Insight

Paid Leave Proposals: The Numbers Don't Add Up

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OVERVIEW

Recently the FAMILY Act, a popular progressive proposal to provide 12 weeks of paid family, has received extra attention due to disagreement on the left over how to finance the proposed law. While Senator Bernie Sanders supports raising revenue through the FAMILY Act's 0.4 percent payroll tax, former Secretary of State Hillary Clinton would prefer to tax high income households. This disagreement raises an important question: just how much would the FAMILY Act cost? American Action Forum (AAF) finds:

- The FAMILY Act would cost anywhere from $159.6 billion to $997.4 billion per year;
- It would cost the government an average $6,700 for each worker who takes 12 weeks of paid leave; and
- The bill's 0.4 percent payroll tax would only raise $30.6 billion per year.

This means that the proposed payroll tax would only cover 3.1 percent to 19.2 percent of the FAMILY Act's projected costs.

INTRODUCTION

Disagreement on the left over how to finance a substantial paid leave proposal has opened a substantial policy rift among progressives. The FAMILY Act would create a gigantic new government program that would provide workers with 12 weeks of paid family leave. However, while Senator Bernie Sanders fully embraces the FAMILY Act, which would finance the paid leave fund through a payroll tax, former Secretary of State Hillary Clinton would rather raise the necessary revenue by taxing the rich.

The disagreement over how to finance this paid family leave proposal raises an important question: just how much would it actually cost? We find that the proposal embraced by both Senator Sanders and Hillary Clinton would cost anywhere from $159.6 billion to $997.4 billion per year. Moreover, the payroll tax proposed by the FAMILY Act would only raise about $30.6 billion in revenue.

THE FAMILY ACT

The FAMILY Act would provide 12 weeks of paid time off to care for an infant, recover from a major illness, or care for a severely ill relative. For those 12 weeks, the federal government would provide benefits equal to two-thirds of regular earnings, with a minimum monthly benefit of $580 and a maximum monthly benefit of $4,000.

To cover the cost of this paid leave program, the FAMILY Act would establish a family leave trust fund that would receive revenue from a new tax. Specifically, the FAMILY Act would finance the fund by imposing a 0.4 percent payroll tax split evenly between workers and employers. Hillary Clinton, meanwhile, supports everything in the FAMILY Act except how to finance it. Instead of using a payroll tax to raise revenue, she would tax high income households but does not provide any specifics.

THE COST OF THE FAMILY ACT

The FAMILY Act is essentially a toned down version of a bill currently being considered by the Washington D.C. Council that would provide workers up to 16 weeks of paid family leave. For those 16 weeks, the District would provide benefits equal to 100 percent of earnings for those making up to $1,000 per week or $52,000 per year. Workers who make more than that would receive $1,000 per week plus 50 percent of their additional pay. The maximum weekly benefit would be $3,000. Similarly, D.C. would finance the paid leave policy by establishing a paid leave fund that would primarily receive revenue from a 0.5 to 1 percent payroll tax on employers.

Previously, AAF analyzed the DC proposal and found that implementing it nationwide would be extremely expensive. In particular, we found that it would cost between $306.6 billion and $1.9 trillion for the federal government to provide 16 weeks of paid leave and that the proposed payroll tax would only raise $61.4 billion in revenue.

In this report we apply these same methodologies to analyze the cost of the FAMILY Act.

The cost of a paid family leave program depends primarily on how many workers actually take paid time off and for how long. Since the goal is to identify the rough order of magnitude of the proposal, we provide a range of cost estimates using data from the Current Population Survey (CPS) March 2015 Annual Social and Economic Supplement. For our lower bound estimate, we assume that 16 percent of workers each year would take 12 weeks of paid family leave; a take-up rate that matches the percent of workers who took unpaid leave under the Family and Medical Leave Act in 2012. We consider this a lower bound estimate because it seems likely that the take-up of paid leave would exceed that of unpaid leave. The upper bound is simple; we calculate the cost if all workers in the United States took 12 weeks of paid time off. We do not actually expect all workers to take time off and the cost to reach the upper bound estimate. But, we consider it to be the total cost exposure of the paid leave program.

The table below illustrates how much it would cost the government to provide 12 weeks of paid leave through the FAMILY Act.

Cost of 12 Weeks of Paid Leave	
Average Leave Per Worker	$6,700
Lower Bound Total Cost	$159.6 billion
Upper Bound Total Cost	$997.4 billion

Overall, we estimate that it would cost between $159.6 billion and $997.4 billion per year to provide 12 weeks of paid family nationwide. For each worker who takes 12 weeks of paid leave, it would cost the government an average of $6,700.

Now let's examine the proposed funding mechanism. Since Hillary Clinton has not specified how she would tax the rich to pay for this program, the only proposal we can analyze is the 0.4 percent payroll tax proposal made in the FAMILY Act and embraced by Senator Sanders. Taken at face value, however, the scale of the program implies that this payroll tax would not come close to covering the program's national expenses.

Using the same CPS data, we estimate that implementing the FAMILY Act's 0.4 percent payroll tax would only raise about $30.6 billion in revenue.[1] That is only 19.2 percent of the lower bound cost estimate and 3.1 percent of the upper bound cost estimate. As a result, the payroll tax would only cover at most 19.2 percent of the promised benefits. Put differently, at a 16 percent take-up rate, the average length of leave could only be 2.3 weeks. Alternatively, if workers on leave take the full 12 weeks, the program's $30.6 billion in revenue would only allow for 3.1 percent of workers to take paid time off. In reality, to just cover the lower bound cost estimate of $159.6 billion, the payroll tax rate would need to be almost 2.1 percent.

CONCLUSION

Similar to the bill proposed by the Washington D.C. Council, the FAMILY Act would essentially be a new entitlement program. Like our current entitlement programs, however, implementing this one for the entire United States could be extremely expensive. In particular, we estimate that it would cost between $159.6 billion and $997.4 billion for the federal government to provide two-thirds of regular pay for 12 weeks of time off. Moreover, the proposed 0.4 percent payroll tax would at most cover only 19.2 percent of the programs expenses. In order to fund 12 weeks of paid family leave, the government would actually need to impose a nearly 2.1 percent payroll tax.

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[1] To check the robustness of this figure we examined revenue raised from the 2.9 percent Medicare payroll tax. In 2014, that tax raised $227.4 billion in revenue. This means that a 0.4 percent payroll tax would have raised $31.4 billion, which is virtually identical to the $30.6 billion revenue estimate we derived using the CPS data.