COUNCIL OF THE DISTRICT OF COLUMBIA
OFFICE OF THE BUDGET DIRECTOR
JENNIFER BUDOFF, BUDGET DIRECTOR

ECONOMIC AND POLICY IMPACT STATEMENT: UNIVERSAL PAID LEAVE AMENDMENT ACT OF 2016 (B21-415)

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Economic and Policy Impact Statements

The Office of the Budget Director issued its first economic and policy impact statement on the “Universal Paid Leave Amendment Act of 2016” (UPLAA) on December 1, 2016.

- The analysis is designed to offer Councilmembers a data- and evidence-based resource for weighing the policy implications and economic costs and benefits of the legislation. It is divided into four sections:
  - A review of the empirical evidence of the impact of paid leave programs on labor market participation, the business climate, and health based on more than 170 peer-reviewed studies
  - A comparison of paid leave programs in other states
  - A review of current paid leave programs offered in DC both in the public and private sectors
  - An economic analysis of the impact of paid leave on the DC economy using REMI, a widely used economic forecasting model.
- The document does not make policy recommendations, and its findings and conclusions are non-binding.
- This statement is not a substitute for the Office of the Chief Financial Officer’s fiscal impact statement (FIS).

Policy Proposal: Universal Paid Leave Amendment Act of 2016

- The proposed legislation would create a program to compensate workers for wages lost when taking time off to welcome a new child or care of a family member who has a serious health condition.
- Eligible Employees are those who spend at least 50% of their working hours in the District. Self-employed can opt in.
- Ineligible employees include Federal employees and those working for employers that the District of Columbia is not authorized to tax. District government employees will remain under a separate D.C. government program.
- Leave benefit is up to 11 weeks of parental leave or 8 weeks of family leave within a 52 week period.
- Wage replacement of 90% of wages up to 1.5x minimum wage, then 50% of wages up to a maximum of $1,000 per week.
- Program would be funded with a 0.62% employer paid payroll tax.
- Claims would not be administered until the CFO certifies that funds are sufficient to pay for claims for one year.

Empirical Evidence: Paid Family Leave's Effects on Businesses

- Paid parental and family leave would place new demands on firms in the District namely through the imposition of a 0.62% payroll tax.
  - The impact of implementing the UPPLA may differ across firms and employees.
  - Note that the payroll tax is on the cumulative salaries of a business, and that the District's franchise tax of 9.0% is on a business' profits.
- Many business owners express concern that a paid leave program would raise their costs and hurt productivity.[1]
- Academic studies show that in other states businesses have seen little impact to their profitability[2] and that businesses may even experience some benefits including improved morale and reduced turnover.[3]
- Firms may absorb an increase in cost of benefits by passing along the cost to their workers through lower wages.
  - Studies have shown that employees are willing to accept lower wages in return for benefits like flexible scheduling policies and child care. [4]
- Firms that currently offer paid family leave benefits would be able to offset a portion of the payroll tax by shifting existing benefits onto the new public program.[5]

[1]Gomby & Pei, 2009. [2]Ibid; Lerner & Applebaum, 2014; Bartel, et. al., 2015. [3]Clifton & Shepard, 2004. Konrad & Mangel, 2000; OECD, 2007; Lerner & Applebaum, 2014. [4]Baughman et. al., 2003; Heywood, et. al., 2007. [5]Applebaum & Milkman, 2006.

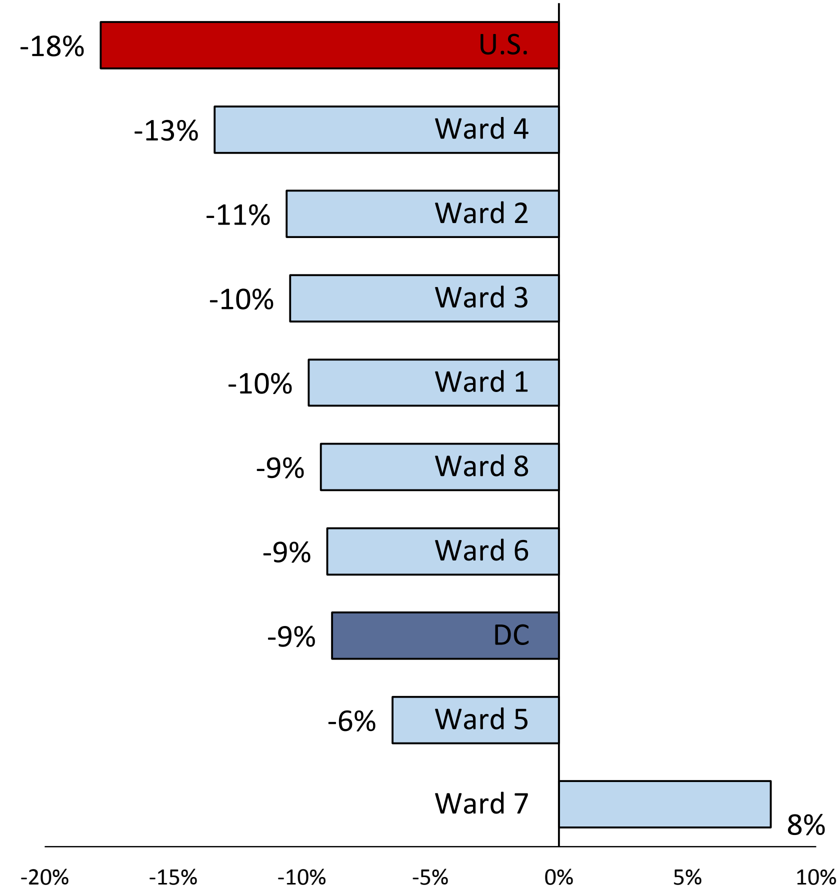
Empirical Evidence: Effects on Labor Market Participation

