Paid Family Leave in California:

An Analysis of Costs and Benefits

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Arindrajit "Arin" Dube
University of Chicago, Department of Economics

Ethan Kaplan
University of California, Berkeley, Department of Economics

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Executive Summary

In 1993 President Clinton signed the Family Medical Leave Act (FMLA) into law, allowing covered and eligible employees to take up to 12 weeks of unpaid leave from a job to attend to their own health, the health of a family member, or to spend time with a new child. Much data exist, however, indicating that while many Americans need to take leave for family or medical reasons, a significant percentage of these individuals do not take leave because they cannot afford to miss a pay check.

Numerous states have identified this shortcoming in the current law and the adverse impact it has had on employees and their employers. Consequently, in 28 states, including California, Massachusetts, New York and New Jersey, paid leave bills have been introduced.

In this report, researchers conduct a cost benefit analysis of one such piece of legislation, SB 1661, introduced in the California legislature in February 2002. This legislation expands the state's existing State Disability Insurance (SDI) system. The current SDI system already provides partial paid family and medical leave, providing employees 55-60 percent wage replacement when they take leave to recover from a non-workplace-related serious illness, including pregnancy- and birth-related disabilities. SB 1661 would extend this family and medical leave insurance system to allow employees 50-60 percent wage replacement when they take up to 12 weeks of leave to care for a newborn or newly adopted child or for a seriously ill family member.

Using data from the U.S. Department of Labor, researchers begin by providing three different cost scenarios for SB 1661. They then examine cost savings for employers using data that indicate that employees who receive some form of paid benefits are more likely to return to their employer. They also analyze data concerning

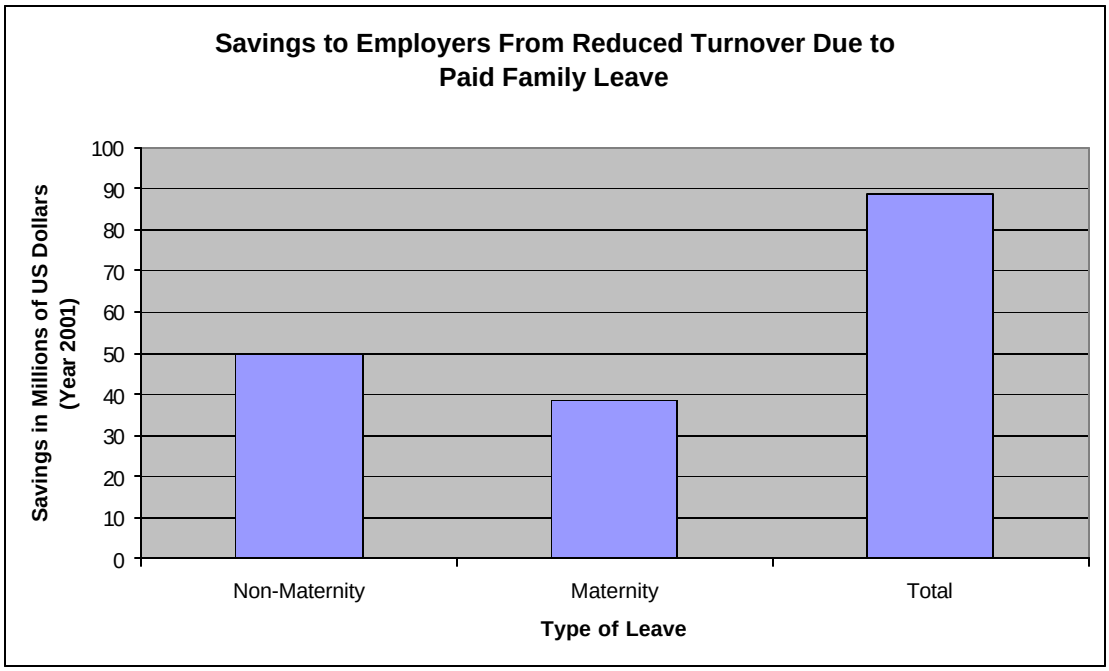
the percentage of unpaid leave takers that currently end up on public assistance. Researchers conclude by discussing the costs and benefits of SB 1661 and also propose recommendations for future study.

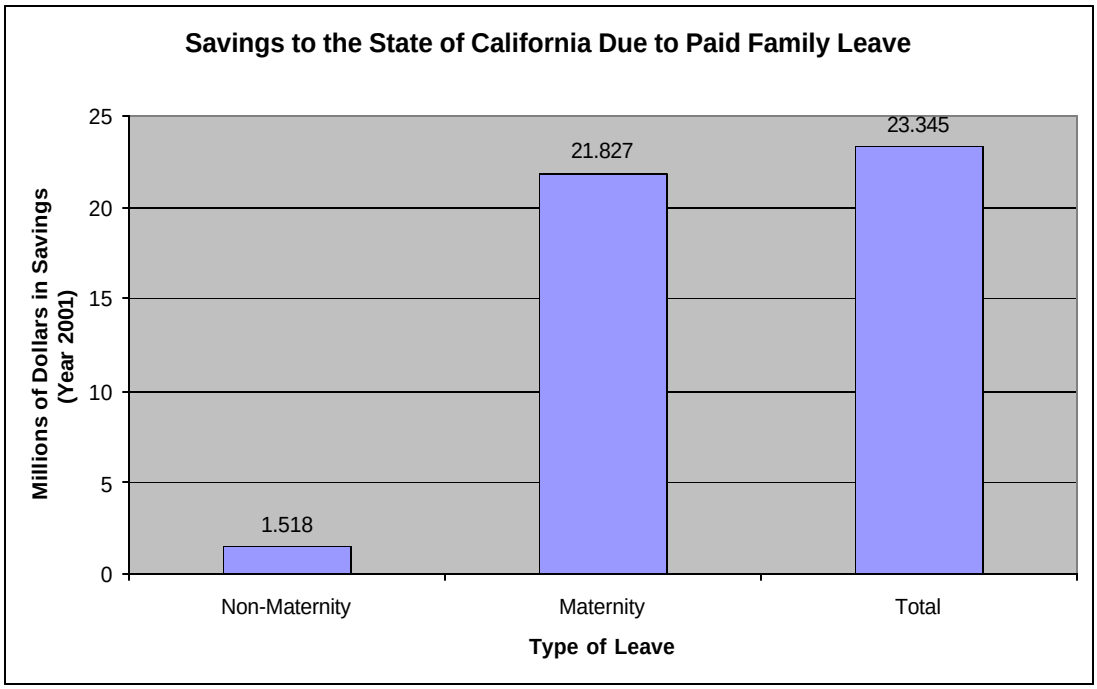
Key Findings

Benefits of SB 1661

The results of this analysis indicate that passage of the legislation could not only extend benefits for the 12 million California employees currently covered by SDI, but also create significant financial savings for employers and the State of California. Researchers find:

- **California companies could save $89 million** under a paid family leave program due to increased employee retention and decreased turn-over;
- **The State of California could save $25 million annually**, due to decreased reliance on assistance programs, including TANF and Food Stamps. Many individuals currently turn to these programs when taking unpaid leave causes them financial hardship.




Savings to the State of California Due to Paid Family Leave
Millions of Dollars in Savings (Year 2001)
25
20
15
10
5
0
1.518
21.827
23.345
Non-Maternity
Maternity
Total
Type of Leave

Costs of SB 1661

Researchers estimate that expanding the State Disability Insurance program as SB 1661 specifies would require a 0.2 percent increase on employees payroll tax. This would raise the total cost of the existing SDI system to 1.1 percent of salary and income. This tax would be shared between employees and employers. With an estimate of average employee uptake of the expanded program:

- **SB 1661 would cost California employees an average of $2.10 per month, or $2.33 per month for 2003;**
- **SB 1661 would cost employers an average of $2.10 a month per employee.**
- **The total cost per employee is an average of $50 a year, and in 2003, $56 a year.**

Introduction

In 1993, the Clinton administration signed the Family and Medical Leave Act (FMLA) into law. The FMLA mandates that all employees with a minimum of 1,250 hours tenure with an employer with over 50 employees within a 75 mile radius be eligible for up to twelve weeks unpaid family leave within a year without fear of being fired upon return to work. Permitted reasons for leave range from the employee's own serious illness to bonding with a new child or caring for a seriously ill child, parent or spouse.

