The Earned Income Leave Benefit: Rethinking Paid Family Leave for Low-Income Workers
Ben Gitis
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Executive Summary

In recent years, there have been several proposals on both sides of the aisle to expand access to paid family leave in the United States. These proposals, however, either tend to be way too expensive or do not effectively increase paid family leave for low-income workers who are the least likely to currently have access to the benefit. The FAMILY Act, for instance, would cost the federal government anywhere from $85.9 billion to $997.4 billion per year, with only 12.5 percent of the program’s benefits going to households with incomes under 200 percent of the poverty line ($48,600 for a family of four). Missing from the discussion is a cost-effective solution to expand access to paid family leave among the most vulnerable workers in the country.

In this paper, we present the Earned Income Leave Benefit (EILB), a targeted approach to provide access to up to 12 weeks of paid family leave specifically for workers in low-income households. Modeled after the Earned Income Tax Credit (EITC), the total benefit available would be based on household income and only households with incomes below a certain threshold would be eligible. The result? A program that is much less costly than the FAMILY Act and that provides paid time off for the most vulnerable workers in the labor force. An EILB for full-time workers would have the following impacts:

- The federal government would spend between $1.5 billion and $17.9 billion annually,
- 8.4 million low-income workers would gain access to paid family leave,
- 92.6 percent of the program’s benefits would go to households with incomes under 200 percent of the poverty threshold, and
- the most vulnerable full-time workers in the labor force would receive a larger benefit than under the FAMILY Act.

Introduction

We are witnessing a revived discussion about whether paid family leave should become a more prominent feature of the U.S. labor
market. While data are mixed, it certainly appears that not everyone who needs to take family leave is paid by their employer while they are away from work. This is particularly true for low-wage workers. This discussion has led to a myriad of policy proposals from both sides of the aisle to expand access to paid family leave. These proposals, however, tend to have a few shortcomings: either they are extremely expensive for the government to administer, do not increase access to paid leave among the low-income vulnerable workers who are least likely to currently have access to the benefit, or both. If policymakers believe that increasing access to paid family leave is a worthwhile goal, then there is a more cost-effective way for the government to provide vulnerable low-income workers with this benefit.

In this paper, we present the Earned Income Leave Benefit (EILB), a targeted approach that provides access to paid family leave specifically for workers in low-income households. Under this approach, the government would make up to 12 weeks of payments to a household with a worker forced to leave his or her job due to a qualifying reason under the Family and Medical Leave Act of 1993 (FMLA). Similar to the Earned Income Tax Credit (EITC), the size of the EILB that would be available is based on the total income earned by the worker’s household. Also like the EITC, the EILB would only be available to workers in households with incomes below a certain threshold. This means that benefits would only go to vulnerable workers in low-income households. In a prototype version of the EILB illustrated in this paper, all benefits would go to households with incomes under $28,000. In addition, the program would be substantially less expensive than proposals to provide paid family leave to all workers in the United States.

In the following we review the current state of paid family leave in the United States and examine current proposals to increase access to it. Then we discuss the EILB, examine the budgetary cost of the program, and illustrate the distribution of the program’s benefits.

**Paid Family Leave in the United States**

In the United States, certain workers are allowed up to 12 weeks of unpaid, job-protected leave to care for a newborn, recover from a serious medical condition, or care for a family member with a serious medical condition under the FMLA. While three states administer paid family leave programs, there are no federal laws that entitle workers
to paid family leave and require workers receive compensation during their time away from work.

As we detailed in previous research, the data on access to paid family leave in the private sector are mixed and policymakers lack a lot of important information needed to fully understand how workers and families afford family leave today. For instance, according to the Bureau of Labor Statistics' (BLS) National Compensation Survey (NCP), in 2015 12 percent of private sector workers were offered paid family leave by their employers. However, according to an Abt Associates report commissioned by the BLS in 2012, of those who took family leave, 48 percent received full pay and another 17 percent received partial pay. That same report found that 13.3 percent of worksites provided full pay and 20.9 percent provided partial pay to workers on leave for qualifying FMLA reasons. While these figures may suggest that those who anticipate needing significant time away from work take jobs with employers that offer paid family leave, more information is needed.

