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PARENTAL LEAVE

Revised Cost Estimate Reflecting the Impact of Spousal Leave



Human Resources Division

B-229286

April 6, 1989

The Honorable William L. Clay, Chairman
The Honorable Marge Roukema, Ranking Minority Member
Subcommittee on Labor-Management Relations
Committee on Education and Labor
House of Representatives

This report responds to your request that we estimate the cost of adding a provision allowing 10 weeks of unpaid leave to care for a seriously ill spouse to H.R. 770, the Family and Medical Leave Act of 1989. In addition, you requested that we comment on the potential effects of such mandated leave benefits in general on labor-management wage and benefit negotiations.

H.R. 770 permits an employee to take up to 10 weeks of unpaid leave over a 2-year period upon the birth or adoption or placement for foster care of a child, or the serious health condition of a child or parent, and up to 15 weeks every year for personal illness. Upon returning to work, the employee is guaranteed the same or an equivalent job. Moreover, the legislation requires employers to continue health benefits for workers while on unpaid leave on the same basis as if the employee were still working, but does not require the continuation of other employee benefits. The proposed provision permitting an employee to take up to 10 weeks of unpaid leave to care for a seriously ill spouse would provide the same job protection and health benefits.

In the first 3 years after enactment, firms employing 50 or more people for at least 20 weeks in the current or preceding year would be subject to the legislation; thereafter, firms employing 35 or more people would be included. To qualify for the unpaid leave, employees must have worked in the firm for at least 1 year and completed at least 1,000 hours of service during the previous year. The highest paid 10 percent of employees at a firm or five employees, whichever is greater, while allowed leave, are not guaranteed restoration to the same or an equivalent position.

Overview

As we reported in our testimony on your bill,¹ we estimate that the cost of H.R. 770 to employers having 50 or more workers would be about

¹GAO's Cost Estimate of the Family and Medical Leave Act of 1989 (H.R. 770) (GAO/T-HRD-89-4, Feb. 7, 1989).

\$188 million annually. This represents the cost to employers for the continuation of health insurance coverage for employees on unpaid leave. If the legislation is expanded to permit employees to take up to 10 weeks of unpaid leave over a 2-year period to care for a seriously ill spouse, the cost increases by \$142 million to about \$330 million annually. Table 1 shows our estimate of the number of beneficiaries and the employer costs for each provision. The actual cost of each provision is likely to be somewhat less because we were unable to factor out all existing coverage provided by prevailing employer practices or state-mandated family and medical leave policies.

Table 1: Estimated Number of Beneficiaries and Employer Costs
(For Firms With 50 or More Employees)

Dollars in millions		
Provision	Potential beneficiaries	Cost
Birth or adoption of child	840,000	\$90
Seriously ill child	60,000	10
Seriously ill parent	165,000	35
Temporary medical leave	610,000	53
Subtotal	1,675,000	188
Seriously ill spouse	676,000	142
Total	2,351,000	\$330

When firms employing between 35 and 49 people are included, we estimate the cost of H.R. 770 to be \$212 million annually, which increases to \$368 million annually when the provision to care for seriously ill spouses is included.

This legislation would apply to the 39 percent of the total work force who are full-time or permanent part-time employees of firms with 50 or more workers (about 5 percent of all U.S. firms) during the first 3 years. Subsequently, the legislation would apply to the 43 percent of the total work force who are full-time or permanent part-time employees of firms with 35 or more workers (about 8 percent of all U.S. firms).

We believe the proposed family and medical leave benefits are unlikely to adversely constrain wage and benefit negotiations between workers and their employers. As we noted in analyzing your earlier bill,² we believe there will be little measurable net cost to employers associated with replacing workers or maintaining output while workers are on

²Parental Leave: Estimated Cost of H.R. 925, the Family and Medical Leave Act of 1987 (GAO/HRD-88-34, Nov. 10, 1987).

unpaid leave. Firms told us that fewer than one-third of the workers taking extended family or medical leave are replaced and that for those who are replaced, the associated cost was generally less than the wages and benefits that were paid to the absent workers before they took leave. Absences were typically handled by reallocating work among the remaining work force. While some inconvenience resulted, firms also experienced savings in wages not paid to the absent workers. Thus, we would not expect this legislation to cause major disruptions for most employers.