The FMLA does not provide wage replacement to employees out on leave. Consequently, paid leave bills have been introduced in at least 28 states, including Massachusetts, New York and New Jersey. California introduced such a bill, SB 1661, in February 2002. This paper will analyze the costs and benefits of a paid family leave policy such as SB 1661.

The paper begins with a review of related literature on the impact of paid family leave and other similar insurance programs. It then discusses the costs of implementing SB 1661. It also estimates the cost savings to employers of paid leave that result from reduced turnover. In addition, it looks at the cost savings to government programs such as TANF and Food Stamps. It concludes by making recommendations on future data collection.

California's Existing Family Leave Laws

Leave Laws Establishing Job Protection

In 1993, the federal Family and Medical Leave Act (FMLA) became law. In the same year, the California State Legislature amended the California Family Rights Act (CFRA) to conform to the FMLA's standards. These two bills mandate that any private sector employee, any state or local government employee, and some federal employees who have worked at least 1250 hours for their employer in the previous 12 months, be eligible for 12 weeks of unpaid family leave as long as the employer employees at least 50 employees within a 75 mile radius (Commission on Family and Leave 1996). This means that covered employees are eligible to take 12 weeks of unpaid family leave without the risk of being fired by their employer.

In California, approximately 62% of workers are covered by FMLA/CFRA (Commission on Family and Medical Leave 1996). Employees who are not covered are mostly those who have not worked enough in the past 12 months or those who work for employers who are too small to be covered.

Since 2001, with the passage of a flexible sick leave law in California, employees with sick leave may use this leave to care for ill family members. Under Section 233 of the California Labor Code, employees are allowed to use up to the amount of sick leave they accrue during a 6-month period to take care of sick family members.

Leave Laws Establishing Wage Compensation

The State of California has, since the 1940s, maintained a state disability insurance program (SDI). Under this program, employers are mandated to have their

employees participate in the state disability insurance program or they are obligated to provide comparable insurance policies to their employees. Workers are eligible to receive between 55% and 60% of their weekly wages (up to a maximum of $490 per week in 2001(EDD 2001)) for a period of time during which they are sufficiently disabled as to not be able to work.[1] The maximum period of coverage is 52 weeks. There is a 7-day waiting period before an eligible worker can start receiving benefits (EDD 2000). Workers need to get verification from a doctor in order to receive insurance payments. Only workers suffering from a non-work-related disability due to illness or injury are covered.[2] For pregnancy disability, employees are allowed to take up to 4 weeks of leave before giving birth and up to 6 weeks after giving birth for a normal birth; additional time is granted in cases of birth complications. SDI is fully funded through employee payroll taxes. The costs are currently about 0.9% of employees' wages. About 12 million out of 15 million California workers make contributions to the state insurance fund.

[1] Weekly wages are calculated as the average weekly wage in the highest earning quarter between 6 months and 18 months before the date of application for disability.
[2] Workers suffering an injury on the job are eligible for workman's compensation.

Senate Bill 1661: The Paid Family Leave Bill of 2002

Senate Bill 1661, which extends State Disability Insurance to cover paid family leave, was introduced into the California State Legislature on February 21, 2002. The bill would provide disability compensation for any individual who is unable to work due to the need to care for an ill parent, child, spouse, or domestic partner, or for the birth, adoption, or foster care placement of a new child. It would, in other words, extend the current SDI coverage beyond the employee's own disability to coverage of family caregiving.[3]

SB 1661 would establish, within the existing state disability insurance program, a family leave insurance program to provide up to 12 weeks of wage replacement benefits.[4] The additional benefits would be funded through increased employee and employer contributions to the state fund. Fifty percent of the funds would be paid for by employers and the other fifty percent by employees. The rules for coverage and payment are the same as for current State Disability Insurance. SB 1661 merely extends coverage to include family leave.

[3] Employees who currently are able to receive pregnancy disability would continue to be covered for pregnancy disability. However, they would now be eligible for up to 12 weeks of additional coverage for bonding with their new born child.

[4] Workers who are not covered by CFRA/FMLA would be eligible for PFL but would not be guaranteed job protection.

Theory

Benefits to Families, Employers, and Government of Legislating Paid Family Leave

Two of the main potential beneficiaries of paid family leave are children and elderly parents. To the degree that the length and number of leaves taken is sensitive to compensation being paid during leave, children and elderly parents are likely to be beneficiaries. Greater leave taking would improve the quality of caregiving, and may beneficially impact health outcomes. In a subsequent section, empirical evidence on the medical impacts of paid family leave policies in Europe is provided. In addition, because a paid family leave program would provide partially paid leave for families in times of need, it would benefit the leave takers by offering them insurance. Like all insurance, it not only benefits people who actually take leave, but also provides the option of getting compensation during a family emergency to nearly all employees.

In addition, to the degree that low-income parents know they can use paid family leave, having such a policy may impact their decision to participate in the labor force at all. The best example of this is a future mother. Realizing that she will receive some pay during maternity leave, she may decide to enter into or after giving birth remain in the labor market. Alternatively, without such a policy, she may decide to leave her job early and/or may not re-enter the labor force until years after giving birth.

By giving more incentives for people to both enter and remain in the labor force, a paid family leave bill is likely to reduce government expenditures. The social programs whose expenditures are likely to fall include TANF, renter's assistance, Medicaid, and

other public income maintenance programs. Providing incentives to remain in the work-force is also likely to increase income taxes over the longer term.

Employers may also benefit from a paid family leave policy. Individual employers may want to offer paid family leave to employees because they know that their employees' (and their own) estimation of the value of such an insurance program exceeds the costs. However, if only a handful of companies currently offer paid family, these employers might attract a disproportionate number of workers who wish to take leave by providing such a fringe benefit – for example employees with a sick parent or a young child. In economics, this problem is known as "adverse selection" – which implies that certain insurance policies will not be provided by the private market in spite of their social desirability. In the absence of some type of government policy, few individual employers would offer paid family leave. By eliminating such "adverse selection," the proposed legislation could thus correct a serious distortion in the labor market. Also, leveling the playing field, it would be particularly beneficial to employers who currently have good paid family paid leave policies.

In addition, a paid leave policy can also foster greater attachment to jobs (greater tenure), which reduces recruitment and training costs to employers. When an employee can afford to take the necessary family leave, he/she is less likely to quit. Faced with the prospect of an unpaid leave, employees sometimes leave their primary job – relying either on public assistance or a part time job as the source of income. However, with a paid leave policy, these employees would now take leave and remain employed with their same employer. Through encouraging greater attachment to jobs, a paid leave policy would reduce turnover costs born by the employer. Finally, job attachment or tenure

typically increases employees' productivity and wages, which are additional benefits of a paid leave policy.

Costs to Families, Employers, and Governments of Legislating Paid Family Leave

The main costs of instituting a paid family leave policy in the State of California would be the direct monetary costs to employees and employers. The costs depend on how many people would take up paid family leave, and how long the leaves would be. First, workers who are currently taking unpaid leave to care for their families would now take partially paid leave in accordance with the new policy. Second, some of these people may take longer leaves due to the pay. Third, some people who are currently using vacation or sick time in order to take leave and care for their families may switch and start using the paid family leave policy. Each of the other possibilities are discussed in greater detail when the cost of the policy is estimated later in the report.

In the long run, it is not clear who will pay for the paid leave program. Workers may pay for it both via direct contributions to the SDI fund as well as lower wages. Employers may ultimately lower their wages to workers because of their partial provision of family leave. However, the ability of employers to do so is limited because it might make them less competitive in attracting employees who do not stand to gain as much from paid family leave. How much, if at all, wages will drop in the long run due to the leave policy is an empirical question beyond the scope of this paper. However, empirical evidence from other studies on this issue is discussed in the next section.

Lastly, there is a possibility that the increase in labor costs could lead to an increase in unemployment. However, the additional costs calculated here are such a small fraction of wage costs that any impact on employment levels is at most negligible. Thus, we do not address this issue further in the paper.

Existing Research on the Costs and Benefits of Paid Family Leave

There is a small body of empirical research on the economic impacts of family leave. Here, we review the most relevant publications on the subject.

