



Government's Proposals to raise the Social Security Contribution paid by Employers to compensate for paid Maternity Leave

MEA's Position Statement

October 2014

1. Background

The issue of payment of maternity leave has been the subject of strong debate for years. Employers view it as a positive social benefit which is however being paid for by private industry, instead of the state. It is also argued that the cost of paid maternity leave by employers is amplified because of the cost of replacement, and foregone production caused by the absence of the employee and, in most cases, lower productivity by the replacement.

Another side of the argument is that the current system creates an imbalance in the selection – and possibly career progression – of employees, with preference allegedly being given to male applicants to the detriment of female candidates who may be similarly qualified or entitled to available posts within companies.

While the system has the benefit of guaranteeing compensation to female employees during absence due to maternity, it can also act as a disincentive to employ females due to a relative 'competitive disadvantage' (additional costs and work disruption) with male counterparts.

Maltese employers also emphasise that in most other developed countries, maternity leave is paid by the state, not by the employer. Paid maternity leave therefore becomes a burden which employers in other countries do not carry. This can have a negative impact on the competitiveness of Maltese enterprises, particularly on micro-enterprises which, due to limitations of size, are less flexible and more prone to the costs and negative impact of prolonged absence.

Worth mentioning is also the fact that although maternity leave is currently established at 18 weeks, the actual cost to the employer – in terms of absence - is

higher because optional leave accumulates during this period, adding a further paid entitlement of approximately 8 working days.

The current system partially compensates the employer by obliging the employee to work for a period of six months upon resuming work. In numerous cases, this creates problems when the employee will have no intention of returning to work, and the only option left to the employer to reclaim the amounts paid during the maternity leave period is to open a civil court case. There are also frequent reports of high absenteeism during this obligatory six month period.

2. Government's proposal

Government intends to reform the current system by shifting the payment of maternity leave by:

- Removing the obligation by the individual employer to pay for the 14 weeks maternity leave
- Shifting payment collectively on all employers through an increase in the same employers' social security contributions by 0.3% of payroll subject to a ceiling.
- It is not clear whether the employee will still be obliged to work for an additional six months upon her return to work following maternity leave.

3. Considerations

Given this background and the government proposal, MEA makes the following considerations:

- If this proposal comes in force, it will mean that *employers are still paying for the maternity leave*.
- Whilst to date, social security contributions were paid equally by employers, government and employees, this would be a departure from this practice, as employers will be paying a higher contribution than the other social partners.
- The cost/benefit impact will be unequal among companies. Those operating in male dominated industries will be net contributors compared to others that have a higher concentration of female employees.
- This measure will introduce a new type of expenditure not previously covered by social security contributions.
- The new arrangement will partially address the negative impact of maternity leave on the cash flow of the business, as the cost gets evenly spread out. Employers will not pay directly for maternity leave, as they will have already contributed to it through the social security contributions.
- There will be less reason to discriminate against female applicants or female employees due to cost of maternity leave

4. MEA's recommendations

The Association appreciates that the removal of direct payment for maternity leave as proposed will address the disadvantage faced by female applicants of child bearing age for employment. The position adopted by the Malta Employers' Association to this proposal is as follows:

- The Association expects government to provide a report with the full workings of the computation of the projected increase in social security contributions
- The Association insists that in any statistical reference to maternity leave, it will be made clear that maternity leave is still being paid by the employers.

- The increased cost will be shared by employers and government in a manner that social security contributions will increase equally for government and employers. This means that if it is currently envisaged that the employers' social security contribution will increase by 0.3%, the revised measure will incur an increase of 0.15% by employers and a corresponding 0.15% by government.
- This will re-enforce the principle of burden sharing between employers and government, and alleviate the burden on industries and companies which employ predominantly male employees. It will also reflect the fact that as government employs proportionately more women (43% as against 33% in the private sector), employers in the private sector collectively will end up paying proportionately more than they are currently.
- The accumulation of optional leave during the maternity leave has to be discontinued.
- The six month work period following maternity should be stated in terms of hours to allow employers and the employee flexibility in hours of work following the maternity leave.
- There will be a written commitment by government that this measure will not set a precedent to revise social security contributions for any cause other than those currently falling under its remit.