On January 1, 2017, the parental leave benefit will be celebrating its tenth anniversary. Although its implementation was hotly debated, it has become a widely accepted family policy measure. Its impact on parental labor supply, the division of labor between parents, fertility, and indicators that reflect the well-being of parents and children have been examined from a variety of perspectives. A global evaluation of relevant economic studies shows that on average, when young families receive the parental leave benefit as an earnings replacement benefit, their economic stability in the first year after the birth of a child increases. As a result of the parental leave benefit, the employment rate of mothers decreased in the first year after childbirth, while it increased in the second year. While the share of fathers who take parental leave has clearly increased, the effects on the division of labor within the family are inconclusive. Some evidence suggests that the parental leave benefit has some effect on fertility. Little is known about its impact on child development. Overall, the parental leave benefit family policy measure has been successful in many areas. However, its targeted effects could be augmented by additional family policy reforms.

On January 1, 2007, the Federal Parental Leave Benefit and Leave Act (Bundeselterngeld- und Elternzeitgesetz) went into effect for all children born on or after that day. It replaced the child rearing allowance (Erziehungsgeld) and fundamentally reformed the benefit system for parents of newborn children: the new parental leave benefit (Elterngeld) was designed as an earnings replacement benefit without means testing. For most parents, the benefits are now considerably higher. The payment duration was reduced to, on average, 12 to 14 months instead of the child rearing allowance’s maximum duration of 24 months. And the parental leave benefit also provides the opportunity to take partner months (Box).

The parental leave benefit was adopted with a set of goals in mind. Most importantly, it aimed at providing a “protected phase” for parents with children under one. It supports families as they “become accustomed to family life with a minimum of financial hardship and allows them to focus on taking care of their children.” Second, its design as an earnings replacement benefit means that the parental leave benefit allows both parents to preserve their personal economic independence. This aspect encourages mothers to participate in the labor market. Third, the parental leave benefit aims at improving gender equality: the aforementioned points intend to increase the incentive for fathers to participate more actively in raising their children. Raising birthrates has originally not been directly targeted by the reform. However, the later evaluation by the Federal Ministry for Family Affairs, the authority of the act, added this point to the parental benefit’s set of goals. When the earnings-related parental leave benefit replaced the means-tested child rearing allowance, short-term distribution targets became less important.

1 Proposed legislation of the CDU/CSU and SPD caucuses, “Entwurf eines Gesetzes zur Einführung des Elterngeldes,” Bundestagsdrucksache 16/1889 (June 20, 2006).
3 In 2006, the income limits for receipt of the child rearing allowance were 30,000 Euro net income for couples and 23,000 Euro for single parents in the child’s first six months. Much lower income limits applied to the receipt of child
The parental leave benefit is an earnings-replacement benefit that substitutes part of the net earnings from employment. It is based on the 12-month period before childbirth.1 The minimum benefit is 300 Euro per month and the maximum 1,800 Euro. The replacement rate depends on the level of earnings from employment. For (net) monthly earnings between 1,000 Euro and 1,200 Euro, the parental leave benefit replaces 67 percent. For low earners with prenatal earnings below 1,000 Euro, the replacement rate rises stepwise to a maximum of 100 percent. If the prenatal net earnings are above 1,200 Euro, the replacement rate drops from 67 to 65 percent.2

Parental leave benefits are only granted if the relevant parent does not work more than 30 hours per week. Families who have another child under three or at least two older children under six will also receive a “sibling bonus” of ten percent of their parental leave benefits. The minimum sibling bonus is 75 Euro.

Parents receive parental leave benefits for 12 months. The entitlement period is extended to 14 months if the second parent also takes parental leave for at least two “partner months.” Single parents with full custody also have the option of receiving parental leave benefits for up to 14 months. It is also possible to receive parental leave benefits for up to 24 or 28 months. In this case the monthly payments are cut in half.

