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Paid Family and Medical Leave: Impact and Implementation

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The views expressed in this report are those of the authors and do not necessarily represent positions of the Federal Reserve Bank of Boston or the Federal Reserve System.

Paid Family and Medical Leave: Impact and Implementation

Introduction

The issue of paid family and medical leave (“PFML”) has received considerable attention both nationally and within the New England region over the past few years. PFML programs offer partial or full wage replacement to a worker during a temporary, but extended, leave from work to address the worker’s own serious health condition, to care for a family member with a serious health condition, or to care for or bond with a newly born or adopted child.¹

There has been increasing recognition that the United States is an outlier on PFML relative to other countries—it is the only member country in the Organization for Economic Co-operation and Development (OECD) without a national paid leave program²—and states have recently been stepping up to fill this gap. In the past two years, New York, Washington, and Washington D.C. have passed PFML legislation, joining California, New Jersey and Rhode Island, which passed PFML programs in 2002, 2008 and 2013, respectively.³ PFML bills have been filed in each New England state and several are being actively considered.

Against this backdrop, the Federal Reserve Bank of Boston hosted a symposium earlier this year to address the need for these programs and the impact they have on businesses, the economy and on the health and well-being of low- and moderate-income workers. The symposium also brought together non-partisan administrators and national experts who have been involved in designing and implementing PFML programs in other states to discuss how programs can be most effectively structured to achieve maximum positive impact. This paper summarizes the main points and best practices highlighted at the symposium:

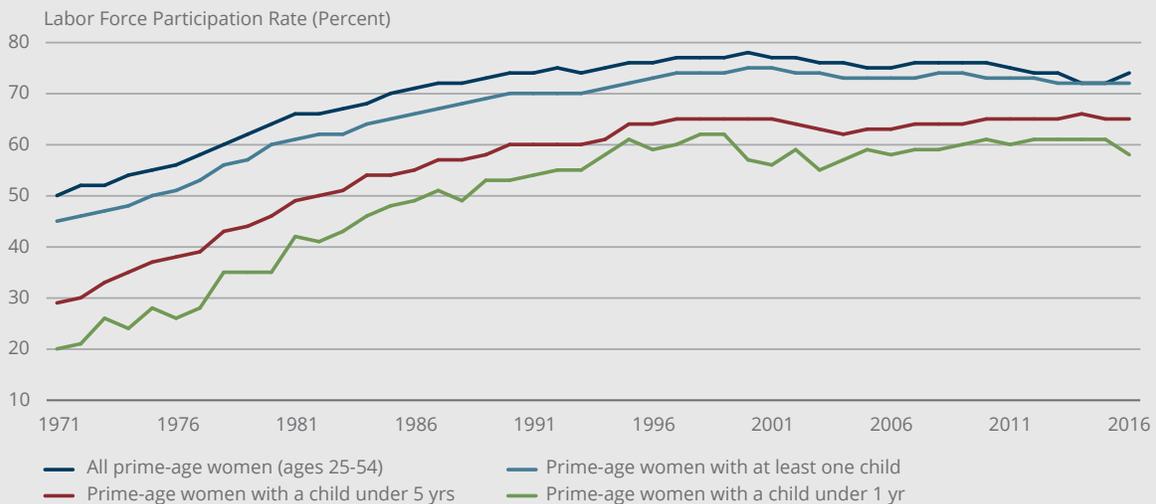
- As more women have entered the workforce and more workers are balancing paid work with child- and elder-care responsibilities, there is a growing need for PFML.
- Low-income, minority and part-time workers disproportionately lack access to PFML.
- PFML programs have been associated with many social and health benefits for workers and their families.
- Surveys of employers in states that have passed PFML programs indicate that the majority of employers support PFML and have not experienced negative impacts on their businesses.

- PFML policies can positively impact the economy by boosting women’s labor force participation.
- Job protection, sufficient wage replacement during the leave, and investments in outreach are important PFML program components to increase uptake by low-wage workers.
- PFML programs that align with other state worker benefit programs and that are structured as a social insurance program with limited employer opt-outs are cost-effective and easier to administer.

With more workers balancing work and care responsibilities, the need for PFML has increased.

