers in the rest of the country.<sup>19</sup> Those fathers also took longer periods of leave — averaging 5.6 weeks compared to 2.4 weeks nationally.<sup>20</sup>

The three-fold increase in the share of fathers taking leave in Quebec demonstrates that there is a significant unmet need for parental leave that responds the distinct economic and social pressures faced by men.

### **Women in Quebec do not have to work as many hours in order to qualify for the Quebec Parental Insurance Program as they do for the EI program in the rest of Canada**

The difference that targeted paternity leave makes, as opposed to parental leave, suggests that the ‘use it or lose it’ nature of paternity leave may be lessening the social and economic pressure on fathers to stay at work following the birth of a child. The lowering of barriers to qualify for parental leave and the higher rate of wage

replacement are also clearly offsetting the financial costs to two-parent families of fathers taking leave.

The presence of subsidised child care policy and paternity leave has not resulted in fewer women taking parental leave or in those women taking shorter periods of leave. Quite the opposite. Women in Quebec are more likely to take parental leave than are their peers in the rest of Canada (with 99% of mothers who worked prior to having a child taking leave in Quebec compared to 90% nationally).<sup>21</sup> In Quebec, 97% of those mothers qualified for paid leave, compared to 83% in the rest of Canada — suggesting that women are also more likely to take leave where there is some level of income replacement available to them.<sup>22</sup>

Women in Quebec do not have to work as many hours in order to qualify for the Quebec Parental Insurance Program as they do for the EI program in the rest of Canada. Because women perform fewer hours of paid work on average, and are three times as likely to work part-time, they are less likely to have the minimum number of hours of paid work to qualify for EI and parental leave than are men. With a lower threshold for qualification, more women are able to access the

Quebec program. This may also account for the fact that women in Quebec take longer parental leaves than do their counterparts in the rest of the country (at 48 weeks compared to 44 weeks on average).

Contrary to the experiences of other European countries, in Quebec the longer periods of leave have not resulted in lower rates of female employment. This suggests that the effects of the child care program and paternity leave may have offset the potential loosening of female labour force attachment that occurs elsewhere, where parental leaves exceed six months.

The comparison provided by the Quebec example provides several lessons for policy makers. First, men and women both choose to take parental leave under the right conditions. Second, men and women have distinct needs with respect to parental leave. For women, a lower threshold for qualification is important; for men, income replacement and targeted paternity leave is important. Third, parental leave by itself can have a negative impact on the economic security of families if it is not accompanied by other policies and programs, particularly affordable and accessible child care. Where these policies are offered in unison, parents are able to take longer periods of leave after their children are born and are more likely to return to work at the end of that leave.

### **Child and family tax policies**

Canada utilizes a number of different child and family tax benefits, including direct income transfers, tax credits, and joint taxation. These policies all have distinct impacts on how families spend their time (in work and at home).

Since 1993, the Canada Child Tax Benefit (CCTB) program has provided a direct payment to qualified families with children under the age of 18. Families whose net income exceeds a set amount receive no payment. Those who do qualify receive payments tied to family income.

In 1998, Canada introduced the National Child Benefit Supplement (NCBS), an income transfer targeted specifically to low-income families. The NCBS supplements the amount available through the CCTB for low-income families. A family with two children, and a net family income of less than \$25,584, would receive up to an additional

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\$1,982 in 2014.<sup>23</sup> Provinces treat these benefits differently, in some cases deducting the benefit from other social assistance benefits, in other cases tying benefits to the age of the child.

These programs have had a positive impact on educational, social and health outcomes for low-income children.<sup>24</sup> They also have a strong positive correlation with increased labour force participation for low-income parents. The benefits correlate to a 3-4% increase in the employment levels of single mothers in particular.<sup>25</sup>

In 2006, the federal government introduced the Universal Child Care Benefit (UCCB). This is a taxable allowance of up to \$1800 per year for families with children under the age of six and up to \$720 per year for families with children between the ages of six to 17. Unlike the CCTB, the UCCB provides relatively similar levels of benefit across income groups (although higher income families will see the benefit taxed back at higher rates than low income families). The Parliamentary Budget Office estimates that 34% of the beneficiaries of the UCCB goes to families with older children and therefore no child care expenses.<sup>26</sup> The combined cost of the UCCB and the Child Care Expense Deduction will be an estimated \$7.7 billion in 2015.

In 2014 the federal government implemented a new joint taxation policy that allows married and common-law couples with children under the age of 18 to transfer up to \$50,000 in earned income from one spouse to the other, for a maximum tax benefit of \$2,000 per year. In households where one spouse earns significantly more than the other, and is therefore taxed at a higher rate, income splitting allows that higher-earning spouse to transfer income to the lower earning spouse. The result is that the higher-earning spouse will pay taxes at a lower rate. There is no benefit to couples earning similar amounts. Single parents do not benefit by definition. It is also important to note that the income transfer is purely nominal — no actual transfer of income is required. There is no direct benefit to the lower earning spouse.

