

Love's Labor's Lost?: The Costs and Benefits of Paid Family and Medical Leave in Massachusetts¹

by

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The Promise and Challenge of Paid Family and Medical Leave

Many families work hard to juggle job and family responsibilities. As more and more women — especially mothers — are in the paid labor force, that juggling act is becoming more the rule than the exception. The 1993 Family and Medical Leave Act (FMLA) is an important step toward helping American workers balance their family obligations with their need and desire to work. That piece of federal legislation allows workers who worked more than 1,250 hours during the previous year in companies with 50 or more workers to take up to 12 weeks a year of unpaid job-protected leave from a job.

Under the FMLA, there are three broad categories of family and medical leave. The first, and single most common, reason for taking a leave from work is for a worker's own disability. The second category is used for prolonged leaves to take care of a seriously sick relative — a child, spouse, or parent. A third category is parental leave, associated with the arrival of a new child in the family, which includes maternity- and pregnancy-related disability leave. Figure 1 depicts the percentage of all employees that took one of these leaves in 1999-2000, by type of leave.

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Both before and since the passage of the FMLA, several states have passed bills aimed at easing work/family tensions by providing short breaks from usual work schedules. The Massachusetts Small Necessities Act allows workers in firms with 50 or more employees 24 hours of unpaid leave a year to attend to a range of family-related obligations. More than a dozen states are covered by state maternity or paternity leave legislation that in some way goes beyond the FMLA (Wisensale 2001). For example, the Massachusetts Maternity Leave Act (MMLA) of 1972 ensures 8 weeks of job-protected unpaid maternity leave to full-time workers in companies with 6 or more employees.

But as important as the FMLA and these pieces of state legislation are, they are only partial remedies to a larger problem of managing family and medical leaves that workers face. First, a comprehensive survey of employees and employers on family and medical leave taking conducted under the auspices of the Department of Labor (DOL) in 2000 found that 38 percent of workers are not eligible under the provisions of the FMLA due to their employer size or their recent work history (Cantor et al. 2001; Table A2-3.1). Second, some workers who need leave to take care of family members are precluded because they are not a spouse, child, or parent of the person who needs their care. Finally, millions of U.S. workers are excluded from coverage because they cannot afford unpaid leave.

The United States is one of very few industrialized countries that does not have some form of universal, mandatory sick leave and paid maternity leave. Among the 30 member nations of the Organization for Economic Cooperation and Development (OECD), only Australia, South Korea, and the United States do not provide either paid maternity or sick leave (U.S. Social Security Administration 1999). Half of the other OECD countries offer paid paternity and/or sex-neutral parental leave as well. Some have enacted other leave and reduced-work-hours options to facilitate caregiving.

Five states (California, Hawaii, New Jersey, New York, and Rhode Island) and Puerto Rico have mandatory Temporary Disability Insurance (TDI) programs. Unlike the FMLA, these programs provide paid leave for reasons of own health (including a form of paid maternity leave under claims for maternity and pregnancy disability), typically paying benefits of about two-thirds of the worker's usual earnings (to a maximum set by each state) for up to 26 weeks and are not job-protected. With the exception of California, however, mandatory state TDI programs and voluntary employer-provided TDI plans do not extend paid leave to any of the broad range of

care responsibilities that routinely call workers out of employment. In July 2004, California's new paid family leave plan – part of the state's Temporary Disability Insurance program – began paying benefits. In addition to the already established leave for own disability (including up to ten weeks of maternity disability), the program provides covered employees up to six weeks a year of paid leave to care for a seriously ill child, spouse, parent, domestic partner, or a new child.²

Outside of the TDI jurisdictions, there is a voluntary system of paid family and medical leave in the United States whose quality varies enormously from one employer to another. Some employers and employees choose to purchase disability insurance coverage. Employers may elect to provide workers with paid leave for family or medical reasons through benefits such as sick leave, vacation time, parental leave, or medical leave, or they may negotiate collective bargaining agreements with such plans, but they are not legally required to do so. All states except Texas mandate that firms provide workers' compensation insurance, which covers leaves to recover from work-related injuries or illness. As a result, two-thirds of employees report that they received at least some pay when they were out of work for family or medical reasons.

