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AUTHOR Gainer, William J.
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ABSTRACT

The General Accounting Office (GAO) estimates that the cost of S.249, the Parental and Medical Leave Act of 1987, will be, at most, 500 million dollars annually, a figure which reflects the cost of continuing health insurance coverage for employees on unpaid leave. S.249 is legislation which aims to provide to workers at firms with 15 or more employees a form of job protection that permits employees to take 18 weeks of unpaid leave to care for a new or seriously ill child, and 26 weeks of unpaid leave for their own illness. The legislation requires that employers continue to offer health benefits for workers on unpaid leave on the same basis as if these employees were working. GAO believes that there will be few if any measurable net costs to employers resulting from a firm's method of adjusting to the temporary absence of a worker taking unpaid leave under this legislation. To the extent that workers are already provided parental and extended disability benefits by firms or have either disability or parental leave benefits under existing state law, the costs to employers would be less than GAO's estimate. Estimated and discussed are specific costs of leave to care for newborn children, leave to care for seriously ill children, temporary medical leave, and employee replacement costs and productivity losses. (RH)

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GAO

Testimony

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GAO's Estimate of the Costs of the "Parental and Medical Leave Act of 1987" (S. 249)

Statement of
William J. Gainer, Associate Director
Human Resources Division

Before the
Subcommittee on Children, Families, Drugs, and Alcoholism
Committee on Labor and Human Resources
United States Senate

SUMMARY OF GAO TESTIMONY BY WILLIAM J. GAINER ON GAO'S COST ESTIMATE OF S.249, THE "PARENTAL AND MEDICAL LEAVE ACT OF 1987"

S.249 would provide job protection to employees of firms with 15 or more employees while permitting them 18 weeks of unpaid leave to care for a new or seriously ill child and 26 weeks of unpaid leave due to their own illness. The legislation requires that employers continue health benefits for workers while on unpaid leave on the same basis as if the employee were still working.

GAO estimates that the cost of this legislation to employers will be, at most, $500 million annually, reflecting the cost of continuing health insurance coverage for employees on unpaid leave.

Based on available studies, and a GAO survey of 80 firms in two metropolitan labor markets -- Detroit, Michigan and Charleston, South Carolina -- GAO believes that there will be little, if any, measurable net costs to employers resulting from a firm's method of adjusting to the temporary absence of a worker taking unpaid leave under this legislation. GAO found that about 1 in 3 workers were replaced, the cost of replacement workers was similar to or less than the cost of the workers replaced, and employers did not believe that a significant loss of output occurred.

Furthermore, to the extent that workers are already provided parental and extended disability benefits by some firms or have either disability or parental leave benefits under existing state law, the costs to employers of this legislation is less than GAO's estimate.

Leave to Care for New Children -- GAO estimates that the cost to employers associated with this provision will be less than $340 million annually for the continuation of health benefits. GAO estimates that 1.55 million women are likely to use such leave for 12 weeks or less.

Leave to Care for Seriously Ill Children -- GAO estimates that the annual cost to employers for continued health coverage under this provision is about $22 million. Using national health statistics, defining serious illness as 31 or more days of bed rest, and assuming that one parent takes unpaid leave to care for each child, about 109,000 workers would likely take an average of 9.6 weeks of leave.

Temporary Medical Leave -- GAO estimates that the health insurance cost to employers of this provision is no more than $138 million annually. Again using national health data, about 1.1 million workers would likely take an average 9.8 weeks of unpaid leave under this provision.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to provide GAO's estimate of the costs of S. 249, the "Parental and Medical Leave Act of 1987". While the process of estimating the costs associated with this legislation is difficult and subject to uncertainty, we have made every effort to obtain data which provide a concrete basis upon which to make the necessary assumptions which underlie our estimate. In addition to using available studies and data, we visited 80 firms in two major labor markets -- Detroit, Michigan and Charleston, South Carolina -- to determine the extent of usage of parental leave and how employers cope with extended absences.

- In brief, we believe that the costs to employers associated with this bill are substantially less than prior estimates, in particular the $23.8 billion estimate provided by the Chamber of Commerce in March 1987.

- We estimate that the primary cost to employers associated with this bill will be at most $500 million annually. This cost is associated with the requirement that employers continue the health insurance coverage for employees on unpaid leave.

- We conclude that there will be little, if any, measurable net cost to employers associated with a firm's method of adjusting to workers taking leave under this legislation.

- Available sick, annual and disability leave will be used by employees before unpaid leave, thus reducing the net cost of continuing health coverage under this legislation.

- Expected leave usage for each provision will average less than the maximum allowable under the legislation because employees generally avoid unpaid leave.

Before elaborating on our estimate, I would like to briefly summarize the key provisions of the bill.

KEY PROVISIONS

S. 249 would require federal, state, and local governments and any company with 15 or more employees to grant a worker:

-- up to 18 weeks of unpaid leave over a 24-month period upon the birth, adoption, or serious health condition of a child (this benefit would be available to men as well as to women)

-- up to 26 weeks of unpaid leave over a 12-month period, for a serious health condition.