- Paid leave increases women's labor market participation rate[6], which in turn has great influence over an area's economic vitality.[7]

- An additional week of guaranteed paid leave boosted the rate at which young women were employed or actively sought paid employment by about 0.60 to 0.75 percentage points.[8]

- The odds that a woman living in the District was in the workforce were 9 percent lower than a man's between 2009 and 2014, with significant variation between wards.[9]

Women's Labor Force Participation Rate Relative to Men, Percent Difference (2009-14)

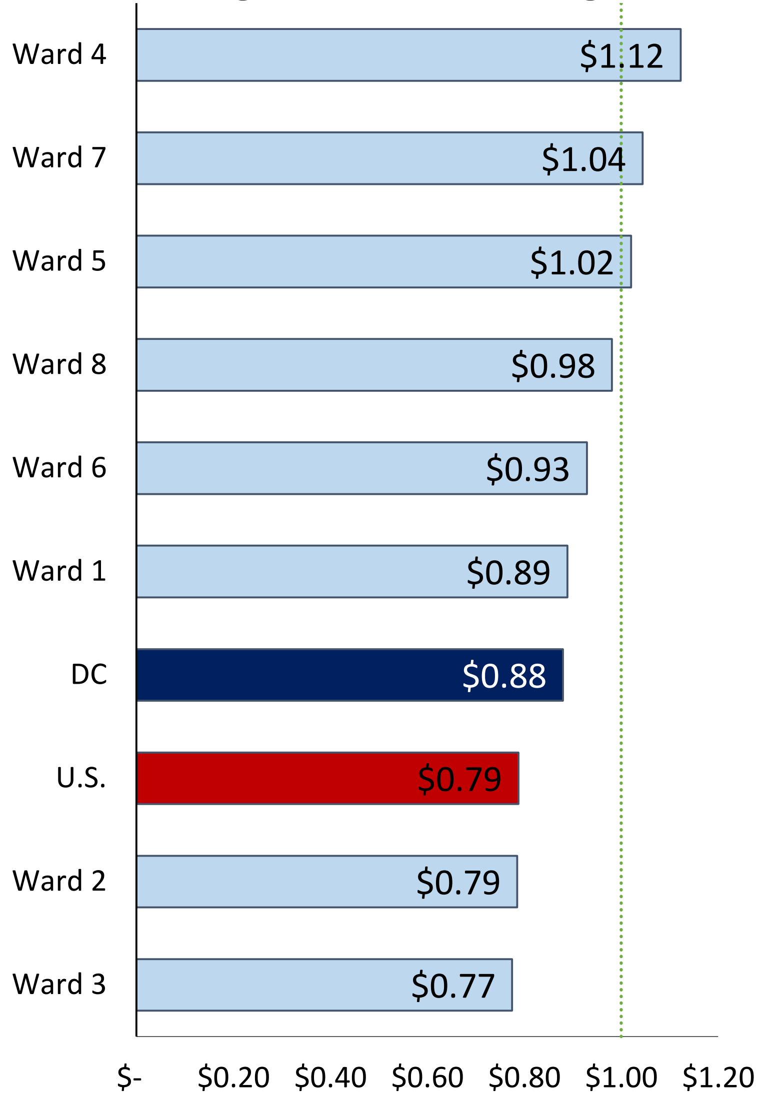


[6] Levine, 2008; Cohany & Sok, 2007; U.S. Government Accountability Office, 2006; Elborgh-Woytek, et al., 2013; International Monetary Fund, 2016. [7] Pack, 2014. [8] Winegarden & Bracy, 1995. [9] U.S. Census Bureau, 2015.

Empirical Evidence: Effects on Gender Wage Gap

- Narrowing the gender wage gap may combat inequality and increase economic efficiency.[11]
- Our review of the research suggests that paid leave programs reduce the gender wage gap by reducing the amount of time women spend out of the workforce.[12]
- Women's access to paid leave in California was linked to a 7 percent higher hourly wage after childbirth.[13]
- The District's gender wage gap was among the smallest in the nation—12 percentage points—but still significant. Women living in D.C. were paid on average $8,474 less per year than their male counterparts.

Women's Earnings per $1 in Men's Earnings (2009-14)

