



# Paid Leave Is Good for Small Business

By Danielle Corley

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Much of the resistance to implementing a national paid family and medical leave program stems from the fear that it would negatively affect businesses, particularly small businesses.<sup>1</sup> Yet research from states that have already passed paid leave laws and evidence from small-business owners in these states shows that these fears are overblown. Paid leave has not harmed businesses; in fact, there is evidence of positive effects on recruitment, retention, productivity, and overall performance and profitability.

Small businesses could best share in the benefits of paid leave programs through a national, government-administered paid family leave program. Such a program should be available to all workers, comprehensive and specific in addressing serious family and medical needs, affordable and cost effective, inclusive of diverse families, and available without adverse employment consequences.<sup>2</sup> In states without paid leave, small-business owners often express a desire to provide the benefit to employees but are unable to do so on their own.<sup>3</sup> A national social insurance program would level the field for smaller companies that might not be able to offer the same benefits and, therefore, attract the same talent as their larger counterparts.

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## Existing state paid leave programs show that business fears did not materialize

There are currently three states with active paid leave programs: California, New Jersey, and Rhode Island. Washington state and New York have passed paid leave laws, but they are not yet in effect. California, New Jersey, and Rhode Island all have paid leave built into their temporary disability insurance, or TDI, programs. As social insurance models, all three paid family leave programs rely solely on employee payroll tax contributions.<sup>4</sup>

California has had a TDI program since 1946 and passed a paid family leave program in 2002 that became effective in 2004. Under the California paid leave program, workers receive up to six weeks of paid leave to care for a newborn, newly adopted child, or family member with a serious medical condition.<sup>5</sup> Workers who are eligible for paid leave currently receive 55 percent of their normal wages, but starting in 2018, the program will offer 60 percent wage replacement and 70 percent wage replacement for low-income workers.<sup>6</sup> New Jersey's paid leave law was passed in 2008, and Rhode Island's was passed in 2013.

Each law was implemented the following year. In New Jersey, eligible workers receive up to six weeks of caregiving leave at a 66 percent wage replacement rate.<sup>7</sup> In Rhode Island, eligible workers also receive up to six weeks of paid caregiving leave at a 60 percent wage replacement rate.<sup>8\*</sup> The chart below details how the programs work in each state.

**TABLE 1**  
**Comparisons of existing paid leave programs**

Current state paid family and medical leave policies in California, New Jersey, and Rhode Island

	Length of leave available		Wage replacement	Eligibility requirements
	Temporary disability, including pregnancy-related medical leave	Parental and family caregiving leave		
California	Up to 52 weeks	Up to six weeks	55 percent, with a weekly maximum of \$1,129 in 2016	Earned at least \$300 during the base year
New Jersey	Up to 26 weeks	Up to six weeks	66 percent, with a weekly maximum of \$615 in 2016	Earned at least \$8,400 during base year or earned at least \$168 per week for a minimum of 20 weeks
Rhode Island	Up to 30 weeks	Up to four weeks	60 percent, with a weekly maximum of \$817 in 2016	Earned at least \$11,520 during base year or earned at least \$3,840 during base period and a minimum of \$1,920 during at least one base period quarter, with total base period earnings of at least 150 percent of the highest quarter's earnings

Sources: Updated version of Table 2 in Sarah Jane Glynn, "Administering Paid Family and Medical Leave: Learning from International and Domestic Examples" (Washington: Center for American Progress, 2015), available at <https://www.americanprogress.org/issues/economy/report/2015/11/19/125769/administering-paid-family-and-medical-leave/>. For California paid leave benefits, see State of California Employment Development Department, "About Paid Family Leave," available at [http://www.edd.ca.gov/Disability/About\\_PFL.htm](http://www.edd.ca.gov/Disability/About_PFL.htm) (last accessed October 2016). For New Jersey paid leave benefits, see State of New Jersey Department of Labor and Workforce Development, "Frequently Asked Questions – New Jersey Temporary Disability Insurance," available at <http://lwd.dol.state.nj.us/labor/tdi/content/faq.html> (last accessed October 2016). For Rhode Island paid leave benefits, see RI Department of Labor and Training, "Temporary Disability Insurance/Temporary Caregiver Insurance: Frequently Asked Question," available at <http://www.dltri.gov/tdifaqs.htm> (last accessed October 2016).

