INNOVATION OHIO EDUCATION FUND

DETERMINING THE LONG-TERM SAVINGS AND SHORT-TERM COSTS OF PAID PARENTAL LEAVE

A GUIDE FOR CITIES AND EMPLOYERS

INTRODUCTION

In May of 2015, Innovation Ohio released an analysis highlighting the benefits of **paid parental leave** for women, families, employers and local communities. Since that time, we have helped local leaders in Dayton and Cincinnati implement paid parental leave policies in their cities.

Our analysis demonstrated how access to paid parental leave **strengthens women and families, reduces gender and economic disparities, has positive impacts on a local economies, and improves critical health outcomes** such as increasing immunization and decreasing infant mortality.

Now, we have taken a closer look at the short-term costs and long-term savings for public employers considering the implementation of a new paid parental leave policy.

I. FACTORING LONG-TERM SAVINGS AND BENEFITS

In 2016, several Fortune 500 companies like Nestle, Netflix, Johnson & Johnson and Microsoft announced the adoption of new paid family leave polices for their employees. These companies did so not only because it was the right thing to do for their employees, but also because it helps their bottom lines. Among other long-term benefits, access to paid leave helps companies reduce costly turnover rates and increases productivity.

- ### INCREASED EMPLOYEE RETENTION AND PRODUCTIVITY

Data from the U.S. Census shows that working **mothers with access to paid leave after the birth of a child are 5.4% less likely to leave their place of employment**.[i] New mothers in California who took paid leave also worked more hours after returning from leave.[ii] Assuming some of this benefit redounds to new fathers as well, employers can expect to see a decrease in turnover among new parents in the workforce. The Center for American Progress estimates that it costs around **20% of a worker's annual salary to hire and train a new employee, so reducing turnover among new parents by offering more competitive benefits can have a significant positive impact on an employer's bottom line**.[iii]

Assuming an average annual salary of $75,000, the process for hiring, training and developing a new employee will cost an employer $15,000. By reducing turnover and increasing retention rates by 5.4 percent, a fictional municipal employer with 5,000 workers could expect to ***save an estimated $37,000 in employee replacement costs annually*** *by retaining 2.4 additional workers who would have otherwise left employment without access to paid leave.*[iv]

Mothers who take paid leave associated with the birth of a child have been shown in research studies to be more productive when they return to work. **California mothers who make use of the state's paid leave insurance program work 6-9% more hours every week in the year following childbirth**[v]. This increased productivity is difficult to model as it doesn't necessarily reduce hours worked by other staff, particularly among salaried workers, but will have a positive impact on employee morale and overall functioning of the office.

> Laughing Planet's new paid-leave policy will apply to mothers, fathers, and adoptive parents. It will pay employees their full salary, or if they're part-time employees, it'll pay them the average of what they earned in the past six months. "It wasn't a business decision to do this, it was a human decision," said Speilvogel. "But as a business owner, I also think it'll pay off down the road." . . . Speilvogel said it costs about $5,000 in time and wages to train a new employee. "I did the math," he said, and he realized that even if 10 people were out on parental leave at any one time (which would be about 3 percent of his workforce), he could easily have other employees temporarily cover their duties while he continued to pay them for 12 weeks. He'd still be spending less than the $50,000 it would cost to hire 10 replacements. Then there's the added benefit of employee satisfaction. Speilvogel believes that parental leave leads to healthier parents and babies and thinks people will be less likely to quit Laughing Planet when they have access to leave.
>
> THE COST OF DOING NOTHING:
> The Price We All Pay Without Paid Leave Policies to Support America's 21st Century Working Families
> A Report Prepared by the U.S. Department of Labor, September 4, 2015

- **LOWER PAYROLL COSTS**

In many cases, municipal employers offer their workforce a reduced rate of pay while absent on periods of paid parental leave.

In a hypothetical example of 5,000 employees with an average annual salary of $75,000, approximately 216 will become new parents each year, ***payroll costs could drop by <u>$225,000</u> if each employee took advantage of six weeks of partial pay at 70%.***[vi]

- **REDUCING THE DEMAND ON THE SOCIAL SAFETY NET**

Providing paid leave can lead to other cost reductions as well. In the absence of paid leave, **parents working without pay – or who give up their jobs because of the lack of paid leave – are more likely to apply for taxpayer-funded benefits like Medicaid and food assistance**. Even in the age of job-protected leave established by the FMLA, fully 1 in 10 workers who take advantage of this unpaid leave relied on some form of public assistance to make the leave possible in the absence of wages. Another study found that women who use paid leave are 39 percent less likely to receive public assistance and have a 40 percent lower rate of enrollment in the food stamps program.[vii]