Despite the lack of consistent data, it is still clear that the private sector workers least likely to receive paid family leave are the ones who earn low wages and work for small employers. In 2015, for instance, while only 5 percent of the workers earning wages in the bottom quartile had access to paid family leave, 23 percent of workers in the top quartile were offered the benefit. In addition, only 8 percent of workers in businesses with fewer than 50 employees were offered paid family leave and 22 percent of workers in businesses with 500 or more employees had access to the benefit. Moreover, although access to paid family leave is growing for those with high wages and in large businesses, access to the benefit is flat for those with low wages and in small businesses. If the growth rate in access to paid family leave since 2010 continues over the next decade, then by 2025 only 7.8 percent of workers in the bottom quartile of wages will have access to the benefit. However, nearly half (47.5 percent) of workers in the top quartile of wages will be offered paid family leave. Given this information, it is clear that any effort to increase access to paid family leave would be particularly effective if the benefits were directed to low-wage workers, particularly those who are also in low-income households and cannot afford time away from work.
Ways to Expand Access to Paid Family Leave

When designing a policy to expand paid family leave, there are several routes lawmakers can take. First, should paid family leave be a part of a much broader effort to overhaul the employer-based benefits system or should it just be a standalone policy? While most proposals so far create a standalone paid family leave policy, an overhaul in employer-based benefits that gives workers more power to choose the types of benefits they want each year throughout their careers could also lead to an expansion in paid family leave. For instance, if one year a worker anticipates requiring time away from work to care for a newborn baby, under an employer-based benefits system with greater flexibility, that worker could allocate a greater portion of his or her fringe-benefits towards paid leave. Oxford Economics once found that Americans do not use $52.4 billion worth of paid vacation days every year. If Americans had the flexibility to reallocate those resources towards benefits they would use, it seems likely that far more workers would have access to paid family leave. The other option would be to craft a standalone policy that expands access to paid family leave, which is the route that most recent proposals take.

Second, who should pay for workers to take paid family leave? Some think that lawmakers should simply mandate that employers provide paid family leave to all their workers, believing that it should be a benefit just like all of the others that employers provide. Mandating a large benefit such as paid family leave, however, would only end up hurting the very workers it is intended to help. In a previous paper, we estimated that mandating 12 weeks of paid leave only for pregnant workers would cost employers $14.2 billion every year. That’s equivalent to the pay of 293,368 full-time workers, who would potentially lose their jobs. Add in paid leave for new fathers, for a variety of medical conditions, and for child and family needs, and the negative consequences on employers and their workers grow substantially. Moreover, many of those who would be subject to the negative labor market consequences would likely be the very workers that the policy is intended to help.

Given the negative consequences that mandating employers to provide paid family leave would have on workers, a more sensible approach may be to use taxpayer dollars to design a government program that administers the benefit. This is the approach that most of the recent proposals take when creating standalone policies to expand access to paid family leave. The policies that lawmakers have proposed so far,
However, are either extremely expensive or do not increase access to paid family leave among the low-income workers who are least likely to already receive it through the private sector.

On the left, Senator Kirsten Gillibrand’s Family and Medical Insurance Leave (FAMILY) Act would provide 12 weeks of paid family leave by creating a trust fund that would be financed with a 0.4 percent payroll tax, split between employers and employees. For those 12 weeks, the federal government would provide benefits equal to two-thirds of regular earnings, with a minimum monthly benefit of $580 and a maximum monthly benefit of $4,000. Since the program would be available to all workers, low-wage workers would have access to paid family leave.

As we previously found, however, this blanket approach would be extremely expensive and most of the benefits would go to high-income workers. We estimate that the FAMILY Act would annually cost the federal government between $85.9 billion and $997.4 billion. Moreover, the 0.4 percent payroll tax proposed by the FAMILY Act would only raise $30.6 billion in revenue. This means that the payroll tax at most would only cover 35.6 percent of the program’s promised benefits. In addition, since the monthly benefit increases with earnings and there is no maximum income level to be eligible for the benefit, most of the federal government’s expenditures would go to workers with high earnings and who may not even need the assistance.