Over the past few decades, as more women have entered the workforce and more workers shoulder child and elder care responsibilities, PFML has emerged as a policy solution to support working families. The image of a 1950s family with a stay-at-home mom is not the reality for most American families. As the chart below reflects, between the 1970s and 1990s, labor force participation increased substantially among “prime-age” women (women between the ages of 25 and 54) and mothers with children of all ages. By 2016, 65 percent of mothers with children under the age of five and 58 percent of mothers with children under the age of one were active in the labor force.⁴

Figure 1: Labor Force Participation Among Women



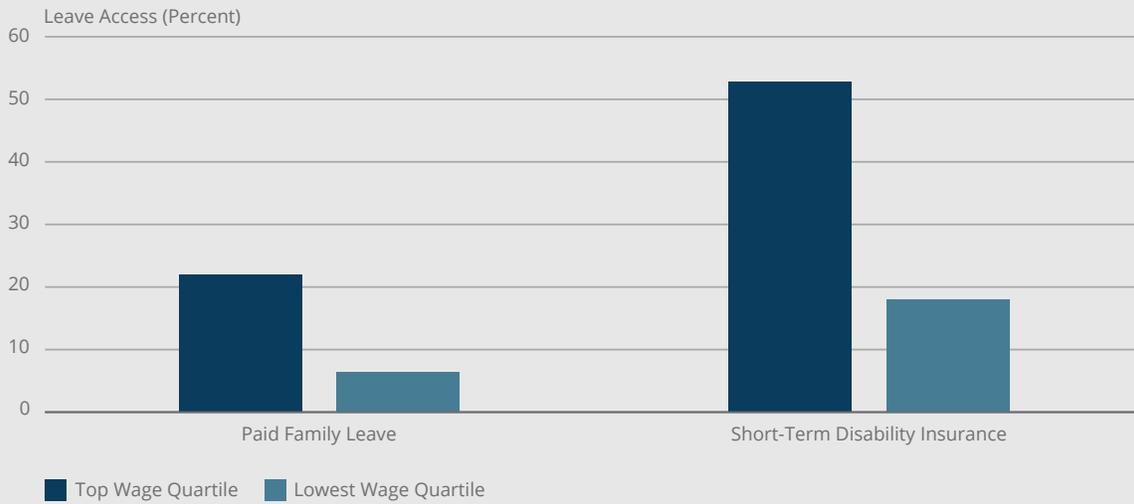
Today, most children live in families without a stay-at-home parent: both parents are employed in 62 percent of married-couple families and 73 percent of single mothers are employed.⁵ While the increase in women’s labor force participation has been a boon for the US economy, it has placed increasing pressure on mothers and fathers balancing family responsibilities with paid work. Although mothers still spend more time on child care than fathers, fathers today spend triple the amount of time on childcare than they did in the 1960s and individuals spend more combined hours on paid work, unpaid housework, and child care.⁶

In addition to child care, many workers are taking on the responsibility of caring for elders. The Department of Labor recently reported that approximately 1 in 6 Americans provides unpaid care to an elder (age 65 and older).⁷ Similarly, a study by the AARP and National Alliance for Caregiving estimates that 16.6 percent of adults in the United States—39.8 million Americans—provide unpaid care for another adult and 60 percent of these caregivers are employed.⁸ According to the AARP, this number is projected to rise as baby boomers age: in 2010, there were about 7 potential caregivers aged 45 – 64 for every person over the age of 80; by 2030, this ratio is expected to decline to 4 potential caregivers for every person over the age of 80.⁹ With care responsibilities projected to increase for workers, many worker advocates are focusing on policies such as PFML that make it easier for workers to balance their responsibilities at work with the realities of life at home.

Low-income, minority and part-time workers disproportionately lack access to PFML.

While some employers provide PFML to their employees as a benefit, such benefits are most often reserved for higher-educated, higher-wage employees. Approximately 14 percent of all workers have access to paid leave to care for an ill family member or bond with a new child (“paid family leave”), but only 6 percent of workers in the bottom quartile of wage earners have access, compared to 22 percent of workers in the top quartile.¹⁰ Similarly, while 38 percent of all workers have access to short-term disability insurance to cover their own non-work-related illness or accident, only 18 percent of workers in the bottom earnings quartile have access, compared to 53 percent of workers in the top quartile.¹¹ With black and Latino workers making up a disproportionate share of the low-wage workforce,¹² it is not surprising that minority workers have less access to paid leave: only 25.1 percent of Latino workers and 43.3 percent of black workers have access to paid parental leave, compared to 49.7 percent of white workers.¹³

