



INSTITUTE FOR WOMEN'S POLICY RESEARCH
1707 L Street NW ♦ Suite 750 ♦ Washington, DC 20036

IWPR #B263

August 2008

**The Healthy Families, Healthy Workplaces Act:
Impacts on Workers, Employers, and the Public**

**Testimony of Vicky Lovell, Ph.D.,
before the House Labor Relations Committee
of the Pennsylvania General Assembly**

**August 27, 2008
Philadelphia Convention Center**

Chairman Belfanti, Chairman DiGirolamo, and Members of the Committee,

Thank you for providing me an opportunity to address the question of how a paid sick days policy would benefit employers, workers, families, and the general public in Pennsylvania.

I have been conducting research, data and policy analysis, and cost/benefit estimations regarding paid sick days since 2000, when the issue first began to draw the attention of policy makers. I am familiar with relevant research from the medical community, with responses from employers, with data on the impact on workers when paid sick days are not available, and with views expressed by public health experts. My research has been presented to Congress, state legislators, and local governing bodies. My cost/benefit analyses and other policy research contributed to the adoption of paid sick days standards by voters in San Francisco in 2006 and by the Washington, DC Council earlier this year and help inform current policy making across the country.

New public policies are needed to protect employers, workers, and public health

Documentation of the limited coverage of existing paid sick days policies is incontrovertible. Nearly half the private-sector workforce is vulnerable to loss of income or their job when they are sick, and only one in three has a paid sick days policy for caring for their family (Hartmann 2007, Lovell 2004). Employers' voluntary efforts to provide paid sick days are inadequate for protecting workers, their co-workers and families, and the public from the consequences of workers being on the job when they are sick. As a result of inadequate policy development, workers are forced to go to work when they should stay home to recuperate or to provide needed care to their families.

This is not a minor problem – it is a widespread and serious issue. For instance, in Ohio, 50 percent of workers say they have gone to work sick in the last year for fear of losing pay (NPR/KFF/HSPH 2008).

San Francisco's policy experience shows that paid sick days standards are feasible

Employers' experiences with San Francisco's new paid sick days policy underscore its minor impact on employers. The director of the Golden Gate Restaurant Association told the San Francisco Chronicle that "it hasn't been a big issue" for the companies he represents (quoted in DeBare 2008) and characterized the policy as "successful" (Singer 2008). The San Francisco Chamber of Commerce agreed that it is not "a major issue" (quoted in MarionStar.com).

When sick workers are on the job, employers lose

Employers experience three types of costs when their workers are sick on the job: They provide an opportunity for contagious diseases to spread to other workers; they increase the risk of on-the-job injury; and they pay full wages to a worker who cannot provide peak performance.

1. Employers are increasingly aware of the cost of the spread of disease within workplaces that occurs when sick employees go to work, a practice known as presenteeism. Two of every five employers identify presenteeism as a problem for their organization (CCH Incorporated 2004). As Dr. Richard Chaifetz notes, presenteeism can lead to "the spread of illness for an even greater reduction in productivity" than would be caused by an individual worker's absence (ComPsych 2004). Research documents that workplace contagion is lower when workers have paid sick days (Li, Birkhead, Strogatz, and Coles 1996, Potter et al. 1997). The Healthy Families, Healthy Workplaces Act is likely to have a particularly significant impact on reducing the spread of the flu in workplaces. Influenza (the flu) is highly contagious and accounts for 10 to 12 percent of all illness-related employment absences (Keech, Scott, and Ryan 1998). A sick worker who is in the workplace while contagious is likely to infect two of every 10 co-workers, creating a domino effect of illness, missed work, and health-care costs.
2. A study of hand injuries found that workers who are sick on the job are nearly twice as likely as healthy workers to be injured, and those who are distracted (e.g., by worries about a sick child at home) are more than five times as likely to be injured (Sorock et al. 2004). Employers can reduce their costs for health care and worker compensation by helping their workers be well and by supporting workers' responsibilities for caring for sick family members.
3. Employers pay substantial wages to employees who are unproductive because of health issues. For instance, empirical studies document that workers with influenza have worse performance on a variety of tasks than healthy workers. A study that used random assignment of experimentally induced colds and influenza found that "minor illnesses . . . have significant effects on performance efficiency" (Smith 1989, 68). Productivity during flu-related presenteeism is only 50 percent of normal (Nichol 2001), but workers are paid full wages for being at work when they are sick.

