

## Insight



# Estimating the Cost of a Federal Paid-Leave Benefit During COVID-19 Outbreak

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## Executive Summary

- The success of the public health response to COVID-19—and the impact of a response on the economy—largely depends upon all the infected (or potentially infected) individuals undergoing a 14-day quarantine.
- One proposal to encourage an effective quarantine is an emergency federal paid sick-leave benefit, as nearly one-fourth of U.S. workers do not have access to such a benefit.
- Upon examination, at least three types of benefits fall under this umbrella: a sick-leave benefit for confirmed cases, a benefit to encourage testing in suspected cases, and a childcare-support benefit.
- The potential budget costs are sizeable. A 14-day wage replacement benefit for all but the top 25 percent of earners could cost as much as \$180 billion, depending on its generosity and targeting, for those who are sick, and up to \$45 billion to cover time off while getting tested.

## Introduction

Coronavirus (COVID-19) is a pneumonia-like, respiratory illness that was first identified in Wuhan, China in late 2019.<sup>[i]</sup> The first case of coronavirus in the United States was detected on January 21, 2020, and it has spread rapidly, leading to 25 deaths across 35 states and the District of Columbia, according to the Centers for Disease Control and Prevention (as of March 10, 2020).<sup>[ii]</sup> Washington state has the greatest number of cases, followed by California and New York, each reporting more than 100 cases.<sup>[iii]</sup>

Congress and the administration are considering multiple policy options to try to mitigate the economic effects of this ongoing outbreak. A concern is the millions of low-income individuals who do not have access to paid sick leave, or any sick leave for that matter. In order to avoid the rapid spread of the virus, workers are encouraged to stay home in case of illness. If people cannot afford to miss work, however, they will likely go if they're able, even if infected. If sick individuals are going to work, they are more likely to infect others.

Thus, it may be in the public's economic interest for infected individuals to stay home. Some have suggested a federally funded emergency paid sick leave policy as an option to encourage workers to stay home. An estimated 24 percent of workers do not have access to paid sick leave, with stark differences between full-time and part-time workers: Only 14 percent of full-time workers do not have paid sick leave, while 57 percent of part-time workers are without a paid sick-leave benefit.

However attractive such a response might sound in the abstract, it raises a host of practical questions. How should such a program be designed, given limited resources? The cost of such a benefit primarily depends on how many workers take up the benefit and how generous the benefit is. Benefits should be targeted to those

most in need, should not crowd out existing private-sector benefits, and must be generous enough to be effective.

## **Designing an Emergency Paid-Leave Benefit**

### *Who is eligible?*

There are three types of benefits that are under discussion:

- 1) a sick-leave benefit for confirmed cases,
- 2) a test benefit for suspected cases, and
- 3) a childcare benefit for parents whose children must stay home in the event of school closures as a response to the spread of the virus.

Ideally, benefits would only be available to individuals without current access to paid sick-leave benefits so as not to crowd out existing private-sector paid leave. This raises issues of verification, which are likely at odds with quickly providing a benefit. For example, one might verify access to paid leave as of some date before the introduction of such a proposal – e.g., January 1, 2020 – to avoid encouraging firms to drop benefits and allow the federal government to pick up the tab.

Benefits could be available to both full-time and part-time workers, up to a given income level, with benefits provided on a sliding scale. Based on existing data, the majority of individuals without a paid sick-leave benefit work part-time and are in the bottom 10 percent of the wage distribution.<sup>[iv]</sup> Assessing potential cost differences between benefit packages would come down to where benefit cutoffs occur and the number of workers that receive the full wage-replacement benefit, in addition to the sheer spread of the virus itself, which is proving challenging to estimate.

Individuals who are either themselves confirmed to have the virus or have a member of the household with a confirmed case could be eligible for the sick-leave benefit.

Individuals who believe they may have the virus could be eligible for a “testing benefit” for a certain number of days to allow them time to get tested and wait for results; eligibility could be contingent upon being tested, regardless of whether the test is positive or negative. This provision would likely be important for encouraging people to take the time to get tested without being penalized. If the test is positive, then the individual could become eligible for 14 total days of leave, including the days of leave accumulated during the testing phase.

It has also been suggested that parents of children whose school or daycare is closed as a result could also be eligible for childcare leave if they need to stay home with their child. Assessing the quantitative impacts of such a proposal is beyond the scope of this paper.

