



Written Statement for the Hearing Record for the House Committee on Ways and Means  
Subcommittee on Worker and Family Support  
On “Leveling the Playing Field for Working Families: Challenges and Opportunities”

# **Paid Family Leave: Understanding the Benefits And The Costs**

Written Statement for the Hearing Record

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March 18, 2019

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Chairman Davis, Ranking Member Walorski, and members of the Subcommittee on Worker and Family Support, Thank you for inviting written comments for the hearing record for the House Subcommittee on Worker and Family Support's March 7, 2019 hearing entitled "Leveling the Playing Field for Working Families: Challenges and Opportunities." I am submitting written comments on the issue of worker and family support policies, such as paid family leave and affordable childcare.

As Co-Director of the AEI-Brookings Working Group on paid family and medical leave, I have been researching paid family issues for over two years. What is increasingly clear is the need to address these policies in a thoughtful manner, so that the benefits to workers and their families can be balanced against the costs to employers as well as the government. Designing a policy that meets this balance is critical, since on the one hand, access to these policies has the potential to boost labor force participation and wages, for workers, and thereby boost economic growth. However, if employers are overly burdened by the costs, it may also discourage the hiring of workers who are likely to take advantage of these policies. It is this kind of debate within the AEI-Brookings Working Group that lead us to propose a compromise paid leave plan, which I present later in this written statement for the record. I begin my statement by highlighting the need for paid leave policies and the lessons learned from existing research on these policies at the state-level. I then discuss the disparities in access to paid leave, especially between high wage and low wage workers. Next, I turn to the costs on businesses and findings from recent employer surveys. Finally, I present the AEI-Brookings Cost calculator for modeling costs associated with paid leave policies. This is a publicly available, free to use, cost-calculator that is a product of the AEI-Brookings Working Group from 2018.

The ability to take paid leave from work enables employees to address personal needs without fearing a substantial loss of income or employment. As such, paid leave policies can take a variety of forms. The first, paid parental leave, encompasses both maternity and paternity leave and guarantees employees the ability to take a leave of absence to care for and bond with a new child (including biological, adopted, or foster children). Second, paid family care leave enables workers to take time off to care for a seriously ill family member. Third, paid medical leave provides workers with time off to care for their own serious illness or disability.

## **I. The Case for Paid Leave**

### ***Paid Parental Leave***

Paid parental leave is beneficial for at least three primary reasons. First, the composition of the workforce and the demands on working families have changed dramatically over recent decades, meaning far more parents are struggling to balance the competing demands of work and family.<sup>i</sup> Second, a growing body of evidence shows children fare better when their parents have access to leave,<sup>ii</sup> and individuals are more likely to take leave when it is paid.<sup>iii</sup> Mothers' leave-taking after childbirth can improve maternal health, and fathers' access to paid parental leave can improve gender equity in the household, fathers' involvement in child care, and outcomes for children. Finally, national economic growth depends on strong labor force participation by both men and women. Paid parental leave enables parents to remain attached to the labor force while they care for and bond with their new children, and it protects against the financial hardship of going without an income during leave.

By improving women's ability to return to their previous employer after taking leave for the birth of a new child, state-level paid parental leave laws in California and New Jersey were associated with increased labor force attachment among women in the months surrounding childbirth.<sup>iv</sup> Lawrence Berger and Jane Waldfogel show that women with access to paid leave are more likely to take longer periods of leave following a birth than women without leave coverage are, but they are also 40 percent more likely to return to work after giving birth than those without access are.<sup>v</sup>

The implementation of California's paid family leave law was followed by a twofold increase in women's use of leave following the birth of a child and a 6 to 9 percent increase in the average weekly work hours of employed mothers with children between one and three years old. While the law's impact on wages is less certain,

earnings likely increased by approximately the same amount as the increase in working hours.<sup>vi</sup> Other work has shown that moderate-length maternity and paternity leave policies (as opposed to extremely generous policies offering several years of leave) are associated with a smaller wage gap between mothers and non-mothers (also known as the motherhood wage gap).<sup>vii</sup> By strengthening an individual's attachment to the labor force, paid leave policies can increase overall labor force participation and the economic growth that results from higher rates of employment. The Council of Economic Advisers suggests that nearly all of the middle-class income growth since 1970 can be attributed to the rise in women's earnings resulting from increased female labor force participation and educational attainment.<sup>viii</sup>