Since 2011, for families receiving benefits as per the German Social Code Book II (SGB II) in addition to the parental leave benefits, the minimum amount of 300 Euro of parental leave benefits is considered as income. Before 2011 (and with the child rearing allowance system) this was not the case.

Until the “parental leave benefit plus” (Elterngeld Plus) was implemented on July 1, 2015, parental leave benefit recipients had little financial incentive to work part-time. According to the earlier parental leave benefit regulations, working parents would receive “partial parental leave benefits.” They amounted to 67 percent of the difference in net earnings from employment before and after birth, but at least €300. Furthermore, the benefit duration was curtailed if both parents received parental leave benefits at the same time, or if they received partial parental leave benefits.3

The new “parental leave benefit plus” option eliminated the double “entitlement consumption” of parental leave eligibility. Parents who work part-time after childbirth can now apply for “parental leave benefit plus” months instead of regular parental leave benefit months (now called “basic parental leave benefit months”). For these months, the parent receives a maximum of half of the basic parental leave benefit he or she would have received for not working. The benefit duration doubles in this case. The new option also includes a partner bonus: if both parents work part-time simultaneously—i.e. between 25 and 30 hours a week—they receive four additional “parental leave benefit plus” months.

The implementation of the parental leave benefit reform was embedded in a paradigm shift in family policy triggered in the middle of the 2000s. The switch from a conservative family policy to a “sustainable” one took place as a “mix of time-related measures, transfer payments and infrastructure investments.”4 Within this framework, the implementation of the parental leave benefit was a far-reaching key measure based on design similar measures in Northern European countries such as Norway.

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1 Detailed regulations are available on the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) website. See www.bmfsfj.de/bmfsfj/themen/familie/familienleistungen/elterngeld/das-elterngeld/73752?view=DEFAULT (accessed on November 15, 2016—in German only).

2 Couples with taxable income in the last completed fiscal year of over 500,000 Euro (for single parents, over 250,000 Euro) are not eligible for parental leave benefits. The parental leave benefit is subject to a progression proviso.

3 For example, if both parents wanted to take parental leave at the same time and worked part-time, each of them would have received seven months of partial parental leave benefit payments under the old regulations. This means they would receive only half of the parental leave benefits they would have received if they had applied for a “block model,” i.e., if one had taken seven months of parental leave after the other without working part-time at all.

way and Sweden. On the eve of its implementation, the parental leave benefit was a subject of controversy in the public arena, politics, and to a lesser extent, in the context of research. The short term impact on income distribution and the implementation of partner months were hotly debated. Implementing the parental leave benefit also had a significant fiscal impact. In the year it was implemented, the government spent €4.2 billion on it—over one billion more than it spent on the child rearing allowance in 2006.6

The reform also had an impact on family household income, parental leave duration, parental employment status, fertility, and other parental behavior. Many of these effects have been empirically examined on the basis of microdata in the past ten years. In the following, we present an overview of the most important results of the research with a particular focus on economic analyses. We have focused on studies that identify causal effects and therefore go beyond the pure presentation of statistical relationships or trends over time.7 For example, the studies we selected control for several other determinants of the analyzed indicators, such as general time trends, the expansion of the daycare system for children or the improved labor market situation.

**Higher net income in the first year after childbirth; lower transfer income in the second**

One direct effect of implementing the parental leave benefit was the change in the net household income of families with children under one.

A study by Geyer et al. (2013) determined a significant average increase of around €480 per month.8 The gain in income varies by socio-economic factors. Mothers with a university degree had, on average, an increase in net income of €600 euro per month. For all other families, the average increase was around €350 Euro per month.

Particularly large differences resulted depending on the mother’s prenatal employment status. If they were working prior to giving birth, the average gain in income was around €350 Euro per month. For mothers who did not work, income increased only by around €230 Euro per month, on average. There were also differences depending on the number of children. Families with one child were able to benefit the most (around €600 Euro), followed by families with two children (around €380 Euro) and families with three or more children (around €230 Euro).9 The conversion to an earnings-related benefit system had the effect that, on average, families with several children received a lower parental leave benefit amount than families with one child because of lower pre-birth earnings.

