

PROVIDING PAID FAMILY LEAVE:
Estimating the Cost of Expanding California's
Disability Insurance Program

Good Morning, my name is Stephanie Aaronson. I am a consulting research associate at the Institute for Women's Policy Research (IWPR). I am here to present recent findings of our on-going research concerning family and medical leave.

Introduction

IWPR is conducting research on the feasibility of using the temporary disability insurance or TDI model as a way to provide paid family and medical leave to American workers. TDI programs provide partial wage replacement to workers who need to take time off due to illness that is not related to their work. Currently five states, California, Hawaii, New Jersey, New York, and Rhode Island, as well as Puerto Rico, have TDI programs. Existing TDI plans, although they do not paid leave for provide family care, are more generous than the Family and Medical Leave Act (FMLA) in several ways: 1) TDI plans cover more workers and have less stringent eligibility requirements; 2) TDI plans provide economic security to workers by providing partial wage replacement for leave taken; and 3) TDI programs allow for longer duration of leave than the twelve weeks allowed by FMLA: between 26 and 52 weeks depending on the state. These programs do not, however, provide a job guarantee.

Our research shows that based on the TDI model, paid family and medical leave can be provided through a social insurance system at a similar cost to the Unemployment

Program. Because TDI is an insurance program the plans are paid for by some combination of employee and employer contributions rather than out of general tax revenues.

Our study shows that paid family and medical leave is economically feasible. It is also a program that American families, particularly American women, want and need. Because the FMLA does not provide wage replacement, many workers may not take leave for serious family needs, or they may return to work before they are ready, in order to reduce their income losses. A recent study by the Women's Bureau, U.S. Department of Labor, reveals that most working women want access to paid family care leave.

The Paid Family and Medical Leave Plan

IWPR has created a model to estimate the cost of expanding California's Disability Insurance Program (CDIP) to include paid leave to care for immediate family members. We draw on both the Family and Medical Leave Act and the California Disability Insurance Program to create our model paid family and medical leave program (see Table I). Here we present findings based on an inclusive plan that combines the most generous eligibility criteria from the FMLA and the CDIP. In order to receive unpaid family leave under the FMLA employees must work for a "covered worksite" and must meet certain eligibility criteria. "Covered worksites" include all public sector offices and private firms with more than 50 employees. Employees in these firms must have worked for at least 1,250 hours in the previous year and must have worked at their place of employment for at least 12 months in order to take leave. The CDIP covers firms of all sizes and requires only that employees earn at least \$300 during the past 12 months. However the California program exempts a few categories of employers and employees, notably public employers and the self-employed.

In our model, all firms and categories of employees are covered by the program including those in the public sector and the self-employed. The only eligibility restriction is that employees must earn at least \$500 a year.

Given this inclusive coverage and eligibility, we then created a low cost benefits plan that provides benefits not only for workers' illnesses and pregnancies covered under the CDIP but also for family care leaves covered by the FMLA. The benefit levels are quite similar to those paid out in the CDIP, but the maximum duration of the family care leave is limited to 12 weeks (compared to 52 weeks for illness and disability). Our cost estimates assume that workers take 13 weeks of medical leave (one week more than the maximum allowed under the FMLA and slightly more than the 12.5 weeks average leave taken by California employees in 1990). The duration of benefits for family care leave varies from 10 weeks to care for a newborn, 7 weeks to care for a sick spouse or elderly parent, down to 5 weeks to care for a sick child. Our models use a wage replacement rate of 50 percent (as compared to 54.4 percent in California), a minimum weekly benefit of \$50 and a maximum weekly benefit of 50 percent of the state average weekly earnings (as compared to 51.3 percent in California). The benefit paid is calculated as 50 percent of the average wage of workers eligible for each particular type of leave.

Finally to assess the cost of this program, we determined usage rates for the various types of leave. The usage rates for medical leave come from actual usage rates of employees in the public disability insurance program in California, in 1990. To estimate the usage of family leave, we first broke the leave into four basic categories: leave to care for newborns, leave to care for sick spouses, leave to care for sick children, and leave to care for elderly parents. For each of these categories of leave, we estimated a different usage rate based on

the methodology adopted by the United States General Accounting Office and reviews of prior research exploring these costs.

