

Research



Analysis of AEI-Brookings Working Group Proposal on Paid Parental Leave

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EXECUTIVE SUMMARY

We examine the cost and distribution of benefits of the American Enterprise Institute-Brookings Institution working group paid parental leave proposal. Under the proposal, the federal government would provide payments to workers for up to eight weeks of parental leave. Workers would receive 70 percent of their regular earnings, with a maximum weekly benefit of \$600. While this is more modest than the primary liberal proposal, the FAMILY Act, it would still carry a hefty price tag. Moreover, the program would mainly benefit middle- and high- income workers who already receive paid leave from their employers, rather than low-income workers who lack virtually any paid leave benefits in the private sector. In particular:

- The program would cost \$11.1 billion in 2018 and \$132.2 billion over ten years.
- Only 15.3 percent of the benefits (\$1.7 billion in 2018) would go to households under 200 percent of the federal poverty threshold.
- An alternative approach that specifically targets low-income workers would be a more cost-effective way to expand paid parental leave and it would provide a much more generous benefit to the workers who are the least likely to already receive the benefit from their employers.

INTRODUCTION

On June 6th, a working group of policy experts arranged by the American Enterprise Institute (AEI) and the Brookings Institution (Brookings) released a report on paid parental leave, which included a potential compromise solution for increasing access to the benefit in the United States.^[1] As members of the working group, we signed on to the plan believing that it was the best compromise that could be reached among a group of experts with wide ranging views on the issue. That said, this proposal is far from ideal in our view and it is important to identify the shortcomings of this approach. Specifically, the proposal would have a high price tag and provide little support to the low-income households who actually lack any type of paid leave. An alternative solution that targets low-income workers would not only directly expand paid parental leave, but do so in a way that is far more cost-effective and provides greater assistance to those in need.

AEI-BROOKINGS PROPOSAL

The AEI-Brookings working group proposal would provide job-protected, paid parental leave universally to both new mothers and new fathers for up to eight weeks. In order to qualify, new parents would need to meet certain requirements, presumably including a sufficient employment duration with their current employer. The

program itself would replace 70 percent of a worker’s usual weekly earnings, with a maximum benefit of \$600 per week. The new program would be paid for with a mix raising new revenue via a payroll tax or cutting existing spending or tax expenditures.

FISCAL REALITY

Under the working group proposal, the federal government would adopt a European-style social insurance model in which taxpayer dollars are used to provide paid parental leave benefits to any worker that meets the work requirements. When designing a policy that uses federal dollars, it is important to remember that United States deficit spending is on an unsustainable path. The Congressional Budget Office (CBO) projects that the annual federal budget deficit will double over the next few years, surpassing \$1 trillion per year starting in 2023. At that point, federal debt held by the public will equal 82.6 percent of the nation’s gross domestic product (GDP).[2] Given the nation’s dismal fiscal outlook, it is vital that any major new program uses federal dollars effectively. For a paid parental leave program, this means ensuring that any new benefits go to those in need and who do not already receive paid leave from their employers. A program that mainly delivers benefits to higher income workers who are already compensated on while on parental leave would be a redundant use of tax dollars.

BUDGETARY COST OF AEI-BROOKINGS PROPOSAL

To estimate the budgetary cost of the AEI-Brookings working group proposal, we assume a work requirement of at least 1,000 hours in the previous year and use Census data on frequency of pregnancy and data on average duration of leave.[3] Table 1 contains the estimated number of workers who would participate annually and the budgetary costs of the program.

Table 1: Estimated Cost and Participation of AEI-Brookings Paid Parental Leave Proposal

2018 Participation	4,210,934
2018 Budgetary Cost (millions)	\$11,123.1
2018-2027 Budgetary Cost (millions)	\$132,204.8

We find that overall this program would cost \$11.1 billion in 2018 and provide paid parental leave benefits to 4.2 million workers. Assuming the program grows at the same rate as nominal GDP, the program would cost \$132.2 billion over the next ten years. From a cost perspective, this solution is certainly a compromise between varying views. Specifically, the AEI-Brookings working group proposal is much less costly than Senator Kirsten Gillibrand’s FAMILY Act, which would provide up to twelve weeks of paid parental, family care, and medical leave and cost at least \$85.9 billion[4] in its first year and over \$1 trillion over ten years.[5] However, it is much costlier than more modest solutions. Specifically, it is costlier than President Trump’s paid parental leave proposal, which we estimate would cost \$6.8 billion in its first year and \$81.1 billion over ten years.[6] It also would be costlier than an AAF-AEI solution to provide paid parental leave benefits specifically to low-income workers, which would cost \$4.3 billion in its first year[7] and \$51.6 billion over ten years.[8]