While almost all families received higher benefits in the first year after childbirth,10 some families were forced to accept losses in benefit payments in the second year after childbirth. Families with low household incomes were most likely to be affected by this loss. However, many families still experienced increases in household income in the second year after childbirth. This is mainly due to the higher labor market participation of mothers (see next section).11 Still, the families who could have received the child rearing allowance in the second year after childbirth lose out due to the 2007 reform (only considering transfer payments) if the additional parental leave benefits in the first year exceed the losses in the second year.12

**Overall increase in maternal labor market participation**

Compared internationally, career interruptions of mothers in Germany were relatively long.13 The curtailment of the maximum payment duration from 24 months for the child rearing allowances to 12 months for the parental leave benefits,14 and the accompanying loss in income for some families, followed the political goal of getting mothers back to the labor market faster.

5 See BMFSFJ, eds. (2016).
6 See Ehrlert (2008). Since then, expenditures for the parental benefit have men every year due to the increasing participation of fathers. It currently amounts to 5.9 billion Euro, www.bundeshaushaltinfo.de/#/2015/soll/ausgaben/einzelplan/170168102.html (accessed on November 22, 2016).
7 Most studies are based on difference-in-differences or regression discontinuity designs. In the latter, only parents who had a child in the last quarter of 2006 were compared to parents who had a child in the first quarter of 2007.
9 Geyer et al. (2013).
10 The families that selected the ”budget” option of 450 Euro per month according to the child rearing allowance regulations experienced losses because the parental leave benefit regulations only granted the basic amount of 300 Euro. Furthermore, after 2011 the parental leave benefit has been counted as income in the Hartz IV welfare benefit calculation. Between 2007 and 2010, the basic amount of 300 Euro was not included in Hartz IV.
12 In the worst case, the financial losses amounted to 3,600 Euro. The families that would have received the highest child rearing allowance of 300 Euro per month for 24 months according to the child rearing allowance regulations, now only receive 300 Euro per month for 12 months according to the parental leave benefit regulations.
14 Single parents can receive the parental leave benefit for 14 months. For the same total amount of parental leave benefit, the payment duration can be doubled, meaning that a couple can receive half of the monthly payment for up to 28 months. Around 11 percent of parents took advantage of this extension option in 2013. See German Federal Statistical Office, Elterngeld für Geburten 2013 nach Kiesen, Wiesbaden, 2015.
Higher labor market participation rates of mothers in the second year after childbirth

A study by Bergemann and Riphahn (2010) analyzed the employment-related intentions of mothers with children under one year of age based on the Socio-Economic Panel (SOEP), a representative panel data set for individuals and households in Germany.15 Their results suggest that a significantly higher proportion of mothers would like to resume working within the next year. A study based on a data set from members of the AOK health insurance fund arrived at similar results.16 It concludes that the share of mothers who work when their child is under one has fallen by six percent due to the implementation of the parental leave benefit. However, for the second year after childbirth, the share of mothers who would like to return to work has risen significantly.

An analysis of actual changes in employment behavior based on the German Microcensus confirmed that the labor market participation of mothers has significantly increased in the second year after childbirth—especially among mothers with low incomes.17 A structural labor supply model also showed that mothers’ likelihood to take-up part-time work in the second year after childbirth has risen by 2.5 percent. As expected, the effect is stronger for mothers with low household incomes, with an increase of over 13 percent.18

Evidence of long-term employment effects for mothers

In addition to examining the labor market participation of mothers with a child under two, for whom the financial incentives substantially changed, various studies looked at the effects on mothers’ employment when their child is older. Positive employment effects were also found when the child was between three and five years old, although the additional employment almost exclusively involved part-time jobs.19 Even in the group that would not have had a right to receive the child rearing allowance according to the pre-2007 regulations, the employment rate of mothers with a child over two rose.20