With this gap in paid leave coverage for workers and the growing participation of caregivers in the labor market, the political push for extending paid family leave has accelerated. By the end of 2002, over half of state legislatures had considered some type of paid family benefit bill, including Massachusetts. These bills present a wide range of provisions and a variety of funding and administrative mechanisms, reflecting enormous creativity and commitment on the part of policy makers and advocates concerned with this issue.

One impediment to the implementation of paid family and medical leave is the uncertainty about the costs a new program might incur. And surely such a program will incur new costs. However, we argue here that there are some important benefits to having paid leave just as there are already significant costs being borne without paid leave. We find that the new costs of implementing a paid leave policy in Massachusetts are small compared to the current costs.

We estimate the benefits over time of one particular type of leave – paid parental/pregnancy leave for women workers. We do this using longitudinal data to estimate the difference that paid leave makes in earnings and job retention for employed women having babies, comparing outcomes over the duration of the leave and for one year following the return from a pregnancy leave. Next we estimate the dollar amounts of lost earnings and employer wages paid currently when employees take family and medical leaves, using a sophisticated simulation model based on comprehensive national survey data on family and medical leaves. We then re-estimate these costs plus the dollar amount of wage replacement that would be paid if there were a comprehensive paid family and medical leave policies in place. Our estimates are based on a TDI-type model for the range of leaves covered by the FMLA.

Potential Economic Impacts of Paid Family and Medical Leave

Despite widespread popular support for paid family and medical leave and a range of proposals for implementing it, there are serious concerns about paid leave programs. The one most commonly expressed is that paid leaves will be costly to business, especially if employers are required to make the payments for the program. The question we seek to address is what *new* costs or benefits are associated with moving from the current system of unequal coverage by

voluntary employer benefits to a more comprehensive program in which almost all employees would participate, receiving at least partial pay when on leave.

The DOL survey found that in 2000, that close to 40 percent of all establishments currently provide job-protected unpaid leaves for all FMLA leaves either because they are required under the FMLA or do this voluntarily. The percentages of establishment that offer unpaid leaves for own-health or for maternity-related reasons (the most widely used forms of family and medical leaves) are much higher -- 85 percent and 89 percent, respectively. Thus, the vast majority of employers and employees are already operating under many if not most of the provisions specified by the FMLA. As a result, even with new broad coverage, the non-wage costs associated with workers taking leave – such as maintaining health benefits for workers on leave or hiring temporary replacement workers – are not likely to change significantly for the vast majority of firms that already provide FMLA or FMLA-type leaves. These costs will only change to the extent that the number of leaves taken increases, the average length of leaves increases, or the number of workers retained increases in response to the new paid leave provision. Costs and benefits that are associated with current patterns of leave-taking behavior should not be included in the measurement of the economic impacts of a new program.

The most obvious cost associated with providing paid family and medical leave is the cost of the program itself. However, who ultimately bears the burden of these costs depends in part on the design of the program and in part on how workers and employers respond to the existence of the program. There are other potential distributional effects of paid leave, such as the impact of a new paid leave program on the provision or use of other employer benefits. Currently, instead of a comprehensive paid leave program for own-health, new child, or ill-relative care, many employers offer sick leave, vacation time, and disability insurance. With a

mandatory, comprehensive paid leave program, it is possible that employers and employees might substitute specific employer-based benefits for the new broad-based program. Similarly, having a paid leave program could result in reduced employee use of sick time and workers' compensation payments.

Implementing a paid leave program will potentially affect both workers' leave-taking behavior and their job retention. Expanding job-protected leave and providing pay would allow people who would not take a leave, or would take only an abbreviated leave, without the new program to take or extend a leave. There are likely to be substantial benefits associated with workers taking more or longer leaves. Workers will have the benefit of receiving some wage replacement while on leave. With a longer or any paid leave time, stress caused by the need for leave might be alleviated, which would benefit both employees and their employers. Workers who are now able to take a leave or take a longer leave might be more productive once they return especially if the leave allows them to resolve immediate family or medical needs, or might reduce the risk of injury at work, both of which reduce employer costs. Additional or longer leaves will likely reduce paid care-giving costs for the individual worker taking a leave and possibly for government if the care otherwise used is subsidized. If health issues are better resolved as a result of workers being able to take or lengthen a leave, health care costs – both individual and subsidized – will be reduced.

