MARCH 7, 2019

Considering Options to Expand Paid Family Leave in California

LEGISLATIVE ANALYST'S OFFICE

Major Features of California's Paid Family Leave Program

State Implemented Paid Family Leave in 2004. Chapter 7 of 2002 (SB 1661, Kuehl) enacted paid family leave in California. The Employment Development Department (EDD) began issuing benefits in 2004. The state implemented paid family leave as an extension of the existing disability insurance program.

Provides Up to Six Weeks of Paid Time Off. California's current paid family leave program provides up to six weeks of partial wage replacement to workers who take time off to bond with a new child or care for an ill family member. Separately, birth mothers also may take paid pregnancy-related disability leave beginning typically four weeks before the expected delivery date and lasting six weeks after the delivery.

Paid Family Leave Available to More Than 18 Million Californians. Nearly all California employees pay into the state's disability and paid family leave programs and thus are eligible to receive benefits. (This includes employees who work for companies that offer their own paid family leave plans.) A small share of the state's workforce, including some state government employees and some nonprofit employees, are not covered by paid family leave.

About 235,000 People Take Paid Family Leave Each Year to Bond With a Child. In addition to these "bonding claims," an additional 35,000 people take leave each year to care for a seriously ill family member ("caring claims").

Major Features of California's Paid Family Leave Program

(Continued)

Weekly Benefits Offered. Most workers receive weekly benefits equal to 60 percent of their normal pay, capped at $1,252 per week in 2019. Low-wage workers—those who earn less than one-third of the state average wage ($21,328 annually in 2019)—receive weekly benefits equal to 70 percent of their normal pay. Recent legislation increased these amounts, known as the wage replacement rate, from 55 percent to current levels.

Weekly Benefit Received. In 2019, EDD estimates that the average benefit amount will be $695 per week and that the average claim will last 5.5 weeks.

Figure 1

Weekly Benefit Amount Depends on Earnings

2019 Statutory Levels and Estimated Average

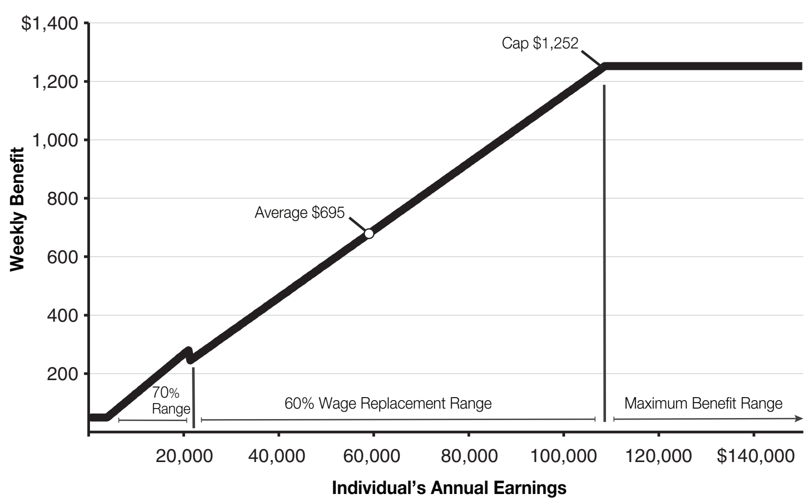


Illustration assumes equal quarterly earnings. Weekly benefits are set according to highest quarterly earnings in the four-quarter period that ended five months prior to claim application.

Major Features of California's Paid Family Leave Program

(Continued)

