Economic and Policy Impact Statement
Universal Paid Leave Amendment Act of 2016 (B21-415)

Executive Summary

For significant legislation under consideration during Council Period 21, the Office of the Budget Director may prepare an Economic and Policy Impact Statement that offers Councilmembers an independent, evidence-based resource for weighing the legislation's policy implications and economic costs and benefits.

The subject of the first Economic and Policy Impact Statement is the "Universal Paid Leave Amendment Act of 2016" (UPLAA), which would create a paid family leave benefit for all private sector workers in the District of Columbia. The proposed legislation would replace up to 90 percent of qualifying workers' wages for 11 weeks of parental leave or 8 weeks of caregiving leave over a 52-week period. (Appendix A provides a full summary of the bill, as scheduled to be marked up by the Committee of the Whole on December 6, 2016.)

To analyze the policy implications of UPLAA, the Budget Office undertook a review of more than 170 peer-reviewed studies and government reports on paid family leave's impacts on the health and well-being of individuals, households, the labor market, and businesses. In order to project the potential economic impacts of UPLAA on the District of Columbia, the Office developed a forecasting model tailored to the specifics of the legislation. It relies upon a 70-sector regional economic model built by REMI, Inc. and customized to the Washington, DC Metropolitan Statistical Area.

1. Empirical Evidence: Effects of Paid Family and Medical Leave on Labor Markets, Businesses, and Health and Family Well-Being

Based on a review of the academic research, the Budget Office found that after public paid family leave programs were implemented in other states, most managers that participated in follow-up surveys reported that the program had either negligible or positive effects on their business. Still, the effects of providing paid family leave may vary across different firms and employees. Given the immense variety in firms' structure, function, needs, and labor costs, it is impossible to generalize about how all businesses are impacted by paid family leave programs. Firms that employ higher percentages of professionals and women may have a stronger relationship between the provision of work-life benefits, such as paid family leave, and productivity.

Employers reported in a 2008 survey that their two greatest barriers to implementing work-life initiatives such as paid family leave were cost (30 percent) and potential loss of productivity (11 percent). Other surveys of businesses located in California, Rhode Island, and New Jersey suggest that overall paid family leave entitlements have a positive or negligible impact on firms' profitability or performance. A handful of studies concluded that family-friendly policies can have positive impacts on companies and individuals' productivity by increasing employee satisfaction. This can result in improved customer service, reduced employee turnover, and lower recruitment and training costs. However, some of these savings may be offset by added costs associated with shifting a leave taker's duties to other employees. Paid family leave programs may also allow firms to draw upon a larger talent pool when hiring, because there is substantial evidence linking paid family leave programs with increasing women's labor force participation.

Some firms may pass along the costs of offering paid family or medical leave to their workers in the form of lower wages. In upstate New York, employers who offered benefits like flexible scheduling policies and childcare tended to pay lower entry-level wages than their competitors and experienced less turnover. A separate study indicated that workers in Britain and Australia would accept as much as 20 percent lower wages to work at a firm with family-friendly practices.

Evidence suggests that paid family leave can reduce the average amount of time that mothers and family caregivers spend out of the workforce, in part by decreasing their need to change jobs in order to fulfill their parental or familial obligations. In reducing the amount of time women spend out of the workforce and increasing the chances that they will return to their same employer following the leave period, paid family leave also has the potential to narrow the gender wage gap. Numerous studies have found that mothers of small children with access to moderate lengths of paid leave tend to go back to work sooner. Strengthening women's attachment to the labor force would raise their total work experience and accumulated job-specific human capital, both of which are factors in career advancement and wage growth.

Paid family leave has been shown to increase the average length of time that new parents spend at home with their infants and improve family health and well-being. Research has linked paid parental leave rights to reductions in child and infant mortality. In addition, breastfeeding's health benefits to children and mothers are well documented, and paid maternity leave has been shown to increase its rate and duration. After California implemented its paid family leave program, the state's exclusive breastfeeding rate rose 3 to 5 percentage points and by 10 to 20 percentage points at several key developmental moments. Many reports have also found that new mothers who return to work later tend to exhibit better general health, fewer symptoms of depression, and less anxiety. Paid family leave can provide those caring for ailing relatives with economic stability and reduce their likelihood of experiencing depression.

New fathers are also more likely to take paternity leave and stay out for more days when the leave is paid, especially with higher wage replacement rates. Studies examining the effects of California's paid family leave program found that it raised the chances that men would go on paternity leave by 46 percent, and it extended the average length by nearly a week. Research has shown a positive association between more frequent fathers' engagement with their children and enhanced cognitive development as well as decreased behavioral problems.

