

Discussion paper

**EUROPEAN EMPLOYMENT OBSERVATORY
GERMANY**

**Parental allowance (Elterngeld) –
An innovative policy**

by

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1. Introduction

The introduction of the new parental allowance programme has been a key element of German family policy. The German Family Ministry promotes young families by financial support after the birth of a child, the improvement of day care infrastructure and the fostering of a family-friendly working environment. These measures are important to counter the demographic developments in Germany which are characterised by birth rates well below the reproduction level since decades.

As part of this programme, the parental allowance targets reconciling work and family life. It addresses young families in general. However, the discussion about this programme particularly concentrates on highly qualified women and the involvement of young fathers in child care. For these two groups the opportunity costs are especially high and thus public policies aims to compensate these costs at least partly.

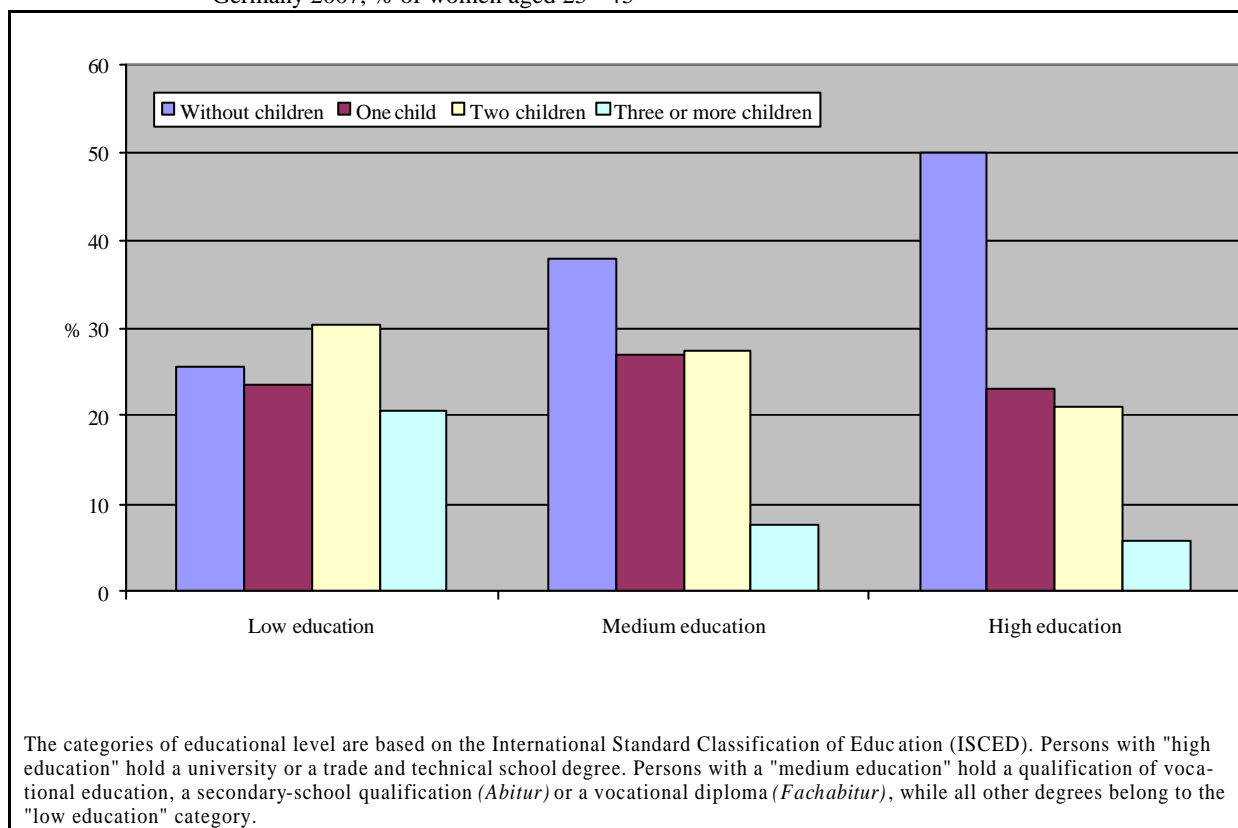
The parental allowance legislation was introduced in 2007 and, as initial evaluation results revealed, seem to be effective regarding both family and labour market intentions.