The longer-term positive effects could not be linked to financial incentives. The parental leave benefit reform did only change financial incentives for families in the first two years after childbirth. This is why the longer-term positive effects on maternal employment tend to be attributed to changes in social norms—also influenced by the parental leave benefit.21 The implementation of the parental leave benefit might have established a new social norm for intended time of resuming employment, namely 12 months. This shift in social norms is supported by empirical evidence suggesting that mothers’ employment breaks after childbirths are impacted significantly by their coworkers’ employment breaks at the same company. These social interaction effects could reinforce short-term behavioral effects due to changes in financial incentives in the medium and long terms.22 According to this interpretation, the effects of the parental leave benefit go beyond the direct effects derived from financial incentives.

Larger proportion of fathers taking parental leave

Since the implementation of the parental leave benefit, fathers’ parental leave taking has significantly increased. Before 2007, less than three percent of all fathers took parental leave. The share increased to 15 percent in the first year after the parental leave benefit was implemented. Ever since, the share of fathers who take parental leave has risen continuously to more than 14 percent to date. However, most fathers only take two months of parental leave (Figure 1).23

Numerous studies have empirically examined the determinants of fathers’ use of parental leave. For example, they showed that fathers tend to take parental leave when their partners have a high income and a strong labor market attachment. Since the parental benefit was implemented, especially fathers with high levels of education have increasingly used parental leave. The characteristics of the fathers’ employers also play a role: the likelihood of taking parental leave is greater for fathers who

17 See Johannes Geyer et al. (2013). It also confirmed the findings of a significant reduction in mothers’ job market participation when their child is under one.
work in large companies and have permanent employment contracts. Furthermore, mothers whose partners take parental leave have employment rates more than twice as high as mothers whose partners do not take paternal leave.

**Inconclusive impact on the division of family and household labor**

It is also relevant to pin down the extent to which the parental leave benefit has achieved its intended equal opportunity-related goals and changed the division of housework and childcare between partners. Studies based on the SOEP have shown that mothers’ longer parental leave is linked to a traditional division of labor related to housework and childcare—even after both partners have returned to the labor market. When the child is four years old, fathers on parental leave divide family-related work more equally than fathers without career interruptions. In the medium term, fathers who took parental leave at the same time as their partners participated less frequently in childcare than fathers who were on parental leave while the mother was working. This relationship was not apparent for the second child.

The parental leave benefit can also influence parents’ cohabitation and propensity to marry. This can have various causes. For example, the parental leave benefit changes the incentives to take advantage of the income tax splitting for married spouses or view marriage as an “insurance union.” Furthermore, fathers participating more during parental leave can strengthen their ties to the family. For example, it was shown that the parental leave benefit reform led to a short-term drop in the propensity to marry. However, another study found an increased likelihood of firstborns in West Germany living with non-married parents and fewer single mothers in general.

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25 Wohlich et al. (2012).

26 For an overview of international studies on the relationship of fathers to parental leave or parental benefit regulations and the domestic division of labor, see Schöber, Pia, “Daddy leave: does it change the gender division of domestic work?” DIW Roundup 46 (2014).


28 A study that analyzed fathers’ relative portion of childcare for children under one found that the parental leave benefit reform had no significant impact. This is probably due to the fact that both fathers and mothers spend more time with children under one under the new regulation. See Klüve and Tamm (2013).