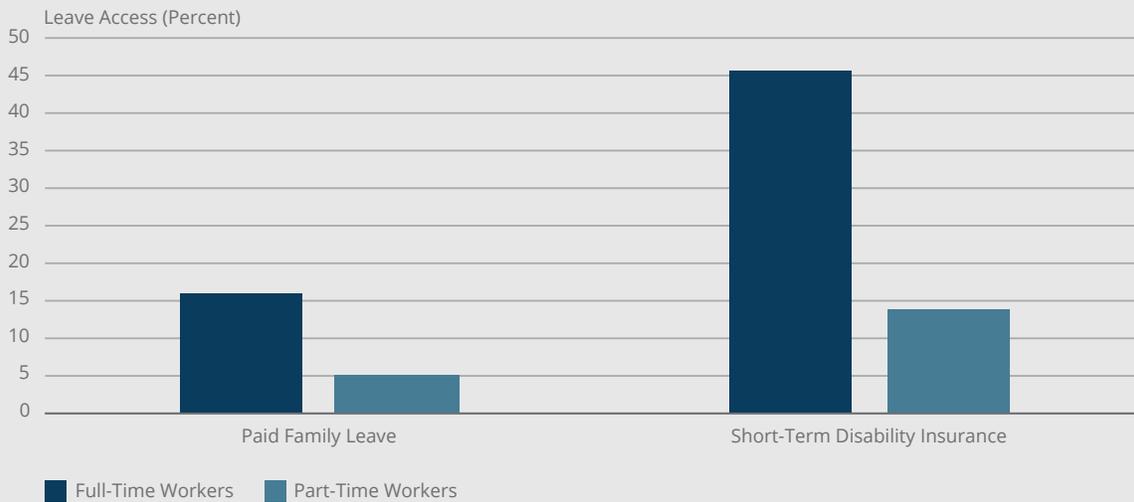
Figure 2: Leave Access by Earnings Level



Source: BLS National Compensation Survey - Benefits, 2016

Additionally, full-time workers are three times more likely to have access to paid family leave and short-term disability insurance than part-time workers.¹⁴

Figure 3: Leave Access by Work Status, 2016



Source: BLS National Compensation Survey - Benefits, 2016

Currently, workers who work for employers with 50 or more employees in the US are eligible for up to 12 weeks of unpaid leave pursuant to the Family Medical Leave Act (“FMLA”).¹⁵ However, as of 2012, only 59 percent of employees were eligible for the FMLA based on the legislation’s restrictions.¹⁶ For those who do qualify, many workers cannot afford to take the leave because it is unpaid.¹⁷ Some researchers estimate that working families lose \$20.6 billion in wages each year because of unpaid leaves, partially paid leaves and unemployment due to a lack of paid parental leave.¹⁸

PFML programs can increase the ability of workers to take leave, particularly low-income and minority workers, and increase women’s earnings. A study on the impact of California’s PFML law found that prior to enactment, non-college educated, unmarried and nonwhite mothers typically used only about one week of leave, compared to between 3 – 5 weeks for more advantaged mothers. After the PFML program was implemented, this gap narrowed—high school educated, unmarried, and black mothers took 4, 5, and 7 weeks of leave, respectively, compared to the 6 to 7 weeks of leave used by more advantaged mothers.¹⁹ This study also found suggestive evidence that the weekly work hours of mothers with 1- to 3-year-old children increased by 6 to 9 percent and their wage incomes may have risen by a similar amount.²⁰

PFML is associated with positive health and social benefits for workers and their families.

In addition to the economic benefits of PFML for working families, a substantial body of research documents the health benefits associated with PFML and some studies suggest that PFML can contribute to gender equity. Studies analyzing policies in other nations show that paid parental leave is associated with fewer pre-term births, a reduction in low-birth-weight babies, lower rates of infant and child mortality, higher rates of vaccination, and increased duration of breastfeeding (which in turn reduces a child’s risk of infection, child obesity, diabetes and sudden infant death syndrome).²¹ PFML also makes it more likely that parents can care for sick children themselves and having parents present has been linked to faster recovery from many in-patient and out-patient procedures.²² Studies have shown that maternity and post-partum leaves are associated with improved mental and physical health for mothers²³ and lower rates of intimate partner violence and child abuse.²⁴ Fathers’ access to paid parental leave can result in a more equitable division of household chores and increase fathers’ involvement in child care after the leave ends.²⁵

In states that have passed PFML, many employers support the program and have adjusted to PFML without experiencing negative impacts on their businesses.