Because on average women work fewer hours and earn less for each hour that they work, in the vast majority of families (with a male and female spouse) the lower income earning spouse is female. The choices available to that couple now come with a tax penalty for any additional income earned by the lower earning spouse once she decides to return to work. For every hour of additional work she takes on, she risks increasing the rate at which the couple is jointly taxed.

This tax penalty on the lower earning (female) spouse's work drives down the labour force participation of married women.

A number of studies have looked at the impact of the introduction of joint taxation (as seen in the U.S.) and at the differences between countries with similar labour market conditions but different tax policies. For example, economists estimate that imposing the joint taxation system present in Ireland on the UK (which does not currently have joint taxation) could decrease female participation in part-time work by as much as 10% and decrease participation in full-time work by as much as 13%.<sup>27</sup> A comparison of Germany and Sweden finds that imposing the German system of joint taxation on Sweden would reduce the labour force participation of married women in Sweden by as much as 20%.

Analysis of changes to Canada's tax system come to the same conclusion. In 1988 Canada replaced a spousal tax exemption with a non-refundable tax credit. The change meant that the rate at which one spouse was taxed was no longer tied to the rate at which the other spouse was taxed. Thus a lower-earning spouse could work more hours and earn more income without causing the higher-earning spouse to pay a higher rate of tax. The impact on the labour force participation of married women was significant — causing an estimated 10% increase in married women's labour force participation.<sup>29</sup>

What historical analysis and econometric projections make clear is that the economic impact of income splitting will be negative. A reduction in female labour participation without a parallel rise in male labour force participation will leave Canada with a smaller and less flexible labour supply. It will also reduce the supply of younger workers (those in the age group most likely to have young children) at a time when the labour force is aging. Because of the segregation of the labour market, it is likely the greatest losses will be in the industries in which women are most likely to work: education, health and social services. Income splitting will also reduce government revenues as a result of lower levels of employment income and therefore tax revenue available to the government.

Income splitting, unlike the CCTB and the NCBS, is highly regressive — benefiting most those with the highest incomes and least need. And gaining any benefit at all, much less the maximum benefit, is by no means assured. Spouses must be in different federal tax brackets.

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Given that the average length of parental leave is less than a year, and that parental leave will almost never exactly match a tax year, since children are not automatically born on New Year's Day, income will be lowered for the parent who stays home, but not necessarily eliminated in any given tax year.

The probability of benefit is very unequally distributed. The upper- and middle-upper class have a much higher probability of gaining from income splitting than do families with lower or middle-class incomes. Only 48% of families with children will receive \$1 or more from income splitting. Of that half of families with children who do gain, 20% will receive roughly a dollar a day from income splitting. While the maximum benefit of \$2,000 may be desirable to families, there are few who will see that much money. Only 12% of families with children will top out at \$2,000 from income splitting.

The federal government's income splitting policy is intended to support parents who choose to stay out of the work force and care for young children. However, the benefits of income splitting are highly concentrated among high-income families — whose incomes already allow for this choice. The small or non-existent benefit to low- and middle-income families and single parents mean that the families whose choices are most constrained will not see a benefit sufficient to allow them to forgo further hours of earned income in order to spend more time with young children.<sup>30</sup>

The impact of income splitting will be to widen inequality of choice, not to mention after-tax income, between families. It will also contribute to greater inequality within families. For two-parent families, income splitting incentivises the higher income earner (predominantly men) to stay in the workforce and the lower income earner (predominantly women) to decrease their labour force participation. The result will be a growing gap between the incomes of men and women in families that qualify for income splitting benefits.

Direct income transfers (like the NCBS) that are tied to family income levels target spending towards the families with the greatest need. Tax policies that are not tied to family income levels, such as the UCCB and income-splitting, are costly and ineffective.

## Conclusion

Today's families are not living in a world of limitless choices. Parents are making difficult decisions in constrained circumstances about how to do best by their children, their employers and each other. Small, complicated tax benefits that go largely to the most well-off families do nothing to make those decisions easier for the majority of families.

Economic and family policies need to respond to the differences between families and the different pressures they face — not every parent has a university degree, not every family can afford to have one parent out of the workforce, not every family has two parents. Policy makers must recognize the different needs and challenges that face mothers and fathers — who don't work in the same sectors, don't work the same number of hours, and don't get paid the same amount for the work that they do.

Governments have the means to lessen the constraints on families and to better support the decisions they are making about the way they live now. Access to affordable child care, parental leave that fits the parent, and economic policies that level the playing field between families and between parents have all been demonstrated to provide increased support for the decisions that parents want and need to make. The work and family lives of Canadians have evolved over the past three decades. It is time our family policies grew up too.

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