On the right, there have been a number of proposals to increase access to paid family leave. Senator Deb Fischer’s Strong Families Act would provide a tax credit to businesses that give at least two weeks of paid family leave that would equal 25 percent of every hour of paid leave. In addition, Senator Kelly Ayotte, Senator Mike Lee, and Representative Martha Roby introduced similar bills that would allow workers to accrue paid time off for working overtime in lieu of additional pay. So instead of earning 1.5 times their usual hourly wages for each hour of overtime, employees could choose to receive 1.5 hours of paid time off.

While these proposals would certainly be more cost efficient than the FAMILY Act, there is no convincing evidence that they would effectively expand access to paid family leave for low-income workers. For instance, it is not clear whether the tax credit in the Strong Families Act would lead to many businesses starting to offer
paid family leave or if it would simply subsidize employers who are already providing the benefit. From the NCP data we know that highly compensated workers in large businesses are most likely to have paid family leave. This means that the tax credit would benefit those large employers and ensure that the high-wage workers continue to receive the benefit. In addition, many low-income workers do not have the option to work more than 40 hours per week and would not benefit from a proposal that allows workers to accrue paid time off in lieu of overtime pay. Indeed, many workers in poverty are in poverty because they lack access to sufficient and dependable hours at work. This means that the proposal from Senators Ayotte and Lee and Representative Roby would likely be unable to significantly help many of those most in need.

Finally, Representatives John Katko and Kyrsten Sinema's bipartisan Working Parents Flexibility Act would allow employers to offer workers the option to divert a portion of their pretax earnings into a parental leave savings account. This would be similar to a standard 401(k) retirement savings account, in which employees are able to invest a portion of their pretax earnings in a savings fund that they can access upon retirement. For the paid leave savings fund, instead of accessing the savings during retirement, workers would be able to draw from them whenever they decide to take leave. Also like a 401(k), employers would be free to match worker contributions.

The Working Parents Flexibility Act may be an effective way to help middle class families afford to take family leave. But, it would also likely be unhelpful for workers in low-income households who spend all or nearly all of their earnings on daily necessities, such as food and rent, and have less available to save.

So while there are a number of proposals to increase access to paid family leave, they tend to be either way too expensive or unhelpful for workers in low-income families. Currently there are no active legislative proposals that are limited in cost and directly benefit the low-income workers in most need of assistance.

**A New Approach to Paid Family Leave**

If policymakers believe that increasing access to paid family leave is a worthwhile goal, and wish to do so with a standalone policy and taxpayer dollars, then there is a cost efficient way that specifically helps the most vulnerable workers in the labor force. This approach
would be to make the FAMILY Act targeted so that it benefits low-income families. That is essentially the goal of the EILB, which would be much less costly than the FAMILY Act and would far more effectively send federal resources to low-income households. In the following, we describe an example of how to design the EILB, review the costs of the program, and illustrate the distribution of the program’s benefits.

Program Design

Like the FAMILY Act, the EILB would provide up to 12 weeks of paid family leave to workers who are temporarily forced to leave their job for qualifying reasons under the FMLA. The FAMILY Act gets so expensive, however, because (1) the program’s benefits are proportional to an individual’s earnings and (2) it does not have a maximum earnings threshold to limit eligibility, which means that all workers qualify for the program. The EILB, on the other hand, would deviate from the FAMILY Act by (1) basing the benefits on total household income and (2) capping the household income level at which a worker would be eligible for the program.

For an example of how the EILB could be designed, in this paper we model it after the EITC: the entire 12-week benefit available to workers would be equivalent to a fixed percentage of their household income; as household income rises, so would the benefit at a constant rate. The benefit would hit a maximum value and would then be flat at the maximum value for a certain income range. When household income rises above that range, the EILB would reduce at a constant rate until the household phases out and is no longer eligible for the paid leave program.

While workers who qualify for the EITC can claim their entire benefit, the amount of the total available EILB a worker could claim would depend on how many weeks he or she must be away from work. For instance, if a worker were eligible for a total benefit of $1,000 over 12 weeks, but she only was away from work for 9 weeks, then she would receive a $750 benefit.

