

# POLICY *focus*

RECIPES FOR RATIONAL GOVERNMENT

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## A Budget-Neutral Approach to Parental Leave

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### What You Need to Know

The concept of providing paid leave to new parents so that they may care for their newborn children has **widespread bipartisan support**. Despite its popularity, the United States is the only industrialized nation that does not mandate or subsidize at least some form of paid parental leave.

One impediment to providing paid parental leave is the cost. However, there is a way for the federal government to provide paid parental leave to every worker in the United States at no additional cost: offer new parents the opportunity to collect early Social Security benefits after the arrival of their child in exchange for their agreeing to defer the collection of their Social Security earned benefits.

The deferral period would be calculated to be long enough to offset the cost of providing Social Security earned benefits. While this issue requires further study, preliminary estimates suggest that in order to offset the cost of 12 weeks of parental benefits, new parents electing this option would only need to defer their Social Security earned benefits by six weeks.

New parents deserve this choice. Social Security is premised on the assumption that it is more important for workers to have their money when they are older than when they are younger. But many new parents understandably might decide that having 12 weeks of paid leave to care for their new child is worth a short deferral of their retirement benefits.

Policymakers should consider this idea, which represents an affordable, budget-neutral approach to providing paid parental leave to American workers.

### IN THIS ISSUE

- 1 What You Need to Know
- 2 Why You Should Care
- 2 More Information
- 2 Providing Paid Parental Leave Through Social Security
- 4 Answering Concerns About the Proposal
- 5 A Closer Look
- 5 International Comparisons
- 6 What You Can Do

## Why You Should Care

Despite broad support for paid parental leave, the United States is the only industrialized nation without a federal paid leave policy. As a result, approximately **60 percent** of new parents currently lack access to paid parental leave. These workers therefore miss out on many of the numerous benefits associated with paid parental leave, including:

- **Strengthened Labor-Force Attachment:** Women who receive paid leave are **more likely to return to work after having a child, and to work more hours per week after returning to work**. This increased labor-force participation can improve families' financial health and foster economic growth.
- **Improved Child and Maternal Health:** Parental leave is associated with **lower infant mortality and increased well-baby care, childhood vaccination rates, likelihood and duration of breastfeeding, and high-school graduation rates and life earnings for the child**. Women who receive at least 12 weeks of paid leave also report **fewer depressive symptoms and improved physical and mental health**.
- **Increased Paternal Engagement:** Men who receive paid leave are **more likely to be engaged in caring for their children, even after their leave has ended**. Increased paternal engagement **can improve child development** and lead to a **more equitable division of household labor**.

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## More Information

### Providing Paid Parental Leave Through Social Security

The federal government could provide paid parental leave to all workers in the United States by offering them Social Security earned benefits. The proposed program would be structured to be self-financing. In return for receiving parental benefits, new parents would agree to defer their collection of Social Security benefits upon retirement for the period of time necessary to offset the cost of their parental benefits. Participation in the program would be strictly voluntary; new parents who do not need parental benefits or who do not wish to defer their retirement benefits would not be required to participate.

### Amount & Length of Social Security Earned Benefits


The amount of a new parent's parental benefits under the proposal would be calculated by using the Social Security disability benefits formula. This formula is the same as the formula for calculating Social Security earned benefits, except that it bases benefits on an individual's average indexed earnings to date, rather than their highest 35 years of indexed earnings. The disability benefits formula offers the better model for parental benefits, as the overwhelming majority of new parents have not yet worked for 35 years.

**In return for receiving parental benefits, new parents would agree to defer their collection of Social Security benefits upon retirement for the period of time necessary to offset the cost of their parental benefits.**

Under this formula, recipients' Social Security earned benefits would amount to 90 percent of the first \$895 of their average indexed earnings to date, 32 percent of earnings between \$895 and \$5,397, and 15 percent of earnings over \$5,397, up to a maximum of \$2,788 per month. For example, the program would offer an average-wage worker approximately \$1,175 per month in Social Security earned benefits.

New parents could receive up to 12 weeks of Social Security earned benefits under the proposal. This 12-week period mirrors the Family and Medical Leave Act ("FMLA"), which requires employers to offer eligible workers 12 weeks of unpaid leave. Both parents, assuming they work and qualify for parental benefits, would be entitled under the program to take the 12 weeks of paid leave any time in the first year of their new child's life—meaning that new parents could stagger their leave periods for a total of 24 weeks of time to care for their child.

The proposal suggests starting with a 12-week parental benefit period using the already-existing Social Security disability benefits formula as a step towards expanding access to paid parental leave in the United States. After the program has existed for several years, policymakers can study its operation and effects and better evaluate whether it would be appropriate to offer more generous benefits or to open up the program to other populations (such as individuals needing paid medical or family leave).



**If both parents are eligible to take the 12 weeks of paid leave, they could stagger their leave periods and have a total of 24 weeks of time to care for their child.**

## **Eligibility for Social Security Earned Benefits**

To be eligible for Social Security earned benefits under the proposal, individuals would need to have worked for at least 4 quarters in their lifetime, including in at least 2 of the last 4 quarters preceding the birth of their child. By contrast, eligibility for Social Security earned benefits requires 40 quarters of work. This eligibility requirement is unrealistic for parental leave, as young parents often have not yet accrued 40 quarters of work.

