

REGULATION IMPACT STATEMENT

Impact Analysis - Addendum

Introduction

On 1 July 2023, the Government introduced key changes to the Paid Parental Leave (PPL) scheme to better reflect the needs of modern Australian families. This included:

- 1) Introducing a more gender-neutral claim process,
- 2) Reserving two weeks of Parental Leave Pay (PLP) as a 'use it or lose it' entitlement for each parent,
- 3) Allowing parents to take up to 10 days of PLP concurrently,
- 4) Creating a single 20-week payment under the PPL scheme by combining Dad and Partner Pay (DaPP) with PLP,
- 5) Introducing a family income limit of \$350,000 adjusted taxable income (ATI) in addition to the existing individual income limit (\$156,647 from 1 July 2022), and
- 6) Increasing the flexibility of PLP so that the entire entitlement will be able to be taken in blocks as small as one day at a time, with periods of work in between, within two years from the birth or adoption.

A Regulation Impact Statement (RIS) analysing the impacts of the amendments to the PPL scheme was completed by DSS. On 27 March 2022 the Office of Best Practice Regulation (now Office of Impact Analysis) assessed the RIS as adequate to inform a Government decision.

Since the initial RIS was completed, the department has explored different policy settings as the total length of entitlement expands to 26 weeks by 2026, particularly the period of Parental Leave Pay reserved for each parent. This addendum analyses the impacts of these policy settings.

What policy options are you considering?

Current settings

From 1 July 2023, PLP is a 20 week (100 day) entitlement. For partnered claimants, two out of the 20 weeks of PLP are set aside or reserved for each parent on a 'use it or lose it' basis, with the maximum amount of PLP a parent can access being 18 weeks. This provides up to 16 weeks that can be shared between parents. This is intended to incentivise parents to take at least two weeks of PLP each, and signals that caring for a new child is the responsibility of both parents.

Parents can take up to 2 weeks PLP at the same time as each other (concurrency). This aims to improve the flexibility of the scheme and allow new parents to use their leave in the way that best suits their family and work obligations.

Single parents may access the full 20 week entitlement themselves, but are able to share the entitlement with an eligible claimant if they choose.

The October 2022-23 Budget measure Boosting Parental Leave to Enhance Economic Security, Support and Flexibility for Australia's Families included provision for 26 weeks of Parental Leave Pay. Parental Leave Pay will expand by two additional weeks a year, as follows:

- 22 weeks (110 days) for births and adoptions on or after 1 July 2024
- 24 weeks (120 days) for births and adoptions on or after 1 July 2025, and
- 26 weeks (130 days) for births and adoptions on or after 1 July 2026 (final setting).

Note PLP weeks are 5 days to reflect the work week, not 7 days.

Reserved period

Reserving a portion of PLP for each parent encourages both parents, not just the birth parent, to take time off work after the birth or adoption of a child. This signals that parenting is an equal partnership that should be shared. Longer reserved periods provide fathers/partners more opportunity and encouragement to share the caring responsibilities, which may in turn lead to greater sharing of care and other (unpaid) household responsibilities, improving workforce participation for women. By encouraging solo parenting time, the scheme may support fathers and partners become more confident carers when they take on caring responsibilities independently, leading to more equal sharing of parenting over time. However higher reserved periods reduce flexibility, reduce the benefit of an increase to PLP for birth parents and increase the risk that some of the entitlement may be forfeited.

Three policy options have been considered for the reserved period:

Option 1- Increase the reserved period to four weeks by 2026

Under this option, four weeks (20 days) of Parental Leave Pay will be reserved for each parent, with the remaining 18 weeks able to be shared. This means that a partnered parent can take a maximum of 22 weeks Parental Leave Pay.

Option 2 – Increase the reserved period to five weeks by 2026

Under this option, five weeks (25 days) of Parental Leave Pay will be reserved for each parent, with the remaining 16 weeks able to be shared. This means that a partnered parent can take a maximum of 21 weeks Parental Leave Pay.

Option 3- Increase the reserved period to six weeks by 2026

Under this option, six weeks (30 days) of Parental Leave Pay will be reserved for each parent, with the remaining 14 weeks able to be shared. This means that a partnered parent can take a maximum of 20 weeks Parental Leave Pay.

Single parents will always be able to access the full entitlement that applies to them, based on their child's date of birth or entry into care.

The option to retain current policy settings has not been considered as the Government has committed to increasing the maximum entitlement to 26 weeks by 2026.

Concurrency limit

The current PPL scheme allows parents to take up to two weeks (10 days) PLP concurrently, providing flexibility in the scheme and allowing new parents to use their leave in the way that best suits their family and work obligations. Allowing parents to take PLP at the same time as each other can support bonding and allow a non-birth parent to support a birth parent during the post-birth recovery period.

Limiting concurrency helps to ensure that parents are encouraged to return to work. It will also prompt fathers and partners to take on independent care of the child, which international studies have demonstrated helps to develop patterns of care that persist throughout the child's life.

As the reserved period increases, the amount of time that parents can take PLP concurrently needs to be considered and balanced between offering maximum flexibility to families while also encouraging independent use of PLP by fathers and partners.