Methodology

We used the same basic methodology utilized in developing earlier estimates. To develop our cost estimates, we obtained data from numerous sources. We estimated the number of workers likely to take unpaid leave

- under the new child provision from data in the March 1987 supplement to the Current Population Survey, conducted by the Bureau of the Census;
- under the seriously ill child, seriously ill spouse, and temporary medical leave provisions from data in the 1985 National Health Interview Survey, conducted by the National Center for Health Statistics; and
- under the seriously ill parent provision from data in the 1982 National Long-Term Care Survey, conducted by the Bureau of the Census for the Department of Health and Human Services.

We also surveyed 80 firms in two metropolitan labor markets—Detroit, Michigan, and Charleston, South Carolina—to obtain experience data on the usage of family and medical leave, and how employers cope with extended absences. To get a sense of how family and medical leave legislation may constrain wage bargaining, we contacted several public and private employers and labor representatives that have negotiated for such benefits. To estimate the employer portion of health benefit costs, we used data from a 1987 Small Business Administration study of employee benefits in small and large firms. The weekly average employer cost per worker in 1985 was estimated to be about \$25 for firms covered under this bill.³

For each of the bill's provisions, we assumed that all individuals with circumstances that might necessitate extended leave would take off

³For a more complete discussion of our methodology concerning the survey of firms in Detroit and Charleston and other sources of data used to identify potential beneficiaries, see our report on H.R. 925.

either the full period allowed by the bill or the entire period of illness, whichever is less. Using data from the 1986 Bureau of Labor Statistics Survey of Employee Benefits in Medium and Large Firms and the Small Business Administration study of employee benefits, we estimated the extent to which workers currently have paid sick, vacation, or disability leave available for use before taking unpaid leave under any of the legislation's provisions.

To facilitate comparison between the different proposals we have analyzed during the last 2 years, we did not modify certain cost-related factors that have changed since our original estimate, notably employer health insurance costs, the number of births occurring, and the size of the work force. To update our estimates to reflect 1988 conditions, these factors would have to be adjusted. Health insurance premiums increased about 23 percent between 1985 and 1988, which would affect the cost of all of the legislation's provisions. Births have increased by about 4.2 percent, thus raising the number of likely beneficiaries covered by the provision permitting leave to care for new children. Finally, total employment has expanded by approximately 7.5 percent, affecting the other provisions of the legislation. Overall these factors would increase the cost of this and similar bills by about 30 percent.

Leave to Care for New Children

We estimate that the cost of continuing health benefits for workers on unpaid leave to care for new children will be about \$90 million annually.

Studies in the United States and in other countries that allow parental leave for men as well as women, in addition to our own survey of companies, show that unpaid leave to care for new children is used almost exclusively by women. According to the Current Population Survey, about 2.2 million working women gave birth or adopted a child in 1986. Given the 1-year tenure requirement and the firm size exclusion, we estimate that about 840,000 women would have been covered by this provision. We assumed that women will take the full 10 weeks of leave allowed by the legislation. We allowed 6 weeks of disability leave for the 40 percent of women in firms providing such leave. In addition, women have an average of 3.5 weeks of paid vacation and sick leave available to use following childbirth.

When the firm size coverage is reduced to 35 employees, the cost of this provision will be about \$102 million annually, and the estimated number of women eligible to take leave will be about 931,000.

Leave to Care for Seriously Ill Children

We estimate that the cost to employers for continued health coverage for workers on unpaid leave to care for seriously ill children will be about \$10 million annually. Using information from the National Health Interview Survey, defining serious illness as 31 or more days of bed rest, and assuming that one parent takes leave to care for each child for the duration of the illness (up to the maximum 10 weeks allowed), we estimate that about 60,000 workers would take leave, averaging 7.8 weeks per worker. We also assumed that these workers would use their paid vacation leave, which averages 1.6 weeks, before taking unpaid leave.

When the firm size coverage is reduced to 35 employees, the cost increases to about \$11 million annually. The number of workers eligible to take such leave increases to about 66,000.

Leave to Care for Seriously Ill Parents

We estimate that the health insurance cost to employers of continuing coverage for workers on unpaid leave to care for seriously ill parents will be about \$35 million annually. Using information from the 1982 National Long-Term Care Survey, we estimate that about 165,000 workers would be eligible to take leave under this provision. This is the number of workers who are primary caregivers to Medicare enrollees who require long-term assistance. Long-term assistance is defined as daily assistance with personal hygiene, indoor mobility, or taking medication. A primary caregiver is someone with the main responsibility of caring for the disabled person. This estimate of the number of eligible workers is probably an overestimate because it includes, in addition to the children, sons- and daughters-in-law of the care recipient, individuals not covered by the legislation, such as grandchildren, other relatives, and friends. We were unable to factor out of this population those not covered.