II. CALCULATING THE SHORT-TERM COSTS

It is important to be clear that many employers do not budget for the resulting reduction in payroll costs that occurs when employees who qualify for FMLA take unpaid leave. Similarly, adding a paid leave policy that provides some level of compensation during a defined period of leave will not typically be a net new budgetary cost to an employer. By paying a new parent at 70 percent of the normal pay during a leave period, for example, **employers will likely see a net reduction in payroll costs by 30 percent during qualified leave times**. Any additional costs associated with paid leave only accrue when replacement or overtime expenses are required to cover the duties of the individual taking leave. To estimate the short-term costs of a paid parental leave policy, public employers should determine:

1. The frequency of births among the new mothers, new fathers and adoptive parents;
2. How many parents will actually take leave and for how long
3. How many workers must have work performed by others
4. How administrative work will be covered

- **FREQUENCY OF BIRTHS AND ADOPTIONS**

New Birth Mothers

In order to estimate the actual usage of paid leave within a workforce, first it is necessary to determine how many births to expect. One way to do this is using Census data. The American Community Survey, updated annually, produces a report detailing the number of births that occur to women ages 16 to 50 who are in the labor force at the national, state and municipal level. In 2014, Columbus, for example, had a birth rate of 5.27% among women in the workforce.[viii] Therefore, in a municipal workforce of 5,000 workers where 50% are female, the total population of women anticipated to make use of paid leave would be approximately 132 employees annually.

New Birth Fathers

According to the same Census data, approximately 39% of Columbus-area births are to unmarried women, so in the example above, the total pool of fathers who may be expected to take leave could therefore be as low as 61% of the number of birth mothers, or as few as 80 employees each year.

Adoptive Parents

Policies that apply to adoptive parents should also consider the potential rate of new adoptions among the workforce. Numbers are hard to come by, but one survey of parents found that just 1.6 percent of women and 2.3 percent of men, age 18-44, have ever adopted a child[ix]. In many cases, adoptions by men represent the addition of stepchildren. Over an individual's 26-year childbearing period, we can assume an annual adoption rate of approximately 0.05% for women and 0.09% for men. In our hypothetical workforce of 5,000 employees, equally divided by sex, we could therefore expect just over 2 male workers and around 1.5 female workers each year to adopt a new child.

All of the assumptions above, especially those that rely upon Census estimates, must be used cautiously because there may be substantial differences in the composition of the private sector workforce and the public sector workforce. Refining the estimates may be done by comparing at age and gender distributions between private and public sector workers and adjusting birth and adoption-rate estimates accordingly. For example, if the public sector workforce is older than the broader workforce in the city, birth and adoption rates will be lower.

Another way to estimate leave-taking rates would be to review human resources records to see how many employees take childbirth-related disability, take sick or vacation time around the birth or adoption of a child, or add a dependent to their health benefits plan in a typical year. The former would provide an estimate of the number of women eligible for caretaking leave, while the latter would encompass male and female employees with new children at home.

Table 1: Workforce Estimates for Fictional Employer

		Female	Male
Workforce	**5,000**	**2,500**	**2,500**
New birth Parents	132	132	0
New non-birth parents	81	40.5	40.5
New adoptive parents	3.5	1.5	2
TOTAL NEW PARENTS	**216.5**	**174**	**42.5**

- **NUMBER OF EMPLOYEES TO TAKE LEAVE AND FOR HOW LONG**

Even when leave is available at a portion of an employee's base salary, workers do not always take the full amount of leave available.

In California, workers pay into and are eligible for disability insurance (DI) and paid family leave insurance (PFL) through state-administered programs. Birth mothers can use DI to address the physical impacts of pregnancy and childbirth and both mothers and fathers can use paid family leave to care for a newborn or newly adopted child. Workers receive wage replacement at 55 percent of their regular rate of pay up to a maximum of $1,104 per week. One survey found that 49 percent of eligible female workers and 25 percent of male workers made use of the program. The length of leave taken by female employees is typically 12-14.5 weeks (6-8 weeks of temporary disability insurance plus 6 weeks of paid family leave). The median length of paid leave taken by new fathers (who are not eligible for 6 weeks of disability leave) is between 2.5 and 3 weeks[x].