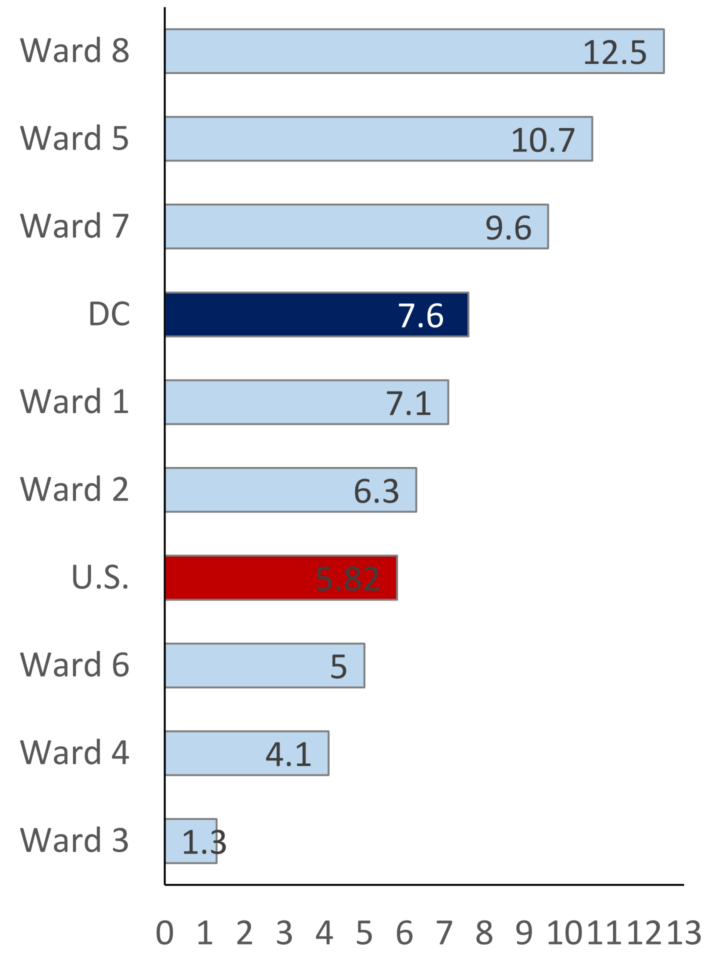


[11]Tzannatos, 1998. [12]Lyness, et al., 1999; Schott, 2012,. [13]Baum & Ruhm, 2014. [14]U.S. Census Bureau, 2015c.

Empirical Evidence: Effects on Infant and Child Mortality

- Paid parental leave has been shown to reduce infant and child mortality.[15]
- For each additional week of paid maternity leave, infant mortality falls by about 0.5 deaths per 1,000 live births.[16]
- The District's infant mortality rate is consistently higher than national average (7.6 vs. 5.8) in 2014, and DC has among the country's highest rates of perinatal deaths.[17]
- Save the Children (2015) highlighted the District as an example of a city in which the overall infant mortality rate masks huge disparities between children in its richest and poorest households.

Infant Mortality in the District of Columbia, by Ward, Deaths per 1,000 Births, 2014



[15]Heymann, et al., 2011, Winegarden & Bracy, 1995. [16]Winegarden & Bracy, 1995. [17]Kochanek, et. al, 2015.

Benchmarking: Paid Leave Programs in Other Jurisdictions

	Medical Leave	Family Leave	Wage Replacement Rate	Min. to Max. Weekly Benefit	Waiting Period	Intermittent Leave	Covered Relatives
DC UPLAA	**0 weeks**	**11 weeks parental, 8 weeks family**	**90% up to 1.5x min wage; 50% thereafter**	**$1 - $1,000**	**1 week**	**Allowed but period not specified**	**Child, spouse, domestic partner, parent, parent-in-law, stepparent, grandparent**
CA	52 weeks	6 weeks	55%	$50 - $1,129	1 week	1 hour	Child, spouse, domestic partner, parent, parent-in-law, grandparent, grandchild, sibling
SF*	--	6 weeks parental, concurrent with CA plan	100% (55% CA + 45% SF employer mandate)	$50 - $2,053 ($50 - $1,129 CA + $0 - $924 SF employer mandate)	1 week, concurrent with CA	1 hour, concurrent with CA	Child
NJ	26 weeks	6 weeks	66.67%	$1 - $615	1 week	1 day	Child, spouse, domestic partner, parent
RI	30 weeks	4 weeks	4.62% of high 4/5 Qs	$89 - $795	--	1 week	Child, spouse, domestic partner, parent, parent-in-law, grandparent
NY†	26 weeks	8 - 12 weeks	50%	SDI: $20 - $170 PFL: 50% of NY avg. weekly wage	1 week	--	--
HI	26 weeks	--	58%	$14 - $570	1 week	--	--
PR	26 weeks	--	65%	$12 - $133			--

* Passed into law and takes effect January 2017. † Medical leave is operational, but the paid family leave program has not been implemented yet.

