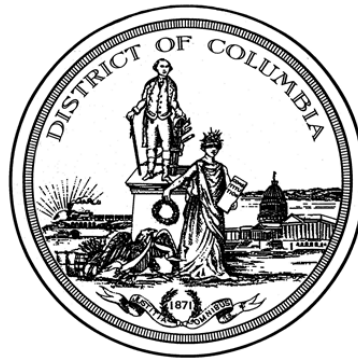


COUNCIL OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE BUDGET DIRECTOR | JENNIFER BUDOFF, BUDGET DIRECTOR

# FORECASTING THE ECONOMIC IMPACTS OF PAID FAMILY & MEDICAL LEAVE IN THE DISTRICT OF COLUMBIA

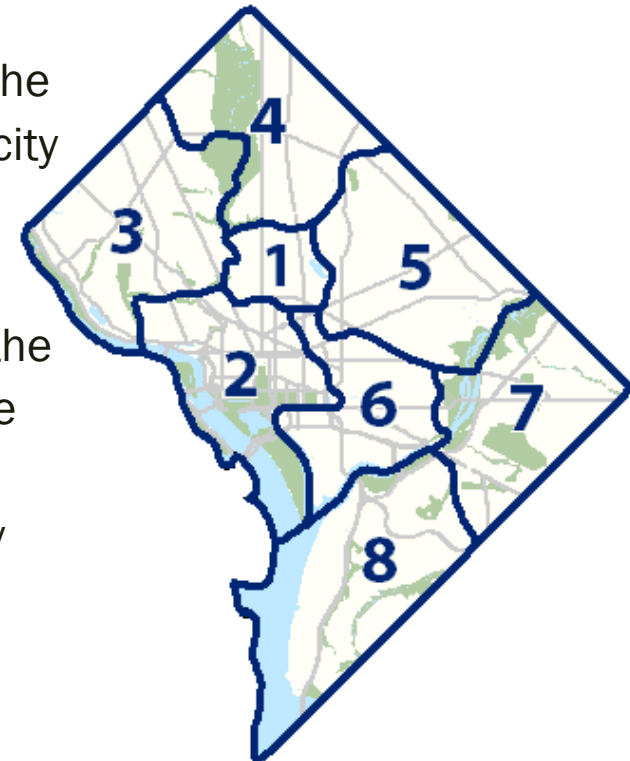


RESEARCHERS: SUSANNA GROVES & JOHN MACNEIL with JOSEPH WOLFE

REMI USERS' CONFERENCE – CHARLESTON, SC  
OCTOBER 26, 2017

# Background

- ❑ The Council of the District of Columbia (the “Council”) enacts laws and sets policies for the District of Columbia. The Council is unique in that it performs the functions of a state legislature, county council, and city council.
- ❑ The Council’s Office of the Budget Director advises the body’s 13 Councilmembers on matters related to the District’s budget, analyzes the fiscal and economic impacts of proposed legislation, and performs policy analysis.
- ❑ 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.



# Outline of Presentation

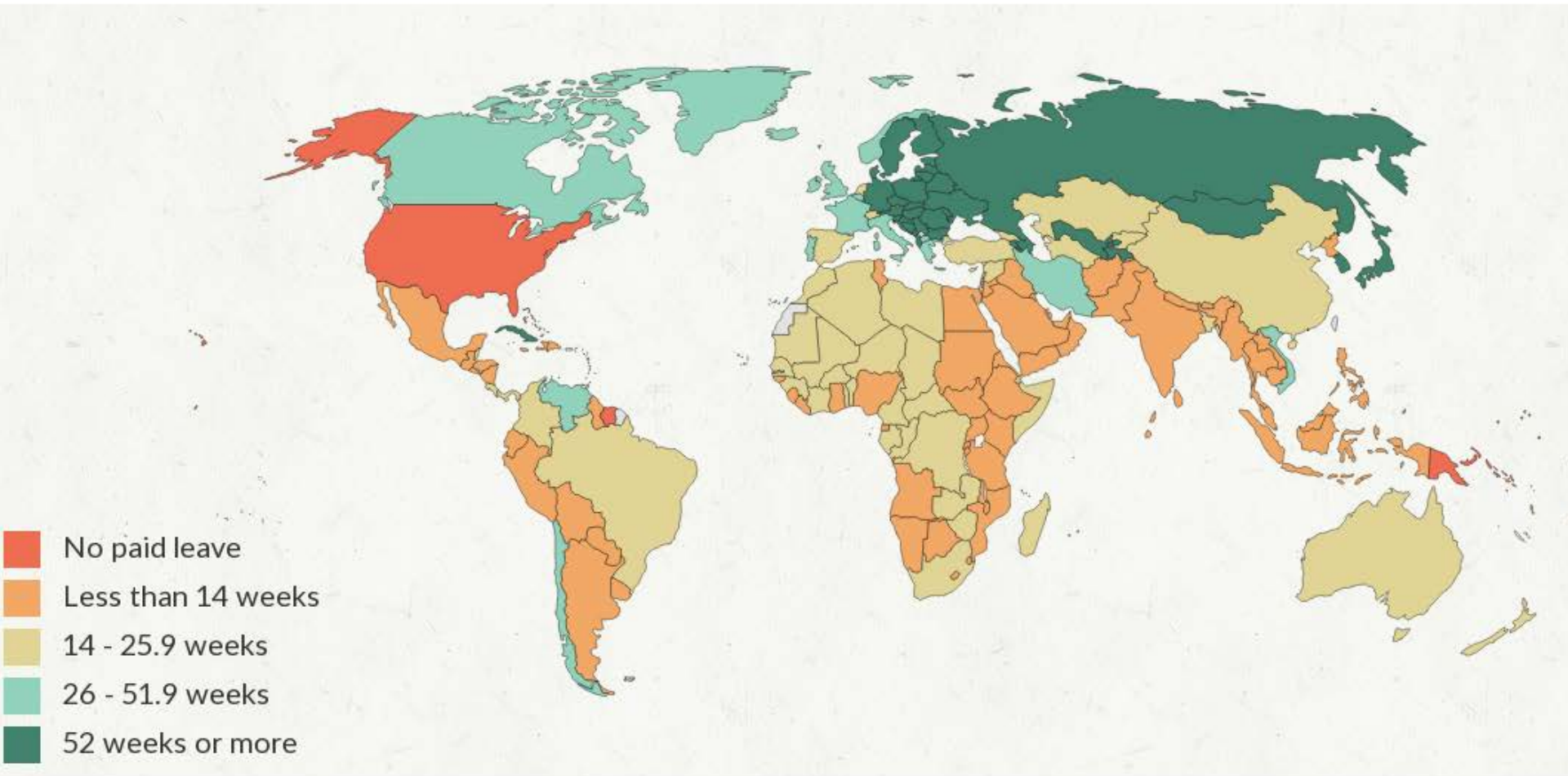
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- ❑ Background
- ❑ D.C. Law 21-264 Universal Paid Leave Amendment Act (UPLAA) of 2016
- ❑ UPLAA in comparison to other paid family and medical leave programs
- ❑ Literature review: Effects on labor market, other effects
- ❑ Economic impact model—discussion of variables
- ❑ Economic impact model—discussion of results
- ❑ Modifications to UPLAA under consideration by the DC Council

# Global Access to Paid Maternity Leave



Is paid leave available for mothers of infants?



