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A Business Case for Paid Leave Policies

Nearly all workers have needed or will need time away from work. At some point, we all need to care for a new child in the family, care for a family member with a medical condition, or recover from our own medical condition.

In the absence of a federal paid family and medical leave (PFML) policy, 14 states have enacted their own policies to ensure workers are financially secure while taking the leave that they need.

Concerns from the business community are often a major challenge to states' successful passage of these policies. Yet, strong evidence shows that PFML policies benefit employers in a variety of ways. Research has established that PFML policies increase maternal labor force participation and benefit the health and wellbeing of parents and that of their families, all of which contribute to an overall healthier workforce and benefits to society. States also have policy levers that can be used to alleviate common concerns from businesses related to workforce disruptions, costs, and regulations.

KEY TAKEAWAYS

- Paid family and medical leave policies improve the health and wellbeing of families and serve as an important tool when employees need time away from work, but can raise concerns for businesses.
- Research shows that state paid family and medical leave policies increase labor force participation and improve employee retention, which contribute to an overall healthier workforce and can benefit employers.
- Employee premiums for state PFML programs are typically small (less than 1% of wages total), and employer costs are often much lower than providing a private program.
- State PFML programs offer clear benefits to small businesses, which largely support the policies.
- States are addressing concerns from businesses in policy design, such as setting contribution exemptions for small businesses, providing outreach and educational support to minimize workplace disruptions, and giving the option to opt out for companies with qualifying private plans.
- Including business leaders in policy design and implementation is valuable to enacting state policy and realizing the societal benefits of paid family and medical leave.

Paid Family & Medical Leave Policies: Benefits to the Labor Force and Advantages to Businesses

Businesses Recognize the Importance of Paid Family & Medical Leave

Whether there are policies in place to provide paid leave, the birth of a new child necessitates time away from work to heal and bond with the child. Businesses recognize that providing paid time off can be financially beneficial through recruiting talent, retaining workers with firm-specific knowledge and skills, and reducing turnover costs.

In a Deloitte survey of 1,000 Americans, 77% of respondents said the amount of parental leave offered is a deciding factor in choosing whether to work for a company.¹ In a 2023 survey, EY found that employers view paid family leave as one of the most important benefits for employees, second only to medical insurance.²

Companies have responded to the importance of paid leave to employees by providing private paid leave programs. Access to these programs, however, is often concentrated among highly paid workers at large companies in fields where competition for a small pool of talent is high. These fields include technology, financial services, and professional services industries.³ Currently, only 27% of employees in the private sector have access to paid family leave.⁴ Even the most generous private programs offered by US businesses provide fewer paid weeks than the median OECD country.⁵

Paid Family & Medical Leave Policies Increase Labor Force Participation

Evidence suggests state PFML policies increase labor force participation, which contribute to an overall healthier workforce and can benefit employers. A study of California's policy found that access to paid family leave decreased maternal labor force exits by 21% in the year of childbirth.⁶

California and New Jersey's paid family leave policies were shown to increase women's labor force participation by between 5 and 8 percentage points in the months surrounding birth, and women's employment also increased.⁷ Additionally, a study of California's policy found that access to paid family leave increased the probability of mothers working 1 year after giving birth by up to 18.3 percentage points.⁸

Paid Family & Medical Leave Policies Reduce Employee Turnover

Evidence also shows that state PFML policies reduce employee turnover. In counties in New Jersey, Rhode Island, and New York (states with paid family leave laws), the likelihood of high employee turnover decreased by 5.8%, compared to neighboring counties in states without a policy.⁹ In California, parents with access to paid family leave were 13% more likely to be working at the same employer 1 year after giving birth as prior to their child's birth, compared to those without access to paid family leave.¹⁰

Paid Family & Medical Leave Policy Design to Protect Businesses

Funding Mechanisms Limit Costs to Businesses

When states consider implementing PFML policies, businesses often raise concerns about how much it will cost them. However, most states with a policy fund it through employer and employee payroll contributions (where employers are required to withhold

contributions from their employees' pay). Other states fund the policy through employee contributions only. In both cases, premiums are typically small (less than 1% of wages total).¹¹ Because the costs of a state policy are spread out across a large pool, the associated cost to individual employers is often much lower compared to providing a private program.