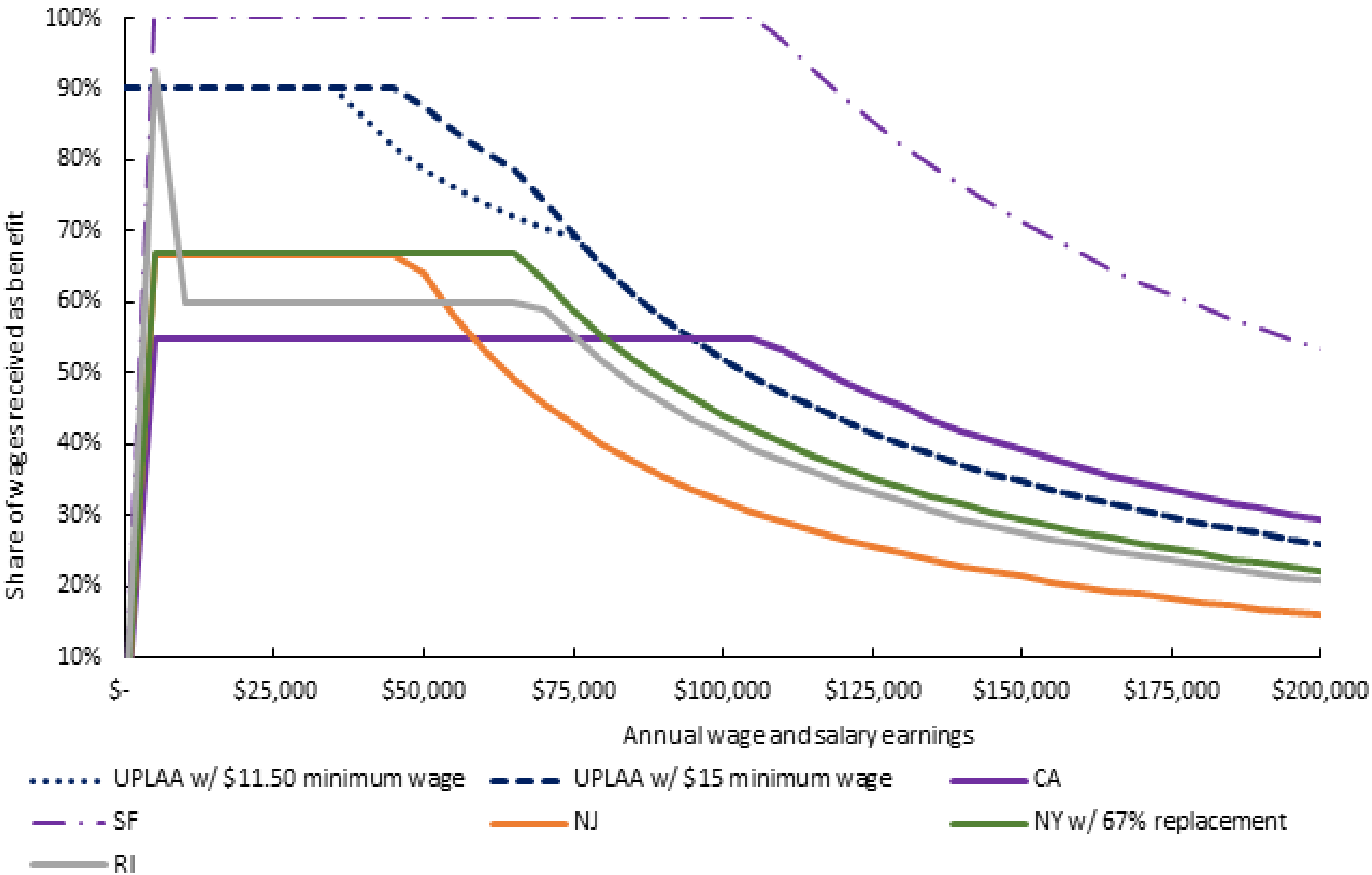
Benchmarking: Paid Leave Programs in Other Jurisdictions

	Funding Mechanism	Tax Rate	Taxable Wage Ceiling	Tax Incidence
DC UPLAA	**Payroll tax**	**0.62%**	**N/A**	**Employer**
CA	Payroll tax	0.9%	$106,742	Employee
SF*	Employer pays benefit directly to worker	N/A	N/A	Employer
NJ	Payroll tax	0.83%	$32,600	0.5% Employer 0.33% Employee
RI	Payroll tax	1.2%	$66,300	Employee
NY†	SDI: Private insurance with optional employee contribution PFL: Payroll tax	SDI: N/A PFL: TBD	SDI: N/A PFL: TBD	SDI: Employer and Employee PFL: Employee
HI	Private insurance with optional employee contribution	N/A	N/A	Employer and Employee
PR	Payroll tax	0.6%	$9,000	0.3% Employer 0.3% Employer

* Passed into law and takes effect January 2017. † Medical leave is operational, but the paid family leave program has not been implemented yet.

Benchmarking: Wage Replacement Rates

Wage replacement rates vary by income level among the state programs



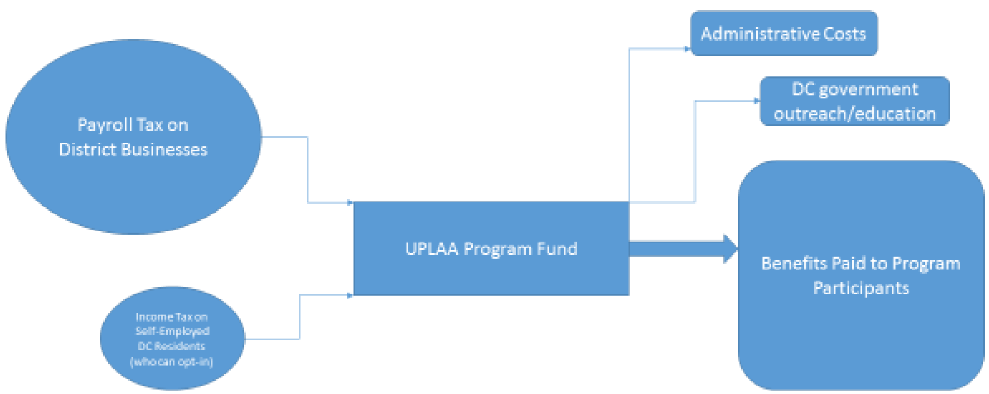
Policy Context: District Workers' Access to Unpaid Leave