On the cost side, there is the cost of the program itself (benefit payments and government and employer administrative expenses), which, depending on the structure of the program, would be borne by employers, workers, or the population as a whole. Work replacement strategies used by employers might reduce overall productivity while workers are out, increasing costs to employers. Further, if establishments also provide non-wage benefits (like health care) to more

workers or for longer leaves, this increases employers' costs. Without full wage replacement, individual wage losses will occur for those who might otherwise have continued to work.

At the same time, expanded paid job-protected leave might encourage workers to return to their jobs once the need for leave is over, instead of leaving the labor force altogether or finding work in a new workplace – just as the FMLA reinforces workers' job attachment now. Returning to work reduces turnover, lowering employer costs – both the direct costs of advertising, interviewing, orientation, training, and processing (of both the exiting and the incoming employee) and indirect costs associated with losing employees who understand internal networks, specific customers, or co-workers' abilities, and decreased morale or efficiency associated with working with inexperienced new employees. Workers who stay with their employers might see improved future earnings, since quitting a job can decrease workers' future earnings potential. In addition, workers will benefit from the continuation of any employer benefits offered. There might be government savings as well, since workers who quit instead of returning may need to rely on government supports (like Unemployment Insurance, TANF, or Medicaid) for longer than if they had retained their job because of using a paid leave program.

We estimate only three of these benefits and costs here: the benefits from less turnover to workers in the form of increased wages and to employers in the form of reduced costs and the wage replacement costs associated with a universal paid leave program.

Effects of having leave on leave-taking, employment, and earnings

Several researchers have looked at the impacts of moving from a system of no leave to one of unpaid leaves by comparing employment in states that had job-protected maternity leaves (prior to FMLA) to those without them, looking at employment patterns before and after the FMLA.³ These studies have not addressed the impact of paid leave over unpaid leave and have mostly

focused on employment and earnings effects of leave on new mothers. The data suggest that to date U.S. leave policies have had only marginal net effects on leave taking and employment patterns. Smith, Downs, and O’Connell (2001) find that having access to leaves tends to reduce turnover and increase retention, especially among young female employees. In addition, leaves can improve women’s wages over time (Waldfogel 1997). Waldfogel (1999), in comparing leave-taking behavior, employment effects, and wages before and after the FMLA, finds that extending leaves through the FMLA did increase the number of young women with children that take leaves, slightly higher net employment changes among workers, and no net earnings effects. Hofferth (1996) finds that women who have liberal leave policies (typically unpaid) return to work after child birth more quickly than women who do not. She also finds that family income matters – women with higher family incomes and very low incomes take longer to return to employment. In sum, there is some evidence to suggest that with more parental leave available, women might take slightly longer parental leaves and be slightly less likely to leave their employer.

Several studies in the United States indicate that paid leave increases the likelihood that a new mother will return to work. Jeosch (1997) finds that women with paid leave were more likely to work longer during their pregnancy and to return to work after a two-month leave than women with unpaid leaves.⁴ Smith, Downs, and O’Donnell (2001) find that both paid and unpaid leave doubles the chances that a new mother will return to work within three months, compared to those who quit or were let go. Further, those with paid leave are more likely to return to the same employer than those with unpaid leave. After adjusting for age, education level, race, ethnicity, first birth, and union status, Waldfogel, Higuchi, and Abe (1999) find that having parental leave coverage increases the probability that women will return to employment

after childbirth by 23 percent. Together these findings suggest that paid family leave does not have adverse aggregate economic effects but does provide strong incentives for new mothers to stay in the labor force and to maintain employment with the same firm.

While employers fear the increases in number of leavers and leave length with a comprehensive paid leave program will be large, there are good intuitive and empirical reasons to expect that any changes will be actually be quite small. All the wage replacement schemes under consideration provide for only partial pay and are capped at a modest level, limiting the actual amount of wage replacement. Many families will welcome the partial pay, but the income loss will still be large, especially for higher-income workers, discouraging long leaves. Further, the most generous of the legislative proposals typically provide for a maximum of 12 weeks of protected-job leave. Workers might extend their leaves beyond 12 weeks, but do so at the risk of not having a job to return to at the conclusion of their leave.

Available research suggests that the aggregate economic effects on leave taking, employment levels, and earnings are minimal. To the degree that they do happen, the research suggests small or no net changes in employment patterns for mothers. However, as suggested earlier, there are two countervailing patterns: some returning women will lengthen their leaves somewhat, while others who otherwise might leave the labor force altogether are likely to “shorten” theirs by returning to work.

