

In Confidence

Office of the Minister for Workplace Relations and Safety

Chair, Cabinet

## **Extending Paid Parental Leave to 26 weeks**

### **Proposal**

- 1 To seek agreement to increase the duration of paid parental leave (PPL) to 26 weeks by 2020 to support working families with newborns and young children.

### **Executive Summary**

- 2 The Government's 100 Day Plan includes a proposal to extend PPL to 26 weeks by July 2020 as part of the Families Package. There is strong evidence that the early years of life are critical for later outcomes, and that measures that support parents to provide full-time care for very young children, and that alleviate financial stress, can contribute to improving short and long-term child outcomes.
- 3 This paper seeks agreement to increase the duration of parental leave payments from the current 18 weeks to 22 weeks from 1 July 2018, with a further increase to 26 weeks from 1 July 2020. The proposed extension to parental leave payments has a total net fiscal cost of approximately \$368.4 million over four years. The cost implications of this proposal will be managed against the operating spending set out in the government's Fiscal Plan.
- 4 A draft Parental Leave and Employment Protection Amendment Bill to give effect to the proposed changes to parental leave is attached and I propose that it be introduced to Parliament in early November.

### **Background**

- 5 The Government's 100 Day Plan includes a commitment to amend the Parental Leave and Employment Protection Act 1987 (the Act) to increase the duration of parental leave payments to 26 weeks. This proposal is part of the Government's Families Package.
- 6 Former Labour MP Sue Moroney introduced two members' bills over the last two terms of the National-led Government, proposing to extend parental leave payments to 26 weeks. The first Parental Leave and Employment Protection (Six Months' Paid Leave) Amendment Bill was introduced in April 2012, and reported back to the House in February 2014. The Bill was voted down at its third reading on 25 February 2015. The second bill proposing 6 months' paid leave, the Parental Leave and Employment Protection (Six Months' Paid Leave and Work Contact Hours) Amendment Bill, was introduced in July 2015. That Bill was financially vetoed in June 2016 at the third reading stage.
- 7 In Budget 2014, the Act was amended to extend the 14 weeks of PPL to 16 weeks from 1 April 2015, and to 18 weeks from 1 April 2016. Cabinet also agreed in principle to a range of proposals to improve the parental leave legislation (CAB Min (14) 13/12 refers).

- 8 In March 2015, Cabinet approved a package of policy measures designed to broaden eligibility for parental leave and payment entitlements to better reflect modern family and work arrangements and provide more flexibility (CAB Min (15) 6/4 refers).
- 9 These changes came into effect in April 2016, extending PPL to people with non-standard working arrangements, and to primary carers who are not the biological or formal adoptive parents. Employees who had worked only six months for their employer also became entitled to 26 weeks unpaid job-protected leave (inclusive of the paid leave).

### ***Parental leave legislation***

- 10 The Act has provided employment protected leave on the birth/adoption of a child to eligible parents since 1987. PPL of 12 weeks was introduced in 2002. In 2004, the Act was amended again to extend PPL to 14 weeks, to employees with at least six months continuous service with the same employer (down from 12 months). In 2006, PPL was extended to the self-employed.
- 11 *Purpose:* The objectives of the parental leave scheme, introduced in 2002, are to support:
- a. *gender equity within the labour market* with increased female labour force retention and the opportunity to return to paid work without disadvantage to position or pay
  - b. *gender equity within families* with fathers sharing leave and caring responsibilities
  - c. *improved health outcomes for both mother and child* with a mother being able to recover from childbirth, bond with a new baby and return to work without negative consequences to her health and that of her child
  - d. *income stability for families* to provide a period of financial security during the leave period.
- 12 *Entitlements:* The legislation provides for different types of entitlement:
- **Paid primary carer leave** – currently 18 weeks, available to female employees having a baby (can be transferred to an eligible spouse or partner), primary carers with ongoing responsibility for a child under six years, and the self-employed. The maximum level of payment is currently \$538.55 per week before tax. Employees are entitled to either their gross weekly rate of pay or \$538.55, whichever is lower.<sup>1</sup>
  - **Extended unpaid leave** – up to 52 weeks for employees who meet the 12 month in employment criteria, and up to 26 weeks for employees who meet the six month in employment criteria. This includes the paid leave period, and can be shared by two eligible parents either concurrently or consecutively, and taken flexibly.
  - **Partner's leave** – up to two weeks of unpaid partner's/paternity leave (two weeks for employees who meet the 12 month in employment criteria, and one week for employees who meet the six month in employment criteria).
  - **Negotiated carer's leave** – enables workers who qualify for parental leave payments but not leave (due to not meeting the hours criteria for a single employer) to request a period of leave.