- The Family and Medical Leave Act (FMLA) guarantees covered workers 12 weeks of job-protected unpaid leave for child bonding, caregiving, or medical self-care (or 16 weeks/24 months); and 26 weeks to care for an injured member of the armed services.
- In 2012, 13.1% of U.S. workers took time off of work because of a qualifying FMLA reason.
  - 55% did so because of their own illness.
  - 21% used it to welcome a new child.
  - 18% cared for an ailing parent, spouse, or child.
- 70.6% of U.S. mothers who were employed during their last pregnancy reported that they took maternity leave.
  - More than 8% of low-income workers (<$35k) that need FMLA leave don't take it, a rate 2.5X greater than for high-income workers (>$75k)[18]
- FMLAs do not apply to about 30% of DC's private industry workers.[19]
- District law guarantees full-time workers three to seven paid sick days per year.
- Access to paid family leave (PFL) and short-term disability insurance (SDI) varies by occupation and salary.
  - PFL is available to 25% of highest wage earners vs 3% of lowest wage earners.[20]

[18]Abt Associates, Inc., 2014. [19]Bureau of Labor Statistics, 2014; U.S. Census Bureau, 2016. [20]Bureau of Labor Statistics, 2016e

Economic Model: Overview

- Economic forecasting models help governments, institutions, and private sector firms make informed projections about how a policy change would affect the regional labor market and economy.
- The model compares the projected economic forecast in which the District continues to have no paid family leave program, to the projected economic conditions if the legislation were implemented.
- The modeling results are based on the following program structure:



Other Factors:
- Salary offset to businesses that previously offered paid family leave
- Decrease in infant mortality, increase in women's labor force participation
- Potential reduction in employee turnover and recruiting costs
- Potential increase in labor costs if businesses need replacement workers
- The degree to which employers shift cost of program to employees
- Non-monetary benefit of paid family leave to employees

Economic Model: Three Behavioral Response Scenarios

- Employees absorb tax
  - Assumes that businesses would manage the cost of the payroll tax by shifting it onto their employees in the form of eliminated or delayed salary and benefit increases.
- Businesses absorb tax
  - Assumes that businesses would absorb the payroll tax into their bottom line by shrinking the size of their workforce and/or raising prices.
- Hybrid tax absorption
  - Assumes that businesses would respond to the new tax by shifting approximately half of it onto employees and absorbing the rest.
- Additional technical assumptions were incorporated into each scenario

Summary of the Technical Assumptions Incorporated into each Scenario (2020)

	Cost of Doing Business	Government Spending	Measurable Policy Outcomes
Payroll tax	$254.3 M		
Administration		$12.7 M	
Start-up costs*		$40 M	
Benefit payments		$241.6 M	
Shifting to public provision of paid family leave	($33.2 M)		
Higher women's labor force participation			0.5% or 720 more women/year
Lower infant mortality			(3%) or 2 fewer deaths/year

Economic Model: Impact on the DC Economy

The forecasting analysis indicates that the proposed legislation—regardless of the behavioral response scenario—will not materially affect cumulative employment and GDP growth in the District of Columbia

Summary of UPLAA's Forecasted Cumulative Impacts on DC's Economy, 2027

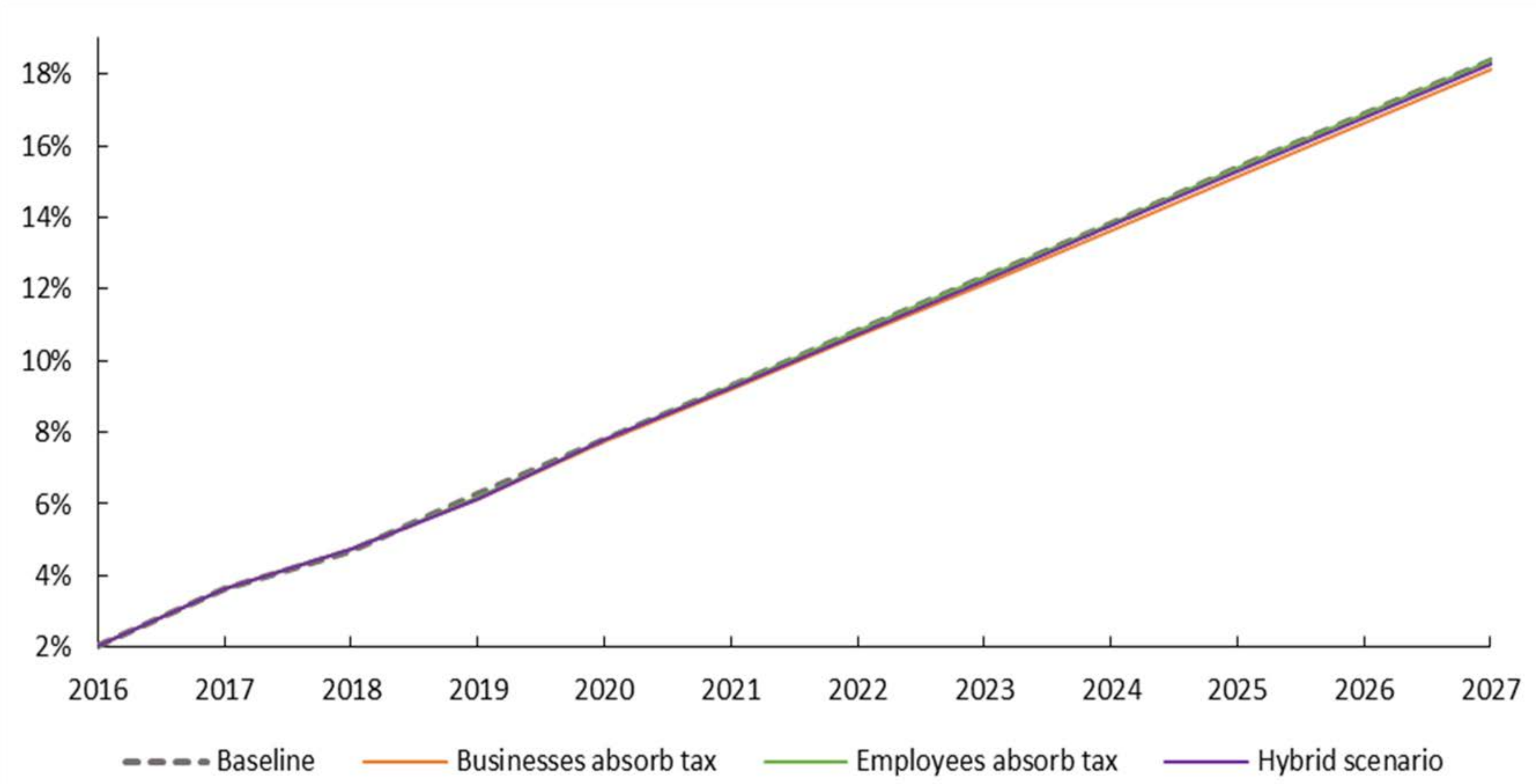
	Baseline Forecast (no Paid Leave)	Employees Absorb Tax	Businesses Absorb Tax	Hybrid Scenario
GDP, District of Columbia, 2027	$152.1 billion	GDP will increase by $15 million	GDP will decrease by $122 million	GDP will decrease by $46 million
Private Sector Employment, District of Columbia, 2027	621,000 jobs	Employment will decrease by 90 jobs	Employment will decrease by 1,300 jobs	Employment will decrease by 500 jobs

