

POLICY *focus*

RECIPES FOR RATIONAL GOVERNMENT

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Expanding Paid Family Leave Without Disadvantaging Low-Income Families

What You Need to Know

There is growing momentum for paid family leave in the United States, and particularly paid parental leave. **Since 2002, eight states** have enacted paid family and medical leave entitlements, and federal legislators have introduced **multiple bills** on the subject.

The most compelling reason for a federal parental leave program is the need to support low-income families, who are significantly less likely to receive paid leave from their employers. And the most common proposal for such a program is to create a new entitlement funded by a payroll tax. Despite the best of intentions, however, a parental leave entitlement could hurt the very families that it intends to help.

Parental leave entitlement programs can have a negative redistributive effect—*i.e.*, they tend to transfer income from low-income families to middle- and high-income families. Numerous studies of state and foreign parental leave entitlement programs all raise serious concern about the extent and prevalence of this effect. While more research is warranted, the effect appears to occur because low-income workers are substantially less likely to collect benefits from such programs.

Although this issue has received little attention, policymakers should be aware of it as they consider various parental leave proposals. Fortunately, there are ways to expand access to family leave that would not risk redistributing income away from low-income families. For example, programs such as **Social Security Earned Leave** could **make parental leave affordable** without imposing a tax on low-income families to fund a program from which they receive disproportionately little benefit.

IN THIS ISSUE

- 1 What You Need to Know
- 2 Why You Should Care
- 2 More Information
- 2 The Negative Redistributive Effect of Family Leave Entitlements
- 4 Why Do Low-Income Families Fail to Benefit from Family Leave Entitlements?
- 4 Alternative Ways to Expand Access to Family Leave
- 6 What You Can Do

Why You Should Care

There is **widespread, bipartisan** support for a federal parental leave policy. In recent years, both Democrats and Republicans have **introduced proposals** for a federal parental leave program. The question appears to be not *whether* the United States will adopt a parental leave program, but *when* it will do so and *what* the program will look like.

- **The most immediate need for a federal family leave program is amongst low-income families.** While **approximately 66 and 83 percent** of workers in middle- and high-income families, respectively, have some form of paid leave through their employers, only **approximately 33 percent of workers** in low-income families have access to paid leave. This disparity is alarming, as parental leave is associated with a **wide range of benefits**, such as lower infant mortality and improved child and maternal health.
- **Policymakers should carefully consider the impact that any family leave proposal would have on low-income families.** While there have been **numerous studies** of the potential benefits of expanding access to family leave, the potential costs of such a program for low-income families have received relatively **little attention**. Policymakers should consider these costs so that they do not unwittingly adopt a program that hurts the very group they mean to help.

More Information

Despite the laudable goals of state and foreign family leave entitlement programs, studies suggest that they tend to benefit middle- and high-income families at the expense of low-income families. Fortunately, there are other ways to expand access to family leave that would not disadvantage low-income workers.

The Negative Redistributive Effect of Family Leave Entitlements

Most states and foreign countries that offer family or parental leave benefits do so by creating entitlements: they levy a payroll tax to fund a program that provides workers benefits during their leave. Technically, some of these programs split the tax between the employee and the employer, but it is **widely acknowledged** that employers reduce employee compensation in direct proportion to their share of a payroll tax.

Despite the fact that many of these entitlement programs have operated for decades, there is shockingly little research concerning the costs they impose on low-income families. The research that does exist raises serious concern that such programs tend to transfer income from low-income families to middle- and high-income families.

State Family Leave Entitlement Programs

California enacted a paid family and medical leave insurance entitlement program in 2002, the first state to pass such a program. Its program has therefore received the most extensive scrutiny, and the results are not promising.

One **study** concluded that “[a]lthough a large majority of the California workforce is eligible for [paid family leave], only a quarter of new mothers use the benefit,” and “[t]he median [leave] taker makes about \$10,000 more per year than the median of working California women.”

Another found that “fewer than 4 percent of claimants had incomes in the lowest [income] bracket,” whereas “more than 20 percent of claimants had incomes in the highest bracket.” And a **survey** of employed women in San Francisco found that while 79 percent of new moms with household incomes above \$97,000 received paid leave benefits from the government, only 36 percent of moms with household incomes under \$32,000 received such support.

California **recently amended** its law to make its benefits formula more progressive, which might alleviate some of this disparity. However, it is unlikely to fully close the gap. For example, one of the many reasons that low-income families fail to receive benefits under the program is that they **do not know it exists**: while approximately 65 percent of families with household incomes above \$80,000 a year knew of the program, only approximately 35 percent of families with household incomes under \$30,000 knew of it.

Studies of family and medical leave entitlement programs in other states indicate that these problems are not unique to California. An **analysis** of New Jersey’s program found that only about 12 percent of new parents use the program, and “the take-up rate among low-income workers is likely even lower.” A **study** of Rhode Island’s program similarly found that the widest differential in the program’s use was “between lower and higher income groups,” suggesting that low-income workers lacked awareness of New Jersey’s program.

Foreign Parental Leave Entitlement Programs

Studies of parental leave entitlement programs in other countries are also concerning.

In Canada, two **recent studies** found that about 75 to 85 percent of mothers with household incomes above C\$60,000 receive parental leave benefits from the government, whereas only about 45 percent of mothers with household incomes under C\$30,000 receive such benefits. As one of the studies’ authors put it, “[w]hile all Canadian workers and employers . . . are contributing to parental leave benefits, some groups—notably low-income households—are consistently *not* receiving these benefits, thus indicating class discrimination in leave benefit policy as a systemic and structural inequality.”

