

Paid Family and Medical Leave

AN ISSUE WHOSE TIME HAS COME

AEI-Brookings Working Group on Paid Family Leave

MAY 2017

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Contents

A Note from the Directors of the AEI-Brookings Paid Family Leave Project v

Executive Summary 1

I. An Introduction to Paid Leave 3

II. Existing Leave Policies in the United States and the OECD 12

III. Principles and Parameters Underlying the Provision of Paid Family Leave 19

IV. Toward a Compromise 24

About the Working Group 31

Notes 36

A Note from the Directors of the AEI-Brookings Paid Family Leave Project

Over the past year we have had the privilege of working with some of the most knowledgeable people in the country on the desirability and design of a paid family leave policy. Those we have consulted include not only the members of our distinguished working group but also many others—advocates, outside experts, government officials, congressional staff, and business leaders. We thank all of them.

What is paid family and medical leave, and why did we embark on this project? Paid family and medical leave policies enable workers to take time off to address certain life events and medical emergencies—the birth or adoption of a child (paid parental leave), one’s own illness (own medical leave), or family members’ illnesses (family care leave)—without sacrificing their entire paycheck. While it is reasonable to expect that employers should be willing to accommodate their employees’ needs at such times (and many do), a federal policy that establishes a statutory right to paid leave for working Americans, as is commonplace in other countries, is now a rising subject of discussion and debate in the US.

Both of us have written extensively about issues relating to single mothers, women’s labor force participation, and economic opportunity. Paid family leave affects children and families, it affects women’s ability to participate in the labor market, and it affects economic growth. Recent research suggests that when compared to other countries in the Organisation for Economic Co-operation and Development, women’s labor force participation in the US has stalled, and nearly a third of the gap can be explained by the lack of family-friendly policies such as paid leave.¹ If women are unable to continue their careers because

their workplaces are less accommodating of their need for time off, this limits their ability to remain in the labor force and move up the income ladder. This is not just an issue for women, but for families as a whole, as women are now the primary breadwinners in more than 40 percent of all families, according to the Pew Research Center.²

Polls show overwhelming public support for paid family and medical leave. Support for the concept is bipartisan, with almost 71 percent of Republicans and 83 percent of Democrats in favor of a paid parental leave policy.³ Yet the United States is the only advanced nation that does not have a paid leave policy at the national level. The federal Family and Medical Leave Act, passed in 1993, offers 12 weeks of job-protected, *unpaid* leave, but only about 60 percent of the workforce is eligible for its protections.⁴

While the federal government has been slow to act on this issue, many private employers and states have recently come forward with their own benefit policies. Paid family leave is currently provided in California, New Jersey, and Rhode Island, and policies will soon be implemented in the state of New York and the District of Columbia. Tech companies such as Apple, Google, and Netflix offer many months of paid leave to accommodate the needs of working parents in their organizations. However, employer-provided paid leave is concentrated among high-income workers; a majority of those below median income received no pay while on leave.⁵

That said, paid leave generates a variety of concerns from a business perspective. Most obviously, there are business costs associated with paid leave if employers are simply mandated to provide it. For this reason, we

think it is worth noting that no one in our working group favored an employer mandate. Instead, most—although not all of us—favored a slight increase in the payroll tax on employees, with a minority in favor of reduced federal spending in other areas to pay for a new benefit.

This brings us to our working group, which over the past year has spent a lot of time and effort trying to figure out the best design for a federal policy. Our working-group members represent a diverse group of experts from different organizations, backgrounds, and perspectives. Some are academics who have conducted research in the area of paid leave. Others are more policy-oriented with experience in government. Some have conservative leanings, and others are more liberal. But at the end of the day, we came together because we have a common interest in an improved system in the US.

We spent the bulk of our time discussing paid parental leave rather than paid medical or family care leave because of limits on our time and a lack of evidence on the costs of the latter. This focus does not mean we support only paid parental leave, as opposed to other types of leave.

We all believe the United States needs a paid parental leave policy. This is worth reiterating. There is little or no disagreement in our working group that the time for the US to adopt such a policy has come. While there are disagreements about the policy's design, how we fund it, how long the leave lasts, who pays, and who is eligible, absolutely no one disagrees that working families in America today need to have access to some paid time off when a baby is born or adopted. It is in the spirit of compromise that we offer a plan that brings together these diverse elements and that could help move the US forward on this issue.

Our members have been tremendously generous with their time, thoughts, expertise, and willingness to read through multiple drafts of this report. We thank them profusely for their investment in this project. We also hope this investment will pay off by sparking a debate, shaping the conversation, and ultimately improving the lives of America's families and the strength of its economy.

Aparna Mathur
Isabel V. Sawhill

Executive Summary

In the past few years, public interest in creating a federal paid family leave policy has grown. The three main purposes of paid leave are to assist those who need to take leave from work for the birth or adoption of a child, to care for an ill family member, or to address their own serious illness. The idea that workers should receive paid leave for different purposes has broad public support, with 82 percent favorable toward paid maternity leave, 69 percent toward paid paternity leave, 67 percent toward paid family care leave, and 85 percent toward paid leave to deal with one's own serious health condition.⁶ However, there is less public knowledge or agreement on the best design for a paid leave policy.⁷

Over the past year, the AEI-Brookings Paid Family Leave Working Group has developed recommendations for a federal paid leave policy. While the focus of our work and this report is on paid *parental* leave, we recognize the importance of families being able to take time off for their own illness and to look after relatives. We encourage more research and analysis of how a paid leave policy could be expanded to incorporate leave for these reasons. However, this report focuses only on paid *parental* leave at the time of the birth or adoption of a child.

In the course of our work, we developed eight principles to guide policymaking in this area. They include preventing family hardship when a baby is born or adopted, maintaining long-term attachment to the labor force, supporting children's healthy development, encouraging gender equity, minimizing costs to employers, ensuring access for the less advantaged, incorporating a shared contribution on the part of workers, and fully funding any new benefit. We also explored the design of a policy in more detail, looking at such elements as who should be eligible, the generosity of the benefit (wage replacement), job protection, and financing mechanisms.

We assessed three existing proposals in light of these principles: the FAMILY Act introduced by Sen. Kirsten Gillibrand (D-NY) and Rep. Rose DeLauro (D-CT), the proposal introduced by President Donald Trump during his campaign, and the Strong Families Act sponsored by Sens. Deb Fischer (R-NE), Angus King (I-ME), and Marco Rubio (R-FL).

We are a diverse group of experts, many of us with government experience in both Democratic and Republican administrations. In the end, we did not agree on such questions as the generosity of the benefits, how to pay for them, whether they should be focused on low-income families or made available to the middle class, how strict the eligibility rules should be, and how much job protection should be provided. But it is worth noting that *we all agreed a paid family leave policy is needed in the US.*

In addition, we came up with a compromise proposal that we put forward for others to consider. Its key elements are benefits available to both mothers and fathers, a wage-replacement rate of 70 percent up to a cap of \$600 per week for eight weeks, and job protection for those who take leave. It would be financed in part by a payroll tax on employees and in part by savings in other parts of the budget. Because too little is known about how this might work in practice, we called for an independent study of the consequences.

None of us found this compromise entirely to our liking. A majority of the group would have supported something more generous. A minority wanted to limit any new benefit to something like \$300 a week and to make it available to low-income families only. But in these partisan times, we felt an obligation to work toward a compromise that all of us could support to some extent. We believed this was better than doing nothing when the US is the only developed nation without a national paid leave policy. The remainder of the report provides more detail on all these issues.

In Chapter I, we present data on the changing demographics of working families and the types of paid leave to which working families have access. The American workforce and family structures have changed dramatically over recent decades. With the growth of female labor force participation and the decline of two-parent households, 63 percent of children now live in households in which all parents work.⁸ Although these changes have brought substantial economic benefits, it is increasingly difficult for many Americans to balance the demands of work and family. We highlight how, in addition to alleviating these work-family constraints, paid family leave offers important economic and health benefits for parents, children, and the economy as a whole by strengthening women's attachment to the labor force and economic growth.

In Chapter II, we discuss the status of existing state and federal leave laws. The only existing federal leave law is the Family and Medical Leave Act, which offers eligible workers up to 12 weeks of unpaid leave for certain purposes. In the absence of a federal paid leave policy, five states (and the District of Columbia) have passed and three states have implemented their own paid family and medical leave policies. Unfortunately, policies implemented to date have been characterized by a lack of public awareness and low take-up rates. Some employers also offer paid family

leave, but these benefits are typically unavailable to low-income workers, precisely those who are most in need of assistance because they may not be able to afford an unpaid leave of absence from work.

Chapter III discusses the eight principles outlined above and identifies the key parameters in the design of a paid family leave policy. Chapter IV contains further details on our assessment of existing proposals and our compromise proposal.

In the course of our research and discussions, we became convinced that more research and data are needed before we felt ready to recommend a federal paid leave policy for family care and medical reasons. We hope to address these gaps in the coming year. We also hope to address where parental leave fits in the larger social insurance system in the US—a system that provides income to those who are retired, permanently disabled, or temporarily jobless but that arguably needs to be modernized to deal with changes in the labor force and the nature of work.

Our working group met numerous times and engaged in a spirited and constructive discussion of these issues. We did not agree on every issue, but we all agreed it is time to provide some paid time off for new parents, especially the least advantaged. We hope our efforts will help educate others on the best way to move forward in expanding American workers' access to paid leave when they need it most.

I. An Introduction to Paid Leave

The ability to take paid leave from work enables employees to address personal needs without fearing a substantial loss of income or employment. As such, paid leave policies can take a variety of forms.

The first, paid *parental* leave, encompasses both maternity and paternity leave and guarantees employees the ability to take a leave of absence to care for and bond with a new child (including biological, adopted, or foster children). Second, paid *family care* leave enables workers to take time off to care for a seriously ill family member. Qualifying family members can vary, but often include children, spouses, and parents. Third, paid *medical* leave provides workers with time off to care for their own serious illness or disability. Finally, paid *sick* leave is usually defined as leave for a short bout of illness that requires days—but not months—to recuperate. It is most frequently an earned benefit, in which workers accumulate hours of paid sick leave as they work at a given firm. Sick leave is generally paid at the employee’s usual rate of pay, whereas the other three types of paid leave generally offer only partial wage replacement (although some other countries’ policies offer full wage replacement up to a certain threshold). The different types of leave are summarized in Table 1.

This report primarily considers the need for and design of a paid parental leave policy. This should not be interpreted to mean that paid family care, medical, and sick leave are not important. We do not yet adequately understand the approximate costs of implementing these types of leave at the federal level, whereas there is more research evidence on the benefits and costs of paid parental leave, as we have a better idea of how frequently working adults have new children and the leave-taking practices of these adults. Because sick leave in the United States is treated as a benefit similar to annual or vacation leave, this report omits discussion of sick leave.

Existing Federal Policy on Parental Leave

At the federal level, the Family and Medical Leave Act (FMLA) is the lone piece of legislation addressing workers’ access to parental, family, and medical leave. Signed into law by President Bill Clinton in 1993, the FMLA provides workers with 12 weeks of *unpaid*, job-protected leave for the birth and care of a newborn child or the adoption or fostering of a newly placed child (parental leave); to care for the serious

Table 1. Types of Paid Leave

Type of Leave	Purpose of Leave
Parental (including maternity and paternity leave)	To care for and bond with a new child at or around the time of childbirth or the adoption or fostering of a new child
Family Care	To care for a family member (usually an immediate family member) with a serious health condition
Medical	To attend to one’s own serious health condition (such as cancer)
Sick	To recover from a less severe, short-term medical condition (such as the flu)

Source: Authors.

health condition of an employee's spouse, child, or parent (family care leave); and to tend to one's own serious health condition (medical leave).

To qualify for FMLA-protected leave, an employee must have worked with his or her employer for at least 12 months and worked at least 1,250 hours in the past year. Small employers are exempt from the FMLA, as it applies only to firms with 50 or more employees within 75 miles of the workplace. Given these provisions, about 59 percent of American employees were eligible for the FMLA's protections in 2012, with lower eligibility rates for low-income workers.

Notably, nearly half of FMLA-eligible workers who needed family leave but did not take it cited "lack of pay" as the reason for not taking leave.⁹ Moreover, often a worker is eligible for FMLA-protected leave, but the family relationship of the person for whom they must care is not covered under the FMLA's provisions. (For example, leave to care for a grandparent is not covered by the FMLA.)¹⁰ While a small minority of US states and cities have implemented their own paid leave policies, the absence of federal legislation has left the majority of American workers without guaranteed access to paid leave.

The Need for Paid Leave

Advocates for paid parental leave point to three primary reasons it is needed. First, the composition of the workforce and the demands on working families have changed dramatically over recent decades, meaning far more parents are struggling to balance the competing demands of work and family.¹¹

Second, a growing body of evidence shows children fare better when their parents have access to leave,¹² and individuals are more likely to take leave when it is paid.¹³ Mothers' leave-taking after childbirth can improve maternal health, and fathers' access to paid parental leave can improve gender equity in the household, fathers' involvement in child care, and outcomes for children.