Research from California, New Jersey, and Rhode Island shows that fears about the negative effects of these programs on businesses did not materialize.

In California, business groups such as the California Chamber of Commerce—originally staunchly opposed to the paid leave law—reported that they had not heard from employers that the law was a burden.<sup>9</sup> A 2010 report by the Society for Human Resource Management found that while paid family leave “was met with alarm from employers across the state” at first, after five years in effect, “employers’ concerns have so far not been realized.”<sup>10</sup>

Perhaps the most comprehensive report on the effects of California’s program was conducted nearly a decade after the law’s passage. Researchers Eileen Appelbaum of the Center for Economic and Policy Research and Ruth Milkman of the Graduate Center at the City University of New York surveyed 253 employers and 500 individuals about their experiences with the program.<sup>11</sup> Despite concerns from the business community about burdensome new costs prior to the passage of the law, the majority of employers responded that the program had minimal effects on their business operations; 87 percent said it had not resulted in any cost increases.

Small businesses, those with 100 employees or fewer, were even less likely to report negative effects of paid family leave than larger establishments. Of the survey respondents with fewer than 50 employees:

- 91 percent said the law had a “positive effect” or “no noticeable effect” on profitability and performance.
- 89 percent said the law had a “positive effect” or “no noticeable effect” on productivity.
- 92 percent said the law had a “positive effect” or “no noticeable effect” on turnover.
- 99 percent said the law had a “positive effect” or “no noticeable effect” on morale.

Adam Rochon, a small-business owner in Exeter, California, described the state’s paid family leave program as “a win-win situation for everybody involved.” Rochon relied on the program—which funds paid leave through deductions from employee’s paychecks—when one of his employees needed to take leave to care for a family member. “We didn’t have to pay her salary while she was away ... and my employee was able to take the time she needed and return to work happy and motivated,” Rochon explained.<sup>12</sup>

In New Jersey, the second state to implement paid family leave, small businesses also did not report negative effects. A survey of 259 employers of various sizes showed that the majority of businesses, including small businesses, saw no effect on profitability or productivity as a result of the law.<sup>13</sup> Nearly 80 percent of employers surveyed dealt with intermittent employee leaves by temporarily assigning work to other employees rather than hiring replacements. Still, 65 percent of small businesses reported no increased overtime costs.

Rhode Island’s paid leave program took effect in 2014, and initial research on its effects support the findings from California and New Jersey. A study released in 2016 surveyed more than 200 food service and manufacturing business owners with 10 to 99 employees both before and after passage of the law.<sup>14</sup> Roughly half of the businesses were located in Rhode Island and were compared with businesses in neighboring counties in Massachusetts and Connecticut. Overall, the researchers found no significant changes over time or across states in employers’ reports of employee productivity and related metrics such as attendance, cooperation, and morale. A majority of Rhode Island employers, regardless of size, said they favored the law.

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## Businesses benefit from government-administered paid leave programs

Not only do small employers overwhelmingly report that paid leave has not caused harm, there is considerable evidence that paid family and medical leave results in positive outcomes for businesses of all sizes, as well as employees.

Studies show that paid leave is an important factor in employee recruitment and retention. A survey of 200 human resource managers found that two-thirds named supportive work-family policies as the most important factor in recruiting and retaining employees.<sup>15</sup> In a national survey of employers, employee retention was the main reason cited for adopting workplace flexibility, caregiving leave, and dependent care initiatives.<sup>16</sup> Recruitment was listed as the third-most important reason, after helping employees manage work and family life. For mothers specifically, paid leave has been shown to increase the likelihood that they will return to work after having a child.<sup>17</sup>

Successful retention of employees leads to reduced turnover—a cost to business that is not insignificant. A Center for American Progress review of 30 case studies on employee turnover found that the cost of replacing an employee is about one-fifth of that worker’s annual salary.<sup>18</sup> In a survey of 120 employers in New York, researchers found that businesses with flexible leave policies had significantly lower turnover.<sup>19</sup> Similarly, Appelbaum and Milkman found that workers in low-quality jobs in California were more likely to return to their same employer if they used family leave insurance while on leave.<sup>20</sup> As Tony Sandkamp, small-business owner of Sandkamp Woodworks in Jersey City, New Jersey, put it, “The low costs associated with the plan are more than outweighed by the benefits. I know my staff members are in a great place to grow with the company, and turnover and training costs have been nearly wiped from my balance sheets.”<sup>21</sup>