- ❑ GDP for the District is projected to grow from $123.9 billion in 2016 to $152.1 billion in 2027. A reduction of $122 million from baseline GDP means that by 2027 GDP would increase to $152.0 billion.
- ❑ Private sector employment for the District is projected to grow from 534,000 jobs in 2016 to 621,000 jobs in 2027. A reduction of 1,300 jobs from baseline private sector employment means that by 2027 private sector employment would increase to 619,700 jobs.

Economic Model: Impact on Private Sector Employment

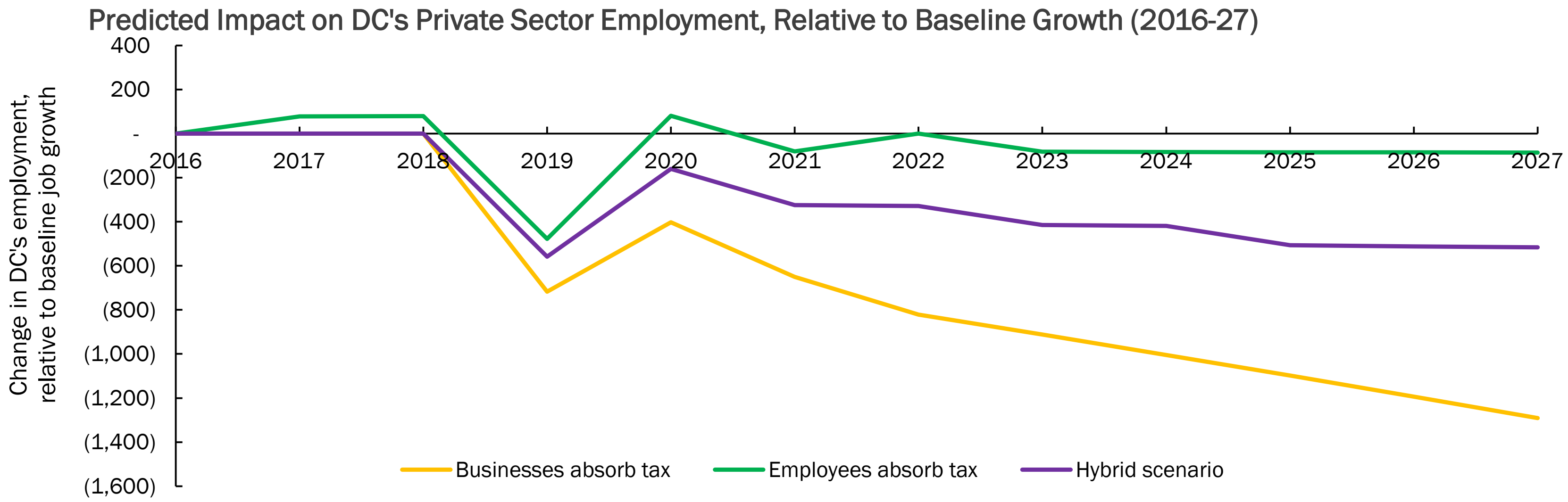
- By 2027, the model forecasts that the District's private sector employment levels – if the UPLAA were to be implemented - would be between 99.79% and 99.99% of levels under the baseline scenario.