Finally, national economic growth depends on strong labor force participation by both men and women. Paid parental leave enables parents to remain

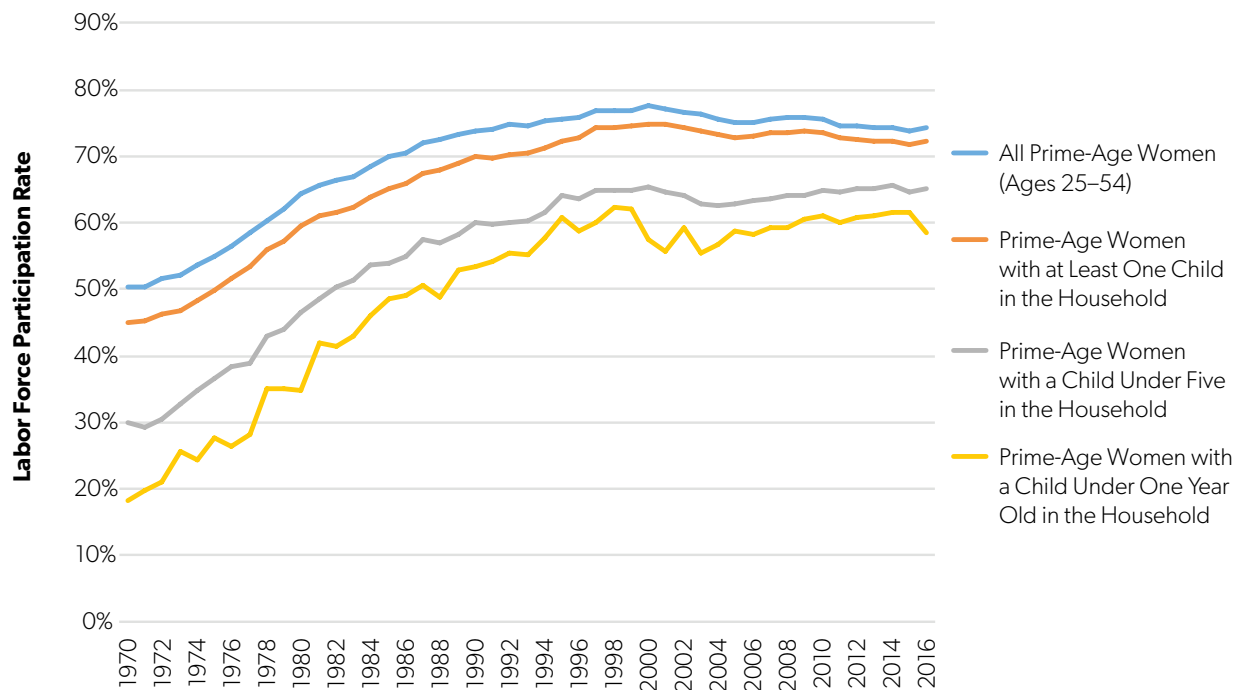
attached to the labor force while they care for and bond with their new children, and it protects against the financial hardship of going without an income during leave.

More Men and Women Are Struggling to Balance Work and Family Responsibilities. Changes in labor force participation, the structure of families, and fathers' involvement in child care have made it increasingly difficult for many Americans to balance the competing demands of work and family. In the middle of the 20th century, the typical family consisted of a working father and a stay-at-home mother who tended to the majority of home and child care needs. Between 1970 and the early 1990s, the labor force participation rate of women between the ages of 25 and 54 (considered "prime age") increased from about half to nearly three-quarters of this population.¹⁴ The gains in workforce participation were just as dramatic for women *with children* in this age group, rising from 45 percent in 1970 to about three-quarters today.¹⁵

In 2016, 65 percent of mothers with children under the age of five and 58 percent of mothers with children under the age of one were in the labor force.¹⁶ This increase in female labor force participation has contributed to economic growth, higher standards of living, and greater gender equity in the workplace and the household. Figure 1 shows the increase in labor force participation among these populations over the past half century.

These gains in mothers' workforce participation do not mean that more men are simply staying home to care for children. Instead, more mothers and fathers are performing multiple roles than in the past. In 1970, about half of married couples with children under the age of 18 lived in a household in which the father was the primary breadwinner. By 2015, two-thirds lived in dual-earner households.¹⁷ At the same time, the fraction of children living with a single mother or single father increased; nearly one-third of children today do not live in two-parent households.¹⁸

The rise in mothers' workforce participation alongside a decline in two-parent families means that 63 percent of children now live in a household in which all parents work.¹⁹ In two-parent families,

Figure 1. Labor Force Participation Among Prime-Age Women and Mothers with Children of All Ages

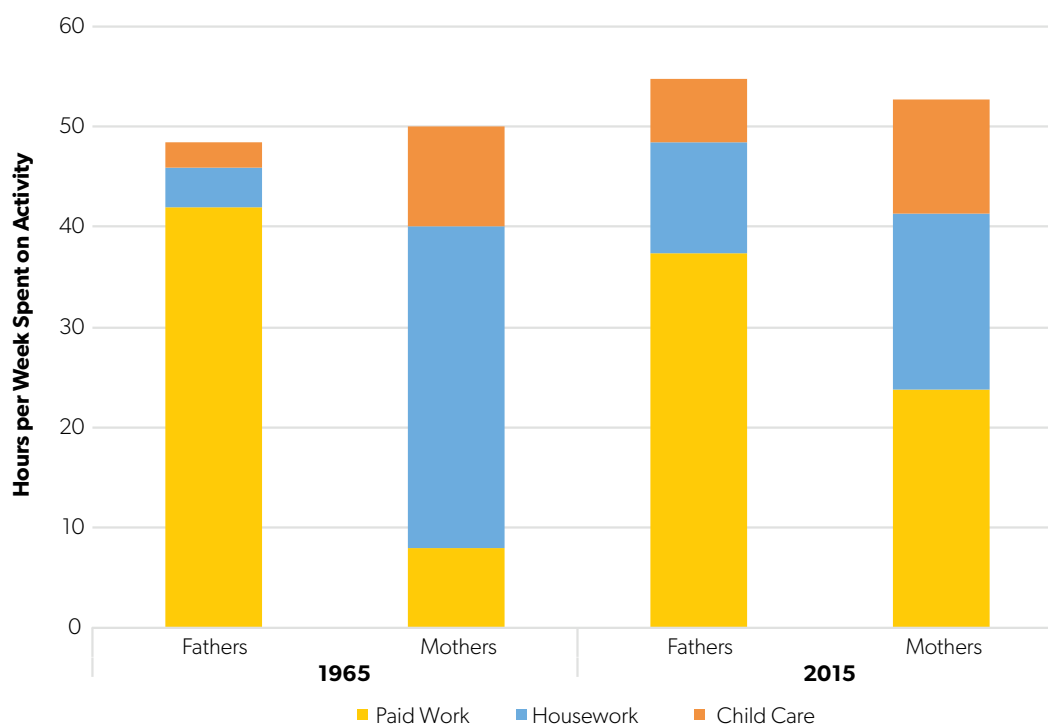
Source: Bureau of Labor Statistics Current Population Survey, 1970–Present.

these changes have altered the composition of caregiving responsibilities between parents. The amount of time the average father spends performing household chores and child care has increased threefold since 1965. Mothers now spend significantly more time on paid work. Both mothers and fathers now spend more time performing paid work and unpaid housework and child care combined than they did in the past, as shown in Figure 2.²⁰

In 2015, nearly 36.5 million women and 30 million men lived with at least one child under 18 in the household. Of these, 70 percent of women and 93 percent of men were in the labor force.²¹ Further, of the 3.1 million mothers with at least one child under one year old in 2015, 1.8 million were in the labor force (about 58 percent).²² With the joint responsibilities of the workplace and the family increasing, the case for providing paid time off from work for specific family needs is more relevant than ever, and a federal paid leave policy could support the needs of millions of America's working parents who currently lack access to paid leave through their employers or existing state laws.

A paid parental leave policy is also consistent with changing views of mothers' roles in the workplace. A Pew Research Center survey from 2013 found that 37 percent of working mothers consider full-time work their ideal situation, up from 21 percent in 2007. However, there is a substantial difference in views by marital status and financial well-being. Full-time work is the stated ideal for half of unmarried mothers, but only 23 percent of married mothers. For women who do not have enough to meet basic expenses, 47 percent prefer full-time work, significantly higher than the 31 percent of those who live comfortably.²³ While a paid parental leave policy provides assistance for only the few weeks or months following the birth or adoption of a new child, it can improve women's attachment to the labor force and their ability to continue pursuing their professional desires following this life event.

Paid Parental Leave Can Improve Children's Physical and Cognitive Health. Access to paid parental leave enables parents to spend more time

Figure 2. Parents' Time Spent on Paid Work and Unpaid Housework and Child Care Combined

Note: Population includes adults ages 18–64 with at least one own child under 18 living in the household.

Source: Values for 2015 are based on authors' analysis of the Bureau of Labor Statistics, American Time Use Survey. Data for 1965 are from Table 5A.1-2 in Suzanne Bianchi, John Robinson, and Melissa Milkie, *Changing Rhythms of American Family Life* (New York: Russell Sage Foundation, 2006), retrieved from Kim Parker and Gretchen Livingston, "6 Facts About American Fathers," Pew Research Center, June 16, 2016, <http://www.pewresearch.org/fact-tank/2016/06/16/fathers-day-facts/>.

with their children at or around the time of childbirth, which can advance childhood health and development.²⁴ Studies analyzing leave policies in US states and policy variation across countries have found that paid parental leave is associated with a reduction in low birth weight babies²⁵ and lower rates of infant and child mortality,²⁶ controlling for income and other factors that affect children's health. Paid parental leave could also yield substantial health benefits by lengthening the duration of breastfeeding²⁷ and reducing certain preventable neonatal fatalities.

Christopher Ruhm finds that an additional 10 weeks of parental leave decreases expected post-neonatal deaths by 4.5 to 6.6 percent.²⁸ Further, a study of the long-run impacts of paid leave in Norway found that the increased time mothers spent with their children following the introduction of paid maternity leave

was associated with lower high school dropout rates and higher wages for these children at age 30. These effects were particularly pronounced for children whose mothers had lower levels of education.²⁹

In addition to these improvements to children's health, mothers may also benefit from having access to parental leave. Paid maternity leave and postpartum leave-taking are associated with improved mental and physical health, although the benefits depend on the length of this leave.³⁰

Fathers' Involvement in Child Care Improves Childhood Development and Gender Equity.

Paid parental leave has increased fathers' involvement in and share of child care responsibilities, especially when it takes the form of a separate paid paternity leave entitlement.³¹ Lenna Nepomnyaschy

and Jane Waldfogel find that fathers who take longer leave around childbirth are more likely to be involved in child care later.³² Numerous other studies have shown positive associations between fathers' access to paid parental leave and participation in child care at the time of childbirth and later in the child's life.³³

Increased paternal engagement is associated with improved language and cognitive development³⁴ and social development of children,³⁵ so ensuring paid paternity leave could benefit children's life outcomes in ways that extend beyond the immediate health benefits associated with paid parental leave. Additionally, by encouraging fathers to actively participate in child care duties alongside mothers, fathers' access to parental leave can promote household gender equity.³⁶ Indeed, multiple studies have found that when paternity leave is well paid and nontransferable to the mother, it can improve gender equity in the home by encouraging a more equitable division of child care.³⁷

Paid Family Care and Medical Leave Can Improve Health Outcomes. As stated, this report's focus is paid parental leave, but other types of paid leave have important benefits. Paid family care leave enables workers to take time off to care for a seriously ill family member. This often means time off to care for a child, but it also frequently includes spouses, parents, grandparents, and other family members.

An aging American population has added to caregiving responsibilities for older family members, and unpaid family caregiving is the most common source of long-term eldercare.³⁸ Adults who receive support from family members experience better health outcomes from conditions including heart attacks and strokes. Parents' access to paid parental leave and children's health outcomes are closely linked: Sick children have shorter recovery periods and fewer symptoms when their parents can afford time off from work to care for them. Paid family and own sick leave also helps prevent the spread of infectious diseases in workplaces, schools, and day care centers, as many workers with few resources elect to go to work despite illness in the home when they cannot afford an unpaid leave of absence.³⁹

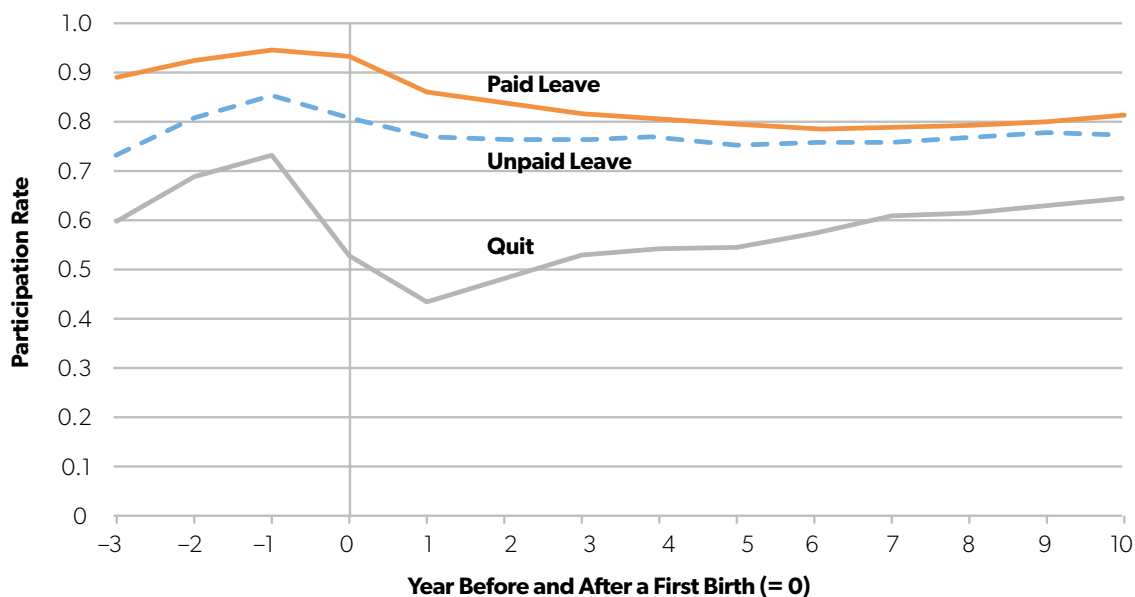
Paid Leave Increases Labor Force Participation, Earnings, and National Economic Growth.