The Benefits of Paid Maternity Leave

While there are several large-scale data sets collected on employment, earnings, and income patterns in the United States, almost none ask about paid family and medical leave with enough specificity to glean useful information. One large, national longitudinal data set -- the National

Longitudinal Survey of Youth 1979 (NLSY79) – is an exception, although this data set too has limitations for our purposes.⁵ Still, using the NLSY79 we are able to estimate some of the benefits of having paid leave. Specifically, we are able to compare earnings changes over the course of parental leave and for one year following a return from leave, as well as job turnover of women taking maternity leave. The data set consists of young men and women who were 14 to 22 years of age in the first year of the survey – 1979. Subjects were interviewed annually until 1994 after which they were interviewed every other year.⁶ The NLSY79 began asking about periods of paid pregnancy leave in their 1988 interview, so we used all the interviews conducted since then. This makes the sample years 1987-2000, with women between the ages of 22 and 30 at the onset of the study period, ending with up with women between the ages of 35 to 43.

Based on the questions on pregnancy leaves asked since 1988, we found a total of 3,202 leaves, with some women taking more than one leave over the sample period. Two thousand and eleven pregnancy leaves were either paid or unpaid in which the women taking the leave returned to their same employer. Of those, 26.2 percent were unpaid leaves. The average length of leave for unpaid leavers was 11.3 weeks and the median length of leave was 8.7 weeks. The average length of leave for paid leavers was almost identical, with a mean of 11.4 weeks and a median of 9 weeks. One-quarter of unpaid leavers returned to work within 4.4 weeks time, and 75 percent were back to work in 13.1 weeks. Among paid leavers, one-quarter were out for 6.1 weeks or less with 75 percent returning in 13.1 weeks. The remaining 1,191 leaves were by women in our sample who took pregnancy leave but did not return to their employers.

The sample of persons used to estimate the change in earnings model was restricted to women who experienced a temporary leave or job termination for reasons of pregnancy sometime during the study period (1987-2000) and who were sufficiently attached⁷ to the labor

force so that we could estimate a change in earnings profile at and around a pregnancy leave. We construct a history of employment and time out of the labor force due to pregnancy leave for each person. The number of women with any pregnancy leaves who meet the labor force attachment and other criteria (and hence are included in our sample) is 1,925 with some taking more than one leave. For these women, we construct a weekly earnings record covering the period from the first week in which earnings were observed in the study period to the last week in which earnings were observed in the study period, including weeks with no earnings. Weeks in which any related information was missing, such as hours, wages, or the link between the labor force status information and the employer, are excluded in the weekly earnings record. Persons for whom a date of a leave was missing (except where the day was imputed as described above) were excluded entirely from the sample.

Table 1 shows characteristics of those taking pregnancy leaves and for which we had earnings data around the time of leave. We include total sample size, earnings two weeks prior to the leave, average age at time of leave, racial/ethnic composition of leavers, and educational attainment and marital status of those taking each type of leave in three different years over the survey.

<Put Table 1 here>

Barring major work disruption, workers typically see increases in their wages over time, as persons spend continuous time in the labor market and gain more valuable skills and experience. A parental leave around the time of the birth or adoption of a child creates a “choppy” earnings profile. That is, prior to any leave, weekly wages are likely to vary little. At the time of a leave, wages are likely to drop, although for workers with paid leave, this drop may not be very steep. After returning to work – especially to the same employer -- wages are

expected to rise. Wages may or may not rise to levels prior to the leave, depending on work hours and job schedules.

Based on this expected behavior around the time of a pregnancy leave, we developed a regression model that captures this brief period of discontinuous work experience.⁸ We estimate the change in weekly earnings for the sample (which includes periods of leave and non-leave time), controlling for a set of factors that includes prior weekly earnings, a time-lagged dummy variable that is equal to one at the beginning of a pregnancy leave, another time-lagged variable that is equal to one the week the leave ends, and a set of demographic characteristics. We employ a fixed-effects regression model that in effect assumes important demographic characteristics (such as race, education level, region of residence, and marital status) are constant over the period of estimation. Since our model is estimated over a relatively short period of time (66 weeks), it is probably reasonable to assume that for most observations these demographic characteristics do not change. A fixed effects approach has the advantage of controlling for *all* differences between people that are related to the change in weekly earnings and that are constant over the period, including ones that are not observed or recorded in the sample.

