

# The Economic Benefits of Family and Medical Leave Insurance

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The United States is the only advanced industrialized nation without a federal law providing workers access to paid maternity leave and one of only a handful of nations that does not offer broader family and medical leave insurance.1 Family and medical leave insurance, often referred to as paid family and medical leave or paid leave, provides wage replacement to workers taking temporary leave to recover from a serious illness, care for an ill family member, or care for a newborn or a newly adopted or fostered child.<sup>2</sup>

The lack of family and medical leave insurance poses challenges for families because most caregivers work outside the home. Today, the majority of families do not have a stay-at-home parent to provide care. Seventy-one percent of children live in a family with either two working parents or a single parent.<sup>3</sup> The percentage of adult children providing care for a parent has tripled over the past 15 years.<sup>4</sup> Among workers who were employed at some time while caregiving, one in five reported that they took a leave of absence from work in order to address caregiving responsibilities.<sup>5</sup> Family and medical leave insurance would help all American workers be less economically vulnerable when balancing work, illness, and family care.

Yet only a small percentage of workers have access to paid leave or temporary disability insurance, which can be used to recover from a serious illness or pregnancy. Only four states have passed legislation to provide workers with family and medical leave insurance,6 two of which have implemented family leave programs—California in 2004 and New Jersey in 2009. Rhode Island will enact its leave program in January 2014. In the three states that have—or soon will have—family and medical leave insurance, they added the family leave program to their temporary disability insurance programs. Access to temporary disability insurance is also limited. Only four out of 10 private-sector workers have access to employer-provided temporary disability insurance.9

More than half—59 percent—of American workers have access to unpaid, job-protected leave through the federal Family and Medical Leave Act, or FMLA, passed in 1993. 10 The FMLA allows eligible workers to take up to 12 weeks of unpaid, job-protected leave to recover from a serious illness, to care for an ill family member, to care for a newborn or a newly adopted or fostered child, or for certain military purposes. 11 Since its passage, the FMLA has been used more than 100 million times by American workers to help balance the demands of the workplace and home.<sup>12</sup>

Workers who need to take leave, however, often cannot afford to take unpaid time off; nearly half—46 percent—of workers who needed leave but did not take it said that they could not afford to take it without pay. <sup>13</sup> In 2001, 25 percent of dual-income families and 13 percent of single-parent families who filed for bankruptcy did so after missing two or more weeks of work due to their own illness or the illness of a family member. <sup>14</sup>

The Family and Medical Insurance Leave Act of 2013—also known as the FAMILY Act—introduced by Rep. Rosa DeLauro (D-CT) and Sen. Kirsten Gillibrand (D-NY) would establish a national family and medical leave insurance program, expanding access to paid leave. This program would relieve the financial burden of taking unpaid time off for many families, particularly low-income families, who are significantly less likely to already have access to paid leave through their employers. <sup>15</sup>

The program, first proposed by the Center for American Progress and as outlined in the FAMILY Act, would provide workers with up to 12 weeks of paid leave. <sup>16</sup> The program is modeled after successful family and medical leave programs in New Jersey and California. Workers would receive benefits equal to 66 percent of their typical wages—up to a capped amount—while taking leave to recover from a serious illness; care for an ill or injured family member, including a domestic partner; care for a newborn or a newly adopted child; or care for a service-member relative following their recent deployment. <sup>17</sup>

The family and medical leave insurance program would be administered through a new Office of Paid Family and Medical Leave within the Social Security Administration. Benefits would be paid through a newly created insurance fund, funded by employee and employer payroll contributions of two-tenths of 1 percent of a worker's wages, or 2 cents for every \$10 in wages.

There is extensive research on the benefits of family and medical leave insurance programs in other nations with comparable economies to America's and in U.S. states that have implemented these programs, particularly California. One branch of this body of research looks at the health impacts. Many studies find that parental leave enhances children's health and development and is associated with increases in the duration of breastfeeding and reductions in infant deaths and behavioral issues. <sup>20</sup> Similarly, increasing the length of maternity leave is associated with reductions in symptoms of postpartum depression among mothers. <sup>21</sup>

In addition to the health benefits of family and medical leave, research indicates that paid leave benefits workers and employers and is good for the economy. The economic benefits of family and medical leave insurance can be summarized in the following five arguments, which are discussed in more detail later in this brief:

- Family and medical leave insurance increases labor-force participation.
- Family and medical leave insurance increases employee retention.
- Family and medical leave insurance has limited or positive impacts on business operations.
- Family and medical leave insurance increases lifetime earnings and retirement security among workers, especially women.
- Family and medical leave insurance increases the use of leave among working fathers.