The requirement of 4 quarters of work ensures that parental benefits are claimed only by individuals who are likely to ultimately qualify for Social Security earned benefits. And the requirement that new parents have worked at least 2 of the last 4 quarters preceding childbirth filters out parents who are not actively employed at or around the time of the arrival of their child, without excluding parents who—due to circumstances beyond their control—have suffered a temporary interruption in their work history.



### **Eligibility Requirements**

- 1. Work for at least 4 quarters in their lifetime**
- 2. Work at least 2 of the last 4 quarters preceding birth of child**

Notably, the proposal would offer Social Security earned benefits to new parents regardless of the size of their employer. This means that some parents may be eligible for parental benefits, but their leave will not be protected under the FMLA, which only applies to businesses with 50 or more workers within a 75-mile radius.

## Self-Financing Parental Benefits by Deferring Retirement Benefits

In order to make the program self-financing, new parents electing to receive Social Security earned benefits would need to defer the collection of their retirement benefits for the period of time sufficient to offset the cost of their parental benefits. While consideration of this proposal would benefit from more precise estimates from Social Security’s actuaries, preliminary estimates suggest that in order to obtain 12 weeks of parental benefits, new parents would need to defer their retirement benefits *by only six weeks*. The cost is low because individuals’ earnings typically increase substantially from their 20s to their early 60s, and thus the parental benefits young parents receive under the program would be significantly lower than their ultimate retirement benefits.

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### Administration

Enacting this proposal would not require an expansion of the federal bureaucracy, as the Social Security Administration (“SSA”) could readily administer the provision of Social Security earned benefits. SSA already collects individuals’ earnings data, can process applications for benefits online, and routinely calculates and issues benefits to tens of millions of individuals.

Notably, SSA already administers programs under which workers may choose to accelerate (by retiring at age 62) or defer (by retiring at age 70) the collection of their retirement benefits. In return, workers electing to retire early or late receive, respectively, either reduced or increased monthly retirement benefits.

### Answering Concerns About the Proposal

#### Concern: *Providing parental benefits will deplete Social Security*

Between retired workers, disabled workers, dependents, and survivors, over **60 million Americans per year receive over \$950 billion in Social Security benefits**. In contrast, about **4 million** children are born to approximately 8 million parents in the United States each year. Assuming a generous 25 percent take-up rate and an average parental benefit of \$3,528 over 12 weeks, about 2 million parents per year would receive approximately \$7 billion in parental benefits under the proposal—a drop in the bucket. Moreover, the Social Security earned benefits offered under this proposal are ultimately self-financing: the cost of the parental benefits provided by the program would eventually be offset by the recipients’ deferral of Social Security earned benefits.

#### Concern: *Parental benefits will be too low to be helpful*

As explained, Social Security earned benefits would be calculated under the Social Security disability benefits formula. For new parents earning an average wage, parental benefits would replace approximately 45 percent of their wages. Because of the progressive nature of the Social Security disability benefits formula, lower income workers would receive higher relative benefits compared to their wages—up to a 90 percent replacement rate—and higher income workers would receive a lower relative benefit.

These benefits would be comparable to, and in some respects more generous than, the parental benefits provided by other nations, as shown in the section below. Moreover, if policymakers wanted to offer benefits that replaced more or all of a new parent's wages, they could offer greater benefits in return for a longer deferral period. For example, they could offer double the amount of parental benefits suggested under this proposal for a doubled deferral period.

### **Concern: *Participation in the program will be low***

It is true that even if Social Security earned benefits were offered, the take-up rate may be low. California has offered paid parental leave since 2004, and it is estimated that **between 25 to 40 percent** of eligible women have participated in the program. The take-up rate for this proposal might be even lower, as some new parents might decide that paid parental leave is not worth deferring their Social Security earned benefits.

But even if participation were low, the potential impact of this proposal would still be enormous. Even assuming a take-up rate that is half that of the lowest estimate for California's program, or 12.5 percent, that would amount to about *a million new parents per year* who would receive Social Security earned benefits and thus be able to spend invaluable time caring for their new child.


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## **A Closer Look**

### **International Comparisons**

How does this proposal stack up to parental leave in other countries (all figures in USD)?

- **United Kingdom:** Offers 39 weeks of **maternity benefits** at 90 percent of a claimant's average earnings for the first six weeks, and then at 90 percent or approximately \$191 per week, whichever is lower, for the remaining weeks. Provides two weeks of **paternity benefits** at this latter rate. Families may convert unused maternity leave to **shared parental leave**. The average income replacement rate for maternity benefits is **30.9 percent**.
- **Canada:** Offers 15 weeks of **maternity benefits** at 55 percent of a claimant's average earnings, up to approximately **\$437 per week**. Additionally provides 35 weeks of **parental benefits**, to be shared by the parents, at the same rate. Families earning less than approximately \$20,892 per year are entitled to a **supplemental payment** that increases their benefits to up to 80 percent of a claimant's earnings. The average income replacement rate for maternity benefits is **48.4 percent**.
- **U.S. Social Security Proposal:** Offers 12 weeks of parental benefits, which may be taken by both parents, based on the disability formula. The average income replacement rate would probably be around 45 percent.



**The average income replacement rate under this proposal would likely be comparable to or more generous than parental benefits provided by the United Kingdom and Canada.**

# What You Can Do

## Get Informed

Learn more about other proposals for paid parental leave and Social Security reform. Visit:

- [Independent Women's Forum](#)
- [American Enterprise Institute](#)
- [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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