The National Federation of Independent Business (NFIB) offers small-business owners advice on how to avoid being hit by the cost of sick workers. One item from the NFIB's Small Business Toolkit suggests encouraging sick workers to stay home, so they don't make other workers sick, because "the sniffles can have trickle-down effects on [small businesses'] bottom lines" (McRae 2006). The reality is that, without paid time off, workers may not be able to remain at home when they are sick, even if their firm authorizes unpaid sick time, because they cannot afford to miss any of their usual earnings.

Supporting workers with paid sick days increases employee retention and reduces turnover costs

Because workers value paid sick days, when they have that benefit, they are less likely to look for a different job. Having paid sick days reduces voluntary job mobility by three to six percentage points (Cooper and Monheit 1993). Workers who experience a health-care crisis are also more likely to return to their employer if they have a paid leave policy – more than twice as likely, in the case of women with heart disease (Earle, Ayanian, and Heymann 2006). Having paid sick days also affects involuntary turnover, by protecting workers from being fired for unauthorized work absences when they are sick or must care for sick family members (Heymann 2000, Earle and Heymann 2002).

Turnover entails a variety of costs for employers, of which outlays to recruit a new worker are only a small portion. Low productivity of new hires, drains on the productivity of the new worker's colleagues and supervisors, human resources processing time for exit and entry, training, and lost productivity during vacancies are also real costs to employers (Phillips 1990). A newly hired low-paid retail worker may lose sales—and customers—during the period the employee is learning about the employer's products, and may mistakenly undercharge for products (Johnson and Tratensek 2001).

Careful analyses of the range of impacts associated with turnover provide guidance on the true costs to employers: replacing a mid-level manager costs 1.5 times the worker's annual salary (Phillips 1990), and the cost of turnover of retail workers who earn \$7 an hour is estimated at \$6,241, or 43 percent of their annual pay (Johnson and Tratensek 2001). A study of the costs of replacing front-desk associates at two hotels in New York found total turnover costs of 28 percent and 31 percent of annual compensation (Hinkin and Tracey 2000).

Another NFIB Small Business Toolkit document points out the recruitment value of good paid leave policies, including paid sick days (Strauss 2005). The brief reminds firms that "just because you don't have to be a good employer, it doesn't mean that you shouldn't. If you want to recruit great people, you have to create a great place to work."

Research on other employment standards finds positive effects for employers

The effects of policies ensuring that all workers have paid sick days are likely to be similar to the impacts of other basic employment standards, such as the minimum wage or living wage. Carefully conducted research on increases in the minimum wage and establishment of living wages provides reassuring findings. In San Francisco, employers enjoyed longer employee job

tenure following an increase in the minimum wage (Dube, Naidu and Reich 2007). Similarly, after a living wage ordinance went into effect in Los Angeles, employers experienced lower rates of turnover and absenteeism and lower training costs (Fairris 2005). The San Francisco and Los Angeles studies are congruent with the research mentioned above showing lower rates of voluntary turnover among workers with paid sick days: Workers whose needs are addressed by their employers are motivated to work at their peak level of performance. These and other studies have failed to find significant disemployment effects from new wage standards (Dube, Naidu and Reich 2005, Brenner 2005, Potter 2006). A well-known study of an increase in New Jersey's minimum wage in 1992 found "little or no systematic effect on total fast-food employment in the state," as compared with neighboring Pennsylvania, whose minimum wage remained the same as the pre-increase New Jersey standard (Card and Krueger 1998, 3).

Because paid sick days policies increase income for workers who had have to rely on unpaid leave in the past, the policies may actually increase employment. The NFIB estimated that establishing a paid sick days standard in California would generate tens of thousands of jobs in the health-care and recreation and amusement industries, because the workers who currently lack paid sick days would likely spend the majority of their sick pay in the local economy (Phillips 2008).