### Family and medical leave insurance increases labor-force participation

Family and medical leave insurance would grow the labor force and economy. Research indicates that paid leave programs provide workers with flexible options to remain in the labor force while taking care of a loved one or recovering from an illness or pregnancy. A 2013 study by Cornell University economists Francine D. Blau and Lawrence M. Kahn finds that one reason why the United States fell from having the sixth-highest female labor-force participation rate among 22 Organisation for Economic Co-operation and Development, or OECD, countries in 1990 to having the 17th-highest rate in 2010 was because it failed to keep up with other nations and adopt family-friendly policies such as parental leave.<sup>22</sup>

Economist Christopher J. Ruhm lays out a simple model to show how family and medical leave insurance—specifically, parental leave—affects labor demand and labor supply. He states that leave policies would mean that more workers likely to take leave will choose to be in the labor market, relative to workers less likely to take leave. Ruhm's model is explained in greater detail in the appendix. A paper by Ruhm and Jackqueline L. Teague uses a similar framework to examine parental leave policies in European and North American countries. They find that paid parental leave policies are associated with higher employment-to-population ratios and decreased unemployment for all workers. Likewise, the authors find that moderate leaves—10 weeks to 25 weeks—are associated with higher labor-force participation rates for women. See the show how family and medical leave will be a state of the same participation rates for women.

Historically, women are more likely than men to take family leave, whether to care for a newborn or an ill family member. <sup>26</sup> As a result, many studies focus on the effects of family leave policies solely on women's labor-force attachment. Studies find that family leave reduces the amount of time that women spend out of the labor force since it reduces the likelihood that women will quit their jobs in order to take time off from work. <sup>27</sup> In a study examining the effects of the FMLA and unpaid maternity leave policies, sociologist Sandra L. Hofferth and statistician Sally C. Curtin find that women who had a child post-FMLA returned back to work more quickly than those who had a child pre-FMLA. <sup>28</sup>

Although workers may take leave from work in the short term, family and medical leave insurance helps workers stay in the labor force, increasing labor-force participation and growing the economy in the long term. In his study of paid parental leave in European countries, Ruhm finds that leave legislation increases the female employment-to-population ratio by 3 percent to 4 percent—and even more for women of childbearing age.<sup>29</sup> Similarly, a study of paid maternity leave in OECD countries notes that an added week of paid maternity leave raises labor-force participation rates of young women ages 20 to 34 an average of 0.6 percentage points to 0.75 percentage points.<sup>30</sup> The positive effect of paid leave on labor-force participation seems to be greater with shorter to moderate leaves. A recent study found, for example, that the expansion of paid leave in Norway from a moderate leave of 18 weeks to a longer leave of 35 weeks had little effect on labor-force participation.<sup>31</sup>

### Family and medical leave insurance increases employee retention

Family and medical leave insurance would help reduce employee turnover and limit employment disruptions for workers. Results from Eileen Appelbaum and Ruth Milkman's 2009 and 2010 surveys of California employees and employers provide evidence of this: Workers with low-quality jobs who used family leave insurance while on leave were more likely to return to their pre-leave employer—82.7 percent—than those with low-quality jobs who did not—73 percent.<sup>32</sup>

Similarly, recent studies on unpaid leave suggest that family and medical leave insurance would increase the likelihood that workers will return to their pre-leave jobs. A 2012 survey of family and medical leave by Abt Associates for the U.S. Department of Labor found that 94 percent of FMLA-eligible employees who took leave returned back to their previous employer.<sup>33</sup> Less than 1 percent—0.2 percent—of these employees returned to work for a different employer, and 5 percent of these employees did not return back to work. These results are similar to the results from the 1995 and 2000 FMLA surveys.<sup>34</sup>

Hofferth and Curtin's study of the effects of the FMLA and unpaid maternity leave policies finds parallel results. Women who had a child post-FMLA returned back to work more quickly than those who had a child pre-FMLA and were more likely to return to the same employer. Economist Charles L. Baum II notes a similar pattern in his study of the effects of FMLA and pre-FMLA maternity leave policies on mothers' labor supply. Baum finds that leave policies significantly increase the probability—between 10 percentage points and 17 percentage points—of eligible mothers returning to their pre-childbirth jobs. <sup>36</sup>

Employers benefit when workers return to their pre-leave jobs. Edward Zigler, Susan Muenchow, and Christopher J. Ruhm note in their 2012 book on paid leave that continuity of employment among workers taking leave could help protect specific human capital.<sup>37</sup> The authors define "specific human capital," as outlined by economist Walter Y. Oi, as the

"investments in training and skill development that are specific to the employer, industry, or occupation."38 Workers already possess the needed skillset and training for their current occupation. If workers quit their jobs in order to take leave, employers need to hire and train new employees, which is costly. The median cost to employers of worker turnover is approximately 21 percent of an employee's annual salary.<sup>39</sup> In addition to added costs to the employers, workers need to spend time looking for a new job and might have difficulty finding a position that is a good match.

