Insight

Paid Leave Formally Meets Social Security

BEN GITIS | AUGUST 6, 2018

After months of consideration, last week Senator Marco Rubio introduced the Economic Security for New Parents Act. The bill is based on the Independent Women's Forum's (IWF) proposal to provide paid parental leave by allowing workers to claim early Social Security retirement benefits and, in return, delay their retirement. This proposal intends to provide the new benefit in a self-financing way. Yet, a recent American Action Forum (AAF) study of the IWF proposal found that virtually all of the paid leave benefits provided from 2019 to 2034 would be an added cost to the Social Security's Trust Funds and, as a result, modestly advance the Trust Funds' depletion date. While the Economic Security for New Parents Act contains a provision that isolates Social Security from these costs, the new paid leave program still would be financed with new debt.

First, to illustrate why this approach faces challenges, let's review IWF's initial proposal and AAF's previous study. The program proposed by IWF would allow workers to collect up to 12 weeks of early Social Security retirement benefits upon the birth or adoption of child. In return, those workers would pay for their own benefits by delaying retirement for a period long enough to offset the cost of their paid leave. In this sense, the paid parental leave program is intended to be self-financing, and to require neither a new tax nor cuts to existing federal programs.

The principal trouble with this approach, however, is that Social Security already runs annual cash deficits and the Social Security Trust Funds are projected to be bankrupt by 2034. Once Social Security hits bankruptcy, there will be significant across-the-board cuts in benefits. If this paid leave program were enacted now, the increased upfront costs from paid leave benefits and the offsetting future savings would straddle that exhaustion date. Consequently, very few leave-takers between now and 2034 will reach retirement-age before the Social Security Trust Funds go bankrupt, meaning that they would never be able to offset the cost of their paid leave to the Trust Funds.

The AAF study found that between 2019 and 2034, the paid leave benefits, as outlined by IWF, would cost $227.6 billion. Most important, over 99 percent of those benefits would go to workers who reach retirement age after 2034, meaning virtually all the parental leave benefits would be an added cost to the Social Security Trust Funds prior to exhaustion. Why is this important? From 2019 to 2034, the Treasury would finance 99 percent of all paid leave benefits by borrowing from the public, rather than through forgone retirement benefits. Additionally, the paid leave benefits would modestly advance the Social Security Trust Funds' depletion date by six months. So, the program would effectively add to the national debt up-front, while transferring six months' worth of full-retirement benefits to the younger workers who take paid leave.

Next, let's turn to the newly introduced Economic Security for New Parents Act. The bill is based on the IWF proposal and shares many similarities: Workers would be able to use early Social Security benefits for paid parental leave and, in return, they would delay their retirement. The bill would also use a similar benefits structure, meaning that the cost of those benefits would be likely be in the same order of magnitude.

But, there are two principal differences. First, the bill would have the program only operate for a few years and then expire in 2023. Second, the bill would order a Treasury general fund transfer to the Social Security Trust Funds in order to prevent an acceleration in the Trust Funds' depletion. So, like the IWF proposal, the bill would increase borrowing prior to the Trust Funds' depletion. But, unlike the IWF proposal, the bill would also result an in an additional rise in government debt, by the incremental amount required to prevent the Trust Funds' depletion from advancing. Should the bill be made permanent, both the borrowing leading up to the Trust Funds' depletion and the amount of additional borrowing authorized under the general fund transfer would rise considerably.

Paid parental leave has many economic, labor, and health benefits, and expanding access to it is an admirable goal. But, it is important to judge each proposal based on how it would actually work. While the Economic Security for New Parents Act would not accelerate the Social Security Trust Funds' depletion, it would still increase government borrowing.