2. Description of parental allowance (*Elterngeld*)

2.1. Objectives and target group

The new legislation on parental allowance is designed to offer incentives to have more children, to facilitate the re-entrance into the labour market and to share child care between women and men better. Parents receive a proportional substitute for a loss of income following the birth of a child. Thus, the legislation also addresses highly qualified persons with a high income, who were not eligible to benefits under the former legislation.

Chart 1 Women aged 25 - 45 by educational level and number of children
Germany 2007, % of women aged 25 - 45



Source: German Labour Force Survey, Federal Statistical Office.

Chart 1 gives an overview of the number of children born in Germany in accordance to the level of education of mothers. It shows that 50 % of women between 25 and 45 years old with a high education have no children. This group postpones the decision to have children in the future, as they want to gain experiences in their jobs before starting a family. This trend is reinforced by the rising level of education of women. In

2005 more women than men graduated at German universities for the first time. Chart 1 also shows that women with low education are most likely to have three or more children (21 %).

2.2. Description of the measure

In January 2007 the legislation on parental leave and parental allowance (*Bundeselternge- und Elternzeitgesetz*) was introduced by the Federal Government. It superseded the previous Federal Family Allowance (*Erziehungsgeld*).¹

Parents whose children were born on or after 1 January 2007 can apply for the new parental allowance. They receive 67 % of the yearly average net income before birth, with a minimum payment of €300 and a maximum payment of €1,800 per month. For persons with an income below €1000 the compensation rate is increased up to 100 %. Both mothers and fathers can apply for the allowance while it's not obligatory to apply for the allowance directly after birth. However, backdated payments can be received for three months before the application date only.

The standard period for one parent is 12 months, which can be arbitrarily divided between the partners. The period can be extended by a further two months if the partner takes care of the child. Thus, fathers are also encouraged to stay home for child care and education for this time. Single parents are eligible to receive the allowance for 14 months. Parental allowance is paid in the extended period only if a loss of income appeared.

The supported parent is allowed to work up to 30 hours per week. Beyond the minimum payment of €300 per month, the allowance compensates the corresponding loss of income. There is an option to receive half of the allowance for 24 months. When older children up to the age of three live in the household the parental allowance rises by 10 % or at least by €75 per month. If multiples were born, the parent obtains the minimum payment for every further child.

Compared to the former Federal Family Allowance act, persons with a high income have advantages from the new legislation as they are now eligible for the benefits and receive proportional income compensation. Persons with no income were paid better under the former legislation as the minimum amount was provided for 24 rather than 12 months.

3. Organisation, implementation and funding of the policy

The parental allowance is initialised at the national level and funded by the Federal Government. The law is implemented by the Federal States (*Bundesländer*) on behalf of the Federal Government. The Federal States have constituted public authorities which are responsible for parental allowance and parental leave.

In 2007 the Federal Government planned to spend €1.6 billion for parental allowance, but the expenditures rose to €1.7 billion, as among other things, more fathers than expected used the parental allowance. In 2008 the expenditure was about €4.2 billion (BMFSFJ 2008a). In 2009 the Family Ministry expects to spend €4.4 billion.

4. Performance and achievements

This section comprises current participation numbers of parental allowance, the development of birth rates in Germany, results of different evaluations of the measure as well as suitable indicators to follow the measure.

¹ According to the Federal Family Allowance parents could choose between a monthly payment of €300 for 24 months or €450 for 12 months after the date of birth. The means-tested benefits had the following income limits:

- During the first 6 months the income limit was €30,000 of annual net income for couples and €23,000 for single parents.
- After the 7th month the income limit for couples was €16,300 and €22,086 for receiving a reduced payment. Single parents had an income limit of €13,500 and €19,086 for receiving a reduced payment.