With the regression results we are able to simulate the weekly earnings profile for the “average” or “typical” leaver by type of leaver (paid and returned to employer, unpaid and returned to employer, and job leaver). Results obtained in our model on the determinants of changes in weekly earnings allow us to construct a weekly wage change-in-earnings profile for typical leavers right before the leave, during the leave, and for a year following the typical paid leaver’s return from leave. Figure 2 presents the results of that simulation. The lines represent the cumulative weekly wage changes (compared to wages in the period right before taking the leave) for the three types of leavers. We record these wage changes for two weeks before taking

a leave (weeks -2 and -1), the week the leave starts (week 0), the rest of the average number of weeks on leave (weeks 1-10) and then 52 weeks after the average leave (weeks 11-62). This allows us to look at weekly earnings changes for a full year following the average return to employment. The chart also includes the wage profile of a typical woman in the sample when she is not on pregnancy leave (called “other”).

<Put Figure 2 here>

The chart clearly demonstrates that earnings losses are largest during the leave period. Not surprisingly, the largest wage losses – at least initially -- are sustained by unpaid leavers. Paid leavers also suffer losses, but they are not nearly as large. Given that the average earnings for paid leavers two weeks before taking a leave is just under \$640 a week and that the largest weekly cumulative loss over the time on leave (at week 11) is \$50, it appears that the average paid leaver (who returns to her employer) is getting a significant portion of her wage replaced while on leave.

As reported in Table 1, job leavers have identical average weekly earnings as unpaid leavers two weeks prior to taking a leave (\$423). Job leavers, however, have initial cumulative losses that are less than those of unpaid leavers. This is likely due to the fact that some of these leavers receive accrued vacation or sick leave or another form of severance pay. However, by 63 weeks following the beginning of a leave, unlike paid and unpaid leavers, job leavers recoup two-thirds of their initial weekly earnings. Without more information on these types of leavers it is difficult to know precisely what is happening with them, but it is likely that many of them do not return to employment at all over this period of time and/or are returning to jobs that pay less than what they were earning prior to leaving.

The average paid and unpaid leaver returns to within \$20 of her pre-leave earnings very soon after returning to their pre-leave employer. This suggests that there is not a differential wage penalty for unpaid leavers who return to the same employer compared to paid leavers who also return to their employer. One year after taking a leave the earnings for a typical paid leaver returned to her pre-leave levels, and while the typical unpaid leaver is making about \$20 more a week than pre-leave levels. That is not the case for the typical job leaver, whose weekly earnings losses are \$151.

We find that on average, an unpaid leaver loses a total of \$4,556 of earnings on leave for the average pregnancy leave length of 11 weeks (weeks 0-10), while a paid leaver sees losses of \$305 of earnings over the same period. Job leavers lose an average \$3,156 of earnings over the same period. For the year following the typical return from a leave (weeks 11-62), on average unpaid leavers see a cumulative gain of \$160 (compared to pre-leave earnings) and paid leavers lose \$863, while job leavers bear earnings losses of \$10,919.

Using our wage analysis of the NLSY79 data, we can now examine two benefits of paid leave that would result in a reduction in job turnover that occurs with a comprehensive paid program. The first of these benefits is the increased annual wages to workers who stay with their employers once they return from a leave. Switching employers can prove costly to workers: Smith et al. (2001; 18) found that 4 percent of women who returned to the same employer after a pregnancy leave experienced a drop in their pay level, compared to 27 percent of the women who returned to a different employer. The second benefit is the reduction in employers' turnover costs that also flows from an increased likelihood of returning to the same employer at the end of the leave.