Another **study** of Canada’s program similarly found that “[o]utside Quebec, access to benefits is very unequal: new families whose children might most benefit from income support—parents who are young, less educated and have lower income, as well as single-earner or single-parent families—are least likely to get public maternity or parental benefits.” It further noted that Quebec operates its own program, and “[a]lthough Quebec has made changes to reduce the obstacles to entry for many more parents, benefits are still not equally used by mothers with lower socio-economic status.”

In the United Kingdom, the government effectively operates a parental leave entitlement program by mandating that businesses provide paid leave but then **reimbursing the cost**. **Studies** of the **UK’s program show** that high-income mothers take longer leaves and collect significantly

more benefits than low-income mothers. As one **study** found, while 68 percent of high-income mothers take more than 26 weeks of parental leave, only 31 percent of low-income mothers do. The authors concluded that “[t]his compounds the financial bias in current arrangements that favour higher income families, and “[t]his also means that parents who have worked and paid taxes throughout their lives do not receive government support.”

Similarly, economists studying Norway’s expansion of its paid parental leave entitlement program **concluded** that it amounted to a “pure leisure transfer to middle and upper income families . . . at the expense of some of the least well off in society.” They reiterated that their analysis “make[s] clear that paid parental leave has negative redistribution properties.”

Studies of parental leave entitlement programs in **Sweden, Iceland, and Belgium** likewise suggest that low-income and immigrant families are less likely to benefit from the programs. Simply put, as the authors of the Belgium study explained, “parental leave legislation perpetuates social inequalities by mainly supporting the balance between work and family for those who already attained an advantageous position in the labour market before the birth of their first child.”

Why Do Low-Income Families Fail to Benefit from Family Leave Entitlements?

There appear to be several reasons why these entitlement programs fail low-income families, some of which might be addressed by a carefully crafted legislation, but others are more intractable.

- **Lack of awareness:** Low-income workers are **less likely** to be aware of the program.
- **Ineligibility:** Low-income workers are **less likely to satisfy** the **eligibility criteria** because they are **more likely** to work in temporary or part-time jobs.
- **Wage replacement:** Low-income workers **cannot make ends meet** receiving benefits that replace only **a portion** of their paycheck.
- **Rigid rules:** Low-income workers may be turned off by **program rules**, such as rules prohibiting recipients from working even occasionally during leave.
- **Preference for shorter leaves:** Low-income women are **more likely** to report that they would take less than 12 weeks of paid leave *even if* it were fully paid.
- **Job protection:** Low-income workers may be **more likely** to fear negative employment consequences if they take leave.
- **Traditional gender roles:** Low-income women are **more likely** to be a stay-at-home parent and **not qualify for benefits**; low-income men are **less likely** to take paid leave.
- **Administrative barriers:** The approval of applications for benefits of low-income workers is **more likely** to be delayed.

Alternative Ways to Expand Access to Family Leave

There are several proposals for expanding access to family leave that would not risk disadvantaging low-income families. The key feature of each of these programs is that participation is voluntary and they impose no costs on non-participants. By allowing workers to choose whether to participate, the programs would not require low-income families to fund a program from which they are unlikely to benefit. These proposals include:

Social Security Earned Leave

Social Security Earned Leave **proposes** to give new parents the option to pull forward up to three months of Social Security benefits after the birth or adoption of a child. Because this program simply allows new parents to shift a pre-existing benefit to a time in their life when they believe it would be more useful, the program is self-financing and does not require a new tax.

A **study** of the proposal suggests that “benefits would flow fairly evenly to people across the income distribution.” **Legislation** modeled after the proposal has been introduced by Senators Rubio, Romney, Ernst, and Lee, and Representatives Wagner and Crenshaw.

Paid Leave in Lieu of Overtime Pay

The **Working Families Flexibility Act** would amend the Fair Labor Standards Act to allow eligible workers the option of collecting one and a half hours of paid leave for every overtime hour worked instead of extra pay. Senator Lee, along with numerous co-sponsors, introduced this **legislation**.

Modernizing Tax-Preferred Savings Accounts

The government could **modernize flexible savings accounts** and/or health savings accounts to make such accounts available for paid family and medical leave and to reform the rules relating to such accounts so that they are a more attractive option for low-income families.

Voluntary Family and Medical Leave Insurance

The federal government could offer a **voluntary** family and medical leave insurance program. Individuals who opted in to the program would agree to pay a tax (or premium) in return for receiving benefits in qualifying circumstances. In order to better distinguish the program from private **short-term disability insurance**, the government could require individuals who participate in the program to pay the added tax for an extended period of time, such as ten years. This requirement would also keep the added tax low by preventing individuals from enrolling before they have a child and then cancelling after their leave has ended.

While this program could offer the same benefits as a traditional family leave entitlement, it does not bear the same risk of disadvantaging low-income families. Because participation in the program would be voluntary, low-income families who are unlikely to be able to use the benefits would presumably not enroll in the program.

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Significantly, the above programs are not mutually exclusive, and they are **less likely** to displace existing employer-provided paid leave and short-term disability insurance than an entitlement program. Indeed, they could be combined with **other policies** that incentivize employers to provide paid leave to low-wage workers.

In that respect, these programs are the polar opposite of a one-size-fits-all entitlement policy. The programs instead could work in tandem to provide a comprehensive federal approach to paid leave that would maximize choice and flexibility for working families.

What You Can Do

Get Informed

Learn more about conservative proposals for earned parental leave. Visit:

- [Independent Women's Forum: Earned Leave Information Center](#)
- [PaidLeaveForFamilies.com](#)
- [American Action Forum](#)

Talk to Your Friends

Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

Become a Leader in the Community

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

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ABOUT INDEPENDENT WOMEN'S FORUM

Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

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