Findings

Based on the estimated usage rates, the eligibility criteria and benefit levels, and durations described above, we calculated the cost to the State of California of providing both medical and family leave to their employees in 1990. As noted, the eligibility and benefits in our model are a bit different from that actually implemented in California. Our plan is more inclusive, but has lower benefits. As a result, the estimated cost of providing disability insurance in 1990 was \$1,373 million, about \$700 million less than the actual plan cost that year (see Figure 1, Panel A). Pregnancy related claims comprise \$299.2 million (1990 dollars), or 22 percent of the total estimated plan costs. Even excluding pregnancy related leave, women have higher usage rates than men. Men receive more benefits for all non-pregnancy related reasons, however, because their claims are of longer duration and their earnings and consequently benefits are higher.

The cost of providing family care leave with partial wage replacement is slightly less than the cost of the medical leave portion of the program: \$1,172 million (1990 dollars) (see Figure 1, Panel B). The largest portion of the cost of family leave, nearly 66 percent, is attributable to providing care for newborns, which is estimated to cost \$768.4 million (1990 dollars). In contrast, leave to care for a sick spouse cost \$207.1 million (1990 dollars), 17.7 percent of the total family leave program. Care for elderly parents is estimated to cost \$106.6 million (1990 dollars) and care for a sick child to cost \$89.8 million (1990 dollars), each accounting for less than 10 percent of the cost of the total family care program.

Newborn care is more expensive than the other types of family leave because there are more new mothers than other types of care givers and because their average duration of leave is longer.

The paid family and medical leave program is relatively inexpensive per worker. The cost per worker per year is only \$176.70, an average monthly premium of \$14.70 (1990 dollars). Since the CDIP already covers the cost of medical leave, the incremental cost of providing family leave is estimated at only \$81.37 annually or \$6.78 per month (1990 dollars). Please note that all the costs estimated in our study include benefit costs only, not administrative costs; administrative costs for existing TDI plans in 1989, ranged from 4.6 percent of total costs in California to 7.4 percent of total costs in Rhode Island.

Not only is the paid family and medical leave program inexpensive per worker, it is also less expensive than many existing income support programs (see Figure 2). California's paid family and medical leave program would cost \$2,545 million per year (1990 dollars), less than the Social Security program, which costs \$23,293 million or Aid to Families with Dependent Children, which costs \$4,553 million (1990 dollars). In fact the paid family and medical leave program costs only slightly more than the California Unemployment insurance program, which costs \$2,232 million (1990 dollars). Since the State of California has already implemented the medical leave portion of the program, the additional cost of the paid family leave, \$1,171.9 million is only a little higher than the \$1,090 million cost of the Earned Income Tax Credit (1990 dollar). And, as mentioned previously, the paid family and medical leave program is projected to be paid for entirely by contributions from employees and employers, not out of general tax revenues.

The Benefits of Paid Leave

Most American families rely on the wages of women to maintain their standard of living. This means that women cannot be in the home full-time taking care of other family members. This phenomenon can be best seen in the decreasing amount of time women are taking off following childbirth. Despite the fact that American families are increasingly dependent on women's wages, the United States is alone among industrialized nations in not providing family supports for the non-poor.

In addition to providing income security, paid family and medical leave would have additional beneficial effects on women's labor force participation, lengthening and strengthening it. Studies suggest that women's labor force participation is more continuous when they have paid leave and that women with this benefit come back to work sooner after childbirth than women without leave. We know that women covered by TDI programs take less time searching for jobs and receiving unemployment insurance and they continue to accrue seniority. As a result, the earnings of new mothers with TDI are greater than those without.

