The Daily Dish

The Fiscal Intersection of Paid Family Leave and Social Security

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Eakinomics: The Fiscal Intersection of Paid Family Leave and Social Security

A lot of (electronic) ink has been spilled by Eakinomics on the topic of paid family leave. The most recent development in this area is a proposal from the Independent Women's Forum (IWF) to provide paid parental leave through Social Security. As described by AAF's Ben Gitis and Gordon Gray, the idea is that "workers would be able to claim up to 12 weeks of early Social Security benefits in the event of the birth or adoption of a child. In return, the workers would delay their retirement for a period commensurate with the cost of their leave benefits. The retirement deferral is intended to offset the cost of the paid parental leave benefits, so that over a lifetime there is no impact on the Social Security Trust Funds or rise in government spending."

At first blush this proposal is quite appealing and satisfies concerns outlined in an earlier Eakinomics on family leave: "The existing entitlement programs — Medicare, Medicaid, Affordable Care Act, Social Security, etc. — are already financially unsustainable so I consider it exceedingly unwise to create a net expansion in entitlements. I think it is necessary to slow the growth of entitlements and that any new paid family leave benefit be more than offset by reforms that reduce other entitlement spending. That's budgetary common sense, but would also force policymakers to confront the reality that they must make decisions between the benefits of old-age retirement and health programs (which are manifest and real), the benefits of low-income health programs (which are manifest and real), and the benefits of paid leave (which are manifest and real). The reality is that the U.S. faces tradeoffs. Paid family leave is a good thing. The real question, however, is whether it is a good *enough* thing when compared to other demands for taxpayer dollars."

Unfortunately, the fiscal implications are not quite as simple as "family leave spending up, Social Security spending down." In the increasingly near future, the Social Security Trust Funds will exhaust their holding of Treasury securities, at which point benefit payments will (by law) have to be cut to the level of current payroll tax receipts — a cut of roughly 25 percent. Allowing individuals and families to use their Social Security at younger ages now increases spending now and accelerates the onset of Trust Fund exhaustion.

How big a deal is this? Gitis and Gray run the numbers and find that the proposal would cost $10.5 billion in 2019 and $227.6 billion from 2019 to 2034, when the Social Security Trust Funds are projected to reach depletion. Roughly $226 billion (99.4 percent) of the program's cost would be a net cost to the Social Security Trust Funds, which would advance the exhaustion date by about six months. It would also mean that the $226.2 billion in net program costs would be financed by government debt.

Speeding the decline of a key component of the social safety net is, shall we say, problematic. The obvious response is simply to fix Social Security, but there is no evidence that the administration and Congress have that task on their to-do lists. Until then, the IWF proposal looks like a non-starter.