Using information on leave behavior in the DOL survey concerning the percent of women who did not return to the same employer after parental leaves but received some pay and from Smith et al. (2001) on the percent of workers likely to return to an employer after they have a child if they have paid leave, we estimate that 17.5 percent of all job leavers would stay with their same employer if there were a paid leave program (this represents 5.94 percent of the all leavers in our sample). Applying this calculation to an estimate of women in Massachusetts with unpaid leave will allow us to estimate earnings increases got women who would not leave if there were a paid leave program as well as the accompanying savings to employers from reduced turnover.⁹

Using the difference in earnings between unpaid leavers and job leavers from our wage simulation (\$11,079 annually) as the amount every leaver that would have stayed in her job had there been a paid leave program in place, we estimate that paid parental leave program would result in \$41.1 million of total annual wage gains due to employment retention with a paid leave program in Massachusetts. In determining employer gains due to reduced turnover we apply a conservative range of 25 to 33 percent of salary to that of the typical unpaid leaver in the NLSY79 right before leave which was \$423 a week (\$21,996 a year) for a cost range of \$5,499 to \$7,332 per worker retained. This results in a range of \$20.4 and \$27.2 million dollars annual reduction in employer costs due to decreased turnover. The total benefits of paid parental leave for women employees and their employers in Massachusetts are depicted in Table 2.

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These estimates only apply to women taking parental leave, however extending them to men would only increase these benefits modestly. Men are much less likely to take significant time off of work (with or without a paid leave program) or to leave their jobs after the birth of a

child. Further we have applied amounts determined from the NLSY79 which is a national survey. Wages in Massachusetts are higher than the US average, meaning that these estimates are likely to underestimate average annual earnings and earnings losses in Massachusetts which spill over to underestimates of benefits of paid leave to employees and employers. Therefore, conservatively, we estimate reduced turnover benefits of a modest paid parental leave program to range from \$61.5 million to \$68.3 million.

The cost of paid family and medical leave in Massachusetts

To estimate how much a new universal program would cost we developed the IWPR/LRC Paid Family and Medical Leave Simulation Model. Our model uses observable leave-taking behavior (in the absence of a comprehensive paid leave program) contained in the DOL survey to estimate the probability and distribution of various aspects of leave-taking behaviors. Based on these estimates we then simulate specific leave-taking behavior (including number, length, employer benefit levels, and eligibility for FMLA) onto individual workers residing in Massachusetts from the Census Bureau's March Annual Demographic sample of the Current Population Survey (hereinafter referred to as the CPS). To help improve the reliability of our simulation, we combine three years of the CPS (March 2002-2004).

Our model allows use to look at the wage replacement costs currently born by employers and the uncompensated wages of workers who take leaves. We also simulate leave taking behavior in the presence of a universal paid leave program. The model allows us to vary a range of policy variables (e.g. maximum length of leave, maximum benefit level, and waiting period) for the various types of family and medical leaves. In addition to using the extensive information modeled from the DOL survey on leave taking, we make three important assumptions about unobservable behavior in the presence of a program in our model to complete

our simulation: participation in a paid leave program will be affected by the amount of employer pay while on leave (the more employer pay, the less likely an employee will use the program); take-up rates that range from 66.7 percent to 80 percent; and a portion of people (based in part on the probability of doing so) extend their leave in the presence of a paid leave program.¹⁰

We present estimations of the cost of family and medical leaves under two scenarios. The first scenario calculates the cost to employers in the form of employer benefits paid to replace wages when on leave, and the cost to workers in the form of uncompensated wage loss when on leave, in the current situation where there is no comprehensive paid leave program in place. The other scenario presents the program, employer, and employee costs under a comprehensive paid family and medical leave program.

The “Status Quo”: No Comprehensive Paid Leave Program

Currently, in the absence of any comprehensive paid leave program, employers pay wage benefits and employees forego considerable wage income when leaving work for medical and family reasons as allowed under the FMLA. Using our model, we can estimate those costs. Specifically, we estimate the total annual dollar amounts of wage benefits paid by employers and the total amount of employee uncompensated wages currently being incurred with family and medical leaves. Table 3 includes the total annual cost and average cost per worker in the Massachusetts workforce currently paid by employers (wage-replaced time off) and employees (uncompensated wages).

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As these numbers indicate, the wage costs of leaves are already high. We estimate that 356,800 workers (11 percent of the workforce) take 442,570 FMLA-type leaves in Massachusetts annually. An additional 51,600 workers need to take a leave but do not take one.

The breakdown by type of leaves is as follows: 99,500 parental leaves, 220,500 leaves for own-health reasons, and 122,600 to take care of an ill relative. Workers who take leaves pay the heaviest cost, foregoing \$1.36 billion in uncompensated wages. The cost averaged over all covered workers is \$417 a year per worker. However, each leave costs the employee leaving an average of \$3,067 in uncompensated wages over the year. (Because most workers take short leaves, the median amount of uncompensated wages a worker taking a leave is \$808 per year.)