Allowing working mothers and fathers to take a leave of absence for an important life event or emergency without fearing lost income can strengthen their attachment to the labor force and associated earnings trajectories. An analysis conducted by Angela Rachidi shows that the majority of nonworking, prime-age poor women cite home and family responsibilities as the primary reason that they did not work in the past year. Rachidi suggests that paid family leave, alongside other policies to improve work rates among this population, "may have positive long-term effects by building labor market experience that could lead to higher future earnings."⁴⁰

By improving women's ability to return to their previous employer after taking leave for the birth of a new child, state-level paid parental leave laws in California and New Jersey were associated with increased labor force attachment among women in the months surrounding childbirth.⁴¹ Lawrence Berger and Jane Waldfogel show that women with access to paid leave are more likely to take longer periods of leave following a birth than women without leave coverage are, but they are also 40 percent more likely to return to work after giving birth than those without access are.⁴²

The implementation of California's paid family leave law was followed by a twofold increase in women's use of leave following the birth of a child and a 6 to 9 percent increase in the average weekly work hours of employed mothers with children between one and three years old. While the law's impact on wages is less certain, earnings likely increased by approximately the same amount as the increase in working hours.⁴³ Other work has shown that moderate-length maternity and paternity leave policies (as opposed to extremely generous policies offering several years of leave) are associated with a smaller wage gap between mothers and non-mothers (also known as the motherhood wage gap).⁴⁴

By strengthening an individual's attachment to the labor force, paid leave policies can increase overall labor force participation and the economic growth that results from higher rates of employment. The

Figure 3. Labor Force Participation Pre- and Post-Birth of First Child by Leave Status, 1990s

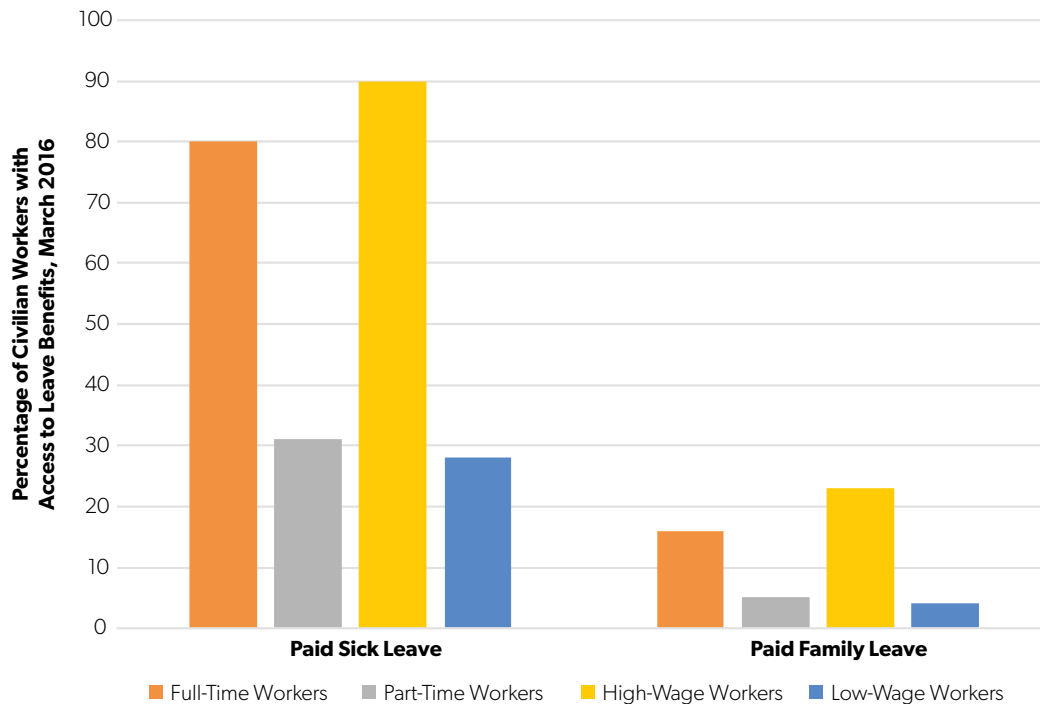
Source: Claudia Goldin and Joshua Mitchell, “The New Life Cycle of Women’s Employment: Disappearing Humps, Sagging Middle, Expanding Tops,” *Journal of Economic Perspectives* 31, no. 1 (2017): 161–82, Figure 5.

Council of Economic Advisers suggests that nearly all of the middle-class income growth since 1970 can be attributed to the rise in women’s earnings resulting from increased female labor force participation and educational attainment.⁴⁵

However, while female workforce participation increased dramatically in the last part of the 20th century, the participation rate peaked in the late 1990s and has recently declined. Comparable advanced economies experienced similar surges in female labor force participation through the turn of the century, but America is unique in its recent decline—other nations have continued to experience increasing rates of female workforce participation in recent decades. According to Francine D. Blau and Lawrence M. Kahn, about 28 percent of the decline in female labor force participation in America relative to other countries in the Organisation for Economic Co-operation and Development (OECD) can be explained by the nation’s lack of family-friendly workplace policies, including paid parental leave.⁴⁶

Although the prime-age male participation rate has been declining for decades, it was still substantially higher than the female participation rate in 2015. The gap in male and female participation rates was only 3 percentage points for those under 24 years old, while it increased to 14 percentage points for men and women between 25 and 54, when family development often conflicts with career development.⁴⁷

A new paper by Claudia Goldin and Joshua Mitchell examines female participation rates, identifying how women’s participation in the labor force evolves over their lifetimes. The paper highlights how long-term participation rates vary for mothers who take paid and unpaid leave compared to those who quit their jobs during pregnancy. The authors show that, 10 years following the birth of their first child, labor force participation rates are highest for women who receive paid parental leave (82 percent) and lowest for women who quit during pregnancy (64 percent), as shown in Figure 3.⁴⁸ Notably, the authors did not control for characteristics, such as educational attainment, that might determine what

Figure 4. Access to Paid Leave

Note: High-wage workers includes those with wages in the highest 10 percent, while low-wage workers includes those with wages in the lowest 10 percent. Family leave includes both parental leave and family care leave.

Source: Bureau of Labor Statistics National Compensation Survey, "Table 32. Leave Benefits: Access, Civilian Workers, March 2016."

type of individual falls into each category. Thus, as the authors say, "it is impossible to infer the impact that paid-leave, or longer protected leave, policies would have on women's employment. But taking leave and staving off quits would appear to increase participation after a birth."⁴⁹

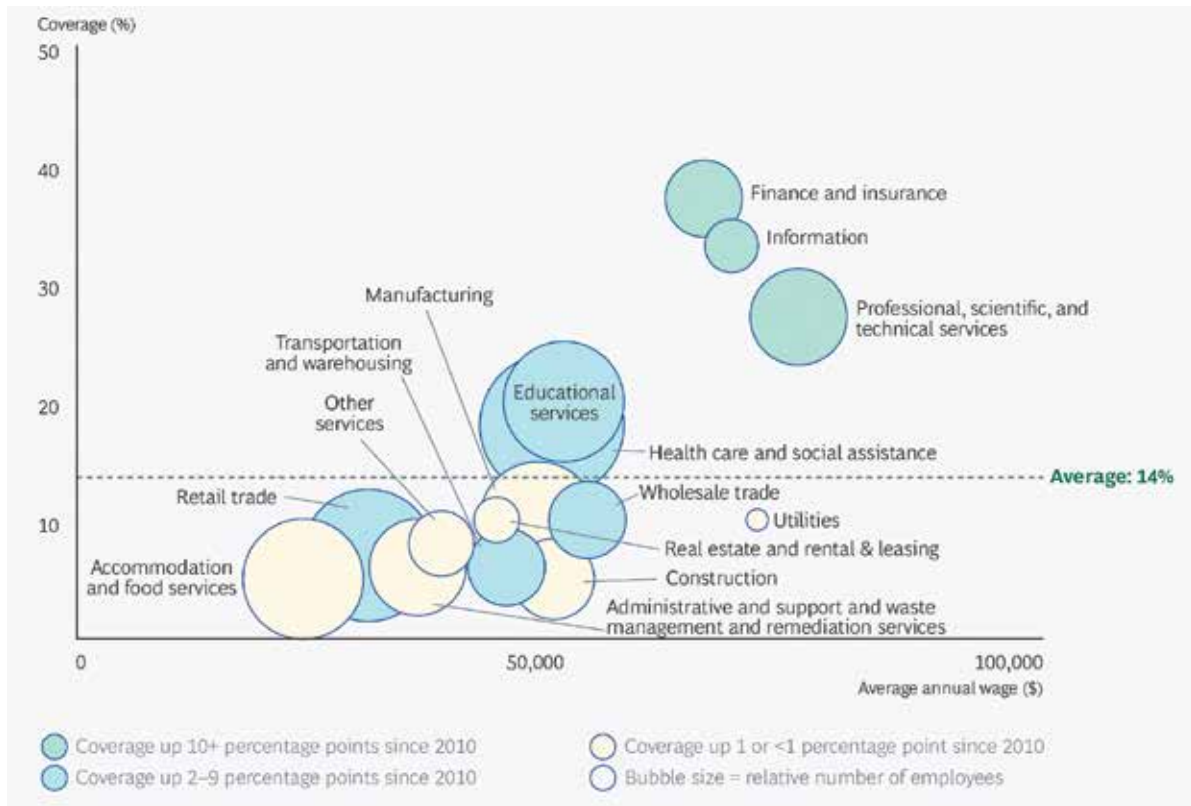
In the long run, gross domestic product (GDP) growth is determined by two factors: growth in employment (the number of hours worked across the workforce) and growth in labor productivity (output per hour worked). Declining participation rates are therefore deeply tied to sluggish economic growth. Olivier Thévenon et al. show that convergence of a country's female and male participation rates could increase GDP by 12 percent on average across OECD countries.⁵⁰ Thus, the benefits of paid leave extend beyond those enjoyed by working parents and their children by promoting increased workforce participation and national economic output.

Access to Leave Is Not Uniform Across the Workforce

Some American workers have access to paid leave through benefits offered by their employers or because they live in one of the three states that have implemented state paid leave policies. But access is not widespread, especially for low-wage and part-time workers, as shown in Figure 4.

While employers are frequently important sources of innovation, a classic market failure prevents many employers from offering an efficient level of paid leave on their own: adverse selection. If only a few firms offer paid leave, these firms will attract a disproportionate number of "high-risk" employees who are more likely to use the benefits (e.g., women of childbearing age). Employers at these firms might compensate for their larger share of high-cost employees by offering lower wages, leading individuals who are unlikely to use the

Figure 5. Wages and Increase in Paid Family Leave Coverage in Different Industries



Notes: Colors indicate the percentage-point increase in paid family leave coverage over the 2010–16 time period. Data are reported for only private sectors, although the national average includes public-sector workers (excluding the federal government). Source: Trish Stroman et al., *Why Paid Family Leave Is Good for Business*, Boston Consulting Group, February 2017, Exhibit 2, <http://media-publications.bcg.com/BCG-Why-Paid-Family-Leave-Is-Good-Business-Feb-2017.pdf>.

benefits to avoid these firms.⁵¹ For this reason (and likely others), the implementation of paid leave policies at the employer level has been low, with the majority of innovation occurring in high-wage, high-skilled occupations, such as information technologies, where the applicant pool is small and paid leave benefits can be used to attract top talent.