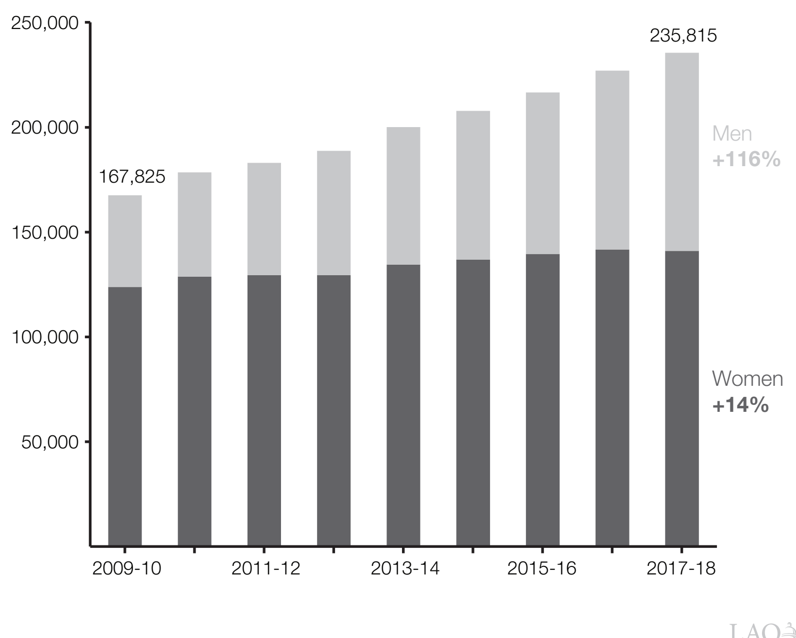
How Many People Take Paid Family Leave? In 2017-18, women made 60 percent of bonding claims and men made 40 percent. Since 2009-10, the total number of bonding claims made each year has increased by 40 percent. Most of this increase is due to a large increase in the number of men taking leave, which has more than doubled over the period. Claims made by women have also increased, but by a smaller amount.

What Share of Eligible New Parents Take Paid Family Leave? The total number of bonding claims has increased by 40 percent since 2009-10. At the same time, the annual number of births has declined by about 8 percent—from 530,000 births in 2009 to 480,000 births in 2017. This indicates that the share of eligible parents who take paid family leave each year (the "take-up rate") has increased. We estimate that roughly one-half of eligible mothers and roughly one-quarter of eligible fathers made bonding claims in 2017.

Figure 2

Increase in Bonding Claims Largely Due to Greater Take-Up Among Men

Annual Bonding Claims Made by Men and Women



Major Features of California's Paid Family Leave Program

(Continued)

How Much Leave Is Taken? Most women who take paid family leave to bond with a child take the full six weeks that is available. On average, men take paid family leave for less time.

State and Federal Laws Also Provide 12 Weeks of Unpaid Job Protection During Family or Medical Leave. Employees who meet certain requirements have the right to take up to 12 weeks of unpaid job-protected family leave. Until recently, this policy applied only to employers with 50 or more employees. Recent state legislation expanded it to include employers with 20 or more employees.

Funding California's Paid Family Leave Program

Funding Paid Family Leave Benefits. Covered employees pay a 1 percent payroll tax to fund Paid Family Leave and disability benefits. Collections are deposited into the state's Disability Insurance Fund and used to pay both disability insurance benefits and paid family leave benefits.

- ***Employee Contributions Are Capped.*** Employees pay the 1 percent payroll tax on annual earnings of up to $118,371 in 2019. Earnings above that amount are not subject to the tax.

- ***$8 Billion Annually.*** The payroll tax raises about $8 billion each year for disability and paid family leave benefits.

- ***Most Goes to Disability Benefits.*** About 85 percent of annual benefit payments are for disability claims. The remainder, about 15 percent of benefits, are for paid family leave claims. (For paid family leave, this amounts to about $1 billion each year.)

- ***Tax Rate Adjusts Administratively.*** In most years, the amount paid in benefits is similar to the amount collected. When an imbalance occurs or when a law change affects benefit levels, existing state law directs EDD to adjust the tax rate to ensure contributions are sufficient to cover benefits. Under state law, however, the rate may not exceed 1.5 percent. (The current rate is 1.0 percent.)

- ***Fund Reserve.*** As described above, existing state law ensures that contributions are sufficient to cover benefits. This law also requires that the fund maintain a reserve balance equal to approximately 45 percent of benefit payments. In 2019, the reserve balance is estimated to be $3.4 billion.

What Are the Goals of the Paid Family Leave Program?

Original Legislation Sought to Address Challenges Faced by Working Parents. When it enacted California's paid family leave program, the Legislature's stated goal was to "create a program to help reconcile the demands of work and family."

Governor Has Emphasized Child Development. In conjunction with his January budget proposal (described on page 10), the Governor emphasized the potential role of paid family leave in supporting child development.

Researchers, Legislators, and Others Have Identified Other Specific Goals of Paid Family Leave. These include:

- Improving maternal health and reducing parental stress and depression.
- Increasing labor force participation and reducing labor market gender gaps.
- Maintaining job stability for employers and employees.