Employers have expressed a wide array of opinions on proposed PFML policies:²⁶ some hail the positive effects on retention, talent attraction, employee morale, and productivity,²⁷ and others express concerns about direct and indirect costs, such as lost productivity, continued payment of health-care benefits while the employee is on leave, training temporary replacement employees, record-keeping, and administration.²⁸ However, surveys of employer attitudes in states that have passed PFML laws have found that a majority of employers support these programs. A 2016 survey of over 2400 small and mid-size employers (with 10 – 99 employees) in New Jersey and New York revealed that nearly two-thirds of employers are very supportive or somewhat supportive of the PFML laws in their states.²⁹ This was consistent with a 2015 survey of managers of 223 small and mid-size food services and manufacturing businesses in Rhode Island which found that 61 percent favored or strongly favored the program.³⁰

Moreover, the research indicates that most employers have not experienced negative effects on their businesses from PFML programs. A survey of 253 employers in California found that the vast majority of employers reported either a “positive effect” or “no negative” effect of the California PFML program on productivity (89 percent), profitability/performance (91 percent), turnover (96 percent), and employee morale (99 percent).³¹ Similarly, the Rhode Island survey of food-service and manufacturing firms found no significant impacts from the law on productivity or related metrics.³² More research needs to be done to quantify the impact on businesses, but these initial studies suggest that where PFML policies are in place, most employers have been able to adjust to the program without undue burden on their businesses.³³

PFML and other family-friendly policies could boost women’s labor force participation.

PFML policies have the potential to benefit the economy as a whole by increasing the labor force participation rates of women, particularly after the birth of a child. Research on the California and New Jersey PFML programs found that these programs increased labor force attachment for women in the months surrounding childbirth,³⁴ and a study of California’s program found that the weekly work hours of employed mothers increased by 10 – 17 percent one to three years after birth.³⁵ Another recent paper found 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).³⁶

The rise in female labor force participation among prime age women since 1970 has been critical to the US economy: working wives' earnings as a share of total family income increased from 27 percent to 37 percent between 1970 – 2013³⁷ and the Council of Economic Advisers estimated that the increase in women's labor force participation during this time resulted in a 13.5 percent increase in the GDP.³⁸ By 1990, the US had the sixth highest female labor force participation rate among 22 OECD countries. Since 2000, however, these rates have stalled and the US had been surpassed by many other countries, falling to number 17 out of 22 countries by 2010. Research suggests that the US is falling behind at least in part because of the lack of PFML and other family-friendly policies.³⁹ PFML could be an important policy to help more women stay in the workforce and harness their economic potential.⁴⁰

Outreach efforts, job protection and significant wage replacement are key elements of PFML programs for low-wage workers.

The states that have been early adopters of PFML programs offer lessons on the importance of outreach, wage replacement level and job protection to ensure that low-income workers are able to take advantage of the benefits offered. Studies of the California and New Jersey programs reveal that many workers—and in particular low-income workers—who experienced a life event that qualified them for benefits were unaware of the existence of the PFML programs.⁴¹ According to a 2009 – 2010 California survey (conducted 8 years after California passed PFML legislation), only half of workers who had experienced a life event that qualified them for PFML were aware of the program.⁴² The study also found that Latinos and immigrants were far less aware of the program, respondents with limited education were less aware than those with higher educational attainment, and respondents with annual household incomes under \$30,000 were only about half as aware as those with annual household incomes over \$80,000.⁴³ Most strikingly, those who lacked employer-provided paid sick days or paid vacation benefits were far less aware of PFML than those who already received paid time off;⁴⁴ in other words, the very group of workers without access to wage replacement and most in need of a state program were largely unaware of it. Results from polling in New Jersey three years after the program was implemented reveal a similar lack of awareness of PFML—less than 40 percent of residents knew about the New Jersey program and those workers most likely to have reported needing family leave were among the least likely to be aware of the program; namely, adults with less than a high school degree (36.8 percent), black adults (36.3 percent), and adults earning less than \$25,000 a year (33.3 percent).⁴⁵ These studies suggest that considerable resources need to be allocated to outreach efforts to ensure that workers—particularly low-income workers—are aware of the existence of PFML benefits.