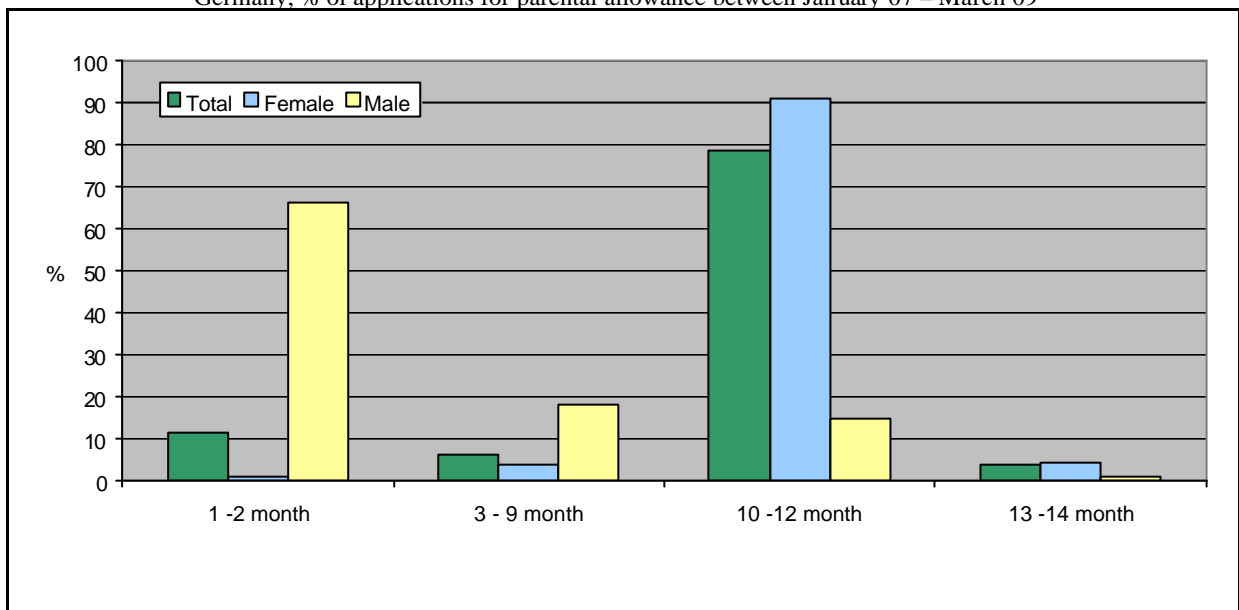
4.1. Current participation numbers

The Federal Labour Office administrates an up-to-date statistic about the usage of parental allowance and some socio-economic characteristics of applicants.

Between January 2007 and March 2009 945,882 persons received parental allowance, thereof 84 % were female and 16 % male. Of all applicants for parental allowance, 57.5 % of parents were employed before having a child. For fathers this share is much higher than for mothers (80.7 % vs. 53 %).

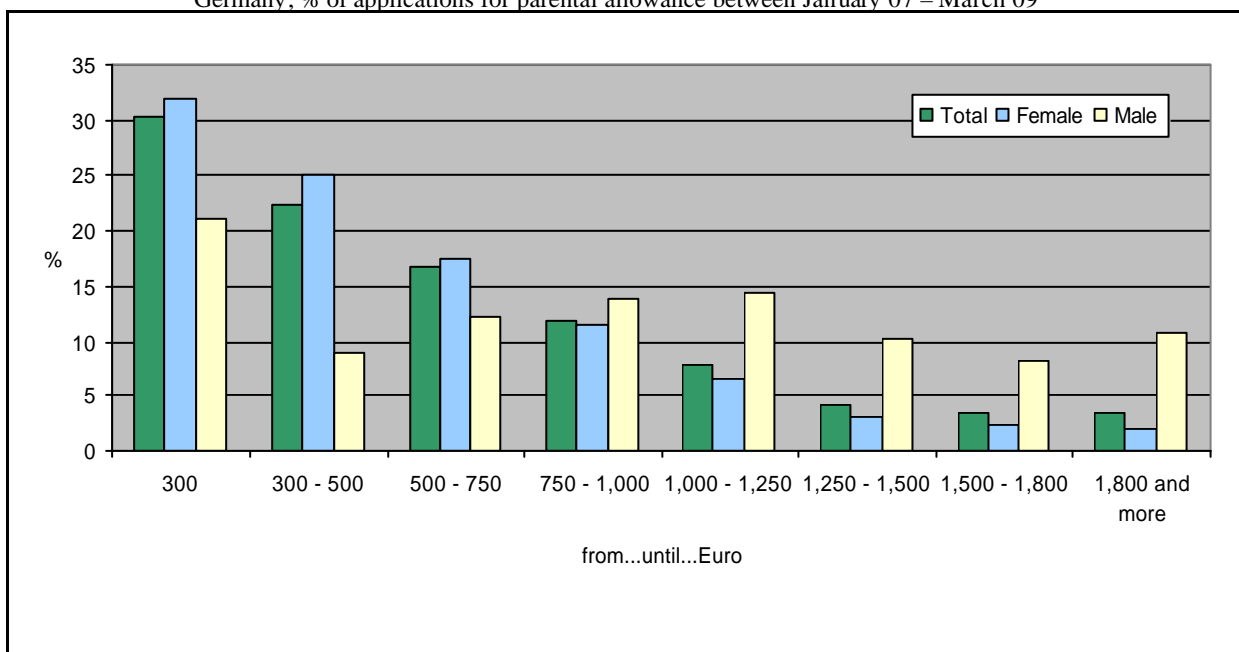
Regarding the number of months in which parental allowance was obtained, we see that the majority of women applied for parental allowance for 10 to 12 months (Chart 2). In comparison, the majority of fathers took a short parental leave period as two thirds of fathers left employment for at least two months. Only a very small share was eligible for periods above 12 months (single parents).