According to the Bureau of Labor Statistics (BLS) American Time Use Survey Leave Module, in 2011, 39 percent of respondents reported having some access at their workplace to paid leave for the birth of a child (40 percent of women and 38 percent of men).⁵² The Leave Module might overestimate access to defined paid leave policies by capturing informal arrangements

made between employers and their employees. According to the BLS National Compensation Survey (NCS), 14 percent of all civilian workers have access to paid family leave (defined as either parental leave or family care leave), but this ranges from 4 percent of workers in the lowest 10 percent of weekly wages to 23 percent of workers in the highest 10 percent. Similarly, the bottom 10 percent of workers are about half as likely to receive paid holidays, sick leave, and vacations as those in the highest 10 percent.⁵³

Access to all types of paid leave is also lower for minority, less-educated, and part-time workers. Access varies significantly by industry, with high levels of paid leave in fields such as public administration

and finance (where almost 80 percent of workers have access to paid leave) and the lowest levels in leisure and hospitality, where fewer than one-quarter of workers have access to paid leave.⁵⁴

The disparities in access to paid leave can be explained, in part, by the varying labor market power of workers in different occupations and industries. A recent report from the Boston Consulting Group, analyzing BLS data, found that privately offered paid leave has grown most in sectors that recruit from a small group of highly skilled workers, as seen in Figure 5. The figure shows the percentage-point increase in the share of workers in each sector with paid family leave coverage (incorporating both parental and family care leave) over the 2010–16 time period. In these sectors, paid family leave is an important benefit used to recruit talented workers.⁵⁵

Hiring and training new workers is expensive; it often costs one-fifth of a worker's salary to replace

that employee.⁵⁶ In well-paying industries recruiting from small, talented labor pools, these costs may be particularly large and can justify establishing generous paid leave policies in hopes of reducing worker turnover. Additionally, firms in these industries may find it less costly to allow an incumbent worker some paid time off than to take the time and costs necessary to find and train a suitable replacement.

Thus, absent a universal paid leave policy, individuals with the strongest power to negotiate in the workplace are those most likely to have access to paid leave, while those with the weakest labor market power are frequently left behind. A federal paid leave policy would reduce these disparities and ensure that low-wage workers, precisely the group that stands to benefit the most, can take time off from work to confront a family or personal obligation without losing income or, worse, losing their job entirely.

II. Existing Leave Policies in the United States and the OECD

As mentioned earlier, the United States is the only advanced economy that does not provide a statutory right to paid leave at the federal level, although the FMLA guarantees American workers with access to 12 weeks of unpaid leave for certain purposes and under certain limitations. However, the US does have related social insurance programs that confront one of the many personal reasons preventing working-age adults from working: disability. And in the absence of a federal paid leave program, several states and cities have developed their own policies. The designs and impacts of these policies, as well as paid family and medical leave in other OECD countries, can be instructive when considering the potential for a federal paid leave policy in the US.

Related Federal Social Insurance Programs

Although they do not fall squarely into the categories of leave discussed in this report, Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) are federal programs relevant to this discussion. SSDI provides income support for individuals with long-term physical or mental illnesses and disabilities. The condition must be expected to last at least 12 months (or result in death) and prevent the individual from engaging in substantial work-related activity.⁵⁷ SSI is similar, but it is designed to support the incomes of individuals falling below a certain income threshold.

Together, SSDI and SSI could be thought of as long-term medical leave programs, rather than protections designed to support workers' leave of

absence from work to address a temporary family or medical event. Because SSDI- and SSI-qualifying conditions, by definition, exclude individuals from gainful employment, they provide support only when the individual remains *out* of the labor force, rather than when the individual encounters impermanent work-preventing situations, which are the FMLA's primary focus.

Some experts suggest that increased disability receipt and the work disincentives in disability programs have contributed to declining labor force participation rates, particularly among prime-age men.⁵⁸ When paid parental, family care, and medical leave policies provide job protection and require a work history to receive the benefits, these policies can incentivize workers to remain attached to the labor force throughout the duration of the time spent tending to a family event or medical emergency. A federal paid leave policy could be designed alongside reforms to these longer-term disability programs to not only control overall costs but also improve the work incentives in America's safety net programs.

State Paid Leave Policies

In August 2000, the Bill Clinton administration launched the first attempt at creating state-level paid parental leave through the Birth and Adoption Unemployment Compensation (BAA-UC) experiment. Issued as a regulation rather than a law, it allowed states to set up their own paid leave around the birth of a child through their Unemployment Insurance (UI) systems. States could pay for up to 12 weeks of such leave using their UI funds. Since it was issued

as a regulation and not a law, the program was not funded and was strictly voluntary. The BAA-UC program was highly controversial at the time; although 15 states considered implementing the program, none actually passed legislation to do so. The regulation was removed from the Federal Register in 2003.⁵⁹

Several states and local governments have implemented their own paid leave policies, including paid medical leave and, more recently, paid parental and family care leave. Five states (California, Hawaii, New Jersey, New York, and Rhode Island) have long-standing temporary disability insurance (TDI) programs, which allow birth mothers to use the benefit at or around the time of childbirth. The state programs differ regarding eligibility requirements, weekly benefit amounts, payment durations, and sources of funding, but most are financed through small payroll taxes on employees or payroll taxes on both employers and employees. These programs typically pay 50 to 60 percent of wages, and women giving birth are typically eligible for six to eight weeks of paid leave through TDI.⁶⁰ However, since this benefit is tied to the medical condition, it is unavailable to fathers or adoptive parents.

In addition, five states (California, Rhode Island, New Jersey, New York, and Washington) and the District of Columbia have passed paid family and medical leave legislation, although only three—California, Rhode Island, and New Jersey—have implemented the programs to date. In these localities, family leave encompasses both parental leave and family care leave, as defined in Chapter I. New York's program will take effect in January 2018; the District of Columbia's program will take effect in 2020. Washington State has not yet implemented its policy because it has not established a funding mechanism.

California, Rhode Island, New Jersey, and New York incorporated paid family and medical leave into the states' existing TDI programs, financed through payroll contributions. However, these four states finance the paid family and medical leave benefit exclusively through employee payroll contributions, rather than joint employer/employee contributions, as for their overall TDI programs. The District of Columbia has also elected to finance its paid family

leave program exclusively through employee payroll contributions. In the four states with existing TDI programs, the paid family and medical leave benefit can be a supplemental benefit for new mothers using TDI at or around the birth of a child, thus extending the total amount of paid leave available following this life event.

The characteristics of these policies differ, although all provide some form of benefit for the birth, adoption, or fostering of a new child and caring for a sick family member. Table 2 summarizes the major provisions of these state paid leave policies.

The District of Columbia's paid family and medical leave policy was enacted in February 2017 and will go into effect in 2020.⁶¹ It provides eight weeks of paid leave for new parents, six weeks to care for a seriously ill family member, and two weeks for one's own illness. It requires a replacement rate of 90 percent of the employee's previous wages for workers with incomes at or below 150 percent of the District's minimum wage and a 50 percent replacement rate for individuals with incomes above this threshold, up to a cap of \$1,000 per week. The program is funded by a 0.62 percent payroll tax on employers, and it applies to individuals employed in the District, regardless of where they live. The law allows self-employed workers to opt in to the program by paying into the benefit's fund.⁶²

Existing state paid family and medical leave policies have exhibited relatively low take-up rates. Ten years after California's paid family leave policy was implemented in 2004, take-up rates by eligible mothers ranged from 25 to 40 percent.⁶³ Low take-up rates are only partly attributable to eligibility limitations. A 2011 study found that half of workers eligible for paid leave were unaware of the program, and a third of those who were aware and eligible but who did not apply for family leave reported that the wage-replacement rate was too low. Others cited the lack of job protection or worried that taking leave would make their employer unhappy or hurt their opportunities for advancement.⁶⁴

Lack of awareness and job protection could be alleviated through a federal-level paid leave program, which could integrate paid leave with existing

PAID FAMILY AND MEDICAL LEAVE

Table 2. Summary of Existing State Paid Leave Policies (Excluding Washington State)

	California	New Jersey	Rhode Island	New York	District of Columbia
Status	Enacted 2002, effective 2004	Enacted 2008, effective 2009	Enacted 2013, effective 2014	Enacted 2016, effective 2018	Enacted 2017, effective 2020
Maximum Length of Leave	Six weeks for family leave; 52 weeks for own disability	Six weeks for family leave; 26 weeks for own disability	Four weeks for family leave; 30 weeks for own disability (but no more than 30 weeks family/medical combined)	Eight weeks for family leave in 2018, increasing to 12 by 2021; 26 weeks for own disability	Eight weeks for parental leave; six weeks for family care; two weeks for own serious health condition
Average Wage-Replacement Rate	55 percent of worker's average weekly wage; maximum of \$1,129 per week in 2016	66 percent of worker's average weekly wage; maximum of \$615 per week	4.62 percent of wages paid during highest quarter of worker's base period (about 60 percent of worker's average weekly wage); maximum of \$795 per week	50 percent of worker's average weekly wage in 2018, rising to 67 percent in 2021 for family leave; 50 percent for own disability with maximum benefit of \$170 per week	90 percent of worker's average weekly wage for workers paid less than or equal to 150 percent of DC minimum wage multiplied by 40; 50 percent for those above this threshold with a maximum benefit of \$1,000 per week
Qualifying Family Members	Children, parents, spouses, domestic partners, grandparents, grandchildren, siblings, and parents-in-law	Children, parents, spouses, domestic partners, and civil-union partners	Children, parents, grandparents, spouses, and domestic partners	Children, parents, grandparents, grandchildren, spouses, and domestic partners	Children, parents, spouses, domestic partners, grandparents, and siblings
Scope of Coverage	All private-sector workers, some public employees; self-employed individuals can opt in	All private- and public-sector employees covered by the New Jersey Unemployment Compensation Law with a few government employer exceptions	All private-sector employees, some public employees	All private-sector employees; self-employed and public employees can opt in	All private-sector employees covered by the DC Unemployment Compensation Act; self-employed individuals can opt in
Job Protection	Not beyond that provided by the FMLA	Not beyond that provided by the FMLA	Job protection for family leave, but not for TDI beyond that provided by the FMLA	Job protection for family leave, but not for TDI beyond that provided by the FMLA	Not beyond that provided by the FMLA and the DC FMLA

Source: National Partnership for Women and Families, "State Paid Family Leave Insurance Laws," February 2017, <http://www.nationalpartnership.org/research-library/work-family/paid-leave/state-paid-family-leave-laws.pdf>.

FMLA protections or more effectively promote policy awareness through a universal and transparent program. But in spite of low take-up, these policies have led to increased leave usage and leave lengths.⁶⁵

Local Paid Leave Policies

Several cities have passed some form of paid leave legislation, although the parameters vary widely. Many cities have passed paid family care and parental leave policies that apply only to the city’s municipal employees, including Austin, Chicago, and New York City.⁶⁶ New York City, for example, offers six weeks of paid parental leave for municipal employees at a 100 percent replacement rate. The policy—enacted in January 2016—provides paid leave to parents who have, adopt, or foster a new child, but it applies only to nonunion municipal employees.⁶⁷ The policy also limits use of paid parental leave to six weeks in any rolling 12-month period, and it requires all employees using it to work for at least six months after using parental leave.⁶⁸

Unlike most paid leave policies, San Francisco’s paid family leave policy, enacted in April 2016, is structured as a mandate on businesses. The city’s policy goes beyond California’s existing state paid family leave policy (providing six weeks of paid family leave at a 55 percent wage-replacement rate) by requiring employers to pay an additional 45 percent of the employee’s previous wages.⁶⁹ The policy applies to employers with 50 or more employees in 2017 and phases in for employers with 20 or more employees by 2018. It also requires that the employee remain with the employer for at least 90 days after the leave period ends; if not, the employee must repay the employer the compensation they received while on leave.

