



The Costs and Distribution of Benefits of the President's Paid Leave Proposal

BEN GITIS | MAY 23, 2017

EXECUTIVE SUMMARY

Although the White House's FY 2018 budget left many questions about President Trump's paid parental leave proposal unanswered, we do have a clearer idea of how the Administration hopes to expand the benefit. In this paper, we examine the president's paid parental leave proposal and piece together available information to speculate how his plan would likely function in practice. In doing so, we draw the following conclusions:

- The president's proposal may cost \$81.1 billion over ten years, with the cost burden falling on states.
- Only 22 percent of the benefits would go to households under 200 percent of the poverty threshold.
- An alternative solution that targets low-income households would be a more cost-effective way to expand paid parental leave as it would provide a more generous benefit to the workers who are least likely to already receive the benefit from their employers.

INTRODUCTION

The White House released its full FY 2018 budget on May 23rd, and with it a paid parental leave proposal.^[1] While the administration did not provide many important details, in general the proposal is similar to what President Trump proposed during the 2016 campaign: the federal government would use the Unemployment Insurance (UI) system to provide a six-week paid leave benefit to new mothers, new fathers, and adoptive parents (the campaign proposal was just for new mothers). The administration would also give states a lot of discretion in determining how to design and finance the program for their own populations. In the following, we use available details to speculate what the Administration's proposal could look like in practice and estimate the program's cost and the distribution of its benefits by income level.

PROGRAM DETAILS

The FY 2018 budget did not provide many details on President Trump's proposed paid parental leave proposal. Here's what we know: the federal government would require that states provide six weeks of paid parental leave through the UI system to new mothers, new fathers, and adoptive parents. Just like how states administer and fund UI benefits, they would administer and fund paid parental leave using the Unemployment Trust Fund. Since the Unemployment Trust Fund is maintained by the Treasury, all trust fund receipts and outlays appear on the federal budget as federal spending and revenue. In reality, however, states fund most of the Trust Fund and administer the UI benefits. Under the White House proposal, states would be required to entirely fund and administer the new paid parental leave program. This also means that beyond the standard six-week

requirement, states would have the flexibility to determine how to design and finance the programs for themselves.

According to the budget's mandatory and receipt table (Table S-6), spending on paid parental leave benefits would increase budget deficits by \$18.5 billion over ten years. Incorporated into that projection is the estimate that the benefits would also raise revenue by \$8.1 billion over ten years. Together, the two estimates suggest that the White House projects the paid parental leave program would cost \$26.6 billion over ten years (\$2.6 billion per year on average). The White House proposes to pay for the new paid leave benefit with reforms to the UI system that reduce improper payments, reduce the duration of unemployment among UI recipients, and incentivize states to maintain reserves in their UI trust funds.[2]

President Trump's proposal in many ways parallels what he proposed before the 2016 election. Specifically, then-candidate Trump proposed providing six weeks of paid maternity leave (just for new mothers) through the UI system. Participants would receive benefits comparable to what they would receive in UI benefits if they were ever laid off. This results in an average benefit of \$300 per week. The campaign estimated the program would cost \$2.5 billion per year, which is very close to the \$2.6 billion annual estimate in the FY 2018 budget. [3]

Left out of the budget's brief description of the proposed paid leave program are several important details that are needed to fully understand how the program would work in practice. A few are listed here:

- **Benefit size:** Would the federal government require that states replace the wages of paid parental leave beneficiaries at a specific rate? If so, what would that rate be?
- **Eligibility:** Would there be any eligibility requirements? One major aspect of the Trump Campaign proposal that is missing from the Trump White House proposal is the provision that only workers who do not already receive a paid parental leave benefit from their employers would be able to claim the benefit. So, would the White House impose the same requirement? In addition, would there be a work history requirement (i.e. at least 1,000 hours in the last twelve months) in order to participate?
- **Job Protection:** Would the proposed paid parental leave benefit provide job protection? While the Family and Medical Leave Act (FMLA) does provide 12 weeks of job-protected, unpaid leave, about 40 percent of workers are not protected by it.[4] Would the president's proposal expand job protection to ensure that all workers claiming the benefit would be able to return to their job?