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<sup>1</sup> Transfers of PPL to a partner/spouse occur in less than 1 per cent of cases.

## ***Parental Leave Scheme***

- 13 MBIE has primary responsibility for policy advice and the administration of the legislation, and Inland Revenue is responsible for the administration of applications and payments to eligible parents.
- 14 Expenditure for the last full fiscal year, to June 2017, was \$273m. The forecast expenditure for 2017/18 is \$286m, due to wage and employment growth, and an assumption of continued growth in the number of recipients.
- 15 The number of people receiving payments has been relatively stable at around 26,000 a year since 2008, with an increase to 28,000 in the year to June 2017, which reflects the changes to broaden the scheme to more workers and carers last year. The number of live births in New Zealand has also been fairly stable in recent years at around 60,000 registered per year, with 59,430 live births registered in 2016.

## ***Extending the duration of parental leave payments to 26 weeks by 2020***

- 16 This proposal is part of the coalition government's 100 Day Plan.
- 17 Most primary carers report that they would ideally like to take longer out of paid work to be with their babies, and the key factor for an early return to work is the financial constraints. An evaluation found that over half of the mothers who took PPL agreed that the ending of the payment had a significant impact on their decisions about when to return to employment. The majority of parental leave recipients take paid leave entitlements such as annual holidays and PPL, in order to maintain income for as long as possible. Most take two or more types of leave, including unpaid leave, to maximise their time with their child.<sup>2</sup>
- 18 There is general consensus that there are child and maternal health and welfare benefits from a period of absence from work of at least six months after the birth of a child. The Australian Productivity Commission found there was compelling evidence of child and maternal health and welfare benefits from a period of absence from work for the primary caregiver of around six months and a reasonable prospect that longer periods (nine to twelve months) are beneficial. The Organisation for Economic Co-operation and Development (OECD) concurs, stating that child development suffers when an infant does not get full-time personal care for the first 6-12 months of his/her life. The World Health Organisation recommended period for exclusive breastfeeding is also six months.
- 19 New Zealand's current paid parental leave entitlement of 18 weeks is one of the lowest in the OECD, with the average number of weeks of paid leave to mothers among OECD countries being 48 weeks.<sup>3</sup>

## ***Proposed change***

- 20 I propose an increase in the duration of PPL from the current 18 weeks to 26 weeks. I propose that this increase should be phased in over three years in two stages: an increase to 22 weeks from 1 July 2018, with a further increase to 26 weeks from 1 July 2020.

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<sup>2</sup> Auckland University (2012) 'Growing up in NZ – Now we are born', Department of Labour and Statistics New Zealand (2008) 'Work Patterns after Paid Parental Leave', Department of Labour (2007) 'Parental Leave in New Zealand 2005/2006 Evaluation'.

<sup>3</sup> OECD (2013), 'Labour Market Effects of Parental Leave Policies in OECD Countries'.

- 21 This would benefit the full range of primary carers currently eligible for parental leave payments, providing increased support for working parents with newborns, and families taking on the permanent care of children under the age of six. It will enable those carers who are not in a position to take additional unpaid leave to reach the 6 month period, considered a minimum for breastfeeding and child development and when many benefits of full time personal care are achieved. Longer paid leave will also contribute to reducing parental and family stress, all of which improves short- and long-term child and society outcomes.

### Risks

- 22 Overall there are minimal risks associated with the proposal. The proposed changes are straightforward, and implementation will be through existing systems that already deliver the current scheme.

