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**Sharing the Costs,
Reaping the Benefits:
Paid Family and Medical Leave
in Massachusetts**

by
Randy Albelda and Alan Clayton-Matthews

Labor Resource Center, UMass Boston
and the
Institute for Women's Policy Research, Washington D.C.

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Labor Resource Center

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The Labor Resource Center of the College of Public and Community Service, UMass Boston provides links between the University and the Massachusetts Labor Movement. Programs include the Labor Studies Program, educating future labor leaders through courses, certificates and a bachelor's degree centered on today's workplace concerns from contingent work to globalization; Labor Extension, providing participatory training and education for union members and workers; and research initiatives focused on the Future of Work in Massachusetts.

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in Massachusetts

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About This Report

The purpose of this report is to explore the cost-effectiveness of paid family and medical leave programs in moderating work/family conflict and in equalizing workers’ ability to take needed time off work. A number of advocates in the United States are pursuing strategies to enact paid leave at the federal and state levels, and an accurate assessment of costs and benefits is critical to advancing their efforts. This report describes a model for estimating the costs of paid leave and uses the model to evaluate a specific proposal in the state of Massachusetts.

This project was a joint initiative of the Institute for Women’s Policy Research (IWPR) and the Labor Resource Center of the University of Massachusetts Boston. It is part of a larger effort to inform and stimulate debate on work/life balance and job quality issues.

About the Authors

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Executive Summary

On April 27, 2006, Massachusetts Senate President Robert Travaglini introduced a proposal for a family and medical leave insurance program, covering workers' non-work-related illness and injury and also extending paid leaves to new parents and to workers needing to care for an ill relative. For employees who have worked with their employer for 900 hours and nine months before taking leave, the program replaces 100 percent of weekly earnings, up to a cap of \$750 per week for up to 12 weeks (following a one week waiting period) and provides job protection to workers taking leave. The plan will be financed by worker contributions to a newly established Strong Families Trust Fund.

Almost every employee, at some point in his or her work life, is likely to experience a temporary extended own illness, the serious illness of a loved one, or the birth and/or adoption of a child. Yet the United States is one of the few countries that does not offer wage-replaced leave for the birth of a child or own health even though labor force participation rates are high, especially among women.

Five states (California, Hawaii, New Jersey, New York, and Rhode Island) and Puerto Rico have mandatory Temporary Disability Insurance (TDI) programs. California is the first state to expand its TDI program to implement paid family leave. Outside of the TDI jurisdictions, there is a voluntary system of paid family and medical leave in the United States. Some employers and employees choose to purchase disability insurance coverage. Employers may elect to provide workers with paid leave for family or medical reasons through benefits such as sick leave, vacation time, parental leave, or medical leave, or they may negotiate collective bargaining agreements that contain such plans, but they are not legally required to do so. In the United States, two-thirds of workers who take a family and medical leave receive some pay for some period of their leave. The one-third of workers who do not receive any pay on leave are disproportionately low-wage workers – the workers least able to afford such a leave.

One barrier to the implementation of paid family and medical leave is the uncertainty about what a new program might cost. Our report examines the costs of the proposed new program as well as the costs currently being borne without paid leave. It also identifies the benefits of having paid leave.

Using a simulation model we developed (which we have named the IWPR/LRC Family and Medical Leave Simulation Model), we estimate the current employer and employee wage costs when employees take paid and unpaid family and medical leaves, and the new and redistributed wage-replacement costs of the program proposed by State Senator Travaglini. We are able to estimate the number of leaves, their length, and the extent of wage-replacement coverage by demographic groups currently and with the proposed programs.

Employing our simulation model we estimate:

- There are already significant costs borne by employers and employees of family and medical leave taking. In Massachusetts, just under 357,000 of 3.2 million

employees take 442,570 leaves (some workers take more than one leave annually) and forego \$1.36 billion in annual wages. Employers provide \$372 million in wage replacement for a total wage cost of \$1.73 billion. The average cost to the worker who takes a leave is just over \$3,000 annually while the average cost to his or her employer is close to \$1,300.

- Fifty percent of current leaves in Massachusetts are for own-health reasons, 22 percent are for parental leave (including maternity disability), and 23 percent of leaves are for tending to an ill relative.
- The average length of leave for all leaves is 5.4 weeks.
- Currently 33.8 percent of all family and medical leaves are without any wage replacement.

When we apply our simulation model to State Senator Travaglini's proposed paid family and medical leave program we estimate:

- The total number of family and medical leaves taken increases by just under 25,400 to a total of 467,962, a 5.7 percent increase. The total number of leaves using the proposed program will be 183,981 (assuming two-thirds of all eligible workers taking leave use it).
- The total cost of the proposed program is \$389 million. Averaged across all employees, the annual cost is \$120 per worker and the weekly cost is \$2.31.
- Total costs of leaves (including lost wages, employer benefits, and the program costs) rise to \$1.84 billion, an increase of 6.4 percent over current costs. The amount of employer wages foregone and employer benefits paid decrease with the proposed program. The new program results in some costs being shifted from employers to employees, and from individual workers taking leave to all workers.
- The average length of leave increases by one-half day from 5.4 weeks (based on a five-day week) to 5.5 weeks.
- The percentage of leaves with no wage replacement decreases to 24.0 percent.
- While the percentage of all leaves without pay decreases for all workers, the proposed program will disproportionately decrease the percentage without pay for leaves taken by workers in low-income households, non-white, younger, and less educated, helping to level a very unlevel employment playing field.

The estimates presented in this report refute the arguments that paid leave programs are too costly. The estimates should also dispel fears about lengthy extensions of leave-taking due to a paid leave program. Indeed, there are important gains for employees and employers with paid family and medical leave. As a social insurance program, paid leave provides all covered workers the right to receive wage replacement for a limited amount of time when they need it at a relatively small annual price to individual workers. Employers will benefit by reduced use of employer-paid time off and reduced turnover. Furthermore, a universal paid leave program will provide some workers who currently do not have paid leave – typically those with the lowest wages – some form of wage replacement.

Introduction

On April 27, 2006, Massachusetts Senate President Robert Travaglini introduced a proposal for a family medical and leave insurance program covering workers' non-work-related illness and injury that also extends paid leaves to new parents and leaves to care for an ill relative.¹ This bold plan would bring Massachusetts into the 21st century of employment realities where families work hard to juggle job and family responsibilities. As more and more women – especially mothers – are in the paid labor force, that juggling act is becoming more the rule than the exception. The proposed bill replaces 100 percent of weekly earnings, up to a cap of \$750 per week for up to 12 weeks (following a one-week waiting period) and provides job protection to workers taking leave for workers who have worked with their employer for 900 hours and nine months prior to taking leave. The plan will be financed by worker contributions to a newly established Strong Families Trust Fund.