Predicted Impact on DC Private-Sector Employment's Cumulative Percent Growth (2016-27)



Economic Model: Impact on Private Sector Employment

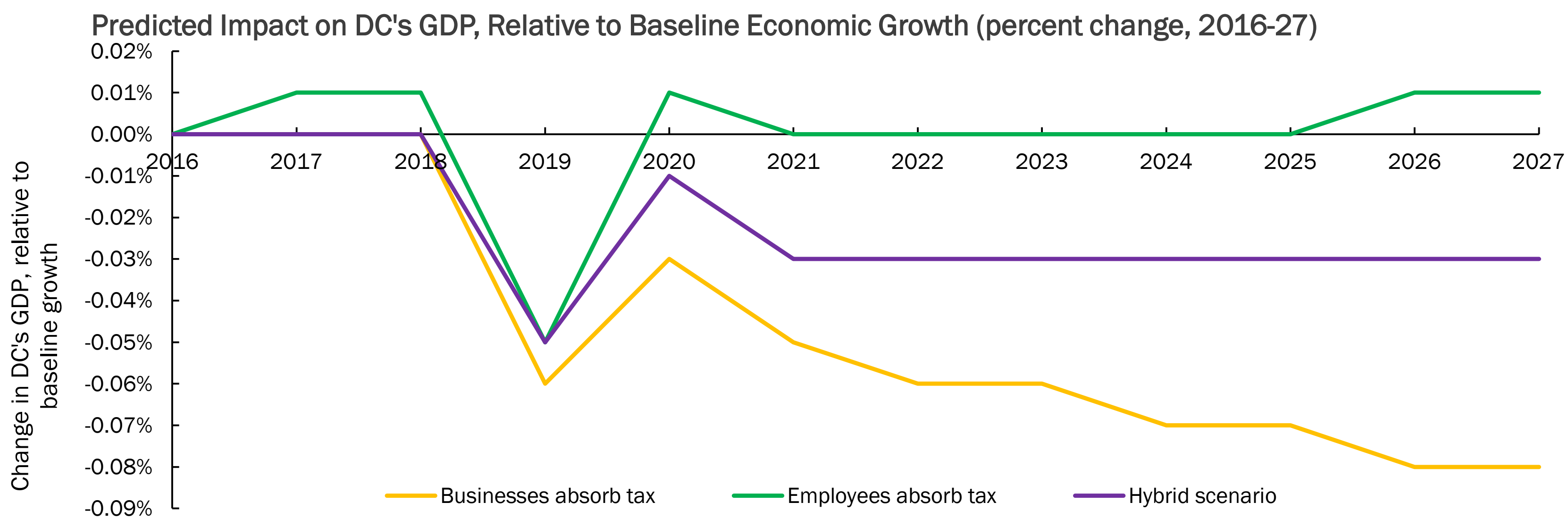
- If businesses absorb the payroll tax, the model forecasts that the economy would support approximately 1,300 (0.21%) fewer jobs by 2027.
  - 1,300 is about the number of jobs that the District typically adds in 6 weeks.
- If the payroll tax incidence falls on employees, the model predicts that the economy would support approximately 90 (0.01%) fewer jobs by 2027.
  - 90 jobs is equal to about three days of average job growth.
- Model predicts that employment will decline in 2019 and rebound in 2020 as the stimulating effect of introducing the spending of benefits counteracts the negative impact of the payroll tax.



- Note that the curves in the chart above represent a slight reduction in job growth, NOT a real reduction in employment.

Economic Model: Impact on Gross Domestic Product (GDP)

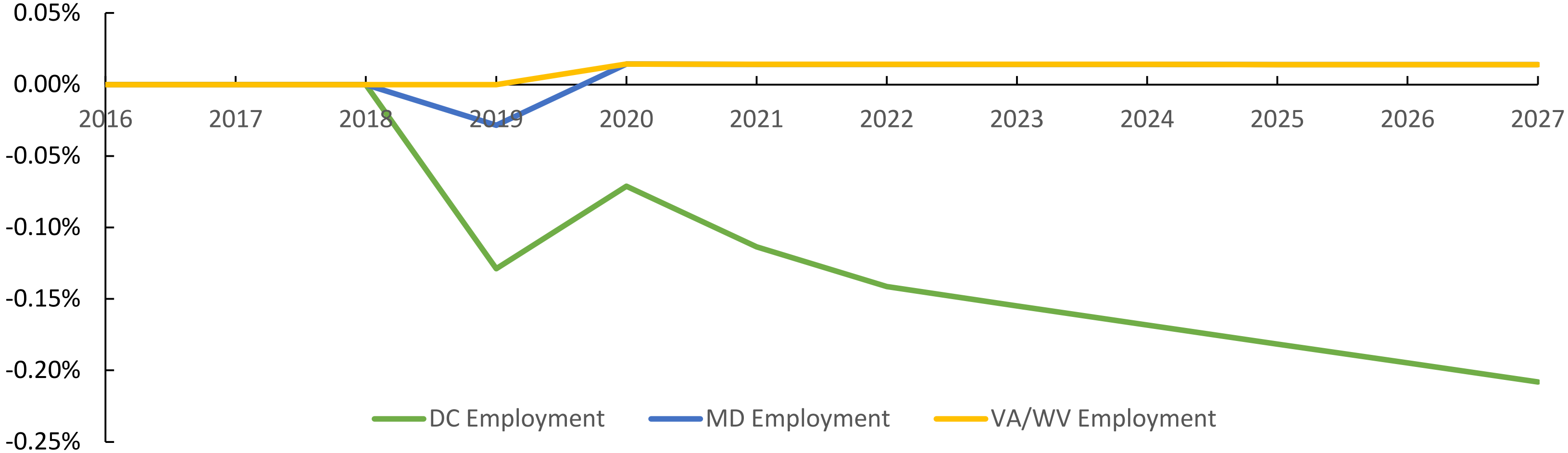
- By 2027, the model forecasts that the District's GDP would be between 100.01% and 99.92% of the baseline scenario.
- The cumulative 10 year impact of the implementing proposal on the District's GDP ranges between a slight increase of $15 million (+0.01%) to a slightly larger decrease of $122 million (-0.08%).
- Again, the model predicts that GDP will decline in 2019 and rebound in 2020 as the stimulating effect of introducing the spending of benefits counteracts the negative impact of the payroll tax.