While several important details are missing from the proposal, it is useful to piece together what we do know to speculate what the President's paid parental leave proposal could look like in practice. Given that the estimated cost of the program is similar to the campaign proposal, a likely scenario is that eligibility and benefits will be similar to UI. To qualify, new parents will need to meet some form of a work requirement. New parents would also receive the same benefit that they would get if they claimed UI, which would match the campaign proposal and result in an average benefit of \$300 per week. However, since the FY 2018 budget's parental leave benefit would be available to both genders and there would be no provision prohibiting participation from workers who already receive paid leave, the overall magnitude and cost of the program would be much larger than the campaign's proposed program.

In the following, we estimate what the budgetary costs and distribution of benefits would be if the White House used these parameters. It is important to understand that the following is merely a speculation of the program based on available information. We will not know with certainty the exact parameters of the program until the administration provides more details.

BUDGETARY COSTS

Using Census data on frequency of pregnancy^[5] and data on average duration of leave,^[6] we estimate the total cost and participation of the program. ^[7] These estimates are illustrated in table 1.

Table 1: Estimated Cost and Participation of White House Paid Parental Leave Proposal

2018 Participation	4,210,936
2018 Budgetary Cost (millions)	\$6,821.7
2018-2027 Budgetary Cost (millions)	\$81,080.5

We find that overall this program would cost \$6.8 billion in 2018 and provide paid parental leave benefits to 4.2 million workers. Assuming the program grows at the same rate as nominal Gross Domestic Product (GDP), the program would cost \$81.1 billion over the next ten years. Unless the average weekly benefit is much smaller than the campaign proposal of \$300, states would likely have to spend three times more than \$26.6 billion to administer this paid parental leave program.

Additionally, even if the White House were to impose that workers who already receive paid parental leave from their employers would be ineligible for the benefit, the overall cost would still be quite large. In particular, the Pew Research Center recently reported that only 13 percent of people who take parental, family care, or medical leave have a defined paid family leave benefit.^{[8], [9]} This means that at least 87 percent of workers taking parental leave would be eligible for the White House's proposed program. Moreover, that provision would also provide a clear incentive for employers to not provide the paid leave on their own. This means workers will become even less likely to receive a defined paid parental leave in the private sector, as more employers would simply shift their workers onto the government program. Consequently, the portion of workers eligible for the White House's paid leave benefit would likely be even higher than 87 percent.

DISTRIBUTION OF BENEFITS

When designing a solution to provide paid parental leave it is important to ask, who currently lacks paid leave in the labor market? Pew Research Center provides revealing evidence that low-income workers are unlikely to receive any paid leave benefits and paid leave is common among workers with high-incomes. While a defined paid parental leave benefit remains fairly uncommon, workers often utilize a range of other paid leave benefits in order to receive compensation while on family leave. These include vacation days, sick leave, and a general paid time off benefit. Between all of these benefits, Pew found that 47 percent of workers who took family and medical leave were paid fully by their employers and another 16 percent were paid partially. This means that 63 percent of workers receive a paid leave benefit already.^[10]

Workers who lack any form of paid leave tend to be in low-income households. Pew found that only 38 percent of workers in households with incomes below \$30,000 were paid while on family leave. Meanwhile 60 percent of workers with household incomes between \$30,000 and \$75,000 and 74 percent with household incomes over \$75,000 were paid.^[11] Clearly, paid leave is rare in low-income households, yet abundant in middle- and upper-income households. Thus, the data suggest that for any program to actually expand access to paid leave, it must prioritize providing the benefit for low-income workers.

Relatively few of the benefits provided by the President’s paid parental leave program would actually go to low-income households. Table 2 contains the distribution of benefits in 2018 by household income level.