2. Benchmarking: Paid Family and Medical Leave Programs in Other U.S. Jurisdictions

California created the nation's first state paid family leave program in 2004, followed by New Jersey in 2009, and Rhode Island in 2014. New York will begin its paid family leave program in 2018. All of these states also have paid medical leave programs, as do Hawaii and Puerto Rico. San Francisco has a paid parental leave mandate that will supplement the California state program starting in 2017.

All of the existing state paid family and medical leave plans function as insurance regimes. California, New Jersey, and Rhode Island rely on government agencies to administer their family leave plans. In contrast, states takes three different approaches to administering their medical leave plans: 1) a competitive model that allows employers to choose a government plan or a private plan that provides equal or better coverage; 2) a private model that requires employers to self-insure or privately secure a plan that meets state guidelines; and 3) a public model.

San Francisco is the only jurisdiction that has a paid parental leave ordinance, which will function quite differently than any of the state programs. Rather than creating a government-administered insurance fund or directing employers to purchase a private insurance plan, employers will be required to directly compensate workers when they take leave to bond with a new child.

Paid family and medical leave programs' benefit structures differ from one another according to their wage replacement rate, the minimum and maximum weekly benefit payment, the benefit period, and how family and medical leaves interact with one another. Wage replacement rates range from a low of 50 percent in New York to a high of 100 percent in San Francisco. All of the existing state programs currently have a flat wage replacement rate, meaning that low- and high-income workers receive the same share of their wages in benefits up to the replacement ceiling. However, California and New York are moving towards a tiered system that will scale claimants' wage replacement rate to their income.

All jurisdictions with paid family leave and short-term disability plans limit the amount of leave that workers can qualify for each year. California and New Jersey allow for up to six weeks of paid family leave, while Rhode Island insures wages for up to four weeks. New York's family leave program will initially provide eight weeks of paid family leave and increase to 12 weeks in 2021, as its fund balance allows. In addition, short-term disability and family leave benefits can be stacked in California, New Jersey, and Rhode Island, which means that an eligible person can qualify to use both types of paid leave over the course of a year.

Levying a payroll tax is the most common way that states fund their paid leave programs, but each state uses a different formula for determining their tax's incidence. Employees in California and Rhode Island bear the statutory tax obligation at the 2016 rate of 0.9 and 1.2 percent, respectively. In contrast, New Jersey and Puerto Rico divide the tax obligation between employers and employees. Administrative expenses in California, New Jersey, and Rhode Island represent between 4.3 and 6.4 percent of their net benefits paid. Some states allow employers to self-insure or acquire private insurance and opt out of the disability insurance tax.

3. Policy Context: District Workers' Access to Unpaid and Paid, Job-Protected Leave

Local and federal laws guarantee many workers in the District access to unpaid, job-protected family and medical leave. Under the federal Family and Medical Leave Act of 1993 (FMLA) and the District of Columbia Family and Medical Leave Act of 1990 (DCFMLA), eligible workers can qualify for up to 12 weeks of unpaid family leave and 12 weeks of unpaid medical leave in any 12-month period, or 16 weeks in any 24-month period. District law also guarantees workers some paid sick days, which for full-time workers means three to seven days per year.

However, many people cannot afford to exercise their rights under the DCFMLA/FMLA. During 2012, 4.6 percent of U.S. workers needed but could not take FMLA leave. Financial strain was the leading reason why employees forewent leave, accounting for 46 percent of unmet leave. More than 8 percent of low-income employees who needed family or medical leave in the prior year did not take it or took less time than they required, a rate two and a half times greater than for high-income workers. When workers took FMLA leave with partial or no pay, two-thirds said that they found it somewhat to very difficult to make ends meet. Thirty percent of unpaid and partially paid leave takers had to borrow money, and 15 percent went on public assistance.

Further, not all workers qualify for job-protected DCFMLA/FMLA leave. The right is circumscribed by the employer's size and the worker's tenure and number of hours worked in the previous year. The DCFMLA has a lower qualifying standard than the FMLA, but even so, approximately 30 percent of the District's private industry workers – or 147,400 people – are not protected under the DCFMLA because of their firm's size and job tenure.

Among private-sector employees in the South Atlantic, about 14 percent have some form of paid family leave. Across the U.S., worker salaries are closely and positively associated with access to paid family leave. While a quarter of the highest 10 percent of wage earners had this benefit in 2015, only 3 percent of the lowest 10 percent of wage earners received it. Work schedules, employer size, occupation, and industry also seem to be factors in access to paid leave. Workers in the District may be, on average, more likely to have family leave benefits than other U.S. workers. This is because managerial, professional, financial, and information occupational groups have some of the highest rates of paid family leave and are also overrepresented in DC's workforce. In addition, full-time District government employees are eligible for up to eight weeks of paid family leave per year. Many federal government workers can use up to six weeks of advanced sick leave during a qualifying FMLA leave.