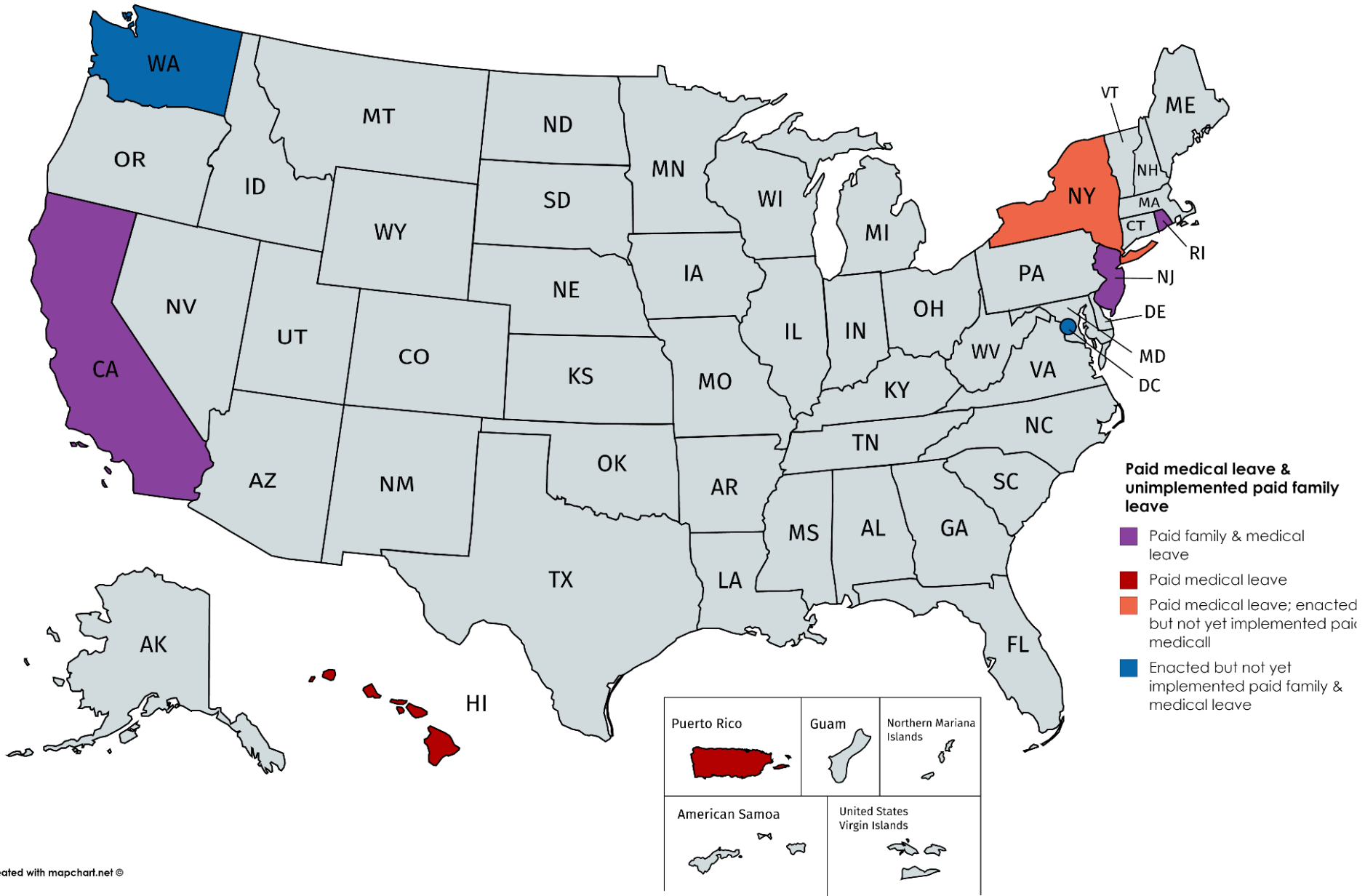
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# Access to Paid Family and Medical Leave

- ❑ In the U.S., workplace paid leave benefits are uncommon
  - ❑ Among private sector workers in the South Atlantic, 38% have medical leave (a.k.a. short-term disability insurance) and 14% have paid family leave
- ❑ High income workers and in white collar professions are far more likely to have access to paid leave, those but the rates are still low.
  - ❑ In the South Atlantic, paid family leave is available to 36% of workers in finance or insurance-related occupations vs. 4% of those in accommodation and food services<sup>1</sup>
- ❑ Federal Medical Leave Act (FMLA) & its local counterpart guarantee workers access to job-protected *unpaid* leave during a family or medical leave event.
  - ❑ However, 41% of U.S. workers are not covered by the FMLA
  - ❑ Many who are covered cannot afford to take leave when they need it<sup>2</sup>

<sup>1</sup>Bureau of Labor Statistics 2016; <sup>2</sup>Abt Associates 2014;