Additionally, the state fund covers an employee's benefits while on paid leave, meaning the costs that would be spent on the employee's salary can be redirected to hiring a temporary worker. Hiring temporary workers may still have additional associated costs. The hiring and training process takes time, and newer workers may be less productive.

State laws, because they are often associated with only minimal increases in employer costs, also position small businesses and start-ups, otherwise unable to afford for employees to take leave, to better compete with large companies, to the benefit of many businesses and economic productivity. Likely for this reason, survey results across diverse states, with and without PFML policies, demonstrate small business support. A 2020 survey of policies in New York and New Jersey, found that approximately 70% of small businesses reported being supportive of the policy.¹²

Although PFML policies increase costs to employers, limited research also suggests the laws may benefit companies' financial health. A study found that passage of the laws in California, New Jersey, Rhode Island, and New York increased companies' return on assets, a measure of profitability in relation to assets, by 1.5 percentage points. Productivity, measured as firm revenue scaled by the number of employees, also increased by 5.5%.⁹

Small Business Exemptions Can Reduce Cost Burdens

In states where the premium is shared between employees and employers, small businesses, which often have fewer resources, are usually exempt from paying the employer portion of the premium. Colorado, Maine, Maryland, Massachusetts, Minnesota, and Washington have exemptions for businesses with less than a specified number of workers, although specific thresholds vary.¹³

For example, Washington does not require employers with 50 or fewer employees to pay the employer portion of the premiums, whereas Colorado does not require employers with 10 or fewer employees to pay the premium. In Minnesota, the employer portion of the premium is reduced based on employer size. The premium for employers with fewer than 30 employees will apply to a smaller portion of their employee's wages, which will ultimately reduce the overall contribution for small businesses. These exemptions may help address small business concerns related to the cost of a PFML policy.

Although all states currently define a small business based on the number of employees, another approach could be to base the definition on annual revenue instead. This approach may ensure support targets companies with the most limited financial resources.

State Outreach and Educational Support Minimizes Workplace Disruptions

States with PFML policies also provide targeted support to businesses in their state to offset costs or provide technical assistance. For example, Washington provides small business assistance grants to help offset costs incurred by an employer when an employee takes PFML. These grants can help cover the cost of hiring a temporary worker or other related expenses.¹⁴ New Jersey recently awarded outreach and education grants

to community-based organizations to raise awareness and provide technical assistance to employers.¹⁵ Colorado developed employer-specific toolkits to address common questions from business owners and provide informational materials.¹⁶ These states' approaches are a few examples of how states provide outreach and technical assistance to support employers.

Companies with Private Plans Generally Have the Option to Opt Out

Typically, states allow companies to apply to opt out of the state-administered program provided they have implemented an equivalent or more robust private plan that is either self-insured or insured through commercial insurance carriers.¹⁷ This exception means that businesses—often large, established companies with existing plans in place—may not need to change processes should a state where they have offices implement a compulsory PFML policy. The state policy may be more cost-effective for businesses, however, depending on the state policy and the individual company.

Summary

PFML is an important tool to support employees and research has established numerous benefits to the labor force and health and wellbeing of families. To address the concerns of employers, states can continue to intentionally engage with business leaders throughout the PFML policy design and implementation process. Including business leaders in the process can help ensure that the policy works for both employers and employees, and that the societal benefits of PFML are realized without negatively impacting the business environment.

For more information on paid family and medical leave policies:

- Refer to our comprehensive evidence review:
<https://pn3policy.org/policy-clearinghouse/paid-family-leave/>.
- Refer to our Prenatal-to-3 State Policy Roadmap:
<https://pn3policy.org/pn-3-state-policy-roadmap-2023/us/paid-family-leave/>.

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