Mixed evidence on the effects on fertility

Even if an increased birthrate was not originally one of the explicit goals of the parental leave benefit reform, public discussions often raised the question of whether or not the parental leave benefit had this effect. So far, not many empirical studies have been published that analyze the causal effects of the parental leave benefit on fertility in Germany. Most people assume that the parental leave benefit increased birth rates, since it puts the majority of family households in better financial shape. However, one could also argue that mothers’ age at childbirth increased. On average, parents have higher earnings, and therefore higher parental leave benefits later in life. To the best of our knowledge, no study has explicitly examined the effect of the parental leave benefit reform on mothers’ age at childbirth. One study based on a structural behavior model compares the parental leave benefit to the child rearing allowance. It found that the parental leave benefit reform positively affected the birthrate.31

Because the parental leave benefit was designed as a temporary earnings replacement benefit, there is always an incentive to work again between having additional children and after the parental leave benefit phase comes to an end. Specific provisions of the parental leave benefit law contain incentives for short respites between births and therefore, shorter career interruptions.32 One study showed that the parental leave benefit reduced the likelihood of additional births—albeit slightly.33 A further study, based on the Microcensus, showed varying effects on additional children depending on mothers’ income. The probability of having additional children decreases for women in the lower income segment, while higher-income women “catch up” later.34

Other effects: breastfeeding habits, maternal satisfaction, and child development

Since the parental leave benefit is a comprehensive reform, it makes sense to observe effects on the behavior of parents—and mothers in particular—beyond those discussed thus far. Due to the lower employment rates of mothers with children under one, the “protected phase” for (especially) mothers and their children has been expanded. Mothers can now spend more time with their children. The question is how mothers use this protected phase and to what extent it influences their well-being.

One study, based on the SOEP, analyzes the effect of the parental leave benefit reform on mothers’ breastfeeding habits. The results showed that the reform did not cause more mothers to breastfeed, but more mothers were breastfeeding for at least four months.35 Further analyses are needed to see whether this also affected their children’s health.

Another study examined the parental leave benefit reform effects on mothers’ well-being and subjective satisfaction levels. As expected, the mothers who benefitted from the reform were more satisfied. However, this could only be observed for mothers in West Germany, and the analyses are based on a small sample.36

Almost no causal assessments dealing with the effects of the parental benefit on children’s development are available.37 The only published analysis we know of is based on SOEP data and examined the short-term effects on indices of child developmental during the first three years of children’s lives.38 This study’s findings are, however, inconclusive. Studies concerning later child development phases have not been published yet.

31 Raphael Abry et al., Evaluation der Wirkung ehe- und familienbezogener Leistungen auf die Geburtenrate/Erfüllung von Kinderwünschen, appraisal for prognos AG (2016). In an as yet unpublished paper, researchers also found that the parental leave benefit had a positive effect on the fertility rate. However, the study did not consider the expansion of daycare centers. See Anna Raute, Can financial incentives reduce the baby gap? Evidence from a reform in maternity leave benefits, paper (2016), www.annaraute.wordpress.com/research/ (accessed on November 11, 2016).

32 Families with multiple children receive a “sibling bonus” as long as at least one older sibling under three or at least two older children under six live in the household. Furthermore, parents receive a “speed premium” if the time between subsequent births is short. When the amount of the parental leave benefit is calculated for a subsequent child, the former income from employment can still be taken into consideration.33 Klüve and Schmitz (2014b).

33 Katrin Huber, “Moving to an earnings-related parental leave system. Do heterogeneous effects on parents make some children worse off?” SOEPpapers on Multidisciplinary Panel Data Research 791 (2015). Based on a relatively small sample of the SOEP, the study examined the effects on the personalities and adaptive behavior of children.


36 For an overview of the international literature on the effects of parental leave regulations on child development, see Mathias Huebener, “Parental leave policies and child development: A review of empirical findings,” DIW Roundup 102 (2014).