Senator Travaglini's proposed paid leave bill and others like it fill an important gap in family leave policies. The United States is one of very few industrialized countries that does not have some form of universal, mandatory sick leave and paid maternity leave. Among the 30 member nations of the Organization for Economic Cooperation and Development (OECD), only Australia, South Korea, and the United States do not provide either paid maternity or sick leave (U.S. Social Security Administration 2002-2003). Half of the other OECD countries offer paid paternity and/or sex-neutral parental leave as well.² Some have enacted other leave and reduced-work-hours options to facilitate caregiving.

The 1993 Family and Medical Leave Act (FMLA), which allows for up to 12 weeks of unpaid leave for some workers, provided an important step toward helping American workers balance their family obligations with their need and desire to work. But as important as it is, it is only a partial remedy to a larger problem of managing family and medical leaves that workers face. First, a comprehensive survey of employees on family and medical leave taking conducted under the auspices of the U.S. Department of Labor (DOL) in 2000 found that 38 percent of workers are not eligible under the provisions of the FMLA due to their employer size or their recent work history (Cantor et al. 2001; Table A2-3.1). Second, some workers who need leave to take care of family members are precluded because they are not a spouse, child, or parent of the person who needs their care. Finally, millions of U.S. workers are excluded from coverage because they cannot afford unpaid leave.³

¹ Senate Bill 2499, Supporting Strong Families by Providing Paid Family and Medical Leave, Increasing Tax Deduction for Working Families, and Establishing a Work-Family Council.

² For a comprehensive list of maternity, paternity and parental leaves in OECD countries see Table 1, under Parental leave policies at the Comparative Policy Page of The Clearinghouse on International Developments in Child, Youth, and Family Policies at Columbia University (<http://www.childpolicyintl.org>).

³ Using the model described later in this report, we estimate that there are over two million workers in the United States who needed and did not take a medical and family leave each year who would have taken one if there were a paid program.

Five states (California, Hawaii, New Jersey, New York, and Rhode Island) and Puerto Rico have mandatory Temporary Disability Insurance (TDI) programs. Unlike the FMLA, these programs provide paid leave for reasons of own health (including a form of paid maternity leave under claims for maternity and pregnancy disability), typically paying benefits of about two-thirds of the worker's usual earnings (to a maximum set by each state) for up to 26 weeks.⁴ With the exception of California, however, mandatory state TDI programs and voluntary employer-provided TDI plans do not extend paid leave to any of the broad range of care responsibilities that routinely call workers out of employment. In July 2004, California's new paid family leave plan – part of the state's Temporary Disability Insurance program – began paying benefits. In addition to the already established leave for own disability (including up to ten weeks of maternity disability), the program provides covered employees up to six weeks a year of paid leave to care for a seriously ill child, spouse, parent, domestic partner, or new child.⁵

Outside of the TDI jurisdictions, there is a voluntary system of paid family and medical leave in the United States whose quality varies enormously from one employer to another. Some employers and employees choose to purchase disability insurance coverage. Employers may elect to provide workers with paid leave for family or medical reasons through benefits such as sick leave, vacation time, parental leave, or medical leave, or they may negotiate collective bargaining agreements with such plans, but they are not legally required to do so.⁶ As a result, two-thirds of employees report that they received at least some pay when they were out of work for family or medical reasons.

One barrier to the implementation of paid family and medical leave is the uncertainty about what a new program might cost.⁷ And surely such a program will incur new costs. However, we argue here that these costs are small compared to current costs, and that paid leave will also bring some important benefits, along with some cost and benefit shifting among employees, employers, and society. This report provides new research on some of the costs and benefits of paid family and medical leave.

Why Paid Family and Medical Leave?

When someone gets seriously ill or there is a new child in a family, there is typically a significant increase in the need for both income and time. There are almost always increased health care costs when someone gets ill, and the birth or adoption of a child often requires a host of new purchases. These new costs emerge at the same time that workers

⁴ TDI leaves are not job-protected.

⁵ The benefit level is 55-60 percent wage replacement, up to \$840 per week (in 2006), following a one-week waiting period. Annual changes in benefit levels are tied to changes in wage levels.

⁶ Indeed, employers in the United States are not legislatively required to offer any paid sick or vacation time to employees.

⁷ Similar concerns were expressed before the FMLA was passed. The IWPR report *Unnecessary Losses: Costs to Americans of the Lack of Family and Medical Leave* (Spalter-Roth and Hartmann 1990) presented compelling data to dispel these fears.

leaving for these purposes lose wages if their leaves are not fully covered by voluntary employer contributions or selected insurance programs. Family time demands increase because ill relatives and new children require care and care takes time. Historically, and to a large extent today, women have been the primary source of free care in families. With more and more women in the labor force, this free source of care-giving has eroded, and often families pull someone out of the labor force to provide care (in addition to purchasing care) when the need arises. These care and income needs exist for those with long-term illnesses or disabilities and for all families with children, but they are particularly acute when a new child enters a family and when family members such as elder parents have pressing and immediate medical needs.

In the United States, to the extent that paid family and medical leave exists, it is primarily a voluntary employer benefit. This voluntary system means that individual employers decide whether and to which employees to provide these benefits, with individual employers paying for these benefits. Fewer than half (44 percent) of employees in private-sector employment in the United States are offered paid sick leave, only 15 percent have paid personal leave, and only 2 percent have paid family leave (Foster 2000).⁸

A survey conducted under the auspices of the Department of Labor in 2000 asked employees about any time they took off of work to attend to their own or a family member's medical needs or to bond with a new child.⁹ The survey found that just over 10 percent of employees each year take a leave and that almost two-thirds of all employees who take a leave receive some wage replacement (Cantor et al. 2001; 2-2).¹⁰ Of those with pay, employees use multiple sources to cover leaves, with the vast majority using sick leave or vacation time. Not surprisingly, two-thirds of those receiving some form of pay and taking own-health leaves use paid sick days. About the same percentage use sick days for ill-relative leaves. But fewer than half of those receiving pay who took a parental leave used sick days. Parental leave-takers are more likely to use their vacation time. The most common combination of employer benefits used to take leaves includes both sick leave and vacation time; this combination is used by 25 percent of all employees who received some pay while on leave.¹¹

The limitations of our current voluntary income replacement programs are increasingly apparent. Typically, few if any family members are available to provide unlimited free care. Ironically, paid health providers want to keep patients in care facilities for less time than they did when unpaid care was more plentiful, requiring families to find and/or provide alternative care. Paid family and medical leave is a step toward acknowledging the way our families work.