Another study of leave-taking in California after the implementation of its statewide paid family leave program found that only around 1 in 4 new fathers take any leave at all, and the ones who do typically take fewer than 3 weeks of paid leave.[xi] This is consistent with national data as well.[xii] However, trends in California have changed over time. When California's program was first implemented in 2004, less than 18 percent of "baby bonding" claims were filed by fathers; according to the most recent data, claims filed by fathers now comprise one-third of parental leave claims.[xiii]

It should also be noted that the amount of a worker's base pay they receive while on leave is a factor that has also been shown to affect leave-taking behavior.

Table 2: New Leave-Taking Parents at Fictional Employer

		Female	*Male*
New Parents	216.5	174	42.5
Leave Taking Rate		50%	25%
Weeks of Leave Taken[xiv]		6	3
TOTAL WEEKS OF LEAVE	**552.7**	**520.9**	**31.8**

- ## ESTIMATING THE ADDITIONAL COSTS

Employers often think about paid parental leave as a new cost, but paying workers while they are on leave is actually no more expensive than paying them to work. Instead, any cost increases resulting from offering paid leave actually arise when employers pay replacement workers or use overtime to cover the work of the leave-taking employee. In reality, most employers do neither. A major survey of private sector employers found that only 3.2% of workplaces required temporary replacement workers to cover their shifts of workers out on family leave. Instead, the vast majority of employers reported shifting work to other staff without overtime or postponing it until the leave-taking employee returned[xv].

In a municipal workforce, many administrative functions are performed by employees who are not eligible for overtime pay. As such, even if their work is shifted to other staffers in a similar position while they are out, it tends to go to other non-overtime-eligible employees. Confirming the findings of the California employer survey, budget staff in one Ohio municipality indicated to Innovation Ohio that temporary workers are "never" used to replace administrative staff because of the difficulty in training a replacement worker. Instead, work is typically deferred or performed by other staff during periods of staff absence related to childbirth and caregiving.

Another mitigating factor when dealing with administrative workers is that managers – who are, in many cases, given several months of advance notice of an impending birth or adoption of a child – can schedule workloads such that the leave-taking employee has no major projects or deadlines around the time when a new child is expected to arrive.

More significant costs can arise when employees whose shifts must be covered take leave, like police and fire personnel, who, in many cities, make up a large proportion of the total workforce. Typically these workers are eligible for overtime and perform essential functions that cannot wait for a worker to return from leave, requiring paying other staff (temporary or permanent) to perform their jobs during paid absences. Note that, although more women now serve as firefighters, police and emergency personnel than before, women are still a small share of this workforce -- and there is also a culture and tradition of little time off among men in these jobs. Therefore, leave-taking among this segment of the workforce is likely to be lower than the municipal workforce overall.

- **DETERMINE HOW MANY WORKERS MUST HAVE WORK PERFORMED BY OTHERS**

  For purposes of cost estimation, determine the share of your workforce (male and female) whose work cannot be shifted to other non-overtime eligible staff or postponed.

  As noted previously, new fathers are far less likely than mothers to take paid leave and do so for shorter durations. Therefore, once the pool of men and women in positions that require work coverage is determined, estimate the amount of leave by applying empirical estimates about whether and how long they will take leave.

  One final note: it is important, to offer equal amounts of leave time to men and to women for family caregiving. First, Title VII of the Civil Rights Act has been interpreted to require it. Second, creating different leave entitlements simply reinforces stereotypes about women as caregivers and can trigger discrimination in hiring and promotion. Third, California's experience shows that public policy can influence behavior changes and culture – and for families, having men involved in the care of a child has impacts that last well beyond the period of parental leave.

- **DETERMINE HOW WORK WILL BE COVERED**

  Survey organizational leadership in different areas of the administration to determine which type of coverage arrangement (temporary workers or overtime) is typical for different types of employees. Create four sub-populations to calculate costs: overtime vs temporary / male vs female. For each, determine the probability of leave-taking and expected length of leave, then multiply by the usual cost of temporary workers or overtime.

  For positions that can be covered using temporary workers, the replacement cost will simply be the hourly rate of a temporary worker multiplied by the total number of hours expected for each type of worker in this category (male and female).

For employees where significant training is required, departments should consider the cost of training a replacement and compare that to the cost of providing overtime to existing employees to determine which is more cost effective. Overtime costs must account for: overtime rates to staff that work additional shifts or accrued compensatory time in lieu of overtime pay as well as other benefits (pension contributions, etc.) that are tied to salary. Employers should consult with Human Resources to determine the total additional cost to the organization for each hour of overtime worked and consider whether that approach, versus hiring replacements or providing more hours to workers who are currently part-time is best for particular types of job positions.