The employer would be required to continue health benefits for a worker on unpaid leave on the same basis as if the employee were working. Other benefits, such as life insurance and retirement, need not be continued. Upon returning to work, an employee would resume the same (or an equivalent) job. This legislation can be viewed principally as a job protection measure.

This legislation would apply to the 71 percent of employees working in firms with 15 or more employees who are full-time or permanent part-time employees. The 82 percent of U. S. firms that have fewer than 15 workers would be excluded.

Before elaborating on our estimate, we believe it is important to briefly explain our computation of employer health costs. The average employer portion of health insurance coverage is about $25.00 a week for each worker. This estimate averages the differences in cost and rate of coverage between large and small employers, and for family versus individual plans.

LEAVE TO CARE FOR NEW CHILDREN

We estimate that the cost for health care continuance for workers on unpaid leave to care for new children will be no more than $340 million annually. This is an upper estimate and it is our belief that the actual cost will be less. Certain key facts regarding our estimate are shown in the chart.

Likely Beneficiaries	o Very few men o 1.6 million women
Expected Leave Usage	o 64 percent average 12 weeks leave before returning to work o 36 percent take 18 weeks and do not return to work
Existing Leave Policies	o 29 percent of women have 6 weeks disability leave
Expected Cost	o Less than $340 million

We believe that leave to care for new children is used predominantly by women. Studies in the United States and in other countries that allow such leave for men as well as women, in addition to our own survey of companies, support this position. While it may be expected that some change in the behavior of men may result from this legislation, it is unlikely that enough men will take leave to materially affect the cost. Thus, we consider women to be the relevant population upon which to base our estimate. According to the Current Population Survey (CPS), about 2.4 million women workers in 1985 gave birth (or adopted children). Given the firm size exclusion, about 1.55 million women would have been covered by the provisions of S. 249. Further, we estimate that about 36 percent of the women covered would not return to work.

For our cost estimate, we assumed that the 36 percent of women who did not return to work following their child's birth would take the full 18 weeks of leave allowable under the bill before resigning their position. We estimate that the remaining 64 percent who returned to work would take 12 weeks of leave. Several studies have found that the average duration of leave taken by women following the birth of a child is less than that allowable under this bill. They indicate that few women take any unpaid leave, opting instead to use available paid leave. Our survey of firms indicated that over 85 percent of women taking leave returned to work within 12 weeks. In fact, over 80 percent returned to work within 8 weeks.

We allowed 6 weeks of disability leave for the 29 percent of women in firms providing such leave. In addition, some women have paid sick and annual leave available to use following childbirth.

To the extent that firms already offer unpaid leave similar to this legislation (which we were unable to satisfactorily estimate although we know some do), and to the extent that some states have comparable leave laws, the actual cost of this legislation to employers of providing continued health insurance coverage will be less than our estimate.

LEAVE TO CARE FOR SERIOUSLY ILL CHILDREN

We estimate the cost to employers of continuing health coverage for workers on unpaid leave under this provision is about $22 million annually, as shown in the chart.

LEAVE TO CARE FOR SERIOUSLY ILL CHILDREN

Likely Beneficiaries	o Workers with children having 31 or more days bed rest o 109,000 workers
Expected Leave Usage	o 9.6 weeks average length of illness o One parent takes off the entire period
Existing Leave Policies	o Paid annual leave
Expected Cost	o Less than $22 million

We assumed that one parent from 100 percent of the households in the eligible population would take leave for the full duration of their child's illness. This was necessary because we were unable to identify any information on the usage of leave to care for seriously ill children due to its low incidence and because firms do not keep records on such absences. Further, we assumed that these workers would have, at most, 1.8 weeks of compensated annual leave available prior to taking unpaid leave.

Using information from the National Health Interview Study conducted by the National Center for Health Statistics, we estimate that the maximum number of workers likely eligible under this provision is about 109,000. This is the number of workers with children under the age of 18 having 31 or more days of bed rest in one year, where either two parents were present and working or a single working parent was present. We assumed that each illness would result in one worker being absent for the full period of bed rest, an average of 9.6 weeks.

The estimated cost of this provision is very sensitive to the definition used for the serious illness of a child. To illustrate this sensitivity, we computed an alternate estimate using 21 or more days of bed rest. This resulted in an estimated 824,000 workers eligible, with an average duration of illness of about 6 weeks. The cost of continued health coverage to employers of this provision using the alternate definition would be about $88 million, annually.

TEMPORARY MEDICAL LEAVE

We estimate that the cost of this provision will be about $138 million, annually.