⁸ Data are for 1996-97.

⁹ *Family and Medical Leave 2000 Survey of Employees* was conducted by Westat for the Department of Labor, between July and October of 2000.

¹⁰ Annual data is adjusted from 19 months of the survey period.

¹¹ Calculated by authors using DOL survey data.

The Impacts of Paid Family and Medical Leave

There are several important – but somewhat distinct – concerns regarding a comprehensive paid leave program. Since costs are already being borne and benefits being reaped in our current system, moving to a paid leave program will not only increase but will likely shift those costs and benefits. At issue then is how large are the new costs and benefits and what are the distributional impacts of a new program?

Even with new broad coverage, there are non-wage costs associated with workers taking leave – such as maintaining health benefits for workers on leave or hiring temporary replacement workers. *These costs are not likely to change significantly for those firms that already provide FMLA or FMLA-type leaves.*¹² In most cases, these firms' costs will only change to the extent that the number of leaves taken increases, the average length of leaves increases, or the number of workers retained increases in response to the new paid leave provision. Costs and benefits that are associated with current patterns of leave-taking behavior should not be included in the measurement of the economic impacts of a new program.

Distributional Impacts

The most obvious cost associated with providing paid family and medical leave is the cost of the program itself. However, who ultimately bears the burden of these costs depends in part on the design of the program and in part on how workers and employers respond to the existence of the program. The Travaglini proposal uses a payroll tax in which employees are solely responsible for making payments to the state to cover the costs of the program.¹³

There are other potential distributional effects of paid leave, such as the impact of a new paid leave program on the provision or use of other employer benefits. Currently, instead of a comprehensive paid leave program for own-health, new-child, or ill-relative care, many employers offer sick leave, vacation time, and disability insurance. With a mandatory, comprehensive paid leave program, it is quite likely that employers and employees would substitute specific employer-based benefits for the new broad-based program, reducing the number of leave days paid by employers. As is the case in current TDI states, some employers “top-off” payments (to provide full wage replacement) under the paid leave program, still providing the benefit to employees but paying less than they would without a program. On the one hand, implementing a new paid leave program is unlikely to lead employers to reduce the amount of sick time available to all employees (extended leaves are the exception, getting sick for a day or two is the rule). On the other hand, firms might change policies on allowed uses of sick time or might package several leave

¹² Cantor et al. (2001) indicate that close to 40 percent of all establishments currently provide job-protected unpaid leaves for all FMLA leaves. The percentages of establishment that offer unpaid leaves for own-health or for maternity-related reasons (the most widely used forms of family and medical leaves) are much higher – 85 percent and 89 percent, respectively.

¹³ The bill delegates the responsibility for establishing taxable wages and the rate to the Department of Workforce Development.

types into one time-off plan. Similarly, having a paid leave program could result in reduced employee use of workers' compensation payments or employer-provided paid time off such as sick time.

Dynamics of Leave-Taking

Expanding job-protected leave and providing pay would allow people who currently would not take a leave, or would take only an abbreviated leave, to take or extend a leave. There are likely to be substantial benefits associated with workers taking more or longer leaves:

- Workers will have the benefit of receiving some wage replacement while on leave. Workers who are enabled to take a leave, or take a longer leave, might be more productive once they return – especially if the leave allows them to resolve immediate family or medical needs or reduces the risk of injury at work, both of which reduce employer costs.
- Additional or longer leaves will likely reduce paid care-giving costs for the individual worker taking a leave and possibly for government if the care otherwise used is subsidized.
- If health issues are better resolved as a result of workers being able to take or lengthen a leave, health care costs – both individual and subsidized – will be reduced.

On the cost side, there is the cost of the program itself (benefit payments and government and employer administrative expenses). In addition:

- Work replacement strategies used by employers might reduce overall productivity while workers are out, increasing costs to employers.
- If establishments also provide non-wage benefits (like health care) to more workers or for longer leaves, this increases employers' costs.
- Without full wage replacement, individual wage losses will occur for those who might otherwise have continued to work.

At the same time, expanded paid job-protected leave might encourage workers to return to their jobs once the need for leave is over, instead of leaving the labor force altogether or finding work in a new workplace – just as the FMLA reinforces workers' job attachment now. This could have several effects:

- Returning to work reduces turnover, lowering employer costs – both the direct costs of advertising, interviewing, orientation, training, and processing (of both the exiting and the in-coming employee) and indirect costs associated with losing employees who understand internal networks, specific customers, or co-workers' abilities, and decreased morale or efficiency associated with working with inexperienced new employees.

- Workers who stay with their employers might see improved future earnings, since quitting a job can decrease workers' future earnings potential. In addition, workers will benefit from the continuation of any employer benefits offered.
- There might be government savings as well, since workers who quit instead of returning may need to rely on government supports (like Unemployment Insurance, TANF, or Medicaid) for longer than if they had retained their job because of using a paid leave program.

While there are no studies on the employment or cost impacts in states with TDI compared to those without, TDI states do not seem to have suffered adverse employment or output consequences because of their paid own-health leave program (by far the most expansive and expensive component of the paid family and medical leaves under consideration) and maternity-disability leaves (on average, the longest of family and medical leaves). Employers and employees in the four jurisdictions with TDI in the continental United States seem to successfully compete with their neighboring states without TDI. California's new provisions may provide a "natural experiment" to see the impacts and potential costs of allowing for parental leaves and leaves for ill relatives.

Several studies have looked at the employment and earnings impacts of paid parental leave outside the United States. Comparing 17 industrialized countries over a 20-year period (paid leaves ranged from 0 to 83 weeks), Ruhm and Teague (1997) found that short to moderate paid parental leaves are associated with higher per capita income, higher labor force participation rates, and lower unemployment rates among the working-aged population. Another study looking at 17 countries over four time periods found that paid maternity leave increases the labor force participation of young women (Winegarden and Bracy 1995). Ruhm (1998), examining mandated parental leaves in 9 countries, found that for short leaves (3 months), paid leave increases women's employment by 3 percent with virtually no effect on women's wages.

Further, several studies in the United States indicate that paid leave increases the likelihood that a new mother will return to work. Jeosch (1997) found that women with paid leave were more likely to work longer during their pregnancy and to return to work after a two-month leave than women with unpaid leaves. Smith, Downs, and O'Donnell (2001) found that both paid and unpaid leave double the chances that a new mother will return to work within three months, compared to those who quit or are let go. Further, those with paid leave are more likely to return to the same employer than those with unpaid leave.

