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Rhetoric vs. Reality: Paid Family and Medical Leave

Proposed Business Tax Credits and Pregnancy 401(k)s Fall Short for Working Families

By Sunny Frothingham and Sarah Jane Glynn August 11, 2016

Access to comprehensive paid family and medical leave strengthens all American families because everyone potentially needs to take off from work at some point to recover from an illness, care for a family member, or welcome a new child. But the United States is the world's only advanced economy that does not guarantee some form of paid leave for workers.[1] The result is that only 12 percent of private-sector workers in the United States have paid family and medical leave.[2] In most American families, all the parents in the home are employed, meaning there is no full-time stay-at-home caregiver, and the majority of American families rely on a female breadwinner or co-breadwinner.[3] Paid family and medical leave policies are already working across the United States, as cities, states, and individual employers embrace them. But without a national solution, millions of workers and their families are left out.

Paid family and medical leave is critical for the economic security of working families, and any viable proposal needs to be sufficiently robust to address the needs of working families. Unfortunately, some current proposals—such as business tax credits to incentivize paid leave and 401(k)-type accounts for families to save for their own parental leave—claim that they would help working families but do little to expand access to paid leave. Tax credits for businesses—including those proposed by the Strong Families Act, which was introduced by Sens. Deb Fischer (R-NE) and Angus King (I-ME)[4]—are a common conservative alternative to comprehensive paid family and medical leave. These proposals, however, would be voluntary and fail to guarantee any additional access to paid leave for working families. Moreover, past experiences with business tax credits have shown that they are unlikely to significantly compel employers to change their policies.[5]

Under another conservative alternative, workers would save up to fund their own paid family and medical leave for qualifying events, such as the birth of a child or a family illness, through "Personal Care Accounts."[6] Workers could personally save up to the equivalent of 12 weeks of paid leave tax-free with contributions capped at $5,000 per year.[7] Also known as a pregnancy 401(k), this proposal falls far short of what working families need. Workers who are able to save significantly are usually higher-wage earners—many of whom already have access to paid leave.[8] In addition, since parents generally have their first child early in their working lives when they are earning the least—the average age at which a woman has her first child is 26[9]—many families would have little opportunity to contribute meaningfully to a plan before needing to draw on it.[10]

In 2014, the Center for American Progress and the National Partnership for Women & Families outlined the key features necessary in a national family and medical leave program. A comprehensive paid family and medical leave program must be available to all workers; cover serious family and medical needs; be affordable and cost effective; be inclusive of diverse families; and be accessible to workers without adverse employment consequences.[11] Two potential options, including a social insurance model and a business-government partnership, would fit the criteria laid out by CAP and the National Partnership and expand paid family and medical leave broadly to ensure that every working family has a fair shot at economic prosperity.[12] A legislative vehicle for the social insurance model can be found in the Family and Medical Insurance Leave, or FAMILY, Act—introduced by Sen. Kirsten Gillibrand (D-NY) and Rep. Rosa DeLauro (D-CT), along with 150 co-sponsors.[13]

In order to parse which proposals would best suit the needs of working families and the U.S. economy at large, as well as to dispel misconceptions about paid family and medical leave, this issue brief examines the most frequent myths about paid family and medical leave.

Myth: Comprehensive paid family and medical leave proposals are too expensive

Paid family and medical leave is a commonsense investment in the working families that drive the nation's economy: Paid leave increases labor force participation, increases employee retention, boosts the lifetime income and retirement security of workers, and leads to healthier parents, children, and families.[14] Research also shows that when mothers are able to take paid maternity leave, they are more likely to return to work, more likely to report raises, and less likely to receive public assistance compared with those who cannot or do not take leave.[15] When families have access to paid family and medical leave, they are better equipped to weather an illness, welcome a new child, and thrive financially—all of which mean a stronger economy for all.

In reality, it is the current lack of paid family leave that is too expensive for working families and the economy as a whole. Not having access to paid leave costs the nation by depressing labor force participation rates. The U.S. Department of Labor estimates that if the United States had the same female labor force participation rates as Canada and Germany—countries that have paid leave and other policies to help working families—there would be more than $500 billion in additional economic activity annually.[16]

Social insurance models, the most common form of providing paid family leave across the globe, are an inexpensive way to provide paid leave. Under the FAMILY Act, for example, employees and employers would each contribute a small amount—with the average worker's contribution estimated at less than $2 per week—from each paycheck to an insurance fund.[17]

Myth: Paid leave for all workers is a nice idea but would hurt businesses, especially small businesses

Research shows that paid family and medical leave programs have neutral or positive impacts on business.[18] Sue Wojcicki, current CEO of YouTube and the first Google employee to take maternity leave, argued that paid leave is good for business after a maternity leave policy decreased the number of new moms who left Google by 50 percent.[19]

Currently, three states have implemented paid leave programs: California, Rhode Island, and New Jersey.[20] In a survey of California employers, almost all reported either no change in or a positive impact on employee morale, and roughly 9 out of 10 employers saw no change in or positive impacts on turnover, productivity, and profitability/performance.[21] A study of New Jersey's program found that no employers reported any negative effects on their productivity or turnover, no employers were aware of any examples of abuse of the program, and some reported that the program increased morale.[22] The research shows that paid family and medical leave, in addition to the robust positive effects on families, generally has a positive or no impact on the way businesses run.[23]