In table 1 we illustrate one way to set the EILB’s specific parameters. Keep in mind, policymakers can make the EILB more or less generous (and costly) by adjusting these parameters.
Table 1: Example EILB Parameters

<table>
<thead>
<tr>
<th>Benefit Income Range</th>
<th>Lower-Bound Income</th>
<th>Upper-Bound Income</th>
<th>Rate/Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase in Cap</td>
<td>$0.00</td>
<td>$9,880.00</td>
<td>34%</td>
</tr>
<tr>
<td>Phase out</td>
<td>$9,880.00</td>
<td>$18,110.00</td>
<td>$3,359.00</td>
</tr>
<tr>
<td></td>
<td>$18,110.00</td>
<td>$27,990.00</td>
<td></td>
</tr>
</tbody>
</table>

Under these specifications, the total 12-week benefit would equate to 34 percent of household income until income reaches $9,880. At that point, the total benefit would hit its maximum value of $3,359. The worker would receive this maximum benefit until household income reaches $18,110, at which the benefit would begin to phase out, also at a 34 percent rate. Once household income reaches $27,990, the worker would be completely phased out of the program and no longer receive the EILB. To be clear, this means that no one earning above $27,990 would receive EILB payments.

Under these parameters, the 34 percent phase-in rate and $3,359 maximum benefit match those of the EITC for single adults with one child in 2015. The phase-out rate of 34 percent, however, is steeper than the 15.98 percent phase-out rate for the EITC. The quicker phase-out rate also leads to the EILB having a lower maximum income threshold than the EITC for single workers with one child. Whereas the maximum income for workers to be eligible for the EILB is $27,990, in 2015 the maximum income for single workers with one child to be eligible for the EITC was $39,131. We use the quicker phase-out rate to limit the EILB’s budgetary costs.

The EILB’s Expenses

When comparing the budgetary cost of the EILB to the FAMILY Act, it is clear that the federal government would spend a lot less money to provide paid family leave specifically for workers in low-income households. In general, the cost of a paid family leave program depends primarily on how many workers actually take paid time off and for how long. To identify a rough order of magnitude for each proposal, we provide a range of cost estimates using data from the Current Population Survey (CPS) March 2015 Annual Social and Economic Supplement. For our lower-bound estimate, we assume that 16 percent of eligible workers each year would take an average of 32.3 business days (about 6.5 weeks) of paid family leave; a take-up rate and a duration that match those of workers who took unpaid
leave under the FMLA in 2012.\textsuperscript{xx} We consider this a lower-bound estimate because it seems likely that both the take-up and duration of paid leave would exceed those of unpaid leave. The upper-bound is simple; we calculate the cost if all eligible workers took 12 weeks of paid time off each year. We do not actually expect all eligible 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 each paid leave program.

Table 2 compares the cost of the FAMILY Act to the EILB.

<table>
<thead>
<tr>
<th>Program</th>
<th>Lower-Bound</th>
<th>Upper-Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAMILY Act</td>
<td>$85.9 billion</td>
<td>$997.4 billion</td>
</tr>
<tr>
<td>EILB</td>
<td>$2.7 billion</td>
<td>$31.6 billion</td>
</tr>
<tr>
<td>EILB for full-time workers</td>
<td>$1.5 billion</td>
<td>$17.9 billion</td>
</tr>
</tbody>
</table>

Overall, we estimate that the FAMILY Act would cost between $85.9 billion and $997.4 billion per year.\textsuperscript{xxi} In addition to covering all workers in the United States, the FAMILY Act is so expensive because the benefits are equivalent to a fairly high proportion (66.7 percent) of a worker’s individual monthly earnings and the maximum benefit is a lofty $4,000 per month. This means that as a worker’s earnings rise, so does the benefit. The result is that workers taking 12 weeks of leave would receive an average of $6,700, and those with the highest salaries would be able to receive as much as $12,000 from the federal government.

Offering paid family leave through a targeted program such as an EILB, on the other hand, would be far less expensive because the total benefit available would be much more modest and all benefits would only go to households most in need. If the EILB’s parameters matched those in table 1, the benefit would cost the federal government between $2.7 billion and $31.6 billion per year. Low-income workers taking 12 weeks of leave would receive an average $2,200, and many would receive as much as $3,359 from the federal government.