Together, these findings suggest that paid family leave does not have adverse aggregate economic effects but instead provides strong incentives for new mothers to stay in the labor force and to maintain employment with the same firm. This could be welcome news for states grappling with ways to keep low-income mothers off of welfare and in paid employment and for businesses that want to retain valuable employees.

While employers fear the increases in number of leavers and leave length with a comprehensive paid leave program will be large, there are good intuitive and empirical reasons

to expect that any changes will be actually be quite small. The current Massachusetts proposal is capped at \$750 a week which is about 85 percent of the state's average weekly wage. Many families will welcome the pay, but the income loss could still be large, especially for middle- and higher-income workers, and therefore would discourage long leaves. Further, the current proposal provides for a maximum of 12 weeks of protected-job leave. Workers might extend their leaves beyond 12 weeks, but would do so at the risk of not having a job to return to at the conclusion of their leave.

Our research confirms that leave lengths will not change much with a paid leave program. In examining mothers who took maternity leave in the 1980s and 1990s, the length of leave for those who returned to their employers was identical for those with paid leaves and those without (Albelda and Clayton-Matthews, forthcoming). In a closer examination of the DOL survey of employee's leave-taking behavior and specific own-health ailments, we found that leave lengths are related to the severity of illness, not to whether they are paid.

Estimated Cost, Use, and Coverage of Paid Family and Medical Leave in Massachusetts: Currently and Under Proposed Program

Using a simulation model we developed (which we have named the IWPR/LRC Family and Medical Leave Simulation Model), we estimate the current employer and employee wage costs when employees take paid and unpaid family and medical leaves, and the new and redistributed wage-replacement costs of an extended temporary disability insurance program that would allow a maximum of 12 weeks leave for own-health, parental, and ill-relative leaves. We are also able to estimate the number of leaves, their length, and the extent of wage-replacement coverage by demographic groups currently and with the proposed programs. Our methodology is based on a sophisticated simulation model that estimates many behavioral patterns and applies them to the specific characteristics of the Massachusetts work force. Specifically, our model:

- Estimates probabilities of taking a leave (or multiple leaves) by type of leave, eligibility, and important demographic characteristics of the leave-taker.
- Estimates length of leave taking by type of leave and degree to which there is employer pay.
- Simulates paid program leave taking behavior based on family income levels and the existence and level of employer-paid leave benefits.
- Simulates extended length of leave due to the program based on current length of leave, likelihood of wanting a longer leave, and if the extended leave is job protected.
- Allows for an analysis of leave takers by gender, age, marital status, race, ethnicity, family income, and other demographic characteristics, both in the absence of a program and with a new plan.

- Estimates the amount of lost wages, employer pay while on leave, and paid leave program benefits for all leave takers.
- Flexibly incorporates the specific features of proposed or envisioned paid programs such as maximum length of program leave, wage replacement rates, waiting periods, employment, income and FMLA eligibility requirements, and dependent allowances.

Our model uses observable leave-taking behavior contained in a comprehensive survey of family medical leaves conducted under the auspices of the U.S. Department of Labor in 2000 to estimate the probability and distribution of various aspects of leave-taking behaviors. Based on these estimates, coupled with a few assumptions about unobservable behavior in the presence of a program (described in the appendix) we simulate specific leave-taking behavior (including number, length, employer benefit levels, and eligibility for FMLA) onto individual workers residing in Massachusetts from the Census Bureau's March Annual Demographic sample of the Current Population Survey (hereinafter referred to as the CPS). To help improve the reliability of our simulation, we combine three years of the CPS (March 2002 to 2004).¹⁴

Using this model we discuss the current cost, use, and coverage of family and medical leaves in Massachusetts and then estimate the likely cost, use, and coverage of the plan recently introduced by Massachusetts State Senator Travaglini.

The “Status Quo”: No Comprehensive Paid Leave Program

Currently, in the absence of any comprehensive paid leave program, employers pay wage benefits and employees forego considerable wage income when leaving work for medical and family reasons as allowed under the FMLA. Using our model, we estimate the total annual dollar amounts of wage benefits paid by employers and the total amount of employee uncompensated wages currently being incurred with family and medical leaves. Figure 1 depicts the percentage of all employees who take a leave (by their longest leave taken) by whether the leave has employer wage replacement. We estimate that 11.0 percent of all employees (about 357,000) take a FMLA-type leaves in Massachusetts annually. An additional 51,600 workers need to take a leave but do not take one. Of those who took a leave, 237,000 (7.3 percent of the covered workforce) receive some employer wage benefits while on leave.

Table 1 includes the number of total leaves taken (some workers take more than one leave a year), the total annual cost and average cost per worker in the Massachusetts workforce currently paid by employers (in the form of wage replacement benefits like sick days) and employees (uncompensated wages while on leave), and the per worker wage costs (spread over all workers) of those leaves.

¹⁴ This model is describe more fully in Albelda and Clayton-Matthews, forthcoming and is available from the authors.