DISTRIBUTION OF BENEFITS

A major shortcoming of the AEI-Brookings working group proposal is that it would not provide many benefits to low-income workers, and would be so costly because it mainly provides benefits to workers up the income scale. Table 2 contains the distribution of benefits and average parental leave benefits by household income level.

Table 2: Distribution of Benefits and Average Benefits Under AEI-Brookings Paid Parental Leave Proposal

Poverty Level	Benefits (millions)	Distribution	Average Benefit per Worker
Total	\$11,123.1	100.0%	\$2,641
50% or Under	\$29.5	0.3%	\$745
50% to 100%	\$254.8	2.3%	\$1,364
100% to 150%	\$587.7	5.3%	\$1,816
150% to 200%	\$825.9	7.4%	\$2,151
200% to 300%	\$2,054.0	18.5%	\$2,485
300% to 400%	\$2,034.2	18.3%	\$2,802
400% to 500%	\$1,677.3	15.1%	\$2,973
500% to 600%	\$1,145.1	10.3%	\$3,068
over 600%	\$2,514.6	22.6%	\$3,196
Under 200%	\$1,697.8	15.3%	\$1,818

Of the \$11.1 billion in paid parental leave benefits in 2018, only 15.3 percent (\$1.7 billion) would go to workers under 200 percent of the federal poverty threshold. Meanwhile, 22.6 percent (\$2.5 billion) would go to workers over 600 percent of the poverty threshold.

This is very problematic because in order to effectively expand access to paid parental leave and address hardship, it is essential that a paid leave program prioritizes workers in low-income households. As we have discussed on a number of occasions, paid leave is very uncommon among workers in low-income households, yet quite common among workers in middle- and high-income households.^[9] According to the Pew Research Center, only 38 percent of workers with household incomes under \$30,000 received any compensation from their employers while on family leave. Middle- and high-income workers are able to utilize a number of leave benefits from their employers to be compensated when they take parental leave. As a result, 60 percent workers with household incomes between \$30,000 and \$75,000 and 74 percent with household incomes over \$75,000 were paid.^[10] So, a program that mainly benefits middle- and high-income workers would redundantly benefit those who are already compensated while on parental leave and fail to assist the low-income workers who currently actually lack any paid leave options.

If the government were to utilize taxpayer dollars to provide paid parental leave benefits, an alternative approach that targets low-income workers would be far more effective use a government funds. Specifically, the AAF-AEI income-tested proposal would provide twelve weeks of paid parental leave specifically to low-income workers.^[11] Relative to the AEI-Brookings working group proposal, it would deliver more benefits to low-income workers and limit the benefits provided to middle- and high-income workers who already receive paid leave. Table 3 contains the distribution of benefits and average per worker benefit by household income level.

Table 3: Distribution of Benefits and Average Per Worker Benefit Under AAF-AEI Proposal

Poverty Level	Benefits (millions)	Distribution	Average Benefit per Worker
Total	\$4,338.0	100.0%	\$2,218
50% or Under	\$39.2	0.9%	\$990
50% to 100%	\$395.3	9.1%	\$2,115
100% to 150%	\$1,028.2	23.7%	\$3,178
150% to 200%	\$1,241.4	28.6%	\$3,233
200% to 300%	\$1,571.8	36.2%	\$1,901
300% to 400%	\$62.0	1.4%	\$318
400% to 500%	\$0.0	0.0%	\$0
500% to 600%	\$0.0	0.0%	\$0