Other Countries’ Paid Leave Policies

Other countries’ experiences are informative in understanding the scope of a possible paid leave policy at the federal level in the United States. The average paid maternity leave benefit duration across

OECD countries is nearly 18 weeks, with most countries replacing more than 50 percent of the mother’s previous earnings.⁷⁰

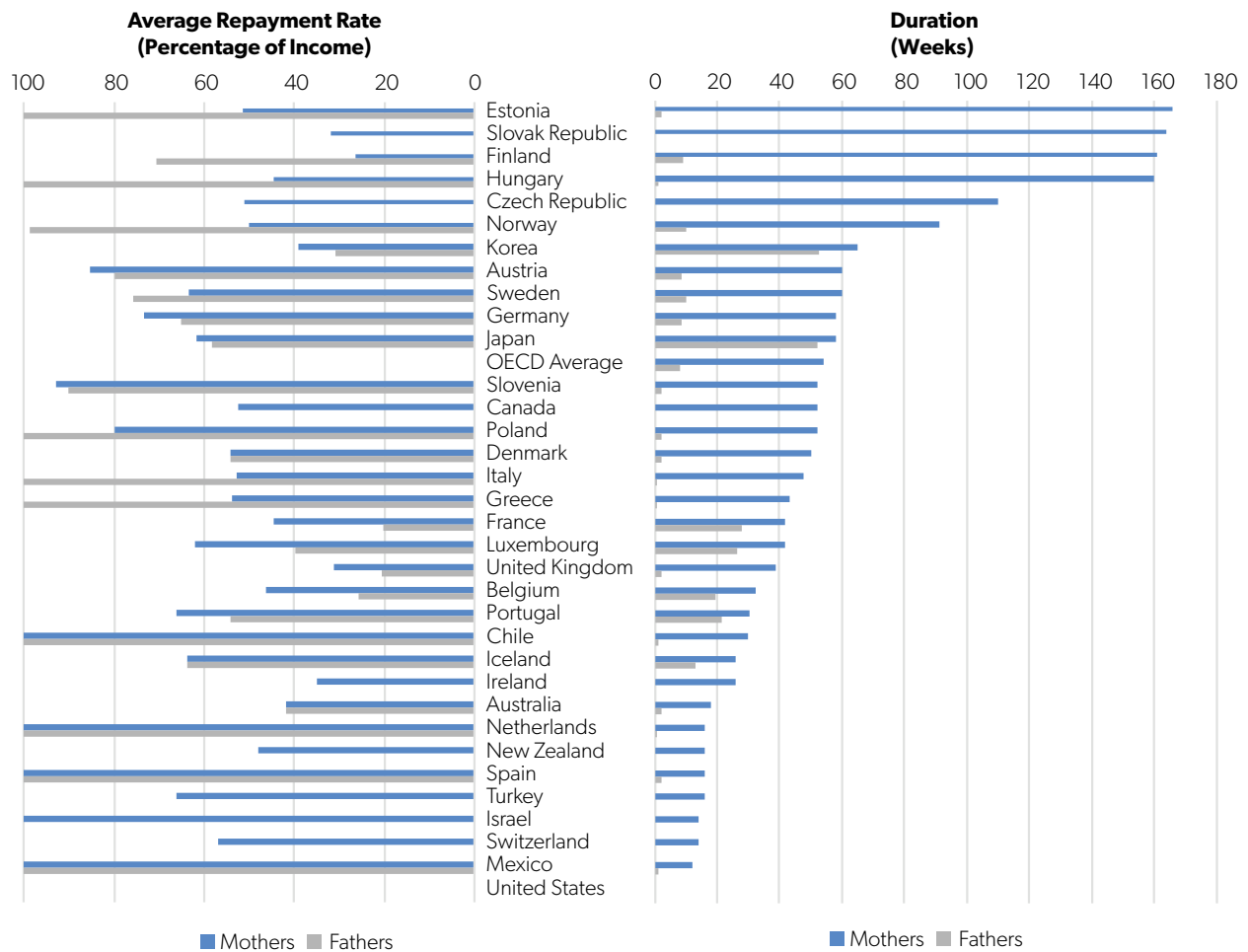
The most recent international standard, outlined by International Labor Organization (ILO) Convention No. 183, mandates a minimum of 14 weeks of paid, job-protected maternity leave at two-thirds of the mother’s previous earnings, paid for through social insurance or public funds to ensure that employers do not bear full responsibility for payment. Globally, 53 percent of the 185 countries and territories studied by the ILO provided at least 14 weeks of paid maternity leave in 2013, while 45 percent provide at least two-thirds of previous earnings for at least 14 weeks. Most of the countries examined fund the programs through social insurance.⁷¹

Since parental leave benefits in most OECD countries have evolved over time—from mostly maternity-only policies to the gradual introduction of a paternity leave benefit and, in some cases, a parental leave benefit that follows these preceding periods of leave—a substantial gap remains between the leave benefits available to mothers and those available to fathers. The average paternity leave entitlement across OECD countries is only 0.9 weeks, but most offer an additional, longer parental leave benefit that follows the initial period of maternity or paternity leave.

While there is no formal ILO convention on paternity leave or parental leave, ILO Recommendations No. 191 and No. 165 suggest that a period of job-protected parental leave should be available to either parent following maternity leave.⁷² Of the 34 OECD countries in 2015, 18 offered higher average payment rates to mothers than to fathers, and all offered longer durations for maternity leave than paternity leave. Job protection is common across most maternity and paternity leave policies abroad, and it is more common for shorter parental leave entitlements.

Including the additional parental leave entitlement, new mothers in OECD countries have access to an average of 54.1 weeks of paid leave, and new fathers have access to an average of 8.2 weeks of paid leave.⁷³ In general, shorter entitlements tend to be accompanied by higher wage-replacement rates,

Figure 6. Paid Parental Leave Entitlements in OECD Countries in 2015



Source: Organisation for Economic Co-operation and Development, “PS2.1: Key Characteristics of Parental Leave Systems,” March 15, 2017, http://www.oecd.org/els/soc/PF2_1_Parental_leave_systems.pdf.

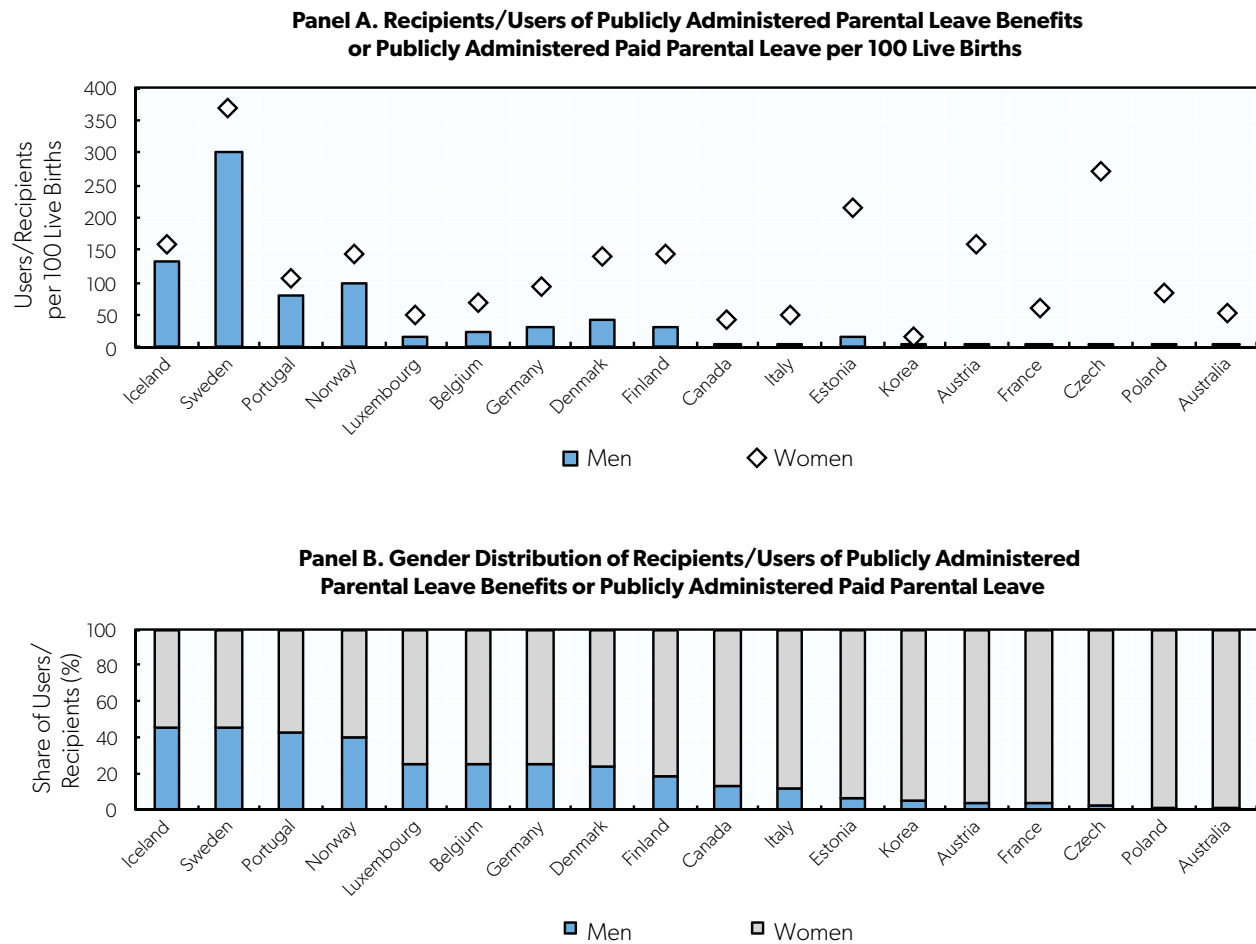
while long parental leave entitlements are typically less generous.

In France, mothers have access to 42 weeks of paid leave with an average replacement rate of 45 percent of their previous earnings, while fathers can receive 28 weeks of paid leave at 20 percent of their previous earnings. Canadian mothers can receive 52 weeks of paid leave with an average wage-replacement rate of 53 percent, while Japanese fathers have access to 52 weeks of paid leave at 58 percent of their previous earnings. Figure 6 shows the total length of paid parental leave and the average wage-replacement rates in a selection of OECD countries.

The durations and replacement rates of these policies have typically increased over the past few decades. The average paid maternity leave duration across the 30 OECD-member countries increased from 17 weeks to more than one year between 1970 and 2015. Paid paternity leave was essentially non-existent in 1970, and even by 1990 the average entitlement across OECD countries was just one day. By 2015, the average paid leave available to fathers had increased to 8.2 weeks.⁷⁴

Although men’s use of paid paternal leave is rising, it lags far behind women’s take-up of maternity leave, as seen in Figure 7. According to the OECD, men

Figure 7. Gender Distribution of Paid Leave Use



Source: Organisation for Economic Co-operation and Development, “PF2.2: Use of Childbirth-Related Leave by Mothers and Fathers,” March 1, 2016, <https://www.oecd.org/els/family/PF2-2-Use-childbirth-leave.pdf>.

commonly take a few days of paid leave around the birth of a child, but few use longer parental leave. Several OECD countries have used more aggressive measures to encourage take-up by fathers, including “use it or lose it” policies in which some portion of parental leave benefits are nontransferable to the partner and bonus periods of leave that are available only when both parents take some minimum duration of leave.⁷⁵ Experience with existing policies also shows that fathers are more likely to use leave when it is well paid and flexible.⁷⁶

Other forms of paid leave are also common across OECD countries. Most provide some minimum

annual leave entitlement, often in the form of generic paid time off that can be used for a variety of purposes. This guaranteed paid time off ranges from zero in the United States to 28 days in the United Kingdom, averaging 19 days across the OECD countries.

Paid family care leave is common, with longer-term leave entitlements less well compensated than short-duration benefits. Formal paid medical leave policies differ tremendously across countries, but most advanced economies offer some form of paid leave for both short-term and longer-term illness and disability.

An analysis conducted by Jody Heymann et al. considered whether workers in 22 countries would have

access to paid leave for two different severities and lengths of personal illness: a five-day flu episode and a 50-day cancer treatment.⁷⁷ Only three countries of the 22 studied (Canada, Japan, and the United States) had no policy at the time the analysis was conducted requiring paid sick days that would enable a worker to recover from the five-day flu episode, and the US was the only country that did not offer paid leave for the longer-term cancer recovery.⁷⁸

Paid leave policies abroad are diverse regarding eligibility criteria, length of leave, reimbursement rates, financing mechanisms, and the extent

to which parental, family, and medical leave policies are all integrated into a broader and more coordinated social insurance model. Extremely short leave entitlements, low wage-replacement rates, and inadequate job protection may do little to enable new parents to take time off, while long periods of leave might reduce mothers' attachment to the labor force and result in wage penalties in the longer term.⁷⁹ Social insurance models tend to lower the financial burden on employers, reducing employer incentives to engage in hiring and wage discrimination.

III. Principles and Parameters Underlying the Provision of Paid Family Leave

There are ethical and economic principles underlying the provision of paid family leave in the United States. Outlined below are the primary principles that the working group highlighted as the guiding framework for providing paid parental leave.

Key Principles of a Paid Family Leave Policy

Prevent Hardship for Families at Their Time of Need. As a group, we feel that providing parents and caregivers support at their time of need is crucial for a healthy society. No one should lose their job or experience financial hardship because they become a parent. Therefore, allowing employees to take an adequate period of leave with job protection and some level of wage replacement for certain purposes is important. When employees are able to take care of themselves and the health of their family, they can contribute productively to their jobs and to society as a whole.

Overall, about 40 percent of households in the United States with children under the age of 18 are either headed by a single mother or are homes in which the mother is the primary breadwinner, according to data from the Pew Research Center.⁸⁰ This share was just 11 percent in 1960. While this shift has led to many positive contributions—stronger economic growth, higher standards of living, and female empowerment—it has also created challenges for many families. This is a dramatic change from the 1960s, when few mothers worked and mothers bore the primary responsibility for raising children.

As Heather Boushey notes, every American business had a silent partner called the American housewife.⁸¹ Aside from the rise of working mothers, another distinctive phenomenon today is the increasing share of households headed by single parents who must serve as both breadwinners and caregivers.

Labor Force Attachment. The economic reasons for providing paid family leave arise from a recognition that in most families today, both parents must work to achieve a middle-class lifestyle. Moreover, women's rising labor force participation until recently was a major contributor to economic growth.