Awareness of PFML programs is, however, only half of the battle. To ensure that low-wage workers can take advantage of PFML programs, the programs need to provide sufficient wage replacement and job protection. A survey of workers in California found that nearly one-third of respondents who were eligible and aware of the program did not apply for leave because they felt the level of wage replacement was too low.⁴⁶ Low-income workers in particular may not be able to afford to take a leave that does not provide a significant wage replacement benefit. A poll in New Jersey found that individuals with incomes less than \$50,000 were far more likely to cite financial reasons for not taking leave.⁴⁷ To ensure that low-wage workers are financially able to take leave, some states such as Washington have incorporated a progressive wage structure into their programs that provides lower-wage workers with a higher percent weekly wage replacement level than higher-wage workers.⁴⁸

Similarly, job protection is an important feature of leave for many workers. Several states, including California and New Jersey, have PFML programs that do not offer job protection beyond the protection provided by the FMLA (which only covers approximately 60 percent of workers). Surveys of workers in California and New Jersey who were aware of the program but did not take leave reveal that concern about losing their job was an important factor. In California, 24 percent of respondents indicated that they were afraid of being fired as the reason they did not take leave.⁴⁹ While job protection may impose a burden on some businesses, particularly small businesses, a bipartisan group of experts convened by the Brookings Institution and American Enterprise Institute recommend that family leave programs incorporate job-protected leave irrespective of business size.⁵⁰ Both Rhode Island and New York provide job protection for family leave in their PFML programs, which provides an opportunity to further study the impact these provisions have on businesses.

Structuring the PFML program as a social insurance program with limited employer opt-outs and aligning it with other worker benefit programs can reduce the administrative burden on the state.

In addition to ensuring uptake by workers, states that are considering PFML programs are grappling with how to structure the programs in a way that is efficient and easy to administer, both for the state and for employers. Most state PFML programs in the US and the vast majority in other advanced economies are structured as social insurance programs, where workers and/or employers make payroll contributions into a dedicated insurance fund that is administered by the government and from which benefits are paid.⁵¹ Some states, such as Rhode Island, utilize an exclusive state fund, whereas other states, such as New Jersey and California, combine a state fund with a system that allows employers to opt out and self-insure. Administrators of states that allow employers to opt out have highlighted the additional administrative and financial burden this creates on the state: the state must hire additional staff

to approve, regulate and supervise the employers with private plans to ensure that workers at those businesses are afforded coverage of equal or better quality than the state fund. California's Voluntary Plan Administration Section, which requires two managers and eleven staff to oversee 2500 employers, recommends that other states not allow employer opt-outs, given the administrative burden and complexity that results.⁵²

Additionally, administrators from states with PFML programs have emphasized the importance of coordinating the program with other state agencies that already collect data on wages and labor force attachment. Although paid leave programs cannot be administered by a state's unemployment insurance ("UI") system, states can issue memorandums of understanding that allow data to be shared from the UI program and legislators can ensure that the same definitions for "wages" and other terms are used in the legislation to reduce confusion and the record-keeping burden for employers. Additionally, states can administer PFML through agencies that already have wage and labor force attachment data to further reduce the reporting burden on employers. California, New Jersey and Rhode Island all administer their PFML programs through employment security agencies which also administer UI programs.⁵³

Conclusion

The research on PFML programs in the early-adopter states reinforces the importance of PFML for today's workers and our economy as a whole. While more research needs to be done to measure the impact PFML programs have on businesses, the early results are promising. As more states pass PFML legislation, there will be further opportunities for research and more lessons on how to best structure programs to operate efficiently and minimize the burden on businesses, while still reaching those workers most in need.

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Endnotes

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- ³⁹ Note, however, that the more generous family-friendly policies in other countries also appear to encourage part-time work and employment in lower level positions. Women in the US are more likely to work full-time and hold managerial positions or work as professionals. Blau, F.D. & Kahn, L. M. (2013). *Female labor supply: Why is the U.S. falling behind?*. NBER Working Paper Series. Retrieved from <http://www.nber.org/papers/w18702.pdf>
- ⁴⁰ Note that the associated positive effects of PFML on labor force participation may not extend to lengthier leaves. A study found that expanding paid leave from 18 weeks to 35 weeks did not impact labor force participation rates. Dahl, G. B., Løken, K.V., Mogstad, M., & Salvanes K. V. (2013). *What is the case for paid maternity leave?*. NBER Working Paper Series. Retrieved from <http://www.nber.org/papers/w19595.pdf>
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- ⁴⁵ White, K., Houser, L. & Nisbet, E. (2013). *Policy in action: New Jersey's family leave insurance program at age three*. Rutgers Center for Women and Work, State University of New Jersey School of Management and Labor Relations. Retrieved from https://smlr.rutgers.edu/sites/default/files/documents/FLI_Report_1-31_release.pdf
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- ⁵² Ibid.
- ⁵³ Ibid.