### *Size of benefit?*

The ideal benefit model would be targeted to the segment of the population most in need rather than putting in place a blanket mandate that would crowd out existing paid-leave benefits provided by employers. To accomplish this, benefits could provide varying degrees of wage replacement depending on the individual’s wage level, with the lowest-wage workers receiving full wage replacement and benefits diminishing as income

rises. One possibility is to provide, for each day of eligible leave, 100 percent wage replacement for workers in the bottom quartile of income earners and 75 percent of wages for workers in the second quartile of earners.

Benefits for individuals with confirmed cases could be provided for 14 days of leave, based on the estimated incubation period.

For suspected cases, workers could be provided 5 days of leave to have sufficient time to see a doctor and wait for test results. Within the span of 5 days individuals who are infected would expect to see symptoms and could take preemptive measures. For parents needing to stay home with their children, benefits could be provided as long as the child is unable to attend school or daycare.

It may also be important to provide job protection that guarantees not only that the worker keep a role with their current employer but return to the same position from which they left; otherwise, workers are likely to forego the 14 days of wages afforded to them by the benefit if they believe their long-term job security is at risk. Including complexities like job protection are at odds with a rapid deployment of the benefit, however.

### *Benefit Administration*

Benefits will need to be paid quickly in order to be effective, as most low-income workers live paycheck-to-paycheck and will not benefit from a delayed payment. Yet the more quickly benefits are paid, the greater the risk of improper payments.

One option to speed the delivery of payment while limiting the likelihood of fraud is to have employers make the payments to their employees, using their existing payroll system, with a promise of reimbursement from the federal government for eligible employees. Employers would need to file necessary paperwork to verify the legitimacy of claims. This verification could either be done during the tax filing process (possibly with amended tax forms to allow for a streamlined process), or, for businesses with low cash flow, claims may be made as soon as a processing system can be established. (This is likely to be a significant issue for small businesses.) Of course, fraud-mitigation efforts will still be important. When it comes to the majority of the labor force, however, because the employer would have to verify payments were made to employees, their incentive to file false claims should be very low.

Having employers administer the payments upfront mitigates the cash-flow crisis for workers living paycheck-to-paycheck and reduces the reporting burden on low-income individuals who may be ill-equipped to navigate the application process. In order to encourage employers to take on this additional burden, some sort of additional incentive to employers may be needed. Employer administration also lessens the need for an elaborate educational campaign to raise awareness among eligible workers; outreach to employers is simpler.

Self-employed, alternative, and independent workers will still present a challenge. These individuals would likely need to receive direct payments through a state agency or administrator. In short, it is not immediately apparent how to deliver such a benefit.

### *Effective Date*

Benefits could be retroactively available to when the first case was detected in the United States and available until the outbreak is declared to be over.

## Estimating the Cost of a Paid Sick-Leave Benefit

Using [Bureau of Labor Statistics \(BLS\)](#) wage data, the range of potential costs of a two-week paid sick-leave program as outlined above can be estimated.<sup>[v]</sup> For consistency and to avoid potential double counting, alternative workers are not included in these estimates but remain an important segment of the population who would also need the benefit.

According to the BLS, the usual weekly earnings of the 29.5 million workers in the bottom quartile average \$623 and those in the third quartile average \$1,488. Without taking into account paid sick leave provided by employers, it would cost nearly \$180 billion to provide full wage replacement to all workers in the bottom three quartiles of the wage distribution for two weeks.

Table 1: Upper-bound cost of 14 days paid sick leave by quartile at full wage replacement

Number of workers	Wage level	Usual weekly median wage	Wage replacement	Cost
29.5 million	Quartile 1	\$623	100%	\$36.7 billion
29.5 million	Quartile 2	\$936	100%	\$55.2 billion
29.5 million	Quartile 3	\$1488	100%	\$87.7 billion
				<b>\$179.6 billion</b>

Assuming a sliding scale of benefits where the bottom three quartiles receive 100, 75, and 50 percent wage replacement, respectively, the total cost could reach \$122 billion.

Table 2: Upper-bound cost of 14 days paid sick leave by quartile sliding scale

Number of workers	Wage level	Usual weekly median wage	Wage replacement	Cost
29.5 million	Quartile 1	\$623	100%	\$36.7 billion
29.5 million	Quartile 2	\$936	75%	\$41.4 billion
29.5 million	Quartile 3	\$1488	50%	\$43.9 billion
				<b>\$122 billion</b>

The estimates above would assume that every worker would get infected or have a family member that needs care, which is unlikely to be the case. Expanding the full wage replacement to all workers below the median wage in this particular benefit structure would increase spending on paid sick leave by 33 percent. If the benefit is intended to prevent the spread of the virus by keeping infected people home, then the leave benefit as structured above should incentivize low-wage earners to take the credit. It's important to note that the take-up rate of the benefit will likely be lower for workers [higher up in the wage distribution](#) because in higher-paying jobs, employers are likely to provide some version of paid sick leave already. The cost estimates above do not take into account employer-provided paid sick leave.<sup>[vi]</sup>

To get a sense of how important it is to account for existing employer benefits, compare the cost across the wage distribution if all workers receive full wage replacement compared to full replacement only for those who are not already covered by an employer.

