

POLICY *focus*

RECIPES FOR RATIONAL GOVERNMENT

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Help Workers Prepare for Leave Time

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What You Need to Know

Increasingly, companies are offering workers paid leave and other benefits voluntarily. Policymakers should take care not to disrupt this positive trend, but should embrace reforms to make it easier for workers to prepare for absences from work.

First, policymakers should update the outdated Fair Labor Standards Act to give workers the option to be compensated for overtime with time-and-a-half of paid leave. Government workers already enjoy this option, and it would particularly benefit working parents, those caring for elderly parents and those with personal illnesses. Those who anticipate an absence from work and lack sufficient paid leave benefits would then have the ability to seek overtime opportunities so that they can accrue paid leave benefits for future use. This reform would also be particularly important for lower-income workers, who are more likely to be subject to the overtime regulations and are less likely to have access to employer-offered paid leave benefits.

Policymakers should also consider expanding health savings accounts (HSAs), both to allow workers to increase their contributions to HSAs so that they can accrue more assets in their accounts and to give them the option to use HSA funds to replace income lost during unpaid leave from work.

These policies won't solve the entire challenge of ensuring that all workers have paid time off when they need it, but they are steps in the right direction. They make it easier for workers to help themselves and, importantly, would not disrupt the trend of employers offering paid leave benefits on their own.

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Why You Should Care

While most employers offer some paid leave to full-time workers, many workers lack sufficient paid time off. Policymakers can help workers earn more and save for time off, without growing government, imposing employer mandates, or discouraging employers from offering their own benefits.

Updating the Fair Labor Standards Act and expanding HSAs would:

- **Make It Easier for People to Take Leave When They Need It:** As IWF's Kristin Shapiro detailed in this [Policy Focus](#), paid time off is associated with better health outcomes, greater employee retention, and higher labor force participation.
- **Help Hourly and Low-Income Workers:** As IWF's Patrice Onwuka wrote in this [Policy Focus](#), overtime rules apply to workers with incomes of less than \$23,660 (the Trump Administration has proposed increasing that threshold to \$35,308). Hourly and lower-wage workers are less likely to have employer-provided paid leave benefits, making taking leave a potential hardship. Giving them the option to bank unpaid leave time, rather than receive overtime pay, could help.
- **Increase Financial Security:** [Nearly half of Americans](#) report having less than three months of expenses saved for emergencies. Expanding and reforming HSAs would encourage more saving and allow workers to access those savings during unpaid time off.

More Information

According to the [Bureau of Labor Statistics](#), 94 percent of full-time, civilian workers have access to some form of paid time off from work. And although fewer workers have access to paid *family* leave, in particular, the [Census Bureau](#) studied women having their first child and found that 56 percent of full-time working mothers used some form of paid leave.

Additionally, employer-provided paid leave is becoming more common: Numerous companies expanded their benefit packages, including for hourly and lower-wage workers, when [the new tax law took effect](#). This includes major employers such as Walmart, Lowes, and Starbucks. In fact, the average value of paid leave benefits employers provided workers [increased by 4 percent](#) between June 2017 and June 2018, outpacing the growth of wages. We all want this trend to continue.

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Yet many families still struggle from a lack of paid time off when they need it. [Pew Research Center](#) surveyed employed adults who wanted or needed time off from work but lacked paid-leave benefits. Seventeen percent—and 48 percent of those with incomes under \$30,000—reported going on public assistance to finance their parental leave. New parents should have better options.

Workers are also often ill-prepared to take time off from work without pay. **About one-quarter** of Americans reporting having no savings, and nearly another quarter have less than three months of expenses saved. That many Americans would have a hard time missing even one paycheck.

The Great Paid Leave Debate

Americans are currently engaged in a robust and important debate about what role, if any, government should play in ensuring that workers have access to paid leave benefits.

Leading progressives have proposed creating new government entitlement programs at the state and federal level to guarantee all qualifying workers have access to pay replacement during family leave, and imposing a new payroll tax on all workers to fund these benefits.

Conservatives, including **Independent Women's Forum**, have argued that these new entitlement programs would backfire on female workers, in particular, limiting their employment opportunities and making the workplace less dynamic and flexible. Employers would be likely to drop existing paid-leave benefits, which could leave some workers with *less* paid time off. Payroll taxes would mean all workers have less in their paychecks, making it even harder for them to save for myriad other needs. Moreover, **research** shows that such paid-leave programs tend to be regressive, as lower-income workers are less likely to make use of the benefits, and therefore end up paying for a program that disproportionately provides income support to those with higher incomes.

IWF **proposed** allowing workers to access a share of their future Social Security retirement benefits after giving birth or adopting a baby, in exchange for delaying eligibility for their retirement benefits. This approach would be voluntary, affecting only those workers who opt in. Since it imposes no new taxes or mandates on employers, it minimizes the likelihood that employers would eliminate existing paid leave benefits. Rather, it would provide a lifeline to those who lack benefits and really need it, without disrupting workplaces or shifting costs to other taxpayers or workers.