Family leave insurance in California has reduced employee turnover and employer turnover costs. In 2009 and 2010, 93 percent of employers surveyed by Appelbaum and Milkman reported that family leave insurance had "a positive effect" or "no noticeable effect" on employee turnover. 40 Furthermore, economists Arindrajit Dube and Ethan Kaplan estimated that California's family leave insurance program would save employers \$89 million per year in turnover reduction.<sup>41</sup>

### Family and medical leave insurance has limited or positive impacts on business operations

There is evidence that family and medical leave insurance can increase employer profitability. A study of companies listed in Working Mother magazine's "100 Best Companies for Working Mothers" finds that the availability and usage of work-family programs and policies has a positive impact on company profits. 42 The authors explain that employers providing work-family programs can attract higher-quality workers, reduce absenteeism and tardiness among employees, and reduce employee turnover. As a result, these programs increase employee productivity, which in turn increases employer profitability.<sup>43</sup>

Another study finds that work-family policies positively affect firms' value. Using data collected from Fortune 500 companies, Professors Michelle M. Arthur and Alison Cook found that announcements in The Wall Street Journal of a company instituting work-family policies increased the share price of the firm the same day.<sup>44</sup> The authors explain that investors believe that the benefits of the work-family policies will outweigh the costs of the program, thereby increasing the expected profitability of the company.<sup>45</sup>

With regard to cost, family and medical leave programs have limited—or even positive—impacts on employers' business-operation costs. Family leave insurance programs in California and New Jersey are extended provisions of the states' temporary disability insurance programs and are fully funded by employees, with no direct costs to employers. 46 New Jersey's temporary disability insurance program is funded by both employee and employer contributions, as are Hawaii's and New York's. 47

Furthermore, family and medical leave insurance can generate cost savings for employers, since it can be coordinated with employer-provided benefits and reduce employeeturnover costs. 48 California employers report that the state's family leave program has had no effect or a positive effect on business operations: 87 percent of employers

surveyed by Appelbaum and Milkman in 2009 and 2010 noted that family leave did not result in any cost increases, and 60 percent of employers reported that they coordinated their benefits with the family leave program.<sup>49</sup> Herb Greenberg, founder and CEO of Caliper, a human-resources consulting firm in New Jersey, has observed similar reductions in turnover costs:

Family Leave Insurance ... has been a huge positive for Caliper. When you think about the cost of individuals leaving, the cost of seeking new employees, the cost of maybe hiring the wrong person [and] training them, etc., and you compare that to the pennies that Family Leave costs you—there is just no comparison in terms of the pure balance sheet.<sup>50</sup>

With potential increases in employee productivity and reduced turnover costs, family and medical leave insurance can benefit rather than disrupt business operations. Ninety-one percent of employers in California, for example, reported "a positive effect" or "no noticeable effect" on business profitability and performance upon instituting family leave. 51

# Family and medical leave insurance increases lifetime earnings and retirement security among workers, especially women

Family and medical leave insurance gives workers a way to remain in the labor force while taking leave, thereby increasing their lifetime earnings and retirement savings. A recent study on U.S. caregiving costs calculated that women lose a total of \$274,044 and men lose a total of \$233,716 in lifetime wages and Social Security benefits by leaving the labor force early due to caregiving responsibilities.<sup>52</sup>

Family and medical leave increases the likelihood that workers—especially women—will return to their pre-leave jobs and therefore continue to earn their pre-leave wages. The U.S. Census Bureau reports that of the 80.4 percent of working mothers who returned to their pre-first-birth employer, 69 percent had the same hours, pay, and skill level as before they had children. Conversely, only 25.3 percent of working mothers who returned to a different employer had the same hours, pay, and skill level as before they had their first child. Some of these declines in wages could be due to mothers choosing to reduce their work hours in order to spend time with their newborns. These declines in wages could also be due to women having to find new employment after taking leave. As Joyce P. Jacobsen and Laurence M. Levin find, women who exit the labor force to take leave often return to wages that are lower than those of women who remain in the labor force. Some of the section of

Research by Columbia University Professor Jane Waldfogel suggests that family and medical leave insurance could help close the wage gap between workers who provide care and those who do not. In her study of maternity leave policies in the United States pre-FMLA and Britain, Waldfogel finds that the so-called family gap—the wage gap between mothers and other working women—is mostly eliminated for mothers who have access to unpaid

or paid, job-protected maternity leave. 55 Women who had access to such leave were more likely to return to their original employer and experienced a positive wage effect that offset the family wage gap. 56 Similarly, a study by Rutgers University's Center for Women and Work found that working mothers who took family leave for 30 or more days for the birth of their child are 54 percent more likely to report wage increases in the year following their child's birth, relative to mothers who did not take family leave.<sup>57</sup>