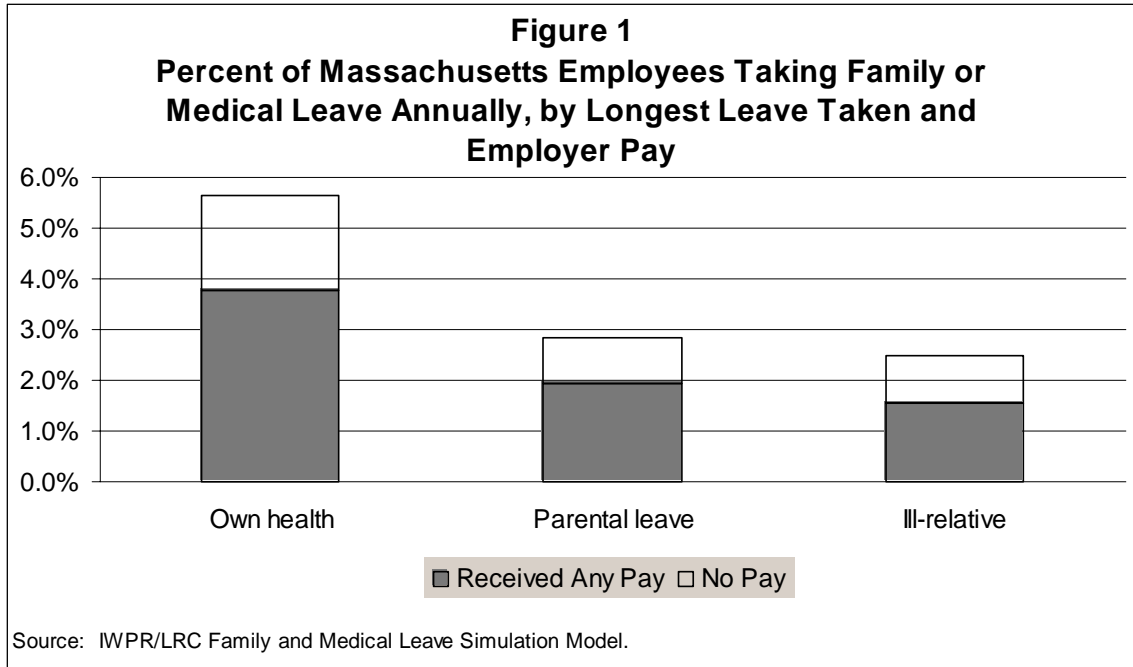


Table 1
Current Annual Leaves and Total and Per Worker Wage Costs in Massachusetts by Type of Leave

	Parental	Own Health	Ill Relative	All Leaves
<i>Total leaves</i>	99,517	220,503	122,551	442,570
Total annual cost (in millions)				
Employer wage benefits	\$85.1	\$231.8	\$55.2	\$372.1
Employee uncompensated wages	\$341.0	\$865.4	\$150.8	\$1,357.3
<i>Total</i>	<i>\$426.1</i>	<i>\$1,097.2</i>	<i>\$206.1</i>	<i>\$1,729.4</i>
Annual cost per total employee				
Employer wage benefits	\$26	\$71	\$17	\$114
Employee uncompensated wages	\$105	\$266	\$46	\$417
<i>Total</i>	<i>\$131</i>	<i>\$337</i>	<i>\$63</i>	<i>\$532</i>

Source: Authors' calculations using IWPR/LRC Family and Medical Leave Simulation Model

Employees take a total of just under 443,000 family and medical leaves annually; over half of those are for own-health reasons. As these numbers indicate, the wage costs of leaves are already high. Workers who take leaves pay the heaviest cost, foregoing \$1.36 billion in uncompensated wages. The cost averaged over all covered workers is \$417 a

year per worker. However, each leave costs the employee leaving an average of \$3,067 in uncompensated wages over the year.¹⁵

Employers are also paying for leaves. This includes \$372 million a year in various forms of paid leave time (vacation, sick leave, etc.) for an average cost of \$114 per employee. We estimate that employers provide benefits for just over 293,000 leaves annually with an average annual cost for employers of just over \$1,270 for each leave a worker takes.

We estimate the total cost of the current situation to be \$1.73 billion a year, of which 21.5 percent is paid through employer wage benefits, and 78.5 percent consists of individual workers' foregone wages.

The Strong Families Trust Fund

State Senate President Travaglini's proposal, introduced April 27, 2006, calls for a family medical and leave insurance program covering workers' non-work-related illness and injury. It also extends paid leaves to new parents (beyond the pregnancy- and maternity-related medical disability that is covered under temporary disability) and to workers needing to care for an ill relative. It replaces 100 percent of weekly earnings, up to a cap of \$750 per week. All leaves are job-protected.

The provisions of the bill are summarized below:

- Waiting period: 1 week
- Eligibility: Wage and salary workers who have worked at least 900 hours and nine months for the employer from whom leave is requested; official doctor certification of serious medical condition in case of all but parental leave.
- Replacement rate: 100 percent weekly salary capped at \$750 a week.
- Maximum leave: 12 weeks for own-health, parental, and ill-relative leaves
- Payment: Establishes Strong Families Trust Fund financed through a payroll tax on employees to be administered by Department of Workforce Development

Costs

Table 2 provides estimates on annual total number of leaves and per covered-employee wage replacement program costs, employer wage benefits paid, and employee uncompensated wages with the proposed program using a 66.7 percent take-up rate of eligible workers. We use this take-up rate because we know that many workers – even when eligible – will not use the program, for a variety of reasons. They may receive more pay from their employer; they may anticipate a short leave or not know how long they will be

¹⁵ Because most workers take short leaves, the median amount of uncompensated wages for a worker taking a leave is \$808 per year.

out of work; they may not be aware of the program; and they may be deterred from use by the administrative procedures.

Table 2				
Annual Leaves, Annual Total and Per Covered Employee Program Wage Replacement Costs, Employer Wage Benefits, and Employee Uncompensated Wages with Proposed Paid Family and Medical Leave Program in Massachusetts Using a 66.7% Take-Up Rate				
	Parental	Own Health	Ill Relative	Total
<i>Total number of leaves</i>	100,282	228,575	139,104	467,962
<i>Total number of leaves using paid leave program</i>	35,463	91,851	56,668	183,981
<i>Total annual cost (in millions)</i>				
Paid wage replacement program	\$ 95	\$236	\$57	\$389
Employer wage benefits	\$57	\$149	\$53	\$259
Employee uncompensated wages	\$280	\$739	\$172	\$1,192
<i>Total</i>	<i>\$433</i>	<i>\$1,125</i>	<i>\$282</i>	<i>\$1,840</i>
<i>Annual cost per total employee</i>				
Paid wage replacement program	\$29	\$73	\$19	\$120
Employer wage benefits	\$18	\$46	\$16	\$80
Employee uncompensated wages	\$86	\$227	\$53	\$367
<i>Total</i>	<i>\$133</i>	<i>\$346</i>	<i>\$87</i>	<i>\$566</i>
Rows and columns may not sum to totals due to rounding. Sources: Authors' calculation using the IWPR/LRC Family and Medical Leave Simulation Model				

The total cost of the program is \$389 million, which could vary depending on how widely the program is used. We estimate that workers will take just under 184,000 leaves with this universal paid leave program. About 4.8 percent of all covered workers would use the program annually (usage data not shown). Annually, we estimate the cost at \$120 per covered worker. On a weekly basis, the average cost is \$2.31 per worker if two thirds of eligible workers use the program.¹⁶

¹⁶ Payroll taxes are applied as a percentage on the taxable wage base, therefore some workers might pay more than \$120 a year, while others would pay less. The financing structure was not specified in this bill. For any given amount collected annually, the higher the taxable wage base, the lower the percentage of payroll tax applied on all workers.

Own-health leaves account for over 60 percent of the total costs associated with the paid leave program. (Total costs include those borne by employees through lost wages, employers through their benefit programs, and by the state through the new program itself.) Ill-relative leaves are the least expensive component, accounting for just over 14 percent of total costs.