Likely Beneficiaries	o Workers with 31 or more days bed rest o 1.1 million workers
Expected Leave Usage	o 9.8 weeks average length of illness
Existing Leave Policies	o 29 percent have disability coverage
Expected Cost	o Less than $138 million

Again using the National Health Interview Survey, and defining an employee's serious illness as 31 or more days of bed rest, we estimated that about 1.1 million workers would be eligible under this provision. The duration of illness averaged about 9.8 weeks. Because 29 percent of employees are covered by their employers' short term disability plans which generally provide for 26 weeks of partially compensated leave, the cost estimate for this provision covers the 71 percent of workers having only some sick and annual leave available.

EMPLOYEE REPLACEMENT COSTS AND PRODUCTIVITY LOSSES

Because such a major portion of the estimate of this legislation's cost which was prepared by the Chamber of Commerce was attributable to replacement of workers on leave and subsequent productivity losses, we believe it is necessary to provide some detail on our reasoning on this issue.

Our analysis of S. 249 leads to the conclusion that there will be little if any measurable net cost to companies resulting from a firm's method of adjusting to the absence of a worker on temporary leave. In the estimate prepared by the Chamber of Commerce, the bulk of the cost was the result of assumptions made about the replacement of workers and productivity losses. The Chamber's methodology assumed that 100 percent of workers on leave were replaced, a premium wage was paid (18 percent higher than the worker on leave), and the replacements were somewhat less productive than the worker replaced.

We believe that these assumptions lead to a greatly overstated cost for this legislation. To get a sense for how employers adjust to employees taking temporary leave, we conducted a survey of about 80 firms in two metropolitan labor markets -- Detroit, Michigan and Charleston, South Carolina. Where replacements were hired, we found that:

- o the cost of replacement workers was generally similar to or less than the cost of the worker replaced, and

- o in general, employers did not believe that the use of a replacement resulted in a significant loss of output.

We also found, however, that in most cases no replacement worker was hired. Instead, employers tended to reallocate the work of those on leave to other employees. While some work was postponed or delayed, and undoubtedly, some difficulties arose, employers said that in general, they felt they were able to adjust to the situation.

Overall about 30 percent of workers were replaced. Clerical workers were most frequently replaced, while management and professional staff were seldom replaced. Many replacements were hired directly, about a half were hired through temporary agencies. This was similar for both large and small firms.

While firms indicated that some disruption occurred as the result of the temporary absence of workers, more than half stated that their handling of the absence resulted in no delays, and more than three quarters reported that essentially all work was performed. The impression we got from our discussions with these employers was that any additional costs associated with disrupted routines or postponed work was likely offset by the savings associated with not paying the salary of the absent workers.

Thus, we found little evidence on which to base an estimate of increased costs to firms.

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To sum up, we estimate the overall cost of the bill as presently drafted should be less than $500 million annually. The actual cost of this legislation is likely to be less when all existing coverage is factored out of the estimate. Specifically:

- -- some firms (principally the larger ones) already have parental leave policies similar to the provisions of this legislation,

- -- several states have either disability and/or parental leave statutes under current law, and

-- although formal policies generally do not exist, many employers already make accommodations to employees who are ill or have children who are ill for extended periods of time.

Finally, we estimate that the rate of usage under the provisions of this legislation will be equivalent to less than 1 in 166 workers being absent at any time, thus, we would not expect this legislation to cause major disruptions to most employers.

Our information on usage is based upon past experience and we assume no substantial behavior change on the part of employees in making our estimates. Although it is true that where attractive paid parental leave is available, an increase in usage results, this legislation provides only modest financial benefits (health insurance continuance) to employees while they experience a total loss of earnings when taking advantage of any of the provisions of this law.

One final point, there undoubtedly will be costs associated with the federal administration and enforcement of this legislation. However, it is virtually impossible for us to predict the extent to which violations will be alleged that would require investigation and possible adjudication.

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Mr. Chairman, this concludes my prepared statement. I and my colleagues will be pleased to answer any questions you and the other members of the Subcommittee may have.

GAO

Parental and Medical Leave Act of 1987

- Primary cost will be health insurance coverage
- Employee replacement cost will be negligible
  (Less than 1 in 3 replaced)
- Available sick, annual and disability leave will reduce the potential cost
- Expected leave usage less than maximum
- Total cost will be less than $500 million

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Leave to Care for New Children

Likely Beneficiaries	• Very few men • 1.6 million women
Expected Leave Usage	• 64 percent average 12 weeks of leave before returning to work • 36 percent take 18 weeks and do not return to work
Existing Leave Policies	• 29 percent of women have 6 weeks disability leave
Expected Cost	• Less than $340 million

GAO

Leave to Care for Seriously Ill Children

Likely Beneficiaries	• Workers with children having 31 or more days bed rest • 109,000 workers
Expected Leave Usage	• 9.6 weeks average length of illness • One parent takes off the entire period
Existing Leave Policies	• Paid annual leave
Expected Cost	• Less than $22 million

GAO

Temporary Medical Leave

Likely Beneficiaries	• Workers with 31 or more days bed rest • 1.1 million workers
Expected Leave Usage	• 9.8 weeks average length of illness
Existing Leave Policies	• 29 percent have disability coverage
Expected Cost	• Less than $138 million