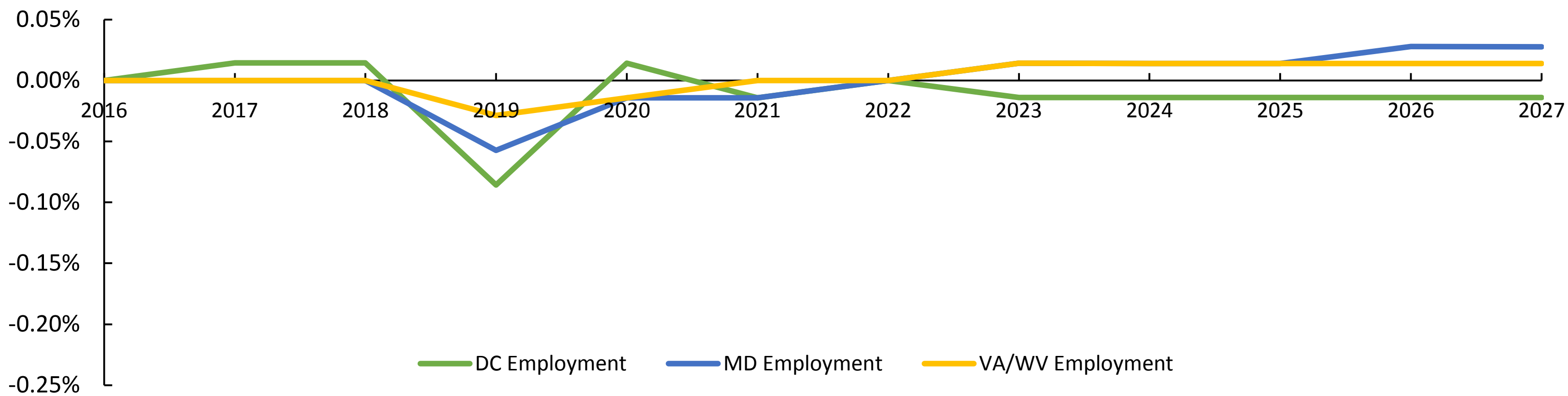
- Note that the curves in the chart above represent a slight reduction in GDP growth, NOT a real reduction in GDP.

Economic Model: Predicted Job Migration to MD and VA/WV

- If the payroll tax's incidence falls only on businesses, the District would transfer 0.21% of its private sector employment to the surrounding jurisdictions.



- If employees end up absorbing the tax through lower wages, the model forecasts virtually no job migration.



Economic Model: Context

Although imposing a 0.62% payroll tax is a large increase in the aggregate, the impact on District private sector employment and GDP growth is relatively small. The Budget Office believes this is because:

- Over five to ten years, the economic benefits of the program offset the costs.
  - The model assumes that all money collected by the payroll tax will be put back into the economy in each year, via consumer spending of UPLAA benefits and government spending.
- Some of the assumptions have a greater influence over the model's predictions about the proposed legislation's economic impact than others.
  - Payroll tax incidence, consumer spending, government spending, and employer-provided family leave benefits have a greater impact on the model's output than the estimated changes to labor force participation and the infant mortality rate.
  - Much empirical evidence such as reduced turnover, longer breastfeeding and employee morale could not be quantified and is not included in the model.
  - Impacts to businesses already offering PFL are mitigated by our assumption that there will be a cost offset associated with no longer having to pay salaries for employees while on PFL.
- As with any attempt to predict economic conditions, there is uncertainty.

Economic and Policy Impact Statement: Conclusion (1 of 2)

Implementing the proposed legislation would have a minimal impact on the District's labor market and economy over a ten-year period (2016-2027). Some businesses and industries might experience the impacts of the proposed legislation more sharply than others. However, it is unlikely to alter the current upward trajectory of the District's economy.

- The proposed paid leave program would pay out $242M in benefits per year, beginning in 2020.
  - Firms that currently offer paid family leave benefits would be able to offset $33.2 million of the new payroll tax, in the aggregate, by shifting existing benefits onto the new public program.
- Women's labor market participation would increase.
- Infant mortality rate would decline.

Economic and Policy Impact Statement: Conclusion (2 of 2)

- Over the next 10 years, the District's GDP would grow at an average annual rate of 1.913% to 1.921%, rather than 1.920%.
  - GDP is projected to grow by $28.2 billion between now and 2027 - from $123.9 billion to $152.1 billion.
  - If the legislation is implemented, in 2027 the District's GDP would likely be between $15 million higher and $122 million lower than otherwise projected.
- Over the next 10 years, private sector employment in the District would increase at an average annual rate of 1.340% to 1.358%, rather than 1.359%.
  - Private sector employment is projected to grow by 87,000 jobs between now and 2027 – from 534,000 to 621,000 jobs.
  - If the legislation is implemented, in 2027 the District would likely support 90 to 1,300 fewer private sector jobs than otherwise projected.

Economic and Policy Impact Statement: Contact

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Copies of the report and supporting documentation can be found at: http://dccouncil.us/news/entry/economic-and-policy-impact-statement-universal-paid-leave