In 2000, the Employment Development Department (EDD) of the State of California did a cost analysis of implementing a paid family leave policy in the state of California (EDD 2000). EDD found that implementing a paid family leave policy, with a wage replacement rate equal to the State Disability Insurance (SDI) wage replacement rate and coverage equal to SDI coverage, would cost approximately 0.1% of the aggregate wage bill. The study assumes that workers who are currently using vacation time and other types of benefits for family leave would not switch and start using a state paid family leave policy. The study also assumes an hours eligibility requirement like that of CFRA and the FMLA (i.e., those employees with less than 1,250 hours worked in the previous year are assumed not to qualify for this policy). SB 1661's eligibility requirements are broader. Finally, when projecting annual take-up, the EDD study does not account for the 19-month sampling window used in the DOL data set.

In an article on the link between paid family leave and labor force participation, Christopher J. Ruhm (1998) looks at the impact of parental leave in nine Western European countries. He uses annual country-level data on mean wages and employment-by-age as well as the replacement ratio (percent of wages paid while on leave) and the duration of leave in each of the nine countries for every year between 1969 and 1993. Arguing that family leave benefits in these countries are almost exclusively used by women, and, therefore, such leave should only affect the wages and labor supply of women, Ruhm looks at how the difference between men and women's wages (and work hours) vary over time as a result of policy changes across the nine countries. He finds that rights to three months of leave lead to a 3 to 4% increase in women's rate of employment and no reduction in their wages. In short, short- and medium-length family leave does in fact lead to more women staying in the labor force without negative wage effects. Such a policy can benefit women (who are more able to develop careers and earn higher wages), companies (who face less turnover), and governments (who can collect higher tax revenues due to the increased participation of women in the labor force).[5]

An article by Meyer, Mukherjee, and Sestero looks at the impacts of paid family leave on profitability. The authors argue that implementing paid family leave leads to a 2.5% rise in the rate of profit of the company. They show that for companies with a given level of capital intensity and a given selection of other benefits policies (adoption assistance, child care, allowing work at home and others), the introduction of a paid family leave policy on average result in a 2.5% higher rate of profit (operating income as a fraction of sales). Although the evidence is not conclusive, this paper is important

[5] This evidence is directly relevant to SB 1661 because both the additional maternity allocated to bonding with a new child as well as the general leave provision are likely to have an impact on the labor supply of women.

because it suggests that paid family leave may be profitable (or at least not particularly costly) for employers to provide because it may raise the productivity of the employer's workforce.

Another relevant article is Chris Ruhm's study (2000) on the impact of parental leave on child health. Using data on changes in parental leave policies between 1969 and 1993, Ruhm found that when countries implemented parental leave, child mortality (relative to mortality amongst the elderly) fell compared to other countries, even controlling for changes in GDP, health care expenditures, and insurance coverage. In particular, he found that rights to a year of job-protected leave are associated with a 25% decline in post-neonatal deaths and an 11% decrease in fatalities occurring between a child's first and fifth birthdays. This article is the only one known to the authors which uses statistical modeling in order to look at the impact of parental leave on child health. Even though this current paper focuses upon the economic effects of a paid family leave policy, it should be stressed that possibly the single most important benefit of this policy is its potential health impact.

Jody Heymann's book, *The Widening Gap: Why America's Working Families Are in Jeopardy and What Can Be Done About It* (2000), goes into more details about how paid family leave could effect child health. She notes that 41% of mothers who have been on welfare for more than two years have had at least one child with a chronic health condition, compared with only 21% of mothers who have never been on welfare. Also, 76% of parents in the bottom 20% of the income distribution have no paid sick leave, 58% have no vacation leave, and 54% lack both vacation and sick leave. According to Heymann, the main channel through which paid family leave would improve child health is through enabling poor families to care for their own children.

Focusing on maternity benefits, in "The Incidence of Mandated Maternity Benefits" (1994), Jonathan Gruber estimates the impact of mandated maternity leave upon wages and employment of women. Gruber uses both differential changes in state law and changes in federal law to come up with an estimate of the wage impacts of mandated paid maternity leave. Between 1975 and 1978, 23 states passed laws mandating that maternity coverage be included in health insurance packages. Gruber uses individual wage and demographic data to show that the relative wage gap between women likely to become pregnant (married women aged 20-40) and workers not likely to have a new child (workers of both sexes over 40 plus single men between the ages of 20-40) went up in the 23 states which implemented maternity health benefits mandates. Moreover, he finds that the wage gap rose in those states by an amount almost exactly equal to the costs of providing maternity care insurance suggesting that employers did not pay much if any of the costs of mandated maternity benefits. Gruber also finds no disemployment effects of the state implementing mandated maternity benefits.

Lastly, an article by David Cutler and Sarah Reber (1998) is discussed. Although it is not about family leave, it is relevant because it addresses problems associated with employer provided insurance (such as the family leave provision). Cutler and Reber quantify losses in health insurance due to adverse selection.[6] They use administrative data from Harvard University. In 1995, Harvard went from providing a single plan for all workers to contracting with a group of HMOs and PPOs who would then compete against one another. In other words, they introduced competition in health insurance provision within Harvard. Reeber and Cutler followed the program for two years and found that in the first year, older people moved into the more expensive plans and in the following

year, the high-end plans cut benefits. In fact, the two most generous insurance plans (in terms of benefits offered) stopped providing insurance to Harvard University as they drew older and more costly participants into the program. Cutler and Reeber's article is important because they show how competition drives out desired insurance provision through adverse selection. The lessons from the Harvard experience are relevant for understanding why family leave insurance may be underprovided on the competitive private market.

[6] The fact that the people most needing insurance will be the first to buy it and thus employers will be reluctant to offer insurance.

Estimating Costs of Paid Family Leave in California

Methodology of Estimating Costs

The full cost of the Paid Family Leave (PFL) policy is determined by four components: 1) leave take-up, 2) leave length, 3) weekly benefit amounts, and 4) administrative costs. For estimating leave take-up and leave length, a year 2000 Department of Labor survey is used.Benefits and administrative cost data from the current State Disability Insurance system, as reported by EDD, are used.

For certain variables making up the cost estimate, no data are available. For these variables, assumptions are made. Estimates for three "scenarios" are provided: a "lower estimate" and an "upper estimate" - that represent outer limits of the cost impact – and a "likely estimate," that represents the most likely outcome and falls inbetween the lower and upper estimates. In the sections below, the particular assumptions that go into each of these scenarios are explained.

Take-Up Rates and Utilization of Paid Family Leave in California

1. Types of Leaves

The proposed Paid Family Leave (PFL) legislation would extend existing SDI coverage to leaves for serious illness of family members and for parental leave with new children. The new leave-takers under the PFL program would not include those taking leaves for their own sickness. These leaves are already paid through California's current SDI System. Those taking leaves for sickness or disability related to pregnancy would not use PFL since this type of leave is already covered by pregnancy disability leave (6

weeks for vaginal delivery, 8 weeks for c-section) in California. Those taking any part of the leave to care for newborns are assumed to use PFL.

The availability of paid leaves will also allow some to take leave who today cannot afford to do so. The DOL data identify not only leave takers but also leave "needers" – i.e., those who need leave but did not take it. Furthermore, it asks respondents whether they would have taken this leave were they to receive some wage replacement during the time away from work. An additional 1.26% percent of workers said that they would have taken some amount of leave had they received some compensation during the leave. The estimate assumes that workers in this "financially constrained" category – i.e., those who could not take leave because it was unpaid – would take advantage of a PFL policy.[7]

Finally, since the PFL policy would be enacted through the SDI program, there is a 7-day waiting period for receiving any paid leave. Therefore, in calculating take-up, the estimate ignores any leaves of less than 7 days in length.

2. Existing Benefits and Substitution

In the absence of a paid family leave policy, employees today use a variety of ways to pay for their leaves. Companies often allow employees to take paid leave for family medical reasons even if they do not have a formal policy. Typically, they allow employees to use part of their vacation time, personal days, or sick days to receive pay during a family medical emergency. Some employees have actual "parental leave" benefits. Other employers have "temporary disability insurance" either because it is state

[7] Note that this is the "first cut" at determining take-up. In this section, when we say that a certain subgroup will take-up PFL, we mean that they "qualify" in the first round of take-up "eligibility." However, later rounds might disqualify them as we impose more stringent conditions – such as whether currently they are receiving pay for leaves, etc.

mandated (as in five states, including California) or chosen privately. Table 1, below, shows the breakdown of the existing benefits used to pay for the time off by the type of family medical leave. The figure in a cell refers to the percent of people taking leave because of the reason associated with the row (e.g., own sickness) that use the type of benefit associated with the column (e.g., vacation time).

