September 2, 2026 Policy Brief: Volume 26, Number 32

Problems with Allegheny County's paid parental leave proposal

Summary: On May 13, the Allegheny County Board of Health (board) voted to open a public comment period on an amendment to Article XXIV of the Health Department's rules and regulations which would expand its existing paid sick leave policy and establish a countywide paid parental leave policy. This *Brief* will analyze the proposals' economical shortcomings.

Background

The board "serves as the governing body of the Allegheny County Health Department, guiding public health policy and ensuring the protection and promotion of community well-being." It is comprised of 10 members appointed by the county executive and confirmed by County Council. If the proposed amendments are approved by the board, they would then go before the council for a final vote.

Under the current paid sick leave policy, employees at businesses with 26 or more total workers earn 1 hour of paid sick time for every 35 hours worked up to a maximum of 40 hours in a calendar year. The amendment would reduce the employer threshold to 15 or more employees, who would now earn 1 hour of paid sick time for every 30 hours worked up to a maximum of 72 hours in a calendar year. Additionally, there would no longer be a full exemption as employers with less than 15 employees must provide 1 hour of paid sick time for every 30 hours worked up to a maximum of 48 hours in a calendar year.

This would bring the county's policy in line with the City of Pittsburgh's, which was expanded last year. While the city's paid sick leave ordinance was passed in 2015, it did not go into effect until 2020 – owing to a protracted legal battle in which the state Supreme Court rather dubiously declared it a public health issue rather than a duty on business, which is prohibited under the state's Home Rule Charter and optional plans law (see *Policy Brief Vol. 19, No.27*).

Following the policy's expansion last year, *Policy Brief Vol. 25, No. 26,* concluded that "[f]ailure to address these types of anti-growth, anti-business issues is unfortunate as there is never a shortage of efforts to enact new subsidies and incentives while not addressing policies that hold back growth." This is equally true for the county's expansion of paid sick leave and even more so for the paid parental leave proposal.

Paid parental leave

Under this proposal, an employee who has worked at least 30 days for an employer would be eligible for up to 18 weeks of job-protected, fully paid parental leave following the event of birth, adoption or foster-care placement of a child. According to an attached "FAQ" on the county Health Department's page, "14 states and the District of Columbia (D.C.) have enacted mandatory paid family leave systems. An additional nine states have voluntary systems that provide paid family leave through private insurance." However, Allegheny County's policy would stand out as it would be the "first locality with a paid parental leave policy in a state without a statewide policy." It also stands out for being significantly more generous in every aspect and forcing employers to foot the entirety of the bill.

According to a Pittsburgh Public Source article, most state policies offer a maximum of 12 weeks with eligibility requirements, 70-90 percent pay *and* a weekly benefit cap as opposed to 18 weeks of full pay with no weekly cap, unconditional job protection and just a 30-day vesting period. All 14 states use some form of payroll deduction from employees, employers or both to fund their mandatory paid family leave programs. However, "[Allegheny County] would require that businesses pay for leaves on their own." The article further notes that "[D.C.] is the only jurisdiction where businesses shoulder all of the cost – by paying a 0.75% tax, which also covers personal and family medical leaves."

Costs & benefits

A study by the Keystone Research Center estimated that at an average take-up rate (that is, the percentage of eligible people who avail themselves of the benefit) of 40.46 percent, the "aggregate annual cost to firms for providing the leave benefit required by the [board] proposal would be $170.9 [m]illion and would benefit 10,641 new parents per year …," just "1.7 [percent] of the actively employed workforce" in Allegheny County. But such costs would be "minimal" considering "Allegheny County has an annual Gross Domestic Product of approximately $133 billion." The overall net cost of compliance was estimated to be even lower at $112 million due to business savings from improved workforce participation and retention and induced spending from paid leave.

However, there are numerous unintended consequences and costs such a policy would inevitably produce that are likely unaccounted for. For example, even assuming the $112 million figure is accurate, it certainly would not be borne proportionately by businesses. Larger firms and those which can afford to or already offer more robust leave policies would benefit at the expense of competitors who would see their costs rise – a point raised in *Policy Brief Vol. 15, No. 37*.

There will obviously be the direct cost of having to pay the full salary of an employee for up to 18 weeks of leave, during which the employer may need to hire additional staff to compensate. The Pittsburgh Public Source article also featured commentary from researchers on the subject who indicated that roughly two-thirds of businesses in states where leave policies were implemented "were able to shift work assignments without hiring a replacement."

But what about the other one-third? Finding a temporary, adequate replacement for the duration of leave would be difficult for any firm but especially for smaller and more specialized businesses – which cannot as effectively reassign workers – who must instead forgo the productivity and income that the employee on leave provided altogether.

Given the policy's generous job protection, what happens if a business realizes it can continue without the employee on leave or would like to retain the replacement instead? Even for those that could reassign workers, what about overtime costs? What if only senior employees with higher compensation can fill the gap? This is particularly pertinent when considering public-sector employees.

Government employees already tend to enjoy more generous sick leave and parental leave policies as taxpayers foot the bill. For reference, Allegheny County already offers up to 12 weeks of paid parental leave for many of its employees. A representative for both the Shaler Hampton EMS and the Allegheny Intermediate Unit – which represents 42 public and private schools in Allegheny County – detailed the difficult burden the paid parental leave proposal would impose. But *all* local public-sector employees would be eligible. This would likely further raise the benefits floor for any existing and future collective bargaining agreements. It could place even further strain on taxpayers and Allegheny County's budget, not to mention those of the City of Pittsburgh, Pittsburgh Public Schools and Pittsburgh Regional Transit – all of which are already facing financial difficulties partly due to significant personnel expenses and legacy costs.

There are also questions over how significant, if there are any, offsetting benefits the study claimed, such as reduced turnover or induced spending would be. Wouldn't businesses already be factoring in turnover expense in their existing benefits options? If firms must, by law, provide paid sick and parental leave, will other benefits be significantly reduced or altered? These policies could certainly affect the mix of pay and benefits an employer currently offers, which may result in a situation where some workers subsidize specific benefits for others.

Lastly, there is also the possibility that some businesses look to relocate or at least shift portions of their operations outside the county limits. Firms finding it too costly to move may need to increase prices to cover additional staff, lay off employees, reduce hours and benefits of other employees or forgo hiring additional staff.

To that end, *Policy Brief Vol. 15, No. 35,* noted that paid sick leave and paid parental leave represent "added regulatory costs (that) will hasten the demise of (small, start-up) businesses that might otherwise have made it and grown into a business that could offer, on its own volition, paid sick leave [and paid parental leave].” And if businesses were forced to close, all their employees would be out of work, without any access to paid parental leave. All these outcomes would come at a significant cost and reduce economic activity – certainly counteracting any supposed benefits of induced spending.

Conclusion

Fixing the county’s demographics challenges, attracting young families and improving economic outcomes – and by extension health and well-being – are undoubtedly noble goals that should be pursued. However, expanding paid sick leave and introducing a paid parental leave policy, certainly the one as written, will have far-reaching economic consequences. Merely reducing the far-too-generous paid parental leave benefits to be more in line with policies enacted by other states will only change the degree or magnitude of economic distortion, not eliminate it.

Imposing more costs on Allegheny County employers of all sizes, but disproportionately small businesses, will only further contribute to the pervasive anti-business malaise already afflicting the region – leading to further economic stagnation and a loss of jobs, pushing away the very families and residents this proposal is ostensibly intended to help.

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