Employers are also paying for leaves. This includes \$372 million a year in various forms of paid leave time (vacation, sick leave, etc.) for an average cost of \$114 per employee. We estimate that employers provide benefits for just over 293,000 leaves annually: just under 68,300 parental leaves, 147,300 own-health leaves, and 77,500 for ill-relative leaves.¹¹ The average annual cost for employers for each leave a worker takes is just over \$1,270. (Again the degree to which workers take short leaves is reflected in the median annual employer benefit paid of \$438 per leave.)

We estimate the total cost of the current situation to be \$1.73 billion a year, 21.5 percent paid through employer wage benefits, and 78.5 percent by individual workers' foregone wages.

Extended Temporary Disability Insurance

We now turn to cost estimates for a comprehensive paid leave program. This program can be thought of as temporary disability insurance (TDI) that extends partial wage replacement to those taking parental leaves (not covered under maternity disability) and leaves to take care of an ill relative. It provides wage replacement for 66.7 percent percentage of weekly earnings up to a cap of \$528 per week. Eligibility, cap on benefits, and dependent allowances are the same as those for the Massachusetts Unemployment Insurance program. Leaves are job-protected

insofar as a worker qualifies for the FMLA or MMLA. The specific parameters of this program are:

Waiting period	1 week
Eligibility	UI eligible workforce (earned at least \$3,000 in the prior year and worked at least 15 weeks); saw a doctor or had hospital stay in case of all but parental leave.
Replacement rate	66.7% weekly salary capped at \$528 a week (57.5% of the statewide average weekly wage in 2004).
Dependent allowance	Workers with dependent children receive an additional \$25 per week per child, capped at 50 percent of the weekly benefit.
Maximum leave	12 weeks for own-health, parental, and ill-relative leaves

Table 4 provides estimates on annual total leaves and total and per worker costs of implementing an extended TDI program in Massachusetts by type of leave derived using the simulation model using a 66.7 percent and 80 percent take-up rates.

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The total cost of the program ranges from \$296 million to \$353 million, depending on how widely the program is used. We estimate that workers will take between 203,500 and 243,300 leaves with the universal paid leave program and that between 5.3 and 6.3 percent of all covered workers would use the program annually (usage data not shown).

Tables 5 provides estimates on annual total and per-covered-employee wage replacement program costs, employer wage benefits paid, and employee uncompensated wages currently and

with an extended TDI program using a 66.7 percent take-up rate. Table 6 does the same using an 80 percent take-up rate.

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Own-health leaves account for the majority of program, employer and employee costs (e.g., they generate over 60 percent of the costs associated with the extended TDI program), because own-health leaves are nearly as long as parental leaves and men, who earn more than women, take a greater share of all own-health leave days. This percentage increases to 70 percent if we include maternity disability under own-health leaves (as is currently the case in states with TDI programs in other states). Ill-relative leaves are the least expensive component, accounting for just over 14 percent of total program, employer and employee costs.

Table 7 allows for a comparison of current costs to that with an extended TDI program.

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Currently, employees and employers incur \$1.73 billion in employee uncompensated wages or employer wage benefits. With an extended TDI paid leave program, total costs increase to \$1.86 billion with a 66.7 percent take-up rate and to \$1.93 billion with an 80 percent take-up rate, an increase of 7.7 to 11.9 percent over the total cost current. We find that in the presence of a wage replacement paid leave program leavers substitute program benefits for employer wage benefits. With no program, we estimate employer benefits paid to be \$372.1 million annually for all leaves. This falls to \$287.5 million with a 67 percent take-up rate and to \$276.6 million with an 80 percent take-up rate. We estimate that this paid family and medical leave program in Massachusetts will bring *new* costs of between \$133 and \$205 million, an annual cost of \$41 to \$63 per covered worker, or about \$1.00 per week per worker. The new costs occur because of extended leaves and leave needers taking leave because of the availability

of paid leave program. Whether the program results in new costs to employers depends on the degree to which the extended TDI program payments are actually borne by employers relative to employees.