Table 1: Use of Various Benefits to Pay for Leave (National Sample)

	Sick Days	Vacation Time	Personal Leave[8]	Parental Leave	Temporary Disability Insurance	Other Benefits	*Some Pay*
Own Sickness	46%	19%	15%	2%	18%	26%	*68%*
Maternity or Paternity	27%	37%	16%	12%	12%	17%	*64%*
Sickness of Family Member	41%	27%	20%	3%	1%	8%	*63%*
All Leave Types	**40%**	**26%**	**17%**	**5%**	**12%**	**19%**	***65%***

Source: U.S. Department of Labor (2000)

Sixty-five percent of leave takers get some pay during their leaves. Typically, many methods are used to finance a leave. About 30% of leave-takers use more than one type of benefit to pay for any given leave, and about 10% use more than two methods. Sick leave benefits are the most common method used for financing leaves, followed by vacations, personal days, temporary disability insurance, and parental leaves. Some methods are used more frequently for specific types of leaves; as one would imagine, "parental leave" benefits are typically used for maternity/paternity leaves and not own sickness. However, the fraction of leave takers who get *some* pay is remarkably similar for different types of leaves – between 63% and 68%. Since employees today utilize various benefits (sick days, personal days, etc.) to finance family medical leaves, it is important to take into account how a paid family leave policy would affect the take-up of

[8] "Personal leave" is a generic leave policy which employees can usually use for host of circumstances – medical or otherwise.

these benefits. One might argue that a paid family leave policy will primarily rationalize informal systems already operating in companies. From this viewpoint, legislation will have little impact on "good employers" who either formally or informally already have practices which comply with the law. It will mainly spread the "best practices" to the rest of the labor market. However, adding a new category of benefits might lead to an increase in overall absence from the workplace. If so, people would then use PFL to cover family leaves, while continuing to use other paid leaves provided by employers such as vacations or personal days for other purposes.

A concrete example can clarify the issue. Will a person currently using vacation time, which provides 100% wage replacement, switch to partial replacement under a PFL policy when his spouse is sick? Will he pay for some of the leave using vacation time, and the rest using PFL? If he chooses to use PFL to pay for some of the leave, will he use the vacation time he saves at another date or will he forego the added days off? Generally, if a PFL policy causes less use of vacation or personal days for family leave, *total* time off might rise for people taking family leaves. Of course, a person taking a lengthy leave using PFL might not use the vacation days now freed up if reputation with the employer is a serious concern.

Since no data exist with which to infer the impact of a PFL policy on substitution between various types of leaves and PFL, this analysis instead makes different assumptions about the degree to which workers will substitute PFL for use of other types of paid time off in the three scenarios for program usage and costs. For all three scenarios, workers using temporary disability insurance and parental leave are assumed to

continue using these methods.[9] In the "lower estimate," it is assumed that there will be no substitution at all. In other words, people using vacations and sick days will continue to use these types of paid time off instead of PFL. Or, if they do switch to using PFL, the sick days or vacation time freed up will not be used. It should be noted that this is identical to the assumption in the EDD study.[10]

In the "likely outcome" scenario, the following is assumed. Employees receiving less than full pay during leavewill all switch to the PFL policy and will use their freed up leave at another point in time. A third of employees receiving full pay using the aforementioned benefits will switch to PFL[11] (and use the resulting freed up time at another point). This is a reasonable assumption given that employees who are, for instance, today using vacation time to pay for the entirety of their leave, could have chosen to use it to pay for a *fraction* of the leave, taking the rest unpaid (and saving vacation time for later), but they chose not to. This suggests that they prefer fully paid leave (and less vacation time) to partially paid leave. This in turn suggests that the availability of a PFL policy with partial wage replacement would not affect their decision-making. Moreover, the benefits cap of SDI (currently at around $490 a week) implies that for employees in higher income brackets, the PFL policy will be particularly unattractive compared to fully funded leaves using vacation time. For the "upper estimate" of PFL costs, it is assumed that there will be considerably more substitution

[9] These are leaves which can not be used to cover family leaves and since they almost always pay more than what an employee would get under PFL, we think this assumption is quite reasonable.

[10] The assumption here could be actually made somewhat less restrictive if one is interested mainly in the cost to employers. It could be that some people switch from using vacation time to the PFL policy. But since a PFL policy will have only partial wage replacement (as opposed to full replacement of wages typical in vacations), it is only assumed that overall, there will not be sufficient increase in the "freed up" vacation time to increase the total cost of paid leave for employers.

[11] Another interpretation of this assumption is that employees will use the PFL policy to cover for *one third* of their total leave time; the rest will be covered by fully paid methods such as vacations or personal days. While conceptually different, both interpretations have a nearly identical effect on total cost – one through the number taking up PFL, and the other through the duration of PFL leave.

from currently existing methods of financing leave into PFL. As before, it is assumed that all employees currently receiving less than full pay during leave will switch to the PFL policy. Furthermore, it is now assumed that two-thirds of individuals currently receiving full pay during leaves funded through vacation days, sick days, personal days, or other miscellaneous benefits to pay for the leave will use PFL to pay for their leave.[12] Moreover, the time freed up is assumed to be used at another point by these employees.

3. Testing for Demographic Differences in California

Since the DOL survey is national and this report's cost estimates are for PFL in California, systematic demographic differences between the Californian working population and the working population of the United States are examined. If Californians are more likely to be of childbearing age, more likely to be female or of different socioeconomic status than the United States as a whole, then estimates of take-up using national data might vary from the likely take-up rate in California. For all three of the cost scenarios, a regression is run calculating predictions of leave takers and leave needers based upon demographic variables[13] in the DOL national survey. To calculate the estimated leave takers and leave needers for California, the demographic variables are adjusted to the state's averages using data from the Current Population Survey.

As it turns out, demographic differences have virtually no net impact on predicted leaves: for instance, adjusting for such differences changes the predicted take-up rate in the "likely estimate" scenario by 0.04%. The inclusion of demographic differences produces very small differences in the other two scenarios as well. Consequently, the

[12] Again, another interpretation with very implication is that all employees getting some pay during their leaves will now use PFL to pay for 2/3 of their total leave time.
[13] These variables include age, race, gender, marital status, number of children, family income, educational attainment, government employment, self employment, and part time status.

national estimates are used for cost calculations. To clarify, it is not that there are no systematic demographic differences between California and other states; rather the *net* impact of those differences on take-up rate for family leave is negligible.

Length of Leave

How long the leaves of new leave-takers would be is unknown. Also unknown is whether PFL will lead individuals to take longer leaves. Hence, a combination of data and assumption-based scenarios is used to arrive at estimates of the impacts of PFL upon leave length.

One way of ascertaining the impact of PFL on length of leave taken would be to look at those who took paid leave and those who took unpaid leave and compare leave lengths. However, one problem with comparing leave lengths by whether leaves were paid or not is that shorter leaves are more likely to be paid. Looking at all leave takers in the DOL survey, we find that fully paid leaves are on average 18% shorter than unpaid or partially paid leaves. When employees only need a few days off, employers are likely to allow them to use vacations or sick days to finance the time off. However, if an employee knows that their leave is likely to be long, they are more likely to pay for the entire leave themselves. Therefore, precisely when the need for longer leaves is greater, financial constraints are likely to result in a shorter leave.

To partly get around this problem, the report examines the impact of pay on length of leave *for individuals who state that they would have taken longer leaves if they received more pay*. These "financially constrained" individuals comprise about 25% of all leave takers. By looking only at such "financially constrained" workers, one can better deduce the impact of making leave paid upon the length of the leave. The result is

that, adjusting for demographic variables (same as mentioned in previous section in footnote 9) as well as the type of leave, leave length is on average about 50% higher for those receiving some pay during the leave. Moreover, this difference in leave length is statistically significant at the 1.0% level, supporting the assertion that length of leaves is likely to increase from a PFL policy.

The above estimate predicts that leaves would be 50% longer for those currently taking unpaid leaves *were these individuals to have the same access to paid leave as those who are taking paid leaves today*. However, leave length is quite likely to increase also for individuals who currently get some pay during leaves but nonetheless are "financially constrained." These individuals are probably cutting back their leave because leave benefits are running out. Moreover, it is also possible that even those who do not identify financial constraints as restricting their leaves would nonetheless take longer leaves under a PFL policy. To account for these possibilities, the report makes different assumptions about length increase in the three scenarios, as represented in Table 2, below.