4. Economic Model

To evaluate the potential impacts of UPLAA on the District's economy, the Budget Office developed an economic model of the legislation's costs and benefits, to the extent that these factors could be quantified. The study compares the projected economic conditions under the "baseline" economic forecast, in which the District continues to have no requirement for paid family leave, to the projected economic conditions under the "policy" forecast, which captures the impact of the legislation if implemented. The analysis assumes that the paid family leave fund would begin collecting payroll taxes in 2019 and start paying benefits in 2020. The study estimates the differences between the baseline and policy forecasts over a ten-year time horizon, beginning in 2017.

Since uncertainty is inherent to any forecasting exercise, the study evaluates the impact of the proposed legislation under three different behavioral response scenarios.

- **Employees Absorb the Tax:** This behavioral response scenario assumes that businesses would primarily manage the cost of the payroll tax by shifting it on to their employees in the form of eliminated or delayed salary and benefit increases. It assumes that individual firms would choose to lower their per employee labor costs by the amount of the tax, but the number of employees they hire would be the same as the baseline forecast.

- **Firms Absorb the Tax:** This behavioral response scenario assumes that businesses would mostly absorb the payroll tax primarily by reducing their labor cost. Firms would also react by raising the prices they charge for their goods and services. Per employee labor costs would be the same as they would be under the baseline forecast, but some businesses would react by shrinking the relative size of their workforce.

- **Hybrid Tax Absorption:** This behavioral response scenario assumes that firms would respond to the new tax by shifting approximately half of it on to employees and absorbing the rest. Some firms also react by raising their prices.

The study finds that implementing the proposed legislation would have a minimal impact on the District's labor market and economy over a ten-year period (2016-2027). Since the magnitude of the program's impact on employment and GDP is minor, it is unlikely to alter the current upward trajectory of the District's economy. Some businesses and industries might experience the impacts of the proposed legislation more sharply than others, but this study estimates that its effects on the District economy as a whole would be small. The study projects that if the proposed legislation is implemented:

- The paid family leave program would pay out $242 million in benefits during its first 12 months, which the Budget Office assumes would occur in 2020.
- Women's labor force participation in the District would increase.
- The District's infant mortality rate would decrease.
- The cumulative impact of the legislation on the District's GDP would range from a gain of $15 million to a loss of $122 million by 2027. This means that over the next 10 years, the District's GDP would grow at an average annual rate of 1.913 to 1.921 percent, rather than 1.920 percent. To put this in context, under the baseline forecast, GDP for the District is projected to grow from $123.9 billion in 2016 to $152.1 billion in 2027.
- The cumulative impact of the legislation on the District's private sector employment would range from a decrease of 90 to 1,300 jobs by 2027. This means that over the next ten years, private sector employment in the District would increase at an average annual rate of 1.340 to 1.358 percent, rather than 1.359 percent. To put this in context, under the baseline forecast, private sector employment for the District is projected to grow from 534,000 jobs in 2016 to 621,000 jobs in 2027.

If businesses absorb all of the payroll tax, the model forecasts that the District's economy would support approximately 1,300 fewer jobs by 2027 compared to the baseline economic forecast. In contrast, if the payroll tax incidence falls on employees, the model predicts that the District economy would support approximately 90 fewer jobs by 2027 than the baseline economic forecast. To put this in perspective, the Office of the Chief Financial Officer reported that employment in the District increased by an average of 11,039 jobs per year between 2013 and 2015. Thus, a loss of 1,300 jobs is about the number of jobs that the District typically adds in 6 weeks, whereas a loss of 90 jobs is equal to about three days of average job growth.

If employers shift half of the payroll tax incidence on to employees, the model forecasts an impact on GDP and the economy that falls between the two scenarios described above.

One limitation of the proposed legislation's economic forecast is that its costs are more readily quantifiable than its benefits. The bill specifies the payroll tax rate and would redistribute a predictable amount of money across the economy. However, many of the bill's estimated health, family, and social equality benefits cannot be readily assigned a monetary value, especially over the long term. For example, the time that one spends with a dying parent may be deeply meaningful on a personal level, but there is no widely accepted method for translating this experience into economic terms. Even when there is substantial evidence of similar programs providing specific health and wellness benefits that can generate economic benefits, such as promoting infant health by raising breastfeeding rates, there may not be a straight forward way to assign a monetary value. Thus, the proposed legislation's impact on economic forecasts should be considered alongside its other estimated non-monetary impact.