Across the United States, employers of all sizes recognize the value of investing in their employees. According to Small Business Majority, more than two-thirds of small businesses already have some form of family and medical leave policy in place, including paid, unpaid, formal, and informal policies. But voluntary programs only cover certain workers. A national solution would put basic standards in place and ensure workers in businesses of all sizes have access to paid family and medical leave. In New York, which recently passed paid leave, a 2013 survey found that a majority of small-business owners supported a social insurance model of paid family and medical leave.[24] In a survey of California employers, the vast majority of businesses reported that paid family and medical leave had a minimal effect on running their business, and small businesses were even less likely than larger businesses to report any negative impact.[25]

Myth: Tax credits for businesses would ensure that workers have access to the time off they need

As seen in the bill proposed by Sens. Fischer and King, proposals to expand paid leave by offering tax credits to businesses often utilize the rhetoric of supporting families, but they do not actually guarantee any increased access to leave—especially for the low- and middle-income working families that have the least access and the most risk of financial instability.[26] Providing a tax credit might encourage some companies to implement new policies, but all workers need access to leave—not just higher-wage workers or workers at participating companies.[27] Furthermore, the impact of the proposed tax credit would likely be very limited and do little to change employer behavior, based on analysis of the impact of other tax credits intended to incentivize employers.[28] In addition, if employers are expected to implement paid leave on their own, this piecemeal approach could disproportionately affect businesses that employ large numbers of women of child-bearing age or older workers who are more likely to need temporary disability leave. Implementing a program at the national level would ensure that workers across sectors have access to paid family and medical leave without overburdening individual businesses.

Myth: Pregnancy 401(k)s are a viable solution for new parents

Unfortunately, creating 401(k)-style accounts to fund paid leave is also unlikely to expand access for low- and middle-income families. For prospective new parents, the proposal is especially problematic—given that the average age at which a woman has her first child is 26—since workers would be attempting to save during their lowest earning years. Furthermore, there would be very little time for any contributions to compound before workers needed to use them.[29] Saving up for 12 weeks of unpaid leave means setting aside the equivalent of 23 percent of annual income, in addition to paying rent, living expenses, and any student loan debt, as well as saving for other costs or retirement. This is a tall order for people who are early in their careers. As an example of how difficult it is for young adults to save, 43 percent of Millennials ages 18 to 34 report that they would probably or certainly be unable to come up with even $2,000 to cover an unexpected cost on the short term.[30]

Myth: Paid family and medical leave would hurt working women by deterring employers from hiring them

Updating workplace standards to include policies such as paid family and medical leave would unquestionably help working women if they are implemented comprehensively and in a gender-neutral way. Men who have access to paid leave are more likely to take leave than men who do not have access to any leave or only have access to unpaid leave. In California, men's proportion of leave taken to bond with a new child doubled in the nearly 10 years after implementation of the state's paid family leave program.[31] When workers of all genders can take paid leave, the stigma associated with taking leave ebbs and the potential negative impact of taking leave, such as having caregiving gaps in work history, diminishes.[32] For example, 10.5 percent of the gender wage gap can be explained by breaks in women's work history and shorter job tenures, which are often due to caregiving responsibilities. Therefore, making paid family and medical leave available to all workers has the potential to shrink the gender wage gap.[33] Furthermore, when men take leave to care for a new child, they become more confident in their ability to care for their children and are more involved as fathers even as children get older.[34]

Myth: Current policies are enough to give workers the flexibility they need to manage work and family

For more than 20 years, the Family and Medical Leave Act, or FMLA, has helped families overcome work-family challenges by giving eligible employees the right to take unpaid job-protected leave to recover from personal illnesses or care for a new child or other family member.[35] But in order to qualify, workers must have been on the job for at least a year, have worked a minimum of 1,250 hours in the previous 12 months, and work for an employer with at least 50 employees within a 75-mile radius.[36] As a result, the FMLA excludes around 40 percent of the workforce and only guarantees unpaid leave—which many families cannot afford.[37] Research from the U.S. Department of Labor shows that about half of the workers who take FMLA leave report that they returned to work when they did because they could not afford to take more time off, rather than because they no longer needed to be on leave. In addition, among eligible workers who needed to take leave but did not, half said it was because they could not afford it.[38] Working families deserve the flexibility and security to make the right caregiving decisions for their family when a crisis arises, and unpaid leave is not enough.

Conclusion

All working families deserve the security that comes with knowing that if parents need to take time off work to care for a new baby or a sick child or recover from a personal illness, they will not risk losing their job or their paycheck. Business tax credits and pregnancy 401(k)s utilize the rhetoric of helping working families. But as written, both proposals are unlikely to significantly expand access for paid leave, especially for low-income workers, whose families are the most financially vulnerable. As seen in the cities, states, and companies that have already embraced paid family and medical leave, it is a commonsense investment in the working families that drive the economy forward. However, without a comprehensive national program, too many workers lack access.

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