Family and medical leave insurance could help protect families from suffering financial setbacks due to working parents taking unpaid leave or leaving the labor force in order to provide care. Rutgers University's Center for Women and Work study found that women who took family leave after their child's birth were 39 percent less likely to receive public assistance in the year following their child's birth, compared to mothers who returned to work but did not take any leave.58

## Family and medical leave insurance increases the use of leave among working fathers

Family and medical leave insurance would incentivize men and women to share care responsibilities. Although women make up almost half of the labor force and twothirds of families now rely on mothers' earnings for financial stability, women, rather than men, often take on the role of caregiver.<sup>59</sup> Zigler, Muenchow, and Ruhm note that although leave in the United States and in other OECD countries is available to both parents, mothers are its primary users. <sup>60</sup> Men's use of unpaid leave did not increase after the implementation of the FMLA or under state unpaid parental leave laws.<sup>61</sup> Approximately 5 percent of working men take caregiving or child-bonding leave under the FMLA, compared to more than 7 percent of working women.<sup>62</sup>

When family and medical leave insurance is offered, however, the take-up rate among men is much higher. The percentage of leave taken by men in California has increased since the institution of its family leave program: Men's share of parent-bonding family leave—as a percentage of all parent-bonding family leave claims—increased from 17 percent in the period from 2004 to 2005 to 29.2 percent in the period from 2011 to 2012.63 In addition, men in California are taking longer leaves than they did before family leave insurance was available.<sup>64</sup> Studies of international family leave programs find similar results. Child-bonding or caregiving family leave—specifically set aside for fathers—significantly increases the length and take-up of leave among men. 65

Family and medical leave insurance could help counteract the cultural norm that caregiving is within the woman's realm. Even though women today are playing a larger role as breadwinners in the majority of American families, they are more likely than men to pick up the "second shift" of caregiving and housework. 66 Family and medical leave insurance would provide the opportunity to balance care between men and women, resulting in fewer disruptions in employment and earnings for women.

#### Conclusion

Today's workforce needs access to family and medical leave insurance. The FAMILY Act's leave program would provide workers with the flexibility to address their caregiving responsibilities while remaining in the labor force, benefiting both their families and the economy.

Research indicates that family and medical leave has myriad economic benefits for both workers and employers. Family and medical leave will grow our labor force and economy in the long run. It increases the likelihood that workers will return to their original employer after taking leave, which ensures employment and earnings continuity for the employee, as well as unchanged business operations, reduced worker-turnover costs, and a potential of increased profitability for the employer. Furthermore, family and medical leave insurance could close the wage gap between workers who provide care and those who do not. Specifically, family and medical leave could help alleviate the wage gap of working mothers and make the majority of families relying on women's contributions to family income less financially vulnerable. Although more women take leave than men, research suggests that family and medical leave insurance versus unpaid leave significantly increases the leave take-up rates among working fathers, promoting better gender equity in the workplace and the home.

The United States cannot afford to remain one of the few industrialized countries that does not offer family and medical leave insurance. As evidenced by recent research, the benefits of family and medical leave insurance certainly outweigh the costs. There is every reason to provide this critical protection to America's workforce by passing and implementing the FAMILY Act—and no reason to delay.

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### Appendix: Detailed explanation of Christopher J. Ruhm's leave model

Economist Christopher J. Ruhm lays out a simple model to show how family and medical leave insurance—specifically, parental leave—affects labor demand and labor supply in his paper titled "The Economic Consequences of Parental Leave Mandates: Lessons from Europe." He states that leave policies would mean that more workers likely to take leave will choose to be in the labor market, relative to workers less likely to take leave. 67 The labor supply curve of workers likely to take leave will shift to the right. That is, these workers will be willing to work at slightly lower wages with this benefit. If leave benefits are paid primarily by worker-financed social insurance, as they are in most European countries and in California and New Jersey, the demand curve would shift only slightly leftward, based on the amount that nonwage costs increase for providing paid leave.<sup>68</sup>

As findings from Eileen Appelbaum and Ruth Milkman's 2009 and 2010 surveys of California employees and employers suggest, family leave insurance has little to no noticeable effect on employer costs.<sup>69</sup> One would therefore expect that the shift in labor supply would be larger than the shift in demand, resulting in increased labor supply and a fall in relative wages. 70 While workers might end up being paid less, their net welfare will increase if the subjective value of family and medical leave insurance—in addition to the actual monetary value of paid leave—exceeds the costs of the employer providing leave.<sup>71</sup>

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