California's Program in an International Perspective

Most Countries Offer National Paid Leave Benefits. The U.S. is the only high-income country—and one of a handful of countries overall—that does not have a national paid family leave policy.

Many Differences Between Other Countries' Policies and California's. Features of some other countries' policies include:

- ***Large Gender Differences in Benefits.*** Mothers' benefits typically last much longer than fathers' benefits.

- ***Shareable Benefits.*** In addition to benefits for individual parents, many countries offer benefits that parents can share between one another.

- ***Longer Durations Overall . . .*** Overall, other countries' paid parental leave benefits tend to last much longer than California's. (This comparison includes California's pregnancy disability insurance benefits and other countries' shareable benefits.)

- ***. . . But Not Necessarily for Fathers.*** Many countries' paternity leave benefits are shorter than the six weeks offered to fathers in California.

- ***Wage Replacement Rates That Vary Over the Leave.*** For example, the United Kingdom offers 90 percent wage replacement for the first six weeks of maternity leave, followed by a relatively low flat rate for the rest of the leave.

- ***Multiple Leave Options.*** For example, Canada's policy lets families choose between a long leave at a low wage replacement rate and a shorter leave at a higher replacement rate.

California's Program in a U.S. Perspective

California Was First U.S. State to Implement Paid Family Leave. Since then, five states—New Jersey, New York, Massachusetts, Rhode Island, and Washington—and the District of Columbia have enacted programs.

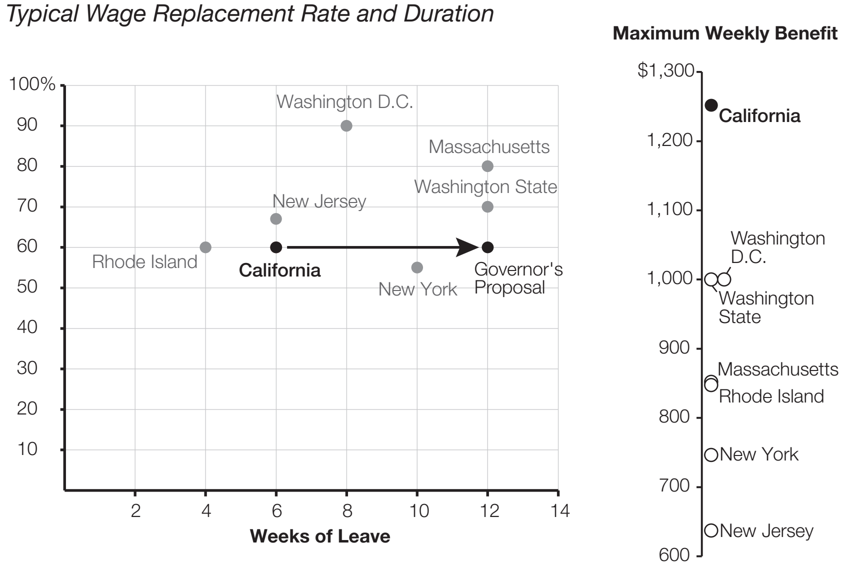
Many Similarities Between Other States' Policies and California's. Paid Family Leave programs in other states all provide partial wage replacement for several weeks and fund benefits with payroll taxes. Relative to other states, California's maximum weekly benefit is higher ($1,252) and its wage replacement rate is toward the lower end.

Some States Apply Different Wage Replacement Rates at Different Income Levels. In California, low-wage workers are eligible to receive 70 percent of their normal pay during leave. All other workers receive 60 percent, up to a capped amount. Some states calculate benefits differently. In Massachusetts, for instance, all workers are eligible to receive 80 percent of their normal wages, up to the state's average wage. On wages above that amount, parents receive 50 percent of their normal pay.

Figure 3

California's Leave Program Relative to Other States

Typical Wage Replacement Rate and Duration



Note: Wage replacement rates reflect rate for an employee earning the state's median wage. Maximum benefit reflects maximum weekly benefit amount allowed in each state.

Governor’s Conceptual Plan to Expand Paid Family Leave

Expanded. The Governor has proposed to expand paid family leave from six weeks per parent to six months total. We understand this conceptual plan to mean 12 weeks for each parent. This would double the duration of paid family leave available under current law.