# U.S. Workers' Access to Paid Family and Medical Leave



# Universal Paid Leave Amendment Act of 2016 (D.C. Law 21-264)

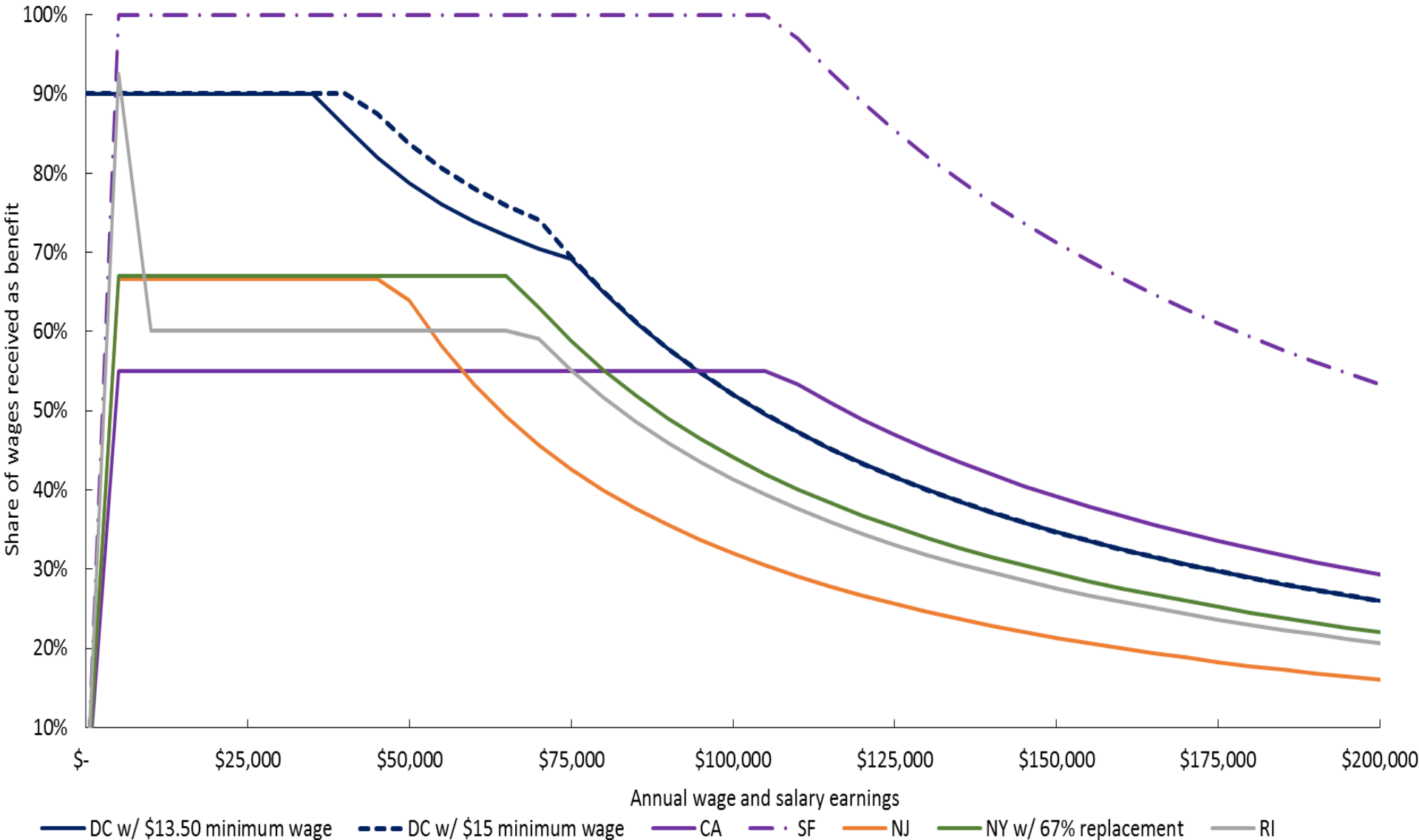
- ❑ The District's Universal Paid Leave Amendment Act of 2016 took effect on April 28, 2017. It requires the Mayor to establish a public insurance program that compensates private-sector workers in the District for wages lost during a qualifying leave event.
  - ❑ Up to 8 weeks of parental leave to welcome a new child, 6 weeks of family leave to care for an ailing family member, or 2 weeks of medical leave to recover from a serious health condition
  - ❑ Replaces 90% of a covered worker's wages up to 1.5x the minimum wage, then 50% of wages up to a maximum benefit of \$1,000 per week
  - ❑ Funded with a 0.62% employer-paid payroll tax
- ❑ The program's design takes into account two legal factors:
  - ❑ The DC Home Rule Act prohibits DC from levying taxes on commuters. 68% of workers employed in the District are non-residents.
  - ❑ The U.S. Constitution's Supremacy Clause prohibits states from taxing the federal gvt, which employs 27% of the District's workforce

## Benchmarking: Paid Leave Programs in Other Jurisdictions

	Medical Leave	Family Leave	Wage Replacement Rate	Min. to Max. Weekly Benefit	Benefit Payments	Administrative Expenses
DC	2 weeks	8 weeks parental, 6 weeks family	90% up to 1.5x min wage; 50% thereafter	\$1 - \$1,000	\$238M (2019e)	\$40M (estimated start up) \$16.662M (2019e)
CA	52 weeks	6 weeks parental/family	55%	\$50 - \$1,129	\$5,419.7M	\$238.6M
SF	--	6 weeks parental, concurrent with CA plan	100% (55% CA + 45% SF)	\$50 - \$2,053 (\$50-1,129 CA + \$0-924 SF)	N/A	N/A
NJ	26 weeks	6 weeks parental/family	66.67%	\$1 - \$615	\$505.4M	\$32.5M
RI	30 weeks	4 weeks parental/family	4.62% of high 4/5 Qs	\$89 - \$795	\$173.4M	\$7.5M
NY	26 weeks	8 - 12 weeks parental/family	50%	SDI: \$20 - \$170  PFL: 50% of NY avg. weekly wage	\$16.681M (disability only)	\$4.071M (disability only)
HI	26 weeks	--	58%	\$14 - \$570		N/A
PR	26 weeks	--	65%	\$12 - \$133		N/A



# Benchmarking: Parental/Family Leave Wage Replacement



## Benchmarking: Paid Leave Programs in Other Jurisdictions

	Funding Mechanism	Tax Rate	Taxable Wage Ceiling	Tax Incidence
DC	Payroll tax	0.62%	None	Employer
CA	Payroll tax	0.90%	\$106,742	Employee
SF	Employer pays benefit directly to worker	N/A	N/A	Employer
NJ	Payroll tax	0.78%	\$32,600	0.5% Employer 0.28% Employee
RI	Payroll tax	1.20%	\$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

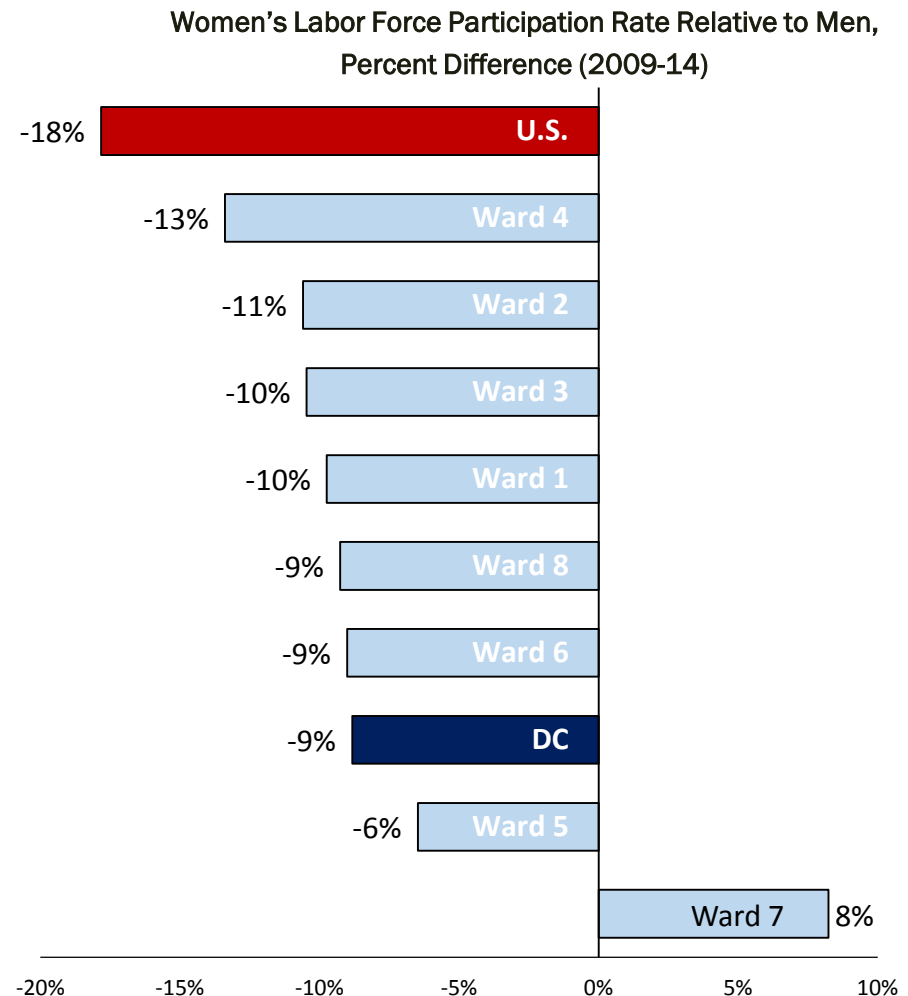
# Empirical Evidence: Paid Family Leave's Effects on Businesses