38 Raphael Abry et al., Evaluation der Wirkung ehe- und familienbezogener Leistungen auf die Geburtenrate/Erfüllung von Kinderwünschen, appraisal for prognos AG (2016). In an as yet unpublished paper, researchers also found that the parental leave benefit had a positive effect on the fertility rate. However, the study did not consider the expansion of daycare centers. See Anna Raute, Can financial incentives reduce the baby gap? Evidence from a reform in maternity leave benefits, paper (2016), www.annaraute.wordpress.com/research/ (accessed on November 11, 2016).
PARENTAL LEAVE BENEFIT, ONE DECADE LATER

Discussion

On the eve of its implementation in 2007, the parental leave benefit was a subject of controversy. The debate focused on the various incentives it offers and its potential effects. For example, the distributional properties of the parental leave benefit were fervidly discussed, as the benefit is earnings related and thereby favors middle and upper income families. Despite that, the parental leave benefit is widely accepted today. The partner months were also heavily criticized for giving the state a say in parents’ division of labor. Ten years after the parental leave benefit was implemented, this aspect is widely accepted. Public opinion surveys document that overall the parental leave benefit is very popular.

Corrections to incentive effects in the 2015 version

Further amendments to the original regulations have eliminated the discrimination against parents with part-time employment (Box) and strengthened the effect of specific components of the parental leave benefit. For example, the addition of the “parental leave benefit plus” option (Elterngeld Plus, which went into effect on July 1, 2015) improved incentives to work part-time while receiving parental leave benefit payments. Anchored in the new benefit option, the partnership bonus (Partnerschaftsbonus) strengthens the parental leave benefit’s policy aim of improving gender equality: both parents receive it if they pursue part-time employment at the same time.

Improved job market integration of mothers overall

In sum, we can say that the parental leave benefit has contributed to an increase in household income when children are under one year of age. Beyond that, it has allowed a greater number of highly qualified mothers to interrupt their careers when their child is under one. In the lower income segment, more mothers are going back to work when their child is between one and two. Whether or not this has changed since the implementation of the “parental leave benefit plus” (Elterngeld Plus) has not been studied yet. For women in the lower income segment in particular, continuous employment is important, considering the effects on their longer-term wage trend and pension. Future studies are needed to reveal the extent to which the parental leave benefit has very long-term effects on wages and pension levels.

Also interesting to note is that even parents who did not benefit from the reform have changed their employment behavior. These effects are presumably due to a shift in social norms. It remains to be seen whether this shift in social norms will persist. This also pertains to more fathers taking advantage of (longer) parental leave. If these initial trends are strengthened by further family policy reforms, the measures might contribute to a more favorable birthrate trend above and beyond the direct effects of the parental leave benefit reform.

Complete gender equality still out of reach

The findings indicated that the increase in paternal participation does not go hand in hand with the equal division of childcare and household work in families. Although the parental leave benefit has led to changes in the division of domestic labor, fathers typically take only two months of paid parental leave. If correcting this imbalance were a family policy goal, the legal entitlement to a partner month extension with unchanged payment duration of 14 months would be an ideal point of departure.

Need for research on the well-being of parents and children

Almost no studies have examined the extent to which the parental leave benefit is related to an increase in the well-being of parents and children. This is an area where more research is needed. We also know little about how the parental leave benefit has affected child development. If families in the middle and higher income segments and better-qualified parents gain more from the parental leave benefit reform, it may be revealing to study its various effects on children.

Conclusions

Without doubt, the parental leave benefit has changed the family policy landscape in Germany and supported many families during a crucial phase of life for children’s development and their attachment to their parents. One family policy achievement is its contribution to assuring the economic stability of families. The parental leave benefit promotes the goal of improved work-family balance and pursues gender equality goals.

39 See Annette Henninger et al. (2008), or Martin Bujard (2013).
42 In general, birthrate trends depend on multiple factors. For a comprehensive description, see Günter Stock et al., eds., Zukunft mit Kindern (Frankfurt, New York: Campus Verlag, 2012).
Its effectiveness in terms of these goals can be further increased as long as other family or labor market policies do not counteract it. Income tax splitting for married spouses and free coverage for non-working spouses in statutory health insurance will thwart the majority of the family policy goals.\(^43\) Reforms in those areas could also contribute to better achieving the goals that the parental leave benefit reform targeted, making family policy in Germany more consistent in the process.

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