Table 2: Assumptions Regarding Increase in Leave Duration

Financially Constrained Leaves	Currently Receiving Paid Leaves	"Lower Estimate"	"Likely Outcome"	"Upper Estimate"
No	Yes	+ 0%	+ 0%	+ 25%
No	No	+ 0%	+ 0%	+ 50%
Yes	Yes	+ 0%	+ 50%	+ 100%
Yes	No	+ 0%	+ 100%	+ 150%

For the "lower estimate," no increase in lengths of leave is assumed. For the other two scenarios, some increase is assumed. For the "likely estimate," it is assumed

that only those who identify their leaves as being financially constrained will increase their leave lengths. An individual who receives some pay during leaves already would increase her length by 50%. An employee who currently gets no pay increases his leave length by an additional 50% (amounting to a total increase in leave length of 100%), which comes from the estimate above.

For the "upper estimate," it is assumed that *everyone* will increase their leave lengths. Those who currently receive pay and do not identify their leaves as being financially constrained would nonetheless take 25% longer leaves. Employees receiving no pay, but stating that their leaves are not financially constrained, are still assumed to take 50% longer leaves. Employees who are financially constrained take even longer leaves under this scenario. Those currently receiving some pay, and those currently receiving none, are assumed to take leaves that are 100% and 150% longer, respectively. (Note the differential between these two groups is 50%, as estimated above.) These "upper estimate" assumptions are quite generous and represent an outer limit in changes in length of the leave. There are many other workplace factors which limit the length of leave, including concerns about job advancement, impact on workload, and so on. In fact, over 71% of leave takers report returning to work because of these workplace constraints unrelated to receiving pay during leaves. Therefore, these non-financial factors will probably seriously limit the impact of a PFL policy on leave length. In the absence of better data, however, this assertion cannot be rigorously supported..

Since leave lengths are not observed for those who would have taken leave had they received some pay (i.e., "needers"), predicted leave lengths are calculated based on other information. In particular, a regression (for leave takers) of adjusted leave length on type of leave and demographic variables (same as those listed in footnote 9 in the

section above) is run. The leave length for a "needer" is then predicted using the estimated regression and the individual's demographic characteristics and the leave type.

Finally, since the PFL policy would be enacted through the SDI program, there is a seven-day waiting period. Therefore, to calculate paid leave length, we subtract seven working days from the *adjusted* length of the leave as reported in the survey. Moreover, people whose *adjusted* leave length is less than seven days are assumed not to take up PFL, since there will be a seven-day waiting period. (Note that, for the "lower estimate," adjusted and actual leave durations are the same by construction.)

Table 3, below, reports the current average and adjusted average lengths of leave for the three scenarios. Leaves are reported by whether they are taken for maternity or for sickness of family members. The current length for each scenario is the average duration of leave for individuals who are assumed to take leave under that scenario. Note that the current leave length is the longest for the "lower estimate" and the shortest for the "upper estimate." This is because more people are assumed to take PFL under the "upper estimate" scenario than under the "lower estimate" scenario, and this additional group of people are, on average, taking shorter leaves. The adjusted length is computed as an average of leave durations within each category of leave (depending upon whether the leave-taker was financially constrained and whether the leave itself was paid) modified by the adjustment factor as explained in Table 3, below. For cost estimates later in the report, the adjusted leave durations (denoted in bold) are used.

Table 3: Current and Adjusted Duration of Leaves (in Weeks)

	"Lower Estimate"		"Likely Outcome"		"Upper Estimate"	
	Current Length	*Adjusted Length*	Current Length	*Adjusted Length*	Current Length	*Adjusted Length*

Maternity/Paternity Leaves	7.5	*7.5*	6.8	*7.5*	6.8	*8.1*
All Other Leaves	3.0	*3.0*	2.8	*3.7*	2.5	*4.0*
All Leaves	5.0	***5.0***	4.5	***5.3***	4.7	***6.1***

Weekly Benefit Amount

The proposed PFL policy prescribes the same benefits levels as the SDI program: 55-60% (depending upon income) wage replacement with a cap of $490 a week in 2001. Ideally, the California SDI benefits schedule (based upon individual income) and information on individual incomes would be used to determine the benefit level for each person in the sample. The sample benefits levels would then be used to derive a California average benefit estimate. The DOL data, however, do not include yearly incomes of individuals and includes only the aggregate income of the family, and so, instead, information about existing average SDI benefit levels in California is used. The weekly average benefit level for SDI recipients in California in the year 2001 was $270 a week. This is the weekly figure used for the "lower estimate."

The weekly average benefit levels for PFL might be lower or higher than current levels because those taking disability insurance may have different average incomes from those who would take PFL. It is possible that upper income workers are more likely to use PFL compared to SDI if they get better personal disability insurance from employers than SDI grants but do not get as attractive paid family leave. In contrast, if higher income employees already have (perhaps informal) paid family leave, but rely on SDI for personal disability purposes, then the users of PFL will tend to be from more lower

income brackets. To err on the side of caution, the benefit level is inflated by 5% ($284/week) for the "likely estimate," and by 10% ($303/week) for the "upper estimate."

Summary of Assumptions under The Three Scenarios

Here is a summary of the assumptions on take-up and leave duration impact of a PFL policy.

Scenario A: Estimate for Likely Outcome

- Leaves for sickness of family members or care for newborn will be taken using PFL.
- Those using SDI, Parental Leave will not use PFL. *All* those using vacation-time, Sick Days and Personal Days, and other benefits will switch to PFL if they are receiving *partial* wage replacement today. A *third* of those using these benefits will switch if they are getting *full* wage replacement today.
- Leave length will rise for those who were unable to take longer leaves due to financial reasons – differentially depending on whether they currently receive some pay or not.
- Needers who cite financial constraints will take up PFL; their average leave lengths are predicted using demographic information and leave types.
- Leaves with *adjusted* durations of 7 days or less will not be taken through PFL.

Scenario B: Lower Estimate

- Leaves for sickness of family members or care of newborn will be taken under PFL.
- Those who are currently getting wage replacements will not switch to PFL.
- Leave Length will remain the same.
- Needers who cite financial constraints will take up PFL; their average leave lengths are predicted using demographic information and leave types.
- Leaves with durations of 7 days or less will not be taken through PFL.

Scenario C : Upper Estimate

- Leaves for sickness of family members or care for newborn will be taken using PFL.
- Those using SDI, Parental Leave will not use PFL. *All* those using vacation-time, Sick Days and Personal Days, and other benefits will switch to PFL if they are

receiving *partial* wage replacement today. *Two-third* of those using these benefits will switch if they are getting *full* wage replacement today.

- Leave length will rise for all – differentially depending on whether they currently receive some pay, and whether they indicate financial constraints on length of leave.
- Needers who cite financial constraints will take up PFL; their average leave lengths will be same as current leave takers.
- Leaves with *adjusted* durations of 7 days or less will not be taken through PFL.

Calculating The Costs

Below, the rate of take-up and the duration of leaves are reported, as is the average benefit amount. The aggregate cost of the PFL policy is then calculated. To calculate the total number of workers taking-up PFL in California annually, first, the take-up nationally is calculated for each scenario using the DOL data. Since the DOL data reports the number of employees taking (or wanting to take) leave over a 19-month period, the figure is adjusted by 12/19 to get an annual equivalent. The predicted number of employees taking up PFL is then adjusted by California's share of the national workforce (11.6%). This figure represents the number of Californians who would have taken leave in 1999 under a PFL policy, and is reported in Table 4, below. The number is further adjusted by the growth of the labor-force between 1999 and 2001 (1.7%) to get the corresponding figures for 2001. The fraction of employees would be covered by private insurance is not known, but it is projected that it will be the same for family leave as for the current SDI program (around 17%). This allows the calculation of the number of employees who would have taken paid family leave through the SDI program in 2001.