- ❑ Many business owners express concern that a paid leave program would raise their costs and damage productivity.<sup>1</sup>
- ❑ However, academic studies show that paid family leave tends to have little impact on businesses' profitability and that some may even experience some benefits including improved morale and reduced turnover.<sup>2</sup>
  - ❑ 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.<sup>3</sup>
  - ❑ 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.<sup>4</sup>

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

# Empirical Evidence: Effects on Labor Market Participation

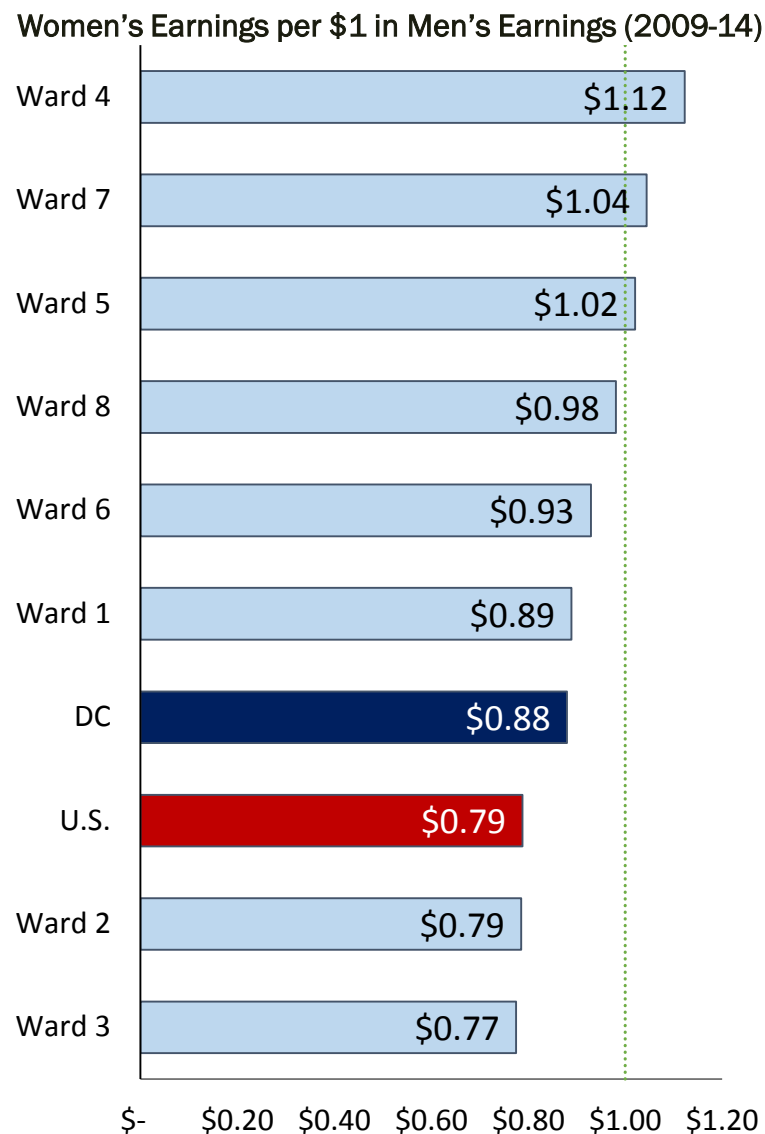
- ❑ Paid family leave increases women's labor market participation rate, which in turn has great influence over an area's economic vitality.<sup>5</sup>
- ❑ An additional week of guaranteed paid family leave boosted the rate at which young women were employed or actively sought paid employment by about 0.60 to 0.75 percentage points.<sup>6</sup>
- ❑ The odds that a woman living in the District was in the workforce were 9% lower than a man's between 2009 and 2014 with significant variation between wards.<sup>7</sup>



<sup>5</sup> Levine, 2008; Cohany & Sok, 2007; U.S. Government Accountability Office, 2006; Elborgh-Woytek, et al., 2013; International Monetary Fund, 2016; Pack, 2014. <sup>6</sup> Winegarden & Bracy, 1995. <sup>7</sup> U.S. Census Bureau, 2015.

# Empirical Evidence: Effects on Gender Wage Gap

- ❑ Narrowing the gender wage gap may combat inequality and increase economic efficiency.<sup>8</sup>
- ❑ Paid leave programs reduce the gender wage gap by decreasing the amount of time women spend out of the workforce.<sup>9</sup>
- ❑ Women’s access to paid leave in California was linked to a 7% higher hourly wage after childbirth.<sup>10</sup>
- ❑ DC’s gender wage gap was among the smallest in the nation—12 percentage points—but still significant. Female full-time workers in DC were paid on average \$8,474 less per year than their male counterparts.<sup>11</sup>

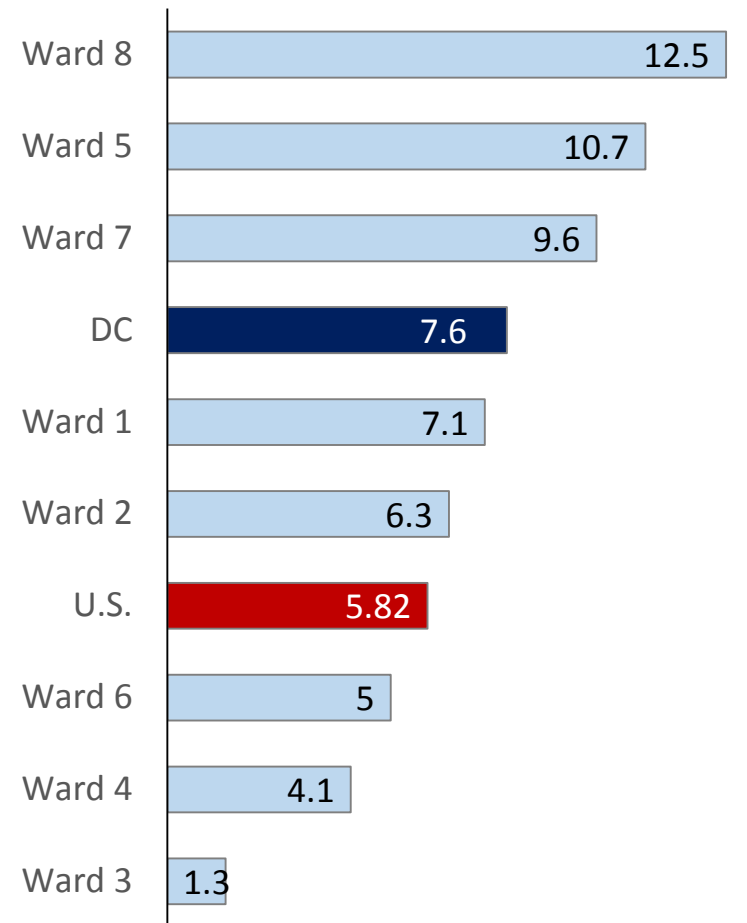


<sup>8</sup>Tzannatos, 1998. <sup>9</sup>Lyness, et al., 1999; Schott, 2012. <sup>10</sup>Baum & Ruhm, 2014. <sup>11</sup>U.S. Census Bureau, 2015c.