Conclusions

The United States is one of the few countries that does not offer wage replaced leave for the birth of a child or own health even though labor force participation rates are high, especially among women. Temporary extended own illnesses or that of a loved one and the birth and/or adoption of a child are likely to happen to almost every employee at some point in their work life. These occurrences are ordinary, happen to workers of all ages, sexes, races, ethnicity, educational level, income level, and marital status. Further, their urgency almost always precludes employment for some period of time. Yet, currently employers determine which workers have paid leave and which ones do not. While close to two-thirds of the labor force has some access to paid leave for family and medical reasons, one-third does not. That third are usually the most disadvantaged workers in the labor force – the ones that can least afford to take unpaid leave.

The argument that paid leave programs are too costly simply is not true. The political debate about paid leave often emphasizes the enormous costs such a program might impose, particularly on employers. This report rebuts that argument. We find that a paid leave program – beyond administrative costs – will not increase the current cost of leave taking by much. With a broad-based paid leave program, much of the current cost of leave taking will still be borne by the workers who take those leaves; however, a portion of those costs will be shifted onto workers not taking leave and possibly (although not likely) onto employers. Some of the program costs will be reduced by the benefits of having a paid leave program. These include increased post-leave earnings for workers and reduced costs of employee turnover for employers. At least for

paid parental leave, we find that the new costs associated with a type paid leave program are offset almost entirely by the benefits.

Fears about lengthy extensions of leave-taking due to a paid leave program are ill-founded. Research conclusively suggests that with relatively short paid leave programs, some workers will take longer leaves, but others will take shorter leaves (i.e., not leave their jobs entirely), resulting in negligible net employment changes. Our research using the NLSY and the DOL survey indicate that with a paid leave program, we can expect that some proportion of employees will take longer leaves, but on average this amounts to extra days, not weeks, of time off.

There are potential gains for employees and employers with paid family and medical leave. A universal paid leave program will provide some workers who currently do not have paid leave some form of wage replacement. As a social insurance program, paid leave provides all covered workers the right to receive partial wage replacement for a limited amount of time when they need it at a relatively small annual price to individual workers and/or employers (depending on who ultimately pays the payroll contribution). Employers stand to benefit in that with paid leave some portion of workers will not leave their employers, reducing turnover costs.

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² The benefit level is 55-60 percent wage replacement, up to \$728 per week, following a one-week waiting period.

³ Chapter Five of Wisensale (2001) reviews these state policies.

⁴ See Gornick and Meyers (2003) for a more extensive review of this literature.

⁵ Questions on paid and unpaid leaves are limited to women who took a pregnancy leave in 1987 or later (the most recent year available is 2000). Thus, the mothers are age 22 to 30 years old in 1987, aging to 35-43 by 2000. There is no information about other kinds of leave. Interviews were conducted annually through 1994, and then biannually thereafter, compromising some data accuracy. Questions about pay received while on leave are not asked of women who leave their employers, limiting information about availability of the most common type of paid leave benefits (vacation and sick time) on this group of leavers. All these limitations in the data reduce the sample size of women taking pregnancy leaves with sufficient information about their earnings before, during, and after taking a pregnancy leave.

⁶ The original size of the data set was 12,686, but in 1985 military respondents were dropped and in 1991 a subsample of disadvantaged non-black, non-hispanic respondents were dropped, leaving a panel of 8,033 persons and 4,113 women (Center for Human Resource Research 2001; 8). Respondent attrition rates are fairly low with about 85 percent of the panel continuing to participate in the survey (U.S. Department of Labor, Bureau of Labor Statistics, 2003).

⁷ First, a woman's work history must stretch over a period of at least one year in which we could observe earnings at the beginning of the period and at the end of the period (though not necessarily with earnings throughout this time). Second, any period with no work that falls between employment intervals must be no more than two years in duration. Thus, our sample is limited to observations on women who do not have long stretches of discontinuous labor force attachment during the time we are able to observe their labor force experiences in the NLSY79.

⁸ The model is fully described in Albelda and Clayton-Matthews (2005) available from IWPR or the UMass Boston Labor Resource Center.

⁹ We estimate 3,714 women taking pregnancy leave would stay with their employer if their were paid leave in Massachusetts. The estimate of how many women take pregnancy leave comes from the IWPR/LRC Paid Family and Medical Simulation Model described in the next section and used to estimate the cost of a leave program.

¹⁰ The complete model and these assumptions are described more fully in Albelda and Clayton-Matthews (2005).

¹¹ There were 237,000 Massachusetts workers, 7.3 percent of the covered workforce, receiving employer wage benefits while on leave.