Labor costs are not the primary driver of firms' locational decisions

Some employer representatives argue that firms will move out of jurisdictions that enact minimum paid sick days standards. Research contradicts this hypothesis. Service-sector companies in the Midwest rank labor costs such as wages and benefits ninth among factors that influence their decisions about where to locate (Schmenner 1994). The most important factors reported by surveyed companies are infrastructure and product demand; the third is the ability to recruit good workers, which may actually be enhanced by paid sick days provisions. A recent meta-analysis of studies of the impact of economic development programs concluded that "there are very good reasons . . . to believe that economic development incentives have little or no impact on firm location and investment decisions" (Peters and Fisher 2004, 32)—partly because their scale is insignificant in relation to other factors that are important to businesses.

Paid sick days policies address the needs of employers, workers, and the general public

Policy makers in cities, states, and Congress are working to enact minimum paid sick days policies, because the evidence of the need for these policies and of their feasibility is clear and compelling. Employers will benefit from reduced turnover, lower absenteeism and costly presenteeism, and fewer on-the-job injuries. Workers and their families will be better able to treat health conditions while avoiding loss of wages. Reduced spread of disease will strengthen public health outcomes. These policies are targeted, responsible, and reasonable.

References cited

Brenner, Mark D. 2005. "The Economic Impact of the Boston Living Wage Ordinance." *Industrial Relations* 44(1): 59-83.

- Card, David, and Alan B. Krueger. 1998. *A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry With Representative Payroll Data*. NBER Working Paper 6386. Cambridge, MA: NBER. <http://www.nber.org/papers/w6386.pdf> (August 25, 2008).
- CCH Incorporated. 2004. "Unscheduled Absenteeism Rises to Five-Year High." *HR Management: Ideas and Trends Newsletter* (592): 145-148.
- ComPsych. 2004. *Vast Majority of Employees Work While Sick, According to ComPsych Survey*. Press Release. Chicago: ComPsych. March 8. <<http://www.compsych.com>> (March 17, 2005).
- Cooper, Philip F., and Alan C. Monheit. 1993. "Does Employment-Related Health Insurance Inhibit Job Mobility?" *Inquiry* 30 (Winter): 400-416.
- DeBare, Ilana. 2008. "S.F. sick leave law celebrates 1 year." *San Francisco Chronicle*, February 6. <<http://www.sfonline.com/cgi-bin/article.cgi?f=/c/a/2008/02/06/BUA1UO9OU.DTL&hw=paychecks&sn=035&sc=152>> (accessed August 16, 2008).
- Dube, Arindrajit, Suresh Naidu, and Michael Reich. 2007. "The Economic Effects of a Citywide Minimum Wage." *Industrial and Labor Relations Review* 60(4): 522-543.
- Earle, Alison, John Z. Ayanian, and Jody Heymann. 2006. "Work Resumption after Newly Diagnosed Coronary Heart Disease: Findings on the Importance of Paid Leave." *Journal of Women's Health* 15(4): 430-441.
- Earle, Alison, and S. Jody Heymann. 2002. "What Causes Job Loss among Former Welfare Recipients: The Role of Family Health Problems." *Journal of the American Medical Women's Association* 57 (Winter): 5-10.
- Fairris, David. 2005. "The Impact of Living Wages on Employers: A Control Group Analysis of the Los Angeles Ordinance." *Industrial Relations* 44(1): 84-105.
- Hartmann, Heidi. 2007. *The Healthy Families Act: Impacts on Workers, Businesses, the Economy, and Public Health*. Testimony before the U.S. Senate Committee on Health, Education, Labor and Pensions <http://www.iwpr.org/pdf/Hartmann_HFA_testimony021307.pdf> (February 13, 2007).
- Heymann, Jody. 2000. *The Widening Gap: Why America's Working Families Are in Jeopardy and What Can Be Done About It*. New York: Basic Books.
- Hinkin, Timothy R., and J. Bruce Tracey. 2000. "The Cost of Turnover: Putting a Price on the Learning Curve." *Cornell Hotel and Restaurant Administration Quarterly* 41(3): 14-21.
- Johnson, Walter E. and Dan M. Tratensek. 2001. "Employee Turnover." *Do-It-Yourself Retailing* 180 (6).
- Keech, M., A. J. Scott, and P. J. J. Ryan. 1998. "The Impact of Influenza and Influenza-Like Illness on Productivity and Healthcare Resource Utilization in a Working Population." *Occupational Medicine* 48 (2): p. 85 – 90.
- Li, Jiehui, Guthrie S. Birkhead, David S. Strogatz, and F. Bruce Coles. 1996. "Impact of Institution Size, Staffing Patterns, and Infection Control Practices on Communicable Disease Outbreaks in New York State Nursing Homes." *American Journal of Epidemiology* 143 (10): 1042-1049.
- Lovell, Vicky. 2004. *No Time to be Sick: Why Everyone Suffers When Workers Don't Have Paid Sick Leave*. IWPR Publication No. B242. Washington, DC: Institute for Women's Policy Research.