Using our fictional employer again, we can calculate the number of male and female leave-taking new parents that are in administrative and non-administrative positions, based on assumed workforce statistics. See Table 3 for a calculation of how those 552.7 weeks of paid leave would translate into additional overtime, assuming that 5% of administrative work is covered using overtime, compared to 80% of weeks worked by non-administrative staff.[xvi]

Table 3: Overtime Costs for Leave-Taking Parents at Fictional Employer

	Admin Staff		Non-Admin Staff		
	Female	Male	Female	Male	
Share in Administrative positions	50%	30%	50%	70%	
Weeks of Leave Required	260.4	9.5	260.4	22.3	
Share of Weeks Requiring Overtime to Cover	5%		80%		
Overtime Weeks Required	13.0	0.5	208.4	17.8	**TOTAL**
OVERTIME COST	**$28,173**	**$1,032**	**$450,774**	**$38,510**	**$518,489**

Note that in our fictional example, **approximately half of the additional costs due to required overtime coverage are covered by new cost savings** that comes from paying new parents who take leave just 70% of their normal salary during their time away and from the reduction in employee turnover. See Table 4 for a summary of new costs and savings expected in our fictional example.

Table 4: Net Cost Impact of Paid Parental Leave

Cost of Additional Overtime	$518,489
Savings from Reduced Turnover	-$36,744
Savings from Lowered Payroll Cost During Leave	-$225,387
NET COST INCREASE	**$256,358**

For a large city such as our hypothetical example with 5,000 municipal employees, this amount of additional cost represents a tiny fraction of an overall annual budget that typically run in the hundreds of millions of dollars per year. **For city budget of $750 million, it would represent just 0.03% of the city's annual budgeted expenditures.** And this accounting doesn't include other intangible benefits such as increased worker productivity and morale, as well as reduced demand on the social safety net.

III. CONCLUSION

The U.S. remains one of only three countries across the world that offers no legal right to paid time off work for pregnancy, childbirth and infant care. Today, only 13 percent of all US employees – and 15 percent of municipal workers – are eligible for paid family leave.

Workplace norms have changed dramatically in recent years. Today, women make up nearly half of the workforce and gone are the days when it was the norm for women to leave the workforce once they become pregnant and have children. Today, two-thirds of women work through their pregnancies, and 65 percent of women with children under six are working. These numbers have risen dramatically compared to their parents' generation.[xvii,xviii] And more families – 40 percent according to a Pew study – are dependent on women's wages for their financial wellbeing.[xix] Extending paid leave to new parents doesn't end with mothers. Extending paid leave to new fathers has been shown to increase gender equality at home and at work.

The benefits of paid leave extend beyond the leave-takers to the employer and the community at large. Research shows that paid leave has a positive impact on a local economy, reduces the reliance on public benefits and improves critical health outcomes such as increasing immunization and decreasing infant mortality. And access to paid leave can reduce racial and economic disparities by extending the benefits of bonding time with their parents to the children of less-educated, unmarried and workers of color – whose leave taking is ordinarily much lower than their married, white, college educated peers.[xx]

Implementing municipal paid leave should be a temporary stopgap measure, in place until such time that a federal or state-level solution becomes politically feasible. Already, the idea of paid leave for all workers is extremely popular. A recent survey found that 80 percent of voters, across party lines, believe that employers should offer paid family leave to parents of new children and employees caring for sick family members.[xxi] And 76 percent of registered voters believe that new laws should be enacted to require paid leave for childbirth and infant care, and support was even higher among women, African Americans and Democratic voters[xxii].

If the state of Ohio or the federal government were to establish a public insurance program similar to what is now offered to workers in New Jersey, California and Connecticut, the cost to municipal employers would be reduced, but the improved benefits of reduced turnover and higher productivity would remain. There is currently a federal bill pending in Congress (The "FAMILY" Act) that would provide up to 12 weeks of paid leave to workers paid for through employee payroll contributions. Legislation is currently being drafted that would set up a statewide insurance pool in Ohio

Four states have established statewide paid family leave programs, and more are under consideration. A bill currently pending in Congress would extend paid leave to all US workers through an insurance program funded by payroll contributions. But, until a national or state-level program is in place, workers are dependent on their employers to offer family-friendly benefits that keep pace with today's many demands on new parents.

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[iv] Calculations assume 50% of the workforce is female, a birth rate of 5.3% among women and 3.23% among their partners, and an adoption rate of 0.07%.

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