# Empirical Evidence: Effects on Infant and Child Mortality

- ❑ Paid parental leave has been shown to reduce infant and child mortality.<sup>12</sup>
- ❑ For each additional week of paid maternity leave, infant mortality falls by about 0.5 deaths per 1,000 live births.<sup>13</sup>
- ❑ The District's infant mortality rate is consistently higher than national average, and DC has among the country's highest rates of perinatal deaths.<sup>14</sup>
- ❑ Save the Children (2015) highlighted the District as an example of a city in which the overall infant mortality rate masks significant disparities between the richest and poorest households.

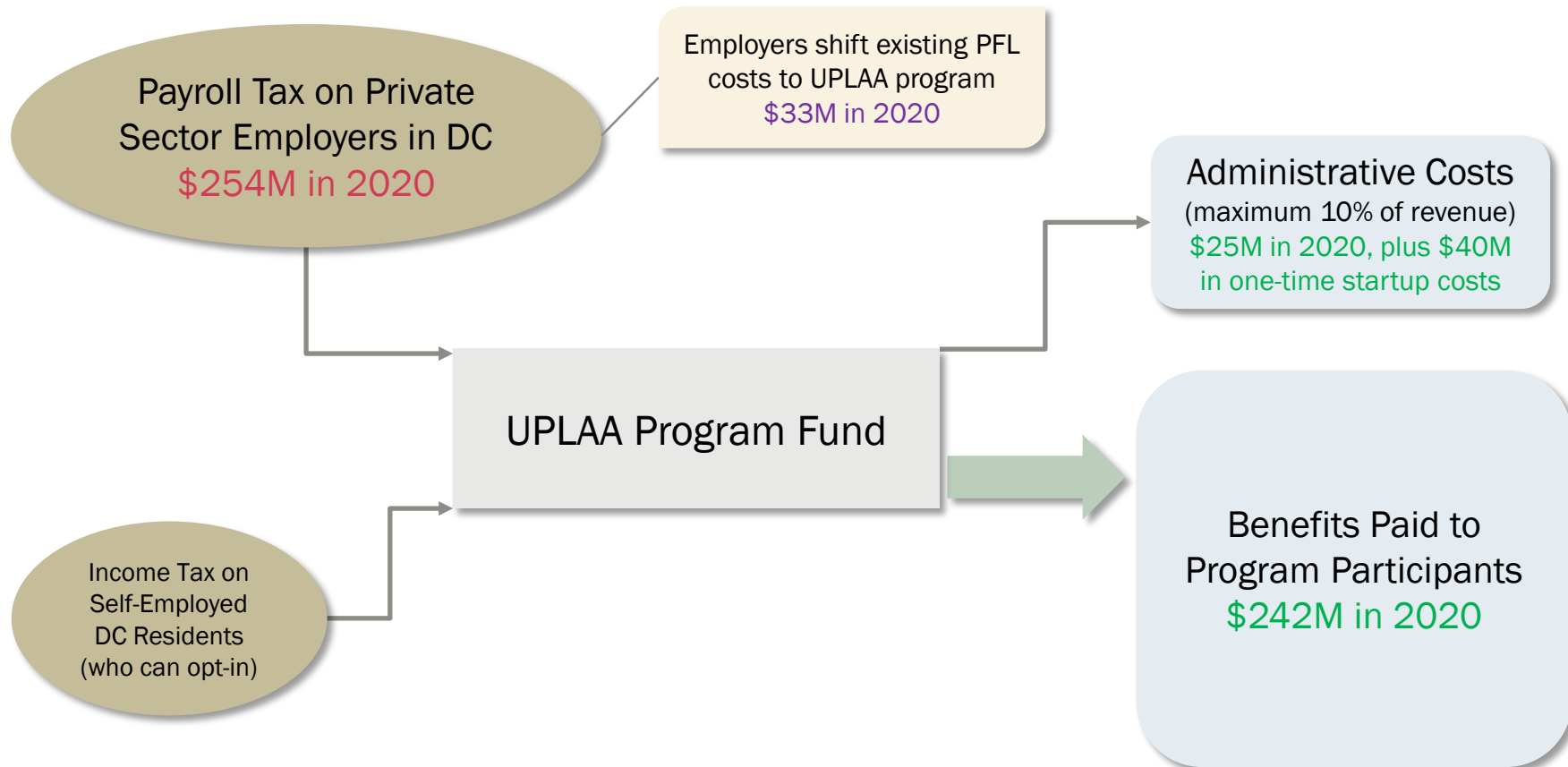
Infant Mortality in the District of Columbia by Ward, Deaths per 1,000 Births, 2014



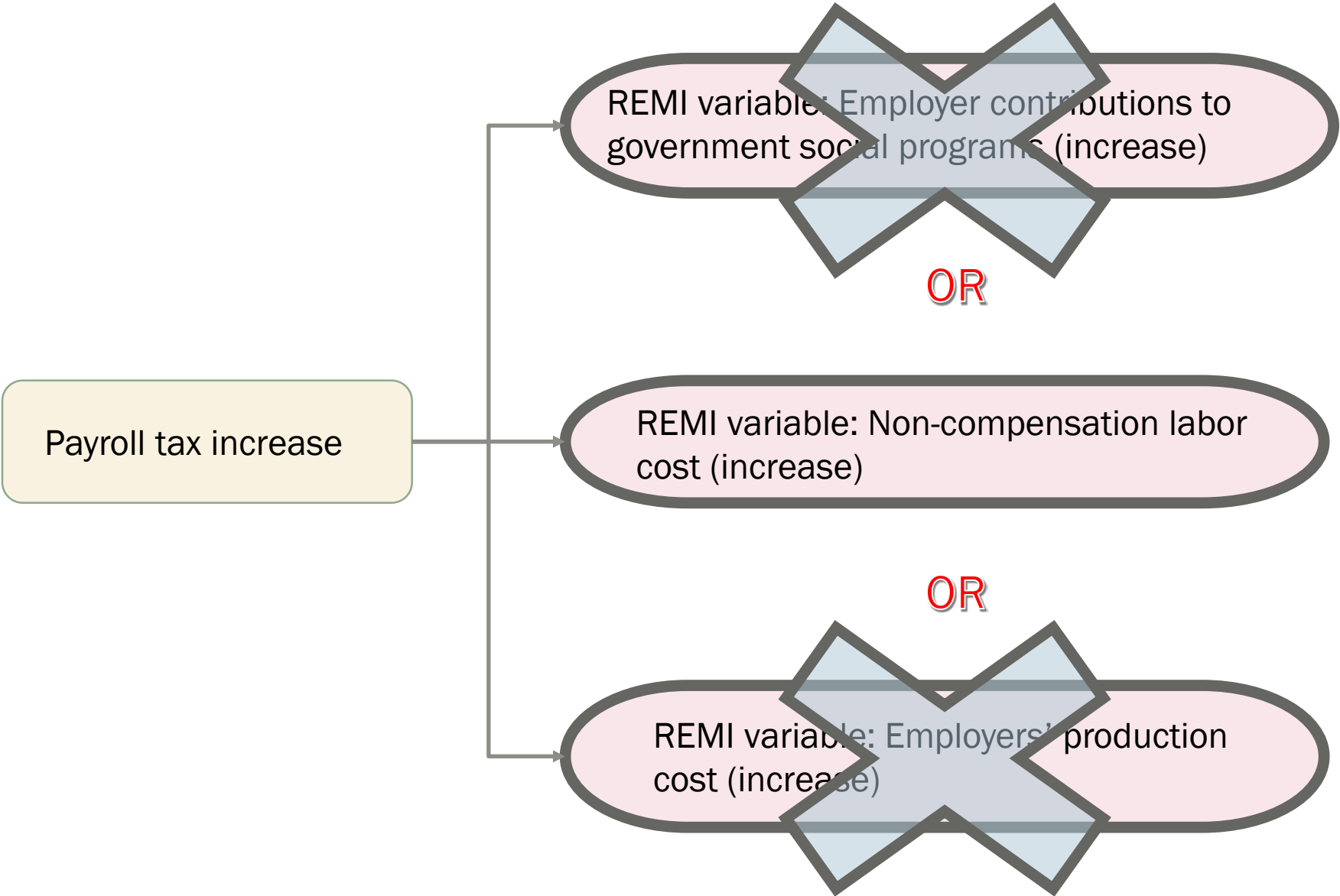
<sup>12</sup>Heymann, et al., 2011, Winegarden & Bracy, 1995. <sup>13</sup>Winegarden & Bracy, 1995. <sup>14</sup>Kochanek, et. al, 2015.