However, while female workforce participation increased dramatically in the last part of the 20th century, the participation rate peaked in the late 1990s and has recently declined. Comparable advanced economies experienced similar surges in female labor force participation through the turn of the century, but America is unique in its recent decline—other nations have continued to experience increasing rates of female workforce participation in recent decades. According to Francine D. Blau and Lawrence M. Kahn, about 28 percent of the decline in female labor force participation in America relative to other countries in the Organisation for Economic Co-operation and Development (OECD) can be explained by the nation's lack of family-friendly workplace policies, including paid parental leave.<sup>ix</sup>

A new paper by Claudia Goldin and Joshua Mitchell examines female participation rates, identifying how women's participation in the labor force evolves over their lifetimes. The paper highlights how long-term participation rates vary for mothers who take paid and unpaid leave compared to those who quit their jobs during pregnancy. The authors show that, 10 years following the birth of their first child, labor force participation rates are highest for women who receive paid parental leave (82 percent) and lowest for women who quit during pregnancy (64 percent).<sup>x</sup> Notably, the authors did not control for characteristics, such as educational attainment, that might determine what type of individual falls into each category. Thus, as the authors say, "it is impossible to infer the impact that paid-leave, or longer protected leave, policies would have on women's employment. But taking leave and staving off quits would appear to increase participation after a birth."<sup>xi</sup>

In the long-run, gross domestic product (GDP) growth is determined by two factors: growth in employment (the number of hours worked across the workforce) and growth in labor productivity (output per hour worked). Declining participation rates are therefore deeply tied to sluggish economic growth. Olivier Thévenon et al. show that convergence of a country's female and male participation rates could increase GDP by 12 percent on average across OECD countries.<sup>xii</sup> Thus, the benefits of paid leave extend beyond those enjoyed by working parents and their children by promoting increased workforce participation and national economic output.

### ***Paid Medical and Family Care Leave***

The economic effects of paid leave for one's own illness or to care for another family member have not been studied as extensively as the economic effects of parental leave. Paid medical leave could affect health outcomes, and therefore the cost of illness, through two mechanisms. The direct effect of medical leave is to encourage workers to receive proper treatment for an illness or injury. According to the 2012 FMLA technical report, of those who needed medical leave but did not take it, 52 percent postponed medical treatment, and 50 percent forwent some medical treatment.<sup>xiii</sup>

More recent work has focused on "presenteeism," when an employee goes to work despite having an illness or injury. This can impair employee health and productivity.<sup>xiv</sup> In the case of contagious illnesses (such as the flu), presenteeism also exacerbates the spread of disease, causing additional health problems and productivity losses as other employees become infected. This is particularly relevant to short-term illnesses that might be covered by paid sick leave (instead of slightly longer episodes that would be covered by paid medical leave). However, even in the absence of contagious illnesses, the effects of presenteeism are not negligible. In an analysis of the total costs of chronic health conditions for

Dow Chemical Company, James Collins et al. found that presenteeism reduced an employee's ability to function. Importantly, the productivity loss of presenteeism exceeded the combined costs of absenteeism and medical treatment.<sup>xv</sup> This finding is borne out in other studies, and, in most cases, the overall economic burden of presenteeism exceeds medical costs of the condition.<sup>xvi</sup>

Given its potential to reduce presenteeism, a paid medical leave policy could reduce the productivity losses resulting from health conditions. However, the benefits of paid medical leave should also be balanced against the costs associated with an employee's absence. Elisabeth Fevang, Inés Hardoy, and Knut Røed find that the labor supply of claimants of Norway's TDI is sensitive to the benefit's generosity and that reducing the generosity causes some claimants to transition back to work.<sup>xvii</sup> The fact that workers' leave behaviors are sensitive to the benefit level does not necessarily imply that workers are remaining on leave longer than is medically necessary, but it does imply that policymakers should be sensitive to the incentives embedded in any paid leave policy. In the case of medical leave, a policy's generosity should balance the costs of absenteeism, which increase with the benefit's generosity, against the costs of presenteeism, which decrease with the benefit's generosity.