A study on the impact of California's paid family leave policy found that the right to paid leave is associated with a higher probability of employment for mothers a year after giving birth.⁸² Another study found that short periods of leave around birth increase the labor force attachment of women who would have instead exited the labor force temporarily, which can result in long-term improvements in employment outcomes for those women.⁸³

Healthy Development of Children. Parental leave contributes to children's healthy development and makes it easier for parents to provide a strong start for their children. The use of maternity leave increases rates of breastfeeding, and paid parental leave is associated with lower infant and child mortality rates and higher vaccination rates.⁸⁴ Paid parental leave facilitates parent-child bonding in the early months of the child's life, which can boost children's physical and cognitive development,⁸⁵ as well as maternal health.⁸⁶

Gender Equity. While mothers have traditionally been and remain the primary caregivers for children and families, many fathers are increasingly taking on more of the responsibilities of parenting and raising children. Therefore, one important principle in providing paid family leave is gender neutrality.

Any paid leave policy should apply to both mothers and fathers so that both parents can be equally engaged in bringing up their children and bonding with them at the time of birth. If employers view women as being the primary users of these policies, this could lead employers to discriminate against women in hiring decisions. It would also perpetuate the stereotype that women are the primary caregivers for raising children or looking after ailing relatives, making them less likely to be promoted or given greater responsibility at work.⁸⁷

Minimal Disruptive Effects on Employers. One potential downside of paid leave is that it may impose financial costs or other burdens on employers. Mandating that businesses allow employees to take time off and pay them during that time off could be costly to businesses, leading to less hiring or higher prices. On the other hand, offering leave to employees allows employers to retain talented workers and forego the cost of recruiting new workers when employees quit because they need such leave. Paid leave policies may also boost employee morale and generally lead to a better and healthier work environment for employees.

Still, paid leave policies should be designed to avoid imposing excessive costs on firms.⁸⁸ One way to do this is by using a payroll tax on employees to finance the program. When designing a federal paid leave policy, it is also important to preserve flexibility for both employers and employees and consider how the policy will interact with other labor regulations. If local labor regulations are already burdensome, imposing additional regulatory burdens may be particularly disruptive.

Ensuring Access for the Least Advantaged. Many of the bottom 40 percent of households (by income) are ineligible for job-protected unpaid leave under the FMLA because they are employed in small firms (with

fewer than 50 employees) exempt from the law or because they do not meet the eligibility requirements in terms of hours worked with their current employers. In addition, survey data consistently show that workers in low-income households and those with low educational attainment frequently lack access to any form of paid leave.⁸⁹ Moreover, those with fewer resources or less income are much less able to take up this leave even if they are eligible.

This has led to a system in which the beneficiaries of current leave policies (whether unpaid or paid by an employer) are primarily those with moderate or high incomes, stable jobs, and employment in larger organizations. To ensure access, we need to make sure that any new leave benefit helps those workers most in need and least likely to have such benefits now.

Earned Benefits and Shared Contribution. While the group is in favor of extending leave policies to low-wage workers in particular, we believe such benefits should be earned.

A benefit can be earned in two ways. First, it can be earned by a sufficiently long tenure with a particular employer before taking leave. If the leave is financed by an employee payroll tax, then the benefits should be portable, but requiring some minimal amount of experience to access any benefits may still be desirable. Second, the benefit can be earned by financial contributions from employees in the form of payroll tax contributions and a wage-replacement rate that is less than 100 percent. In both cases, the employee is helping to finance his or her own benefits.

Cost-Effectiveness and Funding. Paying for a federal paid family leave program can be costly, and it is important to minimize the overall costs of the program and the costs to individuals and employers while ensuring adequate access to leave. There are several different ways to fund such a program.

Currently, in states such as California, New Jersey, and Rhode Island, the costs are essentially being met through an increase in payroll taxes on employees, although this is not the only funding option. Such social insurance programs paid for by employees reduce the burden on employers and impose most of

the costs on employees in keeping with two of our previous principles—minimizing employer burden and making the benefit an earned benefit. However, even with a social insurance program, costs are still transferred to someone in the form of higher taxes, whether payroll taxes or general revenues, and the question is whether the benefits are worth the new costs.

Some people will see the benefits as exceeding the costs for all the reasons spelled out earlier: more ability for workers to take care of their families, stronger attachment to the labor force, and so forth. Others will question whether the benefits warrant a new tax and might only consider providing access to paid leave if it can be financed by savings to existing spending or tax expenditure programs in the federal budget. Regardless of the funding mechanism, any paid leave program must be fully funded.

Key Parameters of a Paid Family Leave Policy

The main elements of any paid leave policy—and therefore the key issues that must be considered when designing the policy—are:

- Type (e.g., parental leave, family care leave, etc.);
- Administrative structure;
- Eligibility;
- Financing;
- Gender neutrality;
- Duration of benefits;
- Wage replacement;
- Job protection; and
- Interaction with state and private-sector policies.

Type of Leave. The FMLA allows not only parents but also other caregivers time off when they need it to meet the medical needs of family members. In addition, the

FMLA allows employees to take up to 12 weeks off to tend to their own serious medical conditions.

A federal paid leave policy could guarantee time off only for new parents, or it could cover broader types of leave. The working group as a whole recognizes that allowing families to take time off to care for their family members or look after their own medical needs is important, and we generally support extending leave for these types of needs. However, much more research is needed to understand how to design such a policy.

Leave-taking data from the FMLA suggest that the majority of leave is taken to address one’s own illness. Medical leave could be a primary contributor to the costs of a broader paid family and medical leave policy.⁹⁰ The demand for, the ideal length of, and the costs associated with family care and medical leave are less well understood than those associated with parental leave. The following discussion will therefore focus largely on parental leave.

Administrative Structure. All the states that have implemented paid family leave policies to date have folded the programs into their existing TDI systems. Since only one other state has a TDI system (Hawaii), this structure is not an option for paid family leave implementation in most states. And although the Department of Labor currently handles the FMLA, this department lacks experience with benefit payments.

We believe a federal policy has three potential administrative homes: the Social Security Administration (SSA), the Department of Labor, or the Treasury (or some combination). The SSA is particularly appropriate for implementing a social insurance benefit. Alternatively, the Department of Labor could administer a paid family leave benefit in cooperation with state UI offices. A third type of paid leave policy, a tax credit, would naturally be implemented by the Treasury’s IRS. In each case, the Department of Labor might need to verify leave use. The administrative structure that will work best should obviously depend on the policy design chosen.

Eligibility. As a group, our consensus opinion is that paid leave should be an earned benefit. Since this

benefit is intended to replace work income, it should only go to people with a work history.

Many (but not all) of those in our group think that only those who have consistently worked with their employer for at least a year (or more than 1,000 hours in a year) should be eligible. Businesses will be averse to protecting employees' jobs during an extended leave of absence if they contributed only a short period of work before taking leave. Some in our group are in favor of even stricter eligibility rules, but all agree that the employee should have contributed significantly to this benefit through continued participation in the workforce (in the case of a payroll tax) and with a specific employer (for purposes of job protection).

Financing. A central design parameter of any paid leave policy is how to finance the program. In states with existing policies, programs are funded through employee payroll taxes.

While most members of the working group were in favor of a social insurance approach funded by an increase in payroll taxes, a few members felt strongly that funding should come from reduced spending (including tax expenditures) in other areas. For instance, it might be possible to fund a smaller, more targeted program by reforming other programs such as UI or Social Security and disability programs. Regardless of the funding mechanism, the program should be fully funded and not add to the deficit.

Gender Neutrality. As mentioned previously, the consensus opinion of the group is that any paid parental leave policy should apply to both mothers and fathers and not be restricted to mothers only, so as to avoid gender discrimination in hiring. Fathers need time off to bond with their children, and either parent can be the primary caregiver beyond the immediate period surrounding birth. Therefore, any paid leave policy should acknowledge this reality and not reinforce the stereotype of mothers as the primary caregivers for children. To encourage men to use the benefit, policymakers may want to tie the paid leave benefit to the employee, a "use it or lose it" design in which the father's benefits are conditional on his taking the leave.

Duration of Benefits. While the FMLA allows families to take 12 weeks of unpaid leave for all types of caregiving, the paid leave policies implemented at the state level to date allow only four to six weeks off for these reasons, on top of an existing six to eight weeks of TDI for new mothers. More recently, New York passed a paid leave policy that, when fully implemented (in 2021), will allow for 12 weeks off for parental leave or to look after family members. The District of Columbia recently passed a bill that would allow families eight weeks off at the time of the birth of a child, six weeks off to care for a sick relative, and two weeks off to care for one's own illness or injury.

In our working group, there was some division over the ideal period of parental leave. While the majority of members favored a 12-week policy available to both parents, similar to the FMLA, some pushed for a longer period of leave, up to six months—as recommended by some experts for the child's health. Some argued for shorter periods of leave of, say, eight weeks. Allowing both parents to take leave would also give them the option to take the leave sequentially, therefore extending the time during which at least one parent is at home with the infant during the first year.

Replacement. Wage-replacement rates at the state level have varied from 55 percent to just below 70 percent (although the District of Columbia's new law will provide a 90 percent replacement rate for low-income workers when it goes into effect). These rates might be too low to enable individuals in low-income families earning at or slightly above minimum wage to take leave.

There are several options for addressing this issue. One is to provide a much higher replacement rate (e.g., 90 percent) with a relatively low cap, or maximum benefit. This would lead to relatively high benefits for low-income earners.

Another alternative is to offer a minimum uniform benefit across the board to all parents. For instance, a benefit amount of \$300 per week would be close to 100 percent wage replacement for full-time minimum wage workers but a very low wage-replacement rate

for higher-income earners. Such a policy would be targeted to those at the bottom, helping to keep costs down. Moreover, it would provide everyone planning to take leave some level of certainty regarding the benefits available.

However, it would not provide much relief to middle- and higher-income families. Many middle-class families struggle with the expenses of a new baby, and many report that a wage-replacement rate of 55 percent is too low for them to feel comfortable taking this time off.⁹¹ Therefore, the benefit of a low but certain dollar amount has to be weighed against the cost of minimal relief for middle-class families.

Any replacement rate should be applied to wage and salary income during a specified period before leave.⁹² The majority of working-group members favored about a 70 percent wage-replacement rate with a weekly cap on benefits of around \$600. However, some members strongly felt that having a fixed weekly cash benefit that would offer almost an 100 percent wage-replacement rate for the lowest-income workers but would phase out for middle- or higher-income workers would better target the population most in need and keep costs down. They also noted that it would not crowd out existing private plans provided to higher-income workers.

Job Protection. Ideally, a paid leave policy should ensure that the worker can return to his or her job following the period of leave. More than 40 percent of workers are ineligible for job protection under the FMLA.⁹³ In California, this has meant that many low-income workers' jobs are not secure when they take paid leave because the state did not expand job protection beyond that guaranteed by the FMLA.⁹⁴ This may lead employees to return to work earlier than they otherwise might for fear of being replaced.

What evidence we have suggests that businesses are not unduly affected by having to provide leave with job protection under the existing FMLA.⁹⁵ Smaller employers might, of course, be more adversely affected by a requirement to keep a job open for an employee on leave.

Our group felt that job-protected paid leave is desirable, irrespective of the business' size, so long as eligibility rules for leave are strict enough to prevent misuse of this benefit. However, extending job-protected leave to all small businesses does raise concerns. Businesses often have to compensate for an absent worker by hiring a replacement or demanding more from existing employees, costs that might be felt more acutely in firms with relatively few employees. It would be worthwhile to study the longer-term economic costs and benefits that such a paid leave policy would impose on smaller firms.

Rhode Island provides job protection to all workers eligible for the benefit, as will New York when its policy is implemented. Such states offer the opportunity to study these effects in more detail. If these policies prove to be unduly burdensome for small employers, we would consider exempting small firms from the job-protection requirement.

Interaction with State and Private Policies. An important possible downside of a federal paid family leave policy is its potential to crowd out the provision of leave from state governments and private employers. To limit this detrimental impact, the payment of a federal benefit should be neutral with respect to other paid leave benefits collected while on leave. In other words, employers and state governments should be able to "top up" the federal benefit if they choose by implementing their own policies. They should also be discouraged from reducing the benefits they already provide.

IV. Toward a Compromise

Our working group concluded that there are three primary approaches to designing paid family leave. The first, supported by the majority, would be funded by a payroll tax and offer a wage-replacement rate based on the individual's previous earnings with a cap on the maximum weekly benefit.

The second, supported by a few members of our group, would offer a fixed cash benefit paid for by curtailing some existing spending or tax preferences, instead of with new taxes. With a fixed benefit level, the resulting wage replacement is high for low-income workers but low for middle- and high-wage workers.

A third option would be to incentivize employers to offer their own paid leave policies through a tax credit. There was little support for this approach in our group, primarily because we believe it would pay many employers to do what they are already doing and provide little incentive for businesses to add new paid family leave programs.

We also discussed one other approach: an employer mandate. This approach is popular with the general public. However, we do not favor it for two reasons. First, it would be burdensome on employers, especially small businesses and those employing a disproportionately high share of likely parents. Second, it will likely lead to a reluctance to hire female workers of a certain age.

Although we do not favor mandates, tax-preferred flexible savings or spending accounts are a potential tool to enable workers to supplement a basic paid leave policy. Such accounts may work well for middle- and upper-income workers, but they are unlikely to improve access for the most disadvantaged workers who cannot set aside sufficient funds for saving.

