Research

The Cost of Paid Family Leave Law

BEN GITIS | OCTOBER 7, 2015

Key Findings

The Washington D.C. Council recently introduced legislation to provide workers with up to 16 weeks of paid family leave. Hailed by some, it may serve as a model for national paid leave. But if the D.C. proposal were implemented nationwide, the costs and deficits would be immense. AAF analysis found it would cost between $306.6 billion and $1.9 trillion per year to provide 16 weeks of paid family leave nationwide. For each worker who takes 16 weeks paid leave, it would cost the government on average $12,900. Perversely, the higher income the worker, the larger the benefit received; 56.7 percent of benefits from the policy would go to workers who individually earn over $1,000 per week or $52,000 per year.

Meanwhile, the financing would be a payroll tax on employers between 0.5 percent and 1 percent of wages and salaries. Implementing that tax nationwide would only raise about $61.4 billion in revenue.

What exactly is the D.C. Council proposing?

The bill would provide anyone who has held a job in the District (either full-timer or part-time) within the past year with up to 16 weeks of paid time off to care for an infant, recover from an illness, readjust after military deployment, or assist an ill family member. 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.

To receive paid leave benefits, workers in D.C. would submit claims and supporting documentation through an online portal that is run by the local government. Within 10 days, the Mayor’s office would determine whether a worker is eligible, when the paid leave period would start, the maximum duration of the leave, and the weekly benefit amount. Determinations could then be appealed if the worker is unsatisfied with the decision by the Mayor’s office.

To cover the cost of this expansive paid leave policy, the bill establishes a Family and Medical Leave Fund that would primarily receive revenue from a payroll tax on D.C. employers.[1] The law stipulates that if the fund’s balance does not exceed a year of projected expenses, then the tax on employers will equal 1 percent of all worker salaries. But, if the fund’s balance does exceed annual expenses, then the tax would be based on worker earnings. In particular, the tax would range from 0.5 percent of the annual pay of workers making $10,000 to $20,000 per year to 1 percent of the pay of workers making $150,000 or more per year. Employers would not have to pay a tax on worker salaries that are less than $10,000.

The Cost of Implementing D.C.’s Paid Leave Program Nationwide

Providing paid family and sick leave is supported by the White House, and many policymakers would like to make paid family leave available across the entire United States. Using the D.C. program as a model, it is useful to examine the costs of a paid leave program nationwide.

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 March 2015 Annual Social and Economic Supplement. For our lower bound estimate, we assume that 16 percent of workers each year would take 16 weeks of paid family leave; a take-up rate that matches the percent of covered 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 16 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.

Table 1 illustrates how much it would cost the government to provide 16 weeks of paid leave by weekly pay range.

Table 1: Cost of 16 Weeks Paid Leave

Weekly Pay Range	Average Leave Pay Per Worker	Lower Bound	Upper Bound
Below $1000	$8,200	$132.7 billion	$829.4 billion
$1000 to 5000	$22,000	$162.5 billion	$1,015.4 billion
$5000 up	$48,000	$11.4 billion	$71.4 billion
Average/Total	$12,900	$306.6 billion	$1,916.2 billion

Overall, we estimate that it would cost between $306.6 billion and $1.9 trillion per year to provide 16 weeks of paid family leave nationwide. For each worker who takes 16 weeks paid leave, it would cost the government on average $12,900. Moreover, the benefit is somewhat perversely targeted as high income workers would receive the largest benefits. Those making between $1,000 and $5,000 per week would receive $22,000 in benefits on average and those making over $5,000 per week would receive $48,000. As a result, 56.7 percent of benefits from the policy would go to workers who individually earn over $1,000 per week or $52,000 per year.

Taken at face value, the scale of the program implies that the employer tax proposed by the D.C. Council would not come close to covering the program’s national expenses.

Table 2 contains the estimated annual revenue from each tax bracket proposed by the law.

Table 2: Tax Rates and Revenue

Individual Annual Salary	Tax	Revenue
$0.01 under $10,000	0%	$0
$10,000 under $20,000	0.5%	$1.7 billion
$20,000 under $50,000	0.6%	$12.6 billion
$50,000 under $150,000	0.8%	$30.8 billion
$150,000 and over	1%	$16.3 billion
Average/Total	0.62%	$61.4 billion

We estimate that implementing D.C.'s proposed employer tax structure nationwide would only raise about $61.4 billion in revenue. That is only 20 percent of the lower bound cost estimate and 3.2 percent of the upper bound cost estimate in Table 1. Even if the payroll tax were 1 percent for each bracket, which would occur in D.C. if the Family and Medical Leave Fund were not properly financed, it would still only raise a total of $79.9 billion in revenue. To just cover the lower bound cost estimate of $306.6 billion, the tax rate would need to be almost 4 percent at all pay levels.

Of course, the D.C. program allows the Mayor's office to scale requests below 16 weeks, and it may be the case that not all applicants would ask for the full benefit. However, at the full 1 percent rate for everyone, the receipts cover only about 25 percent of lower bound benefits. Put differently, the average length of the leave could only be 4 weeks.

Conclusion

The paid family leave bill proposed by the Washington D.C. Council is a new entitlement program. Nearly everyone would pay in to the program and anyone who qualifies would be entitled to its benefits. 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 $306.6 billion and $1.9 trillion for the federal government to provide 16 weeks of paid leave. Moreover, D.C.'s employer tax of 0.5 percent to 1 percent of worker salaries would at most only cover one-fifth of the program's expenses. In order to fund 16 weeks of paid family leave, the government would actually need to impose a nearly 4 percent payroll tax.

[1] According to the law, the fund could also receive revenue from the D.C. government, eligible individuals who are unemployed or self-employed and still want to participate in the program, interest earned from money in the fund, and "all other money received from any other source."