Moreover, paid medical leave has an additional potential effect on labor force participation. A person who becomes disabled, whether permanently or for an extended period of more than 12 months, can apply for SSDI. However, SSDI essentially precludes beneficiaries from working. Because the waiting period for applicants to receive benefits can take months or years, many of those on the program are reluctant to rejoin the labor force, to avoid the high burden of reapplying for support.<sup>xviii</sup> And for those who do return to work, exceeding SSDI's substantial gainful activity income threshold can cause a person to lose his or her benefits. These barriers are not negligible. For those on the margin of entry into SSDI, the probability of employment is 26 percentage points higher if they do not receive benefits, and the employment effect increases to 50 percentage points for those with less-severe impairments.<sup>xix</sup>

As a greater share of the workforce faces caregiving responsibilities, the overall economic burden of caregiving will likely increase as well. The RAND study discussed previously found that informal eldercare already comes at an opportunity cost of \$522 billion annually to caregivers.<sup>xx</sup> By providing at least partial wage replacement to caregivers while on leave, paid family care leave policy could reduce this opportunity cost and enable family members to confront their caregiving responsibilities without a substantial loss in income. Those who reduce work hours to care for a family member on an ongoing basis not only forgo wages but also may lose the opportunity to further advance their careers. Those who exit the labor force to care for a family member lose wages and work-related benefits, and longer periods outside the labor force may seriously diminish work skills.

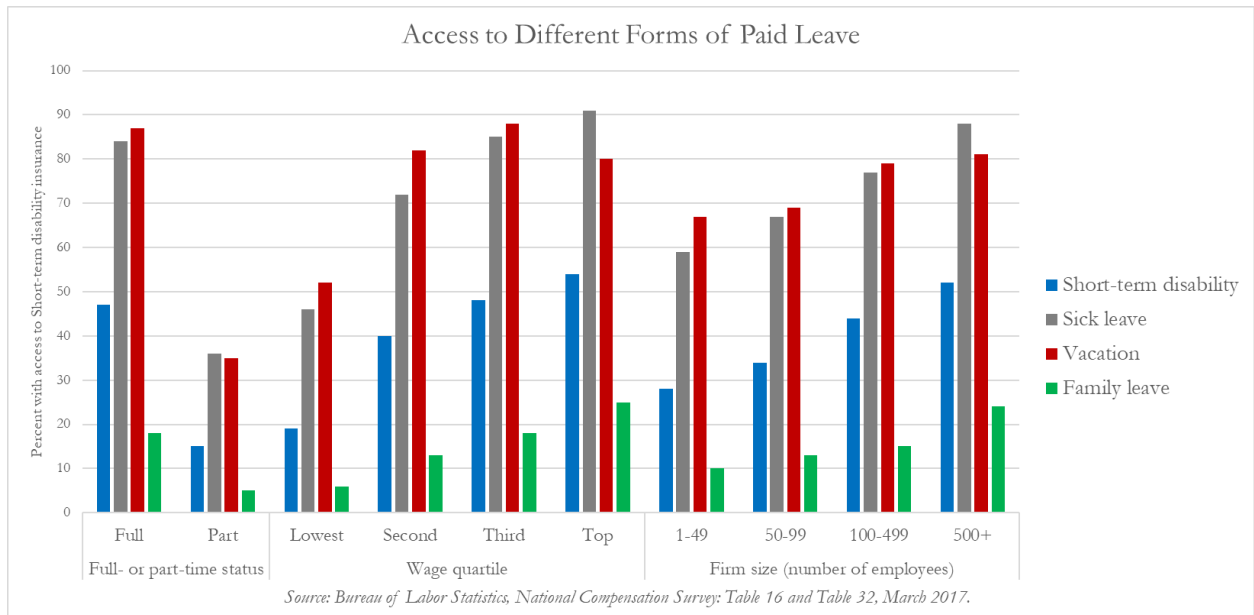
## **II. Disparities in current access to paid leave**

Some American workers have access to paid leave through benefits offered by their employers or because they live in one of the three states that have implemented state paid leave policies. However, access is not widespread, especially for low-wage and part-time workers.