Paid leave can also lead to increased productivity and performance, resulting in higher profitability. In a 2015 report for the Center for American Progress, Nicholas Bloom and others found that company policies to promote work-life balance are correlated with company performance.<sup>22</sup> Of 536 midsize manufacturing companies studied in the United States, United Kingdom, France, and Germany, those offering a range of work-family policies—such as working from home, generous maternity leave, and child care support—typically had higher levels of sales relative to other companies within their respective countries. Similarly, a survey by researchers from the University of Cambridge found that businesses with work-family policies were more likely to have above-average labor productivity than those without such policies. Ninety percent of respondents reported that their work-family policies were cost-effective.<sup>23</sup> In California, 91 percent of employers responded that paid family leave had a positive effect or no effect on business profitability and performance.<sup>24</sup>

Small-businesses owners in states without a paid leave policy may especially realize the value of leave as a tool for retention and productivity. As Joe Gidjunis, the owner of a small photography company in Philadelphia, reflected, “If people are in the office and have stressors at home they cannot give it their all. I want them to take care of what they need to so that they can come back and be the best I know they can be.”<sup>25</sup>

Yet without a national program, small-business employers often have to cobble together policies when employees' family issues inevitably arise. Ken Weinstein, a restaurant and real estate business owner in Philadelphia, described his experience trying to provide paid leave when an employee of 10 years had her second child. "We let her go into negative vacation time. We found a way to keep paying her, and luckily she is married to a firefighter who also has paid paternity leave through the city," Weinstein explained. This experience further convinced Weinstein of the pressing need for a government paid leave program. "We need to do something because this issue is in front of us," he said. "We can ignore it and hope that women and men figure something out—but that's not fair. It's not fair to the employer or the employee, and especially not to the employee when they have an employer who isn't progressive."<sup>26</sup>

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## The majority of small businesses support paid leave

Given the positive effects of paid leave, it is no surprise that many small businesses already support adoption of a national program. A survey administered by the Small Business Majority in 2013 found that a majority of small businesses support paid leave insurance pools funded by contributions paid by employees, and a plurality support an insurance program funded through employer and employee payroll contributions.<sup>27</sup> The survey also found that a majority of small businesses already offer some sort of family and medical leave, indicating that a national program would likely relieve some of the burden of providing these policies. Indeed, small businesses have been an important part of coalitions advocating for paid leave at the state and local level, as seen in New York, Washington state, Connecticut, the District of Columbia, and Minnesota.<sup>28</sup>

While there are a growing number of small-business owners who provide paid leave, many employers want to offer the program to their employees but are unable to without government support. Gidjunis, who recently had a child of his own, falls into this category. "I only have about 2 months of payroll in savings," he explained. "I want to offer this benefit, but it's just not in the cards because it would jeopardize the business. Having a program, even if we are paying taxes for it, would enable us to offer this benefit."<sup>29</sup>

Weinstein echoed the need for a national policy that would spread the cost of paid leave and thereby level the playing field for smaller business. In the restaurant industry, he explained, small margins and staunch competition makes it difficult for businesses to offer it on their own. "We can't raise the price of a burger by two dollars to fund paid leave on our own because the restaurant next door isn't doing that," Weinstein said. "We need to make change across the board to level the playing field."<sup>30</sup>

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## Conclusion

By and large, small-business owners want to do right by their employees. They know that most workers will need time off at some point to take care of a child, a parent, or themselves. Yet for small employers, the financial burden of providing paid leave without government support is especially challenging. Small businesses are often unable to compete with the benefits programs larger companies can offer and may lose out on talented employees or face higher rates of turnover as a result. A nationally administered program would allow small businesses to compete on a level playing field with larger employers and ensure that all workers have access to paid family and medical leave, regardless of employer size.

One New Hampshire small-business owner, Joe Keefe, summed up the broader need for paid family leave: “The research is clear, and my company’s experience is clear: A family friendly business is a healthy business, pure and simple. And not only does the company gain advantages but its employees, their families and whole communities—indeed, whole economies—derive the benefits.”<sup>31</sup>

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*\*Correction, November 3, 2016: This issue brief originally incorrectly stated the wage replacement rate for Rhode Island. The correct number is 60 percent.*

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## Endnotes

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