When the usual rates of employer-covered leave are accounted for, the costs change drastically. The greatest drop in spending occurs in the third quartile, declining from \$87.7 billion to \$10.4 billion. Providing full wage replacement without accounting for existing paid-leave benefits provided by employers would result in the government unnecessarily spending an additional \$139.6 billion to cover mostly higher-wage earners. How to do so quickly and effectively is the key issue.

Table 3: Upper-bound cost at full replacement for non-employer provided paid sick leave, by quartile

Number of workers total	Wage level	Percent with Access to leave benefits	Number of workers with no paid sick leave	Usual weekly median wage	Wage replacement	Cost
29.5 million	Quartile 1	51%	14.5 million	\$623	100%	\$18 billion
29.5 million	Quartile 2	79%	6.2 million	\$936	100%	\$11.6 billion
29.5 million	Quartile 3	88%	3.5 million	\$1488	100%	\$10.4 billion
						<b>\$40 billion</b>

If wage replacement is provided on a sliding scale, rather than 100 percent for all workers, the cost declines an additional \$8.2 billion.

Table 4: Upper-bound cost of paid sick leave on sliding scale for those not covered by employer

Number of workers total	Wage level	Percent with Access to leave benefits	Number of workers with no paid sick leave	Usual weekly median wage	Wage replacement	Cost
29.5 million	Quartile 1	51%	14.4 million	\$623	100%	\$17.9 billion
29.5 million	Quartile 2	79%	6.2 million	\$936	75%	\$8.7 billion
29.5 million	Quartile 3	88%	3.5 million	\$1488	50%	\$5.2 billion
						<b>\$31.8 billion</b>

Accounting for the preemptive leave cost, if we assume that between 20 and 50 percent of workers will get tested and take advantage of the 5-day test benefit, the costs would fall between \$17.8 billion and \$44.8 billion if all workers received full wage replacement during this period. With this measure, as with the others shown above, the benefit can be made more targeted and cost effective by excluding those in the third quartile from receiving benefits or changing the percent wage replacement.

Table 5: Cost of 5-day preemptive leave

Number of workers total	Upper bound (50 percent take-up)	Lower bound (20 percent take-up)
29.5 million	\$9.1 billion	\$3.6 billion
29.5 million	\$13.8 billion	\$5.5 billion
29.5 million	\$21.9 billion	\$8.7 billion
	\$44.8 billion	\$17.8 billion

To explore the scope of a childcare leave benefit, this analysis used data from the Community Population

Survey (CPS) and the BLS. According to the CPS, there are 27 million households with children that fall below the median wage and 38 million households above median wage. Based on these figures, it is estimated that up to 68 million people may need to stay home to care for a child while the child is unable to attend school or daycare.

Estimating the cost of this kind of benefit is challenging and any design would need to take into account myriad (and sometimes unknowable) factors, such as the number and kind of potential caretakers and how long schools will be closed. Analyzing this issue, however, is beyond the scope of this paper.

## **Conclusion**

Millions of low- and middle-income workers do not have access to paid sick leave and there is concern that they are unlikely to voluntarily stay home despite the possibility of being infected. This poses a health and economic threat during this global COVID-19 outbreak, given the contagiousness of the virus. Thus, there have been proposals to provide a financial incentive to such workers to get tested if they suspect they may have been infected and to stay home if they are indeed sick. Any such incentive must be sufficiently generous, and appropriately targeted, to be effective. It will also need to be quickly deployed, which may make effective targeting more difficult.

[i] <https://www.bloomberg.com/graphics/2020-wuhan-novel-coronavirus-outbreak/>

[ii] <https://www.cdc.gov/coronavirus/2019-ncov/cases-in-us.html>

[iii] <https://www.cdc.gov/coronavirus/2019-ncov/cases-in-us.html>

[iv] <https://www.bls.gov/ncs/ebs/benefits/2019/employee-benefits-in-the-united-states-march-2019.pdf#page=119>

[v] <https://www.bls.gov/news.release/wkyeng.t05.htm>

[vi] ? <https://www.bls.gov/ncs/ebs/benefits/2019/employee-benefits-in-the-united-states-march-2019.pdf#page=119>