While employers are frequently important sources of innovation, a classic market failure prevents many employers from offering an efficient level of paid leave on their own: adverse selection. If only a few firms offer paid leave, these firms will attract a disproportionate number of "high-risk" employees who are more likely to use the benefits (e.g., women of childbearing age). Employers at these firms might compensate for their larger share of high-cost employees by offering lower wages, leading individuals who are unlikely to use the benefits to avoid these firms.<sup>xxi</sup> For this reason (and likely others), the implementation of paid leave policies at the employer level has been low, with the majority of innovation occurring in high-wage, high-skilled occupations, such as information technologies, where the applicant pool is small and paid leave benefits can be used to attract top talent.

According to the Bureau of Labor Statistics (BLS) American Time Use Survey Leave Module, in 2011, 39 percent of respondents reported having some access at their workplace to paid leave for the birth of a child (40

percent of women and 38 percent of men).<sup>xxii</sup> The Leave Module might overestimate access to defined paid leave policies by capturing informal arrangements made between employers and their employees. According to the BLS National Compensation Survey (NCS), 14 percent of all civilian workers have access to paid family leave (defined as either parental leave or family care leave), but this ranges from 4 percent of workers in the lowest 10 percent of weekly wages to 23 percent of workers in the highest 10 percent. Similarly, the bottom 10 percent of workers are about half as likely to receive paid holidays, sick leave, and vacations as those in the highest 10 percent.<sup>xxiii</sup>



Access to all types of paid leave is lower for minority, less-educated, and part-time workers. Access varies significantly by industry, with high levels of paid leave in fields such as public administration and finance (where almost 80 percent of workers have access to paid leave) and the lowest levels in leisure and hospitality, where fewer than one-quarter of workers have access to paid leave.<sup>xxiv</sup>

The disparities in access to paid leave can be explained, in part, by the varying labor market power of workers in different occupations and industries. A recent report from the Boston Consulting Group, analyzing BLS data, found that privately offered paid leave has grown most in sectors that recruit from a small group of highly skilled workers.<sup>xxv</sup>

Hiring and training new workers is expensive; it often costs one-fifth of a worker's salary to replace that employee.<sup>xxvi</sup> In well-paying industries recruiting from small, talented labor pools, these costs may be particularly large and can justify establishing generous paid leave policies in hopes of reducing worker turnover. Additionally, firms in these industries may find it less costly to allow an incumbent worker some paid time off than to take the time and costs necessary to find and train a suitable replacement.

Thus, absent a universal paid leave policy, individuals with the strongest power to negotiate in the workplace are those most likely to have access to paid leave, while those with the weakest labor market power are frequently left behind. A federal paid leave policy would reduce these disparities and ensure that low-wage workers, precisely the group that stands to benefit the most, can take time off from work to confront a family or personal obligation without losing income or, worse, losing their job entirely.

### III. The Costs to Business

One potential downside of paid leave is that it may impose financial costs or other burdens on employers. Mandating that businesses allow employees to take time off and pay them during that time off could be costly to businesses, leading to less hiring or higher prices. On the other hand, offering leave to employees allows employers to retain talented workers and forego the cost of recruiting new workers when employees quit because they need such leave. Paid leave policies may also boost employee morale and generally lead to a better and healthier work environment for employees.

Evidence from existing state programs show that employers are not adversely impacted from paid leave programs. Research on employer attitudes to paid leave in Rhode Island, New York and New Jersey showed broad support for the program among small and medium-sized businesses. An earlier survey of the California program by Eileen Appelbaum and Ruth Milkman showed that the vast majority of employers reported minimal impacts on their business operations of the state's paid leave program.<sup>xxvii</sup> In fact, to remain competitive and attractive to employees, especially in an economic situation that has been argued to have reached full employment, businesses often offer paid leave voluntarily. This improves the retention rate of employees and the ability to recruit talent.

Still, paid leave policies should be designed to avoid imposing excessive costs on firms.<sup>xxviii</sup> One way to do this is by using a payroll tax on employees to finance the program. When designing a federal paid leave policy, it is also important to preserve flexibility for both employers and employees and consider how the policy will interact with other labor regulations. If local labor regulations are already burdensome, imposing additional regulatory burdens may be particularly disruptive.

#### **IV. AEI-Brookings Report: Findings and Proposed Plan**

The AEI-Brookings Working Group on Paid Family and Medical Leave has been discussing paid leave issues since 2016. The group is comprised of policy experts and academics in the field from across the political spectrum. The efforts of this group have aimed at advancing the discussion about federal paid leave and discussing the design to such a policy. Our work will continue over the next two years.