Different options for concurrency are being considered and there is no anticipated cost impact if there is a change to the concurrency limit, as it is expected that the limit will predominantly affect the timing of how the entitlement is used.

What is the likely net benefit of each option?

Regulatory impacts

The different policy options proposed for the reserved period only impact the length of PLP reserved for a parent, and have no impact on overall eligibility to PLP. This means there is no change to the expected number of PLP claimants, and there is no impact to business. There are no regulatory impacts for options 1 to 3. A six week reserved period was costed as part of the 2022-23 October Budget process. This is the longest option and it is not expected that any variation of the reserved period will change the regulatory impact.

Social and economic impacts

There are costs and benefits associated with a 'use it or lose it' reserved period. The scale of the cost or benefit may marginally change based on the length of the reserved period. There is little evidence in the Australian context on the impact of a reserved period.

Benefits of a longer reserved period

Reserving a period of PLP for each parent signals that taking time off work to care for a new child is the responsibility of both parents, contributing to changing social norms around gender roles in caring for children after a birth. It signals that parenting is an equal partnership that should be shared. A longer reserved period reduces stigma around men taking time out of work to care for children. Research shows that when parents more evenly share the care of their child, women return to work earlier and work for more hours. This is crucial to improving women's economic security and workforce participation, and supporting gender equality.

The concurrency limit is being considered and a reserved period that is longer than the concurrency limit may encourage father/s partners to take time off to care for their children on their own, leading to more equal sharing of parenting over time. A longer reserved period maximises the likelihood that the reserved period is longer than the concurrency limit, promoting solo parenting time for non-birth parents.

Costs of a longer reserved period

A longer reserved period results in a lower maximum entitlement for an individual partnered parent. A partnered parent may have been expecting to access 26 weeks of PLP as an individual in 2026, but they will only be able to access a portion of this themselves. This disadvantages partnered parents who have no other parental leave options, and partnered birth parents who will have a smaller increase in the overall weeks they can access PLP, providing less relative support for birth recovery. The six week reserved period is the longest reserved period option this will result in the lowest maximum entitlement for an individual parent (20 weeks), of the three options. This is an increase of 2 weeks on the current 18 week maximum for a partnered parent.

An increase to the concurrency limit is also being considered. If a reserved period is longer than the concurrency limit, this may help to encourage non-birth parents to take PLP at a different time from the birth parent. This may have a negative consequence by reducing support to the birth parent post birth and limiting the flexibility of the scheme, offset against the potential to encourage more independent care and parental responsibilities by fathers and partners.

Risks and Sensitivities

With a 26 week scheme, longer reserved periods mean partnered mothers have a smaller increase in overall weeks they can access PLP.

There is a risk that some families may not claim the reserved period, leaving them financially worse off than if either parent were able to claim the full entitlement. The longer the reserved period is, the more a family may forfeit if they do not access the reserved period or do not use the full reserved portion. The six week reserved period model is the longest of the three options. However, this must be balanced against the core policy intent of engaging both parents in caring for a child.

Although there is international evidence to suggest that fathers and partners are more likely to use parental leave if encouraged by periods of “quarantined leave”, research indicates that higher payment rates of parental leave (round half or more of previous earnings) are a significant factor in increased uptake of paid parental leave. This suggests that quarantined periods alone may not be sufficient to drive further take-up by parents without an increase to the rate of payments.

The impact of lower rates of payment, relative to some international models, are partially mitigated by the PPL scheme being designed to complement paid leave provided by employers. In addition to providing paid maternity and paternity leave, employers can also choose to ‘top-up’ the government-provided PPL scheme to bridge the gap between the PLP rate and a person’s regular wage.

Who did you consult and how did you incorporate their feedback?

Consultations to date

In 2022, the Government established the Women's Economic Equality Taskforce (the Taskforce) to prioritise advice to government on issues facing women in the Australian economy. The Government asked the Taskforce to review available evidence and provide advice on the expansion of the PPL scheme to 26 weeks, particularly in relation to the reserved period. The Taskforce commissioned their own study from academics, who considered the optimal length of a reserved period to encourage greater take up by non-birth parents. The advice from the Taskforce was provided to the Government as part of their consideration and development of the three options proposed.

The Taskforce's advice regarding the optimal settings for the 26-week PPL scheme was for a 4-week reserved period and 4 weeks of concurrency. In preparing its advice, the Taskforce considered a range of inputs, including broad consultation across member networks, briefings from relevant Government departments, and the commissioning of research from Professor Marian Baird and Associate Professor Elizabeth Hill. The Taskforce emphasised the importance of incentives to drive men's uptake of PPL and care in the early years, but also acknowledged that in the context of a 26-week PPL scheme it is important to balance this objective against the other objectives of the scheme, such as maternal health and bonding.

In addition, the Parliament referred the first tranche of legislation to the Community Affairs Legislation Committee for inquiry. They received 26 submissions from Government departments, peak bodies, industry groups, research bodies and academics, and held a public hearing. These considered the reserved period and the PPL scheme as a whole. There was broad support for a reserved period, and that it should increase as the overall entitlement expands to 26 weeks, with varying suggestions on the length of the reserved period. The department has considered this advice in the development of these options.