Shareable. The Governor has conceptually proposed to allow two-parent families to share their paid family leave. Under a shareable plan, for instance, one parent could take 20 weeks of paid leave and the other could take four weeks of paid leave.

Transferable. The conceptual proposal would provide single parents the option to designate a close relative to take an additional 12 weeks of paid family leave.

Task Force. The Governor also proposes to convene a task force to recommend policy and funding options to expand paid family leave.

Considering Options to Expand Paid Family Leave

Specific Details of the Governor's Plan Forthcoming. The Governor has put forth a conceptual plan to expand the State's paid family leave program. Details about the expansion will be developed over the next several months as the task force and the Legislature provide their feedback and recommendations.

Main Options to Expand or Adjust Paid Family Leave.

- Lengthening the duration of paid leave benefits
- Increasing the wage replacement rate and/or adjusting its structure
- Allowing parents to share or transfer their available leave
- Allowing parents to choose between a short leave with a high replacement rate and a longer leave with a lower replacement rate
- Expanding outreach efforts to make more people aware of the program

Legislature's Goals for Paid Family Leave Should Guide Policy Options. The Governor has emphasized improvements in child development as a goal of paid family leave. As noted on page 6, however, there also are other reasons why the state may want to expand paid family leave or make other changes. Each option listed above would further some goals more than others and would have different effects on different groups of workers. If, for example, the Legislature is primarily concerned about low earners' ability to take leave, it might consider increasing the wage replacement rate for them specifically. On the other hand, if the Legislature's main goal is to allow families to take longer amounts of leave, lengthening the benefit may be the most effective approach.

Technology May Limit Near-Term Policy Options. To change the current program, the administration likely will need to update the information technology system that processes, issues, and manages paid family leave benefits. Options that adjust existing aspects of the program—such as lengthening the duration of paid leave benefits—could be implemented sooner than options that add new aspects to the program. These types of options—such as allowing parents to share or transfer their leave—could require significant system changes and take several years to plan and complete.

Considering Options to Fund Expanded Paid Family Leave

Current Financing Structure Is Adaptable. The state's current disability and paid family leave funding structure includes annual administrative adjustments to the payroll tax rate. These adjustments are intended to keep revenue in line with benefit payments. Administrative adjustments could support some expansion of paid family leave benefits. Under current law, however, the tax rate cannot exceed 1.5 percent.

Current Funding Structure Could Be Used to Finance at Least $1 Billion in Expanded Benefits. The current payroll tax rate is 1.0 percent—0.5 percent below the statutory cap—and is expected to rise to 1.1 percent in 2020. Based on our preliminary analysis, we estimate that the current funding structure could adjust administratively to support at least $1 billion, but likely no more than $2 billion, in additional annual paid family leave benefits. (In 2018, total paid family leave benefits were about $1 billion.) Under such a scenario, the payroll tax rate would be higher than under current law, but lower than the statutory cap of 1.5 percent. A higher payroll tax rate means that all employees would contribute a larger share of their earnings to finance paid family leave benefits. Additionally, a rate closer to the statutory cap could limit the fund's ability to respond to unforeseen changes in benefit usage or the economy.

A Larger Expansion Would Likely Require an Alternative Funding Structure. Alternatives include changing the statutory rules that govern the adjustable payroll tax used to finance benefits, identifying other employment-related fund sources, or making an annual General Fund transfer to finance expanded benefits. These options could also be used in coordination with the existing financing structure.

Consider Benefit Expansion and Funding Options as a Package. To pay for expanded paid family leave, the state would need to raise some additional revenue—for example, by increasing tax rates—or forgo some spending on other programs. Consequently, the Legislature's overall assessment of a benefit expansion would need to encompass the entire package—both the additional benefits and the cost of funding them.

Anticipating Potential Effects of Policy Changes

Large Body of Research on Paid Family Leave. Researchers have published hundreds of studies on the effects of paid family leave.

Some Options Have Been Studied More Than Others. In our review of the existing research, we found considerable evidence regarding the effects of lengthening leave benefits. Unfortunately, we found limited evidence regarding the effects of the other options listed on page 11, such as increasing the wage replacement rate. Although these policy changes are less studied, the Legislature might still wish to explore them.