Moreover, if the EILB were only available for full-time workers, its cost to the federal government would be even smaller. We estimate that the EILB detailed in table 1 would cost only between $1.5 billion and $17.9 billion per year if it were limited to full-time workers. For these workers, the average 12-week benefit would be about $2,120, with the maximum benefit remaining at $3,359.
Policymakers may be concerned that a paid family leave program such as the EILB would be taken advantage of by some individuals who do not intend to work. For instance, if the EILB were simply available to any worker who met the program’s household income requirements, then it is plausible that some who anticipate an FMLA qualifying event, such as the birth of a child, but do not intend to work, may temporarily fill a job so they can claim the benefit without any intention of returning to work. As a result, it may be optimal to restrict eligibility for the EILB to those who are already strongly attached to the labor force, such as full-time workers.

Distribution of Benefits

While the FAMILY Act would spend more money on workers and cover the entire labor force (about 149 million workers), the EILB far more effectively targets workers in need of help. An EILB just for full-time workers, for example, would specifically assist about 8.4 million particularly vulnerable workers. In fact, under the EILB many of the most vulnerable workers in the labor force would actually be better off than under the FAMILY Act. This becomes clear when comparing the distribution of workers and benefits by poverty status.

Table 3 compares the distribution of workers and benefits in the FAMILY Act and the EILB.

<table>
<thead>
<tr>
<th>Poverty Level</th>
<th>FAMILY Act Recipients (%)</th>
<th>FAMILY Act Benefits (%)</th>
<th>EILB w/only full-time Recipients (%)</th>
<th>EILB w/only full-time Benefits (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>50% or Under</td>
<td>1.1%</td>
<td>0.5%</td>
<td>8.2%</td>
<td>9.4%</td>
</tr>
<tr>
<td>50% to 100%</td>
<td>3.3%</td>
<td>2.3%</td>
<td>30.3%</td>
<td>35.5%</td>
</tr>
<tr>
<td>100% to 150%</td>
<td>5.4%</td>
<td>4.2%</td>
<td>31.0%</td>
<td>31.3%</td>
</tr>
<tr>
<td>150% to 200%</td>
<td>6.8%</td>
<td>5.5%</td>
<td>20.7%</td>
<td>16.5%</td>
</tr>
<tr>
<td>200% to 300%</td>
<td>15.5%</td>
<td>12.9%</td>
<td>9.9%</td>
<td>7.4%</td>
</tr>
<tr>
<td>300% to 400%</td>
<td>15.2%</td>
<td>13.5%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>400% to 500%</td>
<td>13.1%</td>
<td>12.3%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>500% to 600%</td>
<td>9.9%</td>
<td>10.1%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>over 600%</td>
<td>29.7%</td>
<td>38.6%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Under 200%</td>
<td>16.6%</td>
<td>12.5%</td>
<td>90.1%</td>
<td>92.6%</td>
</tr>
</tbody>
</table>

It is clear that since the size of the benefits under the FAMILY Act increase with worker earnings, most of the program’s benefits would
go to workers who are well above the poverty line. Only 16.6 percent of the FAMILY Act’s recipients would live in households with incomes below 200 percent of the poverty line and, as a result, only 12.5 percent of the program’s benefits would actually go to those households. Moreover, only 4.4 percent of the program’s recipients would actually be in poverty, leading to only 2.8 percent of the FAMILY Act’s benefits going to poor households.xxii

On the other hand, 90.1 percent of workers receiving the EILB would be in households with incomes below 200 percent of the poverty threshold and 92.6 percent of all EILB payments would go to those households. 38.5 percent of the recipients would actually be in poverty and 44.9 percent of the benefits would go to poor households.xxiii Overall, due to the income limit, no household with an annual income over 300 percent of the poverty threshold would have access the benefit.