### Consultation

- 23 The following government agencies have been consulted on this paper and, as far as possible, the Cabinet paper reflects their comments: Inland Revenue, The Treasury, Ministry of Justice, Ministry of Social Development, Ministry for Vulnerable Children (Oranga Tamariki), Ministry of Health, and the Ministry for Women. The Department of Prime Minister and Cabinet has been informed.

### Financial Implications

- 24 The additional fiscal cost to the government for this proposal is estimated to be \$425.8 million over 4-year forecast period. The additional net cost over the forecast period, once offsetting PAYE tax revenue is taken into account, is \$368.4m.

Table 1: Estimated costs with a four week extension from 1 July 2018 and a four week extension from 1 July 2020 (\$M), based on 2017 Preliminary HYEFU Forecasts

	2017/18	2018/19	2019/20	2020/21	2021/22	Costs over 4 years
Cost of existing scheme (18 weeks)	\$286.0	\$297.0	\$309.0	\$321.0	\$334.0	\$1261.0
Cost of increase from 18 to 22 weeks (introduced 1 July 2018)		\$66.0	\$68.7	\$71.3	\$74.2	\$280.2
Cost of increase from 22 to 26 weeks (introduced 1 July 2020)				\$71.3	\$74.2	\$145.6
<b>Total additional cost of Bill</b>		<b>\$66.0</b>	<b>\$68.7</b>	<b>\$142.7</b>	<b>\$148.4</b>	<b>\$425.8</b>
<b>Offsetting increase in PAYE from PPL payments (@13.5% average tax rate)</b>		<b>(\$8.9)</b>	<b>(\$9.3)</b>	<b>(\$19.3)</b>	<b>(\$20.0)</b>	<b>(\$57.5)</b>
<b>Total net additional cost of Bill</b>		<b>\$57.1</b>	<b>\$59.4</b>	<b>\$123.4</b>	<b>\$128.4</b>	<b>\$368.4</b>

Notes: These figures are based on 2017 Preliminary HYEFU forecasts for PPL, which have incorporated wage and employment forecasts.

Annual increase in average ordinary time weekly earnings estimates of 2.9% in 2018/19, 2.8% in 2019/20, 2.7% in 2020/21, and 2.7% in 2021/22 based on 2017 Preliminary HYEFU Treasury forecasts.

- 25 The Act requires the maximum rate of PPL to be adjusted each year on 1 July, in line with the average ordinary time weekly earnings, as determined by the Quarterly

Employment Survey. This will mean the rate will increase at the same time as the duration increases. This is factored into the costs in Table 1 above.

- 26 The change to PPL entitlement is proceeding separately from other components of the Families Package. The aggregate fiscal cost of the Package will be calculated once policy decisions affecting the cost of other components have been made, and Cabinet will be updated on alignment with the Government's Fiscal Plan in a subsequent submission to Cabinet.

#### *Additional administrative cost and complexity*

- 27 There are some implementation costs for Inland Revenue associated with these proposed changes arising from the need to make changes to systems and to inform customers. Based on our current high-level analysis we anticipate that the costs involved will be in the \$0.3 million to \$0.35 million range with up to \$0.25 million incurred during 2017-18. Inland Revenue is currently looking to see how it can reprioritise existing funding to meet these costs and at this stage does not anticipate it will need an increase to its appropriation to cover the implementation related costs. There will also be some operational implications for MBIE. Any resource implications associated with these can be considered through Budget 2018.

#### **Human Rights**

- 28 The proposals contained in this Cabinet paper appear to be consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. A final view as to whether the proposals will be consistent with the Bill of Rights Act will be possible once the legislation has been finalised.

#### **Legislative Implications**

- 29 These changes will require an amendment to the Parental Leave and Employment Protection Act 1987, and a draft Bill is attached. I intend to present a Bill incorporating the changes outlined in this paper for introduction in early November under urgency.