Table 2: Distribution of Benefits Under Likely Paid Parental Leave Program in 2018^[12]

Poverty Level	Benefits (millions)	Distribution
Total	\$6,821.7	100.0%
50% or Under	\$64.1	0.9%
50% to 100%	\$302.7	4.4%
100% to 150%	\$524.2	7.7%
150% to 200%	\$622.1	9.1%
200% to 300%	\$1,339.2	19.6%
300% to 400%	\$1,176.0	17.2%
400% to 500%	\$914.1	13.4%
500% to 600%	\$604.6	8.9%

over 600%	\$1,274.7	18.7%
Under 200%	\$1,513.2	22.2%

While low-income workers are the ones who tend to lack any form of paid leave, most of the program’s benefits would go to worker’s up the income scale. Specifically, only 22.2 percent of the \$6.8 billion in benefits in 2018 would go to workers under 200 percent of the poverty threshold. 18.7 percent, meanwhile, would go to workers over 600 percent of the poverty threshold. Clearly, the program would be quite costly to states because workers in middle- and high-income households would claim most the benefits. These figures assume, of course, that the proposal does not impose an income ceiling.

A MORE EFFECTIVE WAY TO HELP LOW-INCOME HOUSEHOLDS GAIN ACCESS TO PARENTAL LEAVE

Barring further stipulations, the Trump Administration’s proposal would come with a substantial cost while providing minimal support to the low-income workers who would benefit most from a paid parental leave program. There is an alternative solution, however, that would provide a more generous benefit to low-income workers and come at a lower cost to the government. In a joint American Action Forum-American Enterprise Institute report, we proposed an income-tested program that would do just that.^[13]

Specifically, we proposed a program that would provide low-income workers up to twelve-weeks of job protected, paid parental leave. With a benefits structure similar to the Earned Income Tax Credit, the proposal we outlined would differ from standard paid parental leave proposals in two vital ways. First, the benefit would be based on household earnings, not individual wages. And second, there would be a cap on the household earnings level at which a worker is eligible for the benefit.

These two adjustments ensure that the program would provide a substantial paid parental leave benefit to low-income workers at a much lower cost. Table 3 contains the distribution of benefits under our income-tested paid parental leave proposal.

Table 3: Distribution of Benefits under Income-Tested Proposal in 2018^[14]

Poverty Level	Benefits (millions)	Distribution
Total	\$4,338.0	100.0%
50% or Under	\$39.2	0.9%
50% to 100%	\$395.3	9.1%
100% to 150%	\$1,028.2	23.7%

150% to 200%	\$1,241.4	28.6%
200% to 300%	\$1,571.8	36.2%
300% to 400%	\$62.0	1.4%
400% to 500%	\$0.0	0.0%
500% to 600%	\$0.0	0.0%
over 600%	\$0.0	0.0%
Under 200%	\$2,704.1	62.3%

Overall, we estimate that the income-tested paid parental leave program would cost \$4.3 billion in 2018 and \$51.6 billion over ten years. Moreover, all benefits would be directed almost exclusively to low-income households. 62 percent of the benefits would go to workers under 200 percent of the poverty threshold and 99 percent of the benefits would go to workers under 300 percent of the poverty threshold. As a result, even though the program would be less costly to the government than the White House proposal, more benefits would go to low-income households. In particular, under our income-tested proposal, \$2.7 billion in paid parental leave benefits would go to workers under 200 percent of the poverty threshold in 2018. That's roughly \$1.2 billion more than the \$1.5 billion that would go to the same workers under the White House proposal.

CONCLUSION

Despite much anticipation, the White House's FY 2018 budget did not provide much more information on how President Trump plans to expand paid parental leave in the United States. Yet, given the information that the budget did provide, it is clear that the White House is sticking to a plan that resembles the Trump Campaign proposal: to provide a modest, six-week paid parental leave benefit through the UI system. After using the available details to speculate how the paid parental leave program may function in practice, we found that it would likely come at a cost of \$81.1 billion over ten years. Moreover, few of the benefits would go to the those who are most likely to currently lack paid parental leave: low-income workers. While the President's proposal may help states find more opportunities to assist working parents, a solution that targets low-income workers would be the most cost-effective and direct way to expand access to paid parental leave for those in need.