All members of the working group believe the United States needs a paid parental leave policy. There is little or no disagreement in our working group that the time for the US to adopt such a policy has come. While there are disagreements about the policy's design, how we fund it, how long the leave lasts, who pays, and who is eligible, absolutely no one disagrees that working families in America today need to have access to some paid time off when a baby is born or adopted. It is in the spirit of compromise that we offer a plan that brings together these diverse elements and that could help move the US forward on this issue. Below are the primary principles that the working group highlighted as the guiding framework for providing parental leave.<sup>xxix</sup>

1. Prevent hardship for families at their time of need
2. Labor force attachment
3. Healthy development of children
4. Gender equity
5. Minimal disruptive effects on employers
6. Earned benefits and shared contributions
7. Cost-effectiveness and funding

Using these principles, and after analyzing current proposals, state legislation, and the current research, the working group developed a compromise plan. This plan was no member's preferred policy, but rather a reachable compromise that all members determined was better than no federal plan at all.

A possible compromise might have five elements. First, public paid parental leave would be available to both employed mothers and fathers (with strict eligibility requirements), so that working parents do not need to return to work within days of a child's birth or adoption. Second, any plan would be budget neutral, splitting the costs of financing between a payroll tax and cutting government spending or tax expenditures elsewhere in a way that

does not adversely affect low-income families. We recognize that the federal deficits and debt are on an unsustainable trajectory and that it would be irresponsible to make matters worse. Since the benefit is targeted to working families, we would ask workers as a group to finance part of the plan through a modest increase in their payroll taxes. Third, it would keep the benefits relatively targeted and inexpensive by offering a 70 percent replacement rate up to a cap of \$600 per week, for a limited number of weeks (e.g., eight weeks). Fourth, it would include job protection. Lastly, it would require an independent study of the effects of paid family leave to ensure that such a policy is not having significant unintended consequences, such as crowding out existing plans or leading to discrimination.<sup>xxx</sup>

The plan's key elements are its budget neutrality, its extension of benefits to the middle and working class and not just the poor, and its establishment of a floor on the number of weeks of leave provided. States and private employers would be free to supplement this leave if they chose to do so.<sup>xxxi</sup>

In the case of medical leave, we thought that any new policy to address temporary disability should bridge the gap between paid leave for short-term illness (through employer-provided paid sick leave) and longer-term disability coverage (through SSDI). This policy might take the form of a policy that provides paid medical leave alongside paid family leave, or it could be a freestanding paid medical leave or temporary disability policy. In either case, a federal paid medical leave or TDI program should take into account possible reforms to existing disability programs. The program might work similarly to long-standing state TDI programs including carefully crafted definitions of qualifying conditions, medical verification, and duration. Further study would help address what such a program would look like, what it would cost, and how it would interface with sick leave and SSDI.<sup>xxxii</sup>

Finally, on family care leave, we think we need much more research to better help us understand how this type of leave is typically used by families, and what would be most beneficial in terms of a federal policy.<sup>xxxiii</sup>

## **V. AEI-Brookings Paid Family and Medical Leave Cost Calculator**

As part of the *AEI-Brookings Working Group Report on Paid Family and Medical Leave*, we helped produce a cost calculator that can give us a better understanding of the costs associated with paid family and medical leave policies. This is the first time that collaborators from across the ideological spectrum have come together to produce this type of cost calculator. A report by Ben Gitis, Sarah Jane Glynn, and Jeffrey Hayes gives insight into the cost estimates of paid leave policies. They identify the two components that encompass the total costs of a program: benefit payments and administrative overhead.

Gitis, Glynn, and Hayes estimate the costs of the AEI-Brookings paid family leave proposal, providing a range of estimates. The hypothetical costs vary substantially, depending upon the data source and the program use assumptions. Some estimates use FMLA data and take-up assumption rates, while other sets of estimates use state program use data and take-up assumptions. The disparity in estimates of the same policy highlight the uncertainty in cost modeling, and the importance of identifying interaction factors, similarities to existing programs, and differences in a new federal model, so as to most accurately predict the most likely cost scenario.