The first three approaches are similar in concept to three recent federal proposals. After discussing these proposals and our assessment of them in light of the

principles and design elements discussed in Chapter III, we end by suggesting a possible compromise.

The FAMILY Act

The Family and Medical Insurance Leave (FAMILY) Act, sponsored by Rep. Rosa DeLauro (D-CT) and Sen. Kirsten Gillibrand (D-NY), builds on the FMLA to provide paid leave, with funding through higher payroll taxes. In effect, the FAMILY Act creates a payment mechanism for purposes covered by the FMLA. It also extends paid leave coverage to employees in small businesses (currently exempt from the FMLA), part-time and contingent workers, young workers, and the self-employed.

Type. The FAMILY Act would provide workers with up to 12 weeks of paid leave for the same purposes as the FLMA—namely, to address their own serious health conditions; to care for seriously ill family members, including parents, spouses, domestic partners, and children; to care for a new child (including adopted and foster children); and to address particular military caregiving and leave purposes.

Administrative Structure. The FAMILY Act would create a new Office of Paid Family and Medical Leave in the SSA to implement the act. This office would be responsible for handling the entirety of the FAMILY Act's implementation. Since the FAMILY Act uses a social insurance approach to provide paid leave and uses the SSDI eligibility requirements, the SSA is an appropriate agency to implement the policy.

Eligibility. The FAMILY Act uses the eligibility formula for SSDI instead of the stricter FMLA eligibility requirements. Since SSDI eligibility is not tied to one's

history at a specific job, the act would confer paid leave regardless of time worked at a specific firm. The employee would have access to anti-retaliation protections to avoid adverse employment consequences, although as we discuss later, this is a less stringent requirement than job protection. The FAMILY Act's expansion of paid leave to part-time and contingent workers ensures the benefit is available to low-wage workers, who are disproportionately likely to be in part-time or contingent work situations and thus ineligible for the FMLA.

Requiring that employers protect the job of a worker who takes leave is desirable (see Chapter III), but sensible restrictions on eligibility and work history will ease the burden on employers, especially small businesses, and reduce workers' ability to abuse the system. Expanding the coverage to the self-employed is potentially vulnerable to fraud and misuse.

Funding. The program would be financed through joint payroll contributions of 0.4 percent of a worker's wages, split evenly between employers and employees—a cost of around \$2 per week for the typical worker.⁹⁶ The social insurance approach seems best suited for this policy since the policy covers many types of contingencies and caregiving situations, which can prove costly for individuals to finance on their own.

However, the program's true costs might be higher than the authors of the legislation estimated. By some calculations, the act's funding mechanism appears insufficient to cover the costs. With a lower-bound cost estimate of \$85.9 billion per year (and the actual costs potentially higher), a 0.4 percent payroll tax increase covers less than half of the costs of the paid leave benefits, depending on the program's take-up.⁹⁷

It seems to us that the bill's authors assume low take-up rates similar to what we see in states such as California. However, the FAMILY Act is more generous than the California program in terms of eligibility, job protection, and the wage-replacement rate. Therefore, take-up rates and the average duration of leave would likely be higher under the FAMILY Act than they are in California under its existing law. More information is required to understand the policy's actual costs and effects on workers' leave-taking behaviors.

Gender Neutrality. The policy is gender neutral and therefore less likely to lead to discrimination against women in hiring than a maternity leave policy would be. Moreover, it recognizes the important role fathers play in caregiving.

Wage Replacement. Workers would receive up to 66 percent of their regular wages with a maximum reimbursement of \$1,000 per week. The wage-replacement rates are in the range that we believe allow for families to feel comfortable taking time off, while not discouraging individuals from returning to the workforce.

The weekly cap on benefits is at the upper end of our recommendation, suggesting that some middle- and higher-income families will receive relatively high benefit levels. This has the potential to crowd out some private plans and possibly some state plans. Lowering this cap might reduce the costs while making the policy better targeted toward lower-income households.

Job Protection. The FAMILY Act includes anti-retaliation protections so that workers are not discriminated or retaliated against, disciplined, or faced with other adverse employment consequences from expressing an intent to apply for, applying for, or using FAMILY Act benefits. Those workers covered by the FMLA would still receive full job protection, and workers not covered by the FMLA would be protected by the anti-retaliation measures in the FAMILY Act.

We agree that paid leave needs to come with job protection. However, since this proposal extends employment protection to small businesses, more research is needed to understand how these smaller employers who are traditionally exempt would fare. Note that this extension of job protection is weaker than the FMLA standard. As a general principle, however, we believe job protection should be as universal as possible, provided that workers establish a reasonable work history with their employers before taking leave.

Duration of Leave. The policy allows for 12 weeks of leave for all eligible individuals. The majority of our group supports parental leave of this length, although we lack evidence to decide whether this is an

appropriate length for other types of leave. Provided that a mother and father's leave benefits are stackable, a 12-week duration could allow parents to combine their leave in such a way that the child has one parent at home for the first six months of life.

Interaction with State and Private-Sector Policies. Since the FAMILY Act is larger than existing state programs in terms of offering better wage-replacement rates, some level of job protection through anti-retaliation protections, and expanded eligibility to workers not traditionally covered by these policies, it would be helpful to specify how it would work in tandem with existing state programs. Would it crowd out existing state programs (and potentially some private plans)? Would employees be able to take advantage of both? The answers to these questions should be specified in the law's provisions to avoid any uncertainty for workers and employers.

President Trump's Campaign Proposal

President Trump made a proposal for paid leave during his presidential campaign, under which new mothers would receive six weeks of paid maternity leave, implemented through states' UI programs and financed by reducing fraud in the existing UI system.⁹⁸

Type. Coverage would be available to mothers for the purpose of recovering from childbirth and caring for a new child.

Administrative Structure. The benefit would be implemented through the state UI systems in partnership with the federal government. Running the paid leave benefit through a federal-state UI partnership means that there could be a federal minimum level of paid leave, which states could choose to expand. If applied to only parental leave, this may not require substantial additional bureaucracy, as it is not difficult to determine the birth or adoption of a child. However, this structure would require new bureaucratic capacity to administer family care or own medical leave.

Eligibility. The specific eligibility rules for this policy are unclear, although it appears broader than the FMLA. For example, the policy does not discriminate against employees from smaller businesses, since UI eligibility is independent of firm size. That said, if it maintains the same eligibility rules that currently apply to state UI programs, there will be substantial variation across states.

Most states have earnings or work-hours eligibility requirements for UI. We presume only the people who are eligible for UI would be eligible for the maternity leave policy. While we endorse having relatively strict eligibility rules and thus favor a federally specified eligibility guideline, some variation could be permitted across states.

Funding. The Trump proposal does not specify a reliable, steady source of funding. Rather, it suggests that this benefit will be funded by cutting waste and abuse in the UI program. However, it is unlikely the Department of Labor could eliminate enough overpayments or other errors in the program to completely fund this paid leave policy.

The policy's cost (estimated to be about \$2–3 billion⁹⁹) is relatively modest—representing approximately 2 percent of disability and UI spending—and presumably could be paid for out of reforms to existing programs more easily than a more expensive policy. The proposal appears to allow states flexibility with respect to funding. We strongly recommend establishing a defined, reliable source of funding before putting the policy in place.

Gender Neutrality. As proposed in the campaign, the policy covers only new mothers. In most countries and companies, maternity and paternity leave are treated separately, with more generous leave available to mothers. But it is widely recognized that parental leave should cover both parents, which this proposal does not. However, recent statements from the administration suggest the policy might be made available to fathers as well.¹⁰⁰

While paid parental leave is a good starting point for other types of paid leave, we strongly believe it should be available to both mothers and fathers, as

discussed in Chapter III. We also agree that family care and medical leave should be incorporated once more research is conducted on the optimal length and design of these types of leave. If a parental leave policy extends to fathers, as well as adoptive and foster parents, it could provide a base on which to build other types of leave.

Wage Replacement. There is some uncertainty about whether the wage-replacement structure in the Trump proposal is a fixed benefit equivalent to the average unemployment benefit (around \$300) or instead what that individual worker would receive under UI.

The former option would be more progressive. For low-income workers—who tend to have the least access to paid leave from their employers and the lowest savings level—a fixed benefit could result in a relatively higher replacement rate than even the FAMILY Act, nearing 90 to 100 percent for minimum wage employees. This targets the policy toward the most disadvantaged, but it implies that most families (including lower-middle-income families) would consider the replacement rates too low for them to take the full duration of leave, although these workers are more likely to have some savings or access to employer-offered leave.

The latter option, relying on existing UI benefit rates, would result in low replacement rates for most workers using it (40 percent on average), including those earning minimum wage. We recommend considering a higher replacement rate as the federal minimum or encouraging states to adopt more generous replacement rates.

Job Protection. It is unclear whether this policy includes job protection. Those who traditionally receive UI are, by definition, unemployed and do not necessarily expect to return to their former workplace once the benefit period concludes. The legislative language would have to clarify that eligibility for this policy's benefits not only does not require unemployment but also includes the guarantee that their jobs will be protected during the period of leave.

Duration of Leave. Six weeks is the average length of private-sector leave and also the average length of existing state-based family leave policies, where most of our evidence on the impact of paid family leave comes from. It is also the time when most mothers have medical examinations to assess their recovery from childbirth.

Many in the working group, however, believe it is too short for mothers to fully recuperate after childbirth and is insufficient time for parents to adequately care for and bond with their new child. Many in the group recommend a longer period of leave, possibly approaching 12 weeks, to maximize childhood outcomes and maternal health.

Interaction with State and Private-Sector Policies. Since the policy is implemented through the state UI systems, states could potentially expand on the policy, and the states that have implemented their policies through TDI systems would need to adjust to the UI mechanism to avoid overlapping agencies providing paid leave.

The campaign's fact sheet explicitly states that the benefit would be available only if the employer does not offer paid maternity leave.¹⁰¹ This provision would strongly incentivize firms to not offer their own paid leave. However, because the wage-replacement rates and duration are relatively low for higher-income earners compared to existing company policies and the FAMILY Act, crowd-out effects for higher-income workers would be minimal.

Other Issues. It is unclear how the use of leave under this policy would affect firms' experience ratings (the variation of the unemployment tax with involuntary unemployment). If more employees apply for leave, would this affect their experience rating and subsequently their payroll taxes? If so, this could lead to hiring discrimination against women of childbearing age, as they are the most likely beneficiaries of the policy.

The Strong Families Act

In February 2017, Sen. Deb Fischer (R-NE) reintroduced the Strong Families Act,¹⁰² which offers a nonrefundable, capped tax credit for firms providing paid family leave.¹⁰³ The bill is cosponsored by Sens. Angus King (I-ME) and Marco Rubio (R-FL). Specifically, it would offer a 25 percent tax credit on wages paid to employees during any period in which employees are on family and medical leave. To be eligible for the credit, employers must offer paid family and medical leave at a 100 percent replacement rate.

Type. The Strong Families Act requires firms to offer a minimum of two weeks of paid family and medical leave, as defined in the FMLA, to be eligible for the tax credit.

Administrative Structure. Since the bill applies the tax credit for FMLA-standard leave, the Department of Labor would remain responsible for determining eligibility for the leave, and the IRS would be responsible for the tax credit. The bill is set to terminate two years after enactment, and it requires a Government Accountability Office (GAO) study on the effectiveness in promoting access to paid family leave.

Eligibility. To receive the credit, a firm must offer at least two weeks of paid family and medical leave per year (prorated for part-time employees) to all employees who have been employed at the firm for at least one year. The proposal thus imposes a strong job-tenure eligibility requirement similar to what our working group recommends—one year of work history with the same employer. Moreover, the language suggests that any size business would be eligible. In principle, this supports businesses that choose to make FMLA leave paid, including small businesses not covered by the FMLA.

Funding. The proposed credit is nonrefundable and is capped per employee per taxable year at the lesser of \$3,000 or the regular compensation that would have been paid to the employee during the period of

leave. The rate of payment during the leave must be at least 100 percent of the wages normally paid.

The funding source for the tax credit is unclear, but this implies that general revenues might be the effective funding source, as it is for other tax expenditure programs. The fact that the tax credit is nonrefundable leaves uncertain whether smaller businesses that have zero tax liability would be able to take advantage of the credit. If they cannot, this policy offers them no incentive to offer the paid leave policy. However, since it operates as general business credit, the credit could be carried forward and used in years with positive tax liability.

At the same time, the fact that this is a voluntary policy implies that it would impose no additional costs on businesses, and businesses would offer paid leave only if they decided it would be cost-effective. The proposal offers businesses the flexibility and the incentive, but not the mandate, to provide paid leave.

Although estimates vary, this proposal appears significantly less costly than the FAMILY Act or the Trump campaign proposal. A score from the Joint Committee on Taxation for a previous but similar version of the act estimated a cost of \$3.3 billion over 10 years.¹⁰⁴

Gender Neutrality. Since the act would require employers to offer all types of leave under the FMLA standard, the tax credit is gender neutral. However, although the credit creates no incentive to offer a different minimum policy to men versus women or mothers versus fathers, it applies no limitations on paid leave differences by gender beyond the first two weeks, which could result in differences in maternity and paternity leave availability despite the credit's neutrality. Many businesses that would be eligible for the credit currently have paid leave policies that differ by gender.