over 600%	\$0.0	0.0%	\$0
Under 200%	\$2,704.1	62.3%	\$2,895

At \$4.3 billion in 2018, AAF-AEI income-tested proposal would be roughly one-third the cost of AEI-Brookings working group program. Yet, due to its highly targeted design, the income-tested approach would provide more benefits to low-income households. Specifically, 62.3 percent of the benefits or \$2.7 billion would go to workers under 200 percent of the poverty threshold. That’s over \$1 billion more paid leave benefits for low-income households than the working group proposal would provide. Average benefits to low-income workers would also be more generous under the income-tested approach. Specifically, under the AEI-Brookings working group proposal, workers under 200 percent of the poverty threshold on parental leave would on average receive \$1,818 from the government. Under the AAF-AEI alternative, the same workers would receive \$2,895 on average, over \$1,000 more. So despite costing substantially less than the working group proposal, this alternative approach would provide more support to the low-income households who actually lack paid leave.

CONCLUSION

In an era when federal deficit spending remains on an unsustainable path, it is vital that any new paid parental leave program is designed to help those in need and limits the amount of benefits that go to workers who already receive paid leave. The AEI-Brookings working group proposal is more modest than grandiose proposals like the FAMILY Act and is an honest compromise between a wide range of perspectives. However, the proposal falters because it still carries a hefty price tag with most of the benefits going to high-income workers. Under the proposal, the government would provide more benefits to workers over 600 percent of the poverty threshold than to workers under 200 percent of the poverty threshold. As an alternative solution, the AAF-AEI income-tested proposal would come at a lower price tag, while prioritizing low-income workers and providing them with more generous benefits. Since low-income workers are the ones who lack any form of paid leave already, this would be a more cost-effective solution to actually expand paid leave without redundantly providing the benefit to higher-income workers who already receive it from their employers.

APPENDIX: METHODS

Our methods for estimating the budgetary cost and distribution of benefits are similar to those we have previously used. Specifically, we use data from the Current Population Survey March 2016 Annual Social and Economic Supplement to analyze the distribution of eligible workers and their earnings.^[12] We assume that 4.6 percent of eligible male and female workers between the ages of 15 and 50 would take an average of 5.75 weeks of paid parental leave. The take up rate matches the percent of employed women between the ages of 15 and 50 who gave birth in 2012.^[13] We assumed an average duration of 5.75 weeks after taking into account the average duration of leave under six- and twelve-week programs. The eight-week duration of leave available in the working group proposal is unlike any other leave policy in the United States, which generally allow for six or twelve weeks of leave. This means there are no data to use as a basis for average duration in an eight-week program. So, to make an assumption about the average duration under the working group proposal, we utilize what we know about average duration of family leave under existing six- and twelve-week family leave policies. In particular, of the six weeks of paid parental leave available in New Jersey, new parents on average use 5.4 weeks.^[14] Additionally, workers on average use 6.46 weeks of the twelve weeks of unpaid leave

available under the Family and Medical Leave Act (FMLA).[15] With eight weeks being two more weeks than a six-week policy and one-third the difference in duration between a six- and twelve-week program, we assume that the average duration of leave under an eight-week program would be the same proportional difference between the average durations under the six- and twelve-week policies. One-third the difference between the average durations of 5.4 weeks and 6.46 weeks is 5.75 weeks.

It is important to understand that these are rough estimates that use available information to best gauge the magnitude of the programs. As we have previously noted, there is a dearth of information that is needed to fully and precisely estimate the effects of any paid leave program.[16] Due to lack of important information, several factors end up having mixed effects on the cost estimates. For instance, a factor that may lead to us overstating the cost estimates is our assumption that male and female workers use the program at the same rate and for the same duration. However, it is likely that male workers will use paid parental leave less frequently and for fewer weeks than female workers. Since there is no good information on how male and female workers on average use paid parental leave differently, we are unable to account for this. In addition, we assume that take up rates and duration of leave are the same across all household income levels. Paid leave usage among high-income workers, however, would likely be different than low- and middle-income workers. But since we do not know leave taking patterns by household income level, there is no way to adjust our cost and distribution estimates for this. Alternatively, a factor that may lead to us understating the cost of the program is our assumption that only workers between the ages of 15 and 50 will participate. While that is the population of female workers most likely to give birth, some older adults, particularly male workers or adoptive parents, will also welcome newborn children and participate in the parental leave program. These factors and others likely offset each other in many ways. Yet, without better information it is impossible to determine their net effect on the cost estimate or distribution of benefits.