Administrative costs are also accounted for in this calculation. The current SDI program's administrative costs represent between 9 and 10 percent of the total costs, and EDD estimates that administrative costs of a PFL policy would be about 5.5% of the benefits costs. The report assumes administrative costs ranging from 6% to 10%. The

cost estimates made by EDD are reproduced, in the final column of Table 4, for comparison. First of all, like the "lower estimate," the EDD assumes that only those currently not receiving any pay during leaves will take-up PFL and that leaves less than 7 days will not be taken under PFL. There are several other features of the EDD estimate, however, that produce a discrepancy with the estimate. EDD imposes an hours eligibility requirement like CFRA/FMLA, which rules out about 35% of leaves. Employees with less than 1,250 hours worked in the previous year with a given employer are not covered by CFRA/FMLA with that employer. EDD assumes that the leaves taken will not be covered by the PFL policy. Since SB1661 does not impose such limits, this makes the EDD estimate downwardly biased with respect to SB 1661. Furthermore, the EDD estimate calculates annual take-up rates based on the DOL survey, but does not account for the fact that the survey inquires about taking or needing leaves over a 19-month period. Since annual estimates of take-up are needed, these figures would have to be adjusted by 12/19. This error upwardly biases the EDD estimate with respect to SB 1661. Finally, the EDD estimate reported here (which is based on CFRA coverage) assumes a base of 12.2 million employees – which represents the number of California employees whose tenure make them eligible for CFRA. Since this report's estimates do not restrict PFL to CFRA-eligible employees, even the lowest cost estimate is larger than EDD's estimate.

Table 4: Calculating The Cost of Paid Family Leave Policy (2001)

	Lower Estimate	*Likely Outcome*	Upper Estimate	EDD* Estimate
Maternity/Paternity Leaves (annual 1999)	146,149	*254,032*	329,703	
Sickness of Family Members (annual 1999)	186,632	*181,888*	330,365	
Total Leaves (annual 1999)	332,781	*435,920*	660,068	
Total Leaves (annual 2001)	338,511	*443,425*	671,432	
Total Leaves Taken through SDI (annual 2001)	291,167	*381,407*	577,526	211,000
Average Duration of Leave (weeks)	5.0	*5.3*	6.1	6
Average Benefit Amount (weekly)	$270	*$284*	$297	$270
Subtotal Cost	$393,000,000	*$574,000,000*	$1,046,000,000	$342,000,000
Added Administrative Costs	6%	*8%*	10%	5.6%
Total Cost of Policy	**$417,000,000**	***$620,000,000***	**$1,151,000,000**	**$361,000,000**

* Note that EDD assumes that only those covered by CFRA/FMLA will be eligible for the policy; this is one of several reasons for EDD's lower number of estimated annual leaves.

Table 5: Cost Incidence on Employers and Employees with 50-50 Cost Sharing

	Lower Estimate	*Likely Outcome*	Upper Estimate	EDD Estimate[14]
Number of Employees	12.3	*12.3*	12.3	12.2
Total Cost (Annual, in Millions)	**$417**	***$620***	**$1,151**	**$361**
Employers' Share	$208	*$310*	$575	n/a
Employees' Share	$208	*$310*	$575	$361
Total Cost per Employee (Annual)	**$33.90**	***$50.41***	**$93.58**	**$29.59**
Employers' Share	$16.95	*$25.20*	$46.79	n/a
Employees' Share	$16.95	*$25.20*	$46.79	$29.59
Total Cost Per Employee (Monthly)	**$2.83**	***$4.20***	**$7.80**	**$2.47**

[14] The EDD estimates are based on the assumption that employees bear the full cost.

Employers' Share	$1.41	*$2.10*	$3.90	n/a
Employees' Share	$1.41	*$2.10*	3.90	$2.47
Change in Payroll Tax Rate Needed To Cover Cost	**+ 0.12%**	**+ *0.18%***	**+ 0.34%**	**+ 0.10%**

The total annual cost of the PFL program would range from $417 million to $1.15 billion, depending on the scenario. The employer share of this cost ranges from $208 to $575 million per year. Per week, employees will on average spend between $1.41 and $3.90 to cover their share of the insurance program.

The total cost in the "lower estimate" is about 20% greater than that calculated by EDD. The cost of PFL as calculated in the "likely estimate" is roughly 80% greater than EDD's, and the cost in the "upper estimate" is about 200% greater. As explained above, this difference occurs for a variety of reasons, but the primary reasons that even the "lower estimate" is somewhat greater is that, unlike EDD's estimate, the report factors in leaves that are unprotected under CFRA/FMLA (i.e., leaves by employees with less than 1,250 hours of tenure with a given employer). This is appropriate since SB1661 benefits are not limited to those taking job-protected leaves under CFRA/FMLA.

The adjustment to the payroll tax to cover the added expenditure in the SDI system is also calculated. Currently, the payroll tax rate that funds the SDI program is 0.9% of wages and salaries. According to EDD, a $1/10^{th}$ of 1% (0.001) increase in the employee payroll for SDI generated about $338 million dollars in 1999. Current Population Survey (CPS) data show that, , in 2001, a $1/10^{th}$ of 1% increase in payroll tax with a taxable income ceiling of $46,327 would have generated $338 million dollars, which is the estimate used for the report's calculations. For the "likely estimate," the added spending in the SDI system would be approximately $620 million. It would take

somewhat less than a 2/10th of 1% (0.0018) increase to cover the cost, which would be split between employers and employees. In other words, the tax rate would have to increase from 0.9% to 1.08%. For the "upper estimate," it would take a 3/10th of 1% (0.0034) increase in payroll taxes, and the tax rate would have to increase to 1.24%. For the "lower estimate," it would take a little more than a 1/10th of 1% (0.0012) increase to cover the additional cost, putting the new tax rate at 1.02%, an amount similar to that predicted by EDD in its study.

Finally, the costs over the next 4 years are extrapolated. There are significant planned changes in the benefits structure for the SDI program. The ceiling for benefits and, therefore, tax payments will be increased over the next few years, as described in Table 6, below.

Table 6: Planned Changes in Benefits and Tax Ceilings

Year	Maximum Weekly Benefit	Taxable Wage Ceiling
2002	$490	$46,327
2003	$602	$56,916
2004	$728	$68,829
2005	$840	$79,418

This will change the average benefits received as part of the PFL program and the payroll tax revenue generated. To calculate new average benefit levels, it is assumed that the annual growth in nominal income will be 3%. Finally, payroll tax revenues over this period are estimated. To do this, an annual growth rate of California's employed

population of 2% is assumed. These rates of increase are derived from past trends and the current macroeconomic situation.

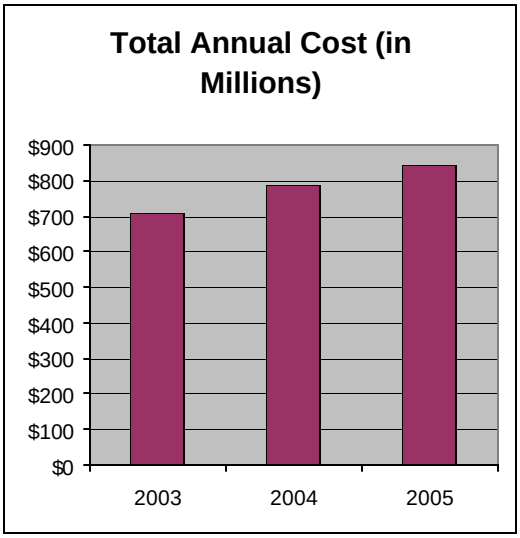
Using the CPS, for each year, the average income of individuals under the wage ceiling (e.g., $46,327 in 2002) is calculated, as is the proportion of the population under the ceiling. This is then used to calculate the average weekly benefit levels: 55% of weekly projected income of Californian workers. This assumes that leave-takers have the same average income level as the working population. The total costs to the SDI program, to employers and to employees, are then recalculated for the "likely estimate." Finally, taking into account the increases in the payroll tax ceiling, the projected growth in nominal income, and the growth rate of the population, it is determined that a 1/10th of 1% increase in the payroll tax will generate $384, $403, $424, and $446 million in the years 2002, 2003, 2004, and 2005, respectively. This is used to calculate the increases in the payroll tax rate necessary to cover the additional costs for each year.

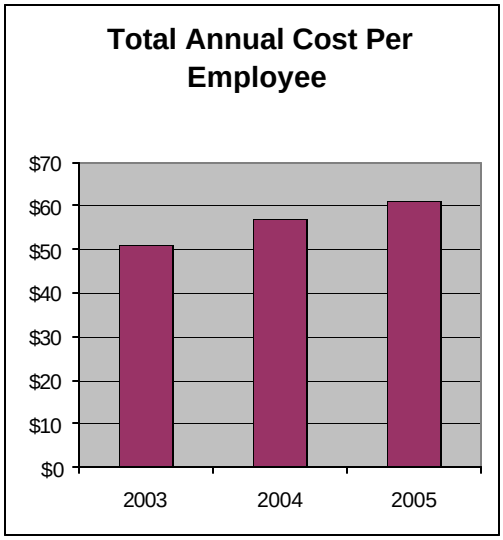
Table 7: Projecting the "Likely Estimate" of Costs, 2002 to 2005

Year	2002	2003	2004	2005
Average Weekly Benefit Level	$287	$320	$346	$364
Total Cost (Annual, in millions)	$626	$711	$786	$844
Total Cost per Employee (Annual)	$50	$56	$60	$64
Change in Payroll Tax Rate Needed To Cover Cost	+0.19%	+0.19%	+0.20%	+0.20%

Note: All dollar amounts are in nominal terms.