APPENDIX

Our methods for estimating the budgetary cost and distribution of benefits are similar to those we have previously used. Specifically, we assume that 4.6 percent of eligible male and female workers between the ages of 15 and 50 would take an average of 5.4 weeks of paid parental leave: a rate that matches the percent of employed women who gave birth in 2012^[15] and an average duration that matches that of workers who take

paid parental leave in New Jersey under the state's six-week program.[16] While it is not ideal to base the average duration on the experience of a single state program, there is no national policy that provides parental leave for just six weeks. This makes the average duration of parental leave under New Jersey's six-week program best to use in a projection of the cost of the President's proposed paid parental leave program. For estimating the cost of twelve-week paid parental leave proposals, such as the AAF-AEI income-tested solution, we assume an average duration of at least 6.5 weeks, which matches the average duration of unpaid family care, parental, and medical leave available under the twelve-week FMLA.[17] Although the White House did not provide any detail on a work requirement to qualify for the program, we assume that employees must work for their employer for a minimum of 1,000 hours during the previous year. To project the ten-year cost estimate, we assume the program grows at the same rate as projected nominal gross domestic product.[18]

To estimate the distribution of benefits, we use data from the Current Population Survey March 2016 Annual Social and Economic Supplement to analyze the distribution of eligible workers.[19] Since the White House did not provide any information on pay replacement rates and we assume the average benefit would match the Trump Campaign's proposal of \$300 per week, we are forced to assume that the average benefit would not differ across the income distribution. As a result, the distribution of benefits in Table 2 mirrors the distribution of eligible workers. For the AAF-AEI income-tested proposal in Table 3, since we do know the pay replacement rates and are able to estimate average benefit by income level, we calculate the actual distribution of benefits. [20]

It is important to understand that these are rough estimates that use available information to best gauge the magnitude of the programs. As we have previously noted, there is a dearth of information that is needed to fully and precisely estimate the effects of any paid leave program.[21] Due to a lack of important information, several factors end up having mixed effects on the cost estimates. For instance, a factor that may lead to us overstating the cost estimates is our assumption that male and female workers use the program at the same rate and for the same duration. However, it is likely that male workers will use the paid leave program less frequently and for fewer weeks than female workers. Since there is no good information on how male and female workers on average use leave differently, we are unable to account for this. Alternatively, a factor that may lead to us understating the cost of the program is our assumption that only workers between the ages of 15 and 50 will participate. While that is the population of female workers most likely to give birth, some older adults, particularly male workers or adoptive parents, will also welcome newborn children and participate in the parental leave program. These factors and others likely offset each other in many ways. Without better information, however, it is impossible to determine their net effect on the cost estimate.

Regardless, what's important for this analysis is that the same assumptions are made for each paid parental leave program. This allows us to fairly compare the magnitude of the budgetary costs and distribution of benefits across different paid leave proposals.

Updated May 31, 2017: In an earlier version of this paper, we incorrectly stated that the federal government would fund \$26.6 billion of the proposed paid parental leave benefits over the next ten years. When we estimated the program would actually cost \$81.1 billion over ten years, we concluded that states would be responsible for the additional \$54.5 billion. In reality, the White House proposes that states fund the \$26.6 billion in benefits that would come out of the Unemployment Trust Fund. This means that states would be required to fund the entire \$81.1 billion that we estimate the White House's proposal would cost.