#### **Regulatory Impact Analysis**

- 30 A Regulatory Impact Statement (RIS) is required for the proposed changes, and is attached, including an assessment by Treasury's Regulatory Quality Team. Treasury advises that in line with the 100 Day Plan implementation arrangements, the regulatory impact analysis focuses only on some of the elements that are normally expected. Treasury would therefore recommend the publication of this Cabinet paper along with the RIS for the information of Parliament and the public.

#### **Gender and Disability Implications**

- 31 This proposal would have a positive impact on women and men, allowing for a longer period of paid leave and therefore increased choices on whether the partner or spouse takes a portion of that leave. The proposal in this paper is aimed at improving gender equity in the labour market and within families, and raises no specific implications for people with disabilities.

## Publicity

- 32 Media releases will be made at key points of the progression of the legislation. A communication strategy will be developed prior to the implementation of changes to parental leave to inform key stakeholders of their entitlements. A cross-agency communication strategy will also be developed as part of the Families Package.

## Recommendations

- 33 The Minister for Workplace Relations and Safety recommends that Cabinet:
- 1 **Note** that the Government's 100 Day Plan includes a proposal to extend paid parental leave to 26 weeks by July 2020 as part of the Government's Families Package
  - 2 **Note** that there is good evidence that the early years of life are critical for later outcomes, and that measures that support parents to provide full-time care for very young children, and alleviate financial stress, can contribute to improving short and long-term child outcomes
  - 3 **Agree** that the duration of paid parental leave should be extended from the current 18 weeks to 22 weeks from 1 July 2018, with a further increase to 26 weeks from 1 July 2020
  - 4 **Note** that the proposed changes to paid parental leave referred to in recommendation 3 will require changes to the Parental Leave and Employment Protection Act 1987
  - 5 **Note** that a draft Parental Leave and Employment Protection Amendment Bill to give effect to the changes referred to in recommendation 3 is attached and this Bill is proposed to be introduced to Parliament in early November
  - 6 **Authorise** the Minister for Workplace Relations and Safety to make any changes required to the draft Parental Leave and Employment Protection Amendment Bill prior to its introduction to Parliament

### *Financial implications*

- 7 **Approve** the following changes to appropriations to give effect to the policy decision in recommendation 3 above, with a corresponding impact on the operating balance and net debt:

Vote Revenue Minister of Revenue	\$m – increase/(decrease)				
	2017/18	2018/19	2019/20	2020/21	2021/22& Outyears
Non-Departmental Benefits or Related Expenses: Paid Parental Leave Payments	0.000	66.000	68.700	142.700	148.400

- 8 **Agree** that the expenses incurred under recommendation 7 above are managed against the operating spending set out in the government's Fiscal Plan and will be reflected in the Half-Year Economic and Fiscal Update
- 9 **Note** the government's Fiscal Plan, consistent with its Budget Responsibility Rules, will ensure that the Government is delivering a sustainable operating surplus across an economic cycle and reduce the level of net core Crown debt to 20% of GDP within the next five years
- 10 **Note** that the aggregate fiscal cost of the Families Package will be calculated once policy decisions affecting the cost of other components have been made; Cabinet will be updated on the Package's alignment with the Government's Fiscal Plan in a subsequent submission to Cabinet
- 11 **Note** that the proposed changes to appropriations for 2018/19 will be included in the 2018/19 Main Estimates
- 12 **Authorise** the Minister for Workplace Relations and Safety to make any minor administrative, operational and procedural changes that may be required to give effect to the proposal in recommendation 3, in keeping with the overall policy intent of the proposal

*Introduction of legislation*

- 13 **Approve** the Parental Leave and Employment Protection Amendment Bill for introduction, subject to the final approval of the government caucus and sufficient support in the House of Representatives
- 14 **Agree** that the Parental Leave and Employment Protection Amendment Bill be introduced by 16 November 2017
- 15 **Agree** that the government propose that the Bill be enacted by 1 July 2018
- 16 **Note** that any communications activity related to this proposed change will be managed as part of the overall communications approach for the Families Package
- 17 **Agree** to publication of this Cabinet paper along with the RIS for the information of Parliament and the public

Authorised for lodgement

Hon Iain Lees-Galloway

Minister for Workplace Relations and Safety