In addition, although the $6,700 average 12-week benefit under the FAMILY Act would be much larger than the $2,120 average EILB available to full-time workers, the most vulnerable full-time workers in the labor market would actually be better off with the EILB than they would with the FAMILY Act. For instance, consider a single mother working 40 hours per week year-round and earning the federal minimum wage of $7.25 per hour. Under the FAMILY Act, if she took 12 weeks of paid family leave, she would receive a total $2,320 from the federal government. With the EILB, however, she would receive the maximum benefit of $3,359. So under the EILB, she would receive over $1,000 more than she would receive from the FAMILY Act. In fact, all single parents earning below $9.79 per hour and working 40 hours per week would be better off receiving the EILB than receiving payments under the FAMILY Act.

**Improper Payments**

One of the most substantial draw backs to the EITC is that it has a high rate of improper payments. Overall, the federal government spends $60 billion to $70 billion each year on the EITC, with about a quarter of those expenditures going to individuals who actually do not qualify for the credit. This means that the federal government loses about $15 billion to $18 billion annually on these improper payments, which occur because of fraud and simple mistakes. One of the central reasons the Internal Revenue Service makes so many improper EITC payments is that administrators are unable to verify where a child
resides, which impacts the size of the credit.\textsuperscript{xxiv} Similar to the EITC, EILB administrators would likely face challenges in verifying whether a worker claiming the benefit is actually taking leave for an FMLA qualifying reason. If the EILB also becomes plagued with fraudulent payments and honest mistakes that waste taxpayer money, then it would undermine the program’s credibility and its ability to help those most in need.

A recent American Enterprise Institute report makes several suggestions to reign in improper EITC payments. These include using real time payroll data to verify worker wages and using intermediaries such as tax preparers to verify income and family structure.\textsuperscript{xxv} The federal government could also use these types of strategies to ensure that improper payments under the EILB are kept to a minimum.

\textbf{Conclusion}

In today’s anemic economy, if a single mother working an hourly fast food job had to stay at home to care for a newborn child or an ill family member, her family could be in a dire situation. Already struggling to make ends meet and support her family, leaving her job would mean forgoing what is likely her only source of income. Without any form of paid family leave to assist her, her family would likely struggle as a job is the most effective way to avoid poverty. However, with the federal government facing a very dismal budget outlook, an extremely expensive blanket policy like the FAMILY Act is neither politically feasible nor fiscally responsible. Nevertheless, there are more targeted and cost efficient ways to support low-income workers if they must temporarily leave their job. The EILB is one example of a relatively low-cost way to ensure that when a vulnerable worker takes family leave, she receives support from the government.

\begin{itemize}
  \item \textsuperscript{ii} Ibid.
  \item \textsuperscript{iv} Ibid., p. 93
\end{itemize}
The lower-bound cost estimate assumes that for paid leave the take-up rate (16%) and average leave duration (32.3 business days) will be the same as for unpaid leave, which are reported by Klerman, Daley, & Pozniak, 2012, pp. ii, 67-68.

The upper-bound cost estimate assumes all workers in the United States take 12 weeks of paid time off in a single year.

It should be noted that the lower-bound estimate of $85.9 billion is revised down from the $159.6 billion cost estimate we initially reported in January 2016. The revised estimate incorporates data on the average duration of unpaid leave under the FMLA. So while we previously assumed in our lower-bound estimate that everyone taking paid family leave would utilize the entire 12 weeks, we now assume that the duration of paid family leave will match the average duration of unpaid family leave, which in 2012 was 32.3 business days or about 6.5 weeks. This also means that our estimate for how much the 0.4 percent payroll tax would cover the lower-bound cost estimate is revised up from 19.2 percent to 35.6 percent. Despite these changes to the lower-bound estimate, it is still clear that the FAMILY Act is exorbitantly expensive and that the proposed 0.4 percent payroll tax would still not come close to covering the programs benefits.


Ibid., pp. 67-68

Note that in previous papers we assumed in the lower-bound estimate that 16 percent of workers would utilize the entire 12 weeks of paid leave available. Using the average duration of unpaid leave instead results in a smaller lower-bound estimate.

The $85.9 billion lower-bound cost estimate of the FAMILY Act is revised down from our previous estimate of $159.6 billion because we incorporated the average duration of unpaid leave.

These figures assume that the distribution of those who take family leave matches the distribution of all workers eligible for paid family leave under the FAMILY Act.

These figures assume that the distribution of those who take family leave matches the distribution of all workers eligible for the EILB.