Considerations

Our study raises a number of considerations regarding the details of any paid family and medical leave program. First, the most expensive portion of our program is the newborn care leave. As we model it, newborn care leave comprises 65.6 percent of family leave and newborn care leave and pregnancy-related disability together account for nearly 42 percent of the total estimated program costs. Because we allow women to take time off for both pregnancy-related disability and newborn care, the average mother would receive 22

weeks (approximately five months) of leave surrounding a birth. Compared to the current situation, five months of leave at 50 percent of salary, would probably seem quite generous to many working women.

Second, we have presented an inclusive plan with a relatively inexpensive benefits plan. It is also possible to create plans that cover fewer workers or plans that provide more generous benefits. In our experience with estimating various benefit models, it is the generosity of the benefits package as opposed to the number of workers covered that drives up the cost of the program.

Finally, it should be noted that because there are little data concerning which workers currently take family leave and who would take leave if it were paid rather than unpaid, our estimates could be incorrect. Women who have left the labor force to provide care are not counted as potential users of family leave. In this case, the number of eligible workers would be higher than estimated here and the program costs could be significantly higher. Additional research on workers' caregiving choices should be a high priority in order to devise a program that best meets workers' needs.

Conclusions

Our findings demonstrate that it is feasible to implement a paid family and medical leave program based on the TDI model. If our estimates are reasonable, the program we modelled could cover more workers in the State of California than either the existing Family and Medical Leave Act or the state's Disability Insurance Program. Paid family leave could be added to the existing disability insurance program for about the cost of the federal Earned Income Tax Credit in the State of California. Even if the actual cost of the family leave

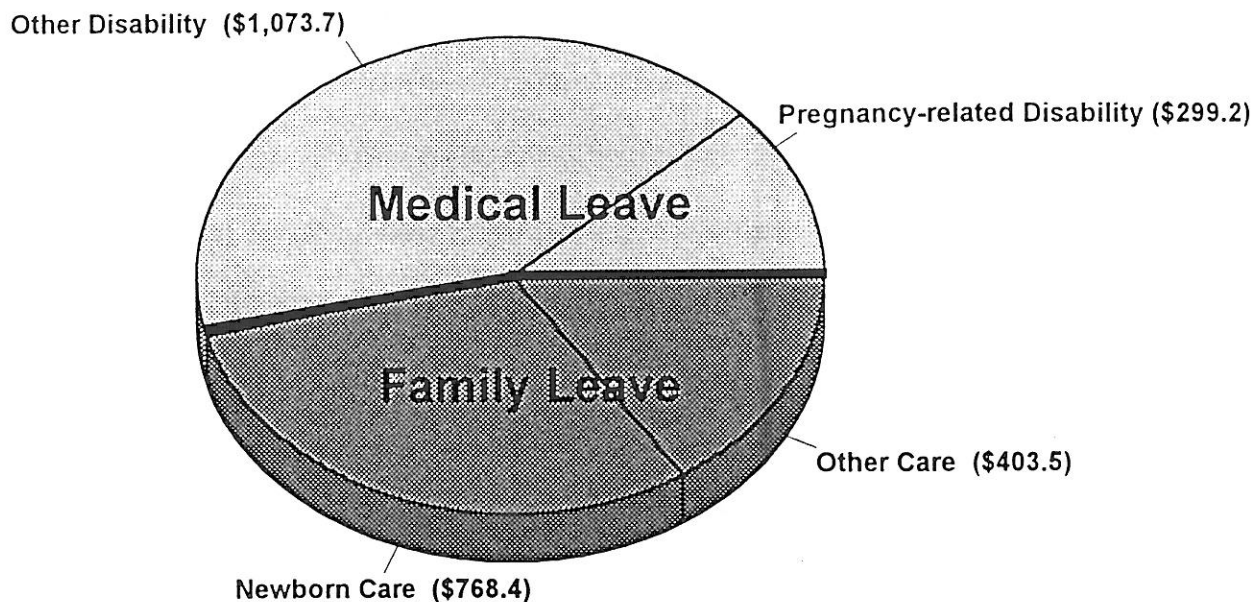
component were double our estimated, it would still be cost-effective compared to other popular income support programs.