Figure 1: Projected Cost - Total and Per Employee





The planned changes in the benefits structure will lead to an increase in the weekly benefit level. Total cost to an employee will rise from $25 a year in 2002 to $32 in nominal terms for the "likely estimate." Payroll taxes, however, are also increasing, both due to a general increase in income and a lifting of the tax ceiling. As a result, the change in payroll tax *rate* needed to cover the cost of implementing PFL will remain stable. The new payroll tax rate would have to be 1.10% in 2005 (a change of 0.20% from current levels) as opposed to 1.09% in 2002 (a change of 0.19%).

Savings to Employers from Paid Family Leave

The primary beneficiaries of the PFL policy will be the leave takers and those needing care, both in terms of the direct financial benefits and better quality of care afforded by longer leaves. Benefits, however,will also likely accrue to employers. Findings show substantial gains to employers through reduced turnover, and some modest gains to the state through reduced transfer payments.

The DOL survey asks leave-takers whether they returned to work after a leave and whether they came back to work for the same employer after that leave. A "return probability" is defined as the fraction of employees who return to the same employer out of all who re-entered the labor market after completing the leave.[15] Ideally, one would like to calculate the effect of a partial-wage replacement PFL policy upon the return probability of leave-takers. The leave policies individuals currently have at work, are not known. What is known, however, is whether individuals receive some pay or not during their leave. Therefore, the probability of return of leave-takers receiving some pay is compared to that of leave-takers who receive none.

In calculating this differential probability of return, demographic factors and leave types are taken into account to better gauge the true effect of pay-status of the leave policy upon the likelihood of return after taking family leave. Specifically, a regression[16] is run of return on pay-status, type of leave, and demographic variables.[17] In

[15] We leave out those who did not return to the labor market at all because we think it is likely that these individuals had family circumstances that would not permit re-entry regardless of the leave being paid or not. Including these people increase savings from turnover reduction.
[16] Technically, we run a probit regression which is a type of regression specifically suited for estimating probabilities.

Table 8, below, the "adjusted" probabilities of return for the two groups – those receiving some pay and those receiving none – are reported. Note that these numbers for maternity/paternity leave are reported separately from other types of leaves. For calculating the actual additional number of workers returning to their jobs, information on the size of the national labor force (141 million), and on California's share of the national labor force (11.6%) are used.

Table 8: Turnover Cost Reduction from Paid Family Leave (California)

	Maternity / Paternity Leaves	*Other Leaves*	*All Leaves*
Fraction of National Labor Force	1.86%	3.35%	
Return Probabilities :			
Unpaid Leave	80.2%	88.3%	
Paid Leave	91.7%	96.5%	
Differential Probability of Return (Paid – Unpaid)	11.4%	8.2%	9.4%
Additional Workers in California Returning due to Paid Leave – as a Fraction of National Labor Force	0.024%	0.031%	0.029%
Additional Workers in California Returning due to Paid Leave	34,868	45,112	79,980
Estimated Cost of an Employee Termination	$1100	$1100	$1100
Total Savings From Reduced Turnover	**$38,400,000**	**$49,600,000**	**$89,000,000**

[17] These variables include age, race, gender, marital status, number of children, family income, educational attainment, government employment, self employment, and part time status.. It is possible that those jobs which do not provide paid leaves are just less likely to retain people – regardless of the pay-status of the leave. These might be less desirable jobs for other reasons. We try to account for this using demographic data, but it is possible that these are insufficient – which would bias upwards our estimates of the impact of paid leave on the probability of return. It is also possible that individuals who foresee not returning might

As Table 8 documents, leave-takers receiving pay are more likely to return to work even accounting for demographic differences and leave types. Roughly 80,000 Californian workers did not but would have returned to their jobs in 2001 had they been getting paid leave. To translate this into a financial cost requires data on the cost of replacing an employee. The U.S. Small Business Administration Employee Survey, although somewhat dated (1990), is the most relevant estimate.[18] The time needed to replace terminated employees averaged to at least 2.5 weeks (larger for bigger employers), and the termination costs averaged at least $1,100 (larger for bigger employers). Using this figure has some pitfalls: the exact costs for the types of employees or employers in question are unknown. However, this is the average termination cost – as reported by executives – for employees leaving due to *family medical reasons*. As such, it is the best estimate obtainable for this purpose. Hence, a benchmark figure of $1,100 is used to get a sense of the cost savings in question. As Table 8, above shows, we find fairly substantial savings due to turnover reduction, totaling around $90 million a year.

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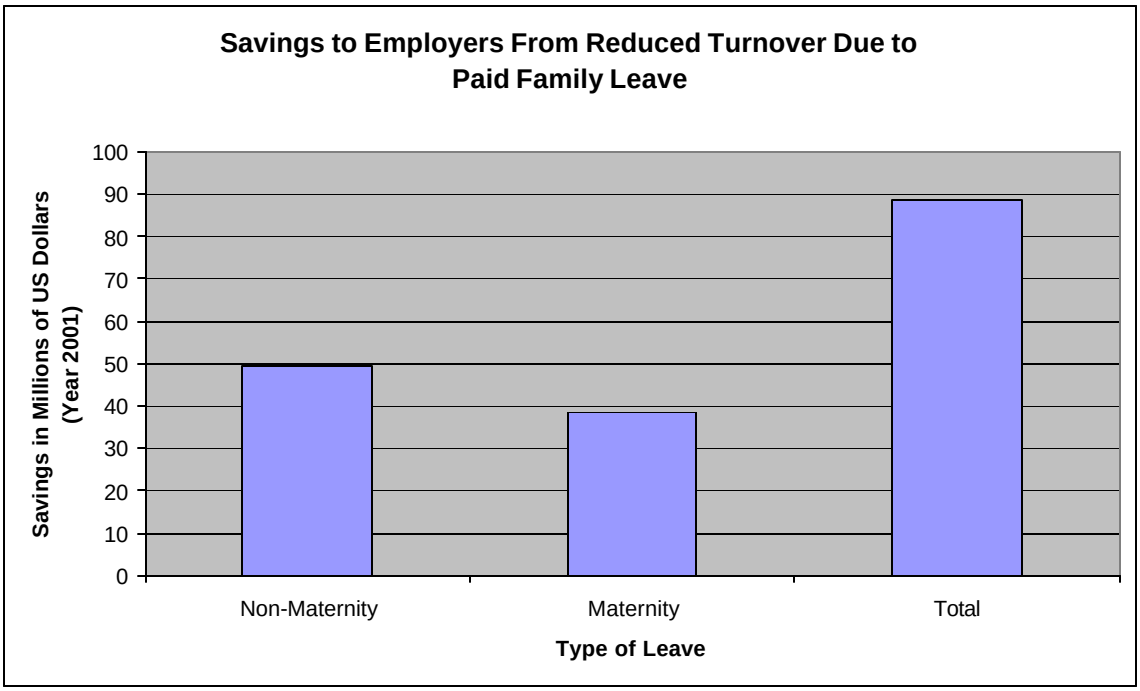
choose to (or be asked to take) unpaid leaves. This would bias downwards our estimates. For these reasons, we should treat these estimates with caution.

[18] The SBA commissioned a nationally representative survey which requested data on company policies on various types of family medical leaves. It also asked questions on costs of leaves and terminations to employers. This questionnaire was forwarded to 10,000 business executives, and the response rate was 31.3%.

Figure 2



Note that this calculation ignores any turnover impact of the PFL policy on those who currently get some pay. Although the turnover cost estimate should be interpreted somewhat cautiously, there seem to be fairly large gains to employers from instituting a statewide paid leave policy.