In comparing Table 1 (the current situation) with Table 2 (with a paid leave program covering all workers), we can see that the total cost increases by less than \$111 million annually (a 6.4 percent increase over total current costs). The out-of-pocket expenses of workers who take the leaves are reduced from \$1,357 million annually to \$1,192 million. *While costs have increased over all they have also shifted.* They shift in two ways. First, the total costs borne by all workers increases, as this program calls for an employee-only contribution; the combined cost of the program and workers' uncompensated wages is \$1,581 compared to \$1,357 million currently. However the costs for any worker taking leave is reduced, as the cost of the program is shared by all workers. Social insurance programs, including this one, share the costs among all workers even though at any point in time not all workers use the program. Given the high likelihood of taking a leave or being a recipient of care from someone taking a leave, many if not most workers are likely to benefit from this program over their work lives. Employer contributions actually decrease with a new plan – even though more workers are taking leave. This is because our model estimates whether a worker will use a paid leave program versus what the employer provides. When the program benefits are more generous than those offered by an employer, a worker will use the insurance program. As a result, employers end up spending less on providing workers sick days and other paid days off when employees substitute these paid days off for the paid family and medical leave program.¹⁷

Length of Leaves

Table 3 includes average lengths of leaves currently and with the proposed paid leave program in place. There is a shift from employer wage benefits to the paid leave program. Still, the average length of all leaves increases only half a day -- from 5.4 weeks to 5.5 weeks.

While many more own-health leaves are taken than parental or ill-relative leaves, the average length of own-health leaves is shorter than parental leaves. The average length of ill-relative leaves is very short, even with a paid leave program in place: 2.1 weeks. Almost 30 percent of all family and medical leaves last one week or less. Median leave lengths are shorter than average leave lengths, since a small portion of all long leave-takers bring up the average. Currently, median leave lengths for all leaves are 2 weeks (4 weeks for parental leaves, 2 weeks for own-health leaves, and one week for ill-relative leaves; data not shown). Median leave lengths for all leaves with a paid program in place are 2 weeks, 4 weeks for parental leave, 2.4 weeks for own-health leaves, and 2 weeks for

¹⁷ Employers will also benefit from reduced turnover as a result of having paid leave. We have not estimated those benefits here. We do estimate them for women's parental leave in our forthcoming report.

ill-relative leaves.

Table 3								
Average Length of Family and Medical Leaves Currently and with Proposed Paid Family and Medical Leave Program (Using a 66.7% Take-Up Rate) in Massachusetts								
	Currently				With Paid Leave Program			
Average weeks on leave:	Parental	Own Health	Ill Relative	All Leaves	Parental	Own Health	Ill Relative	All Leaves
Using paid wage replacement program	NA	NA	NA	NA	5.3	4.5	1.7	3.8
Unpaid leave	2.6	2.0	0.9	1.8	2.8	2.3	0.9	2.0
Using employer wage benefits	7.6	6.2	1.8	5.4	4.8	3.5	1.3	3.2
All leaves	7.8	6.2	2.0	5.4	7.6	6.3	2.1	5.5
Source: Authors' calculation using the IWPR/LRC Family and Medical Leave Simulation Model								
Note: Workers can (and often do) take both unpaid and paid time off while on leave; this would remain true under a paid leave program.								

Wage-Replacement Coverage

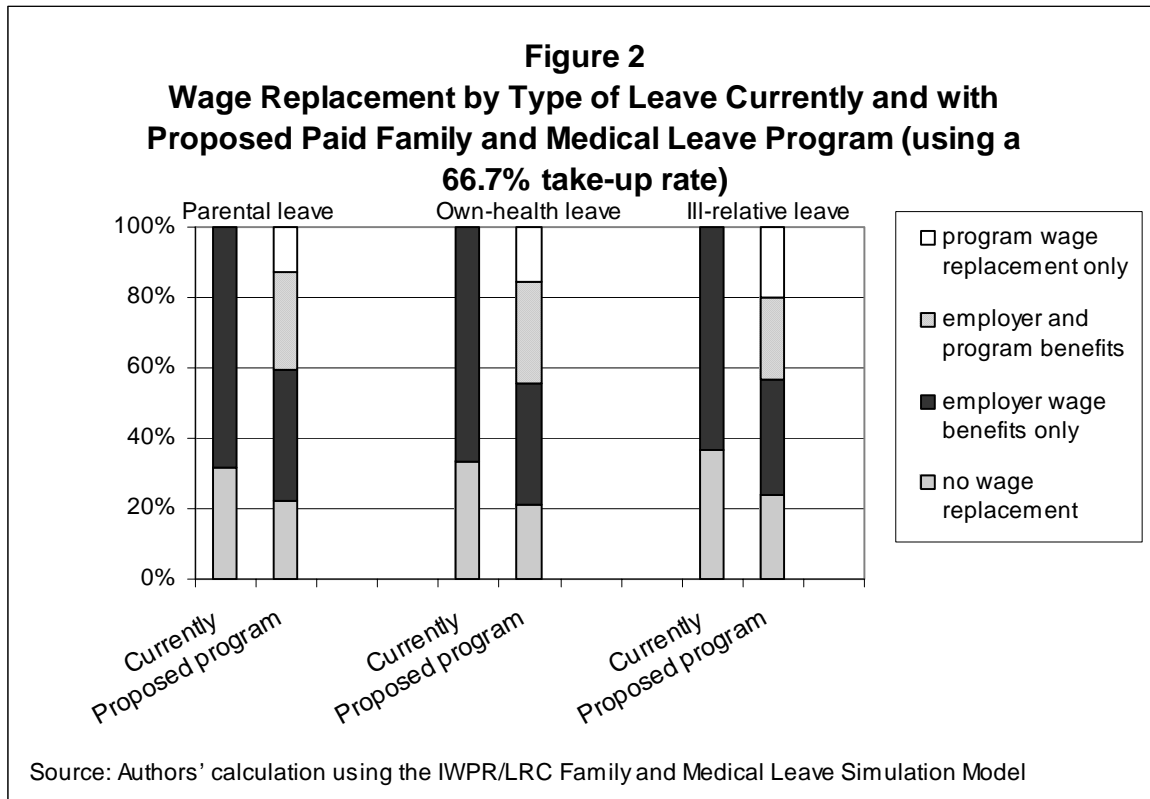
Table 4 depicts the percentage of all leaves by type of wage replacement currently and with an extended TDI program.