Chart 2 **Period of entitlement for parental allowance**
Germany, % of applications for parental allowance between January 07 – March 09



Source: Labour Force Survey, Federal Statistical Office

Chart 3 **Amount of parental allowance in the first month**
Germany, % of applications for parental allowance between January 07 – March 09



Source: Labour Force Survey, Federal Statistical Office

Chart 3 shows the amount of parental allowance in the first month: the biggest share of recipients got the minimum payment of €300 per month and 3.4 % received the maximum amount of 1,800 or more (more can be gained due to bonuses for siblings or multiples). Among fathers the proportion of recipients of the maximum amount is much higher than among mothers (10.9 % vs. 2 %). The share of mothers receiving a relatively low amount of parental allowance is disproportionately high among families with three or more children, what makes it more unlikely that the mother was employed before birth (BMFSFJ 2008).

4.2. Development of birth rates

The number of births rose from 2006 to 2007 about 1.8 %. In 2008, it declined again (- 0.3 %). Nevertheless, a study of the Berlin Institute for Population and Development (2008) came to result that the number of births did not decline as much as the number of women in a childbearing age. Especially in Eastern Germany women have more children after a long period of low fertility rates. This can be interpreted as a little success even the uncertainties of the final figures remain.

4.3. Evaluation

The Family Ministry commissioned the RWI Essen to evaluate the introduction of the new parental allowance (BMFSFJ 2008b). The final report of the evaluation focused on the use of parental allowance and behavioural changes. The results are based on a survey of 1,151 parental households whose youngest child was born in the first quarter of 2007 or in the last quarter of 2006. Thus, a comparison between the behaviour of parents under the new parental allowance legislation and parents receiving the former Family Allowance could be drawn.

The following results reference, unless otherwise noted, to parents whose children were born in the first quarter of 2007.

Use of parental allowance and its income effects

- Between January 2007 and March 2008, nearly 100 % of parents applied for the new parental allowance; while in 2006 – when the old legislation was in task – the rate was 77 % especially due to income limits.
- In 12 % of families, both, mothers and fathers received parental allowance. Supplemented by families where only the father received the allowance, the share of fathers applying for benefits rose to 16 %. During the last quarter 2006, when the former legislation was in act, only 3.5 % of fathers used parental benefits (Deutscher Bundestag 2008). In 84 % of cases only the mother obtained parental allowance. The involvement of the father was more likely if it was the first child for the parents, the mother was employed the year before birth and the father held a graduate occupation. Following the survey, for fathers the reduction of employment was often not possible: 48 % of families, where the father did not apply for parental allowance, said a reduction was not possible due to financial reasons and 35 % stated professional or internal reasons. 20 % favoured the traditional task sharing, where the mother stays at home with the children.
- The parental allowance stabilised the household income of many young families: 45 % of mothers said that the household income was reduced in the year after birth. 29 % stated the income was unchanged and 21 % reported a rise of income. Income reductions were experienced by households with a high income, while families with low or medium income gained the same or an increased income.
- The new parental allowance legislation is being perceived positively: 90 % thought it is helpful, 54 % thought it is very helpful. The former legislation was evaluated positively, too. The fact that all parents are eligible to benefits under the new programme, implicates that a bigger share of the population is reached by a positively evaluated measure.