The working group's hypothetical program provides universal access to up to eight weeks of leave for family and medical needs, including parental leave, with benefits paid according to the hypothetical formula—70 percent of usual weekly wages up to a maximum weekly benefit of \$600. It can be expected to cost from 0.10 percent of total wages (when patterned on New Jersey's program) to 0.61 percent of total wages (when patterned on the FMLA survey).<sup>xxxiv</sup>

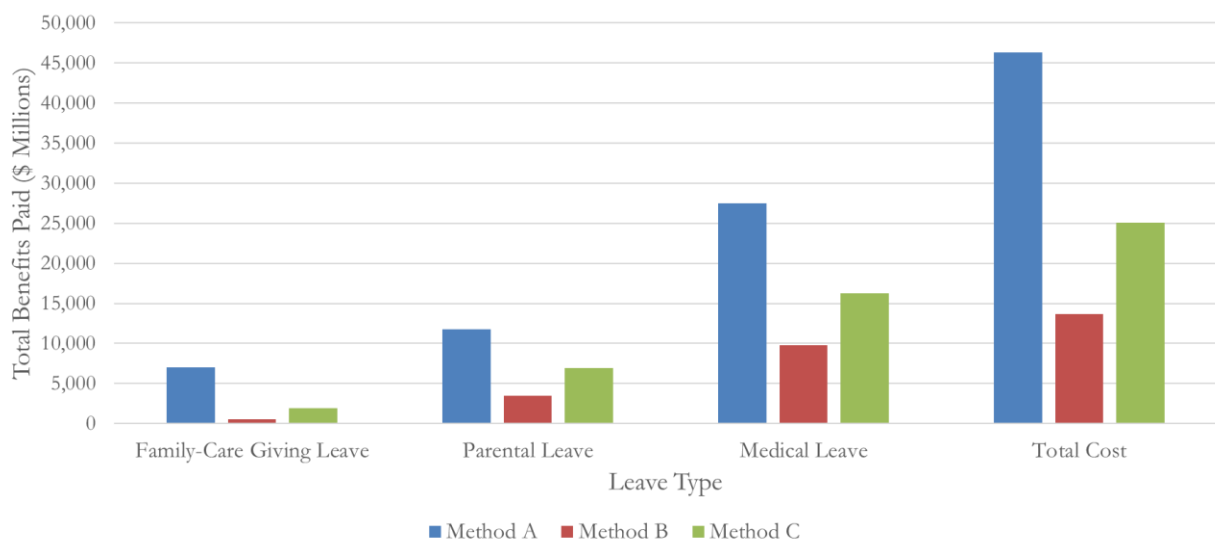
Although the methods result in differing cost estimates, each comes to the same conclusion about the relative magnitude of the three main types of leave: own health, family caregiving, and new child. In



particular, all three find that leave for own health would be the most used and thus costliest provision of the program, with leave for a new child and for family caregiving being used less frequently and thus less costly. All three methods reveal that the majority of workers who would claim benefits from the hypothetical program would do so for their own health reasons.<sup>xxxv</sup>

Similarly, each method finds that program take-up for family caregiving and parental leave would account for a much smaller portion of benefit payments. In particular, leave for the birth or adoption of a child would be the second most common, and thus second costliest, form of leave, and leave to care for an ill family member would account for the smallest portion of benefit payments. Fewer workers have children than experience serious health needs each year, so program participation for parental leave would be low relative to leave for own health.<sup>xxxvi</sup>

Finally, each method finds that leave for family caregiving under the hypothetical program would be the least costly, mainly because of short durations and low take-up. They all find that workers on leave to care for an ill family member would claim benefits for the shortest duration.<sup>xxxvii</sup>



## VI. Conclusion

I believe that the AEI-Brookings Working Group reports and discussions will help us move forward on a policy that is of critical importance for working families. By identifying points of agreement and divergence and suggesting areas for further research, we are optimistic that we can help build an evidence-based approach to all three types of leave.

The reports produced by this group demonstrate the importance of this issue and the resolve that has emerged to find a solution that appeals to both the left and the right. Bringing conservative and liberal voices together in this conversation is the most feasible and desirable way to make paid family and medical leave a sustainable reality for America. We hope our work will help policymakers push us forward on this issue.

<sup>i</sup> See Pew Research Center, "Raising Kids and Running a Household: How Working Parents Share the Load," November 4, 2015, <http://www.pewsocialtrends.org/2015/11/04/raising-kids-and-running-a-household-how-working-parents-share-the-load/>.

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