Table 4		
Wage Replacement Currently And With Proposed Paid Family and Medical Leave Program (Using a 66.7% Take-up Rate) in Massachusetts		
	Currently	With Paid Leave Program
No wage replacement	33.8%	24.0%
Employer wage benefits only	66.2%	36.7%
Employer and program benefits	NA	25.1%
Program wage replacement only	NA	14.2%
Source: Authors' calculation using the IWPR/LRC Family and Medical Leave Simulation Model		

Having a comprehensive paid leave program substantially reduces the percentage of leaves that have no wage replacement from 33.8 percent to 24.0 percent. Further, of those leaves without wage replacement under the proposed paid leave program, 48 per-

cent of leaves are one week or shorter, compared to 38 percent currently (data not shown). One quarter of those without any wage replacement have leaves longer than one week but do not meet the 900 hours and 9 months of employment requirement.

Figure 2 depicts the percentage covered by type of leave currently and with the proposed paid leave program. For all types of leaves the percentage of those with no coverage falls to below 25 percent.



Paid Family and Medical Leave Helps Levels the Employment Playing Field

Since the workers without paid leave currently are more likely to be lower-waged and younger workers, a comprehensive paid leave program offers the promise of providing this benefit to them. Further, women's groups have been strong advocates of paid leave since women disproportionately provide caregiving. Table 5 depicts the percentage of those without any wage replacement currently and with the proposed paid leave program (using a 66.7 percent take-up rate) by various demographic factors (especially those associated with determining wage levels) by type of leave.

While 31 percent of leaves by men with no comprehensive leave program in place receive no wage replacement, currently 36 percent of leaves by women have no wage coverage. With a paid program the total percentage of leaves taken by women who receive neither program nor employer benefits drops to 25 percent with a 66.7 percent take-up

rate. Men’s coverage also improves with a paid leave program, with unpaid leavers dropping to 23 percent. This narrowing of the coverage gap between men and women is mirrored with parental, own-health, and ill-relative leaves (data not shown).

Table 5		
Percent of Leaves with No Wage Replacement Currently And With Proposed Paid Family and Medical Leave Program (Using a 66.7% Take-up Rate) in Massachusetts by Characteristics of Leavers		
	All leaves	
	Currently	With program
Total	33.8%	24.0%
Gender		
Male	30.5%	22.8%
Female	36.3%	25.0%
Household Income		
Less than \$20,000	58.4%	44.2%
\$20,000 to \$30,000	47.8%	31.5%
\$30,000 to 50,000	39.1%	26.4%
\$50,000 to \$75,000	31.6%	22.2%
\$75,000 to \$100,000	28.4%	20.6%
Race/Ethnicity		
White, non-hispanic	33.1%	23.7%
Black, non-hispanic	37.8%	26.3%
Hispanic, any race	42.9%	28.3%
Age		
18-24	50.6%	38.6%
25-34	37.4%	24.3%
35-49	27.9%	18.8%
50 or older	29.3%	21.0%
Educational level		
HS grad or less	42.7%	30.5%
Some college, no BA	34.6%	24.2%
Bachelor's degree	23.4%	16.4%
Graduate School	20.2%	15.4%
Source: Authors’ calculation using the IWPR/LRC Family and Medical Leave Simulation Model.		

As Table 5 reveals, leaves taken by workers in low-income households, non-white, younger, and less educated are the ones least likely to be paid. The proposed paid leave program not only increases access to wage replacement while on leave but it also reduces the gap among workers. For example, currently just under 60 percent of leaves taken by workers living in low-income households (less than \$20,000 annually) are paid. With this new proposal, that percentage drops to just under 44 percent. While still high, the

percentage difference between leaves by those in the highest and lowest income categories is smaller. For all types of leaves, the proposed program will disproportionately benefit more vulnerable workers.

Conclusions

The United States is one of the few countries that does not offer wage-replaced leave for the birth of a child or own health even though labor force participation rates are high, especially among women. Temporary extended own illnesses or that of a loved one and the birth and/or adoption of a child are likely to happen to almost every employee at some point in their work life. Further, their urgency almost always precludes employment for some period of time. Yet, currently employers determine which workers have paid leave and which ones do not. While close to two-thirds of the labor force has some access to paid leave for family and medical reasons, one-third does not. That third are usually the most disadvantaged workers in the labor force – the ones who can least afford to take unpaid leave.

This report has examined the research on paid family and medical leave, estimated some of the current costs of not having paid parental leave, and presented cost estimates of implementing paid family and medical leave in Massachusetts. We find:

The argument that paid leave programs are too costly simply is not true.

The political debate about paid leave often emphasizes the enormous costs such a program might impose, particularly on employers. This report rebuts that argument. We find that a paid leave program – beyond administrative costs – will only marginally increase the current cost of leave taking. With an employee-based plan the largest share of the cost of leave taking will be borne by the workers who take those leaves; however, a portion of those costs will be shifted onto workers not taking leave.

There are important gains for employees and employers with paid family and medical leave.

A universal paid leave program will provide some form of wage replacement to some workers who currently do not have paid leave. As a social insurance program, paid leave provides all covered workers the right to receive wage replacement for a limited amount of time when they need it at a relatively small annual price to individual workers and/or employers (depending on who ultimately pays the payroll contribution). Employers will benefit by reduced use of employer paid time off and reduced turnover.

Fears about lengthy extensions of leave-taking due to a paid leave program are ill-founded.

Research conclusively suggests that with relatively short paid leave programs, some workers will take longer leaves, but others will take shorter leaves (i.e., not leave their jobs entirely), resulting in negligible net employment changes. Our research indicates

that with a paid leave program, we can expect that some proportion of employees will take longer leaves, but on average this amounts to an extra half day, not weeks, of time off.

A universal paid leave program levels the employment playing field.

Since traditionally disadvantaged workers are more likely to have unpaid leave provisions, mandatory paid leave programs will benefit these workers the most. With growing wage and income inequality in the United States, a move toward reducing the gap would be a welcome change.

Currently only California has provided its workers with paid family and medical leave, although New Jersey and New York have strong legislative efforts underway to extend their TDI programs to include family leave. If enacted, State Senator Travaglini's proposal will most likely place Massachusetts at a competitive advantage in terms of good places to work. This report should put to rest the arguments that the costs of implementing paid family and medical leave are too burdensome for businesses or government to withstand. In fact the costs on a per employee basis are low – even in a relatively high-wage state like Massachusetts – as are the changes in employer and employee behavior in the presence of such a program. At the same time the payoffs are high: those who would use paid family and medical leave programs get much needed relief and society gets a far less unequal employment playing field.