Some Outcomes Have Been Studied More Than Others. We have found considerable evidence regarding some outcomes. For example, many studies examine whether policy changes lead parents to take longer or shorter leaves. Unfortunately, we have found limited evidence regarding some other important outcomes—such as parents' decision to take some leave versus none at all.

Which Studies Are Most Useful? For the purpose of assessing the Legislature's current options, some studies are much more useful than others. To assess the usefulness of each study, we consider criteria that fall into three categories:

- The quality of the study's methods and data.
- The degree of similarity between the options the Legislature is considering and the policies examined in the study.
- The degree of similarity between the study's setting and present-day California. (The degree of similarity between the study's setting and future California also is important, but more difficult to assess.)

Preliminary Assessment of Evidence. In the next few pages, we comment on the effects of potential changes to California's paid family leave program based on our preliminary review of research. These comments focus primarily on changes that would be similar in magnitude to the Governor's proposal. Much larger changes—for example, expanding the duration of paid leave by six months per parent, rather than six weeks—could have much larger effects.

How Would Policy Changes Affect the Time Parents Spend With Infants?

As described on page 6, policymakers have identified several goals for paid family leave. Although these goals vary, they all hinge on parents using the benefit to spend time with infants. For this reason, below we provide our preliminary assessment of the factors that affect whether parents take paid family leave and for what duration.

The Longer the Benefit, the More Time Parents Spend With Infants. Overall, parents' leave-taking decisions likely would respond strongly to a change in the duration of leave benefits. If the state lengthened benefits, many parents would take longer leaves.

Effects Likely Larger for Mothers Than for Fathers. If the state lengthened leave benefits by the same amount for every parent, the average duration of maternity leave likely would increase by a greater amount than the average duration of paternity leave. That said, the increase in the average duration of paternity leave likely would be substantial—particularly if fathers could not share their benefits.

Take-Up by Gender Likely Would Depend on Shareability. Historically, increases in shareable parental leave typically have led to large increases in the duration of maternity leave and minimal changes in the duration of paternity leave. That said, the responses to such a policy change could be different in the future.

Higher Wage Replacement Rates Could Encourage More Parents to Use Paid Family Leave . . . Although we have found limited evidence on the effects of changes in the wage replacement rate, higher wage replacement rates could encourage more people to take paid family leave. Due to the lack of evidence, however, it is not clear how large these effects would be.

. . . But Length of High Earners' Leaves Might Not Respond to Wage Replacement. Though we have found limited research on the effects of changes in the wage replacement rate, the available evidence suggests that changing the wage replacement rate for high earners could have little to no effect on the length of leaves. This finding could be due to high earners' access to other income supports—such as personal savings or employer-provided benefits—that supplement the benefits provided by the state.

How Would Policy Changes Affect Adults?

Uncertain Effects on Parents' Employment While Children Are Very Young. Multiple credible studies estimate the effect of lengthening leave benefits on parents' employment in the first two years of their children's lives. Some of these estimates suggest that lengthening benefits could lead to substantial increases in parents' employment while their children are very young, while others suggest that these effects could be minimal.

Longer-Term Employment Effects Likely Small. Lengthening leave benefits likely would not have large effects on parents' employment beyond the first two years of their children's lives. Although such a policy change might encourage parents to stay in the labor force while their children are very young, these effects likely would not last more than a couple of years.

Broader Labor Market Effects Uncertain. Some studies estimate the effects of paid family leave policies on broader labor market outcomes, such as gender gaps in employment and labor force participation, that affect all workers and not just parents. The evidence we have reviewed does not support clear conclusions about these effects. For example, the effects of expanding paid family leave on men's and women's employment broadly—rather than parents' employment specifically—is unclear.

Potential Health Effects. Some evidence suggests that lengthening leave benefits could substantially improve the mental health of mothers of young children.

How Would Policy Changes Affect Children?

Likely Improvements in Infant Health. Lengthening leave benefits likely would improve infants' health. For example, some evidence suggests that longer leave benefits could reduce the number of infant hospital admissions and increase the number of infants that meet recommended vaccination schedules.

Longer-Term Effects Uncertain. Multiple credible studies estimate the effects of lengthening leave benefits on children's long-term outcomes. Some of these estimates suggest that lengthening leave benefits could lead to substantial improvements in children's long-term health, education, and labor market outcomes, while others suggest that these effects could be minimal.