- [1] “Budget of the U.S. Government: A New Foundation for American Greatness: Fiscal Year 2018,” Office of Management and Budget, Executive Office of the President of the United States, <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budget.pdf>
- [2] Ibid., p. 20 & Table S-6, pp. 35 & 39
- [3] Ben Gitis & Gordon Gray, “The Budgetary Costs of Donald Trump’s Child Care and Paid Maternity Leave Proposals,” American Action Forum, October 6, 2016, <https://www.americanactionforum.org/research/budgetary-costs-donald-trumps-child-care-paid-maternity-leave-proposals/>
- [4] Jennifer Ludden, “FMLA Not Really Working for Many Employees,” National Public Radio, February 5, 2013, <http://www.npr.org/2013/02/05/171078451/fmla-not-really-working-for-many-employees>
- [5] Lindsay M. Monte & Renee R. Ellis, “Fertility of Women in the United States: 2012,” Population Characteristics, Census Bureau, July 2014, <https://www.census.gov/content/dam/Census/library/publications/2014/demo/p20-575.pdf>
- [6] “Paid Family & Medical Leave Insurance: Options for Designing and Implementing a Minnesota Program,” University of Minnesota, February 2016, Table 25, p. 52, <http://kstp.com/kstpImages/repository/cs/files/UofMPaidLeaveReport.pdf>
- [7] See the appendix for a detailed description of the methodology we used to derive the estimated costs and distribution of benefits in this report.
- [8] Ben Gitis, “What Pew’s Report on Paid Leave Preferences Means for Policy,” American Action Forum, April 19, 2017, <https://www.americanactionforum.org/insight/pews-report-paid-leave-preferences-mean-policy/>
- [9] Juliana Horowitz, Kim Parker, Nikki Graf, & Gretchen Livingston, “Americans Widely Support Paid Family and Medical Leave, but Differ Over Specific Policies,” Pew Research Center, March 2017, <http://www.pewsocialtrends.org/2017/03/23/americans-widely-support-paid-family-and-medical-leave-but-differ-over-specific-policies/>
- [10] Ben Gitis, “What Pew’s Report on Paid Leave Preferences Means for Policy,” American Action Forum, April 19, 2017, <https://www.americanactionforum.org/insight/pews-report-paid-leave-preferences-mean-policy/>
- [11] Ibid.
- [12] Estimates may not add to total due to rounding.
- [13] Ben Gitis & Angela Rachidi, “Affordable and Targeted: How Paid Parental Leave in the US Could Work,” American Action Forum & American Enterprise Institute, March 29, 2017, <https://www.americanactionforum.org/solution/affordable-targeted-paid-parental-leave-us-work/>
- [14] Estimates may not add to total due to rounding.
- [15] Lindsay M. Monte & Renee R. Ellis, “Fertility of Women in the United States: 2012,” Population

Characteristics, Census Bureau, July 2014,

<https://www.census.gov/content/dam/Census/library/publications/2014/demo/p20-575.pdf>

[16] “Paid Family & Medical Leave Insurance: Options for Designing and Implementing a Minnesota Program,” University of Minnesota, February 2016, Table 25, p. 52,

<http://kstp.com/kstpImages/repository/cs/files/UofMPaidLeaveReport.pdf>

[17] Jacob Alex Klerman, Kelly Daley, and Alyssa Pozniak, “Family and Medical Leave in 2012: Technical Report,” US Department of Labor, revised April 2014, <https://www.dol.gov/asp/evaluation/fmla/FMLA-2012-Technical-Report.pdf>

[18] “10-Year Economic Projections,” Congressional Budget Office, January 2017,

<https://www.cbo.gov/about/products/budget-economic-data#4>

[19] “2016 Annual Social and Economic Supplement,” Current Population Survey, obtained at National Bureau of Economic Research, <http://www.nber.org/data/current-population-survey-data.html>

[20] For exact parameters of the AAF-AEI income-tested proposal, please see Ben Gitis & Angela Rachidi, “Affordable and Targeted: How Paid Parental Leave in the US Could Work,” American Action Forum & American Enterprise Institute, March 29, 2017, <https://www.americanactionforum.org/solution/affordable-targeted-paid-parental-leave-us-work/>

[21] Ben Gitis, “What We Know About Paid Family Leave in the Private Sector,” American Action Forum, March 17, 2016, <https://www.americanactionforum.org/research/know-paid-family-leave-private-sector/>