The current focus on budget cutting and the strong resistance to some proposed cuts has made it clear that the American people do value certain public programs like Social Security and Medicare, which help individuals support themselves when they are unable to work. A paid family and medical leave program would recognize that families need support throughout the lifecycle. And because the paid family and medical leave program we modelled is based on the model provided by the existing California disability insurance program, it is financially self-supporting: room would not have to be made for it in the general budget. This is a program the State of California could implement at little additional cost to employees and employers and at no cost to the general tax payer.

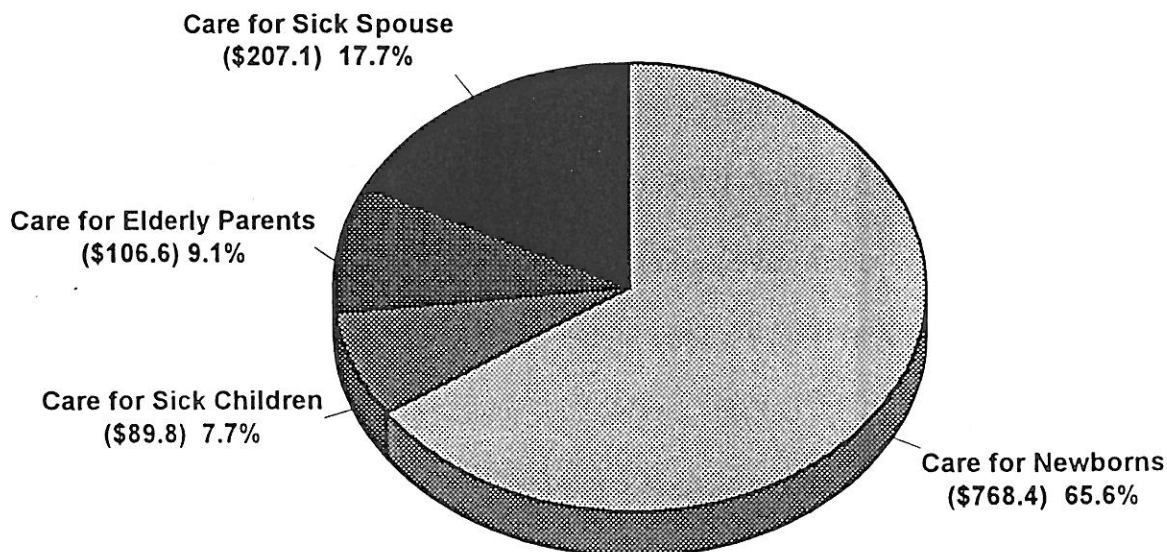
TABLE I
Comparison of Eligibility and Benefits under the California Disability Insurance Program, the Family and Medical Leave Act
and estimated Paid Family and Medical Leave Program

Criteria	California TDI Standards	FMLA Standards	Estimated Paid FML Program
Minimum Base Earnings	\$300	None	\$500
Minimum Employment duration	None	1,250 hours within the past year in a firm with at least 50 employees for which the employee has worked for at least a year.	None
Wage Replacement Ratio	54.4%	NA	50%
Maximum Number of Weeks	52 weeks NA	12 weeks 12 weeks	52 weeks 12 weeks
Average Number of Weeks used	12.5 weeks NA NA NA	Unknown Unknown Unknown Unknown	13 weeks 7 weeks 5 weeks 10 weeks
Minimum Weekly Benefits	\$50	NA	\$50
Maximum Weekly Benefits as percent of State Average Weekly Benefits	51.3%	NA	50%
Coverage of Workers	Class of Worker	Local	Yes
		State	Yes
		Federal	Yes
		Self-Employed	Yes
	Occupation & Industry	Agricultural Laborers	Yes
		Domestic Workers in private homes	Yes
		Clergy and Church Workers	Yes

Figure 1.
Projected Cost of Paid Family and Medical Leave in California, 1990
(in millions)



Panel A: Total Cost of Paid Family and Medical Leave by Type of Leave



Panel B: Breakdown of Family Related Leave

Figure 2.
Selected Social Welfare Programs: Benefits Paid in California, 1990