- MarionStar.com. 2008. "Study: Sick Day Mandate Would Cost 75,000 Jobs." August 23. <<http://www.marionstar.com/apps/pbcs.dll/article?AID=200880823003>> (August 25, 2008).
- McRae, Shannon. 2006. *Fighting the Flu: How to Keep Your Office Running in Sickness and in Health*. National Federation of Independent Business. <http://www.nfib.com/object/IO_26096.html> (accessed July 17, 2008).
- Nichol, Kristin L. 2001. "Cost-Benefit Analysis of a Strategy to Vaccinate Healthy Working Adults Against Influenza." *Archives of Internal Medicine* 161 (3): p. 749 – 759.
- NPR/KFF/HSPH. 2008. *Health Care and Economy in Two Swing States*. <http://media.npr.org/news/graphics/2008/july/kaiser_polls/chrt_finances_17.gif> (August 20, 2008) <also available at:> <<http://www.kff.org/kaiserpolls/7793.cfm>>
- Peters, Alan, and Peter Fisher. 2004. "The Failures of Economic Development Incentives." *Journal of the American Planning Association* 70(1): 27-37.
- Phillips, Bruce D. 2008. *AB2716: The CA Healthy Workplaces Act of 2008: Economic and Small Business Effects*. NFIB Research Foundation. <http://search.nfib.com/search?q=cache:UDe-4egMGFIJ:www.nfib.com/attach/30863+healthy+workplaces&access=p&output=xml_no_dtd&ie=UTF-8&client=website_testFront&site=NFIB&proxystylesheet=website_testFront&oe=UTF-8> (accessed August 16, 2008).
- Phillips, Douglas J. 1990. "The Price Tag on Turnover." *Personnel Journal* 2162(12): 58-61.
- Potter, Jan, David J. Stott, Margaret A. Roberts, Alexander G. Elder, B. O'Donnell, Paul V. Knight, and William F. Carman. 1997. "Influenza Vaccination of Health Care Workers in Long-Term-Care Hospitals Reduces the Mortality of Elderly Patients." *Journal of Infectious Diseases* 175 (1): 1-6.
- Potter, Nicholas. 2006. *Measuring the Employment Impacts of the Living Wage Ordinance in Santa Fe, New Mexico*. Bureau of Business and Economic Research at the University of New Mexico <<https://repository.unm.edu/dspace/handle/1928/3256>> (June 17, 2008).
- Schmenner, Roger W. 1994. "Service Firm Location Decisions: Some Midwestern Evidence." *International Journal of Service Industry Management* 5(3): 35-56.
- Singer, Stephen. 2008. "States Push Laws to Require Paid Sick Days." *Associated Press*, August 20. <http://ap-523.newsvine.com/> (August 25, 2008).
- Smith, Andrew. 1989. "A Review of the Effects of Colds and Influenza on Human Performance." *Journal of the Society of Occupational Medicine* 39: 65-68.
- Sorock, S. Gary, David A. Lombardi, Russ Hauser, Ellen A. Eisen, Robert F. Herrick and Murray A. Mittleman. 2004. "A Case-Crossover Study of Transient Risk Factors for Occupational Acute Hand Injury." *Occupational and Environmental Medicine* 61 (April): 305-311.
- Strauss, Steve. 2005. *Required Benefit: Health Insurance and Paid Time Off*. National Federation of Independent Business. <http://www.nfib.com/object/IO_24784.html> (accessed July 17, 2008).