Some **object** to this approach out of concern for the financial stability of the Social Security program. They argue that because Social Security faces a profound financial shortfall, it is a poor vehicle for a new program. They further worry that this program, once introduced, would expand and ultimately create new (unpaid for) benefit obligations.

This debate should continue: Americans ought to hear the benefits and drawbacks of all paid leave proposals since they would have profound implications on American workplaces, and potentially impact everyone's compensation options, before Congress moves to create a new law.

However, there are modest steps that Congress can take now to help workers immediately.

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New Options for Overtime Pay

Currently, workers in the private sector who are eligible for overtime pay must receive additional pay as compensation for each hour of overtime worked at a rate of 1.5 times base pay. So, someone earning 20 dollars an hour during normal shifts must receive 30 dollars for each hour of overtime.

Government workers have the option of receiving additional time off as compensation for overtime, instead of additional pay. An employee who banks two hours of overtime could opt to have three hours of paid time off, instead of extra pay.

The benefits of this option are obvious: Many workers place a higher value on paid leave benefits than traditional take-home pay. Rather than having additional pay immediately following overtime, they would rather ensure that they won't lose income—which could cause financial hardship—when they need to take time off. This is a form of saving, banking future pay that can be taken when workers need it more.

The ability to accrue additional paid leave benefits would be beneficial for all workers, but particularly women who often face family caretaking responsibilities. Someone who is pregnant could try to work overtime to bank paid leave time for after the baby's birth. Parents of young children or people caring for elderly parents or other family members could similarly seek opportunities to work overtime in order to accrue more paid time off to use when they need it. Workers eligible for overtime are less likely to have traditional paid-leave benefits, making this reform particularly important.

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Senator Mike Lee (R-Utah) proposed these reforms in the Working Families Flexibility Act. This simple, commonsense proposal deserves bipartisan support.

Expanding Health Savings Accounts (HSAs)

Policymakers have created numerous tax-free savings vehicles for retirement, education, and health care because they recognize how important it is for people to be able to save and prepare for these critical expenses and life events. Americans take advantage of these options to save when they can. In fact, in 2016, a majority of those surveyed (52 percent) **reported** having some sort of retirement account.

Paid leave is another critical need, and policymakers should seek ways to encourage workers to save pre-tax dollars so that they can access those funds when they are unable to work. IWF and **other scholars** have proposed the creation of new, dedicated savings vehicles for the provision of paid leave.

Another worthy (and similar) approach would be to reform Health Savings Accounts so that more people can accrue more assets in those accounts and also be allowed to draw upon those assets when they need to take unpaid leave for work for qualifying illnesses or life events

(such as the birth or adoption of a baby). This idea was proposed by Rep. Andy Biggs (R-Ariz.) in the Freedom for Families Act. Families have long used HSAs to cover medical expenses, but under current law, only those enrolled in high-deductible health plans are eligible to open and contribute to these tax-advantaged accounts.

This bill would eliminate that restriction so that anyone could open and use an HSA. Additionally, the Freedom for Families Act would expand HSA contribution limits from \$3,500 to \$9,000 for individuals and from \$7,000 to \$18,000 for married couples, giving families a chance to accrue more funds and therefore be more financially secure in the event of a family or medical event.

One of the criticisms of this approach is that many workers who need more paid time off do not have the resources to save money because they have lower incomes. Lawmakers could consider other reforms to encourage employers to contribute to HSAs for low-income workers, to allow greater flexibility in transferring money from one HSA to another (to allow families and communities to help one another), and/or to allow charitable organizations to fund HSAs for workers and families with low incomes. There are creative ways to make these accounts more helpful to everyone.

Conclusion

Neither the Working Families Flexibility Act nor the Freedom for Families Act would entirely solve the paid-leave problem. But, they'd help many people and be important steps in the right direction of giving workers more flexibility and better options.

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Americans Want Paid Leave Options

In April, IWF conducted a **survey** to examine Americans' preferences for approaches to paid leave. Overall, Americans overwhelmingly want government to do more to expand access to paid leave, but 67 percent said that paid leave policy should be budget-neutral over the long term and shouldn't increase the financial burden on those who choose not to have children and do not need the benefit. Nearly half (49 percent) of respondents said they were concerned that a federal paid-leave program would be abused. Americans value fairness—and flexibility: 78 percent said that workers should have as much control and flexibility as possible over the benefits and money they have earned.

Both of these proposals—to reform overtime pay and expand HSAs—should appeal to these audiences since they are voluntary and increase options for workers, without shifting costs to others or displacing employer-provided benefits. These proposals encourage work and saving as a way to increase financial security, rather than taking money from some workers and giving it to others. And rather than encouraging greater reliance on government, these proposals help people help themselves.

What You Can Do

Get Informed

For more information about this issue visit:

- IWF's Paid Leave Information Center
- IWF's Working for Women Report
- 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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