

Date: 20 March 2009

SH-3-2-4-6

To: Minister of Finance



AIDE MEMOIRE: PAID PARENTAL LEAVE INDEXATION – COSTS AND OPTIONS

This aide memoire responds to a request from your Office for advice relating to removing the current indexation of Paid Parental Leave (PPL).

Background

The Parental Leave and Employment Protection Act 1987 includes a provision (section 71N) that the PPL rate must be adjusted, as at 1 July each year, by any percentage movement upwards in average ordinary time weekly earnings.

Policy rationale

PPL is designed to meet several social, employment and equity objectives. These include encouraging workforce attachment and providing income stability at a time of change.

Removing the indexation requirement would, over time, impact on these objectives. We have not had time to consider the extent of these impacts, nor whether the overall Act has the right settings (including rates) and meets the Government's objectives. Inter-relationships with the Parental Tax Credit (a Working for Families tax credit and not automatically indexed) should also be considered at the same time.

Costs

In 2008 the Department of Labour estimated that around 90% of working mothers are entitled to PPL, and around 80% of these take up PPL. In 2007/08 there were approximately 32,000 recipients of PPL at an annual cost of \$134 million.

Our initial estimate is that no longer indexing PPL would result in the following fiscal savings (assuming legislation was passed before 1 July 2009).

	2009/10	2010/11	2011/12	2012/13	Total
PPL Saving	\$4m	\$8m	\$11m	\$13m	\$37m*

*Numbers do not add to total due to rounding

The above costs currently impact on the operating balance. If Cabinet decided to no longer index PPL, this would be a saving in the Budget 2009 operating allowance.

Legislative Requirements

Any changes to the current PPL indexation requirements would require legislative change. This could be included in any wider Omnibus Bill on indexation (as discussed in the separate aide memoire we have provided you: *Working for Families – Legislative Options*) or through a separate Bill.

Options

Please indicate if you would like officials to include a proposal to remove PPL indexation in the Cabinet paper we are currently preparing on WFF indexation: **Yes/No**

Please also note that we will send you further advice early next week on other initiatives where rates and/or thresholds are automatically indexed (eg childcare assistance).

[deleted – privacy]

Simon MacPherson, Manager, Workforce Attachment & Skills [deleted – privacy]