Wage Replacement. The policy requires businesses to offer at least a 100 percent wage-replacement rate to qualify for the credit, thus creating perverse incentives for employees to stay out of work longer than necessary. Our group believes the employee should bear some of the costs of his or her period of leave. A

wage-replacement rate closer to 70 percent would be preferable to maintain some level of work incentive. This would support businesses offering more leave at lower pay and encourage workers to return to work and full pay.

Duration of Leave. The policy allows for a minimum period of two weeks and up to a maximum of 12 weeks in any tax year. While the 12-week maximum is acceptable to the majority of the group, we feel that two weeks is too short for parents to adequately care for and bond with a new child. At a minimum, a six- to eight-week period should be considered for parental leave.

Job Protection. The policy includes a non-retaliation clause for employers. This is much weaker than the job-protection rules in other legislation. However, since the permitted leave is defined by types of leave that are already job-protected under the FMLA, the Strong Families Act essentially incorporates the job protection already provided for employees and firms covered by the FMLA (but it would not offer job protection to those not covered by the FMLA).

Interaction with State and Private-Sector Policies. The act explicitly states that any leave provided by state or local governments should not be taken into account when considering the benefit provided by the employer. However, the requirement that an employer must offer all types of paid family and medical leave to qualify for the tax credit reduces the policy's flexibility.

Other Issues. This proposal offers flexibility to businesses and only offers benefits to firms that provide an appropriate period of fully paid leave. However, the biggest drawback of this tax-credit approach is that it would end up subsidizing firms that already offer paid leave. Such a policy might simply lead to substantial windfalls to employers with existing paid leave policies without expanding coverage to those most in need. The requirement that the GAO study its impacts before proceeding with a more extensive paid leave policy could be beneficial to understand firm behavior and employees' leave-taking, but we are

skeptical that this proposal would move the needle much on improving access to paid leave.

Alternative Firm-Based Paid Leave Policies

In this section, we discuss a few additional proposals for a paid family leave policy in the US that have been much discussed in the media and policy circles.

Employer Mandate. Of all the methods of providing paid family leave, there is strong public support for a mandate on employers. This approach is supported by 51 percent of the public, according to a recent Pew Research Center survey.¹⁰⁵

However, an employer mandate for paid family leave would invite damaging unintended consequences. A mandate is not free; it would directly hurt firms' profits, especially small businesses less able to absorb the new cost. Firms would respond to the increase in expected labor costs with some combination of raising prices, cutting other compensation, and reducing employment. Furthermore, a mandate would create a strong incentive for hiring and pay discrimination against those most likely to need or take paid leave.

Although current public support for a mandate outweighs public support for an explicit government benefit, our working group opposes implementing paid family leave through a mandate due to the negative consequences that we believe would occur. A potential alternative could involve more flexible paid time off policies. As an example, the Society for Human Resource Management has recommended general paid time off policies that combine sick, vacation, personal, parental, and any other leave policies into a more flexible benefit.¹⁰⁶

Tax-Favored Savings Accounts for Parental Leave. Another alternative would involve creating special tax-preferred savings accounts to enable workers to set aside money for unpaid or partially paid leave. The Pew Research Center found that 54 percent of those who took leave used savings specifically set aside for it.¹⁰⁷ Providing tax-free accounts

specifically for this purpose could encourage workers to save more in advance of needing leave. In 2016, the Independent Women’s Forum recommended creating personal care accounts, which would allow individuals to contribute pretax dollars up to a limit, with the funds used while the individual is on leave.¹⁰⁸ An alternative to tax-deductible contributions is to create a tax credit based on the amount that is contributed to such accounts so that all taxpayers receive the same benefit from an equivalent amount saved.

Although these approaches provide flexibility and are quite inexpensive, they are likely to provide little benefit to lower-income workers, for whom saving is particularly difficult. It also adds to the complexity of the myriad of employer-based tax-preferred benefits and savings accounts that already exist. For this reason, a better option would be to establish tax-preferred cafeteria plans that allow employees to set aside a portion of their pretax earnings for various designated purposes, including parental leave.

Toward a Compromise

This discussion of various existing proposals makes clear that there is considerable interest in paid parental leave on both sides of the political spectrum. Similarly, members of our working group all favor some kind of parental leave. The disagreements center on how generous it should be, whether it should be targeted only to the poor or extend to the middle class, and how to pay for it.

We believe finding common ground is feasible. A possible compromise might have five elements. First, public paid parental leave would be available to both employed mothers and fathers (with strict eligibility requirements), so that working parents do not need to return to work within days of a child’s birth or adoption. Second, any plan would be budget neutral, splitting the costs of financing between a payroll tax and cutting government spending or tax expenditures elsewhere in a way that does not adversely affect low-income families. We recognize that the federal deficits and debt are on an unsustainable trajectory and that it would be irresponsible to make matters

worse. Since the benefit is targeted to working families, we would ask workers as a group to finance part of the plan through a modest increase in their payroll taxes. Third, it would keep the benefits relatively targeted and inexpensive by offering a 70 percent replacement rate up to a cap of \$600 per week, for a limited number of weeks (e.g., eight weeks). Fourth, it would include job protection. And fifth, it would require an independent study of the effects of paid family leave to ensure that such a policy is not having significant unintended consequences, such as crowding out existing plans or leading to discrimination.

The plan’s key elements are its budget neutrality, its extension of benefits to the middle and working class and not just the poor, and its establishment of a floor on the number of weeks of leave provided. States and private employers would be free to supplement this leave if they chose to do so.

Our working group would support such a plan—not as everyone’s preferred policy but as a reachable compromise in our group—and we put it forward for others to consider.

Conclusions

The proposals discussed here reflect the diversity of options for a federal paid leave program. They do not exhaust the possibilities. The choices made will influence how many workers are covered and how much these workers will benefit from any federal paid leave policy.

Like any group, our working group has diverse opinions. We recognize that there is a balance between the generosity and the cost of a parental leave policy and that there is no right answer to where that balance should be struck. Moreover, we believe current estimates of cost need improvement and that a more inclusive policy that covers all types of leave in a flexible but cost-effective manner deserves further consideration.

All of us believe that paid parental leave is an issue whose time has come. The US is the only advanced country that provides no public support to new parents. We hope this report will inform others about both the desirability and the design of a new policy.

About the Working Group

Aparna Mathur is a resident scholar in economic policy studies at the American Enterprise Institute (AEI). She received her Ph.D. in economics from the University of Maryland, College Park, in 2005. At AEI, her research has focused on income inequality and mobility, tax policy, labor markets, and small businesses. She has published in several top scholarly journals, testified several times before Congress, and published numerous articles in the popular press on issues of policy relevance. Her work has been cited in academic journals and leading newsmagazines such as the *Economist*, the *Wall Street Journal*, *Financial Times*, and *Businessweek*. Government organizations such as the Congressional Research Service and the Congressional Budget Office have also cited her work in their reports to Congress. She has been an adjunct professor at Georgetown University's School of Public Policy and has taught economics at the University of Maryland.

Isabel V. Sawhill is a senior fellow in economic studies at the Brookings Institution. She served as vice president and director of the economic studies program from 2003 to 2006. She is a codirector with Ron Haskins of the Center on Children and Families. Before joining Brookings, Sawhill was a senior fellow at the Urban Institute. She served in the Bill Clinton administration as an associate director of the Office of Management and Budget, where her responsibilities included all the human resource programs of the federal government, accounting for one-third of the federal budget. Her research has spanned a wide array of economic and social issues, including fiscal policy, economic growth, poverty, and inequality. Over the past decade, her major focus has been on how to improve opportunities for disadvantaged children in the US. Sawhill helped found the National Campaign to Prevent Teen and Unplanned Pregnancy and serves

as the president of its board. She has been a visiting professor at Georgetown Law School, director of the National Commission for Employment Policy, and president of the Association for Public Policy Analysis and Management. She also serves on several boards. She was a recipient of the Exemplar Award from the Association for Public Policy Analysis and Management (2014) and, with Ron Haskins, the Daniel Patrick Moynihan Prize from the American Academy of Political and Social Science (2016). She was named a distinguished fellow by the American Economic Association in 2016.

Heather Boushey is executive director and chief economist at the Washington Center for Equitable Growth. Her research focuses on economic inequality and public policy, specifically employment, social policy, and family economic well-being. Her latest book is *Finding Time: The Economics of Work-Life Conflict* (Harvard University Press, 2016). The *New York Times* has called Boushey one of the “most vibrant voices in the field,” and Politico twice named her one of the top 50 “thinkers, doers and visionaries transforming American politics.” She writes regularly for popular media, including the *New York Times*’ “Room for Debate,” the *Atlantic*, and *Democracy*, and she makes frequent television appearances on Bloomberg, MSNBC, CNBC, and PBS. She previously served as chief economist for Hillary Clinton’s transition team and as an economist for the Center for American Progress, the Joint Economic Committee of the US Congress, the Center for Economic and Policy Research, and the Economic Policy Institute. She sits on the board of the Opportunity Institute and is an associate editor of *Feminist Economics*. She received her Ph.D. in economics from the New School for Social Research and her B.A. from Hampshire College.

Ben Gitis is the director of labor market policy at the American Action Forum. He has extensively researched and written about the minimum wage, wage subsidies, regulatory cost burdens, and the labor market consequences of the Affordable Care Act. His work has been referenced by the *Wall Street Journal*, the *Washington Post*, CNBC, MSNBC, Fox Business, Bloomberg, Reuters, and others. He received a B.A. from Davidson College, where he graduated magna cum laude with honors in economics and was inducted into Phi Beta Kappa. He also spent a year studying economics in Hertford College, University of Oxford.

Ron Haskins is a senior fellow and holds the Cabot Family Chair in Economic Studies at the Brookings Institution, where he codirects the Center on Children and Families. He is also a senior consultant at the Annie E. Casey Foundation and was the president of the Association for Public Policy Analysis and Management in 2016. He is the coauthor of *Show Me the Evidence: Obama's Fight for Rigor and Evidence in Social Policy* (Brookings Institution Press, 2014) and *Work over Welfare: The Inside Story of the 1996 Welfare Reform Law* (Brookings Institution Press, 2006). Beginning in 1986, he spent 14 years on the staff of the House Ways and Means Committee and was subsequently appointed to be the senior adviser to President George H. W. Bush for welfare policy. In 1997, Haskins was selected by the *National Journal* as one of the 100 most influential people in the federal government. He and his colleague Isabel Sawhill were recently awarded the Moynihan Prize by the American Academy of Political and Social Science for being champions of the public good and advocates for public policy based on social science research. He was recently appointed by Speaker Paul Ryan to co-chair the Evidence-Based Policymaking Commission.

Doug Holtz-Eakin has a distinguished record as an academic, policy adviser, and strategist. Currently he is the president of the American Action Forum. During 2001–02, he was the chief economist of the President's Council of Economic Advisers (CEA), where he had also served during 1989–90 as a senior

staff economist. At CEA he helped formulate policies addressing the 2000–01 recession and the aftermath of the terrorist attacks of September 11, 2001. From 2003 to 2005 he was the sixth director of the Congressional Budget Office. During 2007 and 2008, he was director of domestic and economic policy for the John McCain presidential campaign. Since then he has been a commissioner on the congressionally chartered Financial Crisis Inquiry Commission and serves as an outside adviser to the US Chamber of Commerce. Holtz-Eakin has an international reputation as a scholar doing research in areas of applied economic policy, econometric methods, and entrepreneurship. He began his career at Columbia University in 1985 and moved to Syracuse University from 1990 to 2001. At Syracuse, he was trustee professor of economics at the Maxwell School, chairman of the Department of Economics, and associate director of the Center for Policy Research.

Harry J. Holzer is the John LaFarge SJ Professor of Public Policy at Georgetown University and an institute fellow at the American Institutes for Research. He is also a nonresident senior fellow at the Brookings Institution, a research affiliate of the Institute for Research on Poverty at the University of Wisconsin–Madison, an affiliated scholar with the Urban Institute, and a member of the editorial board at the *Journal of Policy Analysis and Management*. He is a former chief economist for the US Department of Labor and a former professor of economics at Michigan State University. Holzer has authored or edited 12 books and several dozen journal articles, mostly on disadvantaged American workers and their employers, as well as on education and workforce issues and labor market policy. He received his B.A. from Harvard in 1978 and his Ph.D. in economics from Harvard in 1983.

Elisabeth Jacobs is senior director, researcher, and senior fellow at the Washington Center for Equitable Growth. Her research focuses on economic inequality and mobility, family economic security, poverty, employment, social policy, social insurance, and the politics of inequality. Before joining Equitable Growth, she was a fellow in governance studies at the Brookings

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89. Horowitz et al., “Americans Widely Support Paid Family and Medical Leave, but Differ Over Specific Policies.”

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103. A previous version (S.2354) was introduced in December 2015.
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