# Economic Model: Overview

- ❑ The model compares the REMI baseline economic forecast to REMI's projections for the District economy if the paid family leave legislation were implemented.
- ❑ The REMI model is based on the following program structure:

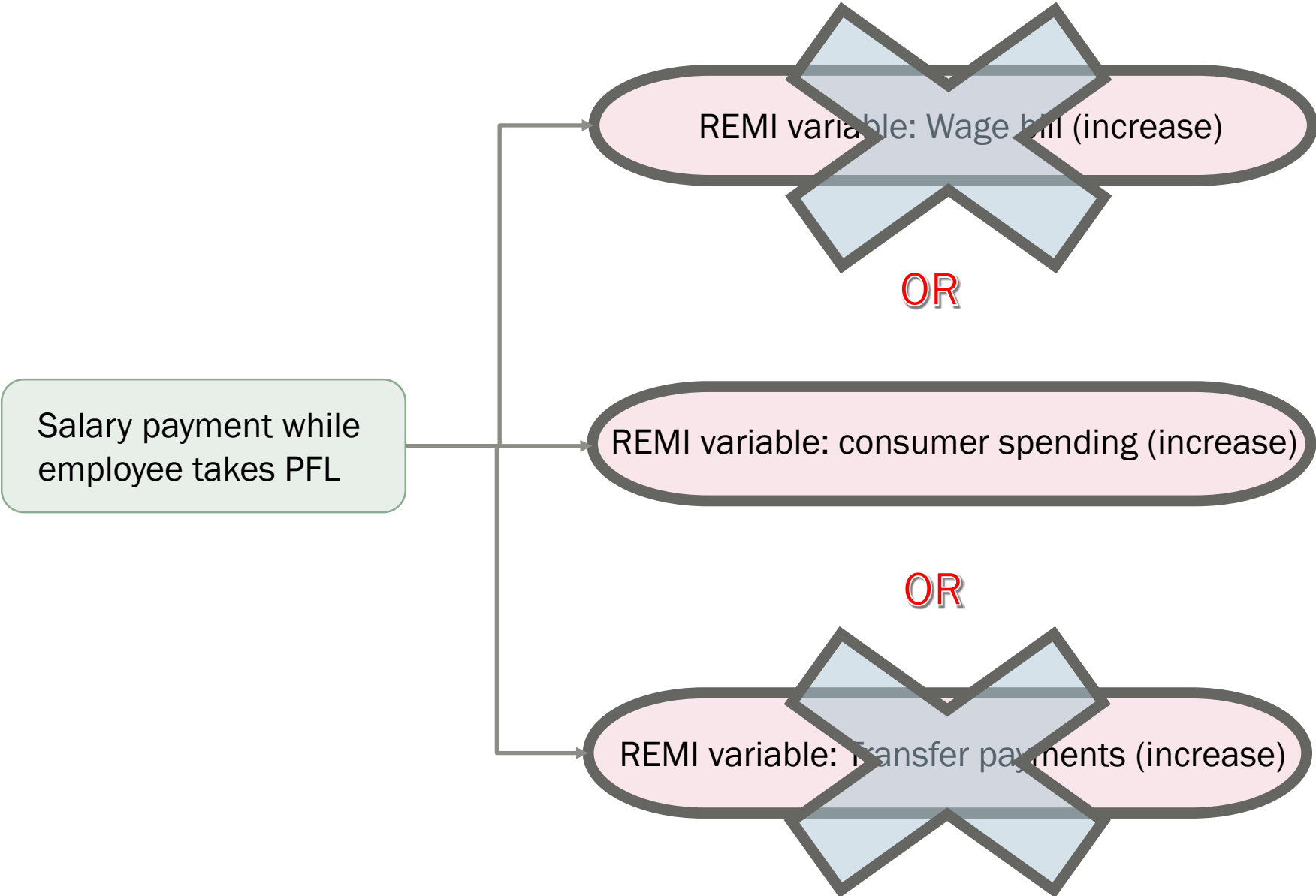


# Economic Model: REMI variables





# Economic Model: REMI variables



# Economic Model: Other REMI variables

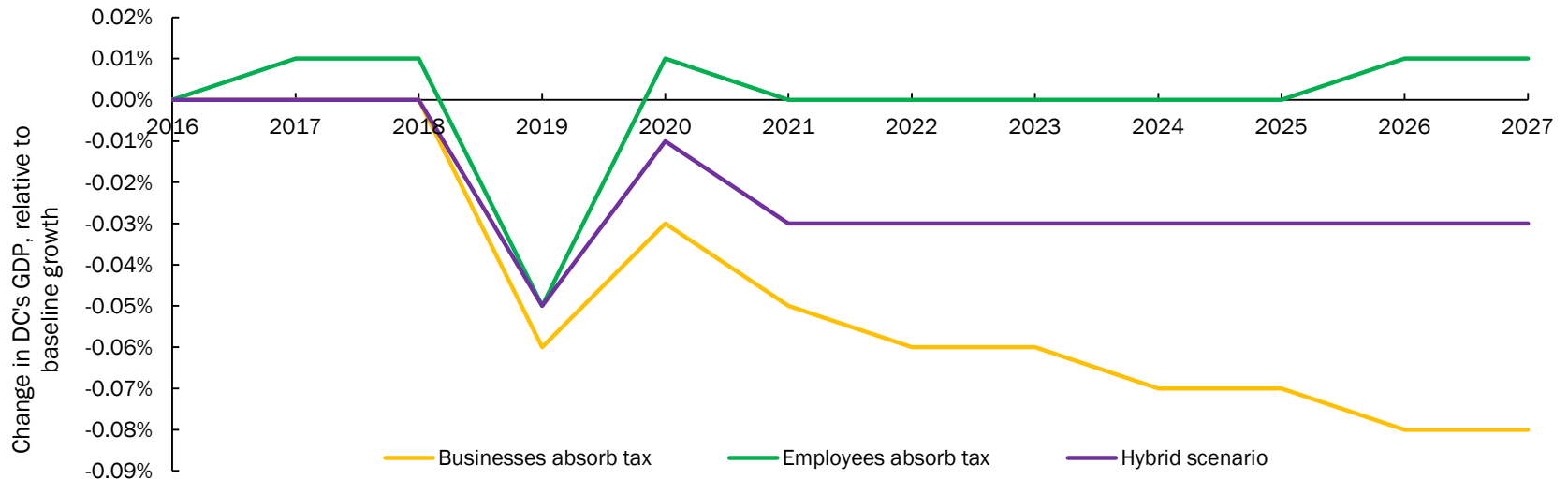
- ❑ Government spending on administration of the program, IT system, outreach
  - ❑ **REMI variable: Local government spending (increase)**
  