Employment behaviour

- The employment status before having a child strongly influences the employment behaviour after birth. Half of women, who were employed before giving birth – and took a longer break than the obligatory maternity leave of 14 weeks – were in employment again one and a half years after birth. 39 % wanted to return to the labour market later.
- Women who were not employed before giving birth return to employment more slowly: 10 % are employed one and a half years later, 43 % plan a return, 36 % are not sure or state nothing and 12 % plan to stay housewife for a longer time.
- 10 months after birth, the proportion of employed women who obtained the new parental allowance is 9 pp. lower than of women under the former legislation.

- One and a half years after birth, women who received parental allowance are more likely to be employed, compared to the former legislation (43 % vs. 38 %). This effect is significant for two sub-groups – women from Eastern Germany and women who were unemployed before having a child – but not for all women together. In parallel, the probability to apply for social transfers after the expiration of the parental allowance period declined.
- Parental allowance initiated fathers to reduce their employment. Regression results showed a weak significant reduction of the employment rate of fathers 10 months after birth of the child.

Day care and reconciliation of family and job

- Two thirds of parents want to make use of child care facilities. However, there are strong differences between Eastern and Western Germany: In Eastern Germany 15 % of parents take care of their children alone, while in Western Germany the proportion is 36 %.
- In the West, more often relatives and friends are involved in child care. That implicates, that in Western Germany the supply of child-care facilities is too low and parents have organised child care in other ways. The proportion of children less than three years old enrolled in day care facilities was 12.2 % in the West and 42.4 % in the East in 2008 (Federal Statistical Office 2008). This is in line with a higher participation rate of women in the East. The Government wants to increase the day-care rate of 18 % in 2008 up to 35 % in 2013 for the whole of Germany.
- Women who prefer a fast re-entry to working life and who are able to realise this are more often satisfied with their occupational planning than women who plan to enter the labour market at a later date. This indicates that the legislation meets the wish of these women to work again after having a child.
- Reasons why women didn't start working as early as they wanted were the lack of day care facilities, in particular the lack of affordable day care facilities and incompatible times of child care.

In a few weeks the Family Ministry will publish a follow-up evaluation about parental allowance, also conducted by RWI Essen about labour market effects and financial security of families. To achieve a continuously analysis of the programme, a parental allowance monitor will start in autumn 2009 until end of 2013 in order to analyse effects and efficiency.

4.4. Acceptance by the public

The acceptance of parental allowance in the whole population is very high. According to a survey of the Institut für Demoskopie (IfD), in December 2006 61 % of the population evaluated parental allowance positively, in June 2008 the proportion rose to 74 % (IfD 2006, 2008a).

The IfD (2008b) evaluated the acceptance of parental allowance in enterprises. For instance, 61 % of enterprises thought it is good if fathers take a break of employment, and 65 % did not see any problems when fathers want to reduce their working time (2006: 48 % and 59 %).

4.5. Suitable EU indicators to follow the impact of the measure

Guideline 18 of the Integrated Guidelines emphasises the promotion of a lifecycle approach to work, among others, by a better reconciliation of work and private life and the provision of accessible and affordable childcare facilities and care for other dependants (The Employment Committee 2008). Two indicators exist to analyse this topic and could also be useful to follow the impact of parental allowance, in order to observe differences in the employment behaviour:

- *Employment impact of parenthood* which presents the difference in percentage points in employment rates (age group 20 - 49) without the presence of any children and with presence of a child aged 0-6.
- *Lack of care for children and other dependents*. This indicator presents the share of persons (age group 15-64) who would like to work but are searching for a job/ who are working part-time due to lack of suitable care facilities, in relation to the total population of the age group.

5. Conclusions

The new legislation on parental allowance is well accepted in the population. The measure influences the structure of employment behaviour in the intended way: due to higher monthly payments it is easier for parents to spend the first year after birth at home to take care of the child. That implicates that the income of young families is stabilised after the birth of a child.

Rather weak incentives are given to women to re-enter the labour market. While the evaluation of parental allowance showed that these incentives are stronger than under the former legislation, significant impacts could only be measured for subgroups of women. A positive momentum is the fact that parental allowance encourages fathers to reduce employment for child care. This also facilitates the re-entrance into the labour market for mothers.

These findings reveal that both, the number of children and labour market participation of young mothers depend on the provision of child care facilities rather than public transfers. The big difference between Eastern and Western Germany underlines this argument. Stronger employment effects can therefore be expected from the governmental plans to expand child care facilities until 2013.

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