Savings to the State of California

A second source of savings will accrue to the government of California. Use of public assistance programs will most likely decrease due to the availability of paid family leave. Currently, when workers take family leave, some make use of Food Stamps and TANF. There is a large difference, however, between the percentage of those taking unpaid leave who go on public assistance and those taking paid leave who go on public assistance. Approximately 11% of those on unpaid family leave end up on some form of public assistance during leave; on the other hand, only 5% of those on paid family leave end up on some form of public assistance.[19] These data are used to impute the change in use of other public assistance policies due to paid family leave. Estimates show that instituting the PFL program would have lead to approximately $23.5 million in savings in usage of food stamps and TANF in the state of California during the year 2002.

Calculating the public sector savings from decreased use of TANF and food stamps requires two main steps: (1) calculating the number of people who will refrain from going on public assistance as the result of the PFL policy, and (2) calculating the average savings per person from doing so.

In order to calculate the number of people who would refrain from taking up public assistance after a PFL policy was implemented, the percentage of the workforce that takes unpaid leave in a given year is calculated. This information comes from the DOL survey, which asks respondents whether they took paid leave or unpaid leave. The DOL survey asks respondents if they have had paid leave within the last 19 months. The percentage of the labor force that takes unpaid leave in any given year is 12/19 of the percentage of the labor force that takes unpaid leave in 19 months. Therefore, this

percentage is multiplied by 12/19 in order to get the percentage of the labor force taking leave within a given calendar year. 1.85% of the workforce takes maternity/paternity leaves in a given year and 3.35% for other types of family leave.

Next, the impact of paid family leave upon use of public assistance is estimated. The probability of being on public assistance[20] for workers on unpaid family leave is then calculated. The same is done for workers with paid family leave at work. A comparison of the two shows that those on unpaid maternity leave are 8.7% as likely to be on public assistance as those who are not. Also, those on other forms of family leave are 5.8% as likely to use public assistance as those who are not.

This provides an estimate of the percentage of the U.S. labor force that would refrain from taking family leave due to PFL. This figure must now be translated into an estimate of the number of months of public assistance savings in California. Then, a calculation of the savings per month must be done. Bureau of Labor Statistics (BLS) data indicate the percentage of people in the labor force who work in California (11.6%) as well as the aggregate number of people in the labor force as a whole. From this, the number of working Californians can be calculated. The number of working Californians is then multiplied by the percentage of those taking unpaid leave within the previous year who, it is predicted, will switch to nonuse of public assistance when laid off. The result is the number of people taking unpaid leave who would switch away from public assistance under a paid family leave policy.

Using the same method as in the section on costs, above, the average length of leave for those on paid leave is calculated. The average length of leave is then

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[19] These estimates come from the DOL survey.
[20] We use a probit conditional on demographic information and whether or not the leave was paid or unpaid.

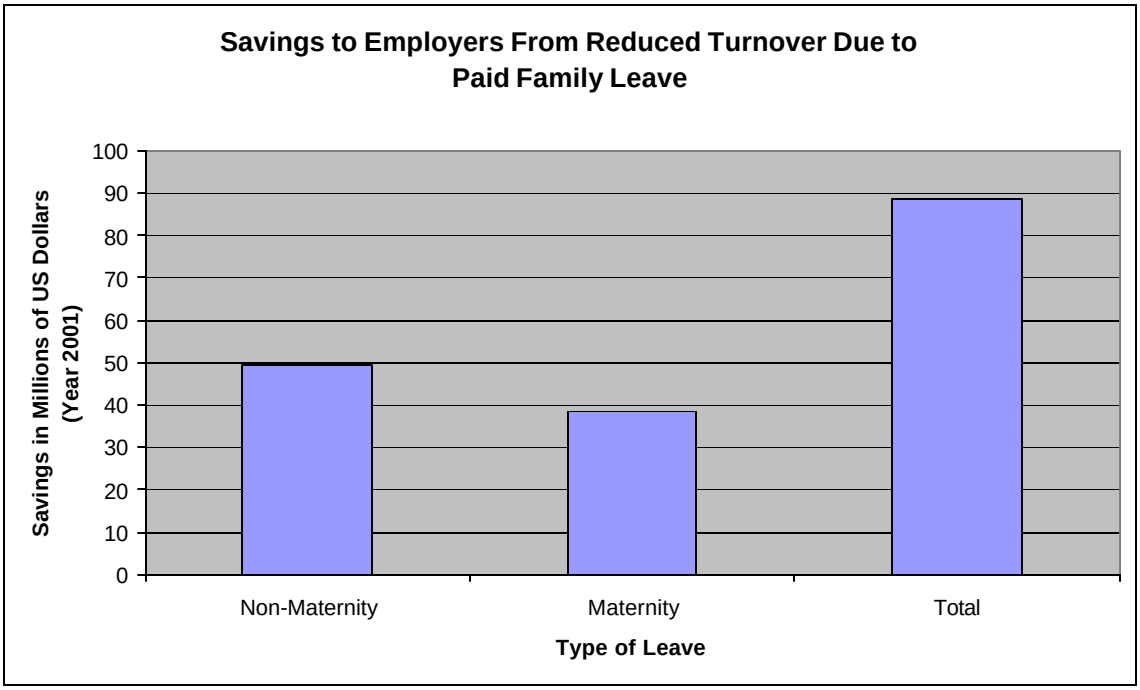
multiplied by the number of people estimated to switch away from using public assistance. The result is the total number of months of public assistance which would not be taken due to PFL. At this point, the calculation is of the total number of months that people will spend on public assistance of some sort, not how much of this time people will spend on each of TANF and Food Stamps, respectively. The 1992-2000 March CPS provides the percentage of people on public assistance while on family leave who use TANF and Food Stamps, respectively. Then, using additional data from the Statistical Abstract of California on average TANF and average Food Stamps benefits per month per recipient, it is possible to obtain the mean monthly food stamp benefit ($320/month) and the mean monthly TANF benefit ($238/month) for those on maternity/paternity leave and those on other types of paid family leave respectively. These average monthly expenditures are the average amount someone who is on paid assistance in the state of California would receive. These average monthly expenditures on TANF and Food Stamps are multiplied by the number of months of public assistance no longer used as a result of the paid family leave policy. The final estimates of the cost savings to the State of California are $23.3 million.

Table 9: Public Assistance and Paid Family Leave

	Maternity / Paternity	*Other Family Leave*	*Total*
Percentage of Workers Taking Unpaid Leave Within a Year	1.85%	3.35%	5.20%
Diff. in % Use of Public Assistance Between Those Taking Paid and Unpaid Leave	8.70%	5.81%	
Numbers of People Likely to Leave Public	26484	2615	29099

Assistance Due to PFL			
Average (Mean) Monthly TANF Plus Food Stamp Benefit for Public Assistance Recipients on Leave	558	598	
Annual Dollar Savings to State of California	**$21,827,000**	**$1,518,000**	**$23,345,000**

Figure 3



Conclusion

This report has provided an overview of the costs and benefits of implementing SB 1661, the California State paid family leave initiative. It has focused on costs and benefits for which measures and data are more readily available. Many of the most important likely benefits, however, are not easily assessed given current data limitations. For example, having paid family leave may make workers feel better about their work environment and this may raise worker productivity.

Health benefits to children, the elderly, and spouses are probably the most important benefits of paid family leave. Past research suggests that there have been substantial reductions in post-neonatal infant mortality as a result of paid maternity leave in Europe. Also, past studies found substantial increases in female employment as a result of paid maternity leave in European countries. Entry into the labor market would benefit the women who decide to work (and the families who need their income), governments who become able to collect more tax revenue, and employers who face higher levels of demand for their products.

This report's cost estimates for SB 1661 range from an average of $34 per worker to an average of $94 per worker per year. This is a wide range of possible costs. The variation in the estimates could be dramatically reduced by getting better data which gives precise information on current paid family leave programs. Nevertheless, even in the absence of such data, the authors are able to conclude that the costs of a paid family leave program would be less than $94 per worker per year and most likely around $50 per year (or $2.10 per worker per month). For the most likely estimate -- $50 per person per year -- the additional costs would require an increase in the SDI payroll tax rate of

0.18%, raising it to 1.08%. This rate would need to rise to 1.1% by the year 2005 to account for the planned increases in SDI benefits ceilings.

On the benefits side, SB 1661 would produce substantial cost savings to employers: specifically, approximately $89 million in cost savings due to employees who without paid family leave would quit their jobs but with paid family leave would stay with their employer. Also, almost $25 million in savings to the State of California are estimated, due to reduced usage of TANF and Food Stamps by workers who would opt to use paid family leave insurance over public assistance.

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