- ❑ Employers no longer need to provide paid family leave benefits
  - ❑ **REMI variable: Production cost for employers (decrease),**
  - ❑ **REMI variable: Wage bill for employees (decrease)**
  
- ❑ Women more likely to participate in the labor force, as studies have shown
  - ❑ **REMI variable: Women's labor force participation rate (increase of 0.5%)**
  
- ❑ Longer family leave is associated with reductions in the infant mortality rate
  - ❑ **REMI variable: Survival rate for infants (increase of 3%)**
  
- ❑ It was not possible to quantify the following factors:
  - ❑ Potential reduction in employee turnover and recruiting costs
  - ❑ Potential increase in labor costs if businesses need replacement workers
  - ❑ Non-monetary benefit of paid family leave to employees

# Economic Model: Three Behavioral Response Scenarios

- ❑ To capture the range of employer responses to the increase in payroll tax, we ran the REMI model under three different employer “behavioral” response scenarios:
  - ❑ **Employees absorb tax**
    - Assumes that employers 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.
  - ❑ **Private-sector employers absorb tax**
    - Assumes that employers would absorb the payroll tax into their bottom line by shrinking the size of their workforce and/or raising prices.
  - ❑ **50/50 tax absorption**
    - Assumes that employers would respond to the new tax by shifting approximately half of it onto employees and absorbing the rest.

# Economic Model: Impact on Gross Domestic Product (GDP)

Predicted Impact on DC's GDP, Relative to Baseline Economic Growth (percent change, 2016-27)

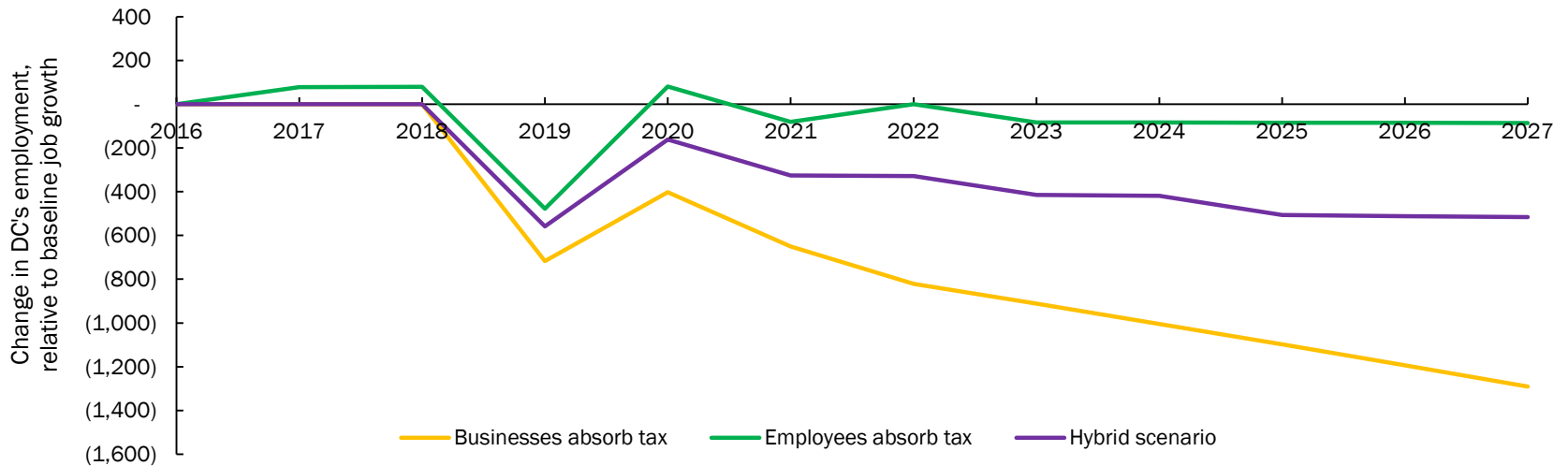


❑ The cumulative 10 year impact of the implementing proposal on the District's GDP ranges between a slight increase of \$15 million (+0.01%) to a slightly larger decrease of \$122 million (-0.08%).

❑ 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.

# Economic Model: Impact on Private Sector Employment

Predicted Impact on DC's Private Sector Employment, Relative to Baseline Growth (2016-27)



❑ 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.

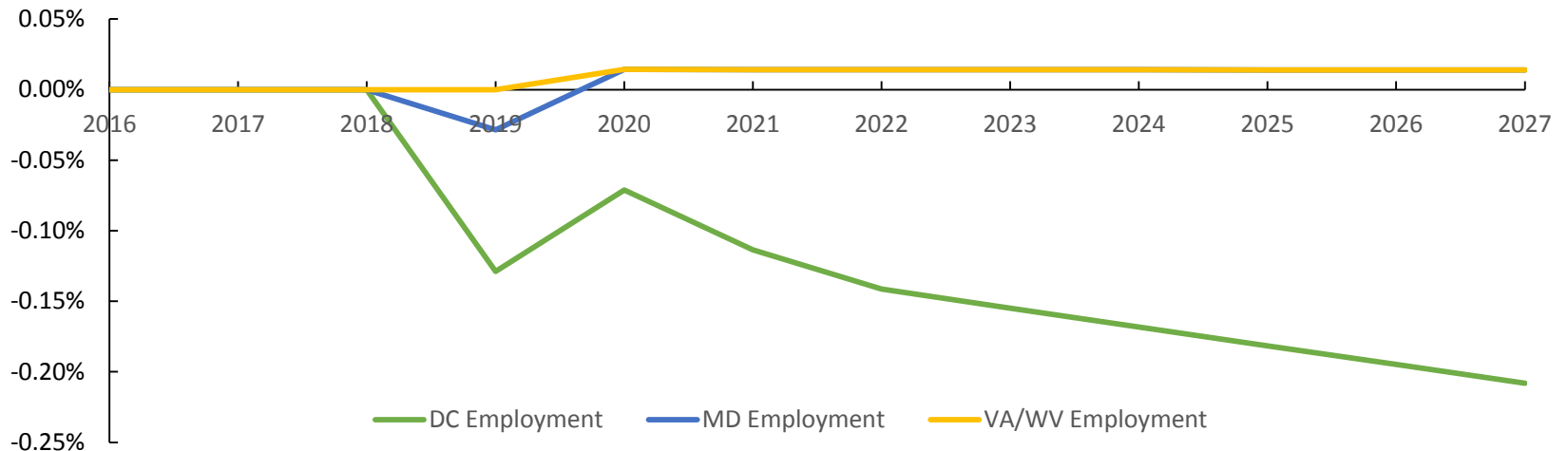
❑ If the payroll tax incidence falls on employees, the model predicts that the economy would support approximately 90 (0.01%) fewer jobs by 2027.