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Appendix: The IWPR/LRC Simulation Model

In developing a simulation model to estimate the cost of paid family and medical leave programs in a given state, we rely on data documenting actual known leave-taking behavior. Where this is not possible, we provide a set of reasonable assumptions about unknown aspects of behavior in the presence of a paid leave program. To obtain the best estimates possible about known leave-taking behavior, we use the Department of Labor's *Family and Medical Leave 2000 Survey of Employees* (hereinafter referred to as the DOL survey) to estimate behavioral models of leave-taking conditional on the demographic characteristics of individuals, combined with the Census Bureau's March Annual Demographic sample of the Current Population Survey (hereinafter referred to as the CPS) to predict for data on the demographic characteristics of individuals in individual states.

We model our estimates on the actual leave-taking behaviors using the representative sample of employee responses to the 2000 DOL survey. Using this information we estimate the probabilities within the sample of the following observable leave-taking behavior and characteristics: taking a leave, being FMLA-eligible, using a paid program, and receiving employer pay. We then use the DOL data on those who take paid and unpaid leaves to estimate a distribution of leave lengths and amount of benefits received from employers. Still, there is important information we need to know that cannot be extracted from the DOL data. We must hypothesize about these behaviors based on other comparable information or reasonable "guesstimates." Below we describe the assumptions we make in order to answer three important questions.

1: Who will use a comprehensive paid leave program and/or employer pay as an alternative? Our model assumes participation in a paid leave program to be affected by the amount of employer pay while on leave.

The DOL survey indicates that two-thirds of those taking a family or medical leave have some employer pay – usually through employer-offered benefits like vacation, sick time, and other forms of paid leave. One unknown but necessary piece of information needed to properly estimate the number of potential users of a paid leave program is to what extent an employee who takes a leave will use the new paid leave program, stick with the employer's alternative, or rely on both at different points in their leave.

To simulate who will use employer wage replacements or a paid leave program we assume that a leaver would most likely decide to participate in the paid leave program if the program benefits were higher than the next best alternative (no pay or amount received from an employer). We devised a model in which the probability of participating in the comprehensive paid leave program varies positively with the difference between weekly program benefits and the alternative (employer-based benefits or nothing), and negatively with family income (since workers from low-income families are much more likely to use the program benefits when the difference between what they might get from the program and their alternative is small than are workers from high-income families). That is,

the model predicts a higher probability of program participation when benefits greatly exceed employers' plans and when family income is lower.

2: How many eligible employees will "take-up" the program? *We provide estimates using 66.7 percent.*

In order to estimate the cost of paid leave programs we must know the take-up rate – the percentage of eligible employees who would use the program. Take-up rates for a new program like this are extremely hard to predict. There are many reasons why eligible employees might not use a paid program: not knowing if one is eligible, not knowing about the program, finding employer benefits or other alternatives to be more attractive, uncertainty of length of leave time needed, avoidance of administrative or bureaucratic hassles, fear of job repercussions when out of work using the program, cultural attitudes about leaving work for family and medical needs, and quitting a job instead of moving onto the paid leave program.

There is some evidence that take-up rates for maternity leaves and parental leaves for women are close to 100 percent in European countries. On the other hand, take-up rates for parental leave for men vary widely: less than 10 percent in some countries (Austria, Denmark, Germany, and the Netherlands) and 64 to 80 percent in others (Norway, Sweden, and Iceland) (Kamerman and Gatenio 2002). However, it should be noted that in all these countries, the wage replacement rate is typically between 80 and 100 percent of pay, and men take short leaves.

Using the 2000 DOL survey of employees, Waldfogel (2001) reports that 45.1 percent of all men and 75.8 percent of all women who reported having a new child in their household within the last 18 months took a FMLA-related leave. One might expect these percentages to rise somewhat with a paid leave program, especially if the new program has less restrictive eligibility criteria than the FMLA.

There is some instructive data on use of the Unemployment Insurance program. Research on UI usage in the 1980s indicates that take-up rates are somewhat higher than reciprocity rates (percent of those getting UI of all those unemployed regardless of eligibility), but have been falling over time (Blank and Card 1991, Anderson and Meyer 1997). Card and Blank, using CPS data estimate that U.S. take-up rates fell from 75 percent in 1987 to 65 percent in 1991.¹⁸

In this simulation model, the take-up rate is applied *after* we have simulated if an employee needs a leave and has decided whether or not to use employer benefits, so that we have already eliminated potentially eligible participants who decide to only use employer wage replacement benefits. Since this is one important reason why an eligible employee might not use a paid program, we have applied a higher take-up rate than UI take-up rates.

¹⁸ Andersen and Meyers using administrative data find a 52 percent take-up rate in the 1980s.

3: To what extent might people extend current leaves in the presence of a comprehensive paid program? *In all cases we present estimates which assume that a portion of people (based in part on the probability of doing so) extend their leave in the presence of a paid leave program.*

A final unknown, but important, aspect of estimating the cost of paid family and medical leave is if and by how much workers might extend their leave because a paid program is available. Analyzing DOL survey data, we find some evidence that people with paid leave from their employers for own-health reasons do not take longer leaves than those without pay, once adjusting for type of own-health ailment. For women taking parental leave, we find that those with pay actually took shorter leaves than those without pay. The DOL survey data presents conflicting evidence on how people *say* they might act in the presence of a paid program.

In modeling how workers with very short leaves (one week or less) might extend their leaves we applied the mean value (50 percent) to the response in the DOL survey to the question “Would you have taken a leave for a longer period if some/additional pay had been received?” We are presuming those with short leaves are more likely to feel financially compelled to return to work (even if they need a longer leave) than those who actually do take longer leaves. Based on the DOL mean responses to reasons for returning to work, we assumed one-quarter of those with leaves longer than one week leaves would extend their leaves using the program.

There is no good empirical evidence of how long someone might extend their leave if receiving pay. The DOL survey does reveal that those with full pay tend to take short leaves. It is likely that workers with short leaves get full pay precisely because they are covered for short periods of leave, while workers who take longer leaves lose full coverage from employers. In the absence of concrete evidence on how much workers might extend their leave, we made some arbitrary (but, we believe, realistic) assumptions. For those with very short leaves (less than one week), we assume people will extend their leave by a week. For those with longer leaves, we assume they will extend their leave by 25 percent, not to exceed the maximum length allowed under the program.

More details on the model can be obtained from the authors or in our longer report *Paying Off: The Costs and Benefits of Paid Family and Medical Leave in Massachusetts*.