Regardless, what's important for this analysis is that the same central assumptions are made for each paid parental leave program: the usage is the same for each gender and across income levels. This allows us to fairly compare the magnitude of the budgetary costs and distribution of benefits across different paid leave proposals.

[1] "Paid Family and Medical Leave: An Issue Whose Time Has Come," Working Group Report, American Enterprise Institute & Brookings Institution, June 6, 2017, <http://www.aei.org/publication/paid-family-and-medical-leave-an-issue-whose-time-has-come/>.

[2] Congressional Budget Office, "The Budget and Economic Outlook: 2017 to 2027," January 2017, <https://www.cbo.gov/publication/52370>.

[3] For details on our methodologies and assumptions, please see the appendix.

[4] Ben Gitis, "The Earned Income Leave Benefit: Rethinking Paid Family Leave for Low-Income Workers," American Action Forum, August 15, 2016, <https://www.americanactionforum.org/solution/earned-income-leave-benefit-rethinking-paid-family-leave-low-income-workers/>.

[5] Gordon Gray, "Estimating the Costs of Candidate Clinton's Proposals – Updates (8-15-2016)," American Action Forum, August 4, 2016, <https://www.americanactionforum.org/research/estimating-costs-candidate-clintons-proposals/>.

[6] Ben Gitis, "The Costs and Distribution of Benefits of the President's Paid Leave Proposal," American Action Forum, May 23, 2017, <https://www.americanactionforum.org/research/costs-distribution-benefits-presidents-paid-leave-proposal/>

- [7] Ben Gitis & Angela Rachidi, “Affordable and Targeted: How Paid Parental Leave in the US Could Work,” American Action Forum & American Enterprise Institute, March 29, 2017, <https://www.americanactionforum.org/solution/affordable-targeted-paid-parental-leave-us-work/>.
- [8] Ben Gitis, “The Costs and Distribution of Benefits of the President’s Paid Leave Proposal,” American Action Forum, May 23, 2017, <https://www.americanactionforum.org/research/costs-distribution-benefits-presidents-paid-leave-proposal/>.
- [9] Ben Gitis, “What Pew’s Report on Paid Leave Preferences Means for Policy,” American Action Forum, April 19, 2017, <https://www.americanactionforum.org/insight/pews-report-paid-leave-preferences-mean-policy/>.
- [10] Juliana Horowitz, Kim Parker, Nikki Graf, & Gretchen Livingston, “Americans Widely Support Paid Family and Medical Leave, but Differ Over Specific Policies,” Pew Research Center, March 23, 2017, <http://www.pewsocialtrends.org/2017/03/23/americans-widely-support-paid-family-and-medical-leave-but-differ-over-specific-policies/>.
- [11] Ben Gitis & Angela Rachidi, “Affordable and Targeted: How Paid Parental Leave in the US Could Work,” American Action Forum & American Enterprise Institute, March 29, 2017, <https://www.americanactionforum.org/solution/affordable-targeted-paid-parental-leave-us-work/>.
- [12] “2016 Annual Social and Economic Supplement,” Current Population Survey, obtained at National Bureau of Economic Research, <http://www.nber.org/data/current-population-survey-data.html>.
- [13] Lindsay M. Monte & Renee R. Ellis, “Fertility of Women in the United States: 2012,” Population Characteristics, Census Bureau, July 2014, <https://www.census.gov/content/dam/Census/library/publications/2014/demo/p20-575.pdf>.
- [14] “Paid Family & Medical Leave Insurance: Options for Designing and Implementing a Minnesota Program,” University of Minnesota, February 2016, Table 25, p. 52, <http://kstp.com/kstpImages/repository/cs/files/UofMPaidLeaveReport.pdf>.
- [15] Jacob Alex Klerman, Kelly Daley, and Alyssa Pozniak, “Family and Medical Leave in 2012: Technical Report,” Abt Associates, commissioned by the US Department of Labor, revised April 2014, <https://www.dol.gov/asp/evaluation/fmla/FMLA-2012-Technical-Report.pdf>.
- [16] Ben Gitis, “What We Know About Paid Family Leave in the Private Sector,” American Action Forum, March 17, 2016, <https://www.americanactionforum.org/research/know-paid-family-leave-private-sector/>.