❑ 90 jobs is equal to about three days of average job growth.

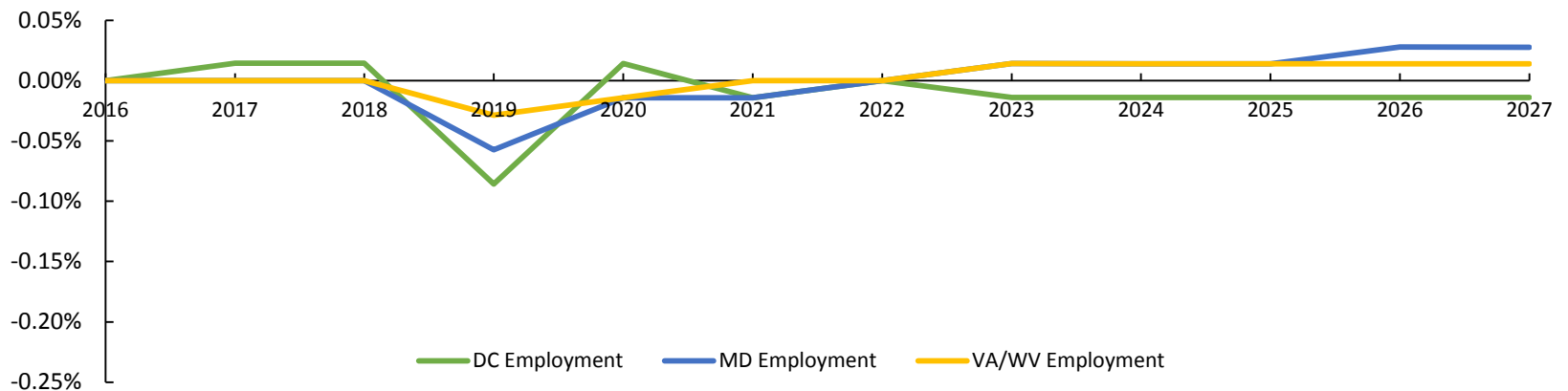
❑ Model predicts that employment will decline in 2019 and rebound in 2020 as the stimulating effect of introducing the spending of benefits counteracts the negative impact of the payroll tax.

# 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: Main Takeaways

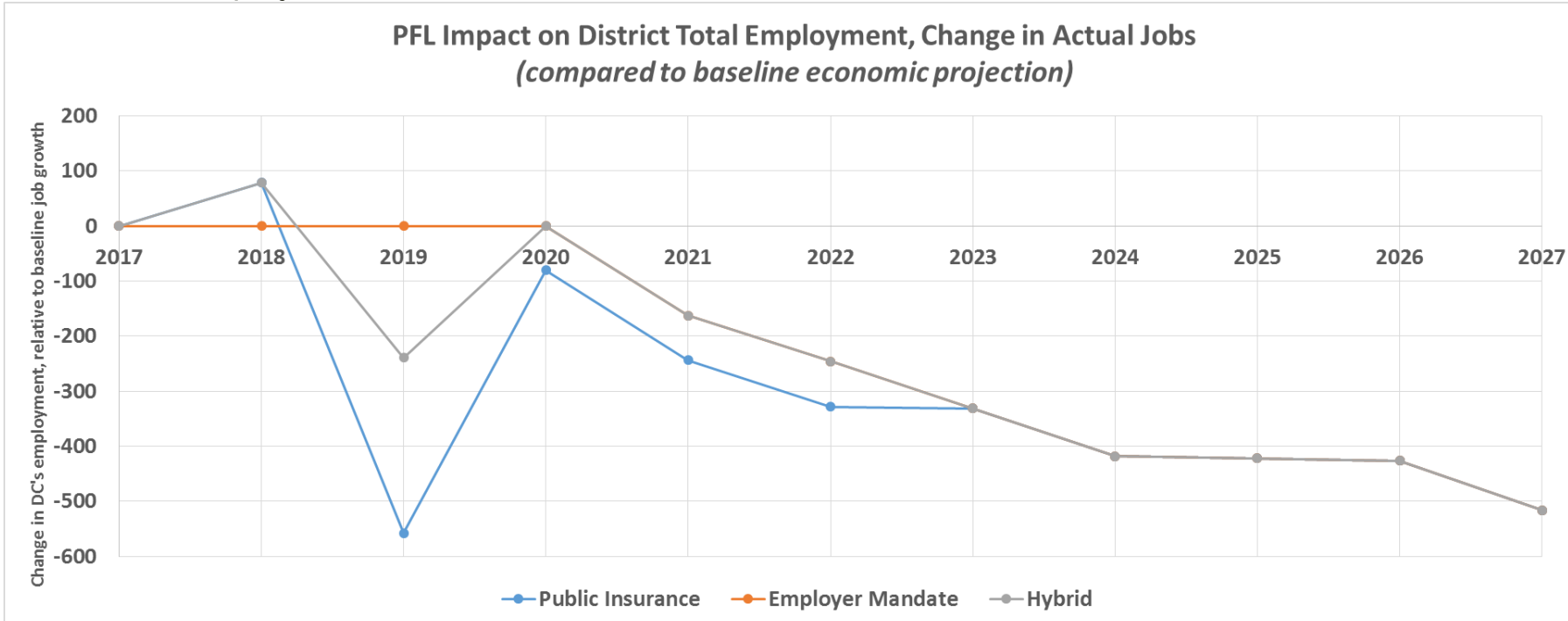
- Although imposing a 0.62% payroll tax is not insignificant, implementing the proposed legislation is likely to have a minimal impact on the District’s labor market and economy over a ten-year period (2016-2027).
- Some employers and industries might experience the impacts of the proposed legislation more sharply than others. However, it is unlikely to alter the current upward trajectory of the District’s economy.

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

	Baseline Forecast (no Paid Leave)	Employees Absorb Tax	Employers 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

# Other Policy Approaches

- ❑ The Council is considering several bills that would modify the law to change the funding and benefit delivery system.
- ❑ The Budget Office released a memo on October 9, 2017 analyzing the three approaches to providing paid family leave:
  - ❑ Public insurance program
  - ❑ Mandate on employers to privately pay for and deliver benefits
  - ❑ Hybrid—public insurance program for small businesses and mandate for large employers





# Economic and Policy Impact Statement: Contact

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Copies of the full report and supporting documents can be found at:  
<http://lims.dccouncil.us/Legislation/B21-0415>

and

<http://dccouncil.us/news/entry/budget-office-analysis-of-universal-paid-leave-bills>