We assumed that each worker who is a caregiver would take the maximum length of leave allowed under the legislation because we have no information to provide us with another estimate. Further, we assumed that these workers would use their vacation leave, which averages 1.6 weeks, before taking unpaid leave.

When firms with 35 to 49 employees are included in the coverage, we estimate that the cost would be about \$38 million annually, and the number of workers eligible to take such leave would be about 182,000.

Temporary Medical Leave

We estimate that the cost to employers of providing continued health insurance benefits for workers on unpaid medical leave will be about \$53 million annually. Again using the 1985 National Health Interview Survey, we estimate that 610,000 workers who had 31 or more days of bed rest would have been eligible under this provision. The duration of illness averaged about 8.9 weeks. About 40 percent of employees have short-term disability coverage that would provide paid leave for their illness. Other workers have an average of 3.3 weeks of paid sick and vacation leave available. The cost estimate for this provision covers the 60 percent of workers having only some sick and vacation leave available and who are not covered by short-term disability insurance.

When firms with 35 to 49 employees are included in the coverage, we estimate that the cost of this provision would be about \$61 million annually and about 676,000 workers would be eligible.

Leave to Care for Seriously Ill Spouses

We estimate that the cost to employers of continuing health coverage for workers on unpaid leave to care for seriously ill spouses will be about \$142 million annually. Again using the National Health Interview Survey, we estimate that the number of workers eligible under this provision is about 676,000. This is the number of workers with spouses who had 31 or more days of bed rest in 1985. We assumed that each worker would take leave for the duration of the illness, which averaged about 8.3 weeks. Further, we assumed that these workers would use their paid vacation leave, an average of 1.6 weeks per worker, before taking unpaid leave.

When firms with 35 to 49 employees are included in the coverage, we estimate that the cost would be about \$156 million annually and the number of workers eligible would increase to about 746,000.

Role of Family Leave in Labor-Management Bargaining


We believe family and medical leave benefits are likely to have little, if any, measurable impact on either the labor-management bargaining process or the final outcome of such negotiations. While removing any component of employee compensation from negotiations, by definition, limits the range of bargaining and could be expected to have some effect, the impact of legislating a relatively low-cost benefit, such as uncompensated family and medical leave, is likely to be unobservable. According to private and public employers and employee organizations that have negotiated for family and medical leave benefits, the costs associated with family and medical leave were not large enough to

result in trade-offs with other components of the negotiated compensation package.

Other Considerations

Our estimate likely overstates the cost of this legislation because we did not adjust it to reflect the fact that (1) some firms already have family and medical leave policies allowing paid or unpaid absences similar to those provided by this legislation and (2) other employers make accommodations to workers who are ill or have children, spouses, or parents who are ill for extended periods, even in the absence of formal leave policies. In addition, several states have disability and/or family leave statutes containing provisions similar to those in this legislation.

As agreed, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after its issue date. At that time we will send copies to appropriate congressional committees and other interested parties, and will make copies available to others on request. The major contributors to this report are listed in appendix I.



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Related GAO Products

GAO's Cost Estimate of the Family and Medical Leave Act of 1989 (H.R. 770) (GAO/T-HRD-89-4, Feb. 7, 1989).

GAO's Cost Estimate of the Family and Medical Leave Act Proposal (GAO/T-HRD-89-3, Feb. 2, 1989).

Parental Leave: Estimated Cost of Revised Parental and Medical Leave Act Proposal (GAO/HRD-88-132, Sept. 27, 1988).

Parental Leave: Estimated Cost of Revised Parental and Medical Leave Act (GAO/HRD-88-103, May 26, 1988).

Parental Leave: Estimated Costs of H.R. 925, the Family and Medical Leave Act of 1987 (GAO/HRD-88-34, Nov. 10, 1987).

GAO's Estimate of the Costs of the "Parental and Medical Leave Act of 1987" (S. 249) (GAO/T-HRD-88-5, Oct. 29, 1987).

S. 249, "The Parental and Medical Leave Act of 1987" (GAO/T-HRD-87-10, Apr. 23, 1987).

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